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The Irish economy

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PREFACE

Following the establishment of the European Economic Community, a Committee of Experts was set up under the Chairmanship of Pierre Uri to prepare studies of the economic conditions of the member countries. The "Report on the economic situation in the countries of the Community" was published in 1958. Following the accession in 1973 of Denmark, Ireland and the United Kingdom, the Commission of the European Communities considered that it would be valuable to supplement the Uri Report with a study on each of the new member states. On this occasion, however, the Commission followed a somewhat different procedure and commissioned separate studies from independent institutes in each of the three countries.

The present study of the Irish economy was prepared by Kieran A. Kennedy and Richard Bruton of The Economic and Social Research Institute, Dublin. The study examines the basic characteristics of the Irish economy in relation to other EEC member countries. Long-term economic trends are considered as well as the policies adopted in the past and the policy issues likely to arise in the future. The authors are deeply indebted to several officials of the Commission of the European Communities both for their advice on what the study might include and their comments on the first draft. They would also like to record their gratitude to the following who read and commented on earlier drafts: Mr John Martin, Nuffield College Oxford; Dr Dermot McAleese, Trinity College Dublin; Dr P. McGowan, Central Bank of Ireland; Mr Donal Nevin, Irish Congress of Trade Unions; Mr G. D. N. Worswick, National Institute of Economic and Social Research, London; and Mr T. J. Baker, Mr Brendan Dowling, Professor R. O'Connor, Dr M. Ross and Professor Brendan Walsh of The Economic and Social Research Institute. Dr Eugene McCarthy of the Federated Union of Employers, and Mr John Walsh of the Restrictive Practices Commission were most helpful in supplying information relating to their areas of activity. The responsibility for the final version, however, remains with the authors.

Thanks are particularly due to Miss Maria Maher of The Economic and Social Research Institute who was responsible for typing the various drafts, a task accomplished with her usual efficiency and courtesy.

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CHAPTER I

OVERVIEW OF THE IRISH ECONOMY

Ireland is an island with a total land area of 32 thousand square miles (or 84 thousand square kilometres). Traditionally, the country has been divided into four provinces: Ulster in the north, Munster in the south, Leinster in the east and Connaught in the west, but these divisions do not represent administrative units. The country is further subdivided into thirty-two counties, which in the main correspond to units of local government. Less than twenty miles separate parts of Ireland from Britain, which has had a profound influence on Irish history. Prior to 1921, Ireland was part of the United Kingdom, but in that year became independent, assuming the status of a British dominion under a treaty with the British government. Six of the Ulster counties, which had been partitioned from the rest of the country in the previous year, were given the option of remaining within the United Kingdom. They chose to maintain the union so that the partition of the country between the Irish Free State and Northern Ireland was confirmed. In 1949, the Irish Free State was declared a republic, severing the link with the British Commonwealth. For the remainder of this study, "Ireland" will refer to the twenty-six counties of the Irish Republic, unless otherwise specified.

1. Demographic Features

Many of the economic problems facing Ireland cannot be understood without regard to its demographic experience, which has been quite unique in many respects. At the 1971 Census, the total population of the Republic of Ireland was 2, 978, 248. This represented a population density of only 42 persons per square kilometre compared with an average of 166 for the enlarged EEC. In the 1841 Census, just before the Great Famine of 1846-47, [1] the population was at the much higher level of 6.5 millions, but since then fell at each census up to 1951. An indication of the impact of Irish population experience is given by the diminishing share of Ireland in the total population of the British Isles: in 1841, the

1. On Ireland's demographic experience before the Great Famine, which was in sharp contrast with subsequent experience, see Connell (1950).

twenty-six counties contained a quarter of the population of the British Isles but this share had fallen to 5 per cent by 1971.

The decline in population was caused by the high rate of net emigration which was persistently above the rate of natural increase.[1] Emigration has always been relatively easy from Ireland which is situated between the two major labour markets of Britain and the United States where no barriers of language or colour impede the integration of Irish immigrants. Moreover, due to the long tradition of emigration to these countries, many rural migrants have more relatives and friends there than in the cities and towns of Ireland.

In Table I.1, the average annual number of marriages, births, deaths, natural increase, net emigration and change in population per 1, 000 of population are given for each inter-censal period since independence. The rate of population change is equal to the difference between the rate of natural increase and the rate of net emigration. Following heavy net emigration in the nineteenth century, the rate had declined by the 1920s to a level not much higher than the rate of natural increase, so that between 1926 and 1946 there was only a relatively small decline in population. In the following inter-censal period, 1946-51, there was even a slight rise in population. However, during the 1950s, emigration rose substantially and, despite a considerably higher rate of natural increase than pre-war, population declined markedly between 1951 and 1961, reaching an all time low point of 2, 818, 341 in 1961. During the 1960s, emigration was greatly reduced and Ireland, for the first time in over a century, began to experience a significant growth in population.

In the past, the marriage rate in Ireland was low by international standards. In this century up to 1961, it never rose above an average annual rate of 5.5 per thousand of the population in any inter-censal period. Marriage took place at a relatively late age, and a high proportion of the population remained permanently celibate. Among the population aged 45 years and over in 1961, 28 per cent of males and 24 per cent of females had never married. During the 1960s, however, the marriage rate rose towards European standards and the figure of 7.3 for 1972 is almost normal by reference to other member countries of the EEC. The rise in the marriage rate is due both to earlier average age of marriage and a higher proportion marrying in each age group, both of which factors are partly attributable

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1. For a detailed historical study of population and emigration trends in Ireland, see the <u>Report of the Commission on Emigration and Other Population Problems</u> (1954).

Table I.1: Average Annual Number of Births, Deaths, etc, per 1,000 of the Population for Each Inter-Censal Period from 1926

Inter-Censal Period	Marriages	Births	Deaths	Natural Increase	Net Emigration	Change in Population
1926-36	4.6	19.6	14.2	5.5	5.6	-0.1
1936-46	5.4	20.3	14.5	5.9	6.3	-0.4
1946-51	5.5	22.2	13.6	8.6	8.2	+0.4
1951-56	5.4	21.3	12.2	9.2	13.4	-4.3
1956-61	5.4	21.2	11.9	9.2	14.8	-5.6
1961-66	5.7	21.9	11.7	10.3	5.7	+4.6
1966-71	6.5	21.3	11.2	10.1	3.7	+6.4

Source: Statistical Abstract of Ireland.

to rising living standards. The proportion who never marry has already begun to fall from its historically high level.

Ireland's birth rate, which stood at 21.4 per thousand population for the inter-censal period 1966-71, is considerably higher than in the other EEC member countries.[1] It has also been remarkably stable at around this level since the war. It might be expected that the low marriage rate in Ireland would have been accompanied by a low birth rate. However, the fertility rate (i.e. the number of births per 1,000 married women of child-bearing age) is exceptionally high. In recent years, the overall fertility rate has been relatively stable. However, this conceals a fall in the fertility rate among older married women. This fall has been offset by the rising share of young married women in the total of all married women of child-bearing age, since fertility is generally higher in the earlier than in the later years of the child-bearing span.[2]

The death rate in Ireland has shown a continuous downward trend and its present level is in line with EEC levels. The rate of infant mortality has fallen dramatically since the war. In 1945, there were 71 deaths of infants under one year per 1,000 births,

1. Basic Statistics of the Community, 1972.

2. For further discussion of trends in marriage and fertility rates, see Walsh (1968) and (1972).

but by 1972 this had fallen to 18. This fall may be attributed to improved standards of nutrition and health care, particularly the control of infectious diseases.

The combination of a stable birth rate and a declining death rate in the post-war period has meant that the rate of natural increase in Ireland has risen considerably above pre-war levels. Its present level is significantly higher than in the other EEC countries. The net reproduction rate in Ireland is 1.9 compared with a figure of not much above 1 in several other EEC countries.[1]

Looking towards the future, it is probable that the birth rate will remain at its present level, or even rise, unless the rising marriage rate is offset by a substantial fall in the fertility of marriage. The death rate is likely to show a slower rate of decline and eventually stabilise. This implies that the rate of natural increase will be maintained at its present high level, or possibly even rise somewhat. Ireland is likely, therefore, to have considerable potential for population increase. The provision of sufficient employment opportunities is perhaps the major problem facing the economy if substantially increased unemployment and/or emigration are to be avoided.

The global population figures and vital statistics discussed above conceal a diversity of experience among different regions of the country. In Table I.2, the annual average rate of natural increase, net emigration and population change per thousand of the total population for each of the provinces are given for the inter-censal period 1966-71. It can be observed that the rate of natural increase is considerably lower, and the rate of net emigration considerably higher, in the province of Connaught and in the three Ulster counties (i.e. the western and north-western parts of the country). This has been the experience of these regions in the past also. As a result, the national population decline has been largely concentrated in these regions. In fact, population continues to decline in these regions, whereas Leinster - the province in the east of the country - has experienced growth in population since 1926. Munster - in the south of the country - has had a relatively stable population since 1926, although the first increase in the population of that province after 1841 took place only since 1961.

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1. The net reproduction rate is a measure of the extent to which a cohort of newly-born girls will replace themselves during their lifetime, assuming current nuptiality, fertility and mortality will obtain in the future.

Table I.2: Average Annual Rates of Natural Increase, Net Emigration and Population Change per 1,000 of the Average Population for the Inter-Censal Period 1966-71, by Province

Province	Natural Increase	Net Emigration*	Population Change
Leinster	13.2	1.7	11.5
Munster	8.7	3.5	5.2
Connaught	4.4	10.0	-5.6
Ulster (part of)	5.6	6.6	-1.1
Total	10.1	3.7	6.4

*The emigration figure for each province includes movement to other provinces as well as outside the country.

Source: Census of Population 1971, Vol.I.

The age structure of the Irish population is largely a product of the features already discussed. Due to the high birth rate and the fact that emigration has been predominantly concentrated in the younger working age groups, there is a relatively high proportion of the population in the dependent age groups. The proportion of people in the retirement age group is close to EEC levels which would not have been expected in the light of the high birth rate. On the other hand, the proportion of the population in the under-15 age group is substantially higher than among the other EEC countries. Thus, the dependency ratio (defined as the ratio of the population in the dependent age groups to those in the working age groups) stood at 73.3 per cent in Ireland in 1971, compared to an average for the enlarged EEC of 57.7 per cent. Such a high dependency ratio poses problems for public finance. The need for social services is great, while the taxable population from which to finance these services is small. This would create obvious difficulties in any attempt to raise Irish social services to the EEC standard. Looking to the future, no significant reduction in the dependency ratio can be expected for some time to come. While the proportion of people in the over-65 age group may decline, there is likely to be a rise in the number of people in the younger dependent age groups if the birth rate remains at its present level. Furthermore, the effective burden of dependency may increase as children tend to remain on in education until a later age.

2. Aggregate Output and Employment

Ireland's gross national product (GNP) in current market prices stood at £2,274 million in 1972, equivalent to 5,209 million units of account. GNP per head of population in Ireland, as can be seen from Table I.3, is considerably lower than in any of the other EEC countries. This underlines Ireland's underdevelopment in relation to its EEC partners.

Table I.3: GNP at Market Prices per Head of Population, EEC Countries, 1971

	Units of Account per Head of Population
Denmark	3,446
Germany	3,388
France	3,177
Belgium	2,936
Luxembourg	2,921
Netherlands	2,729
United Kingdom	2,420
Italy	1,867
Ireland	1,545

Source: Basic Statistics of the Community 1972.

Table I.4 sets out the average annual growth rates of total product (in constant prices), population, employment, product per head of population, and product per employed person for various periods from 1926 to 1972, while Chart I.1 illustrates the course of some of these variables in the post-war period. In the pre-war period, 1926-38, real GNP grew at an average rate of 1.3 per cent per annum, while population declined slightly and there was little change in employment. The immediate post-war years saw a considerable growth in GNP. However, this was largely a recovery from wartime stagnation and did not last much beyond 1949. Subsequently, the average growth rate in the 1950s was slightly less than 2 per cent per annum, while population and, more particularly, employment declined significantly. There was a marked change of experience in the economy towards the end of the 1950s and the beginning of the 1960s. The rate of growth of GNP accelerated; population began to rise; and the decline in employment was largely arrested. There was not such a

Chart I.1 : Real GNP, Employment and Real GNP per Worker 1947-1972

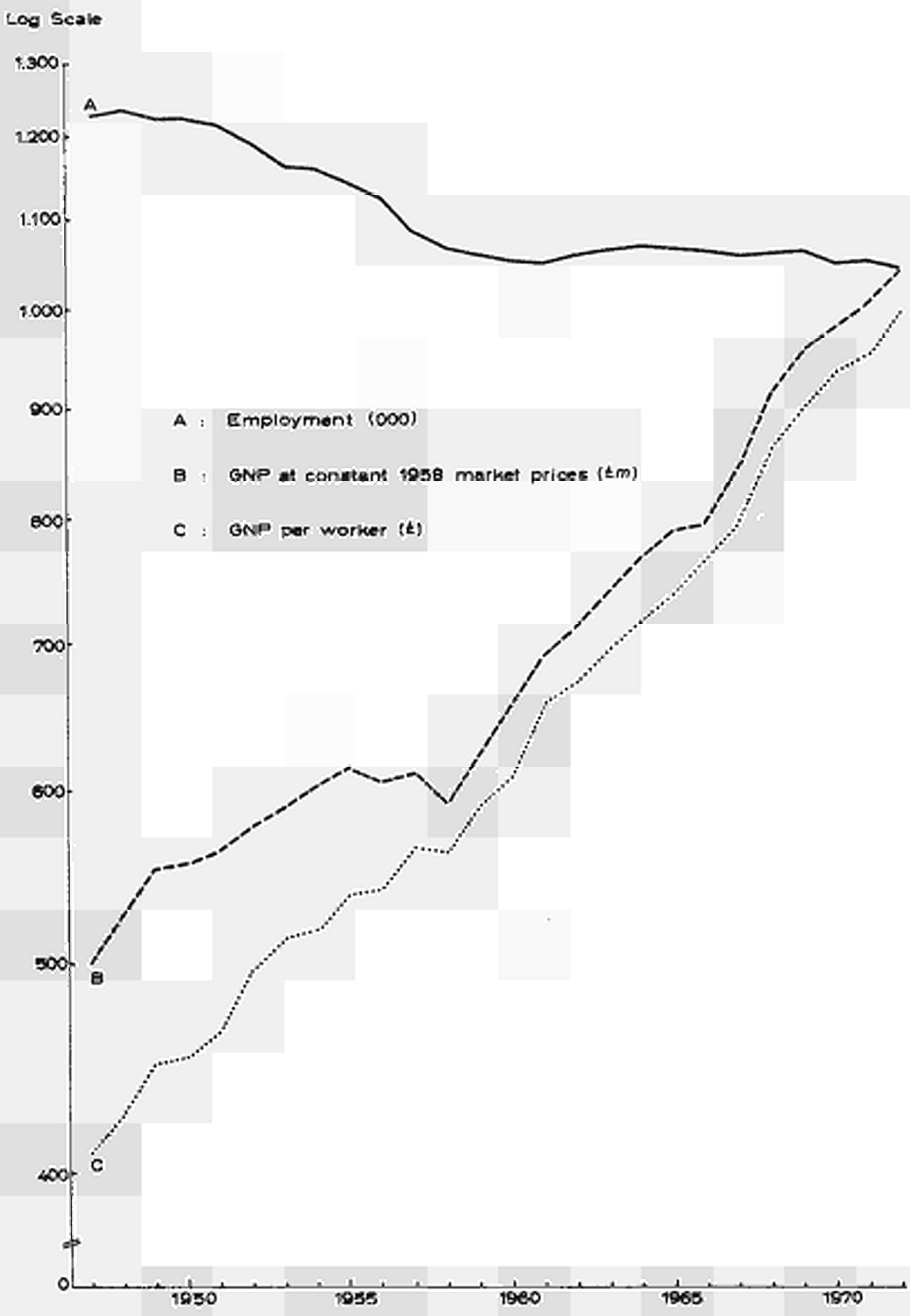

Table I.4: Average Annual Growth Rates of Total Product (at Constant Prices), Population, Employment, Product per Capita and Product per Worker, Various Periods, 1926-72

	1926-38	1938-49	1949-61	1961-72
	%	%	%	%
GNP in constant prices	1.3	1.2	1.9	3.9
Population	-0.1	0.1	-0.5	+0.6
Employment	0.0	-0.2	-1.3	-0.1
GNP per head of population	1.4	1.1	2.4	3.3
GNP per employed person	1.3	1.4	3.2	4.0

Sources: National Income and Expenditure; Report on Vital Statistics; Trend of Employment and Unemployment; and Kennedy (1971 I).

significant change in the growth experience of GNP per head or of GNP per person employed. This was because falling population and employment in the period 1949-61 raised the growth rate of GNP per capita and per worker above the rate of growth of total product.

The experience in the period 1949-61 was not uniform. There were recessions in 1951-52 and from 1956-58. The latter was the most severe, with an absolute fall in real product. From 1958-61, there was a recovery from this recession with substantial growth rates in each of these years. It is difficult to identify the extent to which experience in the years 1959-61 was merely a recovery from the earlier setback rather than a longer-term upward shift in the growth rate. At all events, the rise in the growth rate was subsequently maintained, and the year 1961 is chosen here as the dividing point because from then onwards the decline in employment was substantially arrested and the population began to grow. While the average growth rate for the period 1961-72 was considerably higher than previously, the period was not one of uninterrupted expansion. There were setbacks in 1965 and 1966 and again in 1970 and 1971, when the growth rate dropped, but these setbacks were only minor compared to the severe recession of 1956-58. Though the growth rate in 1973 as a whole was exceptionally high at 7 per cent, there was a downturn in the second half of the year, which continued into 1974 and was accentuated by the repercussions of the oil crisis. The estimated growth rate for 1974 was only 2 per cent. Living standards in 1974 suffered much more than this would suggest due to the large rise in import relative to export prices, and it is estimated that there may have been a fall of about 4 per cent in real income per person.

Table I.5 compares the average annual growth rates of GNP and of GNP per head of population in the member countries of the enlarged EEC in the period 1961-71. It can be seen that Ireland's rate of growth of product and of product per capita was rather lower than in most of the other EEC countries. Nevertheless, it is notable that the Irish growth experience was considerably better than that of the U.K. despite the close trading and other relations between the two countries. However, if Ireland is to close the income gap with its EEC partners, a far higher growth rate of GNP per capita will be required.

Table I.5: Average Annual Rates of Growth of GNP and GNP per Capita (at Constant Prices), EEC Countries, 1961-71

	GNP	GNP per Capita
	%	%
France	5.8	4.7
Netherlands	5.4	4.1
Belgium	4.9	4.3
Italy	4.9	4.2
Denmark	4.6	3.9
Germany	4.6	3.7
Ireland	4.0	3.4
Luxembourg	3.1	2.3
United Kingdom	2.7	2.2

Source: Basic Statistics of the Community, 1972.

Referring back to Table I.4, it can be seen that in the period 1949-61 employment declined at a considerably faster rate than population, while from 1961-72 population grew and employment was static. This means that employment, as a proportion of the population, declined throughout the post-war period. This was not due to a secular rise in the unemployment rate, since there was a similar decline in the labour force as a proportion of total population. The major reason was the considerable rise in the 1950s of the proportion of the population in the dependent age-groups, the corollary being a fall in the proportion in the working age-groups. Another contributory factor was the decline in the participation rate (i.e. the proportion of the population aged 14 years and over included in the labour force). The participation rate at the 1946 Census was 59.5 per cent but it declined at each Census thereafter and by 1971 had fallen to 53.2 per cent. Two important factors accounting for the fall in the participation rate may be mentioned. The first was the rise in the proportion of the population aged 14-19 engaged in full-time education. The second was the fall, associated with declining agricultural numbers, in the exceptionally high percentage of old people recorded as active in the labour force statistics due to the relatively large numbers of old farmers.

The Irish participation rate overall is similar to other EEC countries. However, an unusual feature is the very low participation of married women. In 1971, only 7.5 per cent of married women were in the labour force, compared with figures ranging from 20 to 40 per cent in most of the other EEC countries.[1] This is partly attributable to the high proportion of the population engaged in agriculture where women are often not recorded as gainfully occupied, and perhaps also to the high fertility of marriage. Despite the low participation rate among married women, the overall female participation rate is not exceptionally low by EEC standards (in 1971 it stood at 27.3 per cent) due to the high proportion of unmarried women in the population.

The rate of unemployment in Ireland is far higher than in other EEC countries. Moreover, despite the relatively rapid rate of economic growth since 1961, there has been no significant reduction in unemployment. Part of the explanation is that substantial emigration in the earlier period kept down the rate of unemployment. Moreover, since 1969 there has been a downward trend in total employment, which was temporarily interrupted in 1973 but resumed in 1974. Towards the end of 1974 the absolute number unemployed, allowing for seasonality, was higher than at any time previously since the war.

3. Sectoral Composition of Output and Employment

Table I.6 gives the shares of agriculture, industry and services in (i) employment, and (ii) gross domestic product at current factor prices, for various years.

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1. Walsh and O'Toole (1973). Ireland is not the only member with low labour force participation among married women; another notable exception is the Netherlands (6.7 per cent).

Table I.6: Shares of Agriculture, Industry and Services Sectors in Total Product and in Employment, Various Years

Sector	1926	1938	1949	1961	1971	1972
	(i) Employment					
	%	%	%	%	%	%
Agriculture	53.5	48.0	42.9	36.0	25.9	25.5
Industry	13.3	17.8	21.5	24.4	30.6	30.0
Services	33.2	34.2	35.6	39.5	43.5	44.4
Total	100	100	100	100	100	100
	(ii) GDP at Current Factor Prices					
	%	%	%	%	%	%
Agriculture	31.9	27.0	29.5	24.2	16.2	18.0
Industry	18.1	24.1	25.7	30.6	35.6	33.8
Services	50.0	49.0	44.7	45.2	48.2	48.2
Total	100	100	100	100	100	100

Sources: Kennedy (1971 I); Kennedy and Dowling (1975); National Income and Expenditure; and Trend of Employment and Unemployment.

Agriculture here includes forestry and fishing as well as farming. Industry embraces mining, manufacturing, building and construction, electricity, gas and water. Services covers the rest of domestic economic activity.

The share of agriculture in total employment has been falling rapidly in both the pre-war and post-war periods. The share of industry has risen rapidly throughout the period, while that of services has grown at a slower rate. This pattern is common to most countries in the course of economic development. However, in Ireland the process has occurred in the context of an overall decline in employment up to 1961 and a comparatively stable level thereafter. Thus, for most of the period since independence, the economy did not provide enough jobs in industry and services to match the decline in agricultural employment, let alone reduce unemployment and absorb the potential net addition to the labour force.

For agriculture and industry, secular movements in the sectoral shares in gross domestic product reflect the trend in employment shares, with agriculture falling and industry rising. It should also be noted that 1972 was an exceptional year in that the output share of agriculture rose, while that of industry fell. The main factor underlying this reversal in trend was the exceptional rise in agricultural prices in 1972. This exceptional rate of increase in the relative price of agricultural products has not been maintained and it is probable that the secular decline in the share of agriculture in both employment and product will continue. The share of services in total product has been relatively stable with no pronounced trend.

The Irish pattern of employment by sector is considerably different from that of the other member countries of the EEC. Table I.7 compares the composition of employment by sector in the various member states for the year 1971. Agriculture's share in Ireland is notably higher, while that of industry is lower, than in any of the other countries. This is indicative of the earlier stage of development in Ireland.

Table I.7: Sectoral Shares in Total Employment in EEC Countries, 1971

	Agriculture	Industry	Services	Total
	%	%	%	%
Germany	8.4	49.5	42.1	100
France	13.5	40.5	46.0	100
Italy	19.5	44.1	36.4	100
Netherlands	7.0	38.3	54.7	100
Belgium	4.4	44.2	51.3	100
Luxembourg	10.1	47.3	42.6	100
United Kingdom	2.7	45.6	51.6	100
Ireland	26.5	30.8	42.6	100
Denmark	10.8	37.6	51.5	100

Source: Basic Statistics of the Community, 1972. The employment shares for Ireland differ from those in Table I.6 for 1971, evidently because the Commission's figures are based on earlier and unrevised data.

Sectoral Growth

Table I.8 shows the annual average growth rate of sectoral real product, employment and real product per worker in the periods 1949-61 and 1961-72. The doubling of the growth rate of agricultural product between the two periods occurred chiefly as a result of the rapid growth of agricultural output in the years 1969-72. From 1949 to 1969, agricultural output grew at about 1 per cent per annum, although with much fluctuation about the average. This performance was disappointing given that policy-makers looked to agriculture as a major contributor to growth in the economy.

Table I.8: Average Annual Growth Rates of Sectoral Product (at Constant Factor Prices), Employment and Product per Worker, 1949-61 and 1961-72

Sector	Gross Domestic Product		Employment		Product per Worker	
	1949-61	1961-72	1949-61	1961-72	1949-61	1961-72
Agriculture	0.9	1.7	-2.7	-3.1	3.7	5.0
Industry	3.6	5.8	-0.2	1.8	3.9	3.9
Services	1.6	3.5	-0.4	1.0	2.0	2.5
Total	2.0	3.9	-1.3	-0.1	3.3	3.9

Sources: Kennedy and Dowling (1975); National Income and Expenditure; and Trend of Employment and Unemployment.

Industrial output declined during the war, and the 1938 level was only surpassed in 1946. The rapid post-war growth was maintained until 1950, but during the 1950s there were two serious recessions in industry, 1951-52 and 1956-58. The average growth rate over the period 1949-61 was 3.6 per cent, considerably less than the rate of 5.8 per cent achieved in the following period, 1961-72. Among the three sectors, industry had the fastest growth rate in both periods. The growth rate of real product in services shared in the overall experience of a substantial acceleration in the 1960s compared with the 1950s. In both periods, the growth rate of services product was just below that of total product, but substantially higher than the agricultural growth rate.

Table I.8 also shows the growth in real output per worker (or productivity) in the various sectors. There was no significant difference in productivity growth in either industry or services between the two periods despite the marked change in the growth of real product in these sectors. Thus, employment, which had declined in both sectors in the first period, grew significantly in the second period. In agriculture, on the other hand, there was a considerable rise in the rate of growth of productivity in the second period, due to a change in the trend of both employment and output. In fact, the rise in the average growth rate of productivity in agriculture in the years 1961-72 was almost entirely due to the very rapid rate of increase in agricultural productivity in the years 1969-72. It has already been observed that these years witnessed a large increase in the rate of growth of real agricultural output. Paradoxically, these were also years in which the rate of decline in agricultural employment rose.

In both periods, productivity growth in agriculture and industry was considerably above the growth of productivity in services. This may be partly due to inadequate measurement of the change in real output and productivity in services, where the volume of output of some activities is measured in terms of employment.

In Ireland, as in most West European countries, the level of productivity in agriculture is considerably below that in industry or services. Table I.9 shows the absolute and relative levels of gross domestic product per worker (at current factor prices) in each of the sectors and for the economy as a whole in 1972. The relative levels have not altered much during the post-war period despite the fact that agriculture and industry have experienced a considerably faster rate of growth of real productivity than the services sector. This is so because services' prices have risen more than industrial prices and much more than agricultural prices (with the major exception of 1972). The higher rate of price

Table I.9: Sectoral Output per Worker (at Current Factor Prices), 1972

Sector	GDP per Worker	
	£	Index
Agriculture	1,265.9	70.6
Industry	2,015.9	112.5
Services	1,944.1	108.4
Total GDP	1,792.5	100

Source: National Income and Expenditure; and Trend of Employment and Unemployment.

increase in services compared with industry follows largely from the fact that average incomes in services rose at much the same rate as in industry, while productivity growth was lower.

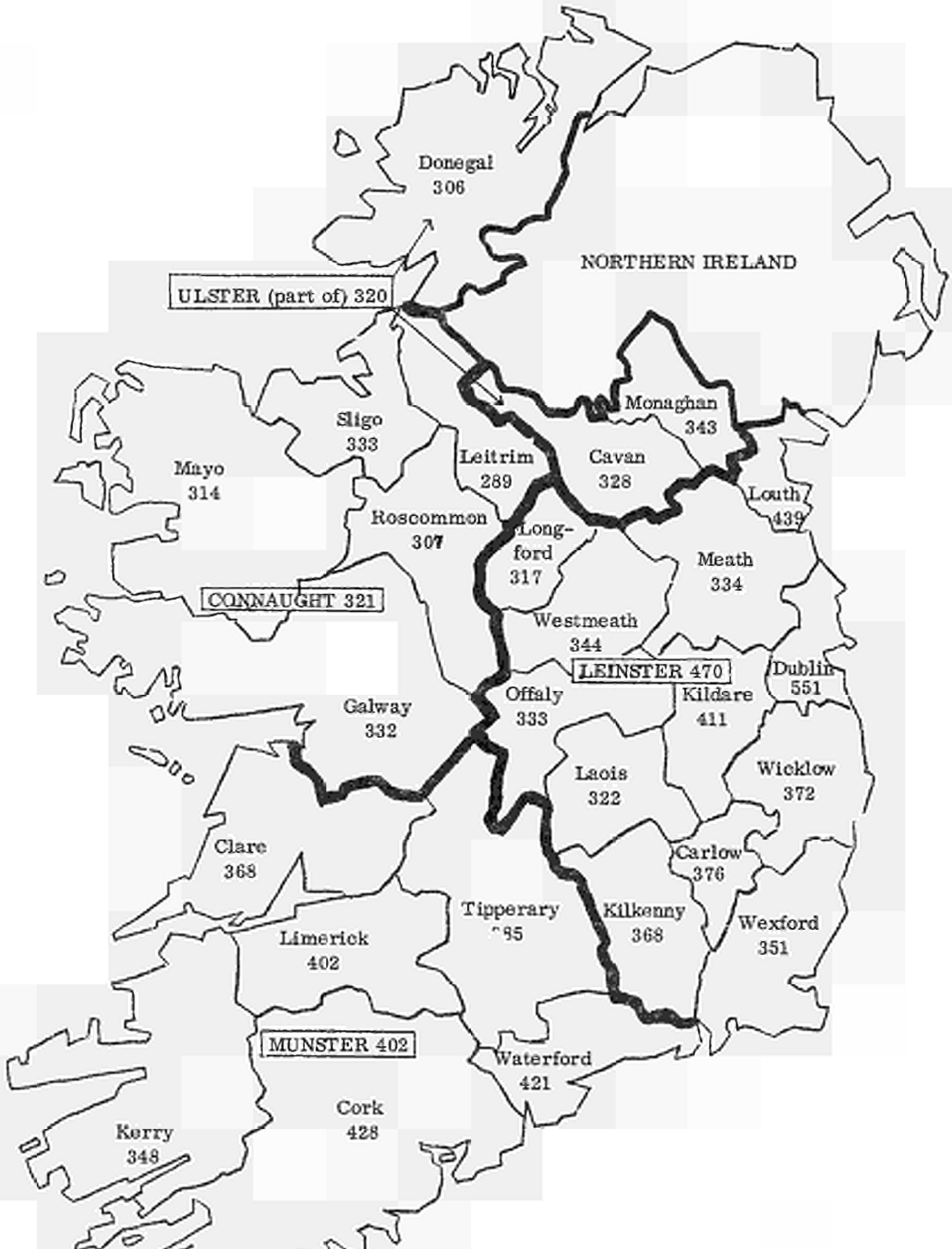
4. Regional Economic Differences

It has already been mentioned that income per head in Ireland is considerably below the EEC average, so that Community regional policy is of major importance to Ireland. There are also considerable regional differences in income per head within Ireland, the reduction of which represents an appropriate objective of domestic economic policy.

The map on page 16 gives details of personal income *per capita* in 1969 for each of the twenty-six counties and for the provinces, based on data in Ross (1972). County Dublin must be singled out from the rest of the country since income per head there was 50 per cent above the national average exclusive of Dublin and was well ahead of any other county. However, the level of income per head even in Dublin in 1969 was lower than in all but five of the one hundred basic regions of the original six member countries of the EEC. The relatively most prosperous areas of the country lie in the south and along the east coast, while the poorest areas are in the west, north-west and, to some extent, the midlands. Personal income per head in Connaught and the three Ulster counties was 76 per cent (in each case) of the national average and 87 per cent of the national average exclusive of Dublin. These are the only two major areas of the country that had a significant fall in population in the decade of the 1960s. As we shall argue more fully later, the combination of population decline with low income in these areas is more likely to compound, than to alleviate, the regional problem. In these areas also a higher proportion of personal income is derived from agricultural activities and a considerably lower proportion from industry, a traditional mark of underdevelopment. Moreover, agricultural income per labour unit is much lower than in the rest of the country. There is a far higher rate of unemployment among the non-agricultural labour force.

During the decade of the 1960s, one of the avowed objectives of both agricultural policy and industrial development policy was to improve the position of the poorer regions, particularly those in the western part of the country. In practice, not all of the policies operated in this manner, but it is satisfactory to note that the most rapid growth in personal income per head during the 1960s occurred in some of the poorer counties. This

Personal Income per Capita by County and Province, 1969



Source: Ross (1972).

has arrested, to some extent, the tendency for the gap in income per head between rich and poor regions to widen. However, not all the counties in the west and north-west experienced comparable growth in income per head, while in the midlands it was largely the slow growth in the 1960s that led to the 1969 situation where income per head there was almost as low as in the west and north-west. During the 1960s, Dublin experienced rapid growth in income per head as well as rapid population increase. Thus, the picture of an increasingly prosperous Dublin area, attracting population from the poorer regions, has not substantially changed. A reversal of this tendency is particularly difficult since Dublin provides a more attractive location for new industry than most other areas of the country.

5. Composition of Expenditure on GNP

The average share of consumption in GNP for the two post-war periods, 1949-61 and 1961-72, is shown in Table I.10. The share of consumption has fallen substantially between the two periods and the savings share has risen correspondingly. The decline in the consumption share, however, has been confined to the private component which has fallen steadily since 1958. The ratio of public consumption to GNP was stable for most of the post-war period but since 1969 has grown sharply in current price terms. The savings ratio has not only risen since the late 1950s but has also fluctuated less. Depreciation forms about 40 per cent of total savings. The remainder, net savings, is comprised mainly of personal savings (about 70 per cent). The balance is made up of company savings and government savings, the latter a relatively small item on average though liable to vary considerably from year to year with the budgetary outturn.

Investment has also risen relative to GNP between the two post-war periods shown in Table I.11. Before 1960, the share of fixed investment experienced considerable cyclical swings, and was particularly low in the years 1957-60 when the average was 13.4 per cent. Since 1960, fixed investment has grown fairly steadily relative to GNP. In the period 1961-72, a larger proportion of total investment has been financed from domestic savings than in the period 1949-61. However, since 1969, as the investment ratio moved to a higher level, net foreign disinvestment has assumed greater importance, and the current balance of payments deficit rose to an average of 3.6 per cent of GNP in the years 1969-72. In 1974, largely as a result of the oil situation, the balance of payments deficit rose to $10\frac{1}{2}$ per cent of GNP.

Table I.10: Average Annual Shares of Consumption and Savings in GNP (at Current Market Prices), 1949-61 and 1961-72

	1949-61	1961-72
	%	%
Total Consumption	87.2	81.5
Of which: Private	75.4	68.6
Government	11.7	12.9
Savings	12.8	18.5
Total GNP	100	100

Source: National Income and Expenditure.

Table I.11: Average of Annual Share of Gross Investment in GNP (at Current Market Prices), 1949-61 and 1961-72

	1949-61	1961-72
	%	%
Gross Fixed Capital Formation	15.3	19.3
Stockbuilding	0.7	1.5
Total Physical Investment	16.0	20.8
Domestic Savings	12.8	18.5
Current Balance of Payments Deficit	3.2	2.3
Total Investment Resources	16.0	20.8

Source: National Income and Expenditure.

Foreign trade is of major importance in the Irish economy. Table I.12 relates exports and imports to GNP, distinguishing the visible and invisible components. Ireland runs a substantial deficit on visible trade which is largely offset by a surplus on invisible trade. Invisible exports, which are a very important part of Ireland's foreign exchange earnings, are principally composed of investment income, tourism and transport, and emigrant remittances.

Table I.12: Average of Annual Ratios of Exports and Imports to GNP (at Current Market Prices), 1949-61 and 1961-72

	1949-61	1961-72
	%	%
Exports of Goods and Services	37.1	38.8
Visible Exports	19.6	23.8
Invisible Exports	17.5	15.0
Imports of Goods and Services	40.2	41.1
Visible Imports	34.8	35.7
Invisible Imports	5.4	5.4
Current Balance of Payments Deficit	3.2	2.3

Source: Kennedy and Dowling (1975). Net factor income from abroad is included in invisible exports.

Table I.13: Composition of Total Final Demand and Supply (at Current and Constant Market Prices), Annual Averages, 1949-61 and 1961-72

	Current Prices		Constant (1958) Prices	
	1949-61	1961-72	1949-61	1961-72
	%	%	%	%
Private Consumption	54.9	49.0	55.9	48.3
Government Consumption	8.5	9.1	8.7	7.3
Gross Fixed Investment	11.2	13.8	11.0	13.6
Stockbuilding	0.5	1.1	0.5	1.2
Exports	25.0	27.0	23.9	29.6
Total Final Demand	100.0	100.0	100.0	100.0
Imports	27.2	28.6	25.7	33.4
GNP	72.8	71.4	74.3	66.6
Total Final Supply (= Total Final Demand)	100.0	100.0	100.0	100.0

Sources: National Income and Expenditure; and Kennedy and Dowling (1975). Exports include net factor income.

Total exports and imports rose somewhat relative to GNP in current values between the two periods 1949-61 and 1961-72. In constant price terms, the rise in these ratios was substantially greater. This divergence was due to the lower rate of increase in the price of both imports and exports relative to that of GNP for most of the post-war period.

Table I.13 summarises the composition of total final demand and supply in the economy in the two post-war periods, 1949-61 and 1961-72.

6. Price Trends

In the immediate post-war years, consumer prices moved rather erratically, followed by rapid inflation from 1950 to 1953, set in train by the 1949 devaluation and the Korean war. The average annual rate of increase in consumer prices from 1950 to 1953 was 7.2 per cent, reaching a peak of 8.7 per cent in 1952. After 1953, the pace of inflation slowed down and towards the end of the 1950s consumer prices were almost stable. From 1960 onwards, consumer prices began to rise again at a steady pace, with an average annual rate of just under 4 per cent for the years 1960-68.

In 1968, the pace of inflation in Ireland quickened, as it did internationally. The initial cause was the large increase in prices of imported raw materials and agricultural exports (especially cattle). The import price increase was accentuated by the 1967 devaluation of sterling. External trade prices are of crucial importance to the behaviour of prices in Ireland because of the openness of the economy. Due to the high share of imports in total final supply, changes in import prices have a substantial and immediate direct impact on domestic consumer prices. They also affect domestic price levels indirectly because of pressure for income increases in response to the initial price rise in an effort to maintain real living standards. Because of its small scale of production, Ireland also faces a highly elastic demand curve in the export market, so that export prices affect the domestic price of exportables consumed or used at home. This is especially so in the case of beef; given that Irish exports form only a small proportion of total demand in the markets supplied, and that the bulk of Irish cattle output (excluding stock changes) is exported, changes in the domestic price of beef are substantially determined by changes in the export price.

Between 1968 and 1972, import prices and export prices rose at an average annual rate of 4.9 per cent and 8.4 per cent, respectively, compared with a rate of only 1.3

per cent per annum in each case from 1953 to 1968. The price of cattle and beef exports rose on average by nearly 14 per cent from 1968 to 1972. The rate of increase in domestic money incomes was also much higher, but, as already explained, this was at least partly in response to the higher prices set in train by external trade prices. Substantial increases in indirect taxes also contributed directly to the rate of price increase, and indirectly through their effect on wage demands. The resultant average annual rate of inflation in consumer prices for the period 1968-72 was 8.3 per cent. As can be seen from Table I.14, this was considerably faster than in most other member countries of the EEC, though not so much out of line with the British experience. The rate of increase in consumer prices in Ireland accelerated further in 1973 and 1974, when there were increases of 11.4 per cent and 17 per cent, respectively.

Table I.14: Average Annual Rate of Increase in Consumer Prices, EEC Countries, 1968-72

	Average Annual Percentage Change
Ireland	8.3
United Kingdom	7.0
Netherlands	6.6
France	5.8
Denmark	5.6
Germany	4.5
Italy	4.5
Belgium	4.3
Luxembourg	4.1

Source: International Financial Statistics (IMF).

7. Distribution of Income

Data are not available to provide a comprehensive picture of the size distribution of income in Ireland. It is possible, from the national accounts, to examine the distribution of domestic income by factors (sometimes known as the functional distribution of income), distinguishing the following major categories: (i) remuneration of employees; (ii) income of independent traders; and (iii) income from property.[1] The employees' share

1. For further discussion of functional distribution of income in Ireland see Hughes (1972).

of domestic income has been rising almost continuously in the post-war period. In 1949, it stood at 52.7 per cent but by 1971 had reached 66.9 per cent. This rise in employees' share has been mainly at the expense of the share of independent traders which fell from 34.3 per cent to 20.7 per cent between these dates. The share of income from property was relatively stable in the post-war period, declining slightly from 13.0 per cent to 12.4 per cent.

The overall change in functional shares has only been slightly due to changes in shares in the individual sectors. The more important reason has been structural change within the economy, in particular the reduced share of total income accounted for by the agricultural sector which comprises mainly independent traders. Table I.15 shows the employees' share in the three major sectors for various years. The employees' share in agriculture had a downward trend, in industry it rose somewhat but only the services sector had a strong upward trend. Taking industry and services together, the employees' share rose only from 69.7 per cent in 1949 to 78.2 per cent in 1972, far less than the rise in the overall employee share even though the employee share in agriculture fell. The change in the employee shares in the agricultural and non-agricultural sectors would have raised the overall employee share only from 52.7 per cent to 56.5 per cent between 1949 and 1972, had there been no change in the share of these sectors in total income. In fact, the overall employee share rose from 52.7 per cent to 65.6 per cent, mainly due to the declining importance of agriculture in total income.

Table I.15: Remuneration of Employees as a Percentage of Sectoral Income Arising, Various Years

Sector	1949	1953	1961	1971	1972
	%	%	%	%	%
Agriculture	15.7	12.3	12.1	11.9	9.3
Industry	69.7*	76.2	75.4	79.7	80.0
Services		68.9	69.6	76.2	76.9
Total	52.7	53.5	57.1	66.9	65.6

*Before 1953 the employee share in the individual non-agricultural sectors was not distinguished.

Source: National Income and Expenditure.

8. Consumption Patterns

The distribution of personal consumer spending in 1953, 1961 and 1972 is shown in Table I.16. The expected downward trend in the proportion of spending devoted to the necessities - food, non-alcoholic drink, clothing and footwear - occurred up to the beginning of the 1960s. Thereafter, the share of food and non-alcoholic drink continued to decline, but the share of clothing and footwear stabilized and even showed a slight upward trend. The categories in which there has been a sustained rise in share throughout the post-war period are professional services, durable household goods, transport equipment and "other goods". Again, these are expected trends in consumption under conditions of rising income *per capita*. Since 1961, there has been a considerable rise in the share of alcoholic drink. This is largely accounted for by a very low price elasticity for beer and a high income elasticity for spirits.[1] The low price elasticity implies that increases in relative price tend to raise the budget share. Due largely to increased taxation, the price of beer, in relation to consumer prices generally, rose considerably from 1961. The income elasticity for spirits would tend to raise its share of total consumption relatively rapidly in the context of the rapid rate of growth of personal income *per capita* in the 1960s.

Compared to other members of the EEC, the most notable difference in the disposal of personal expenditure in Ireland is the considerably higher share of food, drink and tobacco, and the lower share of rent, fuel and power, furnishings, equipment and upkeep of the household. In 1971, for example, 47 per cent of consumer spending was devoted to food, drink and tobacco in Ireland and 19 per cent to the latter-mentioned group of commodities, whereas for the other EEC countries, the unweighted average budget shares were 32 per cent and 26[2] per cent, respectively. These differences largely reflect the lower *per capita* income in Ireland although it is notable that Ireland has the highest daily calorie intake per head of population of all the EEC countries and, along with the United Kingdom, has a considerably higher cigarette consumption per head of population than the rest of the Community. Despite the considerably higher budget share devoted to alcoholic drink in Ireland, and contrary to popular belief, Irish alcohol consumption per head of the adult population is low by international and EEC standards. In the case of spirits, this can be

1. See Walsh and Walsh (1970), and Kennedy, Walsh and Ebrill (1973).

2. The figure of 26 per cent for rent, fuel, etc, does not include Italy, for which figures were not available.

Table I.16: Distribution of Personal Expenditure on Consumer Goods and Services (at Current Market Prices), Various Years

	1953	1961	1972
	%	%	%
Food and Non-alcoholic Drink	38.9	35.4	27.8
Alcoholic Drink	8.1	8.5	11.3
Tobacco	8.2	8.2	5.9
Clothing and Footwear	12.7	10.7	10.8
Fuel and Power	5.0	5.0	4.9
Durable Household Goods	3.8	5.1	5.7
Transport Equipment	2.0	2.7	4.2
Other Goods	5.2	6.0	7.5
Rent	5.0	6.0	6.5
Travelling in State	4.6	5.4	5.8
Expenditure Outside State	2.8	3.1	3.3
Entertainment, Sport	1.8	2.3	1.7
Professional Services (including education)	2.8	3.3	3.9
Private Domestic Service	1.7	1.2	0.5
Other Expenditure	4.4	5.6	5.2
Less Expenditure by Non-residents	-7.0	-8.3	-4.9
Total	100	100	100

Source: National Income and Expenditure.

accounted for, in part at least, by the much lower level of income *per capita*, a factor which also helps to explain the considerably lower density of televisions, telephones and passenger cars per head of population in Ireland.

CHAPTER II

THE AGRICULTURAL SECTOR

1. Introduction

Agriculture is of much greater importance in the Irish economy than in other EEC countries. About one-fourth of the total at work is directly employed in agriculture, while the processing and transport of agricultural products provides a significant amount of employment in industry and services. Agriculture is the principal export industry in the economy: though agricultural exports have grown less rapidly than other categories since the war, they still accounted for 42 per cent of domestic merchandise exports in 1972. Furthermore, in terms of net foreign exchange earnings, agriculture is even more significant than this figure indicates because of the relatively low import content of agricultural exports.[1] Agriculture is a particularly important source of domestic savings because of the high saving propensities among farmers.[2]

Public policy towards agriculture has varied considerably over time.[3] The industry was in a depression at the time independence was achieved (1921), following the buoyant demand conditions prevailing during the First World War. The new Irish Government took the view that the overall prosperity of the economy depended on agriculture, and that the prosperity of agriculture depended on the export market. This view was not unreasonable given that agriculture at that time accounted for more than half of the labour force, while exports of live animals and food amounted to three-quarters of total merchandise exports. Moreover, Britain provided a virtually unlimited outlet for livestock products. Hence, the overriding aim of policy was to raise agricultural productivity and reduce farm costs so that Irish export sales would be competitive and provide good returns to farmers. Particular stress was laid on improving the quality of output and marketing arrangements, but no direct support of agricultural prices was provided.

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1. In 1968, according to figures in Henry (1972), the direct and indirect import content of livestock exports was 9.7 per cent, and of food 25.7 per cent, compared with a figure of 53.3 per cent for manufactured exports (including food, drink and tobacco).

2. Kennedy and Dowling (1970).

3. For a detailed review of agricultural policy since independence, see Crotty (1966) and Meenan (1970).

This policy met with considerable success, but could scarcely continue unchanged in the altered circumstances of the 1930s. With the world-wide depression, the prices of agricultural produce slumped, though at first this was not so severe in the case of livestock. As a result of a trade dispute - known as the "Economic War" - Britain imposed penal duties on many classes of Irish agricultural exports. Moreover, the new Irish Government that came to office in 1932 regarded self-sufficiency in agricultural production as an important means of increasing employment. Steps were taken to promote the cultivation of corn crops, fruit, vegetables, sugar beet and tobacco. While there was no intention of abandoning export trade, it was no longer the paramount objective of policy.

The penal duties on Irish cattle exports in Britain were relaxed in 1935, and, in 1938, a trade agreement between the two countries led to their removal on all Irish agricultural exports. This opened up the possibility of a return to the export orientation of Irish agriculture, but this was partially delayed by the war. Ireland maintained neutrality in the war and, for strategic reasons as well as international supply shortages, sought to reduce dependence on imported agricultural produce. Compulsory tillage was introduced, and the area under tillage was substantially increased while the output of livestock products fell.

The emphasis of agricultural policy in the post-war period was placed more and more on competitive production and export expansion, though for many years conditions in export markets were not favourable for some staple products. Measures were introduced to expand production and reduce unit costs on farms, notably by grants towards certain farm inputs and improvements, livestock headage grants, and general measures to improve efficiency (such as disease eradication schemes and advisory services). Continued efforts were also made to raise holdings to a viable size, particularly in areas where small farms predominated. The measures were accompanied by efforts to improve the terms of access of Irish agricultural exports to external markets. The Anglo-Irish Free Trade Area Agreement in 1965 and the subsequent negotiation of membership of the EEC were the most notable achievements in that regard.

2. Employment in Agriculture

The figures for the agricultural sector given in Chapter I included not only farming but also forestry and fishing. The latter two activities, however, are of relatively minor importance in Ireland, and together account for only 2½ per cent of total employment in the agricultural sector, though there is considerable scope for expansion in fishing. The total number at work on farms can be divided into three categories: farmers, relatives assisting on farms, and employees. As is clear from Table II.1, the decline in the agricultural labour force has not been uniform among these categories. The number of farmers declined relatively slowly, while the number of employees and, even more so, of relatives assisting, declined rapidly.

Table II.1: Farm Employment, Various Years

Year	Farmers	Relatives Assisting on Farms	Employees and Others	Total at Work on Farms
	000	000	000	000
1951	234.6	170.9	80.3	485.8
1961	210.3	108.0	50.0	368.3
1966	200.6	83.1	39.5	323.2
1971	181.6	52.9	27.8	262.3

Source: Census of Population reports.

The fall in the agricultural labour force has had a serious impact on the rural population. Those leaving the land have been mainly young single persons. They have sought employment not in their local towns but mainly in Dublin or outside the country altogether. As a result, the decline in farm employment has been accompanied by a decline in the population of rural areas. This depopulation has been particularly acute in the west of the country and has increased the burden of maintaining community services for those left behind. The contraction of the local market also accentuates the problems of developing non-farm employment opportunities in these areas. Moreover, the concentration of migration in the younger active age-groups has resulted in an imbalanced age structure in the rural population, involving a heavy weighting towards the older age groups as shown in Table II.2.

The prospect for employment in agriculture is one of continued decline in the coming years. In 1965, it was estimated that 53 per cent of holdings over one acre, if equipped with average facilities for their line of production, had an employment requirement of under 200 man days.[1] Such holdings are not regarded as viable full-time farms.

1. Report of Committee on the Review of State Expenditure in Relation to Agriculture (1970).

Table II.2: Distribution of the Rural and Town Population by Age Group, 1971

Age Group	Rural	Town
	%	%
0 - 14	29.9	32.5
15 - 44	34.1	40.2
45 - 64	22.8	18.2
65+	13.2	9.1
Total	100	100
	000	000
Aggregate Population	1,423	1,556

Source: Census of Population reports.

Moreover, technical changes are continually reducing the labour requirement on farms. The demographic structure of farm-owners, three-quarters of whom were 45 years and over in 1971, may also make for a considerable reduction in agricultural employment over the next two decades.

3. Size of Holdings and Capital Employed

The total land area in Ireland is 17 million acres. Almost 12 million acres of this is agricultural land, most of which is farmed by owner-occupiers. Only about 6 per cent of agricultural land is let - almost entirely on conacre or on the eleven months system.[1] Long leases are uncommon in Ireland and require special permission from the Land Commission. The predominance of owner-occupancy is due to the various Land Acts since the end of the nineteenth century under which holdings could be bought out by tenants through payment of an annuity. The annuities on some land are, in fact, still being paid, though they now amount to only a small fraction of the land's market value.

The average size of agricultural holdings in Ireland, though greater than in some of the other EEC countries (see Table II.3), is not large in relation to the type of

1. Conacre is land let for a tillage crop, usually for 6 - 9 months. Under the eleven months system, land is let for grazing for a period of eleven months so that a tenant cannot acquire legal title to a longer lease even though he leases the land for many consecutive years.

Table II.3: Average Size of Holding in Member States of the EEC, 1970

	Hectars
United Kingdom	40.2
Denmark	21.2
France	21.0
Luxembourg	19.4
Ireland	17.7
Netherlands	13.0
Germany	11.7
Belgium	11.6
Italy	7.7

Source: Basic Statistics of the Community, 1972.

production in Ireland. Ireland is mainly engaged in livestock production which is relatively land-extensive. Almost 90 per cent of agricultural land is under grass, compared with less than 50 per cent in most EEC countries.

In the post-war period, the average size of holding has been steadily growing as the number of holdings has fallen. The principal decline in the number of holdings has been in those under thirty acres, while those between 50 and 200 acres have actually grown. As a result, some change has occurred in the distribution of holdings by size, as shown in Table II.4. Small farms are diminishing in importance while the medium to large sized farms have increased their share. This trend in the size structure of holdings is broadly in line with the aim of improving farm structure in Ireland, but the movement has been relatively slow. The number of holdings in the largest size category - over 200 acres - has also fallen, but at roughly the same pace as the total number of holdings so that their share in the total has not fallen. The proportion of holdings over 200 acres is small, but they account for a considerably larger proportion of the total land on farms, amounting to 18 per cent in 1960, the latest year for which these data are available. Fragmentation of holdings in Ireland is a problem in some areas but, in general, it is not as extensive as in other countries.

Table II.4: Distribution of Holdings (over 1 acre) by Size Category, Various Years

Size (acres)	1949	1960	1970
	%	%	%
1 - 15	27.9	24.4	24.0
15 - 30	27.3	25.2	23.5
30 - 50	19.6	21.4	21.5
50 - 100	16.1	18.7	20.1
100 - 200	6.8	7.9	8.3
200+	2.3	2.4	2.4
Total	100	100	100
Number of Holdings	318, 548	290, 308	279, 450

Source: Statistical Abstract of Ireland.

Stocks of Live Animals

Table II.5 shows the stocks of different classes of live animals in various years. It may be observed that there has been substantial expansion in the total cattle herd, which occurred principally since the late 1950s. The average annual rate of growth in total cattle stocks for the period 1958-72 was 2.7 per cent, and it has been particularly rapid since 1969. The source of expansion in the cattle herd was the growth in the cow population, which up to 1956 had been stationary at about 1.2 million for almost 100 years. From 1956, it began to show sustained growth mainly due to higher prices for milk, and in 1964 it received an additional boost from the introduction of the Calved Heifer Subsidy Scheme. Under this scheme, which was aimed at increasing beef production, a subsidy of £15 was paid for each additional calve heifer introduced into cow herds. Although this scheme was discontinued in 1968, the cow herd has continued to grow and sustained expansion may be expected in the future, provided it is not constrained by other factors.

The chief supply constraint is the problem of providing more winter feeding, given that the acreage under tillage has been declining since the war while the acreage under hay has risen only moderately, at least up to 1968. The main source of increased fodder for the rising cattle herd has been silage. There are no data for the acreage under silage but

Table II.5: Livestock Numbers on Farms in June, Various Years

	1951	1961	1970	1972
	000	000	000	000
Milch Cows	1,180	1,291	1,713	1,895
Heifers in Calf	80	127	196	250
Other Cattle	2,107	3,296	4,032	4,293
Total Cattle	4,376	4,714	5,941	6,438
Horses & Ponies	367	207	124	112
Sheep	2,616	4,528	4,082	4,260
Pigs	558	1,056	1,193	1,199
Poultry	18,839	12,843	11,331	11,734

Sources: Irish Statistical Bulletin; and Statistical Abstract of Ireland.

the figures for tonnage of production show a very rapid growth since the early 1960s. However, there has been increasing dependence on imports of animal feeding stuffs, which more than doubled between 1960 and 1972.

Turning to the other categories of livestock shown in Table II.5, sheep numbers grew steadily after the war up to 1965, though part of this growth represented restoration of pre-war levels. They then declined until 1969, after which they have begun to rise again. Greater ease of entry and exit accounts for the greater instability in sheep numbers, while the absence of a sustained upward trend is due to their lower profitability relative to other forms of livestock enterprise with which they compete for the same feeding supply. Pig numbers display even greater instability than sheep. This is the case in most countries due to what is known as the pig cycle. The long-term trend in pig numbers has been slowly upwards since the war, once pre-war levels were restored. The poultry population declined almost continuously since 1950 up to the year 1969, due partly to unfavourable conditions in the British market, and partly to the reduction in stocks relative to output as a result of intensive production.

Fixed Investment

By comparison with other developed countries, agriculture in Ireland does not make intensive use of fixed capital. This is associated with the fact that Irish agriculture is so heavily based on livestock production from grass. However, investment in fixed capital has risen considerably since the war. From 1949 to 1961, the volume of fixed capital formation in agriculture, forestry and fishing rose at an annual average rate of 8.8 per cent. This was more rapid than the growth of total fixed investment in the economy, so that the share of agriculture in total fixed investment rose even though its share in total output declined. All of the rise in fixed investment in agriculture took place between 1949 and 1954. There was a rapid acceleration in the rate of mechanisation in agriculture in this period, with the stock of tractors, for example, rising from 10.1 thousand in 1949 to 26.7 thousand in 1954.

From 1961 to 1972, the volume of fixed investment rose at an average annual rate of 4.5 per cent, considerably slower than the rate of growth of total fixed investment. However, while the share of agriculture in total investment fell, the fall was much less than in the share of agriculture in total output. Thus, the ratio of investment to output continued to rise in agriculture, at least up to 1969: there was no increase in fixed investment from 1969 to 1972, even though this was the period of most rapid increase in output.

A sharp increase in mechanisation was again recorded in the 1960s. The number of tractors almost doubled and there were notable increases in machinery associated with more intensive grass production. All the indications are that throughout the post-war period there was substantial substitution of fixed capital for labour both by the employment of more machinery and equipment (including farm buildings) in existing lines of production, and by some switching to more capital intensive lines.

Borrowing

In the past decade or so, farmers have been more willing to borrow to finance their enterprises. In Table II.6, the total value of loans outstanding to agriculture from the principal sources of agricultural credit is shown for various years. It can be seen from this table that the total of outstanding credit has grown remarkably from 1958 to 1972. Further

Table II.6: Credit Outstanding to Farmers from Different Sources, Various Years

	1958	1969	1972
	£m	£m	£m
Commercial Banks	22.0	62.0	88.0
Merchants and Co-op Societies	4.0	8.0	17.0
Hire Purchase Firms	4.0	13.0	20.5
County Councils (Small Dwellings Act)	3.0	4.0	6.5
Agricultural Credit Corporation	2.5	25.0	35.0
Total Outstanding	35.5	112.0	167.0

Source: Sheehy and O'Connor (1974), Chapter 1, Table 9.

substantial increases took place in 1973 and 1974 to help finance the continued expansion of the cattle herd.

4. Structure of Agricultural Production

In Ireland a large proportion of agricultural land is devoted to grassland. This is due to the demand and supply conditions faced by Irish farmers. On the demand side, the absence of a large domestic consumer market has contributed to the very small production of crops such as wheat and vegetables for direct human consumption. Also, since the last century, relative prices have been moving consistently in favour of livestock products. On the supply side, climatic factors are less favourable to tillage relative to grass. The main climatic features working against tillage production are the absence of hot summers and the fact that there is rainfall almost all year round, even in the months of August and September. These factors make the harvesting of grain hazardous, but are exceptionally favourable for grass.

Table II.7 shows the distribution of agricultural land according to different uses for a number of years since the war. In 1972, nearly 90 per cent of agricultural land was devoted to grass, either as pasture or for producing hay and silage. The corn crops of wheat, oats and barley accounted for only 7.7 per cent of land usage, while potato growing is the only other tillage crop accounting for a significant proportion of land. Since the end of the war, the total area under tillage has shown a consistent downward trend, although with

Table II.7: Distribution of Agricultural Land According to Land Usage, Various Years

	1951	1961	1970	1972
	%	%	%	%
Wheat	2.4	3.1	2.0	1.4
Oats	5.2	3.3	1.4	1.1
Barley	1.4	3.2	4.5	5.2
Potatoes	2.7	1.9	1.2	1.7
Turnips	1.1	0.9	0.8	0.6
Sugar Beet	0.5	0.7	0.5	0.7
Total Tillage*	14.4	14.2	11.1	10.6
Hay	16.3	16.8	19.2	20.3
Pasture	66.7	69.0	69.7	69.2
Total Agricultural Land	100	100	100	100

*Includes other crops of relatively minor importance in addition to those specified.

Sources: Irish Statistical Bulletin; and Statistical Abstract of Ireland.

some year-to-year fluctuation. The rising proportion of land devoted to grass reflects the increasingly dominant position of livestock production in Irish agriculture. Within the tillage category, the acreage devoted to wheat has shown an erratic downward trend from its relatively high war-time level. The area under oats has declined even more, being replaced as animal feeding by barley, which has a higher yield per acre. With the exception of sugar beet, the area under root and green crops has also fallen since the war. Total production of tillage crops has tended to grow relative to acreage due to increased yield per acre; otherwise the trend of total production has broadly followed movements in acreage, though with a greater tendency to fluctuate due to variability in yield from year to year.[1]

The volume of gross agricultural output (including stock changes) grew only slowly and with sharp year-to-year fluctuations throughout the 1950s and up to the mid-1960s, but since then there has been a substantial increase. This is closely associated with the behaviour of agricultural prices which were virtually stagnant up to the mid-1960s but have

1. The term "total production" is not the same as "output". The latter does not include that part of total production fed to animals on the farm or sold to other farmers for feeding purposes.

risen considerably since then. Livestock and livestock products made up more than 80 per cent of gross agricultural output in 1972. Table II.8 presents five-year averages of the volume of output sold off farms for the main categories of livestock since the war. The output of cattle sold off farms has risen since the late 1950s, though at a lower rate than the cattle herd since the number of cattle added to stock has grown substantially. The average annual addition to stock for the five-year period 1954-58 was 9,000; for 1959-63, 63,000; for 1964-68, 143,000; and for the most recent five-year period 1968-72, 189,000. Large year-to-year fluctuations have occurred in cattle sales throughout the post-war period. These fluctuations are positively associated with change in exports, and negatively associated with changes in stockbuilding.

Table II.8: Livestock Numbers Sold Off Farms, Five-Year Averages, 1949-72

	Cattle and Calves	Sheep and Lambs	Pigs	Poultry	Horses
	000	000	000	000	000
1949-53	824.6	751.8	914.4	10,926.8	28.2
1954-58	1,011.2	1,149.8	1,281.4	8,781.0	22.4
1958-63	1,069.2	1,599.8	1,522.6	8,052.4	17.8
1964-68	1,213.8	1,844.2	1,747.8	14,770.2	24.4
1968-72	1,312.0	1,643.4	2,111.8	21,393.8	19.0

Sources: Irish Statistical Bulletin; and Statistical Abstract of Ireland.

The output of sheep expanded rapidly in the post-war period up to the mid-1960s, and then declined. It recovered somewhat in 1971 and 1972 but without reaching the level of the early 1960s. The output of pigs has fluctuated most but the general trend has been upwards. Poultry output declined slowly up to 1962 but since then has grown substantially due to the production of broiler chickens. For a number of reasons, this growth has not been reflected in the total poultry population, which declined substantially. Stocks have been sharply reduced relative to output due to the shorter cycle involved in broiler production. Moreover, the number of poultry used in the production of eggs has declined. This is because the output of eggs has fallen steadily in the face of difficult market conditions, while the productivity of egg production has increased.

The principal livestock product apart from meat is milk, the output of which grew throughout the post-war period and accelerated since the early 1960s. Milk output (excluding that fed to livestock)[1] has risen from 480 million gallons in 1960 to 708 million gallons in 1972. The expansion of milk output has been accompanied by considerable change in the manner of its disposal. Consumption of milk in liquid form has risen only slowly. On the other hand, the quantity used in industry, mainly for the production of creamery butter, has increased substantially. Farmers' butter, at one time an important product, has now been largely displaced by creamery butter.

Looking to the future, the market for agricultural produce should be more stable and more remunerative in EEC circumstances than in the past, once the present adverse conditions, which are hopefully temporary, have been overcome. The likely movements in relative prices within agriculture will tend to encourage expansion mainly in cattle, dairying and sheep production. However, expansion of the cattle herd is hindered by the exceptionally low proportion of cows in the total cattle herd compared with other EEC countries. This is due to the late age at which Irish cattle are slaughtered or exported. Increased provision of winter feed is necessary to relax this constraint. Since the recent upward trend in grain prices makes grain-feeding less profitable, continued reliance on grass-based winter feeding, such as hay and silage, will be necessary. In this respect, Ireland has a comparative advantage over other countries, but in order to maximise this advantage, considerable intensification of grass production and improvement of silage-making techniques will be required. The investment resources required, not only for enlarging the cattle herd but also for buildings, machinery and fertilizer, will be enormous, so that lack of finance could also constrain expansion.

5. Agricultural Exports

Agricultural products are Ireland's most important export, accounting for 42 per cent of merchandise exports in 1972. This share has declined since the war with the diminishing importance of the agricultural sector in the economy. However, agricultural exports have grown considerably faster than agricultural output, so that the proportion of output exported rose from about 25 per cent in the early post-war years to 50 per cent in

1. About 15 per cent of total milk production (exclusive of that suckled) is fed to livestock and does not enter output figures at all.

1972. Most of these exports are sold on the U.K. market and their prices have depended largely on the terms of access to that market. Since the war, Britain pursued a policy of cheap prices for agricultural produce with differential payments to her own producers. This meant that, despite some preference for Irish over other foreign producers in conditions of access, Ireland was still selling in one of the cheapest markets in the world. Furthermore, the conditions of access to the British market were subject to variation with policy changes in Britain.

Table II.9: Composition of Agricultural Exports and Proportion of Output Exported, Current Prices, Annual Averages, 1968-72

	Export Shares	Proportion of Output Exported**
	%	%
Horses	2.4	93.2
Cattle and Calves	56.0	81.8
Sheep and Lambs	22.9	44.2
Pigs	2.6	30.2
Dairy Produce	9.8	40.5
Other Livestock Products	1.4	11.2
Total Livestock and Livestock Products	95.1	56.6
Crops	4.9	13.5
Total	100	48.2

*Exports consist of the agricultural content of processed goods as well as direct agricultural exports and need not necessarily have been produced on farms in the year of export. Exports are here valued at agricultural prices.

**The output figures used are gross agricultural output, exclusive of the value of changes in livestock numbers. The total output figure used for the last row of the second column includes turf output as well as livestock produce and crops.

Source: Irish Statistical Bulletin.

Table II.9 shows the composition of Irish agricultural exports (including the estimated agricultural content of processed goods), averaged for the five years 1968-72. Livestock products are clearly the major component. Tillage assumes even less relative importance in agricultural exports than in output and, indeed, Ireland is a net importer of tillage products. Among livestock exports, cattle and beef are by far the most important. On average, over 80 per cent of total cattle output (including stock changes) is exported. The volume of cattle exports has shown a significant upward trend since the war but has been subject to severe year-to-year fluctuations. The price of cattle exports has also tended to fluctuate, though not as much as volume. Thus, earnings from cattle exports have been subject to large year-to-year swings. Since they account for a high proportion of total exports, this has given rise to considerable instability in the balance of payments. Kennedy and Dowling (1975) have shown, however, that declines in the volume of cattle exports have tended to be matched by increased stockbuilding, which results in an increased volume of exports two years later.

A feature of the changing pattern of cattle exports has been the substantial growth in the proportion of cattle exported as dead meat.[1] In the five-year period 1949-53, this proportion was 23 per cent but it had risen to 51 per cent in the five-year period 1968-72. The shift to the dead meat trade has been mainly at the expense of exports of live fat cattle, and has led to a considerable expansion in employment in the meat processing industries. It is probable that the dead meat industry will continue to expand in the future, at the expense not only of fat cattle exports but also of the store cattle trade. The latter is likely to decline following membership of the EEC and the termination of the previous system of support for the store trade, under which Irish cattle after a period of three months in the U.K. became eligible for the guaranteed fatstock prices given to U.K.-produced cattle. An additional reason is that there has been a considerable increase in home-produced cattle in Britain.

Immediately after the war, dairy produce was used almost entirely for home consumption. However, dairy exports grew rapidly during the 1960s and in the period 1968-72 almost 45 per cent of the value of milk output was exported, mainly in the form of butter. All dairy exports are handled by An Bord Bainne, a marketing board originally set up under State auspices in 1961. To comply with community regulations, this body is now being run as a farmers' cooperative and, though no longer holding a monopoly of dairy exports, it still handles most of them.

1. For a detailed study of the Irish cattle and beef industries, see Baker, Dunne and O'Connor (1973).

Pig exports have also expanded rapidly in the post-war period, with the proportion of output exported growing from about 13 per cent to over 40 per cent. In this case also, all exports are handled through a marketing board, the Pigs and Bacon Commission. Horse and sheep exports have been of relatively minor importance throughout the period and, as in the case of cattle, no attempt has been made to establish centralized marketing.

6. Agricultural Incomes

For most of the post-war period, the slow growth in the volume of agricultural output and the small rise in agricultural prices, led to a considerably lower rate of increase in income arising in agriculture than in other sectors of the economy. However, to discuss the "income gap" between agriculture and the rest of the economy, it is necessary to compare income per person engaged. This is done in Table II.10 which gives five-year averages over the period 1949-72. It may be seen that average earnings in agriculture generally amount to less than 75 per cent of those in the non-agricultural sector. Annual fluctuations in farmers' incomes are far greater than in the case of non-agricultural incomes, but in no year has the ratio of the two risen above 85 per cent while it was as low as 62 per cent in 1966. Though there are many reservations attaching to this comparison,[1] nevertheless it can hardly be doubted that living standards are on average lower among the agricultural community.

The "income gap" widened from the late 1950s up to 1971, but in 1972 and 1973 the gap narrowed significantly. This was due to substantial increases in agricultural prices in both years and a large rise in agricultural output in 1972. However, the exceptionally large price rises proved to be temporary. Following a worldwide increase in the supply of beef, and the opening of the EEC market to beef imports in 1972, the price of cattle began to fall towards the end of 1973 and the decline continued through 1974. Irish farmers have been particularly hard hit since full transitional tariffs, levies and compensation payments were imposed. In particular, the operation of the monetary compensatory amounts (MCAs) under the Common Agricultural Policy accentuated the fall in prices. MCAs are designed to keep the domestic price of products stable in the face of changes in exchange rates. Since 1973, when the Irish parity for the purpose of the CAP was fixed, sterling

1. For a detailed discussion of the "income gap", and the qualifications attached to its measurement, see Baillie and Sheehy (1971).

Table II.10: Average Earnings in Agricultural and Non-Agricultural Activity, Five-Year Averages, 1949-72

	(1)	(2)	(3)
	Agriculture	Non-Agriculture	Ratio of (1) to (2)
	Income per Family Farm Worker*	Income per Worker**	
	£	£	%
1949-53	219.6	291.0	75.5
1954-58	288.6	379.0	76.2
1959-63	362.4	515.8	70.3
1964-68	518.4	762.6	68.0
1968-72	820.0	1,181.0	69.4

*Income per family worker in agriculture is obtained by subtracting the remuneration of agricultural employees from income arising to give "family farm income", which is then divided by the number of family farm workers.

**The remuneration of employees in the industry and services sector (including employers' contribution to social insurance) is added to non-corporate trading profits and professional earnings and this total is divided by the total of non-agricultural workers.

Sources: Irish Statistical Bulletin; Statistical Abstract of Ireland; National Income and Expenditure; and Trend of Employment and Unemployment.

floated downwards. As a result, Irish producers paid levies on exports into stronger currency areas while imports from such areas were subsidised. On the other hand, as a result of the effective devaluation of sterling, and the general rise in materials' prices on world markets, the prices paid by farmers for oil, fertilizer and feeding stuffs rose sharply. However, towards the end of 1974 the so-called "green" pound was adopted, devaluing the Irish pound for the purpose of trade in agricultural goods, and, as a result, some improvement in cattle prices may be expected.

The incomes of farmers engaged in store cattle production have been the most severely affected by the prices fall, since the traditional buyers have not been moving heavier cattle to make way for stores. Intervention buying has served to moderate the decline in beef prices to some extent, and has helped to mitigate the fall in fat cattle, but not store cattle, prices. While dairy farmers have continued to receive satisfactory prices for milk, they have been adversely affected by the collapse in calf prices.

On top of the price difficulties, feed supplies over the winter 1973/74 were inadequate to carry the considerably larger stocks of cattle built up during 1972 and 1973 in the hopeful expectation of high EEC prices. Provision of winter-feed for the winter of 1974/75 is again inadequate, hampered by a poor season and the retention of finished cattle on the land in the hope of a price recovery. Thus, the immediate outlook for agricultural incomes remains gloomy since high-priced feedstuffs will have to be bought to maintain the low-priced cattle stock. It is hoped that EEC measures will bring some recovery in prices during 1975, but the market may be dogged by problems of over-supply for some years to come. The problem of improving the relative income position of those engaged in agriculture, therefore, remains a major task.

State Support of Agricultural Incomes

The problem of low and variable agricultural incomes has been tackled by policy-makers in almost all developed countries, largely through price or income support mechanisms. In Ireland, the State has also given considerable support to agricultural incomes, as indicated in Table II.11. State expenditure in relation to agriculture increased nearly six-fold between 1957 and 1972. Related to the income arising in agriculture, State spending grew from 15 per cent in 1957 to 47 per cent in 1971, but fell back to 37 per cent in the prosperous year of 1972. The last line of Table II.11 further illustrates the importance of the increase in State spending, which was equivalent to 52 per cent of the total rise in agricultural income from 1957 to 1972. Moreover, if the exceptionally favourable year 1972 were excluded, the proportion would rise to 87 per cent. More than two-thirds of State spending takes the form of price and income supports, not all of which necessarily enhance farmers' incomes by the full amount of expenditure involved. Moreover, it is probable that they helped the richer farmers relatively more than the poorer ones.[1] The remainder of State expenditure is composed of production incentives, disease eradication, long-term development aids and spending on education, research and advisory services. The increase in State support of agriculture, large though it was, did not fully maintain the position of agricultural earnings relative to the rest of the community, let alone improve it. However, more extensive support for agriculture could not readily be afforded because of the high proportion of the population engaged in the industry.

1. Vide O'Connor (1970).

Table II.11: State Expenditure in Relation to Agriculture and Income Arising in Agriculture, Various Years

	(1)	(2)	(3)
	State Expenditure	Income Arising in Agriculture	Ratio of (1) to (2)
	£m	£m	%
1957	19.3	128.2	15.0
1962	37.1	140.3	26.4
1967	68.7	167.3	41.1
1970	98.2	206.9	47.5
1971	107.1	228.3	46.9
1972	112.9	306.6	36.8
Change 1957-72	93.6	178.4	52.5

Source: As in Table II of the Report of the Committee on the Review of State Expenditure in Relation to Agriculture (1970).

Income Differences by Farm Size and Farm System

Within agriculture, income varies considerably with the size of farm, the system of farming and the regional location. Table II.12 shows that the average income of family farm workers rises steadily with farm size. The table also highlights the low income problem on small farms. Even in the relatively prosperous year 1972, the average income of family workers on farms under 30 acres fell far below the minimum agricultural wage of a hired adult male employee in the same year (viz. £924 per annum). This picture is even gloomier when it is recalled that the average income of family workers includes remuneration of both labour and capital.

As regards different farm systems, the position is that farms involved in dairying provide a considerably better income per family farm worker than drystock farms. This remains true when account is taken of differences in average size of farm. The differences in average income stem from numerous causes, such as the quality of the land, the use of capital, the education of the farmer etc.

Table II.12: Family Farm Income by Size of Farm on Full-Time Farms, 1972

Size (acres)	Family Farm Income	Number of Family Labour Units	Average Income per Family Labour Unit
	£	No.	£
5 - 15	345	1.10	314
15 - 30	627	1.23	510
30 - 50	1,066	1.24	860
50 - 100	1,876	1.41	1,330
100 - 200	3,077	1.51	2,038
200+	4,138	1.35	3,065
All Farms	1,513	1.31	1,155

Source: Farm Management Survey 1972: Preliminary Results, An Foras Talúntais.

An Foras Talúntais have estimated the returns to farming capital (exclusive of land) on Irish farms, by calculating the difference between actual average income per family worker and their income if paid at the same rate as hired agricultural workers. The results for the 1966-67 Farm Management Survey showed that, on average, the return to farming capital was negative on farms under 50 acres, though this experience is not unique to Ireland. Farms producing mainly drystock had negative or insignificant returns to farming capital on all sizes of farms, while those producing liquid milk experienced good returns on all farm sizes. It should be pointed out that failure to attain positive returns to capital does not necessarily mean that investment in such farms is not worthwhile. Many Irish farms suffer from a shortage of farming capital and operate low input and low output systems. In such circumstances, the notional remuneration of family workers at hired rates is probably far in excess of their marginal product, so that the residual method of measuring return to capital probably results in a considerable understatement of the marginal product of capital.

7. Regional Differences

Regional disparities in living standards do not coincide exactly with the provincial divisions; nevertheless, the provinces of Connaught and Ulster (three counties) contain the principal areas of low income. Table II.13 shows that agricultural employment

Table II.13: Employment in Agriculture by Province, 1971

Province	Agricultural Employment	Total Employment	Agriculture as a Percentage of Total
	000	000	%
Leinster	73.2	537.7	13.6
Munster	94.0	304.8	30.8
Connaught	72.9	139.1	52.4
Ulster (part of)	32.9	72.3	44.9
Total	273.0	1,054.8	25.9

Source: Census of Population.

constitutes a far higher proportion of total employment in these provinces than in the country as a whole. This factor alone would make for a relatively low average income per head in these areas, since earnings are considerably lower in agriculture than in other occupations. In addition, however, average income in agriculture in agriculture in Connaught and the three counties of Ulster is less than half that in the other two provinces, as is shown in Table II.14.

Table II.14: Average Family Farm Income by Province, 1972

Province	Family Farm Income	Number of Family Labour Units	Average Income per Family Labour Unit
	£	No.	£
Leinster	1,402	0.96	1,460
Munster	1,749	1.19	1,470
Connaught	681	0.97	702
Ulster (part of)	637	1.08	590

Source: Farm Management Survey: Preliminary Results, An Foras Taluntais.

Many factors contribute to the low average income in agriculture in Connaught and Ulster, particularly the low average farm size and the poor quality of the land. In 1970, 82.6 per cent of holdings in Connaught and 79.8 per cent of those in the three Ulster counties were under 50 acres compared with 62.2 per cent in Leinster and 57.0 per cent in Munster.

Moreover, farms in Connaught and Ulster tend to be engaged in the less remunerative systems of farming, partly on account of the poor quality of the land. The most common system combines small-scale dairying with the rearing of a correspondingly small number of calves to the store stage. This system is land-extensive and unsuited to the small farms of these regions. The most lucrative farm system in Ireland, particularly on smaller farms, is liquid milk production, but this enterprise is limited in these regions by the inadequacy of the local market. Pig and sheep production would be well suited to the type of land in the west, but it is not widespread there. Where it does exist, the scale of enterprise tends to be too small to yield good returns. The same is true of those farms in the west engaged in creamery milk production, with the majority of cow herds consisting of less than ten cows.

Scully (1971) found that social factors relating to the age of the farming population and its low level of education were also important in explaining the low income levels on western farms. Emigration has been concentrated among persons in the young active age groups, and has resulted in a situation where, according to Scully's findings, 55 per cent of all farmers in the west are over 50 years of age, half of whom are without local successors to their farms. Older farmers are much slower to take up new ideas or avail of credit facilities for expansion, and even their standard of basic husbandry is often poor.

The main conclusions reached in Scully's report were that in the long term there was, first, a need to redress the age imbalance by attracting young people into farming. Second, a restructuring of farm size was needed to bring holdings up to a commercially viable level. Third, for many persons now on farms the solution to their low income status lay outside of agriculture. To keep such persons in the region, and maintain the viability of the community, a regional policy would be required to provide employment opportunities in the locality.

CHAPTER III

THE INDUSTRIAL SECTOR

1. Introduction

When independence was achieved in the early 1920s, industry represented only a small sector of the economy, accounting for only one-eighth of total employment. The conditions of free trade prevailing from the early 19th century, arising from the Act of Union (1801), had not been favourable to industrial development in the twenty-six counties. However, they did not prevent an industrial revolution in Northern Ireland, which had a firmer agricultural base and a longer industrial tradition. The only major exception in the South (brewing), like the chief industries of the North (linen and shipbuilding), thrived under free trade: it was a substantial importer of raw materials and relied on export markets for the disposal of much of its output.

The partition of the country left the six north-eastern counties, containing most of the industry of importance, as part of the U.K. Initially, after independence, great caution was observed in imposing protective duties. In the 1930s, however, tariffs and quotas were introduced on a wide scale and with little discrimination. As a result, many new industries were established, catering almost exclusively for the home market. In many cases, these industries were engaged in comparatively minor assembly operations on goods previously imported in finished form, so that they relied heavily on imports of raw materials and semi-finished products. Efforts were also made in the 1930s, through the Control of Manufactures Acts, to maintain control of industry in Irish hands.

The new policy was quite successful in expanding employment in industry. In manufacturing, as covered by the Census of Industrial Production,[1] the number employed rose from 60 thousand in 1926 to 100 thousand in 1938. The increase in employment was generated in numerous small establishments. Had the introduction of protection been more gradual and selective, it is likely that the proliferation of so many small establishments in each industry could have been avoided. The new industries were geared to the home market

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1. The Census of Industrial Production figures for employment are lower than those in the Census of Population. A major reason is that the former covers only establishments with three or more persons engaged.

and did not export a significant portion of their output. The high and indiscriminate levels of protection involved very high effective tariffs which constituted a significant bias against exports relative to home sales. Thus, the growth rate of many of the new industries tapered off once the initial import substitution phase was complete and, given the small size of the market, few of the firms had by then reached a large scale.

After the Second World War, it was gradually recognised that opportunities for increasing employment further through reliance on the home market alone were limited. Accordingly, the emphasis of policy was increasingly laid on export expansion. Capital grants for new export enterprises were introduced, tax concessions were granted on profits arising from export sales and more generous tax allowances for investment were introduced. Major efforts were made to attract foreign enterprise, and existing firms were encouraged to improve their efficiency in preparation for freer trade. In the early 1960s, tariffs began to be dismantled, beginning with two unilateral cuts of 10 per cent each. In 1965, the Anglo Irish Free Trade Area Agreement (AIFTAA) was signed, while Ireland's decision to join the EEC with effect from 1 January 1973 represented the culmination of the move towards free trade.[1]

Although the share of industry in total employment and total output grew throughout the post-war period, the level of industrial employment fell during the 1950s. In 1961, industrial employment was 5,000 below the 1949 level of 264 thousand. Between 1961 and 1972, however, it grew at an annual average rate of 1.8 per cent per annum, involving the creation of 55,000 net new jobs in industry. A marked change also occurred in the growth of industrial output in the 1960s, with the average annual rate rising from 3.6 per cent in the period 1949-61 to 5.8 per cent in the period 1961-72. A number of factors contributed to this improvement in performance. During the 1950s, Irish industry was beginning the transition from autarky to freer trade. Inevitably, there were growing pains in the formulation and execution of the new policies, and lags in the response of firms to the new conditions and incentives. Moreover, an overly cautious fiscal policy during the 1950s compounded the difficulties by restricting the growth of the home market. By the end of the 1950s, a more coherent strategy of industrial expansion had emerged, it was implemented with greater drive and on a larger scale in the 1960s, and demand conditions were buoyant on the home, as well as on the export, market.

1. For a more detailed description of industrial development policy, see Donaldson (1966); Survey of Grant-Aided Industry (1967): and Kennedy and Dowling (1975).

2. Structure of Employment and Output

The distribution of industrial employment among its main components is given in Table III.1 for a number of years since the war. Manufacturing is the major source of industrial employment, followed in importance by building and construction, while mining and the utilities (electricity, gas and water) are of relatively minor importance.

Table III.1: Composition of Industrial Employment, Various Years

Industry	1951	1961	1971	1972
	%	%	%	%
Mining, Quarrying & Turf Production	3.5	3.7	3.2	3.2
Manufacturing	62.7	69.3	66.2	67.5
Building & Construction	30.4	23.0	26.1	24.8
Electricity, Gas, Water	3.4	3.9	4.4	4.4
Total	100	100	100	100

Source: Trend of Employment and Unemployment.

The most notable change in the structure of industrial employment since the war was the fall in the share of building and construction during the 1950s. In the early years of that decade, the decline in industrial employment was confined mainly to building, which had grown rapidly in the immediate post-war years: a large programme of infrastructural investment was undertaken at that time. By 1956, the share of building had fallen to 26 per cent from over 30 per cent in 1951. All branches of industry experienced a fall in employment in the depressed years 1956-58, but the decline was most acute in building and construction and its share in industrial employment continued to fall up to the end of the decade. Since 1961, employment in all four branches of industry has grown. Although the fastest rate of growth occurred in the utility industries, the main contribution to the increase in total industrial employment came from manufacturing. Building and construction shared in the general recovery after 1961 though employment in the industry has never fully regained the level of the early 1950s. Employment in building has fluctuated more than that of the other sectors of industry, but this feature is not unique to Ireland. The building industry is of crucial importance in maintaining an adequate level of demand in Ireland and is discussed further in this context in Chapter X.

Table III.2: Distribution of Employment and Net Output* in Manufacturing by Industrial Group, Various Years

Industrial Group	Employment			Net Output			Net Output per Head		
	1946	1961	1971	1946	1961	1971	1946	1961	1971
	%	%	%	%	%	%	Index	Index	Index
Food	22.9	23.1	21.9	22.4	23.9	22.5	97	104	102
Drink and Tobacco	8.9	6.3	5.1	21.8	12.8	10.4	249	203	204
Textiles	11.0	13.4	12.4	8.3	10.6	9.9	78	79	80
Clothing and Footwear	16.3	14.0	11.7	10.7	8.4	6.3	66	60	54
Wood and Furniture	6.3	4.4	4.1	4.8	3.1	3.1	75	70	77
Paper and Printing	9.0	9.3	8.6	9.0	9.3	8.0	101	100	93
Chemicals	3.2	3.6	4.1	3.8	4.9	6.9	117	136	166
Minerals	2.7	3.8	5.3	2.7	4.4	6.3	100	114	120
Metals and Engineering	14.0	16.8	19.7	11.4	15.6	16.9	81	93	86
Other Manufacturing	5.7	5.3	7.1	5.1	7.1	9.7	90	134	135
All Manufacturing	100	100	100	100	100	100	100	100	100

*Net output is the difference between the sale value of output and the cost of materials. It exceeds industrial gross value added (or domestic product) in that it includes certain expenses of production (e.g. printing, advertising, etc).

Sources: Kennedy (1971 I); and *Irish Statistical Bulletin*.

Manufacturing

The main source of detailed information about Irish industry is the annual Census of Industrial Production (CIP). This census does not cover all industrial enterprises, excluding those employing only one or two persons.[1] Many of these small firms are engaged in building and construction and their aggregate importance is not inconsiderable in relation to that sector. While some are also engaged in manufacturing, the CIP covers the vast bulk of manufacturing workers. Table III.2, drawn from the CIP, illustrates the changing structure of manufacturing output and employment in the post-war period.

The fastest growing groups were chemicals, minerals (clay, glass and cement), metals and engineering, and the miscellaneous group. Their growth in output has been more remarkable than in employment, since productivity in these industries has grown faster than in manufacturing as a whole. The rapid rate of productivity growth in these groups can be explained by their rapid output growth and the entry of new firms with relatively high levels of productivity.[2] With the exception of metals and engineering, these groups were of comparatively minor importance in 1946. The more traditional consumer industries, most of which grew up under protection, dominated manufacturing in 1946 - accounting for about three-quarters of both employment and net output - but they have diminished in relative importance in the post-war period. However, they remain the principal source of manufacturing employment and have provided slightly more of the net increase in jobs over the whole period 1946-71 than the other manufacturing groups. The food industry, in particular, continues to be of major importance in the economy.

Mining

Although now only a relatively small sector, mining could become of considerable importance in the future. For long, Ireland was thought to have few natural resources apart from the land, but this view has been substantially changed by new mineral discoveries and the prospect of offshore oil.

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1. For a detailed description of the CIP and its coverage, see Kennedy (1971 I), Appendix 1.

2. See Kennedy (1971 I). Although the output figures used here are in current values, the conclusions would, in fact, be reinforced by use of data for volume of output.

During the post-war period, there has been a remarkable expansion of activity in mining. Between 1953 and 1971, the volume of production has increased by almost 450 per cent but employment has grown more modestly - by 42 per cent. This experience is largely due to the transformation within the industry. New firms have been established, using sophisticated machinery but relatively little labour. Moreover, declining activity in some of the older mining concerns has partly offset the increased employment in the new ones. Coal mining has virtually disappeared, while turf production and bog development, which still accounts for over 40 per cent of all mining employment, has had little increase in employment since the early 1950s, though output has doubled. Quarrying activity has grown considerably during the post-war period. However, the sector where growth has been most remarkable is the mining of base metals, which accounted for less than 3 per cent of total mining output in 1953.[1] Rapid expansion began in the mid-1950s and followed a lull in production since the beginning of the 19th century. The first new mineral discovery after the war was made by a semi-state mining exploration company. In 1955, a Canadian mining corporation was invited to take over the operation of these newly discovered resources, and in the following year tax concessions on the profits of mining companies were introduced. By 1960, employment had more than doubled and real output was more than five times greater than in 1953. However, the first discovery proved to be of poorer quality than expected, underlining the risks often involved in the industry. The Canadian company suspended operations at this mine in 1962, causing a serious reverse to employment and output in the industry. However, this setback was shortlived: already a major new discovery of minerals had been made and others followed. These new discoveries were developed almost entirely on the basis of foreign capital and control though with some Irish equity participation. Employment and output quickly revived and by 1971 employment in the sector was almost five times greater than in 1953. The rate of increase in output was far greater, though unfortunately figures are not available for the volume of production beyond 1964. However, some indication of the expansion of production can be got from the figures for the metal content of ores produced. Between 1953 and 1971, the number of tons of lead extracted has grown from 900 tons to almost 48, 000 tons, and that of zinc from 1, 600 tons to almost 88, 000 tons. The spectacular growth of output in this sector is also reflected in the sharp increase in its share of the total value of net output in mining which rose from 2.9 per cent in 1953 to 35.1 per cent in 1971.

1. For a discussion of the growth of this industry since the war, see Hollánd (1973).

Despite the very rapid growth in mining of base metals, its effect on the economy has not been great.[1] In general, the ores are merely concentrated and then exported abroad in this form. To date, no smelting operations exist in Ireland to convert the ores to metal. As a result, the contribution of the industry to employment has been comparatively small with less than 1,700 engaged in 1971. The fact that this sector of mining has been operated almost entirely by foreign enterprise has also reduced its impact on the economy, particularly in view of the total exemption of mining profits from taxation for the first twenty years of a mine's production, which was introduced in 1967. This measure was increasingly criticized, especially since the average life of an individual mine may not much exceed twenty years, and in 1973 the tax concessions were considerably reduced. Other efforts are being made to increase the contribution of the industry to Irish economic development: negotiations are currently in progress between the Government and the mining companies regarding the extent of State equity participation in the mines and the possibility of establishing a smelter. The prospects for the base metal mining industry in Ireland appear bright. Notable new discoveries have been made in recent years and prospecting is continuing.

Following the North Sea oil discoveries, considerable interest has been generated recently in the prospects of developing Irish off-shore oil and gas fields. Discoveries have been made off the Irish coast but their potential is not yet fully known. However, there is at least a possibility that in the longer-term the development of offshore resources could make a significant contribution to raising the Irish standard of living, both directly through discoveries of oil and gas and indirectly through the development of ancillary industries. Cahill (1974) has pointed out that the construction of concrete marine structures would be well suited to Irish natural resources and indigenous skills. Already, some industries have developed to provide back-up services for the exploration companies.

3. Industrial Exports and Import Competition

The industrial development and trade policies followed in the post-war period have had a substantial impact on the industrial structure and export trade. Manufactured exports, on the SITC classification, accounted for only 6 per cent of merchandise exports in 1950, but by 1961 this proportion had risen to 18 per cent and in 1972 to 41 per cent. Total

1. The Resources Study Group (1971) have highlighted this point.

industrial exports[1] exceeded agricultural exports for the first time in 1969, and in 1972 represented 52 per cent of merchandise exports (excluding the Shannon Industrial Estate).

Table III.3 shows the distribution of manufactured exports among eight industrial groups and the proportion of gross output exported in each group. The most notable change in the composition of manufactured exports was the large rise in the share of the chemicals group from only 2.4 per cent of the total in 1961 to 13.4 per cent in 1972. There was also a substantial rise in the share of the metals group. These increases were offset mainly by the declining shares of the clothing and paper groups. However, in all groups except paper, the proportion of output exported rose, with particularly large increases in the textiles, chemicals, metals, and other manufacturing groups. Moreover, the increase in volume terms was probably greater since manufactured export prices tended to rise less than the price of gross output.

Data in Kennedy and Dowling (1975) show that throughout the post-war period up to 1968, manufactured exports grew considerably faster than home sales of domestically-produced manufacturing output, and that exports accounted for a major proportion of the increase in volume of gross output. Increased exports amounted to just under 40 per cent of the rise in volume of gross output from 1950 to 1961, while from 1961 to 1968 they amounted to over 60 per cent of the much larger rate of increase. Though the growth rate of export volume was similar in both periods, its contribution to output growth in the second period was considerably larger because of the increased share of exports in output. Since the rapid growth rate of manufactured exports was maintained from 1968 to 1972, there is no doubt that increased exports amounted to a substantial proportion of the increase in output volume in that period also.

A large part of the growth of exports has been due to the establishment of new grant-aided firms, many of them foreign. Grant assistance is dependent on a high proportion of output being exported, while the most important tax concession is the remission of tax on profits from export sales. Data in the Survey of Grant-Aided Industry (1967) show that new grant-aided firms accounted for 50 per cent of total manufactured exports in 1966.

1. The definition is that given in Appendix 2 of the Second Programme for Economic Expansion (1964), the relevant data being published since then by the Central Statistics Office. Industrial exports include, as well as SITC manufactured exports, certain processed foods (e.g. bakery and confectionery), drink and tobacco, fibres and minerals.

Table III.3: Distribution of Manufactured Exports and Ratio of Manufactured Exports to Gross Output by Industrial Group, Current Values, 1961 and 1972

Industrial Group	Share of Manufactured Exports		Ratio of Manufactured Exports to Gross Output	
	1961	1972	1961	1972
	%	%	%	%
Textiles	19.2	16.9	14.4	35.3
Clothing and Footwear	17.1	8.8	20.7	32.6
Wood and Furniture	2.4	1.7	7.9	11.4
Paper and Printing	12.2	4.5	15.0	13.8
Chemicals	2.4	13.4	3.9	38.8
Minerals	5.2	4.2	15.2	16.3
Metals	18.3	25.5	9.3	25.9
Other Manufacturing	23.2	25.1	23.2	49.8
Total	100	100	13.8	30.2
	£m	£m	£m	£m
Total Manufactured Exports	32.8	238.3		
Total Gross Output			237.2	789.1

Source: Department of Finance, Review of 1973 and Outlook for 1974, Appendix 2, Table (i). The export data include all the exports of the industrial groups, so that total manufactured exports here differ slightly from the total in the SITC classification.

Most of the firms had commenced production in 1960 or subsequently, and the exports of such firms in 1966 accounted for two-thirds of the rise in total manufactured exports from 1960 to 1966. Such firms exported a very high proportion of their output - 75 per cent as against 18 per cent for other firms.

The figures for both gross output and exports, however, include imports that go directly and indirectly into their production. To the extent that exports have a larger import content than home sales of domestic output, the figures exaggerate the contribution of exports to domestic activity. The degree of overstatement would be increased if the import content of exports were rising faster than that of home sales of domestic production.

Available data show that the import content of manufactured exports is high and rising, [1] and there are some reasons to suggest that it may be higher than the import content of home sales of domestic production. Thus, the contribution of increased exports to the growth of output may be rather less than the gross figures would suggest.

In fact, the industrial development strategy pursued since the mid-1950s has been subject to criticism on this as well as on other grounds. While a significant part of the growth of manufacturing in the last decade has come from export-oriented foreign enterprise, it has been argued that their contribution is reduced by reason of their high import and low domestic value added content, the absence of backward or forward linkages with the rest of the economy, the low level of research and development in these firms, and their high level of capital intensity. It has also been argued that the industrial incentives may be excessively directed towards export development relative to the assistance available for modernising the traditional industries, particularly those facing ever-increasing competition. [2] These points are taken up later, in the final chapter, in considering the role of industrial development policy.

McAleese (1971) has pointed out that frequently only a small number of firms in each industry account for the majority of the industry's exports. These are usually newly established grant-aided firms, many of them under foreign control. Side by side with these firms are the traditional firms which tend to export only a small portion of output, so that there is a certain duality in the Irish industrial structure. The contrast between the new and the old firms appears to go beyond the market they supply. The new firms are generally larger in scale, they have tended to concentrate in the more modern sectors of industry, and use more highly capital-intensive and technically-advanced methods of production. However, it would be a mistake to draw too stark a contrast between the new and the old firms. While many of the latter have not grown, or have even declined, others have expanded sales rapidly

1. According to figures in Henry (1972), the direct and indirect import content of manufactured exports was 47.5 per cent in 1964 and had risen to 53.3 per cent in 1968. Strictly speaking, however, these figures may not represent the full extent of the import content of exports, since they are based on the import content of final demand for eight manufacturing groups. It is not possible with available data to separate at the industry group level the import content of exports as against the import content of output going to other categories of final demand. In calculating the import content of total manufactured exports, Henry had to use the import coefficient of final demand for the output of the groups.

2. See Cooper and Whelan (1973); and Kennedy (1974).

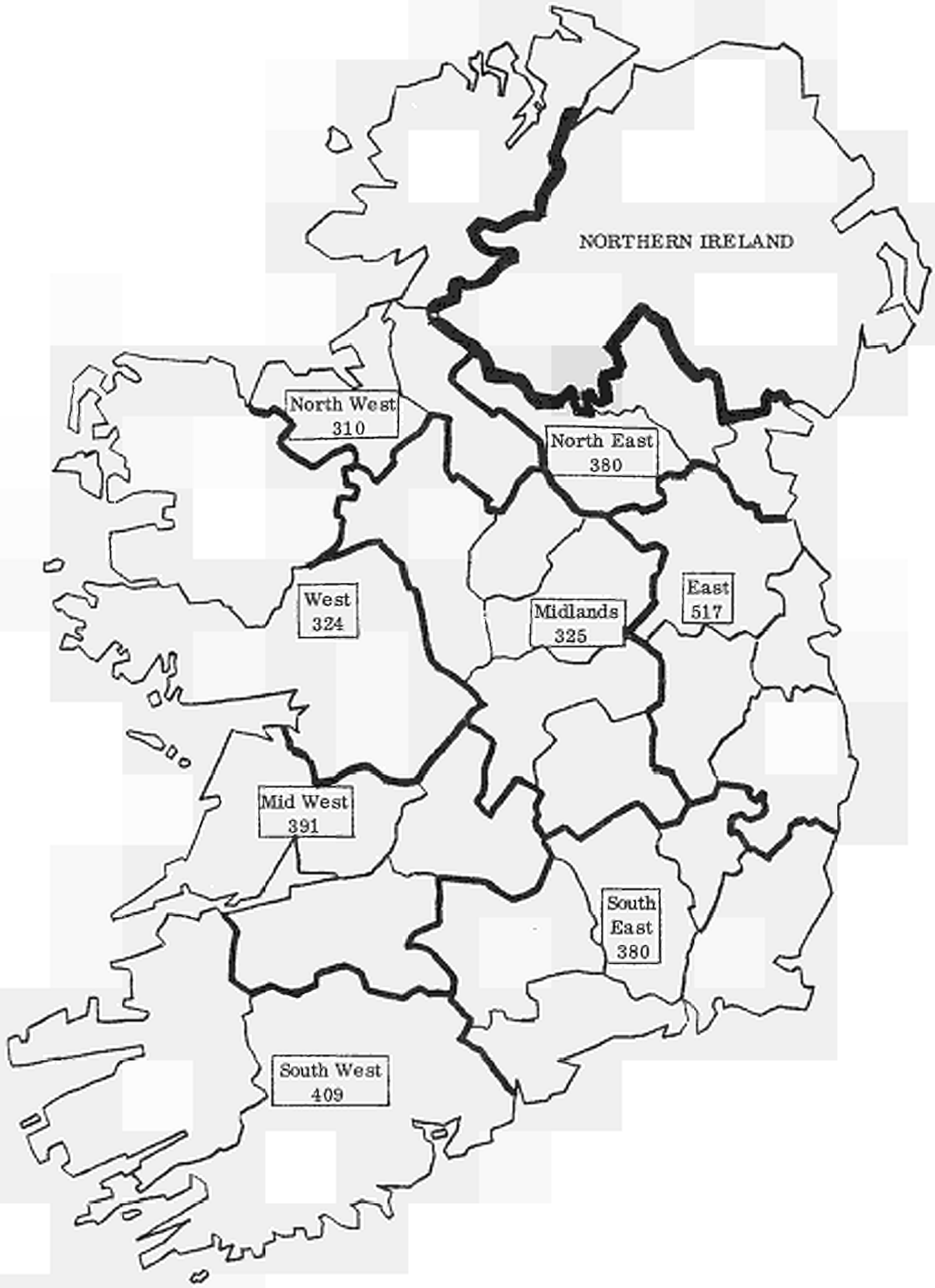
in both home and export markets. Nevertheless, many of the traditional firms have only survived by virtue of high protection and because new entrants have been encouraged to concentrate on exports.

As the level of tariffs has been reduced under AIFTAA, the traditional firms have come up against severe competition from British firms. They are facing serious adjustment problems which have led to many redundancies in the past few years, particularly in the furniture, clothing, food and drink industries where there is a high concentration of small traditional firms. In 1972, over 5,000 manufacturing workers became redundant. Of course, other factors apart from foreign competition have been at work in causing these redundancies, such as the general recession in the textile industry in developed countries. The rapid rate of inflation in Ireland from 1968 to 1972, and the deterioration in unit wage costs relative to competing countries, was also, no doubt, a significant factor. Kennedy and Dowling (1975) showed that between 1967 and 1972 the share of competing manufactured imports in the domestic market rose from 22 per cent to 31 per cent whereas previously in the 1960s the share had been relatively constant at about 22 per cent. Comparing the two five-year periods 1962-67 and 1967-72, they found that in the first period changes in competitiveness in the broad sense (including changes not only in relative unit wage costs but also in trade restrictions, marketing skills, etc) accounted for a rise of only £6 million in competing manufactured imports (or about one-sixth of the total rise in such imports), whereas in the second period they accounted for a rise of £73 million (or about one-half of the total rise). While part of the decline in competitiveness was due to tariff reductions under the AIFTAA, it is also likely that the import-competing firms would be more vulnerable than the exporting firms in the face of any deterioration in unit wage costs. With more widespread reduction of tariffs under the EEC, and increased competition on the home market from European as well as British producers, the adjustment of the import-competing sector of Irish manufacturing will present major problems for some years to come.

4. Regional Distribution of Industry

For planning purposes, the Industrial Development Authority has divided the country into nine regions which in some cases overlap provincial boundaries. These regions are shown on the map on page 57, which gives details of personal income per capita in each

Personal Income per Capita (£) by IDA Region, 1969



Source: Ross (1972).

region in 1969.[1] Table III.4 shows the distribution of total industrial employment among these regions in 1971. Industrial activity is highly concentrated in the relatively prosperous eastern regions of the country and particularly around Dublin, although some of the other cities are also important centres of industrial activity. In both the East and North-East regions, their share of total industrial employment is considerably greater than their share of overall employment. Thus, as may be seen from Column 3, industry accounts for a considerably higher proportion of all jobs in these regions than in the rest of the country. On the other hand, the West, North-West and Midlands, which are the poorer regions, have comparatively small industrial sectors, with less than one-quarter of the work-force engaged in industry.

Table III.4: Distribution of Industrial and Total Employment by Region, 1971

IDA Regions	(1) Share of Region in Total Industrial Employment	(2) Share of Region in Total Employment	(3) Industrial Employment as a proportion of Total Employment in Each Region
	%	%	%
East	45.8	36.8	38.1
North-East	6.7	6.1	33.4
South-East	9.7	10.6	28.0
South-West	15.1	15.2	30.2
Mid-West	7.9	8.8	27.5
Midlands	5.9	7.7	23.4
North-West*	4.3	6.1	21.4
West	4.7	8.6	16.6
Total	100	100	30.6

*Donegal is included in this region.

Source: Census of Population.

Within the industrial sector the tendency to agglomeration in the East is not so acute in building and mining. This is to be expected: mining activity tends to be close to the

1. The number of regions is reduced to eight by including Donegal in the North-West region.

source of raw materials, and building and construction is carried on wherever there is a centre of population. A high proportion of total employment in electricity, gas and water is located in the Dublin area, but the remainder is widely dispersed.

The 1968 Census of Industrial Production gave data on the location of manufacturing industry, using the IDA regional classification. Table III.5, based on these data, shows the distribution by region of manufacturing establishments, net output and employment. A very high proportion of manufacturing industry is located in the East, most of it in Dublin. Comparison with Table III.4 also shows that manufacturing employment is concentrated in that region to a far greater degree than total employment, or for that matter, than total industrial employment.[1]

Table III.5: Regional Distribution of Manufacturing, 1968

IDA Region	Establishments	Net Output	Employment
	%	%	%
East	44.8	51.7	51.1
North-East	6.4	8.6	7.9
South-East	10.5	7.8	8.4
South-West	15.2	14.9	15.0
Mid-West	8.4	9.2	7.7
Midlands	4.4	2.7	3.4
North-West*	5.2	2.5	3.4
West	5.1	2.5	3.1
Total	100	100	100

*Donegal is included in this region.

Source: Irish Statistical Bulletin.

It is evident from Table III.5 that the proportion of manufacturing employment and net output in the East and North-East regions is considerably greater than the proportion of manufacturing establishments. This implies that the establishments in these regions are,

1. However, the CIP figures exaggerate somewhat the proportion of total manufacturing employment in Dublin, since it excludes small establishments which tend to be widely dispersed throughout the country.

on average, larger than in the other regions. It is also apparent that the East and North-East account for a somewhat higher proportion of net output than of employment indicating above-average productivity. The Mid-West region also has a relatively high level of productivity, which is probably due mainly to the establishment of the Shannon Industrial Estate in this region.[1]

The adverse impact of the low level of industrialisation on incomes in the poorer regions is reinforced by the structure of their industrial activity. The 1968 Census of Industrial Production showed that the manufacturing groups most concentrated in the East region, and of little consequence in the West, North-West and Midlands regions, were drink and tobacco, chemicals, paper and printing, and metals and engineering. It will be recalled from Table III.2 that the first two groups had the highest productivity levels while metals and chemicals were among the groups showing the most rapid expansion. Thus, not only have the West, North-West and Midlands regions a small manufacturing sector, but also what manufacturing employment they have is more heavily involved in the low productivity sectors such as wood and furniture, clothing and footwear, and textiles: these, with the exception of textiles, are also slow-growth sectors. They are the industries most threatened by external competition, so that industrial adaptation is particularly important in these regions if redundancies are to be avoided. It may be pointed out that the Industrial Development Authority is particularly concerned to promote employment in the low income regions. In recent years, this policy has met with some success and manufacturing employment has risen relatively rapidly in these regions though their overall level of employment has continued to fall. Thus, their share in total manufacturing employment rose in the intercensal period 1966-71, principally at the expense of the two major cities, Dublin and Cork. However, major changes in the regional pattern of development is likely to be a long and slow process.

Many factors have contributed to the location of manufacturing industry in and around Dublin. It is the capital city and principal population centre of the country, with 28.6 per cent of the population in 1971. Income per capita is considerably higher than in any other county, a factor which is probably both a cause and an effect of the high rate of industrialisation. Thus, Dublin is by far the most important consumer market in the country.

1. The Shannon Industrial Estate is a customs-free area, which has attracted a considerable amount of foreign enterprise.

Furthermore, it has good transport links for distribution to the rest of Ireland. With an industrial structure heavily weighted towards final-stage processing of consumer goods, it is not surprising, given the importance of ready access to markets, that so much industry is located around Dublin. Perhaps even more important in attracting industry to Dublin is its position as the principal port of the country. Irish industry depends heavily on imported inputs and exports a considerable proportion of output, particularly the industries established in the last decade. Clearly, transport costs to and from the port assume major importance in such industries, especially where the domestic value-added content is low.

5. Market Concentration in Industry

In a highly open economy like Ireland, the precise significance of measures of industrial concentration among firms is open to question. As an indication of the degree of competition, such measures must be considered in relation to the extent of effective protection in the home market and of export penetration in foreign markets.

The only information on market concentration in Irish industry relates to plants rather than firms, although the latter would be more relevant in examining market power. The data have been analysed by O'Malley (1971) for the year 1964 and Table III.6, based on this work, divides manufacturing industries into three classes according to the degree of concentration. The high concentration industries are those in which the top four plants accounted for at least two-thirds of net output of the industry; in the medium concentration industries, the top four plants accounted for between one-third and two-thirds of net output; and in the low concentration industries the top four plants accounted for less than one-third of net output.

Fifteen industries fell into the high concentration category. These accounted for just under one-quarter of total manufacturing output, but for a considerably lower share of manufacturing employment, indicating that their productivity level was well above average. The high concentration industries tended to be small, to have a small total number of plants but a large average plant-size. It would be unwise, as O'Malley points out, to assume that these industries are monopolistically oriented. The high concentration ratios may only reflect the combination of typical plant sizes (by international standards) and the small scale of the Irish market. Moreover, many of the larger firms export a significant proportion of

Table III.6: Concentration in Manufacturing Industry, 1964

Concentration Class*	Number of Industries	Share in All Manufacturing**		Average Number of Plants per Industry
		Net Output	Employment	
	Nos.	%	%	Nos.
High	15	23.4	17.1	13
Medium	22	43.4	46.7	62
Low	11	25.3	31.1	116
Total	48	92.0	94.9	61

*See text for explanation of classification.

**The percentages do not add to 100, since a few industries were omitted from the analysis due to data limitations.

Source: O'Malley (1971), Chapter 4.

output, and also face increasing competition from abroad in the home market due to the scaling down of protection.

O'Malley found that the performance of the high concentration industries in the period 1953-63 was, in general, relatively poor. They experienced much slower growth in output, employment and productivity than in other industries; while unit labour cost, unit gross margin cost and price grew considerably faster. However, this performance seems to have been due to general demand and supply conditions rather than the abuse of market power. Many of the industries in the high concentration class were old in terms of industry life-cycles, or were producing products with a low income elasticity of demand. Thus, they had less scope for the introduction of new technologies or the achievement of scale economies.

Public regulation of competition has been exercised by the Fair Trade Commission, an administrative tribunal established in 1953. At that time, restrictive practices were quite widespread, having developed in the protected home market during the 1930s and intensified under conditions of wartime shortages and rationing. The Commission's terms of reference were initially limited to restrictive practices affecting the supply and distribution of goods and related services. Thus, trade restrictions in production, the supply of labour and the supply of many services were outside its scope. Since 1953, however, the scope of public regulation has been broadened to include restrictive practices affecting the supply of certain services and the handling of materials in manufacturing and construction.

The Commission is primarily an investigatory body with two main powers: the making of fair trading rules and the holding of public enquiries. The fair trading rules represent a code of fair conduct for the trade, but without legal force. Where a public enquiry is held, however, the Commission must make a report to the Minister for Industry and Commerce, and may recommend to him the making of a legally-binding order. If the Minister does not accept such a recommendation, he must justify his decision to the Oireachtas (parliament). In fact, the Commission's recommendations have generally been accepted.

In the early years of its operation, the power to make rules was widely used by the Commission to set standards for acceptable practices in a relatively short space of time. These rulings did not require the lengthy investigations involved in a public enquiry. However, a total of 16 public enquiries have been held to date, and considerable reliance is also placed on informal discussions with the parties concerned. The legislation establishing the Commission did not proscribe any particular practices, and the approach of the Commission has been pragmatic, examining each trade on its merits. On occasion, the Commission has allowed the continuance of some restrictive practices or provided safeguards to protect traders' legitimate business interests. The employment situation in the economy has also undoubtedly influenced the Commission in regard to decisions that might cause unemployment in the trade concerned. Although the Commission has power to investigate and rule on monopolistic or extensive market power, its activity has centred on other restrictive practices such as barriers to entry, resale price maintenance, and discrimination in terms of supply.

Revised legislation in 1972 has separated the functions of investigation and adjudication. A new office of Examiner of Restrictive Practices has been created, whose role is to investigate instances of unfair competition and decide whether the case warranted a public enquiry by the newly named Restrictive Practices Commission. The power to make rules has also been transferred to the Examiner. Another innovation is that the Commission has been given explicit responsibility to study the effect on the public interest of monopolies, mergers, takeovers, and the operation of multinational companies. Further legislation is being prepared to deal specifically with these problems.

It is difficult to isolate the benefit of public regulation of restrictive practices from the impact of general economic conditions. However, there is evidence that it has led to increased price competition in distribution and the elimination of barriers to entry. Kennedy (1960), in a review of the work of the Fair Trade Commission up to then, concluded "that the Commission's work has arrested the progress of a network of restrictive practices which tended to become more comprehensive, that greater freedom and flexibility has been introduced at all levels, and that in some cases at least the consumer has benefitted through lower retail prices".

CHAPTER IV

THE SERVICES SECTOR

1. Introduction

Services is the largest sector of economic activity in Ireland, accounting in 1972 for 48.2 per cent of GDP and 44.4 per cent of total employment. This is not unusual by European standards: Table I.7 in Chapter I shows that, among the nine EEC countries, only Italy has a significantly lower share of total employment engaged in services while most of the other countries have considerably larger shares. However, if attention is confined to those outside agriculture, then only two countries (Netherlands and Denmark) have as high a proportion in services as Ireland (58 per cent).

Moreover, in terms of employment the share of services has been increasing: it rose from 35.6 per cent in 1949 to 44.4 per cent in 1972. However, although the share rose, the absolute level of employment in services declined in the years 1949-61 at an annual average rate of 0.4 per cent per annum, reaching its lowest post-war level at 416 thousand in 1961. Since then, employment in the sector has expanded steadily at an average annual rate of 1.0 per cent for the period 1961-72, involving an absolute increase of nearly 50 thousand.

The share of services in real output declined somewhat during the post-war period and, taken in conjunction with the rising employment share, this implies that real productivity grew at a considerably lower rate than in the rest of the economy. However, there are difficulties in measuring changes in real product in many service activities. In practice, changes in the volume of output in the government sector are measured in terms of changes in employment, a method which rules out the possibility of any measured productivity change. There is evidence that productivity rose in at least some public services. For example, Neary (1975) in a study of the Irish Post Office, used the number of pieces of mail as a measure of output, and on this basis arrived at an estimated increase in labour productivity of 2.2 per cent per annum from 1951 to 1965. Thus, it is possible that the measurement conventions in the national accounts are responsible for part of the relatively slow growth in productivity observed in the services sector. Nevertheless, many services rely on personal contact so that the scope for increasing productivity is limited.

In current prices, the share of services in total domestic product rose slightly during the post-war period from 44.7 per cent in 1949 to 48.2 per cent in 1972. However, this rise was less than the rise in the employment share, so that there was a relative decline in the high income level prevailing in services at the start of the post-war period.

Despite its large scale, the services sector has not been subject to anything like the same degree of study as the agricultural and industrial sectors, and the amount of data available for the sector is meagre in relation to the other sectors. No doubt, this partly arises from the heterogeneous nature of services, the small scale of activity in many of them, the conceptual and practical difficulties of measuring output, and the fact that only a relatively limited number of services are directly involved in international transactions. Perhaps the major reason, however, is that the development of many services is thought to be dependent on progress in industry and agriculture and the rising real incomes generated thereby. Thus, policy has been primarily aimed at the development of agriculture and industry and the development of services has not been a major direct objective of policy. Of course, this is not true of all services. There have been, for example, major state initiatives in the development of Irish international transport companies and Irish insurance companies. Many services depend to some degree on tourism, and substantial efforts have been made since the mid-1950s to develop the tourist trade. The size of the public sector itself, which falls almost entirely into the services sector, depends on policy decisions about public needs and rates of taxation. Moreover, as discussed later in this chapter, at the regional level much more than at the national level, many services can be regarded as autonomous sources of regional growth to the extent that their location is open to choice and not necessarily confined to the areas served.

2. Structure of the Services Sector

The main source of information on the structure of the services sector is the employment data in the Census of Population. In Table IV.1 the distribution of services employment among broad groups of activity is given for various census years. The most marked change in the structure of employment has been the substantial decline in the proportion engaged in personal service. This decline was due to the very sharp fall in the numbers engaged in private domestic service, which accounted for 12.5 per cent of total services

Table IV.1: Distribution of Employment in the Services Sector by Industrial Groups, Various Years

Industrial Group	1951	1961	1971
	%	%	%
Commerce	32.4	34.7	32.5
Banking, Insurance and Finance	2.9	3.5	5.3
Transport and Communications	13.3	13.1	13.2
Public Administration and Defence	9.5	9.8	10.7
Professions	19.4	20.8	23.9
Personal Service	19.9	15.4	11.9
Entertainment and Sport	2.5	2.7	2.4
Total	100	100	100
	(000)	(000)	(000)
Total Employment in Services*	425.2	412.4	455.6

*Excludes certain unclassified employment.

Source: Census of Population.

employment in 1951 but only 3.4 per cent in 1971. The share of other types of personal service - hotels and catering, laundering, hairdressing, etc - grew slightly between 1951 and 1971.

The activities with significant growth in employment share were government services, the professions, and particularly banking, insurance and finance. Greater use is made of banking and professional services by the industrial sector, which has grown relatively rapidly, than by agriculture. Furthermore, the increasing State involvement in the economy, particularly in the health and education spheres, has induced rapid growth in employment both in public administration and the professions.

It will be noted that between 1961 and 1971 the share of the commerce group in total services employment declined somewhat. This is attributable to a fall in employment in retail distribution, particularly groceries and provisions, due largely to the spread of self-service retail outlets. The share of transport and communications has remained fairly constant, but within this group employment in air transport and in communications has grown considerably, while some of the older forms of transport, particularly rail transport, have experienced a decline.

3. Regional Distribution

Table IV.2 shows the distribution of services employment among the IDA planning regions in 1971. For comparative purposes, the table also gives the distribution of total employment outside agriculture and in all activities. The distribution of services employment is very similar to that of total non-agricultural activity, with the exceptions of the North-East, where it is relatively low, and the West, where it is relatively high. The differences otherwise are slight, and even in the case of the two exceptions mentioned are not so large as to alter significantly the picture presented in Chapter III in relation to industry. Thus, as in the case of industry, services employment is heavily concentrated in the East, and the regions with the lowest proportion of their work force engaged in services are the West, North-West and Midlands.

Table IV.2: Regional Distribution of Services Employment, 1971

IDA Region	Services	All Non-Agricultural	Total at Work
	%	%	%
East	47.2	46.6	36.8
North-East	4.8	5.6	6.1
South-East	9.4	9.5	10.6
South-West	14.2	14.6	15.3
Mid-West	7.7	7.8	8.8
Midlands	5.9	5.9	7.7
North-West	4.6	4.5	6.1
West	6.3	5.6	8.6
Total	100	100	100

Source: Census of Population 1971.

These results are not surprising in the absence of substantial policy measures aimed at the location of "foot-loose" service activities in the depressed regions. Dublin is the centre of most government services. Moreover, as the capital city, with a large concentration of industry and a high income per capita, it is inevitable that Dublin would also attract a large share of other service activities. While agricultural activity does induce employment in services, and some services must be provided locally even in thinly populated areas, nevertheless services employment is unlikely to be large in the underdeveloped regions unless special policy measures are adopted to encourage location there. When the proportion engaged in agriculture is high in any region, the market there for service activities tends to be small because of the low incomes in agriculture and the wide dispersion of population. Furthermore, persons engaged in agriculture tend to perform for themselves many services which industry and the urban community employ others to do.

In a study of regional employment in Ireland, Baker (1966) attempted to identify those activities that are causal in the development of a region (autonomous activities) and those that are dependent on activity and incomes generated by the autonomous sector in the region (induced activities). He advanced the hypothesis that the size of the induced sector depends on the size and composition of the autonomous sector and went on to test this hypothesis using data for Irish counties. Agriculture and most manufacturing activities were classified as locally autonomous since they served a national or international market. Many service activities, however, were also classified as locally autonomous either because they served a national or export market (e.g. hotels), or because their location was determined substantially by national decisions (e.g. public administration and defence). The autonomous sector, then, was taken to include public administration and public construction, sea and air transport and tourist services, as well as agriculture and the bulk of manufacturing. The induced sector included private construction, land transport, distribution and personal services.

Baker found that in both 1951 and 1961 there was a fairly close linear relationship across counties between the size (in terms of employment) of the non-agricultural autonomous sector and the size of the induced sector. Moreover, different kinds of non-agricultural autonomous activity were, in general, equally effective in generating employment locally in the induced sector. Agriculture, however, was not nearly so effective in that regard. This was partly due to the lower average incomes of those engaged in agriculture but, even allowing for this, the "induction effect" for agriculture was smaller. It is possible that farmers spend a smaller proportion of their income than urban workers on services relative to manufactured goods, and the latter would be more likely to come from outside the region. The high savings propensity of farmers may also be an important reason.

Baker's study has important implications for regional policy aimed at maintaining or increasing employment in the poorer regions with a high ratio of agricultural employment. It suggests that the creation of alternative employment in non-agricultural autonomous activities would generate much higher total employment in the region than equivalent measures to maintain workers on the farm. It also suggests that it might be better to expand autonomous services employment in the depressed regions than to concentrate solely on the development of manufacturing industry. In this regard, as Baker says, "the criterion in location policy should, in fact, be the degree to which an autonomous activity is 'foot-loose', that is, how little it would suffer from being sited other than in its ideal location". It is probable that some autonomous service activities would suffer less than many manufacturing industries by being located in underdeveloped regions.

This analysis has been extended and updated in a forthcoming paper - Baker and Ross (1975). An important additional finding is that in any county there seems to be an upper limit on the employment share of the induced sector. As this limit is approached, further increases in the non-agricultural share of the autonomous sector do not generate a corresponding increase in the share of the induced sector in the total work force. Thus, total employment in the economy is likely to benefit from the location of autonomous industrial and service activities in the underdeveloped regions, where the relative size of the induced sector is not yet near its upper limit. However, if an activity is seriously damaged by location in an underdeveloped region, then the growth of the activity could be impaired and employment correspondingly limited.

CHAPTER V

UNEMPLOYMENT

1. The Level and Trend of Aggregate Unemployment

Unemployment is a problem of particular severity in Ireland. This clearly emerges from Table V.1 which shows the rates of unemployment for the total labour force and for the employee labour force in EEC countries. Allowing for the fact that international comparisons may not be exact due to differences in methods of measuring unemployment among countries, there is still no doubt that unemployment in Ireland is far greater than in any other member state. Even Italy, the closest to Ireland in terms of income per head, experiences a far lower rate of unemployment.

Table V.1: Unemployment Rates, EEC Countries, 1971

	(1)	(2)
	Civilian Labour Force	Employee Labour Force
	%	%
Ireland	5.8	7.7
Denmark	n.a.	3.7
United Kingdom	2.9	3.4
Italy	3.2	3.1
Belgium	1.9	2.9
Netherlands	1.5	1.6
Germany	0.7	0.8
France	2.2	n.a.
Luxembourg	0.0+	n.a.

Sources: Col.(1): Basic Statistics of the Community 1972. The Irish figure in that publication has been revised here slightly in the light of more recent data in the Census of Population of Ireland 1971.

Col.(2): ILO, Yearbook of Labour Statistics 1972; Trend of Employment and Unemployment in 1972 for Irish figure.

There are two main sources of information about unemployment in Ireland, the Census of Population and the data emerging from the administration of the social welfare Acts (known as the "Live Register" data). Effectively, both sources cover unemployment among employees only and the self-employed are, in the main, excluded. The census data are collected at five-yearly intervals, whereas the Live Register is compiled weekly and is, therefore, normally used in discussing trends in unemployment. The figures in the Live Register comprise those persons registering for certain unemployment payments under the social welfare Acts, and the unemployment rate is calculated by relating their number to the total labour force insured under these Acts.[1] Up to recently, these Acts excluded nearly all non-manual employees earning more than a specified income.[2] The exclusion of this group probably involved a slight upward bias in the published unemployment rate since the higher-paid non-manual workers generally experience relatively low rates of unemployment. Also excluded from the Live Register are persons who have not yet been engaged in insurable employment. Those principally concerned are school leavers and their exclusion makes for an understatement of the true rate of unemployment. On the other hand, the Live Register figures may contain some who are not, in fact, actively seeking employment, or who might be "unemployable". Such terms as "unemployable", however, could be dangerously misleading, and there is no hard evidence that the unemployed in Ireland are any less capable of work than in other countries. Eligibility for benefit under the Acts also gives rise to bias in the Live Register measure of unemployment: those who are not eligible for benefits are unlikely to register as unemployed, a factor that may involve a substantial downward bias in the measurement of female unemployment. Thus, there are several factors, operating in different directions, which raise doubts about the validity of the data. However, the net overall bias is probably more in the direction of understating, rather than overstating, the true rate of unemployment.

Discussion of unemployment usually centres around the rate experienced by the non-agricultural employee labour force. Unemployment among the excluded agricultural employees is very high and their inclusion would raise the overall rate of unemployment, but

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1. Sandell (1974) has noted that the published unemployment rate relates the number currently unemployed to an estimate of the total insured labour force which more closely approximates the actual insured labour force of two years earlier. Obviously, this would cause some upward bias in the published rate under conditions of a growing insured labour force.

2. The income limit was abolished from 1 April 1974, but participation in social insurance is still optional for the self-employed.

not substantially so, since the agricultural employee labour force is small. Unless otherwise indicated, the discussion in the rest of this chapter refers only to the non-agricultural unemployment rate. Where Census of Population data are used, the figures refer to all employees whereas, otherwise, the figures refer to employees registered for unemployment payments.

Chart V.1 shows the non-agricultural unemployment rate, based on the Live Register data, for each year from 1947 to 1972. Changes in the rate have been influenced mainly by the level of activity in the economy and the rate of net emigration. The fall from 1947 to 1951 was in line with the economic expansion in the early post-war years. Two periods of sharply rising unemployment occurred in the 1950s due to recessions in the economy. Even though the rate fell sharply in the late 1950s, the average for the decade as a whole was over 8 per cent, and would have been considerably higher but for substantial emigration throughout the 1950s.

In the first half of the 1960s, the rate of unemployment remained steady. However, it rose in the recession of 1966 and did not come down again despite recovery in economic activity. In fact, it increased from 1969 to 1972, due to the sluggish economic performance at home and the sharp fall in emigration induced by rising unemployment in the U.K.[1] The average rate of unemployment from 1960 to 1972 ($6\frac{1}{2}$ per cent) did not represent a major reduction from the rate experienced during the 1950s, despite the much improved growth performance in the economy in the later period. This is due largely to the substantial fall in the rate of net emigration. Sandell (1974) has argued that, if the unemployment rate is to reflect conditions in the labour market accurately, an adjustment should be made to allow for that part of emigration occurring because of insufficient jobs in Ireland.

Following an improvement in 1973 as a result of the rapid rate of economic growth in that year, the unemployment situation deteriorated during 1974 and dramatically so in the second half of the year. By the close of 1974, the rate had risen to almost 10 per cent.

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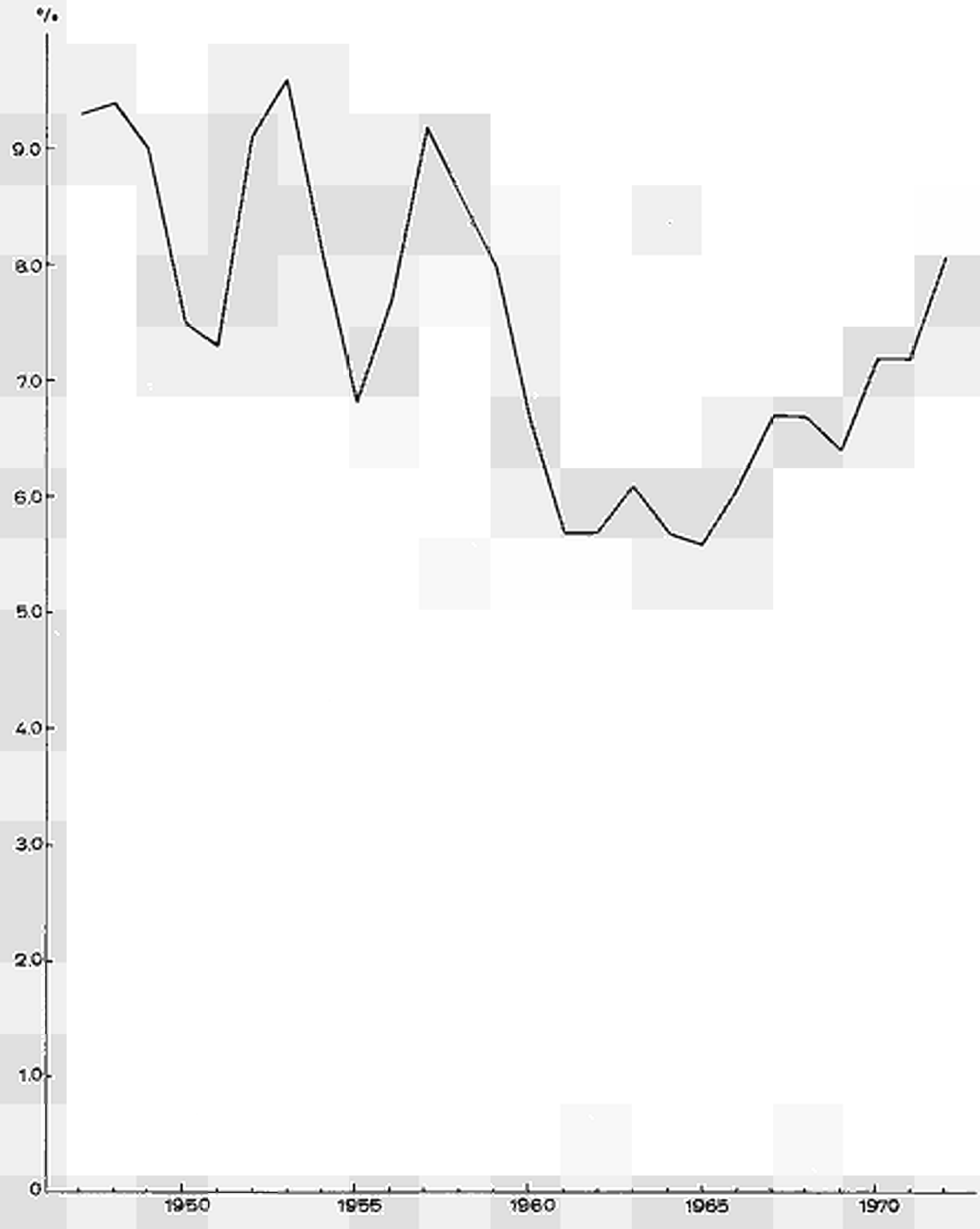
1. In the four years 1969-72, net emigration averaged only 5,000 per annum, compared with 16,000 per annum in the years 1961-68. Indeed, there was a small net inflow in 1971 and 1972.

Chart V.1: Annual Rate of Non-Agricultural Unemployment, 1947-1972



Source: Trend of Employment and Unemployment

2. The Structure of Unemployment

Unemployment is not equally prevalent among all categories of employees, but differs considerably by sex, social and occupational group, sector of activity, age and region. Table V.2 shows the unemployment rate classified by sex and social group, based on the 1966 Census of Population. Females experience a lower overall rate of unemployment than males, and less disparity among the different social groups. The highest rates of unemployment are experienced by males in the unskilled manual and semi-skilled manual groups, whereas salaried and professional workers have very low rates.

Table V.2: Unemployment Rates by Social Group, 1966

Social Group	Male	Female	Total
	%	%	%
Higher Professional	0.3	0.2	0.3
Lower Professional	1.3	2.3	1.9
Employers, Managers	0.5	1.5	0.6
Salaried Employees	1.6	2.0	1.6
Intermediate Non-Manual	2.5	2.4	2.5
Other Non-Manual	4.7	5.8	5.2
Skilled Manual	5.6	3.1	5.2
Semi-Skilled Manual	10.5	4.5	8.1
Unskilled Manual	21.9	7.8	21.7
Total	7.5	3.4	6.1

Source: The data, which are based on the Census of Population 1966, are taken from Geary and Hughes (1970), Table 4.

As might be expected, there is also a tendency for higher rates of unemployment to occur in certain industrial groups. Table V.3 shows for 1972 the rates of unemployment in different industrial groups and the proportion of total unemployment accounted for by each group. The group of unspecified industries experienced the highest rate of unemployment but since this group represents only a small proportion of the insured employee labour force it accounted for only 2½ per cent of total unemployment. Of the major industrial groups, the construction industry had the worst unemployment experience, with 16 per cent

Table V.3: Unemployment Rates by Industrial Group, 1972

Industrial Group	Rate of Unemployment	Share in Total Unemployed
	%	%
Mining and Quarrying	8.8	1.2
Manufacturing	6.8	30.9
Construction	16.1	28.4
Electricity, Gas, Water	5.4	1.2
Commerce	6.5	13.6
Transport, Storage, Communication	9.1	7.4
Public Administration, Professions, Personal Services*, Entertainment	5.4	14.8
Other Non-Agricultural Activity	24.4	2.5
All Non-Agricultural Activity*	8.1	100

*Excludes private domestic service.

Source: Trend of Employment and Unemployment.

unemployed. This industry alone accounted for over 28 per cent of total unemployment, although it had only 14 per cent of the insured labour force. Throughout the post-war period, the construction industry has had a far higher rate of unemployment than average, and the lowest level ever attained was 11.4 per cent in 1951. A very large proportion of employees in the industry are unskilled, and unemployment is most severe among these. This is confirmed by the analysis of occupational unemployment in Geary and Hughes (1970), who singled out three occupational classes particularly prone to high unemployment: builders' labourers, contractors' labourers (mainly roadworkers) and general labourers. Though these three classes represented less than 14 per cent of the non-agricultural employee labour force in 1966, they accounted for 45 per cent of unemployment in that year. Their aggregate unemployment rate was 21.0 per cent, and their exclusion reduced the overall rate from 6.3 per cent to 4.0 per cent.

Table V.4 shows the unemployment experience among employees in different age groups at the Census of Population 1966. Among males, the unemployment rate rises steadily with age above the range 25-34 years. The fact that the rate in the youngest range,

Table V.4: Unemployment Rates by Age, 1966

Age Group	Males	Females	Total
	%	%	%
14 - 24	6.7	3.2	5.0
25 - 34	5.8	3.6	5.2
35 - 44	7.6	4.1	6.9
45 - 54	10.2	4.0	8.9
55 - 64	13.7	4.2	11.7
Total	8.3*	3.5*	6.8*

*Differences in coverage account for the differences between the overall rates here and in Table V.2.

Source: Census of Population of Ireland 1966.

14-24 years, is somewhat higher than in the range 25-34 years is probably due to unemployment among school-leavers who have not yet found a job. The tendency for unemployment to rise with age is far less pronounced among female workers. This is possibly because of weak labour force attachment among female workers, who tend to leave the labour force completely when job opportunities are not available.

Another aspect of unemployment in Ireland to be considered is its duration. In September 1972, 29 per cent of those registered for unemployment payments had experienced no employment in the previous twelve months and a further 47 per cent had experienced less than six months employment. The proportion of long-term unemployed is greater among older workers. International comparison of the extent of long-term unemployment is difficult, but Walsh (1974) has found that the share of long-term unemployed in total unemployment is no greater in Ireland than in the United Kingdom.

3. Regional Aspects of Unemployment

Table V.5 shows the rate of unemployment in different regions in 1972. The regional pattern demonstrated in this table has been remarkably stable throughout the post-war years, with all regions experiencing broadly similar annual fluctuations in the unemployment rate. However, Walsh (1974) has observed that over the whole period 1954-72 there

Table V.5: Unemployment Rates by Region, 1972

Region	Rate of Unemployment
	%
Dublin	6.8
North Leinster	9.1
South Leinster	8.8
North Munster	8.9
South Munster	7.3
North Connaught	12.2
South Connaught	8.3
Ulster (part of)	14.2
State	8.1

Source: Trend of Employment and Unemployment.

has been a tendency for Connaught and Ulster, the areas of high unemployment, to have some deterioration relative to the national average. Unfortunately, the regions covered in this table do not coincide with the IDA planning regions used earlier in this study, but the general picture of regional backwardness in the West, the North-West and the Midlands is supported by the unemployment figures.

High regional unemployment has been associated with a complex of factors.[1] Regions with a high rate of non-agricultural unemployment have a high proportion of the labour force engaged in agriculture. This is usually accompanied by a lower than average level of agricultural income, so that the outflow of unskilled workers from the farms seeking alternative employment is considerable. Agricultural activity commonly generates relatively little local employment in industry and services, and even less of a type suited to unskilled labour. Low *per capita* income in both agricultural and non-agricultural occupations also limits job creation. Moreover, the employment opportunities generated in an underdeveloped region are often geographically dispersed and intra-regional difficulties of mobility may restrict their impact on the unemployment rate in the region.

1. For a more detailed discussion, see Geary and Hughes (1970).

High regional unemployment is also positively associated with high net migration and low natural increase. This may seem surprising since these features might be expected to reduce the labour surplus. While ultimately they would probably do so, the three phenomena could persist simultaneously for a considerable time. The high rate of net migration results from the lack of employment opportunities in these regions, while the low rate of natural increase is partly a consequence of past migration and its effect on the structure of population.

4. The Nature of Irish Unemployment

Commentators are not entirely agreed on the nature of Irish unemployment. Many have stressed the chronic imbalance between supply and demand in unskilled occupations, and some have even argued that a hard core of long-term unemployed is at present "unemployable". The policy conclusions based on these views of unemployment generally lay stress on selective measures to secure balance between supply and demand in the labour market. However, in a recent study, Walsh (1974 I) argued that Irish unemployment does not necessarily conform to the behavioural pattern implied by these views. In particular, he showed that when the overall unemployment rate declines there is no general tendency for the share in total unemployment of the unskilled to rise, while the share of the long-term unemployed actually falls. If there was a sizeable hard core, who are never drawn into employment, this decline in the share of the long-term unemployed could not occur. Furthermore, a relatively high rate of unemployment among unskilled workers is not peculiar to Ireland but is common internationally. It is partly attributable to more widespread seasonality in unskilled employment, especially in the building trade. Unskilled workers also qualify for fewer jobs and are likely to spend a longer time in search of work. However, the constancy of the skill composition of the unemployed during a cycle may be explained by the tendency for skilled workers to be retained by firms in times of low activity, particularly when the firms have invested in their training. Thus, the evidence does not conclusively reject the hypothesis of serious over-supply in the unskilled occupations.

Nevertheless, Walsh's findings suggest that a higher level of aggregate demand can reduce the unemployment rate even among the unskilled and long-term unemployed. Furthermore, manpower and re-training programmes would probably operate most effectively in the context of a high level of aggregate demand, with abundant employment opportunities available. However, given the disparity in unemployment rates among different classes of workers, the expansion of aggregate demand to a level high enough to reduce the unemployment rate among the unskilled etc to acceptable levels, would cause severe bottlenecks in relation to skilled workers, with possibly insupportable repercussions on wages, prices and the balance of payments. In the short-run, there would seem to be a strong case for selective demand measures to raise the demand for labour relatively more in those activities using a relatively high proportion of unskilled etc workers. In the long run, selective supply-side measures (e.g. manpower policy, training, measures to increase mobility of workers, etc) may be expected to play a more important role, but the immediate problem could be alleviated most quickly by selective demand measures both industrially and regionally. This could be done through public building and construction programmes, especially housing. Such an approach would also facilitate the implementation of the supply-side measures, since it is presumably easier to re-train a worker already engaged in some form of work than one demoralised and impoverished by a long period of unemployment.

The achievement of a substantial reduction in the Irish unemployment rate in the next five to ten years is certain to prove a major task. The potential net inflow into the non-agricultural labour force each year is large. This net flow comes from two main domestic sources. The first is the excess of non-agricultural school-leavers over deaths or retirements from the non-agricultural labour force. The second is the outflow of persons from the agricultural population and many of these are also of school-leaving age. A further domestic source, which is very difficult to predict, is the effect of changes in labour force participation rates. Apart from the domestic sources, there is a large stock of emigrants in Britain, some of whom would be prepared to return to Ireland if job opportunities were available. In the past, much of the potential increase in the Irish labour force found employment only through emigrating, principally to Britain. However, job opportunities are no longer so readily available in Britain. Moreover, the unskilled jobs, which the majority of emigrants traditionally entered, may no longer meet the aspirations of the current, more highly-educated, school-leavers. Thus, it seems likely that the rate of emigration, much reduced in recent years, will remain below the rates experienced during the 1960s, and far below those of the 1950s.

Walsh (1975) has estimated the growth of employment required to achieve full employment by 1986. Full employment is taken to be consistent with 4 per cent of the labour force unemployed and a small amount of net emigration. He found that total employment would have to grow at an average annual rate of $1\frac{1}{4}$ per cent from 1971 to 1986. Given that no progress towards this goal has been made since 1971, the required growth rate between now and 1986 would be significantly higher. The magnitude of this task is underlined by recalling that between 1961 and 1972, when the growth of real GNP averaged nearly 4 per cent per annum, there was no increase in total employment. The required rate of growth in non-farm employment, assuming that agricultural employment declines at the same rate as in the recent past, would be $2\frac{1}{4}$ per cent per annum from 1971 to 1986. The achievement of such a growth rate poses a major challenge, given that certain forms of services employment (e.g. private domestic service, retail distribution, etc) are likely to continue their secular decline, and many of the import-competing manufacturing industries will be experiencing considerable difficulties in the face of increased competition.

The high growth rate required to attain full employment by 1986 is not mainly due to reduction in the prevailing unemployment rate but rather to the rapid growth in the labour force. The growth potential of Ireland's labour force is higher than in any other EEC country, and far higher than in most of them. Unless sufficient new jobs are created, Ireland will be faced with massive increases in unemployment and/or resumption of substantial emigration. The policy implications of this problem, probably the most important facing the economy, are considered further in the concluding chapter.

CHAPTER VI

LABOUR RELATIONS

1. The Institutional Framework

Trade union organisation in Ireland is overwhelmingly concentrated in the non-agricultural sector. Farm employees are a small and diminishing part of the labour force in agriculture. Most are engaged on holdings employing not more than one or two persons each, and only about 10 per cent are unionized. Their wages closely adhere to a legal minimum set by a statutory Agricultural Wages Board. In contrast, employees represent the major part of the labour force in the non-agricultural sector and are comparatively well organized.

During the post-war period, there has been considerable growth in trade union membership.[1] The increase was most remarkable in the immediate post-war years, when industrial employment expanded rapidly and the withdrawal of war-time wage controls reinstated collective bargaining in wage negotiations. The proportion of total employees (including agricultural employees) unionized grew from 28.6 per cent in 1946 to 42.7 per cent in 1951. Subsequently, the rise in union membership has been less dramatic, partly because of falling employment in the 1950s. By 1970, the proportion of employees unionized had reached 54.6 per cent.

The extent of union membership differs widely from sector to sector. In addition to agriculture, unionization is low in building and construction, distribution, and professional and personal service industries. Clearly, the declining importance of employment in agriculture, retail distribution and domestic service has tended to raise the proportion of all employees unionized. International comparisons of the degree of unionization are not very reliable because of differences in methods of classification. However, from the figures available it appears that the percentage of employees unionized is somewhat higher in Ireland than the average for the EEC as a whole.

1. For a more detailed discussion, see Hillery and Kelly (1974).

There were 95 unions operating in the State in 1970.[1] General unions, of which there were six, contained over half of all union members; white-collar unions accounted for a further quarter of total membership; and the remainder were organised in craft unions and other unions. Although there are some industrial unions, none of them organises all the workers in its industry. About four-fifths of all unions, with 96 per cent of total union membership, are affiliated to a central organisation the Irish Congress of Trade Unions (ICTU). The ICTU embraces all of Ireland including unions representing almost 90 per cent of total union membership in Northern Ireland. An unusual feature of trade union organisation in Ireland is the existence of British-based unions. Their number has fallen since the war, mainly through amalgamation, and their share of total membership has declined somewhat. Their presence side-by-side with Irish unions, was a source of serious friction during the 1940s, culminating in a split in the trade union movement in 1945. However, this split was finally healed in 1959 with the formation of the ICTU, which reunited the two separate congresses.

The degree of organisation among employers has also increased considerably in the post-war period though it varies considerably among industries. In the aggregate, firms employing about 50 per cent of all employees now belong to some employer organisation. The principal organisation is the Federated Union of Employers representing members in all sectors of private industry and services, with the exception of construction which has its own employer federation. There are also a number of smaller employer associations for particular sectors, notably in the distributive trades. Some of these represent their members' interests in commercial matters as well as in industrial relations. Indeed, employer organisations do not all actively participate in collective bargaining with unions either at the group or individual firm level.

Many of the employer associations involved in collective bargaining are affiliated to a central organisation, the Irish Employers' Confederation (IEC). This is a purely consultative body, which helps to coordinate activities and promote a uniform employer approach in industrial relations. Bargaining at national level is carried out through the Employer-Labour Conference, where the labour side is represented by the ICTU, private employers by the principal employer organisations, and employers in the public sector by representatives of semi-state bodies and government departments. The Employer-

1. See Irish Congress of Trade Unions (1971) for a more detailed description.

Labour Conference was reconstituted in 1970, and has been involved in the negotiation of three detailed national pay agreements since then.

An important institution in Irish industrial relations is the Labour Court. Established in 1946, the Labour Court differs from an ordinary court of law in that it does not enforce law. However, it can, in principle, summon witnesses and take evidence on oath. Its main functions are the provision of a conciliation service, the investigation of industrial disputes, and the arrangement of agreed arbitration. During the post-war period, there has been an almost continuous growth in the number of disputes handled by the Labour Court. Its conciliation service is widely used and is particularly helpful in cases of bilateral negotiations where no provision has been made for an independent chairman. In the five-year period 1968-72, over two-thirds of all disputes dealt with by the Court were settled by conciliation.

The Labour Court may itself take the initiative in investigating a trade dispute if no formal negotiating machinery exists or if a work stoppage is liable to occur. Its recommendations in such cases are in no way binding, but the majority have been accepted by all the parties involved. The process of investigation and recommendation by the Labour Court was originally intended as a last resort in reaching settlements. O'Mahony (1964) drew attention to the tendency to use the Court's investigation as an intermediary stage in negotiations and argued that this could undermine the Court's authority. Arbitration on a dispute will only be arranged by the Court if both sides agree in advance to accept the findings. Arbitration will then be carried out either by the Court itself or by an independent arbitrator appointed by the Court. The facility has not been widely used, no doubt because parties are reluctant to bind themselves in advance to acceptance of the arbitrator's findings. On the whole, the Court has achieved considerable success in securing settlement of disputes coming before it: about 85 per cent of such disputes have been settled either through the conciliation service or through acceptance of a recommendation by the Court.

For the most part, wages of organised workers are set in bilateral collective bargaining between unions and individual employers or groups of employers. Collective bargaining seldom extends beyond fixing wages and general conditions of employment. Collective agreements are not legally binding on either side, although a certain legal status may be given to them by registration at the Labour Court. Industry-wide bargaining is not very common, largely because of the multiplicity of unions in any one industry and lack of organisation on the employer side in many industries. However, in some industries, joint negotiating bodies exist, with representatives of employers, unions and an independent chairman forming a permanent committee. In the Civil Service, joint negotiations are conducted through a permanent body, the Civil Service Conciliation and Arbitration Tribunal. In the case of some occupations, where organisation is poor, joint committees fix legal minima for wages in much the same way as for agricultural workers.

In 1966, a new government department, the Department of Labour, was established with responsibility for industrial relations, manpower policy, and general labour matters such as conditions of employment and standards in the work-place. The department was also given responsibility for the labour exchanges, which at that time administered social welfare payments for workers and provided limited employment services. Subsequently, however, the administration of benefits was returned to the Department of Social Welfare, while the operation of employment services was retained by the Department of Labour and, in so far as possible, separated from the labour exchanges.

2. Wage Determination and Incomes Policy

Wage negotiations in Ireland have generally been concentrated in a series of wage rounds, of which there have been fifteen from 1946 to the beginning of 1975.[1] Wage rounds are increases in wages and salaries, which recur at reasonably regular intervals and extend to all categories of workers within a relatively short time-span and at roughly similar rates. Substantial variation in the rate of increase among groups may occur in a single round, but a group falling behind in one round tends to regain its relative position in subsequent rounds. The duration of wage rounds was initially about two years but has shortened during the latter part of the period. However, wage negotiations have not been confined exclusively to wage-rounds. McCarthy, O'Brien and Dowd (1975) have discussed the supplementary process of negotiation, which has allowed increases in respect of supply and demand imbalances in particular labour markets, productivity bargaining, status claims and anomalies. They also pointed out that during the 1950s, a period of slow growth in the economy, many traditional differentials were eroded and the wage structure was compressed. Subsequently, in the period of rapid economic growth in the 1960s, attempts were made to

1. O'Mahony (1965) gives a detailed description of the wage rounds up to 1965.

restore old differentials. However, although some groups secured significant increases, these increases were followed or even surpassed by other workers so that compression of the wage structure has continued.

The factors influencing the timing, size and pattern of wage increases in Ireland have not been definitively established and remain subject to considerable disagreement. McCarthy et.al. stressed the importance of non-economic institutional forces, particularly wage leadership and the maintenance of traditional differentials. They identified key wage bargains which tend to lead off a wage round and are then generalised through the entire wage structure by the re-establishment of traditional differentials. The key bargains have been concentrated among craft workers, a group characterised by multi-unionism, closely guarded relativities, and uncertainty in the face of technical change. Although not every wage round is necessarily preceded by a key bargain, a claim by any group of workers always takes some previous bargain as a basic reference. Thus, connections between different key wage bargains tend, in their view, to give the process of wage determination an internal dynamic of its own. Mulvey and Trevithick (1970) and (1972) also attribute the uniformity of wage increases among different classes of workers to the prevalence of comparability claims. However, they lay primary stress on the shortage of skilled workers in securing the initial wage settlements which form the basis of subsequent comparability claims.

Writers stressing the influence of macro-economic factors (such as the level of aggregate demand, or the rate of change in consumer prices)[1] generally also have regard to the possibility of interdependence with the U.K. In principle, the latter could affect wage changes in Ireland through either the labour or commodity markets. To the extent that Irish workers migrate to Britain in response to differences in wages between the two countries, a change in relative wages could affect the degree of migration, which, in turn, could have reactions on the movement of relative wages. Alternatively, it could be argued that, with a fixed exchange rate, changes in Irish prices are substantially determined by changes in U.K. prices and that, therefore, unless productivity grows faster, Irish wages cannot rise much relative to U.K. wages without adverse effects on the level of employment in Ireland. Other links could readily be specified by allowing for differences in the pressure of demand in the two economies, and the extent to which Irish workers migrate in response to the

1. See, for example, O'Herlihy (1966), Cowling (1966), and Walsh (1968).

relative availability of jobs rather than differences in wages as such. It may reasonably be concluded from the literature on the subject that changes in Irish wages are affected by conditions in the U.K. but the nature and extent of the links have not been conclusively established.

Incomes Policy

Eight of the fifteen post-war wage rounds were preceded by national pay agreements between the trade unions and employers, although no sanctions were available to enforce compliance with these agreements. In fact, no statutory controls on wage changes have been operated since the wartime Emergency Powers Orders were withdrawn in 1946. However, as early as 1947, the government indicated that it would be prepared to introduce legislation at that time if voluntary agreement could not be reached to moderate wage increases. The government entered discussions with union representatives with a view to securing such an agreement. However, an election intervened and negotiations were broken off. Subsequently, the employer and union representatives themselves, under the auspices of the Labour Court, reached agreement on a national wage guideline and the new government did not introduce wage legislation. In 1950, prior to the third post-war wage round, and again prior to the sixth round in 1957, the government was instrumental in securing a national agreement by bringing together the employer and employee sides, but it did not otherwise participate in the negotiations.

In 1963, the government took a somewhat more active role in influencing wage changes. Settlements in the preceding wage round had been considered large and were accompanied by considerable industrial unrest. Accordingly, the government issued a White Paper, Closing the Gap, drawing attention to the slowing-down in the growth of industrial output and the widening balance of payments deficit. It expressed concern that incomes were rising faster than productivity and called for immediate restraint on further incomes increases. The ICTU responded sharply, withdrawing from the newly established Employer-Labour Conference, but was later persuaded to return. In any event, no general wage increases occurred during 1963. However, with mounting pressure for a new wage round towards the end of that year, the government wrote to employers and unions approving of the negotiation of a new settlement through the Employer-Labour Conference, which formed the basis of the ninth wage round.

In a report on the deteriorating economic situation in 1965, the National Industrial and Economic Council (NIEC)[1] recommended a more elaborate form of incomes policy which , though largely voluntary, would seek to embrace all types of money income and not just wages and salaries. It set out the principles which might form the basis of such a policy. There was no follow-up on this report, partly, no doubt, because of the inherent complexity of implementation (particularly in the case of non-wage incomes) and the difficulty of securing consensus among the many interests involved. However, the government was again involved in efforts to secure agreement between employers and unions on the tenth round of wage increases in 1966. No agreement was reached and the Labour Court then issued recommendations, accepted by the government, setting guidelines for the size of wage increases. These guidelines were broadly in line with an earlier proposal by the ICTU to its members and formed the basis of the wage settlements that followed.

Early in 1970, in the midst of substantial industrial unrest and pressure for large pay increases, a further report by the NIEC again recommended the implementation of a prices and incomes policy. The report proposed elaborate institutional arrangements, involving extended roles for the Labour Court, the Prices Section of the Department of Industry and Commerce and the Fair Trade Commission, and it also envisaged a role for the NIEC itself along with a new employer-employee body in setting guidelines for incomes increases. However, later in the year, the trade union congress rejected the idea of a detailed prices and incomes policy, but negotiations for a new national wage agreement opened at the reconstituted Employer-Labour Conference. When these negotiations broke down, the government introduced legislation to control prices and incomes. However, the legislation was withdrawn after a new attempt to negotiate a voluntary agreement was successful. This was the first of three such agreements which have determined the scale of wage and salary increases up to the present time.

These agreements were more elaborate than any earlier wage settlements negotiated at national level. They have attempted to improve the position of lower-paid workers by providing, in effect, a progressively declining percentage rate of increase on higher income ranges. They have included provisions designed to limit wage drift, while at the same time allowing a measure of flexibility to deal with anomaly cases and productivity bargains. Provision has also been made for automatic increases in pay in response to price

1. The composition and functions of the NIEC are described in Chapter X, Section 6.

changes above a certain limit during the course of the agreement. A forum for interpreting some of these detailed terms is provided by the Employer-Labour Conference. The government has participated in the negotiations only in its capacity as employer. However, a government undertaking in 1974 in regard to taxation is thought to have been instrumental in persuading the trade unions to accept the latest agreement.

It would be extremely difficult to establish whether the recent national pay agreements have lowered the rate of inflation compared with what it might otherwise be, but there is some evidence to support that view.[1] The agreements have helped to protect those with weak bargaining power who might otherwise fall behind in a period of rapid inflation, though it is probable that some of the stronger groups have been able to use their power to gain relative improvements under the anomaly clauses or by concluding dubious productivity bargains. Perhaps the greatest impact of the national wage agreements have been in reducing the dislocation caused by industrial disputes.

3. Industrial Disputes

The number of man-days lost due to industrial disputes has varied considerably over time. In general, the more extensive work stoppages have been associated with the early phases of wage rounds when the initial pay claims tend to meet with sharp employer resistance. Once a number of key claims have been conceded and the pattern of a new round established, the increases are normally carried through the wage structure with little further employer resistance. For this reason, wage rounds preceded by some form of national agreement have been associated with a relatively small degree of industrial unrest.

The influence of general macro-economic factors on the extent of industrial unrest is noticeable throughout the post-war period. The discontent arising from the acceleration in inflation in the early 1950s and in the late 1960s was reflected in widespread industrial disputes in 1951/52 and 1969/70. On the other hand, for most of the 1950s, when job opportunities were scarce and emigration high, the extent of industrial disputes was greatly reduced, as demonstrated in Table VI.1. With renewed economic growth in the 1960s, some groups of workers, particularly in the craft sector, attempted to reassert old

1. See Baker and Neary (1972).

Table VI.1: Man-days Lost due to Industrial Disputes, Various Post-War Periods

	Average Annual Number of Man-days Lost per 1,000 Employees
1947-52	543.9
1953-60	160.9
1961-70	727.6
1971-74*	461.5
1947-74	488.3

* Figures for 1974 are based on the first eight months of that year.

Sources: Irish Statistical Bulletin; and Census of Population.

relativities and disputes became much more widespread.[1] Since 1970, despite the continued acceleration in inflation, the degree of industrial unrest has contracted, due largely to the national wage agreements. In the first half of 1974, however, industrial disputes were again responsible for a considerable loss of man-days.

Industrial disputes have occurred in all sections of industry, with the exception of agriculture and personal services where, no doubt, poorer organisation of employees is largely responsible for the low incidence of work stoppages. A notable feature of the Irish situation, particularly in recent years, is that a comparatively small number of lengthy disputes accounts for a very high proportion of total man-days lost. The reasons for the relatively long delay in settling industrial disputes in Ireland are not fully understood. It may be due to the prevalence of the comparability principle, so that key bargains, because of their repercussions, are negotiated with more intransigence than an isolated claim would warrant. The multiplicity of unions and employers involved in some negotiations has also been blamed for delay in settling disputes. Inter-union rivalry itself has been a cause of some complex and prolonged disputes. Moreover, workers in Ireland typically do not give delegated authority to their union representatives to conclude a settlement, so that each new offer involves a ballot of the membership before acceptance. The ability of workers to take up temporary jobs in the U.K. can also delay a speedy settlement.

1. For a detailed discussion of industrial disputes during the 1960s, see McCarthy (1973).

Some of the special features of Irish industrial disputes are highlighted in the cross-country comparison presented in Table VI.2. The number of man-days lost through industrial disputes in the years 1967-71 was considerably higher in Ireland than in any other EEC country except Italy. Though the frequency of disputes was comparatively high, the principal cause of Ireland's high loss of man-days was the long duration of disputes: on average, employees in Ireland were out of work for nearly 15 days per dispute compared with an unweighted average of less than 5 days in the other member countries. The number of workers involved per dispute in Ireland was comparatively small.

Table VI.2: Data on Industrial Disputes in EEC Countries*, Annual Averages, 1967-71

	Number of Disputes per 1,000 Employees	Man-days Lost per 1,000 Employees	Number of Workers Involved per Dispute	Number of days Worker remains out of Work
Belgium	3.8	232.5	519	11.8
Denmark	2.1	24.5	703	1.6
France**	19.0	201.2	732	1.5
Germany	n.a.	49.0	n.a.	5.9
Ireland	16.8	776.8	320	14.5
Italy	31.1	1,372.5	1,135	3.9
Netherlands	0.9	21.6	661	3.8
United Kingdom	12.0	338.1	556	5.1

*Data not available for Luxembourg.

**Data for France exclude 1968.

Sources: ILO, Yearbook of Labour Statistics 1972; OECD, Labour Force Statistics 1959-70; and Basic Statistics of the Community 1972.

The impact of industrial disputes is unsatisfactorily measured by the number of man-days lost. On the basis of that measure, industrial disputes would involve only a trivial loss compared with that occasioned by sickness: it has been estimated that in 1972 about 25 man-days per employee were lost through illness,[1] almost eighteen times the loss

1. The number of days lost through illness is based on the operation of Department of Social Welfare schemes of disability benefit, invalidity pension and occupational injuries benefit. Beneficiaries of these schemes are not all active members of the labour force and the figure should not be interpreted as reflecting the incidence of illness among active employees.

due to industrial disputes in the worst year since the war (1970). However, the incidence of illness, unlike industrial disputes, is rarely such as to bring about a stoppage in production. Prolonged disputes can be particularly painful when they affect, as in recent years, key sectors of the economy, such as banking, electricity and public transport. Strikes tend to be highly effective in Ireland in bringing activity to a halt since there is almost total observance of pickets, even when this involves loss of work for members of other unions.[1] The publicity given to industrial disputes can have adverse effects in attracting foreign enterprise. It should be emphasised, however, that the volume of industrial disputes is not necessarily a true indicator of the overall day-to-day relations between labour and management. The latter has probably a far more important effect, for good or ill, on national productivity than the more dramatic cases involving an interruption of production.

4. Manpower Policy

Manpower policy was first mooted in Ireland around the beginning of the 1960s. Whitaker (1958) argued the case for developing technical education and providing full-scale placement and advisory services for workers. However, little progress was made for some years other than an attempt to improve apprenticeship schemes. In the first half of the 1960s, considerable attention was devoted to the desirable characteristics of a manpower policy.[2] The Second Programme for Economic Expansion (1964) highlighted the need for such a policy to secure greater adaptability and mobility among workers. The principal proposals were the development of manpower forecasting; the improvement of placement services and vocational guidance; and the provision of retraining and resettlement facilities for unemployed workers, particularly those displaced by adaptation to free trade. Considerable progress was made in the course of the second programme, including the establishment of the new Department of Labour, and of an industrial training authority, An Comhairle Oiliuna (AnCO) with responsibility for all aspects of training and retraining in industry and commerce. Measures were also introduced to alleviate the hardship of redundancy and to assist the resettlement of certain workers and their families changing their work location.

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1. In recent years, however, the trade union authorities have taken a courageous stand in relation to picketing in unofficial disputes by instructing members to pass these pickets. Since 1970, the ICTU has also introduced a stricter code of practice in relation to official pickets, by restricting observance to members of the union placing pickets unless an "all-out" picket is applied for and granted by Congress.

2. Interdepartmental Committee on Retraining and Resettlement (1964); Interdepartmental Committee on Manpower Policy (1965); NIEC (1964); and NIEC (1965 I).

Manpower policy was developed further during the third programme (1969-72). A National Manpower Service (NMS) was established, with responsibility for placement and guidance, but progress in getting it off the ground proved slow. The NMS has now opened its own offices through the country, and it is hoped that by breaking the link with the administration of welfare benefits, greater appreciation and use of the service will be encouraged. The service is also available to people from abroad who wish to take up work in Ireland. A Manpower Forecasting Unit was also established: it encountered difficulties in making reliable overall projections and, as a result, has concentrated on carrying out surveys of existing labour availability in various areas for the purpose of the industrial development programme.

The development of AnCO in recent years has been particularly rapid. It was set up principally to supplement and encourage training within industry, as prime responsibility was taken to lie with employers. AnCO provides an advisory service to assist firms preparing training programmes and gives grants to firms who appoint personnel to implement a training programme. The grants are financed through a levy on all firms above a certain size in the relevant industry. Such levy-grant schemes are in operation in almost all sections of manufacturing and in the construction industry. By 1974, training personnel were operating in firms covering over 80 per cent of the work force in most manufacturing industries. AnCO takes the view that the collection of levies from all firms in an industry, regardless of whether or not they availed themselves of training grants, encourages the spread of training programmes. The scheme was slow to get going in the construction industry due to the large number of small firms and the lack of continuity in employment. However, by 1974, training personnel were operating in construction firms employing almost 60 per cent of the industry's work force. Special research is being undertaken by AnCO to find an effective way of dealing with the training problems of small firms in the industry. The spread of training in the construction industry is of particular importance in view of the prevalence of unskilled workers and the high rate of unemployment.

Apart from its activity in promoting training within firms, AnCO has also set up a number of independent adult training centres, and mobile training facilities have been introduced in the case of industrial projects designed to cope with local redundancy. The courses are mainly in the engineering and metal trades where there is a shortage of skilled workers. Trainees receive allowances during the training period. Many had little previous industrial experience, and to date the majority of them have been successfully placed in jobs after completing their courses. However, many unemployed or redundant workers are not coming forward for retraining. This was partly due to an inadequate number of training places but by 1978 AnCO plans to increase the throughput of adult trainees to four times the level of 3,000 achieved in 1973. However, persuading the unemployed to participate in training may require greater attention than envisaged in AnCO's present growth plans.

AnCO also supervises about half of all apprenticeship training and provides some such training directly in its own centres. A recent decline in the intake of apprentices, despite shortages of skilled workers in many industries and growing unemployment among school leavers, has caused considerable concern and a new apprenticeship scheme is being examined. AnCO is also involved in management training, primarily through the administration of a grant scheme providing up to 50 per cent of the cost of attendance at approved courses. Management courses are also provided by AnCO in conjunction with the Irish Management Institute.

AnCO has been in operation for only seven years and it is difficult to assess its impact yet. Fogarty (1973) disclosed considerable criticisms among Irish entrepreneurs. Some of the criticisms were really directed at Irish standards of industrial training generally, rather than at AnCO in particular. Moreover, suspicion and criticism is probably inevitable at an early stage before schemes have had a chance to prove their value. Nevertheless, there were strong indications that AnCO began by spreading itself too thin. Fogarty suggested that employer support would have been more forthcoming if AnCO had concentrated first on a limited section of industry. Under this approach, training problems in a particular sector could have been studied in detail and more time devoted to sorting out difficulties at the level of the individual firm.

CHAPTER VII

PUBLIC FINANCE

1. Expenditure of Public Authorities

In the national accounts, public authorities comprise both central and local government. The latter account for almost one-third of total public spending, and are concerned with the local provision of health services, roads, housing and certain other services. State-sponsored bodies are included only to the extent that they are financed through the Exchequer. Expenditure of public authorities is normally divided into current and capital, with the latter making up just under a quarter of the total in recent years. Less than half of public capital spending represents physical investment carried out by public authorities themselves; about one-third takes the form of capital transfers to agriculture, industry and services by way of grants or loans; and the remainder is made up of debt repayments and other capital transfers.

The expenditure of public authorities has grown rapidly in the post-war period. Table VII.1 shows the average annual growth rate of total public spending and its current and capital components, all at current values, for the post-war periods, 1949-61 and 1961-72. These growth rates can be compared with the growth of GNP at current market prices over the same period shown in the last row of the table. The rate of growth of public expenditure was considerably higher in the second period than in the first, both in absolute terms and relative to the growth rate of GNP. In the period 1949-61, public spending rose unsteadily. The major fluctuations were in capital expenditure, which expanded rapidly in the early post-war years from 1947 to 1951, due to the implementation of a large programme of public infrastructural investment. Subsequently, capital spending grew little in the 1950s and there were severe cutbacks in the middle of that decade. The growth rate of current expenditure, though also considerably reduced in the depressed years of 1957 and 1958, did not fluctuate as much and was substantially higher in the period 1949-61 than that of capital expenditure. Total public expenditure increased only marginally faster than GNP in this period, and its ratio to GNP rose only from 30 per cent in 1949 to 31½ per cent in 1961.

In the period 1961-72, total public spending grew substantially faster, at an average annual rate of more than twice that of the earlier period. The growth experience

Table VII.1: Average Annual Growth Rates of Expenditure of Public Authorities, Current Values, 1949-61 and 1961-72

	1949-61	1961-72
	%	%
Current Expenditure	6.3	13.9
Capital Expenditure	4.3	13.3
Total Expenditure	5.8	13.8
Gross National Product	5.3	10.9

Source: Central Statistics Office; and National Income and Expenditure.

was also considerably more stable as expansion in public capital spending was much steadier. Capital expenditure in this period grew at much the same rate as current spending. Towards the end of the 1960s, the growth of total public spending accelerated somewhat, largely due to the faster rate of inflation. Over the period 1961-72, public expenditure grew significantly faster than GNP and its ratio to GNP rose by 10 percentage points to $41\frac{1}{2}$ per cent in 1972. The relative importance of State expenditure in the economy is further highlighted by examination of the public sector's share in gross investment. In connection with the annual Budget, a Public Capital Programme is published, which includes capital expenditure of most State-sponsored bodies as well as of public authorities.[1] Since 1961, the Public Capital Programme has grown slightly faster than public authority capital spending and amounted to an average of almost 52 per cent of gross domestic fixed capital formation in the years 1961-72.

The rising ratio of public expenditure to GNP is not unique to Ireland. Data in Garin-Painter (1970), covering the period 1955-65, showed that the ratio of the growth rate of public spending to that of GNP was similar in Ireland to other EEC countries. Her figures also indicate that public spending as a percentage of GNP in 1965 was relatively low in Ireland. However, the rapid growth of public spending in Ireland since 1965 appears to have reversed this situation. Table VII.2 shows that in 1970 the ratio of public expenditure to GNP in Ireland was among the highest of the EEC members. The current public expenditure ratio for Ireland was below average, but public capital spending was much larger

1. The classification of "capital" and "current" items in the Budget data differs in some respects from the national accounts classification.

Table VII.2: Ratio of Expenditure of General Government to GNP at Current Market Prices, EEC Countries, 1970

	Current Expenditure	Capital Expenditure	Total[a]
	%	%	%
Germany	31.6	6.2	37.3
France	32.7	4.5	37.1
Italy	31.0	4.3	35.1
Netherlands	38.8	5.9	44.0
Belgium	32.5	3.4[b]	n.a.
Luxembourg	29.1	3.6[b]	n.a.
United Kingdom	32.3	6.9	38.0
Ireland	30.9	9.2	39.2
Denmark	34.6	5.5[c]	39.6[c]

(a) Total excluding depreciation allowances.

(b) Figures for Belgium and Luxembourg do not include capital transfers.

(c) Capital transfers are a net figure for Denmark.

Sources: Irish figures from National Income and Expenditure; other countries from Basic Statistics of the Community 1972.

relative to GNP in Ireland than in the other countries. The latter is largely due to the major role played by the State in Ireland in encouraging economic development through capital loans and grants.

Functional Composition of Public Expenditure

Table VII.3 shows the composition of public spending classified by function for the years 1963 and 1970, the earliest and latest years, respectively, for which the data are published. Detailed international comparison of the composition of public expenditure is difficult due to the lack of adequate data. However, the main differences in Ireland compared to other EEC countries are the higher proportion of public funds devoted to agriculture and the service of the public debt and the lower proportion on defence and social welfare.

In the period 1963-70, GNP in current values rose more slowly than any of the components of public spending, so that every category of public expenditure increased relative

Table VII.3: Public Authorities Expenditure Classified by Function, Current Values, 1963 and 1970

	Share in Total		Average Annual Growth Rate 1963-70
	1963	1970	
	%	%	%
Public Debt*	11.3	13.3	16.8
Health	8.5	9.9	16.8
Education	10.5	11.9	16.3
Other Community and Social Services	2.5	2.4	14.1
Social Security and Welfare	17.5	17.3	14.0
Agriculture, Forestry and Fishing	13.1	12.5	13.4
Mining, Manufacturing and Construction	4.8	4.5	13.3
Housing	6.5	5.8	12.4
General Government Services (excluding Defence)	8.4	7.5	12.3
Transport and Communications, Other Economic Services	13.0	11.4	12.1
Defence	3.9	3.2	10.8
Total Expenditure	100	100	14.2

*This includes debt redemptions as well as interest. The growth rate of interest charges alone from 1963 to 1970 was 15.6 per cent per annum.

Source: National Income and Expenditure 1972.

to GNP. Garin-Painter (1970) pointed out that in most countries urbanisation, growing dependency ratios, increasing education requirements and the desire to distribute the benefits of prosperity more evenly among the population have created heavy demands for public social services generally. As a result, public social spending has generally led the way in the relative expansion of public spending in the economy. These factors have also been operative in Ireland. Table VII.3 shows that, apart from the service of the public debt, health, education and other social spending were the fastest growing categories.[1] The growth of public debt service reflects the heavy dependence on borrowing as a source of finance for public expenditure and the rapid rise in the cost of borrowing in recent years.

1. For a detailed analysis of the growth of public social expenditure in Ireland, see Finola Kennedy (1970), (1975).

2. Receipts of Public Authorities

The main sources of finance for public spending are taxation and borrowing, the remainder being made up mainly of trading and investment income. Until recently, budgetary policy always aimed to achieve an exact balance between current expenditure and current revenue (mainly taxation), and to finance capital expenditure by capital receipts (mainly borrowing). Though this aim was not always fully achieved, nevertheless the actual current budget surpluses or deficits that emerged were usually relatively small. In 1972, for the first time, the authorities budgeted for a current deficit amounting to 5 per cent of planned current spending but the actual deficit proved substantially smaller. Current deficits have been planned each year since then, averaging $8\frac{1}{2}$ per cent of expenditure in 1973-75. The definitions of "current" and "capital" used in the budgetary accounts, however, differ in some respects from those of the national accounts classification, which was not used much in formulating budgetary policy. Thus, the budget outcome on a national accounts basis was generally rather different: almost invariably there was a surplus of current revenue over current expenditure, which amounted to nearly a quarter of capital expenditure in the years 1966-71. Moreover, since the year-to-year changes in the current balance were not always similar in magnitude, or even in direction, on the two accounting methods, the differences between the classifications were of some consequence for fiscal policy.

Table VII.4 shows how total expenditure was financed in various post-war years. The proportion financed by borrowing rose very rapidly from 9 per cent in 1947 to a peak of over 27 per cent in 1951. This rise reflects the rapid growth of public capital spending in the early post-war years, undertaken partly because of the availability of Marshall Aid funds. By the early 1950s, these funds were used up, capital spending levelled off and the proportion financed by borrowing fell, though it remained at about 20 per cent up to the mid-1950s. A sharp decline in the borrowing proportion took place in 1957 and 1958. It recovered to over 18 per cent in 1960 and was relatively stable thereafter, though falling to as low as 12.8 per cent and 14.4 per cent in the recession years 1966 and 1971, respectively. These variations in the borrowing proportion were largely mirrored by variations in the opposite direction in the proportion financed by taxation: other receipts usually financed only about one-tenth of total expenditure and their share has tended to decline slightly since the mid-1950s. There has been considerable change in the composition of public borrowing. In particular, sales of securities, small savings and sinking funds have diminished in relative

Table VII.4: Sources of Finance of Expenditure of Public Authorities, Various Post-War Years

	1947	1951	1958	1961	1972
	%	%	%	%	%
Taxation	79.3	60.4	76.2	71.6	74.1
Borrowing	9.0	27.4	11.4	17.8	16.4
Other Receipts	11.7	12.2	12.4	10.6	9.5
Total Receipts	100	100	100	100	100

Sources: Central Statistics Office; and National Income and Expenditure.

importance, while there has been rapid growth in residual borrowing from the commercial banks and from abroad.

The growth of tax revenue accelerated from an average annual rate of 5.9 per cent from 1949 to 1961 to 14.2 per cent from 1961 to 1972. The growth in the later period more than matched the increased growth of expenditure so that taxation grew slightly in relative importance as a source of finance. The ratio of taxation to GNP was remarkably stable after the war up to the early 1960s at an average of about 22 per cent, but subsequently grew rapidly and in 1972 stood at 31 per cent.[1]

Taxation in Ireland is at present undergoing a number of changes, many of which are still only at the formative stages. In 1972, the major forms of direct taxation were: (i) personal income tax levied on all non-farm incomes, subject to various allowances, at a standard rate of 35 per cent, with a graduated surtax levied on higher incomes; (ii) company profits tax, involving two taxes, corporation profits tax and income tax, the latter applied at the standard rate to profits after the deduction of corporation profits tax;[2] and (iii) capital tax, levied on personal property passing at death, with rates of tax progressive according to size of estate. In recent years, estate duties aroused considerable dissatisfac-

1. The year 1972 was, in fact, the first year since 1962 in which the ratio of tax to GNP declined. This was predominantly due to the exceptionally rapid growth of agricultural incomes in 1972, as agricultural incomes were not subject to income tax at that time.

2. These two taxes combined amounted in effect to a rate of taxation of just under 50 per cent on all profits over a certain low limit, with allowances being made for investment and complete exemption for fifteen years on profits from new or increased export sales.

tion, particularly among the farming community. With the rising market value of property particularly land, relatively small estates became dutiable, while it was felt that larger estates successfully employed avoidance measures. In addition, the uncertainty of timing of the tax, falling at death, was considered to cause severe hardship to the family of the deceased. As a result of the dissatisfaction, the tax was abolished in 1974 to be replaced by other forms of capital taxation.

The major developments in direct taxation since 1972 are as follows:

(a) The personal income tax code was revised in the 1974 Budget. Surtax was abolished and replaced by a single income tax with a schedule of progressive tax rates, rising from a basic rate of 26 per cent to a maximum marginal rate of 80 per cent. The system of tax allowances was simplified. Farm incomes were brought within the income tax code for the first time, but only to a limited extent.

(b) Proposals have been announced for changes in the system of company taxation. These changes aim to simplify company taxation by having only one tax on company profits, thereby reducing administrative costs and giving greater flexibility in fiscal policy. The proposals are based on the imputation system and are in line with EEC proposals on the harmonisation of company taxation. They envisage a single corporation tax of 50 per cent on all company profits. But, when assessing a shareholder's personal income-tax liability, distributed profits will be allowed a tax credit in respect of part of the corporation tax paid. This would make the personal income tax code distinct from company taxation which has not been the case in the past.

(c) Proposals have been announced for capital taxation to replace death duties. They provide for a capital gains tax, an annual wealth tax and a capital acquisitions tax applying to gifts and inheritances.

Up to 1972, the major forms of indirect tax were customs duties, excise duties, ad valorem taxes on retail turnover and on certain wholesale goods, and local authority rates on property. The turnover and wholesale taxes have now been replaced by value added tax as a part of the move towards tax harmonisation with other EEC countries. The VAT rates are not uniform: food is exempt and there are three different schedules of rates for different categories of goods. Local authority rates are levied and collected annually based on a notional valuation of real estate. The annual rate of tax is fixed residually by each local authority to cover the difference between its spending and non-tax receipts. The non-tax receipts consist mainly of grants from the central government, made up primarily of matching grants related to specific items of local expenditure together with the so-called agricultural grant which provides substantial relief from rates on agricultural land. Local authorities are far from autonomous in financing their expenditure, about 55 per cent of which is financed by direct transfers from central government. Their tax revenue, consisting almost entirely of rates, amounts to only about 25 per cent of spending, and the remainder is financed by miscellaneous receipts.

Table VII.5 shows the proportion of total public authorities' tax revenue derived from different types of tax in the three five-year periods 1949-53, 1958-62 and 1968-72. The composition of tax revenue did not change significantly until the early 1960s but since then the relative importance of direct taxation has increased considerably despite the introduction of major new indirect taxes. The rise in the proportion of direct taxes has been entirely due to the increasing share of personal income tax. The major factors underlying this increase were the rapid rise in money incomes in the period, with which tax allowances failed to keep pace, and the growth in numbers engaged in the non-agricultural sector relative to agriculture, where income was not subject to tax.

Table VII.5: Composition of Tax Revenue of Public Authorities, Annual Averages, Various Post-war Periods

	1949-53	1958-62	1968-72
	%	%	%
Personal Income*	18.8	19.6	29.3
Companies**	9.7	7.0	6.0
Capital	2.9	2.0	1.7
Total Direct Taxation	31.4	28.6	37.0
Rates	14.2	14.9	10.2
Other Indirect Taxes	54.4	56.2	52.7
Total Indirect Taxation	68.6	71.1	62.9
Total Taxation	100	100	100

*Including social insurance payments.

**The company tax figures here relate only to that portion of total tax paid by companies that is attributable to retained earnings. Tax paid on earnings distributed to the personal sector is included in the data for personal income taxation.

Sources: Central Statistics Office; and National Income and Expenditure.

Table VII.6 compares the ratio of tax revenue to GNP among members of the EEC. In Ireland, total tax revenue represents a smaller proportion of GNP than in any other

Table VII.6: Ratio of Tax Revenue to GNP at Current Market Prices, EEC Countries, Average 1967-69

	Current Direct Taxes			Indirect Taxes	Total Current Taxes
	Social Security	Households	Corporations		
	%	%	%	%	%
Netherlands	13.4	10.8	2.8	10.8	37.8
France	14.5	4.6	1.9	16.0	37.0
Germany	10.5	8.2	2.3	14.1	35.1
United Kingdom	4.9	10.8	2.4	16.1	34.2
Denmark	1.9	14.8	1.0	16.5	34.1
Belgium	9.5	8.1	2.1	13.3	33.0
Luxembourg*	10.2	8.6	2.4	11.1	32.3
Italy	11.0	5.1	1.7	12.5	30.3
Ireland*	2.1	5.2	2.0	18.4	27.7

*1966-68.

Source: Expenditure Trends in OECD Countries 1960-80, Table 19.

member state although the ratio of public spending to GNP is among the highest in the Community. Finola Kennedy (1975) has pointed out that if contributions to social security are excluded the picture is changed considerably: Ireland then has the third highest tax ratio. The small amount of revenue from social security is explained by the lower social security spending relative to GNP in Ireland and the fact that, with the exception of Denmark, the State contributes a much larger proportion of the finance for social security. Another notable feature of the tax structure is that Ireland places far greater reliance on indirect taxation and correspondingly less on direct taxation. This may promote savings and economic growth but, as a general rule, indirect taxes tend to be regressive, or at least less progressive than direct taxes. Thus, the very high ratio of indirect taxation has important distributional implications, discussed further in Chapter X. Personal income taxes represent a relatively small proportion of GNP in Ireland. This is due to structural factors rather than to low rates of income tax *per se*. Up to recently, farmers' incomes were exempt from income tax. Moreover, since income tax rates in all EEC countries are progressive, the lower average income per worker in Ireland and the higher number of dependants per worker tend to reduce the ratio of income tax revenue to GNP in Ireland relative to other EEC members. The ratio of direct taxation on corporations to GNP is not unduly low by EEC standards, despite the tax exemption of profits arising from new export sales.

Built-in Flexibility of the Budget

Both the revenue and expenditure sides of the budget change automatically in response to changes in the private economy, such as changes in the rate of growth of real income, the pace of inflation or the level of unemployment. These automatic effects provide built-in flexibility in the budget and are stabilizing if they dampen fluctuations in national income. This will occur if revenue increases relative to expenditure as income rises, and decreases relative to expenditure as income falls. The total effect of changes in the budget comprises discretionary as well as automatic elements, the former involving new tax or expenditure decisions by the public authorities. In practice, the division of automatic and discretionary effects is necessarily somewhat arbitrary.

No comprehensive study has been published in regard to the built-in flexibility of the Irish budget, but some partial analyses are available. Ryan (1972) used the tax and expenditure changes announced in the current budget as a measure of discretionary changes, the balance being regarded as automatic. The residual automatic effects averaged 7 per cent of current spending during the 1960s, and were generally considerably larger than the discretionary changes. However, Ryan's method probably understates the discretionary relative to the automatic effect and, since the analysis is confined to the current budget, it ignores the considerably greater discretionary component in the Public Capital Programme. Lennan (1972) examined the responsiveness of direct tax revenue (at unchanged tax rates) to changes in private income. He estimated that the built-in flexibility of personal income taxation was 10 per cent and corporate taxation 30 per cent. In a forthcoming publication, Dowling (1975) arrived at an estimate of 24 per cent for personal income taxation, but on a substantially different definition of income. Walsh (1974 II) found that public expenditure on income maintenance varies counter-cyclically, due to fluctuations in the level of unemployment and dependency. This involves a significant automatic stabilisation effect, amounting, for example, to 1 per cent of national income in the recession year 1957.

3. National Debt

Under the 1921 Treaty establishing the new State, Ireland agreed to assume liability for a "fair and equitable" proportion of the existing public debt of the U.K., but was released from this obligation under an agreement in 1925. By 1939, national debt amounted to £46 million, and it continued to grow during the war years, reaching £60 million in 1945.[1] The post-war period has witnessed an enormous rise in national debt, both absolutely and relative to GNP. In 1974, it amounted to £1,463 million, more than twenty times the level at the end of the war. The ratio of national debt to GNP rose in nearly every year up to 1966 - from 20 per cent to 60 per cent - but, since then, it has fallen continuously, apart from a slight rise in 1974 when it amounted to 49 per cent. This fall is not attributable to a decline in the growth of borrowing, which has not diminished in relative importance as a source of finance for the rapidly growing level of public expenditure, but is mainly due to the faster rate of inflation in the late 1960s. Since outstanding debt is fixed in money values, inflation erodes its size relative to GNP at current prices, representing a real transfer of resources from debt-holders to the government.

In Table VII.7 the ratio of public debt to gross domestic product is compared for the members of the EEC in 1970. Although Ireland began independence with little or no public debt and did not accumulate a large war-time debt, in 1970 it had the highest debt relative to GDP with the exception of the U.K. This reflects the major role of public spending in economic development since the war, both by direct public capital formation and through capital grants and loans to the private sector. It would have been difficult to finance such capital expenditure through taxation. The growth of public debt, besides easing the finance of public spending, has helped to secure domestic use of savings that might otherwise have left the country.

However, it appears that scant attention has been paid to other aspects of public debt policy. The maturity structure of public debt could be an important instrument of monetary policy, influencing credit availability in the economy. Norton (1975) has remarked on the considerable bunching of redemption dates which tends to interfere with the appropriate use of monetary policy, particularly when a restrictive posture is appropriate.

1. The national debt figures are taken from the Finance Accounts, and, as used here, exclude certain capitalised liabilities.

Table VII.7: Ratio of Public Debt to Gross Domestic Product at Current Values, EEC Countries, 1970

	Ratio of Public Debt to GDP
	%
United Kingdom	67.0
Ireland	54.4
Belgium	48.8
Netherlands	20.2
Italy (1969)	16.2
Germany	12.2
France	12.1
Denmark	3.1
Luxembourg	-

Source: UN Statistical Yearbook 1971.

Norton has also pointed out that, with the trend towards greater use of foreign borrowing by the public sector, such bunching could cause serious strains to the balance of payments in particular years. This could lead to the application of deflationary policies that might be avoided by a more orderly structure of debt maturity.

For most of the post-war period, debt interest charges rose continuously relative to GNP and to public expenditure.[1] In 1949, the ratio of debt interest to total current expenditure of public authorities was 7.0 per cent. It rose to a peak of 12.9 per cent in 1967. Since then, the ratio has declined somewhat to 11.4 per cent in 1972, despite the fact that there has been no slowing down in the growth of public debt and that interest charges on current borrowing have risen considerably. This again reflects the point made earlier about the erosion of the burden of debt through inflation, and illustrates the strong vested interest in inflation on the part of governments with a large public debt. The situation would be more tolerable on social grounds were it not for the fact that the government has been the major recipient of small savings. In the longer-term the losses suffered by lenders may make it more difficult in future for the government to borrow, at least without some assurance of protection against inflation.

1. For a discussion of the burden of national debt in Ireland, see Nevin (1962).

4. The Future Outlook

It has been shown that in recent years all components of public spending have been growing faster than the current value of GNP, and that overall public spending has risen from about 30 per cent of GNP in the early 1960s to over 40 per cent in 1972. Looking to the future, it appears that demands for rapid increase in public spending will continue. Kennedy and Dowling (1975) have argued that the infrastructural capital constructed in the early post-war years provided some spare capacity during the 1960s which is now largely utilised. If so, future output growth will require the provision of relatively more of such facilities than in the 1960s. The growth of population and the movement from the rural areas into the cities will continue to create heavy demand for public investment in transport and communication, housing, schools, etc. Current government spending is also likely to expand rapidly, particularly if Irish social services are brought more into line with standards prevailing in the EEC. Thus, it seems probable that for some time to come public spending will continue to grow relative to the current value of GNP, unless the real rate of growth of GNP rises substantially.

Further growth of public spending relative to GNP will pose problems in financing this expenditure. It was shown in Table VII.6 that the ratio of taxation to GNP - particularly of direct tax on households to GNP - is low in Ireland by EEC standards. However, when account is taken of the higher unemployment and dependency rates, the generally lower levels of income, and the narrow tax base in Ireland, the burden of taxation on the individual tax-payer is considerably greater than these figures might suggest. Thus, it is doubtful whether the existing tax sources can yield greater revenue without causing considerable strain. The new tax proposals, notably bringing farm incomes and capital gains within the income tax code, will help to broaden the tax base. However, it is unlikely that revenue from these taxes will be significant for some years to come.

It seems very likely that the borrowing requirement to finance public spending will continue to grow substantially. In recent years, the traditional sources of government borrowing have accounted for a diminishing share of public borrowing. This is largely because of the reduced attractiveness of fixed interest securities in inflationary conditions. Residual borrowing from the banks and from abroad have grown in relative importance. However, increased financing from these sources poses considerable difficulties. The private sector relies heavily on the commercial banks for finance, and Dowling (1975) has observed that the banks have been able to meet the public and private demand for borrowing only by running down net external assets. This cannot continue indefinitely, so that, if public sector demand for bank credit continues to grow rapidly, private investment may be squeezed. On the other hand, if the banks were allowed meet the needs of all borrowers through relaxation of liquidity requirements, pressure on the balance of payments could become insupportable. Direct foreign borrowing by the government is also problematic. Interest payments on foreign borrowing involve a transfer of resources abroad and not merely a redistribution of income within the community. Foreign borrowing may also involve an exchange risk. Doherty and O'Neill (1973) regard the growth of borrowing from the banks and abroad as unsatisfactory and suggest that more vigorous borrowing from the non-bank public could both moderate inflationary pressure and encourage domestic savings.

If Ireland is to be ready within the next decade or so for the implementation of EEC proposals for monetary union, tax harmonisation and eventual economic union, major strides will first be required towards full employment and higher levels of income per capita. In view of the role of public spending in economic development in Ireland, the avoidance of strains in public finance will be of great importance. To minimise such strains, a clearer definition of the priorities of public expenditure is called for, together with a re-shaping of existing programmes to ensure that the priorities are most efficiently achieved. But, over and above this, however, if progress is to be sufficiently rapid, large transfers from the Regional and Social Funds will be required to ease the pressure of financing the necessary volume of public investment.

CHAPTER VIII

BANKING AND CURRENCY

1. Introduction

Ireland has a long-established and well-organised commercial banking system, the early development of which is attributable to the close connection with Britain's highly developed financial institutions. There has been effective monetary union with Britain since 1826, when the Irish pound, previously separate, was abolished. This position was not affected by the achievement of Independence, although a number of changes were introduced in the Currency Act (1927). This Act was based largely on the recommendations of a Banking Commission which reported in 1926. The principal provisions of the Act were the abolition of the right of note issue previously enjoyed by a number of Irish banks, and the establishment of a Currency Commission empowered to issue notes serving as the only legal tender of the State. An Irish currency unit was also established, known as the "púnt" (Gaelic for "pound") and the Currency Commission was charged with its administration.[1] The púnt was fully convertible with sterling and exchanged at a rigid one-to-one parity with the pound. In addition, it was to have 100 per cent backing by reserves consisting of gold, British legal tender, sterling balances and British government securities.

These provisions ensured the international acceptability of the new currency and involved the minimum of disturbance to the Irish financial system. It was considered essential, in view of Ireland's dependence on external trade, that its currency be linked to some internationally acceptable currency. Sterling was the obvious choice, since the United Kingdom was Ireland's predominant trading partner at that time. Though the new currency has been since its introduction the only legal tender in the State, sterling circulates in all parts of the country, and Irish currency circulates freely in Northern Ireland. Cheques are widely used in settling payments, and about two-thirds of total holdings of money represent bank balances on current account, the remainder being in notes and coin.

No provision was made in the Currency Act (1927) for the establishment of a central bank. It was considered that the absence of a money market in Ireland limited the

1. For a detailed discussion of the establishment of the Irish currency, see Pratschke (1969).

scope for monetary policy. However, a new Banking Commission set up in 1934 reported in 1938 in favour of establishing a central bank.[1] This was given legislative effect in the Central Bank Act (1942). The Central Bank of Ireland was charged with the general functions of safeguarding the integrity of the currency and controlling the issue of credit in the public interest. In the exercise of these general functions the Bank was required to consult with the Minister for Finance at his request. In practice, consultations between the Bank and the government have been frequent. The Government is entitled to nominate official representatives to the Bank's Board of Directors: apart from the period 1953-58, the Secretary of the Department of Finance has been a member of the Board. The Bank was vested with new powers under the 1942 Act in addition to those of the Currency Commission. Among these, the most important were the right to control credit; the authority to require the licenced banks to make their clearances through the Central Bank; and the power to rediscount certain securities, thereby establishing it as a lender of last resort to the banks. However, some of the characteristic powers of a central bank were not then accorded to the Bank. A new Central Bank Act in 1971 further widened the Bank's powers by making it the holder of the government account, formerly held in one of the commercial banks; and by enabling it to require the banks to maintain specific asset-liability ratios, where previously its only instruments of control over credit were moral suasion and quantitative guidelines. The Bank was also empowered to licence and supervise banks.

The powers given to the Central Bank by the 1942 Act were not all used immediately and their exercise developed only gradually in some cases. In the post-war years, the principal development in Irish financial institutions have occurred since 1960.[2] The faster growth in the economy since the late 1950s, especially in investment and exports, led not only to greater use of existing banking services but also to demand for a much wider range of financial services.

2. The Commercial Financial Institutions

The Associated Banks

Up to the late 1960s, the so-called "associated" banks dominated Irish banking.

1. Among the most influential members of the Commission was the late Per Jacobsson, who was later to head the International Monetary Fund.

2. For a detailed discussion, see Whitaker (1971).

This name was conferred on them by the Central Bank Act of 1942, which gave them a special relationship with the Central Bank. They now comprise two major Irish-owned banking groups - both formed in the mid-1960s by the amalgamation of previously independent banks - and two subsidiaries of British banks. The associated banks have numerous branches throughout the State and in Northern Ireland. They have recently opened a number of branches in Britain and representative offices in the U.S.A. and some continental European countries. The vast bulk of all current accounts in the State are held with these banks, and cheques drawn on them are used to settle most monetary transactions in the economy. In addition, the associated banks hold a high proportion of interest-bearing deposits among their total domestic liabilities.

Throughout the 1960s, the associated banks experienced rapid growth in their operations, with domestic liabilities in the form of current and deposit accounts growing from £343 million in December 1960 to £965 million in December 1972. Their domestic lending grew even more, from £236 million in 1960 to £911 million in 1972. Before the war, the associated banks held a large proportion of their assets externally, because certain types of liquid assets were unavailable in Ireland and domestic demand for loans was comparatively low. Since the war, the ratio of domestic to total assets has grown rapidly from 34 per cent of total assets in 1949 to 50 per cent in 1961 and 70 per cent in 1972. This change reflects the development of financial markets for short-term securities in Ireland, as well as the growth in domestic demand for credit due to rapid economic growth and the emergence of less conservative attitudes to borrowing for investment finance. In addition, the 1968 Basle Agreement extended a dollar guarantee to official holdings of sterling assets and, in order to avail of this guarantee, the Central Bank arranged for the associated banks to exchange sterling assets for Central Bank balances. Traditionally, the associated banks' <u>net</u> external assets were regarded as the first line reserves of the banking system to meet deficits in the balance of payments, but their relative importance had been diminishing even before the transfer following the Basle Agreement.

The large volume of external assets held by the associated banks in the past limited the ability of the Central Bank to control the level of domestic credit through instruments such as liquidity ratios or special deposit requirements. Although these external assets were not necessarily liquid, they could generally be realised quickly in the London security markets without depressing their price as a result. The decline in external assets of the banks in recent years suggests that, in future, domestic lending of the associated banks will be more amenable to Central Bank influence, particularly in view of recent developments in the Bank's powers discussed later in this chapter.

The most notable development in the composition of lending by the associated banks in the post-war period has been the rise in lending to the government. The amount involved tended to fluctuate widely from year to year because it was regarded as a residual source of financing government expenditure, but since the mid-1960s the government has consistently taken up a significant portion of bank credit. The share of the government in total domestic lending of the associated banks grew from just under 12 per cent in the five-year period 1958-62 to over 28 per cent in 1968-72. As regards non-government bank lending, the agricultural sector, despite its declining importance in the economy, has maintained its share. Farmers have become more prepared to borrow to finance expansion in agricultural activities. The share of industrial and personal loans has risen while the share of distribution, both wholesale and retail, has declined. The associated banks set the rates of interest charged on advances, and paid on deposits, in agreement with the Central Bank.

The Non-Associated Banks

The dominant position of the associated banks has been considerably reduced since the late 1960s with the establishment and growth of other banks, referred to as "non-associated" banks. In 1966, the non-associated banks held 8 per cent of the total bank deposits but by 1972 their share had risen to 18 per cent. Since their domestic lending is partly financed from external sources, the non-associated banks have been a significant source of foreign capital inflow. In December 1972, for instance, when domestic deposits were £210 million, domestic lending amounted to £360 million.

The non-associated banks represent an assortment of different types of bank, many of them concerned with serving the larger banking customers. They are generally located in Dublin and do not operate a branch network through the country. The main categories of the non-associated banks are the merchant banks, which deal in wholesale banking; the North American and Continental banks, which largely serve corporate customers, especially branches of U.S. and continental firms in Ireland; and the industrial banks, which are involved mainly in instalment credit. A number of the non-associated banks are subsidiaries of the associated banks and were established to provide specialised facilities to their customers. The rates of interest charged on deposits and advances by the non-associated banks are determined ultimately by the rates charged in London.

For the banking system as a whole, comprising the associated and non-associated banks, domestic assets have grown considerably faster than domestic liabilities in the period 1961-72. There was, therefore, a substantial capital inflow into the banking system. This comprised not merely external investment by foreigners but also substitution by the banks of domestic for foreign assets. Since the banks' domestic assets now constitute a high proportion of their total assets, there may be less scope in future for reliance on capital inflows to finance domestic lending. Dowling (1974) concluded that, unless the flow of domestic resources into the banking system increases more rapidly, there may be a slow-down in the growth of domestic bank lending with restrictive consequences for government or private borrowing, or both.

Productivity Change in Banking

According to Kinsella (1973), even though banking activity grew rapidly during the 1960s, productivity rose very slowly. He estimated that labour productivity in banking grew by only 5 per cent from 1960 to 1971 compared with 30 per cent in the total services sector and 47 per cent in the economy as a whole. Earnings in the industry tended to move in line with those in the rest of the economy so that the relative cost of banking services increased considerably. To some extent, this increase in cost may have been offset by improvements in the quality of service, but the evidence is inconclusive. Kinsella suggests that there is considerable scope for productivity growth in banking. A reduction in the extensive branch network would seem to be feasible, given the changes in the location of population and mergers between previously competing banks. The introduction of EEC regulations relating to the industry, together with increasing competition in the supply of financial services, may also encourage faster growth in productivity than in the past.

Non-Banking Financial Institutions

A third category of financial institution lies outside the banking system proper. Among the principal components are the savings banks (including the Post Office) and the building societies. In December 1972, these two types of institution had aggregate domestic liabilities of £211 million and £152 million, respectively. They are important collectors of the savings of the community, particularly the smaller savers. Other important financial institutions are the assurance companies, the hire-purchase finance companies and specialised state-sponsored credit and finance institutions such as the Agricultural Credit Corporation and the Industrial Credit Company.

3. Financial Markets

The growth of markets in Irish short-term securities is of comparatively recent origin. In the mid-1960s, an inter-bank market for short-term funds began to develop. The rates on this market tend to move closely in line with, but generally slightly above, those in London. The principal operators in the market are the non-associated banks which do not enjoy a steady flow of deposits or of lending, and, thus, often experience temporary shortages or surpluses of liquidity. In recent years, the inter-bank market has grown rapidly but it has not developed into a full money market, and the associated banks do not deal extensively in it. Prior to 1964, the Central Bank was not empowered to pay interest on deposits and, apart from clearing balances at the Central Bank, the associated banks generally deposited short-term money in the London money market. Since then, the banks have made greater use of Central Bank deposits, but this did not amount to the creation of a market in call loans.

In an ESRI study, Hein (1967) drew attention to the steps necessary for the development of a local money market. In June 1967, the Central Bank established a working committee which recommended increased support from the Central Bank for the bond and exchequer bill markets with a view to improving the encashability of Irish securities and encouraging financial institutions to invest in them. The committee also recommended Central Bank support for Irish dealers on the grounds that this would further strengthen the security markets and provide a domestic outlet for call loans, but this recommendation has not been implemented so far.

As a result of the 1968 Basle Agreement which gave a new impetus to the growth of Irish financial markets, the Central Bank took on the role of providing short-term assets to the banks. The Bank also extended the range of acceptable deposits and offered more competitive rates of interest on such deposits. It also began to support the government stock market actively with a view to providing the financial institutions with readily marketable securities over a wide range.

The capital market in Ireland has been dominated by the public sector. Typically, Irish firms are private limited liability companies which do not have a stock exchange quotation or raise funds by capital issues to the public. The number of Irish companies whose shares are traded on the Irish Stock Exchange is about 130. The government and the State bodies account for the majority of new issues on the capital market in any year. Over the whole period 1951-72, £740.5 million was raised by the issue of securities of which the government accounted for 72 per cent and State bodies a further 14 per cent.

4. The Role of the Central Bank

Since 1942, when it was first established, the influence of the Central Bank on the banking sector has increased considerably. Many of the powers conferred by the 1942 Act were not immediately used by the Central Bank, partly due to the independence of the commercial banks in the early post-war years. The exercise of these powers developed slowly, often in response to economic difficulties. A number of balance of payments deficits in the early 1950s reduced the net external assets of the associated banks and in 1955, another year of large payments deficit, the Central Bank first rediscounted bills for the banks. From 1958, the banks were required to hold their clearing balances for inter-bank settlements in the Central Bank. Arising from a further substantial balance of payments deficit in 1965, the Central Bank made its first effort to control the level of domestic credit by issuing advice to the banks on the quantity of credit creation and the purposes for which it might be given. In 1969, the credit advice was extended to the non-associated banks. These banks had assumed importance as regards credit policy because of their rapid growth and the fact that much of their domestic lending was financed from abroad, constituting a potentially inflationary capital inflow into the economy.

Under the 1971 Act, the Central Bank's influence over credit supply was further developed. The Bank was given power to require the commercial banks to maintain certain liquidity ratios. This power was quickly employed by the Bank with the introduction of liquidity ratio requirements towards the end of 1972 which now apply to all banks. The aim was to influence the growth in the money supply rather than directly control bank lending, which it was felt could hamper competition among the banks and cause a misallocation of resources among borrowers. The liquidity ratio system will also make changes in the Bank's rediscount rates a more effective instrument for control of credit. In April 1972, the form of lending by the associated banks was changed from an exclusively overdraft system to one incorporating term-loans repayable within fixed periods in pre-arranged instalments. The banks argued that the latter system would facilitate both themselves and their customers by tailoring loans more closely to the needs and credit-worthiness of borrowers. It was also felt that term-lending would facilitate the control of credit, since the overdraft system allowed the individual borrower considerable discretion regarding the effective size of his loan. A new structure of interest rates for different categories of borrowers and different types of loans was introduced at the same time.

However, the instruments of monetary policy are limited in Ireland by the effective monetary union with Britain.[1] The free flow of funds between the two countries puts a severe constraint on the pursuit of an independent interest rate policy. There is, however, some scope for Irish rates to deviate from those in the U.K. without precipitating large flows of funds. In recent years, the Central Bank has used this area of discretion to moderate the effect of movements in British rates on the Irish economy. In particular, it has been found possible to hold Irish rates slightly below those in the U.K. This is considered desirable in order to encourage economic development. However, as a general rule, the Central Bank cannot control domestic credit by operating on its cost.

Since 1971, there is no longer a _de jure_ parity with sterling and the exchange rate can be changed by ministerial decree. However, up to the present, the parity with sterling has been maintained. The type of assets used as backing for the currency was extended in 1956 to include dollar assets and since then a certain amount of domestic assets. At the end of 1974, the dollar guarantee of sterling reserves was withdrawn and the Central Bank responded by considerably reducing the sterling backing of the currency. Ireland continues to be a member of the sterling area and exchange controls are operated over funds moving to countries other than the U.K. There have been substantial flows of capital into Ireland, particularly in recent years. However, the Central Bank has sought to prevent the

1. For a more detailed discussion of Ireland's experience of monetary union, see Whitaker (1973).

inflow of capital through the banks from causing a large expansion in domestic credit. Membership of the EEC has not materially affected the exchange rate position: as yet, the moves towards EEC monetary union, in which Ireland has fully participated, have been tentative. From March 1972 until sterling began to float in June of that year, Ireland effectively participated in the EEC scheme under which the margins of fluctuation among the exchange rates of member states were halved. When sterling floated, the scheme was suspended and the Irish pound has continued to maintain strict parity with sterling. Ireland has also taken part in the Monetary Cooperation Fund which provides short-term monetary support among central banks of the Community.

CHAPTER IX

EXTERNAL TRADE AND PAYMENTS

1. External Trade Policy Since Independence

In the first decade of Independence, Ireland pursued a policy of free trade, placing principal emphasis on the promotion of agricultural exports to the British market. Indeed, in those years exports of live animals and food accounted for about three-quarters of total merchandise exports. About 95 per cent of merchandise exports were consigned to the U.K., while 80 per cent of merchandise imports were consigned from that source.[1]

In the 1930s, however, there was a major change in policy and widespread tariffs and quotas were imposed. The new government which came to power in 1932 was committed to a policy of economic nationalism. Extensive protection was adopted to foster industrial development and achieve self-sufficiency in a wider range of agricultural products. It was hoped that these developments would stem the decline in population and provide full employment. This change coincided with the worldwide retreat from free trade into autarkic policies, as a result of the Great Depression. The introduction of such policies in Ireland was also facilitated by a trade dispute with Britain - known as the "Economic War". The dispute arose from the refusal of the Irish Government to continue payment of certain land annuity payments which it felt belonged to Ireland but which the British Government held to be due to the U.K. under previous treaty arrangements. Penal duties were imposed by the British on Irish trade, and retaliatory trade restrictions were imposed in Ireland on British goods.

External trade was sharply hit by the trade restrictions, with exports most severely affected. The ratio of merchandise exports to GNP at current factor prices fell from 24.7 per cent in 1931 to 14.1 per cent in 1933. The decline in imports was relatively less severe reflecting Ireland's dependence on imports even under a policy of protectionism and the greater geographic dispersion of its import trade.

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1. Data on the final destination of exports, and the origin of imports, were not published until 1935. The data for consignments exaggerate somewhat the degree of dependence on the U.K., particularly in regard to imports.

The composition and direction of trade were also substantially altered. The export of live animals in particular was hit by the British restrictions and declined as a proportion of merchandise exports. In the case of imports, the share of finished consumer goods fell substantially at the expense of materials for further production. This reflected the growth of domestic consumer goods industries behind tariff barriers which depended on substantial imports of raw materials and semi-finished goods. In so far as one can judge from the data on consignments, the direction of Irish export trade was little affected in those years, with over 90 per cent going to the U.K. However, the share of Irish imports consigned from the U.K. fell significantly to 67 per cent in 1934.

In 1935, the penal trade restrictions between Ireland and the U.K. were relaxed and the ratio of trade to GNP recovered somewhat. A trade agreement was negotiated in 1938, abolishing all penal trade restrictions between the countries. However, the agreement did not represent a return to the pre-1932 free trade situation. Both countries reserved the right to protect certain products and, in fact, Ireland maintained protection for much of its industrial output. The war intervened before this agreement had a significant impact on trade between the two economies. During the war, trade was severely hampered and the volume of imports dropped to about one-third of its pre-war level. Exports were better maintained and Ireland had substantial current account surpluses on its balance of payments. External reserves rose considerably and by 1947 were almost three times as large as in 1938.

After the war, a new trade agreement was concluded with Britain in 1948, which confirmed the 1938 agreement and further relaxed restrictions in the U.K. on Irish agricultural exports. The agreement opened the way to recovery in foreign trade, which initially was rapid. The ratio of merchandise exports to GNP at current market prices grew from the low figure of 11.9 per cent in 1947 to 21.0 per cent in 1952, largely due to recovery in both the volume and price of agricultural exports. However, during the 1950s and early 1960s, agricultural exports faced increasing competition in the U.K. market. This arose from the vigorous promotion of British agriculture through guaranteed prices for domestic producers and, later, from the erosion of Ireland's preferential position under Britain's EFTA commitments.

Thus, maintenance of rapid growth in exports depended on the expansion of non-agricultural exports. During the 1950s, Irish industry underwent a transition from the autarky of the previous period to greater export orientation. Industrial exports became substantially more important as a component of total exports. The transition was partly the result of policy measures undertaken to encourage the establishment of new exporting firms, notably the exemption of profits on manufactured exports from taxation and the provision of grants for the establishment of new firms geared to export markets. The expansion of industrial exports was also fostered by the efforts of Coras Trachtala, an export promotion board, and the Industrial Development Authority, which has been successful in attracting a considerable amount of foreign enterprise to Ireland.

These policies were accompanied by successive moves towards freer trading relations. After the breakdown of the negotiations for a European free trade area in 1958, Ireland applied for membership of the EEC in 1961. This move collapsed, however, when negotiations between Britain and the Community broke down in 1963. Ireland introduced two unilateral reductions in tariffs in January 1963 and January 1964, amounting to 10 per cent in each case. In 1965, the Anglo-Irish Free Trade Area Agreement was negotiated. Under this agreement, which took effect in mid-1966, Ireland agreed to phase out tariffs on British industrial goods over a ten-year period in return for improved access for Irish agricultural exports to the British market, and the removal of the remaining restrictions on Irish industrial exports to Britain.[1] The final move was Ireland's accession to the EEC as from 1st January 1973.

During the post-war period, the dependence of Irish merchandise exports on the U.K. market has been reduced. In the early 1950s, about 80 per cent of exports went to the U.K. but by 1972 this had fallen to 61 per cent. The decline in the importance of the British market was partly due to the relative decline in agricultural exports which were mainly directed to the U.K. However, the U.K. share within the various SITC export categories has also declined: in 1953, Britain absorbed 80 per cent of Irish manufactured exports but only 58 per cent in 1972. The significance of the original EEC member states for Irish exports had increased considerably even before Ireland joined the EEC. Since then it has increased further, and amounted to 18 per cent in 1974, while the U.K. share has continued to fall.

1. An analysis of the effects of the agreement is given in McAleese and Martin (1973).

As regards Irish merchandise imports, the U.K. share remained at about 50 per cent throughout most of the post-war period but fell to 46.7 per cent in 1974. The share of the EEC six rose from the late 1950s and amounted to $17\frac{1}{2}$ per cent in 1972. In 1973, the first year of Irish membership of EEC, it increased sharply to 21 per cent, but only a small further rise was recorded in 1974. However, the 1974 shares for both the U.K. and the EEC six are strongly affected by the sharp rise in the share of the oil exporting countries in that year.

2. Export and Import Trends since World War II

Trade policy is generally considered in the context of merchandise or visible trade. In considering trends in Irish trade, however, it would be misleading to neglect invisible trade, particularly on the export side. Immediately after the war, when visible exports were historically low, invisibles accounted for two-thirds of total exports; and though their share has since fallen substantially, it still amounted to more than one-quarter of total exports in 1972. Invisible imports, on the other hand, accounted for only a small fraction of total imports. Table IX.1 shows the growth rates of exports and imports, divided in their visible and invisible components, in the two post-war periods 1949-61 and 1961-72.

After the war, there was a recovery in visible trade from the depressed war-time levels. In the case of imports, this recovery was rapid and by 1947 the volume of visible imports exceeded the immediate pre-war levels. Subsequently, the volume of visible and invisible imports rose only moderately until the early 1960s when the growth of both categories experienced a substantial acceleration, reflecting the faster rate of growth of output and real income. It may be noted that throughout the post-war period, the rate of growth of imports at constant prices was considerably faster than the rate of growth of real income, suggesting a high income elasticity of demand for imports in Ireland. McAleese (1970), who estimated that the income elasticity of demand for merchandise imports was about 2.0, stressed that this was the crucial feature of the openness of the Irish economy rather than the size of the trade/GNP ratio *per se*. The high income elasticity for imports as a whole can be explained partly by structural changes, notably the growing relative importance of the industrial sector with its high import content, and the rising share of investment in GNP involving substantial imports of capital goods. Apart from these structural changes,

Table IX.1: Average Annual Growth Rates of Exports and Imports, Various Post-War Periods

	At Current Prices			At Constant Prices			Implied Prices		
	1949-61	1961-68	1968-72	1949-61	1961-68	1968-72	1949-61	1961-68	1968-72
	%	%	%	%	%	%	%	%	%
Exports									
Visible*	9.1	10.2	16.2	7.0	7.4	7.2	2.0	2.6	8.4
Invisible	3.7	7.8	5.2	0.5	5.2	-0.4	3.2	2.5	5.6
Total*	6.4	9.2	12.4	3.7	6.5	4.5	2.6	2.6	7.6
Imports									
Visible	5.8	9.9	13.2	3.2	8.0	7.9	2.6	1.7	4.9
Invisible	5.5	8.5	13.9	2.3	4.9	7.8	3.2	3.3	5.6
Total	5.8	9.8	13.3	3.0	7.6	7.9	2.7	2.0	5.0

*The figures for visible and total exports include the net exports (i.e. exports less imports) of the Shannon Industrial Estate, a duty-free industrial zone adjoining Shannon Airport.

Source: Kennedy and Dowling (1975).

however, many individual imported products, including consumer goods, have high income elasticities.

The volume of visible exports declined at a lower rate than imports during the war but recovery was slower and only in 1950 was the immediate pre-war volume restored.[1] After 1953, the volume of visible exports as a whole rose little until the end of the decade, but thereafter rose steadily. In the three periods shown in Table IX.1 the average growth rate of visible exports in volume terms was similar. In current values, however, the growth rate was much more rapid from 1968 to 1972 due to the far higher rate of price increase. The course of invisible exports was rather different. Immediately after the war, invisible exports were temporarily inflated by a boom in the Irish tourist industry. Rationing in the U.K. and restrictions on travel and spending by British tourists in non-sterling countries brought many tourists to Ireland in those years. However, the boom was short-lived and tourist receipts had started to decline by 1949 in both current and constant price terms.

1. The immediate pre-war level of exports was much lower than in the years prior to 1932, when protection was introduced on a large scale. The 1930 level of visible exports was not surpassed again in real terms until 1960, whereas by 1950 the volume of visible imports was well above the 1930 level.

During the 1950s up to about 1957, invisible exports were stagnant in volume terms. Subsequently, with recovery in the tourist trade, the volume of invisible exports again began to grow relatively rapidly, and this was maintained up to 1968. Growth then tapered off and in 1971 and 1972 there was a decline in the volume of invisible exports. Once again, a downturn in tourism, attributable to the escalation of violence in Northern Ireland since 1969, was largely responsible for this reversal.

The volume of total exports of goods and services grew more rapidly in the period 1961-68 than in either of the other two periods shown in Table IX.1. This was chiefly due to differences between the periods in the growth rate of invisible, rather than visible, exports. However, since visible exports have grown more rapidly throughout the post-war period, invisible exports have declined in relative importance and their influence on the growth of the total has diminished.

During the period 1949-61, the volume and value of both imports and exports showed considerable year-to-year fluctuation. These variations precipitated a number of balance of payments crises during this period, notably in 1951 and 1955. This instability was substantially reduced in the 1960s, an important contributory factor being the increased share of manufactured, and reduced share of agricultural, exports.[1] In addition, the steadier growth of the economy helped to reduce fluctuations in imports. In 1973 and 1974, however, the value of both imports and exports rose very substantially, largely due to the enormous price increases.

Changes in the Composition of Exports

The composition of merchandise exports has changed considerably during the post-war period. Table IX.2 shows the distribution of merchandise exports among the Standard International Trade categories in various years. Live animals, food, drink and tobacco have declined substantially in relative importance during the post-war period from 80 per cent of exports in 1950 to 48 per cent in 1972. The major items within these categories are live animals and meat exports: these have declined from 49 per cent of exports in 1950 to 30 per cent in 1972.

1. See Kennedy and Dowling (1975) for further discussion.

Table IX.2: Composition of Merchandise Exports in Current Values, Various Years

SITC		1950	1961	1972
		%	%	%
0	Live Animals and Food*	72.6	61.0	45.2
1	Beverages and Tobacco	7.0	4.3	2.7
2 - 4	Crude Materials, Fuel, Oils, Fats	8.1	8.7	7.4
5 - 8	Manufactures	6.0	17.8	40.8
9	Parcel Post and Special Transactions	6.3	8.2	3.9
Total Domestic Exports		100	100	100
		£m	£m	£m
Value of Total Domestic Exports		70.5	175.2	598.5

*Temporary exports and re-exports of live animals are included in Section 9 rather than in Section 0.

Sources: Trade and Shipping Statistics; and Irish Statistical Bulletin. The figures do not include exports from the Shannon Industrial Estate.

Manufactured exports have grown rapidly, starting from a very small base after the war which reflected the domestic market orientation of industry developed under protection. During the post-war period, a transition was made to a more export-oriented industrial sector. The proportion of manufacturing gross output exported has grown rapidly throughout the post-war period from about 5 per cent in 1950 to just over 30 per cent in 1972. This was achieved largely by the establishment of new industrial plants, many of them foreign, with the aid of capital grants and encouraged by export tax reliefs. As a condition of receiving the grants, such firms were required to export the bulk of production. According to the Survey of Grant-aided Industry (1967), new grant-aided firms accounted for 50 per cent of total manufactured exports in 1966. About two-thirds of the growth of manufactured exports between 1960 and 1966 was supplied by new enterprises established in 1960 or subsequently. Manufactured exports, however, have a considerably higher import content than agricultural exports. Henry (1972) found that in 1968 the direct and indirect import content of manufactured exports was over 40 per cent while that of agricultural livestock was only 10 per cent. Thus, pound-for-pound, the growth of manufactured exports makes a considerably smaller net contribution to the balance of payments than the growth of livestock exports.

Table IX.3 shows the composition of invisible exports for various post-war years. Up to recently, tourism was the largest item, but due to the slump resulting from the Northern Ireland conflict, its share fell from 37 per cent in 1968 to 28 per cent in 1972. The latter figure was slightly lower than that for income from investment abroad, which generally accounted for about a quarter of total invisibles. Perhaps the most remarkable feature in regard to investment income is that up to recently receipts rose at much the same rate as payments abroad, despite the substantial net inflow of capital throughout the post-war period. The explanation appears to be that there was little or no outflow of earnings in respect of the substantial amount of foreign direct investment: in other words, the earnings were re-invested in Ireland. This situation may not continue indefinitely. Moreover, the

Table IX.3: Composition of Invisible Exports, Current Values, Various Years

	1949	1961	1968	1972
	%	%	%	%
Investment Income	24.9	27.1	26.7	28.4
Emigrants' Remittances	12.7	11.5	10.3	11.2
Other Factor Income*	7.9	7.3	9.3	11.6
Tourism	38.1	35.9	36.7	27.8
Other Known Services**	8.1	12.6	14.4	17.6
Balance not accounted for	8.3	5.6	4.6	3.6
Total Invisible Exports	100	100	100	100
	£m	£m	£m	£m
Value of Invisible Exports	78.7	121.3	206.3	252.7

*Comprising, for example, pensions from abroad, commission earnings of import agents, etc.

**For example, transport receipts. For 1968 and 1972, the published figures have been adjusted in certain respects for consistency with the figures for earlier years.

Source: Irish Statistical Bulletin, various issues.

large volume of public sector borrowing abroad in recent years at high interest rates makes it likely that in future the outflow of investment income will increase faster than the inflow. Indeed, this has already begun to happen in the last few years. Ireland's past history of emigration is reflected in the relatively large amount of emigrants' remittances, though it is somewhat surprising that their share of total invisibles has been maintained despite the substantial decline in emigration in the 1960s.[1]

Changes in the Composition of Imports

The composition of merchandise imports has also undergone considerable change during the post-war period, as may be seen from Table IX.4 which gives their distribution by Standard International Trade categories in various post-war years. As in the case of exports, live animals,[2] food, drink and tobacco have declined in relative importance

Table IX.4: Composition of Merchandise Imports in Current Values, Various Years

SITC		1950	1961	1972
		%	%	%
0	Live Animals and Food*	20.5	16.5	11.4
1	Beverages and Tobacco	3.4	2.6	1.9
2-4	Crude Materials, Fuel, Oils, Fats	21.2	19.2	13.7
5-8	Manufactures	51.6	53.8	68.8
9	Parcel Post and Special Transactions	3.3	7.9	4.2
Total Imports		100	100	100
		£m	£m	£m
Value of Total Imports		159.4	261.4	821.9

*Temporary imports and re-imports of live animals are included in Section 9 rather than in Section 0.

Sources: Trade and Shipping Statistics; and Irish Statistical Bulletin. The figures do not include imports to the Shannon Industrial Estate.

1. For further discussion of these issues, see Kennedy and Dowling (1975).

2. Live animal imports into Ireland are very small.

in Irish import trade, while the share of manufactures has risen substantially. Within manufactures, the fastest growth has been in imports of chemicals and of machinery and equipment. Imports of crude materials, fuel, etc, declined in relative importance up to recently, but as a result of the enormous jump in oil prices their share rose substantially in 1974.

These developments reflect the pattern of industrial development in Ireland. Investment, other than building and construction, is mainly composed of imported capital goods and most industries import semi-manufactured materials for processing rather than crude materials. However, another factor in the growth of manufactured imports was the inroad made by foreign producers in Irish consumer markets since tariffs began to be reduced in 1963. Consumer goods rose as a proportion of merchandise imports from 20.3 per cent in 1962 to 25.4 per cent in 1972, reversing the previous downward trend. Over the same period, the share of competing imports in the domestic market for manufactured goods grew from 20.6 per cent to 30.2 per cent.

The dependence of Irish industry on imported materials is reflected in the composition of imports according to use. In 1972, 56 per cent of imports were materials for use in production and a further 16 per cent were producers capital goods, the remainder being consumer goods for final use. The character of Irish imports makes it difficult in times of pressure on the balance of payments to reduce imports without affecting output also. Over the longer term, with an estimated income elasticity of demand for imports of two, a high growth rate of output will involve rapid growth of imports, and will, therefore, necessitate rapid growth of exports if balance of payments crises are to be avoided. This point is reinforced by the fact that in recent years imports of manufactured consumer goods have tended to grow in relative importance on the Irish market.

Invisibles do not assume the same importance in Irish imports as in the case of exports, and in most years have amounted to no more than about one-eighth of total imports of goods and services. The main components are investment income and tourism, which together account for over 90 per cent of invisible imports. Up to 1968, the outflow of investment income grew only moderately but since then has increased substantially and, as mentioned already, is likely to continue rising rapidly in the future.

The Terms of Trade

In the early post-war years, the terms of trade improved up to 1949 and by then had fully recovered from the decline in the 1930s during the depression and the Economic War. In 1950 and 1951, however, there was a sharp deterioration as the price of imports rose rapidly under the influence of the 1949 sterling devaluation and the materials shortages during the Korean War. Throughout the 1950s, the terms of trade generally remained unfavourable compared to the 1949 position although there was considerable year-to-year variation. During the 1960s, the terms of trade moved fairly consistently in Ireland's favour and this trend continued into the 1970s when there was substantial further improvement due to the rapid rise in the price of agricultural exports. However, this position has been dramatically reversed in 1974 by the enormous rise in oil prices and, to a lesser extent, the fall in cattle prices.

Because of the high ratio of external trade to GNP in Ireland, changes in the terms of trade have a considerable impact on the balance of payments and the standard of living in Ireland. This can be illustrated by reference to experience in the period 1968-72. In 1972, the current balance of payments deficit amounted to 2.5 per cent of GNP, at current prices, compared to 1.2 per cent in 1968. However, had 1968 prices prevailed in 1972, the current balance of payments deficit would, ceteris paribus, have amounted to over 7 per cent of GNP. An improvement in the terms of trade involves a rise in domestic real income since it makes it possible to exchange a greater volume of imports for the same volume of exports. This is known as the external trading gain and it is not measured by the conventional method of deriving the real growth rate of GNP, which makes no allowance for the changes in the terms of trade. The external trading gain can be measured by relating the size of the improvement in the terms of trade to the total amount of exports or imports. In relation to the period 1968-72, it then emerges that, while the average annual growth rate of real GNP as conventionally measured was 3.7 per cent, the real growth rate including the external trading gain was 4.8 per cent per annum.

However, just as an improvement in the terms of trade involves a gain, so a deterioration gives rise to a loss. The deterioration in 1974, due largely to the rise in oil prices, represented an enormous external trading loss amounting to 6 per cent of GNP. Thus, while the growth rate of GNP, as conventionally measured, was about $1\frac{1}{2}$ per cent in

1974, in fact, when account is taken of the terms of trade effect there was a decline in total real income of about $4\frac{1}{2}$ per cent.

3. The Balance of Payments, External Reserves and Capital Flows

There has been a deficit on the current account of the balance of payments in all but three post-war years (1957, 1961 and 1967), but its size has varied considerably from year to year. Relative to GNP, the largest deficit was in 1951 (14.7 per cent), but there were also substantial deficits relative to GNP in 1947 (9.0 per cent), 1948 (5.4 per cent), 1950 (7.6 per cent), 1955 (6.5 per cent), 1965 (4.1 per cent), and 1969 (4.5 per cent). Although full details are not yet available for 1974, the estimated deficit in that year (£280 million) is by far the largest ever in absolute terms, and is also very large relative to GNP (about 10 per cent). In 1973 and 1974, there were significant current net transfers from the EEC amounting to £33 million and £60 million, respectively.

A current account deficit acts as a drain on external reserves only when it is not offset by a net capital inflow.[1] Up to 1950, the post-war deficits were more than covered by net inflows of capital, a significant proportion of which represented Marshall Aid[2] - mainly in the form of loans. In 1951, however, reserves fell sharply and corrective action was taken. Subsequently, small current deficits in many of the remaining years of the 1950s allowed some replenishment of external reserves despite much reduced net capital inflows. However, in two years, 1955 and 1956, there were net capital outflows combined with relatively large current account deficits, and this involved a substantial loss of reserves. Thus, at the end of the 1950s, reserves were smaller than in 1951. From the early 1960s onwards, there was a conscious acceptance of a moderate current account deficit provided it was financed by capital inflows. This was considered justifiable in conditions of economic development to supplement domestic sources of finance for investment. From 1969, the size of the current deficit widened substantially but the net capital inflow increased by even more. Taking the period 1961-72 as a whole, net capital inflows were considerably larger than the current account deficits and external reserves almost doubled in the period.

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1. The discussion of external capital flows is based on the net figures, since the data on gross movements are inadequate. A fuller discussion is given in McAleese (1972).

2. Ireland received a total of £47.3 million in Marshall Aid, the bulk of it (£40.8 million) in the form of a repayable loan.

Despite this increase, however, the reserves declined relative to imports. In 1961, the reserves were equal to 9 months purchase of imports of goods and services whereas by 1972 the figure had fallen to 6 months. Nevertheless, the latter figure was still reasonably high by international standards. However, the enormous rise in the value of merchandise imports in 1973 and 1974 involved a further substantial decline in reserves relative to total imports even though the absolute size of the reserves increased: it is estimated that reserves in 1974 amounted to only 3 months purchase of imports.

Table IX.5 shows average annual figures for total net foreign disinvestment and net capital inflow in various periods since the war. Net foreign disinvestment is equivalent to the current balance of payments deficit, and can be interpreted, in an ex post sense, as the amount of external resources (both through running down of external reserves and net capital inflows) needed to finance domestic physical capital formation in excess of domestic savings. To illustrate the changing degree of reliance on external sources for the finance of domestic investment, net foreign disinvestment is shown in the table as a proportion of total gross domestic capital formation. The net capital inflow represents the net inflow of funds from abroad apart from changes in external reserves.

Table IX.5: Net Foreign Disinvestment and Net Capital Inflow, Annual Averages, Various Periods

	Net Foreign Disinvestment		Net Capital Inflow
	£m	% of Gross Domestic Physical Capital Formation	£m
1947-51	30.2	48.3	24.7
1952-60	8.1	9.2	6.7
1961-68	15.6	8.1	25.0
1969-72	65.3	14.9	102.9

Sources: Irish Statistical Bulletin; and National Income and Expenditure.

It may be seen from Table IX.5 that foreign disinvestment was a very important source of finance for domestic capital formation in the early post-war years of heavy public sector investment. Despite a substantial net capital inflow, external reserves declined. During the 1950s, the net capital inflow dropped substantially to an average inflow of only £7 million per annum, but recovered during the 1960s and has been very considerable since 1969. Unlike the early post-war years, however, some of the net capital inflow since the early 1960s has not been availed of to increase domestic spending but has been used to build up external reserves.

Table IX.6 shows the composition of net capital inflows in the periods 1961-68 and 1969-72. Net government borrowing, although it was considerably higher in the years 1969-72 than previously, declined as a proportion of the total net capital inflow. However, net borrowing of semi-state companies increased its share substantially so that overall the public sector increased its share from 22 per cent to 31 per cent. Direct investment constitutes the largest element in private net capital inflows and in recent years this has been largely channelled through the non-associated banks. Net direct investment is probably understated in the official figures since, as mentioned earlier, there has been little outflow of profits in respect of the substantial volume of direct investment that has taken place. Presumably, these profits have been reinvested in Ireland, and should properly be treated as an outflow of investment income on the current account, with a contra entry on the capital account showing an inflow.

Table IX.6: Composition of the Net Capital Inflow, Annual Averages, 1961-68 and 1969-72

	1961-68		1969-72	
	£m	% of Total	£m	% of Total
Net Government Borrowing	3.8	15.2	14.3	13.9
Net Borrowing by State-sponsored Companies	1.7	6.9	17.7	17.2
Private Net Capital Inflows	19.5	77.9	70.9	68.9
Total	25.0	100	102.9	100

Sources: Irish Statistical Bulletin; and McAleese (1972), Table 4.

4. EEC Membership and the Balance of Payments

As a result of its membership of EEC, Ireland's restrictions on imports are to be substantially reduced over a five-year period from 1973 to 1978. This involves the removal of tariffs on imports from EEC and EFTA countries; the alignment of Irish tariffs on imports from third countries with the EEC's common external tariff; and the adoption of the Community's system of generalised preferences for less developed countries. The agreement also allows for the continued phased removal of tariffs on imports from the U.K., as had been agreed under the Anglo-Irish Free Trade Area Agreement (AIFTAA). Correspondingly, of course, EEC trade restrictions on Irish products will be phased out and the adjustment of farm prices covered by the Common Agricultural Policy (CAP) will also take place over five years.

McAleese (1975) provides an analysis of the likely impact of EEC membership on the Irish economy. The analysis is conducted by reference to the situation prevailing prior to membership and no attempt is made to assess the implications for Ireland of remaining outside the EEC when Britain joined. Using estimated price elasticities, McAleese calculated that the reduction in Ireland's import tariffs alone would involve, at the 1971 level, a rise in imports of £106 million or 21 per cent. As regards exports, he estimated that membership would have little or no net effect on manufactured exports. The reason is that the gain arising from improved access to the markets of the EEC six would be offset by the loss of Ireland's preferential position in the U.K. relative to these EEC countries. On the other hand, agricultural exports would increase substantially: McAleese put at £109 million the total gain in agricultural exports that would have arisen in 1972 had Ireland been a full member of CAP with complete adjustment in output to the higher prices.

McAleese also assessed the likely effect of EEC membership on foreign direct investment in Ireland. His analysis suggests that Ireland's attraction as a location for foreign investment would improve since free access to the enlarged EEC market would more than offset the loss of preferential access to the U.K. market. However, no attempt was made to quantify the likely increased net capital inflow, or the rise in exports resulting from the increased volume of foreign enterprise.

McAleese's analysis is explicitly a partial one since it is cast in a comparative static framework, and does not seek to measure dynamic effects. In comparative static terms, the overall conclusion is that EEC entry would have a positive effect on the balance of payments, particularly since the increased agricultural exports would have a lower import content than the output displaced by increased manufactured imports. Despite the difficulties that have arisen for agriculture since the analysis was completed, it remains true that producers of finished cattle and milk are likely to continue to secure higher and steadier prices inside the EEC. Furthermore, if the EEC six continue to grow at a faster and more stable rate relative to the U.K., this should encourage faster growth of Irish exports than in the past, when there was greater dependence on the U.K. market bedevilled by stop-go. Moreover, if account were taken of the dynamic effects of foreign investment, the position would probably be more favourable still.

However, the loss of protection on the home market will, undoubtedly, cause difficulties for certain sections of Irish industry. Already, tariff reductions under the AIFTAA have involved losses by Irish producers in their share of the domestic market, particularly in the clothing, textile, furniture and metal and engineering industries.[1] This is borne out by redundancy figures since 1969, when the AIFTAA tariff reductions really began to bite. With further reduction in tariffs imminent, Irish producers face the prospect of still greater erosion of their share of the domestic market. Thus, if widespread redundancies are to be avoided, firms at present producing for the home market will probably have to channel more of their output to the export market. The transition period before tariffs are completely removed provides an opportunity to make this adjustment. Nevertheless, it seems likely that a considerable number of redundancies will be unavoidable. Provision of alternative employment opportunities will be easier if buoyant conditions of demand can be maintained in the economy. Much depends on whether the balance of payments position will allow a sufficiently expansionary policy. While the net impact of EEC membership will be favourable in this regard, rapidly rising prices of imported materials and the large volume of public investment likely to be needed in coming years pose a major threat to the balance of payments. This reinforces the argument in Chapter VII that substantial inflows of resources through the Regional and Social funds of the EEC will be necessary to secure smooth adjustment to EEC conditions.

1. For an analysis of the effects of the AIFTAA, see McAleese and Martin (1973).

CHAPTER X

POLICY ISSUES AND INSTRUMENTS

1. Major Problems Emerging from the Study

In this chapter we discuss the major policy issues facing the Irish economy and the instruments available for tackling these issues. We first summarise the main problems emerging from our study of the economy. In subsequent sections of this chapter we discuss the available policy instruments, making reference to past use of these instruments in Ireland, where this has not been done already in earlier chapters.[1]

Ireland exhibits the characteristics of an economy at a transitional stage of development. Average income per head is well below the level in any of the other member countries of the EEC and unemployment is much more prevalent. Up to recently, there has been substantial emigration, the concentration of which in the young active age-groups has left a very high number of dependants in relation to the population of working age. The agricultural sector, though declining in relative importance, still employs a considerably larger proportion of the labour force than in the other EEC countries. Industrial production also bears the marks of underdevelopment, much of it consisting of simple processing of primary materials, or final-phase assembly of imported goods. The skill content is relatively low and few capital goods are manufactured. Though increasing emphasis has been placed on free trade, the adjustment to foreign competition has not been universal. There remains a degree of dualism, with the coexistence of, but absence of interaction between, a strong export sector made up mainly of new firms, many of them foreign, and, on the other hand, a weak import-competing sector of older firms established behind tariff barriers.

The major challenge to economic policy in Ireland remains the achievement of full employment. In Chapter V, we indicated the rapid rate of increase in total employment that would be required in the next decade to reach that objective. The leading role in the expansion of employment rests with the industrial sector. Employment in agriculture is likely to continue to decline rapidly for many years. While the services sector is capable of

1. Several aspects of Irish economic policy are discussed in Bristow and Tait (1968), Tait and Bristow (1972), O'Mahony (1967), and Meenan (1970).

contributing significantly to employment expansion both nationally and regionally, much of its growth at the national level will depend on industrial growth and on the rate of increase in aggregate real income. Since the creation of employment in industry has been far from adequate in the past to secure progress towards full employment, this suggests the need to review existing policies of industrial development. Moreover, the high rate of unemployment experienced by the unskilled and the older workers points to the need for selective measures to cater for particular categories of labour.

Measures on the scale required to make satisfactory progress towards full employment could give rise to serious balance of payments difficulties. This underlines the need for careful forward planning in relation to the use of resources and the degree to which it will be possible to rely on foreign resources. Moreover, since progress towards full employment could only be achieved step by step over time, it is clearly important that short-term demand management should be adapted as far as possible towards the longer-term objective. At a time when the problems arising from the oil crisis tend to dominate, it is particularly important to maintain a longer-term perspective.

Many other problems are allied to that of achieving full employment. Smooth re-deployment of workers leaving agriculture would be hampered in the absence of adequate overall employment opportunities. Attention was drawn earlier to the likelihood of increased redundancies in the import-competing sector following the reduction of tariffs under the EEC, and the importance, in order to forestall social tensions, of providing alternative employment opportunities for those rendered redundant. The continuance of high unemployment and dependency rates would exacerbate the problems of public finance, both by reducing taxable capacity and by increasing the calls on the Exchequer for unemployment and other social benefits.

In agriculture, the principal task is to avail of the opportunity presented by EEC membership to raise farm incomes without too drastic a reduction in farm employment. The latter would add greatly to the burden of generating employment in industry, and create serious social problems in the depopulated rural areas. It is already clear that the operation of the Common Agricultural Policy has not prevented a serious crisis in the Irish livestock trade and leaves much to be desired in that regard.

The disparity of development between regions of the country has also been highlighted in the study. The usual symptoms of underdevelopment have been identified in the poorer regions, particularly in the West and North-West: low per capita incomes, a large agricultural sector, low agricultural incomes, and high unemployment. These problems are aggravated by the high and persistent rate of population decline in these regions, making efforts to provide employment and raise living standards all the more difficult.

Ireland, like most other countries of the Western world, has experienced a high and rising rate of inflation in the past few years. Because of the open nature of the economy and its small scale, there are severe constraints on the degree to which domestic measures alone can reduce the rate of price increase in the face of worldwide inflation. Policy must, however, be concerned to ensure that the rate of inflation in Ireland is at least no worse than in competing countries and to alleviate as far as possible the social inequities caused by inflation. The considerable amount of poverty remaining in Ireland also suggests the need to review the nature and extent of present redistributive measures.

2. Demand Management

The management of aggregate demand is one of the principal means of achieving various objectives of economic policy, such as steady growth, full employment and stable prices. Moreover, in an economy as open as Ireland, it is only to be expected that the balance of payments constraint would loom large in relation to demand management. As explained earlier, public expenditure has played a crucial role in Irish economic development since the war, and demand control has been operated almost exclusively through fiscal policy.

Fiscal Policy[1]

In the early post-war years, fiscal policy was highly expansionary, with a particularly rapid growth in public capital spending. Much of this was financed through public borrowing, facilitated by the availability of Marshall Aid. Public investment was mainly in infrastructural and social capital goods, particularly in building and construction, and provided employment of a relatively unskilled nature suited to the outflow of workers from

1. For more detailed treatment, see Kennedy and Dowling (1975) from which this section draws heavily.

agriculture. The evidence suggests that it tended to stimulate rather than displace industrial investment, which also grew rapidly in these years. Total employment did not expand since the decline in agricultural employment was particularly rapid following the war years when emigration had been hampered. However, substantial industrial employment was created and the rate of emigration was considerably lower than in the following decade.

Substantial current balance of payments deficits occurred in the early post-war years but were largely offset by capital inflows. In 1951, however, the level of capital inflow began to taper off and this coincided with a particularly large current balance of payments deficit in that year, mainly due to substantial price increases and stockbuilding occasioned by the Korean War. External reserves fell sharply and, in response, fiscal policy was highly inflationary in 1952. For several years thereafter there was no return to expansionary policy and, as a result, private investment was adversely affected and growth in the economy was slow. In 1955 and 1956, there were further significant losses of external reserves as stagnant exports coincided with capital outflows. The authorities responded with renewed deflationary measures in the years 1956-58, with particularly sharp cuts in the public building programme. Though the intention was to shift investment from social to productive investment, the result was a severe recession in the economy, which reduced all types of investment. Building and construction is particularly important in maintaining demand in Ireland because of its relatively high content of labour and domestic raw materials. Thus, the large reduction in the public building programme depressed demand generally and diminished the incentive for other forms of investment.

The period 1952-58 was marked by excessive concern with the state of the external reserves and insufficient regard to the employment situation. Deflationary policies were implemented when the external payments position deteriorated although Irish external reserves were high by international standards. In the long run, the policy probably did little to help the balance of payments as the slow growth in the economy and the low rate of investment in manufacturing may have hindered rather than helped the growth of exports. Total employment fell sharply as the decline in agricultural employment was accompanied by a loss of jobs in the non-agricultural sector. The rate of emigration rose to enormous proportions.

From 1959 onwards, expansionary fiscal policy was again adopted and, despite some deviations, there was no lasting reversal of this approach during the 1960s. This was partly because the economy's external position had strengthened: the rapid growth of exports - particularly of manufactured and invisible exports - and renewed net capital inflows had improved the balance of payments, while structural changes had made it less liable to year-to-year fluctuation. But, in addition, greater emphasis was placed on the objectives of employment and growth. The three economic development programmes, discussed later in this chapter, all placed considerable emphasis on the role of public capital spending in promoting growth. Accordingly, the Public Capital Programme expanded rapidly, including the building component, although the latter never regained the 1951 share. A retreat from the expansionary policy occurred in 1966, following a balance of payments deficit and loss of external reserves, but the cutback was shortlived. Again in 1970-71, fiscal policy was somewhat deflationary, following another large current balance of payments deficit, although on this occasion it was more than offset by net capital inflows. An additional consideration in the minds of the authorities was the industrial unrest and pressure for wage increases at that time. Expansionary fiscal measures were resumed towards the end of 1971 and subsequently strengthened.

There can be no doubt that the confident fiscal stance adopted since 1959 contributed substantially to the faster growth rate of the economy. Looking to the future, it is likely than an expansionary policy must continue for at least several years if the economy is to move towards the goal of full employment. This would entail a continued rapid growth of public expenditure, particularly capital expenditure, and a rising level of public borrowing. In turn, this would present severe problems in the finance of public spending and the maintenance of balance of payments equilibrium. But if greater priority is to be given to the goal of full employment, these problems must be squarely faced both by Ireland and the EEC. The EEC is committed to the objective of full employment and reduction of disparities in living standards among the regions of the Community. If these goals are to be achieved in Ireland, then substantial resources will be required from EEC funds to help finance investment and avoid balance of payments problems. In order to ensure that such dependence would not continue indefinitely, however, it is important that the future overall growth and composition of public expenditure should be planned now with a view to the realisation of well-defined economic and social goals over a specified time-span. We take up this point again later in this chapter in discussing economic planning.

Monetary Policy

Monetary policy has been of only limited importance in Ireland as an instrument for controlling aggregate demand.[1] The existence of effective monetary union with the U.K. makes it difficult for the authorities to pursue an independent interest rate policy or to control the resources of the banks. What scope there has been for Irish rates to deviate from those prevailing in Britain has been used in the long-term interests of economic development. Thus, Irish rates have been kept slightly below those in the U.K. and variations in British rates have been cushioned in their impact on Ireland.

Up to 1965, no attempt was made by the Central Bank to control credit or money supply. From 1965 to 1972, the Bank issued credit guidelines to the commercial banks. Strict adherence to these guidelines was not enforced, and for the most part the Bank's advice was not carried out in practice. In 1972, the Central Bank began to implement monetary control through liquidity ratios. However, Dowling (1974) remarked that the banks were able to offset their restrictive intent, since bank liquidity was increased by a rundown of government bank balances and substantial capital inflows.

The extent to which the Central Bank can operate an effective monetary policy remains somewhat uncertain. The decline in the net external asset position of the commercial banks, the growth of domestic financial markets, and the introduction of liquidity ratios, have all tended to increase the Bank's ability to control domestic liquidity. Ultimately, monetary policy can affect the liquidity of the business sector, though this effect must be qualified in view of the fact that larger firms have access to external finance. The government depends heavily on borrowing from the banks as well as from abroad, so that limits on the amount of credit available would restrain demand to the extent that the government was unable to obtain finance externally. In that case, monetary policy would be effective by narrowing the scope for expansionary fiscal policy. As is usual with monetary measures, they are likely to operate more effectively as a brake than an accelerator.

It should be emphasised, of course, that even if the scope for monetary policy in Ireland is limited, this does not detract from the importance of the other institutional activities performed by the Central Bank, which have developed considerably in the post-war period as described already in Chapter VIII.

1. For a more detailed treatment, see Dowling (1974).

Oil and the Balance of Payments

The ramifications of increased oil prices for the economy and the appropriate policy response require special examination. The most obvious impact on the economy is the emergence of a large current balance of payments deficit. Related to this deficit is the deflationary pressure on the economy: spending has been diverted from home-produced goods to meet the higher price for oil with, it seems, little reduction in the volume of oil consumption. Durkan and Kelleher (1974) discussed the appropriate response to this situation. Since the oil-producing nations can spend on imports no more than a small proportion of their enormously increased oil revenues, it is inevitable that the oil-importing countries will collectively experience a large current balance of payments deficit. Hence, an attempt by any one oil-importing country to restore its balance of payments position by deflationary action could only succeed at the expense of similar countries, given the short-term inelasticity both in the demand for oil and in the development of alternative sources of supply. Thus, a more appropriate international stance would be the adoption of reflationary measures in the oil-importing world to combat the deflationary impact of the oil price increase, coupled with the recycling of oil surpluses by means of loans to countries with balance of payments deficits. Real repayment of such loans could only occur when the oil-producing world itself moves into a deficit position.

Although there are doubts about the prospect of international agreement on a system for recycling oil surpluses, and it is by no means certain that the major oil-importing countries will adequately reflate their economies, nevertheless it would still be appropriate in Irish circumstances to maintain an expansionary stance, while at the same time pressing ahead with fuel-conserving policies. Reflationary measures would require additional government borrowing and would aggravate the current balance of payments position. This would involve a fall in reserves unless the resources were borrowed abroad. However, the amount of extra borrowing would be moderated significantly by the fact that a higher level of activity would reduce unemployment payments. Moreover, the borrowing requirement could be reduced further by restructuring public spending so as to maximise its impact on the domestic economy involving, for example, the postponement of capital projects with a high import content.

Durkan and Kelleher argued that higher oil prices alone may not achieve the required change in fuel consumption patterns quickly enough and that the authorities should give greater encouragement by direct measures. Among these are the establishment of more exacting insulation standards in the construction of buildings and the propagation of fuel-saving measures in household and commercial use, lower heating standards, lower speed limits, greater use of public transport, etc. Effective fuel-saving measures would not only help to contain the oil deficit but, to the extent that the resultant economies allowed greater spending on domestic goods, would also help to maintain employment.

3. Industrial Development Strategy

In Chapter III, we described the evolution of industrial development policy in Ireland. Since the mid-1950s, great emphasis has been placed on exports and the attraction of foreign enterprise, the chief policy instruments being tax relief on manufactured exports and grants to meet part of the capital costs of establishment. This strategy has achieved considerable success in increasing output and exports. However, the net increase in employment in manufacturing industry between 1961 and 1972 - an average of just over 3, 000 per annum - has been totally inadequate to make progress towards full employment. The projections in Walsh (1975) indicate that, in order to achieve full employment in a decade from now, approximately 30, 000 new jobs per annum would be required outside agriculture. Not all of the extra employment need be in manufacturing, but it is likely that manufacturing would be required to provide the major stimulus. Moreover, it should be emphasised that Walsh's estimate relates to the number of net new jobs required over and above redundancies, and that the latter are likely to be considerable in import-competing firms as a result of increased competition in the EEC.

About one-half of the increase in manufacturing output experienced in recent years has come from export-oriented foreign enterprise. These industries have a low domestic value-added content, import most of their raw materials, and have few backward or forward linkages with domestic industries. Thus, the direct and indirect contribution of each new enterprise to employment has been relatively small. Given, further, that the profits can ultimately be repatriated, their longer-term contribution to the balance of payments is also relatively limited. It might be argued that these facts suggest merely the need for many more such enterprises to raise employment adequately. However, the absence of linkages implies a failure to build on the country's natural advantages in, for instance, the processing of food and minerals, which would secure greater regional diffusion of the benefits of industrial development. More linkages would help to develop a larger pool of native entrepreneurs, who would be more likely than in the case of foreign enterprise to expand and diversify their activities in Ireland. The low level of technology required for final assembly and processing of some imported components means that relatively few resources are devoted to research and development, which may limit future growth prospects.

Consideration might also be given to the question of whether the existing incentives do not discriminate against labour-intensive enterprises. The scheme of grants would appear to have a bias towards capital-intensive production, a tendency that may be reinforced by generous depreciation allowances and tax relief on export profits. While the size of grant may be influenced by the projected employment, there is no incentive for an enterprise to meet or exceed the employment target once the grant is received. There is, in fact, evidence that new grant-aided firms are more effective in achieving their output and export targets than their employment target.[1] No consideration appears to have been given to the use of labour subsidies which would tend to encourage labour-intensive enterprise and methods of production.

The state-sponsored bodies might be encouraged to play a greater role in industrial development by diversifying their activities. Some of these bodies are already doing so. Many, however, appear to view their role solely in relation to the particular function for which they were established and this may lead to considerable curtailment of potential enterprise. The state-sponsored bodies are large-scale employers of engineers, accountants, and other professional workers, who in private enterprise would be encouraged to seek out new opportunities for expansion and diversification. It is also possible that these bodies could assist new Irish enterprises by way of contracts, investment and technical and managerial aid.

While the attraction of foreign capital and expertise continues to be desirable, the situation where 70 per cent[2] of new industrial projects are foreign-controlled could, in time, create difficulties for Irish economic development. Methods of attracting foreign

1. Survey of Grant-aided Industry (1967), pp.49-52.

2. McAleese (1972).

capital, technical expertise and marketing skills, without such widespread foreign ownership, might be investigated. Fogarty (1973) found general satisfaction among Irish entrepreneurs with the support system for new enterprise but a lack of entrepreneurs to take advantage of it. However, there were some gaps in the support provided by development agencies, notably in the assistance given at the planning stage of an industrial project. There was also an absence of reliable financial support for enterprises which had passed the initial establishment phase but were not yet fully developed. A more liberal attitude to risk-bearing by the banks would help in this regard, though Fogarty suggested that the banks could more usefully act as financial advisors and develop an intermediary service between entrepreneurs and people willing to invest in the development of Irish industry. Fogarty also raised the possibility of attracting home Irish emigrants who had been successful in business overseas.

It is understandable that the incentives were primarily directed towards exports when there was little experience of exporting and tariffs abroad were a serious impediment, but these conditions have since changed substantially. Moreover, since the early 1960s, imports of final consumer goods have grown more rapidly than imports as a whole, and Irish producers of consumer goods have been losing their share of the Irish market. The abolition of tariffs under the EEC and AIFTAA is likely to cause further losses by Irish producers on the domestic market. In some cases, it may be possible to maintain employment in existing firms at less cost to the Exchequer than the creation of alternative employment in new firms. Consideration might, therefore, be given to switching the industrial development assistance to some degree towards import-competing firms, which, it should be stressed, provide employment and contribute to the balance of payments.

Our review of unemployment revealed its concentration in unskilled occupations. A long-term solution to this problem requires that these workers be equipped with new skills. However, bringing workers into some form of employment would be an important step on the way to a long-term solution, so that in the short-term there is a strong case for providing job opportunities of an unskilled type (e.g. in building and public works). This point is underlined by the reluctance of the unemployed to take part in training even when facilities are available. It is much easier for AnCO to reach people already in employment through the in-company training programme than to entice the unemployed to undergo training. Moreover, as suggested in Chapter V, in-service training is likely to be more effective.

4. Agricultural Policy

The major challenges facing Irish agriculture are to increase its contribution to output and exports, to improve the low income position of many farmers, and to cope with the problems of labour surplus. Agriculture has a particularly important role in the economy by virtue of its significance for exports and the balance of payments. Because of their relatively low import content, buoyant agricultural exports could be vital in maintaining balance of payments equilibrium in conditions of sustained fiscal expansion.

The supply and demand constraints on the growth of agricultural output and exports are amenable to influence by policy measures. On the supply side, raising export revenue requires increased output in lines with good export prospects, which in turn calls for substantial investment by farmers. Foreign exchange earnings could also be increased by minimising reliance on imported feeding-stuffs through the development of grass-based winter feed. Policy measures to cope with these problems could perhaps be operated most effectively through a farm development scheme of the type discussed later in this section. The efficient processing and marketing of produce is also of considerable importance.

On the demand side, high hopes for agriculture were raised by Ireland's entry into the EEC and by the anticipated benefits of the Common Agricultural Policy. The likelihood of stable prices at levels much higher than in the past was expected to lead to a significant rise in agricultural output, exports and incomes. In the long-term, this prospect remains bright provided the industry does not receive a lasting setback from the recent - hopefully transitory and remediable - difficulties, described in Chapter II. However, the operation of the CAP requires re-examination in the light of these difficulties, particularly in regard to cattle. The worldwide collapse in the cattle trade was due to both a reversal in demand for beef and an unusually large build-up of supply. While the demand reversal was largely unforeseeable, this is not true in the case of the substantial accumulation of cattle stocks in the major meat-producing countries of the world. In any event, the present intervention scheme does not insulate EEC farmers from world production and price cycles and has proved particularly inadequate in moderating the decline in store cattle prices. A revised CAP would need to pay closer attention to the central objective of maintaining farmers' incomes in the Community. Moreover, even though the partial relief afforded by the "green pound" devaluations has moderated the worst features of the monetary compensation amounts, it nevertheless remains true, as Conway (1974) pointed out, that the system of monetary compensation amounts has broken the basic principle of the CAP, namely a single price system with free movement of products within the Community.

At national level also, various proposals are under discussion for preventing a recurrence of the recent difficulties. More careful monitoring of the world cattle situation could give early warning of over-supply problems and allow advance measures to be adopted that might prevent a crisis. From a longer-term perspective, the 1974 difficulties underline the tenuousness of cattle production for small-scale producers of young cattle to store stage. Thus, further encouragement might be given to them to engage in other more suitable enterprises such as dairying, pigs, sheep or tillage. This point is underlined by the fact that, in future, greater difficulty is likely to be experienced in disposing of stores, since Britain, the traditional outlet, is now fattening more cattle of its own rearing, and costly transport facilities are becoming increasingly difficult to obtain in a declining and uncertain trade. O'Connor and Keogh (1974) suggest a scheme directly aimed at the small-scale suppliers of young stores. Under this scheme, cooperative creameries would contract to purchase three-month old calves for fattening from their milk suppliers, guaranteeing a fixed proportion of the fat cattle price at time of purchase.

It was shown in Chapter II that, despite rapidly growing productivity, agricultural incomes have remained well below other sectors, with considerable year-to-year instability. This arose not only because of the low price and income elasticity of demand for agricultural products, but also from supply fluctuations and the almost complete dependence on the U.K. market where government policy operated to maintain low prices. Within agriculture, incomes are particularly low on many small farms. Moreover, regional disparities in agricultural development are substantial.

In recent years, considerable public funds have been spent on price supports in an effort to tackle these income problems. However, O'Connor (1970) showed that price supports did little to improve the relative position of low income farmers: being related to output, the supports tended to raise incomes proportionally so that larger producers received far greater absolute amounts. O'Connor also demonstrated that price supports had a similar impact on the distribution of income by region, favouring the more prosperous farmers in Munster and Leinster compared with the poorer farmers in Connaught and the three counties of Ulster. The price supports tended to be inflexible, encouraging farmers to remain in lines of production no longer the most lucrative. In the coming years, Irish price supports will be replaced by the more extensive CAP arrangements. This is one of the major benefits of EEC membership, since it will relieve the Irish Exchequer of the burden while at the same time offering the prospect of support at a level that Ireland itself could not afford because of the large relative size of its agricultural sector. However, the CAP as at present operated is unlikely to solve the problem of income instability and may do little to improve the distribution of income at individual and regional levels.

Another instrument of direct income support to agriculture in Ireland is relief of local authority rates on agricultural land. In the aggregate, the subsidy amounts to nearly two-thirds of the rates payable, but affords relatively greater relief on farms with low rateable valuations. Thus, the aggregate rate of subsidy tends to be greater in regions where small farms and poor quality land predominate. However, Walsh and Copeland (1975) have shown that, because valuations have not been updated, differences in rateable valuation between regions cause considerable inequity in the rate of relief afforded to farmers of similar income.

A number of schemes introduced to raise farm efficiency, such as the subsidisation of farm improvements and of fertilizer inputs, also sought to raise the income of the poorer farmers. The schemes have been criticised as wasteful on the grounds that the subsidies are provided without regard to the increase in productivity and in incomes that would be conferred in the individual case. Generalised input subsidies were more defensible when investment and fertilizer-use was at an extremely low overall level, but this is no longer the case. A specific scheme of farm development for low income farmers on small holdings was introduced in 1968. It was designed to improve their farming organisation, thereby helping them to reach commercial viability, and it involved a grant to farmers undertaking a development plan. The promotion of small-farm enlargement, particularly in the Western region where there is a high concentration of small farms, is also geared to aid low-income farmers. Generally, small farmers cannot afford to buy land to extend their holdings and, without long leases, the only way of enlarging farm scale effectively has been the purchase and re-allotment of land by the Land Commission. Progress by the Land Commission is retarded by the reluctance of owner-occupiers to part with land at anything like an economic price (i.e. a price equivalent to the discounted net returns capable of being achieved on the land even under more efficient use than at present). In 1974, an improved retirement scheme was introduced for small farmers undertaking to cease agricultural production and sell or lease their land to the Land Commission or to a farmer with an approved farm enlargement plan. This scheme may make more land available for farm enlargement than hitherto.

It has been suggested that the shortcomings of past schemes designed to raise incomes by increasing productivity at farm level could be overcome by extending assistance only within the context of an overall farm development plan.[1] The existing aids to small farmers could be integrated into such a scheme by providing them with special grants or low interest loans. Unless capital is made available to those on small, low income, farms, technical advice and input subsidies may only aggravate income differences within the agricultural sector. The preponderance of small farms in the Western and North-Western regions, and the considerable potential for improvements in their farm methods, suggest that such a farm development policy would be of great benefit. Scully (1971), in a review of a pilot development programme initiated in 1964 in selected areas of the West and North-West, showed that the programme was remarkably successful in raising aggregate farm income. However, its impact was largely confined to farmers whose incomes were highest at the start of the programme. The percentage of farms regarded as being in the category "problem" or "non-viable" had only declined from 77 per cent to 62 per cent after five years of the programme. Those who remained in this category had benefitted little from the scheme and it is doubtful if any programme operating within the existing farm structure and demographic composition could have achieved significantly better results. As part of the CAP, a farm modernisation scheme came into operation early in 1974 integrating all previous aids to farm development. Under the scheme, special assistance is available to farmers who undertake a plan to raise their enterprise to commercial viability. Small transitional farmers also qualify for special treatment and will continue to do so at least until 1977. Other farmers may avail of grants at a lower rate and, while no development plan is necessary, advice on the development of their enterprise is provided.

However, the results of the 1964 pilot scheme indicate that other policy measures are likely to be required to redress the regional disparities in agricultural development. Scully (1971) highlighted the age of the farming population, lack of education and small farm size as major retarding features. He suggested a long-lease system to facilitate the

1. Committee on the Review of State Expenditure in Relation to Agriculture (1970).

enlargement of farm size, giving special consideration in choice of lease to suitable young applicants. The recently-introduced retirement scheme, mentioned above, will go some way towards meeting this requirement. Other measures to attract young people into agriculture are also possible, such as training facilities, placement services and resettlement assistance along similar lines to those provided in the industrial sector. A serious difficulty limiting the entry of young people into farming in the underdeveloped regions is that these areas do not offer social amenities of a quality and variety comparable with those enjoyed in cities at home or abroad. It has also been argued that present school curricula do not adequately provide for the needs of persons interested in making a career in farming. Tackling the education problem among existing farmers is likely to prove slow, but the promotion of group projects could accelerate the educational process through demonstration effects and cooperation.

However, it is unlikely that the problems of farmers in the poorer regions and on the smaller farms can be solved entirely within agriculture itself. For some, it may be necessary to provide wholetime jobs outside agriculture making their land available for re-deployment; and for others, unable to get an adequate income from their farm, direct income support may be required. However, it would be a mistake to draw a rigid distinction between those needing off-farm employment and those continuing in agriculture: part-time industrial jobs for small farmers have been successfully operated in other countries. At present, considerable efforts are being made to promote farmhouse holidays, a part-time tourist venture, on Irish farms.

In short, tackling the labour surplus and low income problems in agriculture calls for a balanced view within the context of a planned overall approach to full employment. An excessive outflow of workers from agriculture could cause great social and economic strain, intensifying the problem of job-provision in the non-agricultural sector. Moreover, a continuing substantial drain of population from the poorer regions would make development of these regions even harder and increase the burden of providing necessary social and infrastructural facilities. Ideally, the flow of workers from agriculture should not be faster than can be absorbed into other employment, but in the past it has been far in excess of that rate. Thus, agricultural policy might lean to some degree towards maintaining employment in the sector. In this context, there may be justification in Ireland for the support of persons on small farms even when their holdings do not fully meet the criteria of commercial viability.

5. Regional Policy

Ireland as a whole could validly be taken as forming a single region within the EEC, at a considerably lower stage of development than most other regions of the Community. From that perspective, Dublin would constitute an integral part of the Irish region. It is true that Dublin has a level of income per head well above the average for the rest of Ireland. However, income per head in Dublin is exceeded in all but five of the basic regions (numbering 100) of the original six EEC countries.

Ireland's general development needs have been reviewed already. It was stressed that, if progress towards full employment is not to be severely constrained by the balance of payments, substantial help will be required from the EEC Regional, Social and Agricultural Funds. The availability of such assistance is even more pressing in the context of plans for economic and monetary union in the Community by 1980. This would involve the free flow of factors of production, as well as of goods, between members, and the surrender by national governments of discretionary use of budgetary, monetary, and exchange rate policies. In time, harmonisation of tax systems and social payments, and the abolition of all artificial barriers to the flow of goods and factors, are also envisaged. Ireland's efforts to achieve economic development would be seriously hampered by the loss of policy instruments involved in economic integration.[1] In the absence of measures to compensate for this loss, Ireland would be in danger of remaining a peripheral region of the EEC at a significantly lower stage of economic development. In these conditions, the free flow of factors could have a backwash effect on the economy with capital and population moving to the more developed regions of the Community. A major development effort would be required in the next decade to forestall such undesirable consequences. Moreover, without a convergence of economic conditions and living standards between Ireland and the other members of the EEC, the harmonisation of tax and social payments could place intolerable strain on the Irish economy, particularly in view of its high dependency and unemployment rates.

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1. At first sight, surrender of monetary and exchange rate policies would not seem serious in Ireland's case. Ireland has not operated an explicit exchange rate policy and, largely because of the link with sterling, scant use was made of monetary policy. However, the use of tariffs, export tax relief, investment incentives and some agricultural support schemes have amounted to selective depreciation of the Irish currency, helping to maintain balance of payments equilibrium. These measures also played a large part in Ireland's development policy and in attracting foreign capital. Under full integration they could scarcely be retained.

Though Ireland could best be regarded as one unit from the viewpoint of EEC regional policy, it still makes good sense for the government to have a regional policy within the country. Considerable disparities in development exist between different areas. In the absence of a conscious policy to promote the convergence of regional living standards, economic growth could well compound these disparities. Moreover, the external diseconomies of continued concentration in the existing developed areas could justify decentralised development even on purely economic grounds.

In the past, various regional policy measures have been used. Before the war, the main emphasis was on development of agriculture in the backward regions under the auspices of the Land Commission. But since the war, regional policy has focussed more on industry. The first step was taken in 1952 when a somewhat unsuccessful scheme to promote small-scale rural industry was introduced. In the same year, capital grants were made available to encourage industry in the less-developed areas, comprising principally the western half of the country. Subsequently, the grants were extended to the whole country, and, though maintained at a higher rate in the less-developed regions, the differential in their favour was eroded in successive Acts up to 1969. The Industrial Development Act (1969) went some way to restoring the earlier differential. Two separate agencies were set up during the 1950s to promote development in specific regions. They were Gaeltarra Eireann and the Shannon Free Airport Development Company, with responsibility, respectively, for the Gaeltacht (Irish-speaking areas) and Shannon (the site of an international airport and duty-free area).

No comprehensive assessment has been made of the impact of regional policy measures. During the 1960s, per capita grants towards new industry and small industries were considerably greater outside the prosperous East region, and Dublin received a greatly diminished share of all new jobs in manufacturing industries. However, some of the poorer regions also received low per capita grants and, in some cases, their share of industrial employment also fell. Moreover, although some of the poorer counties experienced relatively rapid growth in per capita income in the 1960s, Hughes (1975) noted that there was no overall reduction in income inequality among the IDA regions. The Shannon development scheme has been successful in many respects, grants per head of population have been high in the Mid-West region where it is located, and the region enjoyed a sizeable increase in its share of total industrial employment during the 1960s. However, O'Neill (1971) observed that the firms located there have had few linkages with each other or with the local economy.

Gaeltarra Eireann has wider statutory powers than the other development agencies. It was first given powers of grant-aid in 1965, but unlike the other agencies no limits were placed on the extent of grant-aid to individual projects. However, equity shares are taken in companies receiving larger grants. Responsibility covers all sectors of economic activity, including primary production and services. Gaeltarra has directly operated a number of industries and has assisted other investment projects, mainly in tourism and manufacturing. It also operates a programme of aid for small industries covering a wide variety of activities. Some of these serve the local market with products such as cement blocks, wooden products and other equipment, while others, mainly in the craft sector, serve the export and tourist markets.

A central issue in the discussion of regional policy in Ireland has been whether to concentrate on a limited number of poles of development within each region, or to promote widespread dispersal of industry. The principal argument in favour of concentration is the achievement of economies of scale, while those favouring dispersion argue that by postponing development in smaller centres of population the opportunity to develop them may be lost forever. In 1968, the Buchanan Report commissioned by the Government recommended that regional policy should endeavour to concentrate resources on a limited number of growth centres. However, the Industrial Development Authority's plan for the expansion of manufacturing employment in the period 1973-77, published in 1972, proposed a considerably more dispersed pattern of development, with less need for internal migration, than envisaged in that report. The IDA plan envisages that the growth of Dublin should be confined to its rate of natural increase and that the population performance in the other 25 counties should be at least as good as in the best quinquennium between 1961 and 1971. The desirability of large industrial centres outside Dublin, capable of attracting industries with sophisticated processing operations and considerable inter-industry linkages, is recognised but the plan allows for greater flexibility than proposed in the Buchanan Report. The IDA argues that in order to develop linkages between firms it is not necessary that the firms be located in a single centre. The possibility of clusters of towns, pooling their available resources to overcome deficiencies in urban structure, is to be investigated. The encouragement of small-scale industry is envisaged in smaller population centres. The IDA's confidence in the feasibility of dispersed development is based on its success in attracting new industry to regions without a strong industrial structure. The plan stresses the importance of encouraging industry related to the country's factor endowment, using domestic raw materials and having a high labour content, preferably of a skilled type. While the export market is seen as the major outlet, location away from the major ports is not considered a serious competitive disadvantage for industries with a high proportion of domestic value-added.

The targets for new manufacturing employment set out by the IDA envisage an increase in the share of new manufacturing employment going to the underdeveloped regions. If successful, the policy would certainly ameliorate regional disparities and help to provide employment within their own regions for those leaving agriculture, thereby minimising social dislocation. The likely success of the plan, however, is difficult to assess. In order to raise average income per head, the IDA stresses the provision of skilled employment, but this requires a major complementary effort in the implementation of manpower policy. Otherwise, rapid growth in employment would be impossible since Ireland's comparative advantage is probably in unskilled labour. There are constraints on the ability of the IDA to influence the location of new industry, especially in the case of new foreign projects, which may not come to Ireland at all if they cannot choose their preferred location.

Complementary development of the agricultural and services sectors along with manufacturing industry is obviously important, but there has been little effort towards an integrated approach. A more concerted effort in linking the regional development of agriculture with that of industry could generate more off-farm employment both locally and nationally. The potential of the services sector as a basis of regional development has not been adequately exploited. Location of "footloose" services activities in suitable regional centres outside Dublin could significantly contribute to regional development without loss of efficiency in their operation. This approach, apart from its social and redistributive implications, could also lead to economy in the provision and use of infrastructural facilities and avoid the diseconomies of congestion. Tourist areas, that might be spoiled by the introduction of manufacturing industry, could often provide an attractive location for services activities which might even enhance the environment for tourism. Moreover, considerable potential still exists for developing the tourist industry itself in outlying areas through schemes such as farmhouse holidays and small-scale cottage industries servicing the tourist trade.

6. Planning

Very little in the way of comprehensive planning was attempted in Ireland up to the late 1950s.[1] Specific plans were prepared from time to time for particular aspects of policy, but they tended to be isolated from other aspects. In 1958, the government published the First Programme for Economic Expansion, based on a major study Economic Development by the then Head of the civil service, Dr T. K. Whitaker. This study was prepared against a background of slow growth during the 1950s and a severe recession in the years 1956-58. One of its main purposes was to restore confidence in the economy by setting out consistent and attainable objectives of economic policy. The major problems highlighted in the study were high emigration, slow growth in output and employment, low productivity and the insufficiency of productive investment. In solving these problems, emphasis was placed on the role of private enterprise, including foreign enterprise, while the State's role was to stimulate and supplement private initiative. The major State efforts proposed in Economic Development centred around the Public Capital Programme. A programme of public "productive" investment was proposed to replace the substantial "social" investment of the early post-war years. Much of this would be channeled back into private hands through grants and loans. Development was to be based on the expansion of production for the export market and, in particular, it was hoped that agriculture, and industries based on agriculture, would pave the way for growth. The programme did not set quantitative targets other than the modest aim of a real growth rate of 2 per cent per annum over the programme period, 1958-63, and a target for the expansion of cow numbers. During the currency of the programme the economy experienced notable progress, with an annual average growth rate of almost 4½ per cent. As it transpired, both total public investment and its "social" component grew considerably faster than projected. The poor growth performance of the agricultural sector persisted, and the target for the expansion of the stock of cows was not reached.

No doubt encouraged by the success of the First Programme, the Second Programme for Economic Expansion, covering the years 1964-70, was considerably more ambitious. Detailed quantitative targets were set, all based on the assumption of membership of the EEC by 1970. No radical change in policy from that pursued in the First Programme was envisaged, and public capital expenditure remained central to the achievement of

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1. Developments in economic planning in post-war Ireland are traced in a collection of articles and extracts from official documents, edited by Chubb and Lynch (1969). See also Donaldson (1966).

the programme goals. Industrial promotion was to be extended and assistance given to existing industries to adapt to free trade. The possibility of establishing growth centres was to be examined and the introduction of a manpower policy was advocated. In agricultural policy, the major initiative arising from the programme was the calved heifer subsidy scheme, designed to increase cow numbers.

One of the principal innovations in planning technique in the Second Programme was consultation with industrialists in framing projections for the individual industries. Tentative targets for employment, output, home consumption, etc, were presented to representatives of the respective industries and, following discussions, these targets were in some cases revised. Subsequently, annual consultations were carried out between officials and representatives of industry to review the targets themselves and the problems faced by industry in meeting them. Fitzgerald (1968) pointed out that this process of consultation regarding targets, a form of indicative planning, had only a limited impact in many industries but, nevertheless, probably exerted an expansionary influence.

In a mid-term review of the Second Programme, it was shown that most of the targets had not been achieved and the programme was abandoned. There was a shortfall in the output targets for the three major sectors, most severe in agriculture. In the case of employment, the shortfall was even greater than in output. A number of factors were thought to have contributed to the failure to achieve the planned targets. Negotiations for EEC membership had broken down and this factor probably inhibited agricultural development: although it was not envisaged that the CAP would have been fully operative before the end of the programme period, the stimulus to expansion of prospective EEC membership was removed. The deflationary measures taken in 1965 and 1966 also adversely affected the achievement of the programme goals. In addition, the relation between investment needs and output growth had been seriously underestimated, while the rate of employment generated by output growth had been substantially overestimated. Quite apart from the failure to meet targets, one of the disappointing features of the Second Programme was the small influence it seems to have exerted on either the public or private sectors.

In 1963, just prior to the Second Programme, an important consultative and advisory body, the National Industrial and Economic Council (NIEC), was established. It was composed of government nominees and both the management and trade union sides of industry, but it did not contain agricultural representation. Its main task was to advise on policy for long-term development and short-term stabilisation of the economy, particularly within the context of the Second Programme. The Council prepared 30 publications reviewing contemporary developments in the economy as well as discussing major issues of economic policy, such as prices and incomes policy, manpower policy, full employment and industrial adaptation.

In 1969, the Third Programme for Economic and Social Development 1969-72 was introduced. It covered a shorter period than the previous programme, partly because of the uncertainties of external trading relations. The targets were less detailed than in the Second Programme. Proposals were made to make the programme more effective within the public service by the introduction of programme budgeting. The policies to be adopted were broadly similar to those in the earlier programmes but proposals in the area of prices and incomes policy, social policy and restrictive practices were brought within the programme for the first time. The targets of the Third Programme were not reached. The growth of output was not far off target; in agriculture and services, output grew somewhat faster than projected but this was more than offset by a considerable shortfall in industrial growth. The most serious failure was in regard to employment, which fell during the programme period. Employment in agriculture declined more rapidly than expected and industrial employment fell far short of its projected growth.

Since 1972, no new programme has replaced the Third Programme. The NIEC was disbanded in 1971. However, a new consultative body, the National Economic and Social Council, was established by the government in 1973. The terms of reference were widened to include advice on the achievement of social justice as well as on economic development. New areas singled out for the Council's consideration were the distribution of income and wealth, regional development, and the wider social implications of economic growth. Membership of the Council was placed on a broader base by including nominees of the agricultural organisations and several government departments as well as from both sides of industry. One of the major areas to which the Council is at present devoting much attention is the strategy necessary to achieve full employment by the mid-1980s.

There appears to be general disillusion in official circles with past efforts at planning. While valid criticisms can be made of previous attempts, these in no way detract from the need for planning. Rather, they provide guidance for its improvement in future. Norton (1975) pointed out that the programmes paid inadequate attention to policy measures. In particular, the relation between long-term and short-term policy was never closely examined. Thus, while selective measures to stimulate output in the various sectors were outlined, no specific consideration was given to the overall fiscal and monetary policies needed to ensure that the growth of aggregate demand would facilitate realisation of the programme targets. Nor was any attempt made to plan the structure of public debt so as to minimise external imbalance.

Norton suggested that, for the future, rolling medium-term plans of about five years should be adopted, with long-term perspectives for areas where policies operate with a considerable lag. This would allow continuous adjustment of medium-term plans in the light of changing circumstances. However, Fitzgerald (1968) argued that rolling plans tend to blur the targets and, therefore, make them more difficult to achieve. In his view, the formulation and implementation of policies becomes difficult without clear and definite targets against which results can be measured. Perhaps the best approach would be to aim at a limited number of definite targets while adjusting policies each year in the light of progress towards the targets.

Whether a rolling or fixed-term plan is involved, the impact can be harmfully diffused by attempting too wide a coverage, particularly in areas where the influence of the State is relatively limited. In the past, a great deal of effort was devoted to detailed projections for a large number of relatively small sectors. Instead, it might be better if the central plan concentrated on a limited number of important objectives (e.g. full employment) giving details of the policies, and estimates of the resources required to achieve them in a given time. This would provide a framework within which the responsible State agencies could work out detailed plans for particular sectors and regions. In that case, a major task in implementing the central plan would be to ensure that the sectoral and regional plans were in harmony with the objectives of the overall plan, and to secure an integrated approach among different State agencies with overlapping problems.

Kennedy (1974) criticised the lack of political involvement in the planning process, and argued that the disadvantages of disruption of a plan following a change of government would be far outweighed by the benefits of explicit political commitment to long-term thinking. The lack of political commitment was probably partly responsible for the fact that in the past the public sector was the one that failed most dismally to adhere to the plan. Potentially, the planning authorities have greatest control over the public sector and, in view of its size and significance for economic development in Ireland, planning is probably most needed and could be most effective in this sector.

Our analysis has suggested the need for a major development effort in the next five to ten years in order to achieve full employment. The effort would have to be all the greater if it also sought to bring living standards nearer to EEC levels. During this development phase, it is likely that public expenditure will be required to grow faster than GNP, so that the ratio of public expenditure to GNP will continue to grow. This could give rise to serious difficulties in public finance. To minimise the risks involved, it is vital that public expenditure should be planned now with a view to maximising its impact in achieving the development objectives. Success in that regard would alleviate the pressure on public finance and it might then be possible to stabilise the ratio of public expenditure to GNP by tapering the growth of public expenditure, or by virtue of increased economic growth potential in the economy. Moreover, a specific development plan concentrating on priority objectives would help to restore confidence shaken by the oil crisis and would be likely to command greater assistance from EEC funds. It would held out the prospect that, following a "big push", Ireland's prosperity would be self-sustaining and not dependent indefinitely on major subsidies from the EEC.

7. Inflation and Social Justice

A major function of public policy is to ensure that all sections of the population have fair access to the benefits of prosperity and to minimise socio-economic dislocation in the course of economic growth. Experience in most developed countries suggests that certain sections of the community are left behind in the process of economic growth and that their deprivation is only accentuated by general prosperity. The poor tend to have the weakest bargaining position and, as a result, the external diseconomies of growth - such as pollution, overcrowding, exploitative advertising, etc - often bear heaviest on them. In particular, their weak bargaining position leaves them highly vulnerable in the face of rapid inflation, which can seriously aggravate the position of the existing poor and create new classes of poor.

Because of the small scale and open nature of the Irish economy, little can be done to avoid inflation in Ireland when world prices are rising rapidly. An attempt to secure a significantly lower rate of inflation through restraint in aggregate demand would impose a disproportionately high cost, and could in any event be fruitless. It seems to be tacitly, if not always explicitly, accepted by the authorities that the objective should rather be to ensure that inflation is no worse than in competing countries. Attempts to control the rate of inflation by means of incomes policy have been described already in Chapter VI.

Efforts have also been made to limit inflation through price control. War-time emergency powers of control on prices remained in operation for a considerable period after the war, but finally lapsed in 1957. The following year, a Prices Act was passed involving relatively limited powers of control. It enabled the Minister for Industry and Commerce to fix the maximum price of bread, sugar, butter and milk. The Minister could also fix the maximum price of any other commodity for a limited period of severe shortage. Provision was made for independent enquiries into the prices of particular goods and services, following which the Minister could make maximum price orders. Following an amending Act in 1965, three months notification of increases in virtually all manufacturers' prices and importers' and wholesalers' margins had to be given to the Department of Industry and Commerce, and the Minister was enabled to make a standstill order or to fix a maximum price. Greater scope was also given to the Minister to hold enquiries into charges for particular goods or services. In 1970, against a background of accelerating inflation, the NIEC recommended more active price surveillance, supported by detailed investigations on prices of important goods. This recommendation was made in the context of a comprehensive incomes and prices policy which did not materialise. Nevertheless, the government proceeded to introduce more active price surveillance but on slightly different lines from those recommended by the NIEC. It established the National Prices Commission in 1971 - a body representative of consumers and both sides of industry - to monitor prices and advise the Minister whether applications for price increases were justified by cost increases. The scope of price control was extended in the following year to include professional fees, insurance charges and hire-purchase agreements. It is difficult to assess what impact, if any, the National Prices Commission has had in restraining prices. It has, undoubtedly, focussed public attention on price movements, and has brought home to firms, especially the State-sponsored bodies, the urgency of raising productivity growth as a means of countering cost increases.

The success of incomes and prices policies in moderating the rate of inflation could help considerably in relieving poverty and social distress. The stimulus to export and import-competing industries could reduce the degree of unemployment and marginal employment, both major sources of poverty. The resultant rise in aggregate real income would provide more resources to alleviate the position of those remaining in poverty. Apart from their effect on the rate of inflation, the recent national pay agreements have also tried to favour the lower-paid workers. However, there are substantial limitations on the degree to which such agreements can be used as a redistributive mechanism other than by creating conditions favourable to full employment.[1] The really poor are not those already in employment - with the exception of some who have marginal and sporadic jobs - and are, therefore, not covered at all by such agreements. Rather, the poor consist by and large of the unemployed, the old age pensioners, the long-term disabled who are not insured, the majority of single parent families and, most of all, the dependent children of these classes. While precise information on the subject in Ireland is limited, O Cinneide (1972) has provided some prima facie evidence suggesting that a significant proportion of the population - possibly up to one-fifth - is living in poverty.

Measures to relieve social distress among such categories in the past have been mainly taken by way of public social expenditure and taxation. Public expenditure on social services has grown considerably in the post-war years particularly since the early 1960s. Throughout the period, social spending has remained a relatively constant share of total public spending, but its composition has changed somewhat, with a large fall in the proportion devoted to housing and a rise in the relative importance of education, health and social welfare services. Finola Kennedy (1975) identified three policy phases in social spending during the post-war period: (i) the early post-war years, 1947-51, when there was considerable expansion in social security services and in publicly-aided housing and hospital building; (ii) the period 1952-62, when there was a sharp cutback in public spending on building of all kinds and retrenchment in the field of social service provision; and, finally, (iii) the period from 1963 onwards, which marked renewed expansion in social spending particularly in the sphere of education and health.

Considerable improvement in each of the social services has accompanied the growth of public spending. Primary education was available to all throughout the period but

1. For a more detailed discussion of this issue, see Kennedy (1971 II).

the proportion of young people attending post-primary schools has grown remarkable. Increased participation has occurred in all types of post-primary education - vocational, secondary and university - but has been most notable in the case of secondary and university education. Although major housing problems remain in urban areas, the proportion of people living in overcrowded accommodation has fallen continuously; the number of houses per thousand population has grown; and the standards of housing amenities have improved considerably. There has been a very substantial increase in public expenditure on health which has, inter alia, contributed to the eradication of infectious diseases, such as tuberculosis, and the large decline in infant mortality. In most cases, social security payments have grown faster in real terms than average industrial earnings. However, Finola Kennedy questioned the adequacy of the absolute rate of benefit paid, notably in the case of the old-age non-contributory pension.

In recent years there has been a significant trend towards universalism in the provision of social services, with the extension of post-primary education to all in 1967 and proposals for the general extension of health and certain social welfare services in 1974. These moves are designed to remove any stigma arising from means testing and to ensure that the best-quality services are not creamed off by those who can pay most. Finola Kennedy, however, has suggested that the Irish social services should concentrate more on the poorest sections of the community rather than diffusing resources in providing services for all, leaving less for the really poor. This seems all the more important in view of the likely difficulties in financing the growth of public spending in coming years. A more systematic approach to the poverty problem would be to identify the needs of the poor and to orient services to these specific needs.[1] The possible demoralising effects attached to selective social services could be reduced if the services provided were of high standard and efficiently administered. It has been suggested that a negative income tax scheme to replace unemployment benefits and other assistance would also reduce demoralising and disincentive effects of selective income supports. Voluntary organisations have played a major role in the past in alleviating poverty. Because of the magnitude of the problem in Ireland, it is important, if only in the interests of economy, that voluntary effort should continue to be encouraged. Moreover, voluntary bodies often have greater flexibility and adaptability than State agencies in dealing with specific aspects of poverty.

1. In 1974, it was announced that pilot schemes for the relief of poverty in selected areas would be initiated with substantial assistance from the EEC Social Fund. The Economic and Social Research Institute, in conjunction with other research institutes, are undertaking a programme of research into poverty and social deprivation.

The goal of equalising opportunities in the community has been pursued through education as well as the other social services and, to some extent, through the tax code also.[1] In recent years, considerable doubt has been cast on the role of education in reducing inequality. In poorer areas, the quality of education provided tends to be inferior due to overcrowding in classes, less continuity of teaching staff, etc. Furthermore, children of poor families generally find it more difficult to take advantage of educational opportunities. They have less chance to study in the home, and social and economic pressures militate against extended school attendance and entry into higher grade jobs. Educational curricula are seldom closely related to the needs of the pupils. In particular, with the introduction of free post-primary education for all, there has been a great emphasis on academic training although there are relatively limited job opportunities in these areas.

The impact of the tax code on the redistribution of income is impossible to assess due to lack of information on the personal distribution of income, but its effect is limited in several important respects. While the income tax code is progressive, substantial categories of income (notably farm incomes and profits on manufactured exports) have been exempt, as were capital gains. Such exemptions were also, undoubtedly, used as a means of avoiding liability on taxable income. Avoidance and evasion of tax is thought to be particularly significant among the self-employed. Heavy reliance has been placed on indirect taxes which generally tend to be regressive. The recently-announced measures to tax farm incomes and realised capital gains may eventually go some way towards sharing the tax burden more equitably, while the relative reduction in reliance on indirect taxes since the early 1960s also contributes to this end.

The available evidence suggests that wealth is very unequally distributed in Ireland.[2] Up to 1974, death duty was the instrument used to prevent the continued transfer of large stocks of wealth from generation to generation. Its success in that regard was limited, chiefly due to the successful avoidance measures adopted in the case of large estates. Death duty is now to be replaced by a capital acquisitions tax and an annual wealth tax. It remains to be seen whether these measures will be any more successful in reducing inequality in wealth distribution.

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1. See Geary and O Muircheartaigh (1974).
2. Lyons (1972).

Though concern for the poor and the deprived rests primarily on humanitarian grounds, nevertheless a society which fails to take care of those in need is likely to pay dearly for this neglect, even in economic terms. Such neglect tends to have corrosive effects on the whole society that may eventually weaken its capacity for long-term economic progress. Social conflict may erupt and dissipate a vast amount of energy that could otherwise be directed into productive channels. Only by the practical expression of mutual obligation is it possible for the community to provide the reassurance that destitution and disability, to which any member may be liable, will not mean abandonment.

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