

State Enterprise and Economic Planning in the Irish Republic¹

By J. A. BRISTOW

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I. INTRODUCTION

In terms of employment, state enterprises form only a fairly small sector in the Irish Republic—about 5 per cent of all employment. Their payroll accounts for about 10 per cent of total wages and salaries. However, many of the state bodies are relatively capital-intensive and this sector accounts for around a quarter of total gross fixed capital formation.

But these figures do not adequately reflect either the scope or significance of public enterprise. Mr FitzGerald lists 55 bodies plus 10 subsidiaries in his pamphlet,² ranging over a wide variety of activities. In addition, some of the companies exercise great influence in key industries—e.g. fuel and power, transport, finance—and their importance in many cases is quite out of proportion to the numbers they employ.

The establishment of public enterprise in the Republic owes little to ideology, except perhaps before the war when the ideal of national self-sufficiency played some part in the decision to set up such bodies as the Irish Sugar Company. In the main, state enterprise has resulted from *ad hoc* attempts to fill gaps left by private investment, or to resuscitate or reorganise industries which were ineffective but regarded as essential. In the former category would fall the Sugar Company, Bord na Mona, the airlines and the Industrial Credit Company and in the latter Coras Iompair Éireann and Irish Steel Holdings. The Electricity Supply Board falls into both classes. In other words, these bodies have been used as kinds of development agencies, for instance to exploit native resources (e.g. peat, water power, agricultural produce), to provide employment and to save

¹ I should like to express my debt to the following who kindly gave up their time to discuss some of the problems of this paper with me: Lt-Gen Costello of the Irish Sugar Co., Mr Lawlor of Bord na Mona, Mr Lynch of the airlines, Dr Andrews of C.I.E., Mr Murray of the E.S.B., Dr Ryan of the Department of Finance, and Mr Garret FitzGerald. Although the paper could not have been prepared without their assistance they are of course not responsible for any errors of fact or interpretation which it may contain.

² G. FitzGerald, *State-Sponsored Bodies* (Institute of Public Administration, Dublin), 2nd edition, 1963.

imports In addition, state organisations have been established to encourage activities in the private sector—into this class could be placed Bord Failte (Tourist Board) and Coras Trachtala (Export Promotion Board)

In a mixed economy such as the Republic of Ireland the existence of state enterprise presents special problems in the matter of planning In two important fields—finance and appointments to boards of directors—the government can exercise a control over public enterprises far more immediate than in the case of their counterparts in the private sector (Of course, many Irish state-sponsored bodies are empowered to raise money from non-Exchequer sources,³ and to some extent they take advantage of this power, but the Exchequer is still by far the most important source of capital) In addition, through periodic legislation and continuous consultation, the government does influence the policies of these bodies in regard to both general trends and matters of detail It is this extensive government power to influence these enterprises which gives rise to a central dilemma In the interests of an “efficient allocation of resources”, many state bodies are expected to operate approximately as if they were in the private sector But this presents the problem of the extent to which this general objective should be compromised in the interests of the plan Since the state does participate directly in such a wide range of activities, it is perhaps surprising that the public sector is not used in a more positive manner as the skeleton of an economic programme But, to give only one possible example, to attempt to ensure the attainment of the target for a particular industry by expanding the output of any state bodies in that industry without close reference to commercial prospects (and then subsidising any losses) could result in a serious mis-use of resources

The aim of this paper is to describe the recent experience of some of the Irish public bodies and to examine the part they are expected to play in the Second Programme⁴ In particular, an attempt will be made to illustrate the fundamental conflict which may arise between a desire to use the public sector in a positive manner to achieve certain aims and a need to allocate resources in an efficient manner Because of the large number of state enterprises a high degree of selection is necessary I have concentrated entirely upon manufacturing, electricity and transport and have picked the largest.

The general attitude of the government to the organisation of the economy was clearly expressed in the White Paper on the First Programme. “There is no substitute for private enterprise, and the main objective of

³ And, indeed, the government appears to want them to develop their reliance upon private capital—*Second Programme for Economic Expansion (Part II)*, Pr 7670, July 1964, Chap 11, paras 7 and 11

⁴ The main relevant documents are as follows

(a) *Economic Development*, Pr 4803, Nov 1958 (sometimes known as the Grey Book or the Whitaker Report) Then there is the White Paper based on it—*Programme for Economic Expansion*, Pr 4796, Nov 1958 Reference to the First Programme will, unless otherwise stated, be to the former

(b) *Second Programme for Economic Expansion*, in two parts (i) Pr. 7239, August 1963, and (ii) Pr 7670, July 1964.

Government policy in this field [i.e. industry] is to create conditions in which it will be stimulated. The Government can encourage, attract, stimulate [but] cannot will its way to success" (White Paper, para 90) "The Government favour the system of private ownership of industry and will not be disposed to enter any manufacturing field in which private enterprise is already operating successfully" (White Paper, para 108) But they were sensibly pragmatic about it all "State-sponsored concerns will be encouraged to extend their activities into projects related to their main spheres of operation. No fund of experience, enterprise or management ability can be allowed to lie dormant" (White Paper, para 109) These views were reiterated in the Second Programme (Part II, chap 11, para 2)

II. INDUSTRY

The Irish Sugar Company

The Company was set up in 1933 with the function of producing refined sugar from Irish beet. Its main activity is still the production of sugar from beet and, based as it is on an agricultural crop, its output shows large fluctuations from year to year. However, after setbacks in the mid-1950s, the trend is continuing to rise. Output of beet sugar in 1963-64 was 131,000 tons, compared with 108,000 tons in 1957-58. Sales of sugar rose from 140,000 tons to 171,000 tons in the same period.⁵

The Sugar Company was the only state enterprise to venture into significant new fields (literally) during the period of the First Programme. Full-scale operation of the food processing business (under the control of a new subsidiary, Erin Foods) got under way in 1962. Sales in the first year were valued at £620,183 and in 1963-64 at £917,716. This expansion reveals two aspects of government attitudes to public enterprise. Firstly, the use of a state body was intended to fill a gap—to promote a development which was regarded as desirable and which was not adequately pursued by private firms, particularly with regard to exports.⁶ Secondly, it was intended that the Sugar Company would not compete on the home market with existing private firms but would concentrate upon exports.⁷ This policy was presumably followed because the prospect of competition with a public body could deter private investment (and also probably for political reasons). However, competition from the public sector could be a method of encouraging efficiency in private enterprise.

The Second Programme states that the Company will expand its output of beet sugar to about 150,000 tons by 1970. In fact, this is probably too high and at the present they are thinking in terms of maintaining their current annual output of around 130,000 tons. A big problem here is the technical one of getting enough acreage under beet. 150,000 tons of refined sugar requires 1.1 million tons of beet which in turn requires about 100,000 acres under tillage. However, with the drive to improve pasturage there is

⁵ See Table 2 of the Appendix

⁶ See the speeches of the Minister for Finance in the debate on the second reading of the Sugar Manufacture (Amendment) Bill 1962, *Dail Debates*, Vol 198, Cols 1018-1019.

⁷ *Ibid.*, Col 1094

in fact a turnover of land to grass thus making it unlikely that there will be sufficient acreage available to permit sugar output to be significantly increased.

But the Company are planning a very large development of their food processing operations. Their present aim is to attain by 1970 an increase of approximately nine-fold in sales of processed food, almost all of which would be exported. The methodology of the forecasts is to estimate the size of the market by considering trends in consumption, production and imports in the U.K. and production conditions in those countries which export to the U.K. In the past the forecast for all the Company's products have been reasonably accurate, although the targets for the initial stages of food processing have not been reached, mainly because of some slowness in getting the organisation of the new subsidiary under way and because of difficulties in obtaining certain supplies, especially chickens.

The Company usually plans over a 7-year cycle and so the need to produce forecasts for the Second Programme presented no special difficulties. In fact, it appears that the actual contents of the national programme and the general atmosphere created by it has helped C.S.E.T. in their own planning. Of particular importance is the question of social policy. The social development—e.g. housing, education, etc.—of a town where the Company wishes to operate makes it much easier to attract labour, and this is particularly important since the large increase in output is expected to be attained mainly through a significant increase in the labour force (more than 100% over the planning period) rather than in productivity. In this industry productivity is determined largely by throughput and so the forecasts for productivity were derived from the output estimates rather than the other way round.

The Sugar Company have also drawn up a detailed capital programme. An interesting feature of the financing of this programme is that to an increasing extent the company intend to develop their food processing business in partnership with other interests, particularly local co-operatives, which are eligible for capital grants not given to the Company. About one-third of the capital required up to 1970 is expected to come from the government.

Since most of the Company's expansion will be concentrated on food processing, it is expected that the proportion of sales accounted for by exports will increase. In recent years almost the entire increase in sugar sales has been on the export side, but there is unlikely to be much further growth here. The U.S. market gives rise to little optimism and under the Sugar Agreement exports to the U.K. of sugar as such are restricted to 10,000 tons a year. There is, however, no such limit to exports of goods containing sugar and some expansion, though not spectacular, may be attained. Since an important product in this field is chocolate crumb, a limiting factor is the supply of milk on the British market, which in turn is influenced by the annual price review. A factor making for uncertainty over sugar exports is the possibility of entry to the E.E.C. The Second Programme is based upon the assumption that Ireland will be a member

of the Common Market by 1970. Although the Programme⁸ is optimistic about the effects of entry upon the Sugar Company, such optimism is hardly justified until the precise terms of entry are known. Admittedly, membership would provide the Company with a larger, ultimately unprotected market, but it would also subject them to greater competition on the home market. They are at present experiencing competition from foreign syrup, which has more or less free entry to Ireland, but they themselves control imports of raw and refined sugar. The net effect is of course impossible to estimate at a distance.

Present plans do not indicate any increase in sugar imports. The Company import some raw sugar, but this should remain stable since total sugar production is not expected to expand. The investment programme will result in an increase in imports of capital goods, although developments in the Irish engineering industry and the fact that the Sugar Company build some of their own machinery should limit this increase somewhat.

Bord na Mona

In terms of employment, the largest state-sponsored body in the industrial sector is Bord na Mona (we shall count the Electricity Supply Board as a separate sector). This body, which was established in 1946, is responsible for the development of peat resources. In the year immediately preceding the publication of the First Programme⁹ (i.e. 1957-58), the Board produced just over 1½ million tons of milled and sod peat. Existing plans envisaged that production would increase to 3 million tons (2 million tons of milled peat, 1 million tons of machine turf) and 250,000 tons of briquettes. The demand for briquettes is very buoyant and production has been enormously expanded, the figure for 1963-64 being over 280,000 tons. The output of peat moss—most of which is exported—had risen to almost 350,000 bales. Happily, first indications are that the 3 million tons target for turf production has been reached in 1964-65.¹⁰

The First Programme¹¹ suggested that peat was cheaper than oil for electricity generation. The situation seems to have changed,¹² but nevertheless the E.S.B. is certain to remain Bord na Mona's largest single customer. In the 1950s electricity demand grew more slowly than expected and the E.S.B. accumulated considerable excess capacity. This resulted in a significant fall in the E.S.B.'s planned demand for peat and enabled Bord na Mona to switch some of their investment to increasing their briquetting capacity. The First Programme anticipated that the E.S.B. would take 50% of Bord na Mona's planned output of machine turf (i.e. 500,000 tons) and 60% of their milled peat (i.e. 1.2 million tons). In fact, only 1.57

⁸ *Part II*, Chap 1, para 173

⁹ Bord na Mona has since the War had its own first and second development programmes, but to avoid confusion references to the First and Second Programmes will be to the national plans.

¹⁰ See Table 3 of the Appendix

¹¹ Chap 18, para 4

¹² *Second Programme (Part II)*, Chap 5, para 4

million tons (572,000 tons of machine turf and 995,000 tons of milled peat) were sold to the E S B in 1963-64, and this was a record

The First Programme also mentioned proposals for the establishment of a fertiliser factory at Shannonbridge, using milled peat from a bog already developed by Bord na Mona. However, the scheme was shelved as a result of a substantial fall in the prices of imported nitrogenous fertilisers. Further investigations indicated that domestic production based on oil, limestone and sulphur could compete with imports and the decision was made to establish a factory at Arklow—under the control of a new state enterprise, *Nitrigin Eireann*—using pyrites from the nearby Avoca copper mines. But the mines were known to be in difficulties and the plant was planned to accommodate imported sulphur and the government insisted that the success of the Arklow project would not be jeopardised if the Avoca mines failed.¹³ It would be interesting to know to what extent the potential (and, as it turned out, the actual) need to provide alternative employment to the mines influenced the choice of site for the new factory.

The abandoning of the Shannonbridge scheme left more milled peat available for electricity generation.

The Second Programme sets a target of 4.2 million tons of sod and milled peat by 1970. The whole of the increase over the present level of output is to go either to the E S B or into making briquettes. The plans for 1970 envisaged an increase of briquette and peat moss production to 300,000 tons and 600,000 bales respectively (although the latter was not specifically mentioned in the published programme). However, between the publication of the two parts of the Second Programme, discussions within the committee established to consider the problems of fuel and power led to Bord na Mona incorporating in their programme a proposal for a further briquette factory. This is mentioned in the second part but precise new targets were not included. In fact, the Board are now aiming at 4.6 million tons (the extra 400,000 tons being required for the briquette factory), 450,000 tons of briquettes (i.e. an extra 150,000 tons) and 700,000 bales of peat moss (an extra 100,000 bales).

Because of the special nature of the industry, these targets were drawn up by reference to supply conditions rather than to demand forecasts. Bord na Mona's function is to develop an important indigenous source of energy and the E S B is committed to giving peat priority over imported fuels. Therefore, instead of estimating demand and then planning output, Bord na Mona work the other way round. They decide which bogs can be economically developed and then set about creating demand. Of course a large market (the E.S.B.) is assured to them, but this policy is seen most clearly in the case of briquettes, where a vast increase in output was planned and undertaken and demand was created afterwards. The potential dangers of this policy are obvious, but in fact the Board have been significantly successful in their briquette operations.

It would be interesting to conjecture whether they would have used different planning methods if such a lucrative market could not have been

¹³ See, for instance, the remarks of the Minister for Industry and Commerce, *Dail Debates*, Vol. 197, Cols. 3407 *et seq*.

developed. Possibly they would have operated in the same way and have relied upon the government to provide them with a market, perhaps by extending the commitment of the E S B to use peat or by restricting coal imports. However, Bord na Mona are unlikely to have to face this test since they can foresee no substantial developments after 1970 and it is therefore unlikely that it would be possible to expand output beyond that level required by existing or potential demand.

Since production planning does not depend initially upon forecasts of demand conditions, Bord na Mona were able to draw up their estimates without specific reference to the rest of the Second Programme (although they are of course closely linked to those of the E S B). However, they have suggested that the climate of confidence created by the Programme has helped to maintain a generally optimistic spirit.

Some increase in employment is anticipated, but peat production has to be highly mechanised if the product is to be at all competitive in price. Therefore the considerable increase in output will be attained largely by greater productivity. The fact that the Board's operations are largely carried out in fairly remote areas could give rise to labour shortages, but for two reasons this is unlikely to jeopardise the attainment of the targets: firstly, not much extra labour will be required, and secondly the Board's housing schemes provide a not inconsiderable attraction for workers and management.

The six-year Programme provides for capital expenditure of about £6 million (at constant 1963 prices) on peat development. Since the Board is committed to repaying sizeable sums in interest and principal to the Exchequer, the scope for internal financing is limited. Although the phasing of the expenditure has been worked out for each year of the Programme, the financing of this expenditure has yet to be finally decided. It will probably come, as in the past, mainly from Exchequer advances, although general government policy seems to be to get the public enterprises to rely less upon the Exchequer. How far this will affect Bord na Mona is difficult to say, particularly since decisions on, for instance, public stock issues seem to be taken at pretty short notice.

The great bulk of Bord na Mona's peat moss is exported and special action is being taken to promote foreign sales of this product and of briquettes. The Board maintains close relations with Coras Trachtala (Export Promotion Board) and has its own office in Bristol. Since exporting is never a simple business it is especially unfortunate that the Board have had to face added difficulties created by inadequate shipping facilities.

Of course, the Board's raw materials are "home-grown", but much of the increased demand for capital equipment will have to be satisfied from imports. If the Irish engineering industry continues to expand the situation may gradually change (although tariff liberalisation could create a problem), but even if the machinery itself were not imported, it is inconceivable that an Irish steel industry could ever be sufficiently competitive to cause any significant reduction in imports of steel.

III. THE ELECTRICITY SUPPLY BOARD

The main feature of the First Programme with regard to electricity was the stress laid upon the slow growth of demand in the mid-1950s. The development plan published in 1954 was based upon a forecasted increase in demand of 13.4% per annum. This was much too high, for two main reasons. Firstly, electricity was rationed during the War and the immediate post-war years were characterised by a release of pent-up demand which, as the basis for the 1954 plans, gave rise to these exaggerated expectations. Secondly, the validity in Ireland of the general 7% increase in electricity demand was not yet recognised (This figure will be explained later.) A third factor—the economic stagnation of the mid-1950s—probably made things worse, although international experience appears to indicate that changes in the rate of growth of national income do not significantly affect the rate of growth of electricity demand. The change in trend can be seen from the fact that electricity output rose at an average annual rate of 12.3% between 1952 and 1955, but at only 6.8% per annum between 1955 and 1959.

As the First Programme pointed out,¹⁴ this situation left the E.S.B. with considerable excess capacity. This led to a revision of plans and although the time scale involved in electricity planning makes it impossible to adjust capacity immediately to unforeseen changes in demand it is perhaps significant that, whereas installed generating capacity increased by 70% between 1954 and 1958, the equivalent increase for 1958-63 was only 18%. Demand has picked up during the period of the First Programme and output increased from 1,898 million kWh in 1958-59 to 2,900 million kWh in 1963-64, representing an average annual growth rate of 9.3%.¹⁵

The Second Programme is based on the belief that demand will continue to grow at about 9% a year, and the target for the E.S.B. is to increase their capacity by 105% (7% a year) between 1960 and 1970. Because it takes so long to plan and build a power station and because of the large capital sums involved it is obviously vital that rational decisions be taken at the earliest stage. To this end complicated forecasting techniques are used, but it is a feature of this industry that there seems to be an underlying exponential time trend of around 7% per annum in the growth of electricity demand. Variations in the rate of growth of national and sectoral incomes, and special factors such as the post-war boom, do affect this to some extent, but the E.S.B. appear convinced that international experience enables them to base their forecasts upon this trend with some confidence. Indeed, as mentioned above, if they had used this trend they might have avoided the over-capacity of the 1950s. And they are not alone in this view. The report on the British industry by the Select Committee on Nationalised Industries indicates that the C.E.G.B. base their forecasts "on the belief that expansion in a basic industry will follow a compound interest or exponential curve, unless there is a definable, long-term reason why there should be some departure from it. On this basis, future demand is forecast

¹⁴ Chap 20, para 4

¹⁵ See Table 4 of the Appendix

by projecting the curve [i.e. the trend of the past ten years] into future years".¹⁶ In the past, the overall British forecasts (which include those of the Area Boards) have consistently been too low, but the method just described was only introduced in 1958 and the Select Committee felt that planning would have been more successful if it had been used earlier "The forecasts made in 1953 governing the generating capacity for 1959-60 were rather more than 10 per cent below actual demand. If the Generating Board's method had been used, error would have been less than 2 per cent".¹⁷

The application of least squares methods to the experience of the E S B. over the period from 1954 produces the following equations:

$$E_c = 408.7 (1.072)^t$$

where E_c = installed generating capacity (MW)
and t = time

The annual growth rate here is therefore 7.2%. Similarly for electricity generated (E_g) (million kWh),

$$E_g = 1291 (1.081)^t$$

i.e. a growth rate of demand of 8.1% a year. But, because of the effect of the stagnant behaviour of national income, this is too low for purposes of projection, and the Board are basing their plans on the more recent experience as indicated by the following equation for 1958-64

$$E_g = 1709 (1.089)^t$$

i.e. a growth rate of 8.9%

It must be stressed that this is not intended in any sense to be a test of the Board's forecasts they will of course not rely upon such simple methods. All I want to demonstrate is that a very superficial examination of past experience does confirm that a simple projection of the trends will give results closely similar to those actually forecasted.¹⁸

Not only do the Board's present plans involve a considerable increase in capacity, but they also involve a significant change in the structure of capacity. At 31st March, 1964, 26% of the installed generating capacity of 849.5 MW consisted of hydro plant, 36% was coal-oil fired and 38% was peat fired. Present plans entail a capacity of 1409.5 MW, 15% of which will be hydro, 56% coal/oil and 29% peat. In fact of the extra capacity of 560 MW planned or under construction at the above date, 480 MW is

¹⁶ *Report from the Select Committee on Nationalised Industries—the Electricity Supply Industry*, May 1963, Vol I, para 83

¹⁷ *Ibid*, para 103 See also the reference to "the empirically verified law of a doubling of consumption of electricity every ten years" in J and A M Hackett, *Economic Planning in France* (Allen and Unwin, 1963), p 244

¹⁸ In any case, plans for future capacity are based on estimates of peak load, which is an added complication

to be oil-fired and only 80 MW peat fired. No further hydro developments are planned. There are two main reasons for this. Firstly, the potential of hydro-electric power has been exhausted and by 1970 Bord na Mona will have developed all the economically feasible bogs. Secondly, weather conditions influence the level of rivers and the size of the turf harvest and so it is technically undesirable to rely too much upon these as primary sources of energy. The fact that oil is cheaper than peat probably did not enter into the picture because the decision could be made on purely technical grounds. But, if technical constraints had not been operative, it is likely that, in the interests of national policy, developments would not have been so heavily biased in favour of oil. The arguments for the use of peat are well known—strategic, balance of payments, employment, etc—but the fact that the E S B could find a cheaper fuel implies that electricity consumers are subsidising Bord na Mona.¹⁹ Whether or not it is desirable to tax people on the basis of electricity consumption is an open question, but the dangers of such a policy are obvious.²⁰ However, with the decline of the relative importance of peat as a fuel for electricity generation, any element of hidden subsidy will be reduced, although it will still be considerable throughout the period of the present Programme.

The whole of the E S B's planned capital expenditure (about £12 million a year over the period of the Programme) will be financed from non-Exchequer sources (apart from the grants for rural electrification of which more will be said later). Almost half will come from internal sources and the remainder will be raised by public stock issues. The Board have received no advances from the Exchequer since 1958.

The Board do not anticipate that their expansion programme would be hindered by shortages of labour or management, except that they have to face the problem that skilled technicians are scarce in a growing economy. They hope that developments in higher education will help here.

As regards the balance of payments, the Second Programme states that about 55% of the E S B's capital outlay will be spent on imports. In fact, as the Irish engineering industry develops, the proportion of capital requirements satisfied domestically is increasing.

IV. TRANSPORT

Coras Iompair Éireann

Despite the growing competition from private transport and the reduction in the coverage of services, the volume of C I E's traffic has kept up remarkably well. The "output" of the railway passenger services was 326 million passenger miles in 1958-59, after rising in the intermediate years it then fell to 331 million in 1963-64. The trend in rail freight traffic has

¹⁹ More light will probably be thrown upon this question when the work of Mr Booth of the Economic Research Institute is published. Indeed, whatever I have to say about fuel and power will seem very superficial in comparison with that work, and I only regret that at the time of writing Mr Booth's results were not in a form in which I could avail myself of them.

²⁰ This must not be taken as a criticism of either the E S B or Bord na Mona, both of whom are working effectively within their terms of reference. The decision as to where to place the burden of the costs of public enterprise is taken by the government.

definitely been rising, 187 million ton miles being sold in 1958-59 and 208 million in 1963-64. Road passenger traffic has fallen off dramatically in the past two years, the main decline being on the Dublin city services. Omnibus "output" (excluding tours and private hire) was 783 million passenger miles in 1958-59, approximately the same in 1961-62, but it then fell steeply to a level of 639 million in 1963-64.

The financial results have not, by generally applied criteria, been satisfactory. Net losses amounted to almost £2 million in 1958-59, they fell to under £250,000 in 1960-61, but, largely as a result of the eighth round of wage increases, they rose rapidly and were over £1½ million in 1963-64. The road traffic and catering sections have, throughout the period of the First Programme, consistently produced a working profit, but the profit on road operations has recently fallen steeply. Equally consistently, the railways have sustained heavy working losses, the figure for 1963-64 being £905,000 which was over £450,000 better than in the previous year²¹.

In an effort to reduce the burden of railway losses, the Board have significantly reduced the size of the system over the period of the First Programme. At 31st March, 1959, 2,115 miles of first track were owned or worked by C.I.E., but by 31st March, 1964 this had been reduced to 1,457 miles. The Board have calculated that about 750 miles of the track are unprofitable, and of the remainder 410 miles are profitable and 300 miles are breaking even. Unfortunately, however, C.I.E. could not eliminate its losses by closing down the 750 miles of unprofitable track. The closure of certain unprofitable link or secondary lines could have a serious effect upon the revenue of the remainder of the system, and the discontinuance of services on all the 750 miles would reduce the railway network to an unworkable size.

This provides the key to the future of C.I.E. Since the track mileage has been reduced to about its minimum practicable level, further wholesale closures are unlikely and so the significant cost reductions which these afford will not be available. It is now recognised that the Board could never pay its way as long as the railways exist, but the government have decided that the railway system should be retained. Therefore a subsidy of £2 million is to be paid to C.I.E. in each of the years up to 1969, with the aid of which the Board will be expected to break even.

Since no expansion of services is anticipated, the capital programme of £2-3 million a year will mainly cover replacements and modernisation. About two-thirds of the cost will be financed from depreciation or stock issues, the remainder coming from Exchequer advances.

The Airlines

The two operating companies are Aer Lingus, which has been working the European routes since 1936 and Aerlínte Éireann, which, although established in 1947, went into abeyance until the late 1950s since when it has been providing transatlantic services. The capital of these companies is owned by a holding company, Aer Rianta, which is also responsible for

²¹ See Table 5 of the Appendix

Dublin Airport The first Programme saw the re-incarnation of Aerlinte and marked a considerable increase in the operations of both operating companies, as is shown in the following table, the annual average rates being in brackets.²²

	Passengers (R P M s)	Freight (R T M s)
Aer Lingus 1957-58—1963-64 (%)	114.4 (13.6)	138.9 (15.6)
Aerlinte 1960-61—1963-64 (%)	110.0 (28.0)	171.1 (39.4)

The only target contained in the Second Programme is the aim (mentioned in Part I, par 70) of a doubling by 1970 of Aer Lingus's continental traffic. As the Programme points out, "rights to carry traffic on international routes are controlled by . . . governments of the countries served by each route. . . . This country has little prospect of gaining further substantial traffic rights from other European countries".²³ Expansion is therefore likely to take the form of greater frequency, the use of larger aircraft, the increased use of Aer Lingus as a feeder for transatlantic services and the development of special facilities such as vehicle ferries

In drawing up their demand forecasts (usually on a five-year basis), the airlines were influenced to some extent by the rest of the Second Programme The industrial development envisaged in the Programme, especially if it takes the form of foreign investment, should lead to some increase in air passenger and cargo traffic to and from Ireland But the main link with the national programme was in connection with tourism and the airlines maintain in their planning the closest co-operation with Bord Failte. On the whole, however, since most of their traffic originates abroad, the programmes of the airlines are based more upon likely trends overseas (especially in the U.S. and U.K.) than upon prospects in the Irish economy Over the first year of the Programme, Aer Lingus and Aerlinte are just about on target.

No great increase in employment is likely in this industry. With the adoption of computer techniques to deal with reservations and general accounting, considerable manpower saving should be effected in the administrative departments, which have always been heavy users of labour. Significant productivity increases are expected on the flying side In fact, the only way in which traffic can be expanded is to increase productivity. On the European routes, competitors are switching to jets and unless Aer Lingus did the same traffic would be lost Therefore the decision to buy jets (BAC 111s) could hardly be avoided But this decision will automatically increase productivity (e.g. crews will now be able to do return trips in a day) and Aer Lingus are relying on this to achieve their aim of doubling continental traffic

All this involves a quite heavy capital programme and the airlines have worked out in some detail how they expect to finance this. The Second Programme calls for a total of £29 million from 1964-65 to 1969-70, but

²² See Table 6 of the Appendix

²³ Part II, Chap 9, paras 22 and 24.

in fact this total is likely to be exceeded. There is a very definite policy to rely to a decreasing extent upon Exchequer finance, and the airlines hope to provide for between a half and two-thirds of their capital expenditure from internal sources (depreciation, operating profits less interest, and the sale of aircraft). Some of the remainder could be raised from commercial sources.

Over and above this, Aer Rianta are expected to spend about £2½ million on Dublin Airport over the period of the Programme.

An important proportion of capital equipment is imported, but on the other hand most of the operating revenue is earned abroad. Foreign customers are expected to account for an increasing proportion of total sales, and the American traffic should be particularly important in this respect. The acquisition of a Boeing 320 will boost cargo revenue on the transatlantic route, the significance of which is increased by the fact that most of the westward traffic originates not in Ireland but in the U.K.

V REGIONAL DEVELOPMENT

There are two state enterprises—Gaeltarra Eireann and the Shannon Free Airport Development Company—who have special responsibilities in relation to regional development. The former was established in 1958 to foster industry in the Gaeltacht and operates factories producing tweed, knitwear, embroidery and toys. In addition to full-time employment of about 700, part-time employment in their own homes is provided for a further 900 people. About 25% of total sales are accounted for by exports. The Second Programme provides for capital expenditure of £500,000. The Shannon Company—and Bord Failte, whose activities are of immense importance to the industrially underdeveloped areas—will not be discussed here as we are limiting ourselves to production enterprises.

The E.S.B. and C.I.E., in the course of providing a nation-wide service, contribute to some extent to the development of the more remote regions. The rural electrification scheme was begun in 1946 and up to the present about three-quarters of rural premises have been connected. The Board receive a subsidy which now covers 75% of the capital costs, but they receive no contribution towards current expenses and they are incurring losses of about £1 million a year on the scheme. These losses are recouped from other electricity consumers, and it is estimated that charges are thereby increased by about 4%. This again raises the question of hidden subsidies and the proper location of the burden. Since individual consumption of electricity is probably fairly closely correlated with income, the degree of inequity in the present system is likely to be small, but I should consider it a desirable general principle that social services, be they hospitals, roads, unprofitable railways or rural electrification, should be paid for out of general taxation. Not only is this more equitable, but it makes a rational appraisal of the situation easier and has a beneficial psychological effect upon the personnel of the enterprise concerned.

The E.S.B., along with Bord na Mona and the Irish Sugar Company, also contribute to regional development through the location of their

establishments. But in each case location decisions were not taken primarily with this development in view. These bodies were committed to developing native resources and these resources (water, peat and coal in the case of the E S B, peat in the case of Bord na Mona, and agricultural produce in the case of the Sugar Company) happened to be located in the less industrialised areas. It could of course be argued that the very nature of the commitment implied a regional policy, but the point being made here is that these organisations work as effectively as they can within the terms of this commitment and do not make decisions specifically in order to create regional employment.

Similarly, the airlines operate from Shannon. But this is because it is profitable to do so. 50% of the American passenger traffic prefers to embark or disembark at Shannon rather than Dublin. Because Shannon is profitable, the question of subsidising services from that airport in the interests of regional development has yet to be raised. But if the problem came up, the airlines would vigorously oppose either a general subsidy or a proposal that their other passengers subsidise these services (as the E S B's other customers subsidise rural electrification). The present view of the airlines is that they would operate uneconomic services for the purposes of regional development only if they received a specific grant to cover the losses.

VI GOVERNMENT CONTROL

Prices

The Second Programme is couched entirely in real terms, but the need for price stability does not need to be stressed. If inflation led to a significant external deficit, the consequential deflationary policy could have a disastrous effect upon the real growth rate. Although the major state enterprises do not generally operate in the same industries as private firms and so would not act as price leaders in the usual sense, they do compete with substitutes (e.g. electricity and peat with oil, public with private transport) and as basic industries their prices have a significant effect upon the cost structure of the private sector. Therefore, government control over the prices of the public bodies could constitute an important weapon of anti-inflation policy. There is, of course, a special danger here in that if price control led to losses these losses themselves could be inflationary, although the extent of this danger depends upon how the losses are financed.

In fact, the Irish government exercise very little direct control over the prices charged by the enterprises we are discussing. They successfully resisted part of a price increase proposed by the Sugar Company, but this had no effect upon the retail price, the difference going in turnover tax and higher retail margins. They have no statutory powers over electricity charges although there is consultation with the government, the final decision rests with the E S B. Similarly with Bord na Mona although the Board are sensitive to the broad views of the government regarding price trends, no price control is exercised. Nor, in this case, is it needed, since much of the Board's output goes to a single customer and the re-

remainder is sold in a highly competitive market. Air rates are fixed for two-year periods by the I A T A and the government invariably accept the rulings of that body. This form of price control does create some difficulties for the airlines. Since they cannot raise their charges within the two-year period, they find it difficult to recoup immediately the increased costs arising, for instance, from a new round of wage increases.

Finance

As we have seen, the general policy of the government is that state-sponsored bodies should rely to an increasing extent upon internal or commercial sources of capital. This policy was criticised in a recent article²⁴ by Mr. Mulcahy on the grounds that it is pointless unless it subjects the enterprises to a greater commercial discipline, which will not happen if the stock issues carry no voting rights and dividends are guaranteed by the government. This is fair enough as far as it goes, but ignores two important factors—the fiscal and psychological differences between Exchequer and non-Exchequer finance. If Exchequer finance for state bodies comes from tax revenue, the new policy could lead to reduction in the level of taxation, or, more likely, a greater ability to finance other public expenditure without raising tax levels, either of which could have a beneficial effect upon incentives. If the money is provided from the national debt, two points must be considered. Firstly, it is not admissible to say, as Mr. Mulcahy does, that it would be cheaper for the government to borrow a lump sum than for each enterprise to borrow fractions of that sum. This may be acceptable in a partial-equilibrium sense, but it ignores the fact that an increase in the national debt, which may lead to higher taxes, could have an undesirable effect on incentives which could more than offset the saving on the initial cost of issuing the debt. Secondly, in macro-economic terms, public and private debt may not be substitutes for each other. The distribution of the burden (i.e. the distribution between individuals at any time, and the distribution over time) may be quite different in each case. So a simple comparison will not do.

Furthermore, the psychological effects upon the enterprises of Exchequer finance are likely to vary from those of non-Exchequer finance. The ability to raise money from internal or commercial sources may be seen by these bodies as an indicator of their success. They are expected to act efficiently within their terms of reference and if their efficiency enables them to rely less upon the Exchequer this constitutes a psychological reward for past achievements and an incentive for the future.

Although the aim is for the Exchequer to provide a declining proportion of capital, this must not be seen as a slackening of government control over the public sector. Firstly, the Exchequer will continue to provide a great deal of finance, and the state bodies know that this source of capital will always be open to them. Secondly, the state enterprises are conscious of their public responsibility and through continuous consultation are kept

²⁴ John D. Mulcahy, "The Second Programme—State-Sponsored Bodies", *Studies*, Vol. LIII, No. 211, Autumn 1964.

aware of the government's desires. Thirdly, and most important, public bodies have to obtain government approval of their capital programmes.

VII. CONCLUSION

In the introduction I outlined the central problem that the operation of state enterprise without close reference to commercial prospects could lead to a misallocation of resources. We have seen some examples of overt or hidden subsidisation to enable public bodies to fulfil certain needs, but there is no evidence that this necessarily constitutes misallocation and none of these arose out of the Second Programme. The terms of reference of public enterprises and any cases of operations being carried on according to other than commercial principles pre-date the Programme. In fact, the Programme itself has hardly affected the role of the public sector at all. By and large, the individual bodies were left fairly free to draw up their own plans, and only rarely (e.g. in the case of the extra peat briquette factory) were these plans amended in the light of the remainder of the Programme. There are a number of possible reasons for this. Firstly, although a great advance upon its predecessor, the Second Programme is not a fully-fledged, detailed plan, and the government may not yet be ready to exercise closer control. Secondly, there has been a good deal of criticism of the state enterprises in the past and the government, very laudably, probably want them to operate more closely according to commercial principles and need to leave them fairly free to do this.

However, as planning techniques develop and as our ability to make rational decisions regarding the public sector increases, there may be a chance that future programmes will see state enterprise more closely integrated into the national plan and more positive use being made of it. A number of possibilities present themselves. If deficiencies in private enterprise are creating bottlenecks or leaving physical, financial or human resources unused there may be a case for the extension of the public sector. Indeed, since the publication of the Second Programme, this sector has expanded with the nationalisation of the British and Irish Steam Packet Company. Further to this, it would be useful to attempt to draw up a "balance sheet" of resources to see precisely where the gaps are and to ensure that these resources are used in the most effective way. This is particularly important in the case of public enterprise where the government has direct control over the use of resources. This would entail a more positive use of public bodies in the interests of economic planning. There may be a case, for instance, for producing more and/or cheaper power, transport, steel, machinery or fertilisers even though this entails losses for the enterprises concerned. This can be dangerous, particularly if decisions as to price, output, location, etc., are unduly subject to pressures from particular interests—represented, perhaps, by members of parliament—but losses do not necessarily imply inefficient resource allocation, particularly in the short run. If subsidisation of the output of public enterprise reduces cost levels in the private sector, either generally or in particular industries, this could be desirable in the long run. But, if it is to be rational,

it will involve far more detailed planning—for instance, aiming at a particular industrial structure and using state enterprise directly or the output of state enterprise to encourage the attainment of that structure—and until that is possible and acceptable it is certainly better to operate approximately according to commercial principles rather than waste resources in the interests of pursuing “social” objectives, the economic implications of which have not been thought out rationally

APPENDIX

TABLE 1

GROSS NATIONAL PRODUCT AT MARKET PRICES (£ million)

Year	At current prices	At constant 1953 prices
1953	525 6	525 6
1954	528 7	531 2
1955	551 5	541 1
1956	559 3	535 6
1957	580 7	540 6
1958	598 5	524 9
1959	635 7	548 9
1960	671 4	579 7
1961	718 0	607 7
1962	774 0	623 0
1963	823 0	649 0

TABLE 2

IRISH SUGAR COMPANY

Year	Output of beet sugar (tons)	Total sugar sales (tons)
1957-58	108,414	139,731
1958-59	102,467	143,513
1959-60	128,791	155,002
1960-61	120,406	159,781
1961-62	114,636	158,876
1962-63	124,540	173,537
1963-64	131,420	170,961

TABLE 3

BORD NA MONA
OUTPUT (Tons)

Year	Milled peat	Machine turf	Total	Briquettes	Peat moss (bales)
1957-58	651,756	819,816	1,471,572	32,600	191,758
1958-59	167,988	507,318	675,306	32,200	110,590
1959-60	1,660,527	904,245	2,564,772	43,588	166,492
1960-61	510,598	886,922	1,397,520	122,231	176,988
1961-62	1,183,761	996,162	2,179,923	207,465	258,746
1962-63	1,885,764	923,854	2,809,618	236,845	301,005
1963-64	1,637,761	957,810	2,595,571	281,847	347,590

TABLE 4

ELECTRICITY SUPPLY BOARD

Year	Installed capacity (MW) at 31st March	Output generated (million kWh)
1957-58	649.5	1,774,821
1958-59	688.5	1,898,215
1959-60	688.5	2,096,027
1960-61	723.5	2,262,307
1961-62	723.5	2,453,001
1962-63	763.5	2,714,903
1963-64	849.5	2,900,829

TABLE 5

**CORAS IOMPAIR EIREANN
TRAFFIC CARRIED**

Year	RAIL		ROAD
	Passenger miles	Freight ton miles	Passenger miles ¹
1958-59	325,972,600	186,627,740	783,001,377
1959-60	344,085,300	194,175,623	794,961,771
1960-61	352,141,700	206,945,694	768,704,361
1961-62	344,347,500	202,469,232	784,099,967
1962-63	336,633,900	205,504,185	689,287,870
1963-64	330,991,000	208,025,236	639,076,826

¹ Excluding tours and private hire

PROFITS¹ (£)

Year	Working Profit					Total net profit
	Rail	Road	Catering	Harbours, etc	Total	
1958-59	-1,247,489	+885,480	+ 44,581	-106,987	-424,415	-1,949,864
1959-60	- 853,969	+891,176	+ 60,308	-100,557	- 3,042	- 709,006
1960-61	- 477,471	+896,853	+ 76,573	- 75,301	+420,654	- 246,174
1961-62	-1,593,239	+630,418	+ 94,446	- 80,538	-948,913	-1,695,680
1962-63	-1,361,920	+549,847	+ 85,189	- 76,531	-803,415	-1,759,604
1963-64	- 904,769	+309,572	+134,872	- 76,310	-536,635	-1,605,881

¹ Profits +, losses -

TABLE 6

**THE AIRLINES
TRAFFIC CARRIED**
(⁰⁰⁰ Revenue Passengers Miles and Revenue Ton Miles)

Year	Aer Lingus		Aerlinde	
	Passengers	Freight	Passengers	Freight
1957-58	103,872	11,513	—	—
1958-59	121,124	14,678	—	—
1959-60	135,456	15,349	—	—
1960-61	172,108	19,507	99,364	10,961
1961-62	184,165	21,595	148,327	17,800
1962-63	196,694	23,191	185,828	26,268
1963-64	222,735	27,057	208,621	29,717