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ECONOMIC DEVELOPMENT AFTER 25 YEARS:

ITS SIGNIFICANCE FOR THE CURRENT CRISIS

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Government bureaucracies are not generally noted for innovation or dynamism. Yet twenty-five years ago, in November 1958, an event with far-reaching effects occurred in what is often today regarded as the bastion of conservatism and inertia - the Department of Finance. Not surprisingly for a government department, that event took the form of a report; but it was a report probably like no other before and almost definitely like none since.

That historic report was Economic Development (1) which was completed in May 1958. It marks a milestone - perhaps the second after political sovereignty itself - in the history of Ireland in the twentieth century. Although not published until November 1958, after the Programme for Economic Expansion, it was the background study which launched economic planning in Ireland. The Second Programme for Economic Expansion followed in 1963 and, the most comprehensive of all, the Third Programme for Economic and Social Development in 1969.

The period covered by these programmes was one of unprecedented social and economic development. A long period of slow growth accompanied by a demoralizing decline in population was replaced by a faster expansion of output and population growth. Ireland was set on a path of modernization that until then was stymied by a combination of cultural, political, and economic obstacles. It need hardly be stated that an episode of such dramatic change in demographic, social, and economic structures brought about new tensions and problems which still face us with "social and moral dilemmas" (2).

But the prevading sense of isolation and dependency prevalent up to the late 1950s was overcome in favour of a sense of confidence and rising expectations that characterized the 1960s and early 1970s. The initiative and opportunity to bring about this process of change was very much due to the pressures of an economic crisis which was to a great extent the consequence of previous government policies.

BACKGROUND

After the struggle for political sovereignty, the thrust of economic policy was narrowly nationalist, and a self-sufficient economy was sought. This policy was at first one of selective protection from foreign competition rather than the establishment of new industries. The impact of the Great Depression then led to the policy of self-sufficiency: "Domestic production was to replace imports as far as possible and a thorough-going system of protection was introduced" to bring this about (3).

The main policy instruments to encourage growth during this import substitution phase were tariffs, quotas, and credit facilities. A Prices Commission was established, to prevent monopoly pricing in the protected markets, and a Control of Manufacturers Act was passed to ensure that business was controlled by residents. After the War Emergency most controls were relaxed. Grants, subsidies, and state capital expenditure for both production and infrastructure were used in an attempt to increase employment.

Basically, the policy of self-reliance continued, but this insular approach failed to achieve the goals sought. Summary data, in Table 1, show that, although GNP and GNP per head grew modestly throughout the full period, it is probably fair to characterize the later periods as

Table 1: A Declining Society

Growth Rates[a]	1926-38	1938-49	1949-55
GNP (Deflated)	1.3	1.2	1.8
GNP (Deflated) per head	1.4	1.1	2.6
Population	-0.1	0.1	-0.3
Employment	0.0	-0.2	-1.1

Sources: Kennedy and Bruton (4); Kennedy and Dowling (5).

Note: a) Average annual percentage growth rate.

ones of economic stagnation. Development was slow and population continued to decline, as also did employment from 1938. The Balance of Payments deteriorated substantially in the later period and reserves crises occurred, particularly in 1951 and 1955-6, despite the emphasis on import substitution.

The seriousness of the situation in human terms is clearly demonstrated by the data for emigration in Table 2. The rate of emigration once again equalled that of 60 years previously. The consequences of mass emigration are widespread as has been succintly stated by David O'Mahony in The Irish Economy (1962): "when the decline in population occurs through

Table 2: The Exodus from Ireland

Period	Emigration Rate[a]
1871-81	12.7
1881-91	16.3
1891-1901	11.9
1901-11	8.2
1911-26	8.8
1926-36	5.6
1936-46	6.3
1946-51	8.2
1951-56	13.4
1956-61	14.8

Source: O'Mahony (3)

Note: a) The annual rate of net emigration per 1,000 of population.

emigration it is possible - though by no means always certain - that the more enterprising and ambitious people leave the country. Emigration seems also to produce certain attitudes of mind and patterns of behaviour which are prejudicial to economic development. People appear to become mentally disorientated and to become like an uprooted or rootless people even in their own country. This results in a tendency to evade risk taking and responsibility to that even the limited investment opportunities that may exist may not be exploited to the full"(3).

POLICY INITIATIVE

Clearly a change in policy was imperative and a commensurate response was forthcoming from some civil servants. The new policy initiative, made necessary by a worsening economic and social crisis, occurred late in 1957 when the Secretary of the Department of Finance, T. Kenneth Whitaker, proposed to the Minister of Finance, James Ryan ,that an attempt should be made "to work out an integrated programme of national development for the next five or ten years, which I believe will be critical years for the country's survival as an economic entity" (1). The first stage of this process was the preparation of Economic Development primarily by the Secretary of the Department. This was then followed by the government policy document, Programme for Economic Expansion (6).

The policy emphasis shifted towards outward looking policies accompanied by a move from the deflationary policies of the 1950s to more expansionary fiscal policies during the 1960s. Higher domestic growth was now sought from higher demand, especially of industrial exports, together with a more active industrial development programme of fiscal incentives and attraction of foreign capital. While it is easy to characterise the change in policy it should be recognized that bringing it about, and implementing it effectively, involved overcoming major political, administrative, and social obstacles.

Although many other persons were involved, and indeed many elements of the policy were already put in place by preceding governments, Sean Lemass as Prime Minister and T.K. Whitaker, Secretary of the Department of Finance, are popularly credited with being the architects of this new era. There is little doubt that their political and administrative skills were crucial in establishing the new perspective. Such a change in policy is invariably based on a grand scheme or 'vision' of the economy which identifies the key relationships involved in generating the desired outcome and, most importantly, succeeds in re-orientating general attitudes.

MAIN THEMES

The main themes are worth outlining because, as will be apparent, they still provide after quarter of a century the overall framework for government economic policy towards employment.

Employment policy was based on the view that increased, employment, and the move towards 'full employment', is primarily determined by the rate of growth of output. Therefore the emphasis of policy was on increasing the rate of growth of output. Three aspects were emphasised in *Economic Development* and reiterated in all the succeeding economic programmes.

First,it is growth of demand which brings about expansion of output. High and growing demand would both ensure the full utilization of existing capital capacity and provide the impetus to increasing such capacity. This would then be translated into expanding employment. As was stated in the report, "the initial advance has rarely been the result of capital expenditure; it has far more commonly followed the expansion of markets, especially foreign markets". Since falling population had brought about a declining home market, therefore exports were identified as the cricual source of demand. They were, as stated in the *Second Programme*, the "key to national prosperity".

Second, capacity expansion to meet the increased or expected increases in demand, was to be facilitated by government policies which emphasised the manufacturing sector and the role of foreign enterprise and investment. The latter was necessary because resource constraints made it necessary to acquire foreign savings, equipment and technology, and management and entrepreneurial skills. The instruments of this policy are much the same as those which are still in operation today and included exports profits tax relief, capital grants and subsidies, and direct promotion activities.

Third, competitiveness was essential if exports were to be the key component of demand and the driving force in the process of economic growth. The world trading environment was increasingly becoming one of trade liberalization. Ireland would have to survive against the keen pressures of foreign competition not only from Europe and North America but also,as it turned out,from the dynamic newly industrialising countries of Japan, and later Taiwan, S. Korea and others.

According to the (first) Programme this means "in particular, that wage standards must be realistic, having regard to the level of productivity in this country and the need for ensuring competitive costs per unit of output". This, as stated in the Second Programme, was the "essential condition of growth and it must govern our whole approach to programming". It became the dominant theme of government policy pronouncements and is still the central piece of government strategy in the face of the current employment crisis.

OUTCOME

The turnaround that occurred is reflected in the summary data in Table 3. The slow growth in the standard of living was superseded by a more rapid improvement. The decline in population and overall employment was reversed or stopped. The latter was achieved against a higher decline in agricultural employment (-3.1% as compared to -2.3% in the earlier period).

Table 3: Turnaround During the Economic Programming Phase

Growth Rates[a]	1953/4 - 1961	1961-1973
GDP (Deflated)	1.8	4.5
GDP (Deflated) per head	2.4	3.7
Population	-0.6	0.7
Employment	-1.3	0.0

Sources: National Income and Expenditure, Census of Population, Trend in Employment and Unemployment.

Note: a) Average annual percentage growth rate.

The increased rate of economic activity had a major social impact: the emigration drain was slowed, and at a later stage reversed, and population increased significantly (Table 4). The contrast between a society afflicted by massive emigration and one freed from that debilitating drain was dramatic. The overall sentiment in the country became one of

Table 4: The Demographic Transformation

Period[a]	Population Change	Natural Increase	Net Migration
1951-61	-142,300	+266,500	-408,800
1961-71	+159,900	+294,500	-134,500
1971-79	+390,000	+281,000	+108,900

Source: Sexton (7).

Note: a) Data are absolute numbers for each inter-censal period.

optimism and an expectation that we can make it in the 'big world around us.' To what extent Economic Development and the succeeding programmes for economic expansion contributed to this is a matter which is, as yet, little analysed and is still an open question. Some of the current difficulties may be due, as has sometimes been claimed, to the working out of the logic of the view put forward in Economic Development and the policies following from that analysis. That is still an unexplored issue. But twenty-five years is a long time to expect the relevance of a study and the efficacy of its proposals to hold basically unchanged. Whatever the ultimate verdict on it, and the whole programming era, it must be credited with a pivotal role in bringing about a significant change in attitudes. There can be little doubt that at the very least it was important in restoring confidence in the economy and our society. Nor should it be forgotten just how much hope and direction it provided at a time when it seemed that the situation was hopeless and when, was there apparently no alternative option on offer.

CURRENT CRISIS

But today Ireland is once again faced with apparently intractable economic difficulties. Production and the standard of living are growing slowly or declining. The employment situation is once again of crisis proportions. Virtually half our population is under 25 years of age. Only the present lack of destinations seems to prevent the resumption of large scale emigration. Indeed realpolitik prognosticators urge that we must 'prepare' our children for emigration. The public finance debacle has returned us to a phase of severely deflationary domestic policies at a time when world demand is stagnant. Any improvement in the balance of payments position is largely the impact of the recession. As in the 1950s, we are in the midst of an overall policy crisis.

Once again there is a sense of doom and gloom overtaking us; there is a feeling of things being out of control, of our inability to respond to the challenges of the times, and of a loss of leadership. We scan the horizons for hopeful signs, but we find only confusion, taxes, and hesitant recoveries in distant lands that may eventually trickle our way. So we talk ourselves into the ground or around in circles.

In the midst of all this the real significance of Economic Development should be recalled. The 'winds of change' blew from a source generally not recognised today as the harbinger of innovation: government bureaucrats and political representatives. Nor was this an accident; it is rarely otherwise with major policy changes in contemporary democracies. It is in the government-administration nexus that innovative programmes are actually developed: the combination of public-interest and self-interest shapes the vision of progress, makes it operational, and navigates it through the rapids of conflicting pressures and interests groups.

The 'academic' analysts of society are often put in the position of having to find, or are expected to already have, the answers to our pressing social issues. Probably more often they put themselves on the spot and offer themselves as founts of ultimate wisdom and definitive answers. The real situation is otherwise, and they are roundly castigated or they beat their breasts in welters of mea culpa.

Economists, sociologists, and so on, do not generally in their capacity as social scientists bring about new initiatives or devise major programmes. They provide the tools - special concepts, identification of relationships - that are necessary for defining a problem, analysing it, and developing strategies to resolve it. But the actual policies must be devised in government departments and similar agencies by the interaction of administrators and political representatives.

This was the case with Economic Development. Economists had provided theoretical and empirical analysis, but the major policy change came from the government bureaucracy and the political domain.

Twenty-five years ago the Secretary of the Department of Finance, together with his collaborators, overcame the policy paralysis of their time. They responded to that crisis with imagination and initiative. The urgent puzzle today is whether it will occur again. And, if it is not likely to occur because of bureaucratic schlerosis, we must then ask: what needs to be done and what can be done to bring it about,

The Irish economy is like the car on a roller-coaster at a fun-fair, and at present we're pointing down: the worry is how far, and how fast, and for how long? And the question to be addressed is: what must we do to obtain a strategy for regaining control?

Notes

1. Ireland. Economic Development. Stationery Office, Dublin, 1958

2. Damien Hannan. Ireland's new social and moral dilemmas. New Society: 291-293, 18 November 1982.

3. David O'Mahony. The Irish Economy: An Introductory Description. Cork University Press, Cork, 1962, 2nd Edition 1967.

4. Kieran A. Kennedy and Richard Bruton. The Irish Economy. Economic and Financial Series No. 10. EEC, Brussels, 1975.

5. Kieran A. Kennedy and Brendan R. Dowling. Economic Growth in Ireland: The Experience Since 1947. Gill and MacMillan, Dublin, 1975.

6. Ireland. Programme for Economic Expansion. Stationery Office, Dublin, 1958.

7. J.J. Sexton. The Changing Labour Force. In ESRI. The Irish Economy and Society in the 1980s: 42-79. Economic and Social Research Institute, Dublin, 1981.