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Economic Growth and Development, 1945-70

Brendan M. Walsh

After the stagnation of the Great Depression and the austerity of the war years, Ireland experienced an economic boom during the immediate post-war period. The volume of personal spending rose by about one quarter between 1946 and 1950. It was natural that a consumer spree should occur as the purchasing power that had been pent up during the war was released. But growth also occurred in the level of exports, as Irish industry took advantage of the expansion of overseas markets, and tourism benefited from the shortages of food and foreign exchange in Britain. With some help from Marshall Aid, a Public Capital Programme was introduced and considerable sums were allocated for schools, hospitals and housing, as well as roads, airports, and harbours.

The Census of 1951 recorded an increase of five thousand over the population of 1946. Although this increase was slight, and confined entirely to Dublin and five other Leinster counties, it brought to an end over a century of national population decline and provided grounds for the belief that an era of moderate growth was dawning.

The 1950s were not very old, however, before the grounds for optimism were swept away. Adverse external developments compounded by inappropriate policy responses quickly halted the economic growth of the immediate post-war years. To understand the sequence of events that led to economic stagnation during the 1950s we must bear in mind the importance of the balance of payments in the mind of economic policy makers both in Ireland and abroad during this period. If domestic demand was allowed to expand too rapidly, according to the prevailing view, resources would be diverted from export markets, imports would be drawn into the country at an accelerating pace,
and the balance of payments deficit would rise to an alarming level. This deficit would have to be paid for by running down our external reserves—a process which could not continue indefinitely. Sooner or later the authorities would be forced to take 'corrective' action by deflating the domestic economy through higher taxation and severe economies in the public sector, or by curbing the level of imports more directly through special taxes or levies. Balance would be restored at a lower level of domestic economic activity. The possibility that the payments deficit would set in train deflationary forces, and thus prove largely self-correcting, was not seriously entertained by orthodox economic opinion in Europe or America at this time.

Twice during the 1950s, in 1952 and 1956, the authorities responded in this manner to what were perceived as balance of payments crises. The Budget of 1952 halted the upward trend in public capital spending that was apparent since 1946. The drastic cut-backs following the 1955 crisis actually reduced the volume of government spending by 15 per cent between 1956 and 1958. This led to a fall in the public sector's share in national income from 35 to 30 per cent. There was however only a slight fall in the level of public sector employment. The brunt of the economies fell on the level of employment in the private sector, as public spending on housing, roads and related activity was sharply reduced. The level of employment in the building and construction sector fell from 74,000 in 1955 to 56,000 in 1958. The numbers out of work in Ireland rose to a peak of 78,000 in 1957, but in an era where Unemployment Benefits were low and expired after six months, leaving the unemployed dependant on Assistance, it is not surprising that the full extent of the recession was reflected in the emigration, rather than in the unemployment figures. At this time, the unemployment rate was very low in Britain and jobs were readily available to Irish migrants. The numbers leaving the country soared to a level that had not been seen since the troubled decade of the 1880s. In the worst year, 1957, the net loss of population due to emigration reached 54,000, while between 1951 and 1961 it totalled over 400,000. The slight gain of population between 1946 and 1951 was erased, and by 1961 the population had declined to 2.8 million, more than 5 per cent below the level at the foundation of the state. This was
a bitter outcome indeed to those who believed, with Padraig Pearse, that in a free Ireland the population would rapidly expand and eventually surpass the pre-Famine total.

The feeling of demoralisation and failure generated by this situation is conveyed in a paragraph of the report Economic Development submitted by the Secretary of the Department of Finance to the Government in 1958:

After 35 years of native government people are asking whether we can achieve an acceptable degree of economic progress. The common talk among parents in the towns, as well as in rural Ireland, is of their children having to emigrate as soon as their education is completed in order to secure a reasonable standard of living.

The balance of payments crises which provoked the restrictive measures were largely a reflection of the impact of external events on the Irish economy rather than a consequence of domestic profligacy. [The 1950 crisis was caused by a sudden rise in import prices following the devaluation of the pound sterling from $4.00 to $2.80 in September 1949 and the jump in raw material prices following the outbreak of war in Korea in the summer of 1950.] The deterioration in the balance of payments following the surge in import prices would have been temporary and self-correcting, and in fact had largely corrected itself by the time the deflationary measures contained in the 1952 Budget began to take effect. [In 1955, while it is true that a domestic consumer boom contributed to a rapid growth of imports, the real problem lay in a slump in our cattle trade to Britain and our displacement from the British egg market.] The deficit incurred in 1955 was not much more than half that incurred in 1951 but for the first time since the war, the net inflow of capital to the country was turned into an outflow in 1955. [This reflected the slowing-down in economic growth, the loss of confidence in the economy, and drying up of profitable outlets for capital in Ireland. The decline of nearly one quarter in Ireland's external reserves during 1955 was the signal to which the authorities responded, and the measures taken in 1956 were designed to restore balance to external trade, to reverse the decline in external reserves, and place the economy on a sounder and more creditworthy basis.

It is easy to criticise these policy responses with hindsight.
However, there were a number of obstacles to better decision-making, such as delays in data availability, and unfamiliarity with the need to adjust quarterly series for seasonality. Moreover, the degree of sophistication in Irish policy-making could not with impunity outpace that of the international banking community, which still viewed an independent Irish economy as a dubious proposition. These considerations would have made it very hard to follow the presumptions of some contemporary theorists who view the balance of payments as essentially self-regulating if treated with benign neglect by the authorities. Nonetheless it is fair to say that a narrow view was taken of the role of foreign reserves and of the need to restore external balance by government action rather than through market forces. Moreover, delays in diagnosing and responding to the problem led to the situation both in 1952 and 1956 that by the time the corrective measures began to take effect there were clear signs that the worst was over. Undoubtedly the effect of the massive cut-backs in government spending in 1956 and subsequent years was to prolong the recession and make its impact more severe than would have been the case if the level of spending had followed longer term guidelines and shown less erratic year-to-year swings. Although the ratio of foreign reserves to imports declined substantially during the 1950s, this ratio remained high by international standards. The ultimate justification for holding such reserves is to tide a country over exceptionally adverse periods such as we can now recognise 1955 to have been. However, it was not until 1969 that the Government negotiated with the country’s commercial banks the placing on deposit with the Central Bank of their net external assets. Failure to mobilise reserves during the 1950s in order to maintain output and unemployment undoubtedly led to unnecessary sacrifices borne mainly by the unemployed and the emigrants.

The disappointing economic performance of the years 1953 to 1958, which saw no growth in GNP and a decline in population, provoked a great deal of self-criticism and revaluation among those responsible for advising the government on the overall direction of economic policy. The fruits of this re-appraisal were published in the Department of Finance’s study of national development problems, *Economic Development*, from which we quoted above. Although largely ignored by the
Press at the time of publication, this document is now generally recognised to have played a key role in redirecting government thinking and in preparing the way for the new economic policies of the 1960s. A major theme of this report was the support it gave to the view long advocated by the Central Bank that 'public and private development of a productive character must be stimulated and organised so as to overshadow the non-productive development which now bulks so largely in public investment . . .'. Funds were to be directed into state aid to marketing and research, land improvements, the development of new industries, fishery, and tourism. To facilitate a higher level of expenditure on these ‘productive’ projects, it was hoped to raise the volume of current savings. But the main source of funds for the new departures in government spending was to be a cut-back in the level of social or ‘non-productive’ spending, that is, in the public housing programme, the capital outlay for the health services and generally by deferring further improvements in the social services until economic recovery was well underway.

The publication of this study was by way of letting the public in on the detailed discussions that had led to the policies adopted in the White Paper published slightly earlier in 1958. This document ushered in an era of official commitment to some form of economic planning which lasted until 1972. The First Programme covered the years 1959 to 1963 and devoted considerable attention to the failures of past policies in much the same language as appeared in the Department of Finance’s economic study. The word ‘plan’ was avoided, no hard and fast numerical targets were proposed, and the emphasis was on an approach and a policy bias rather than on detailed intervention with a predominantly free enterprise economy.

One area where a new departure occurred was in the attitude towards international trade and investment. During the 1930s, in an international environment of protectionism and autarky, an elaborate system of tariffs and quotas had been erected to stimulate native industrial development. Foreign ownership of industrial assets was discouraged. The emphasis was on development of native resources through native skills and enterprise. As the 1950s progressed Ireland’s commitment to these policies of economic isolationism was considerably modified. As part of the revaluation of economic policy following the poor performance
of the early 1950s, the movement towards an outward-looking strategy became more rapid. The implications of the ground-swell of Free Trade in Europe for the sheltered Irish industrial sector were recognised. In 1961 the government appointed a Committee on Industrial Organisation to ‘make a critical appraisal of the measures that might have to be taken to adopt Irish industry to conditions of more intensive competition in home and export markets.’ The work of this Committee resulted in detailed studies of twenty-two industries, and is contained in its Final Report (Stationery Office 1965, Pr. 8082).

A new urgency was placed on attracting export-oriented industries as well as expanding traditional foreign exchange earners such as tourism. The powers and resources of the Industrial Development Authority were expanded progressively, and the restrictions on foreign investment in the Control of Manufactures Act relaxed and eventually removed. Shannon Duty Free Airport was transformed into a Development Company which established a unique growth centre west of the Shannon based entirely on manufacturing for export. In the ten years 1960–69 more than 350 new foreign-owned companies were established in Ireland. Without these it is unlikely that the rapid growth rate of industrial exports achieved in the 1950s would have been maintained during the 1960s: new foreign firms locating in Ireland during the 1960s averaged an export ratio over 80 per cent of output. The injection of new resources into the tourist industry and the development of new markets in North America and Europe resulted in an accelerated growth of foreign exchange earnings from this source. However, the various measures that were taken were far less successful in transforming traditional, home-market-oriented firms into dynamic, export-oriented enterprises, and in this failure lay the seeds of the persistently disappointing performance in terms of overall growth of employment. With the advent of full free trade in the 1970s, the loss of employment in many traditional and highly labour-intensive industries negated much of the employment growth in the new and more capital intensive sectors.

The formal end of the era of protectionism in Ireland was signalled by its first application for membership in the European Economic Community in 1961. Although actual entry into the
community was still twelve years away, it was clear from the
date of the first application that it was only a matter of time
before free trade became a reality. Less dramatic but of much
greater immediate significance than application for membership
in the EEC was the signing of the Anglo-Irish Free Trade Agree-
ment in December 1965. This Agreement brought to a close
the attempt at economic development based on protectionism
launched in the 1930s and returned Ireland to the close economic
ties with the United Kingdom that had characterised the period
1800–1922. The important difference now lay in the determi-
nation of the Irish government to use its powers of taxation
and expenditure to maximise the gains to the country from its
participation in the world economy, and to obtain favourable
treatment for its agricultural exports. In the event, Ireland’s
participation in this simple type of free trade area was short-
lived because membership of the EEC became a reality in 1973.
The European Community is not merely a Free Trade Area but
is also committed to equalising differentials in living standards
between regions of the Community through institutions such as
the Common Agricultural Policy and the Regional and Social
Funds. Moreover, Ireland’s membership of the largest trading
bloc in the world enormously increased the country’s attractiv-
ness as a location for foreign, and in particular American,
investment.

During the period of the First Programme for Economic
Expansion the volume of GNP rose by over 4 per cent a year,
which was faster than any of the tentative projections put
forward in 1958. The government launched a Second Pro-
gramme in 1963 to cover the seven-year period 1964–1970.
This was a far more detailed and elaborate exercise than the
First Programme. Not only was a growth rate of over 4 per
cent per annum accepted as a target for the economy, but
detailed checks on the implications of this growth rate for
agriculture, industry and services were undertaken.

The overall growth target specified in the plan was in fact
reached and economic growth during the 1960s was faster and
more sustained than in any previous period in Irish history.
Not only did living standards rise by 50 per cent over the decade
but by 1971 the population had grown by over 100,000 from
the low point of 1961 to the highest level recorded since the
Moreover, although the Dublin region’s share in the national total continued to increase after 1961, growth spread out to more and more regions of the eastern and southern half of the country. Only in the west and north-west did the age-old pattern of population decline persist.

Despite these achievements, the contribution of economic planning remained debatable. Even though the overall target of raising living standards by 50 per cent was attained it became increasingly clear as the decade progressed that the detailed, sectoral projections in the Second Programme were not reliable. In particular, the growth of imports outstripped the projections in the Programme, and this led to a balance of payments crisis in 1966. Fortunately, this set-back was less severe, and the authorities’ response to it less draconian, than was the case ten years earlier. More serious was the Programme’s overestimation of the contribution of agriculture to national growth. Instead of an annual average expansion of almost 4 per cent, the volume of agricultural output in fact grew by less than one per cent. While much of this shortfall could be blamed on the delay in Ireland’s accession to the EEC, it provided an important illustration of the way in which a Programme could incorporate targets without specifying the means for their achievement. As Desmond Norton pointed out in 1975, economic planning in Ireland tended to concentrate on the choice of targets and their implications for sectoral growth whereas economists prefer to think of planning as a process whereby policy instruments are selected and set at levels that will result in certain targets being reached. It has also been pointed out that a crude comparison of a programme’s target with actual outcomes is not an adequate framework for planning evaluation. There is a need to evaluate how specific policies contributed to the performance of the economy over the period of the Plan and to try to identify how much of the observed performance of the economy can be attributed to the implementation of the programme. An exercise of this nature was not undertaken on the Irish programmes and the only evaluation that was envisioned by the planners was to be undertaken by the body responsible for formulating the programme, namely, the Department of Finance. In its periodic reviews of progress under the programme, the Department stressed the lack of national commitment to the programme
and 'actions both in the public and private sectors that were out of line with the programme's objectives' as factors leading to the non-attainment of targets. This rationalisation in turn points to the absence of detailed departmental budgetary implications and guidelines from the programme, which, as Olympios Katsiouni pointed out in 1978, was a fundamental weakness of indicative planning as that term was understood in Ireland.

Perhaps the most disturbing and persistent discrepancy between the goals set out in successive programmes and the actual performance of the economy lay in the area of employment. The Second Programme called for a net increase of 81,000 in the level of employment between 1963 and 1970. As the plan period progressed, it became clear that the numbers engaged in agriculture were declining faster than anticipated, while the growth of industrial and service employment was slower than hoped. More of this growth was being achieved by increased productivity, and less by increased employment, than had been anticipated. The result was a net decline of 18,000 in the level of employment, a short-fall of almost 100,000 over the level projected in the Programme. Moreover, despite the growth of non-agricultural employment, the rate of unemployment was substantially higher at the end of the decade than at the beginning.

In the Third Programme for Economic and Social Development, introduced in 1969, there was a new emphasis on policies to reach full employment. This was taken to mean an unemployment rate of less than 4 per cent and annual net emigration of about 12,000. In fact, by 1970 the return flow of former emigrants more than offset the outflow of young people, and Ireland became a net gainer from migration for the first time in recorded history. This meant that the population was growing somewhat faster than its natural growth rate, which at over one per cent annually was the highest in western Europe.

The Second Programme was meant to cover the period 1964–70, but was officially abandoned in 1967. The Third Programme was designed for the period 1969–72, but very little was heard of it after its publication. Neither the Programmes themselves nor their eventual abandonment was discussed in Dáil Éireann. The verdict of economists writing in the 1970s has tended to the view that the whole planning
exercise was seriously flawed from a methodological point of view (see Norton, 1975, and Katsiouli, 1978). Yet despite this, among a wider public the view persists that the Programme made an important contribution to moving the Irish economy and indeed Irish society, forward from the stagnation of the 1950s to the expansion and development of the 1960s. Perhaps much of the impact was psychological, in that the Programme testified to a government commitment to economic development and helped to replace the old political issues with discussion about the best means of building up the Irish economy. Industrialists were forced to take account of the changing international environment and of the need to adapt and expand in order to survive. Civil servants, especially in the key policy-making departments, were imbued with a new sense of priorities by the politicians who realised with increasing acuteness that their survival was closely linked to the performance of the economy. But whatever the importance of these factors, the major trend in the Irish economy continued to reflect international forces such as the opening of new opportunities through membership of the EEC, the favourable climate for industrial exports during the boom years that ended in 1974, the accelerating inflation in the UK economy to which Ireland was linked in a close economic and monetary union, and even the repercussion of rising unemployment in the UK on young Irish people's willingness to emigrate.

The challenge of coping with rapid growth in the population and providing jobs for all those seeking employment in Ireland was to become a major theme of the 1970s. At the end of the 1960s, after more than a century of heavy emigration, it was understandable that the growth of population was more a source of pride in recent achievements than a cause of anxiety about the future. The nation faced into the new era of full membership in the EEC with a new confidence in the industrial, commercial and agricultural future of the economy, despite the darkening clouds of unemployment and inflation on the horizon.

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