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The Irish Economy half a Century ago

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THE IRISH ECONOMY HALF A CENTURY AGO[1]

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THE IRISH ECONOMY HALF A CENTURY AGO

Teagasc's forerunner, An Foras Talúntais, was born at a time of economic gloom and crisis. Towards the end of the same year when 'an institute for agricultural research to be known as An Foras Talúntais' was established, a key public policy document noted that 'a sense of anxiety' about Ireland's economic prospects was indeed justified; 'after 35 years of native government people are asking whether we can achieve an acceptable degree of economic progress'.[2] Almost simultaneously, in late 1958 the *Irish Banking Review* lamented that 'Ireland [had] been suffering from a mood of pessimism in recent years. Expressions of despair about the future…are heard on all sides'. Two years earlier, the cover of the July 1956 issue of *Dublin Opinion*, capturing the despondency that ruled the Irish Republic in the mid-1950s, had borne a cartoon showing a map of Ireland with the caption, 'Shortly Available: Underdeveloped Country: Unrivalled Opportunities: Magnificent Views, Political and Otherwise: Owners Going Abroad'.

The widespread belief in the 1950s that Ireland's economy was under-performing is borne out by Figure 1, which describes the ratio of Irish to UK Gross Domestic Product (GDP) per head between 1938 and 1970. Even before the outbreak of Word War II that ratio was almost certainly less than it had been at independence in 1921/2. The impact of the war, which drove the ratio down

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[2] Department of Finance 1958: 5.

to 0.4 in 1943, is striking. The Emergency, as World War 2 was known in Ireland, proved conclusively that no economy is an island. Then, after a short-lived post-war recovery, in 1958 the ratio reached a new low point. The huge fall in the ratio of Irish to British share prices between 1950 and 1958 also captures the dominant mood of economic pessimism.

Given its relative backwardness, there was a presumption that the Irish economy should have grown faster than the British: standard growth theory argues for the conditional convergence of GDPs per head.[3] However, Tables 1 and 2, derived from economist Angus Maddison's historical national accounts database, describe the growth in GDP and in GDP per head in Ireland and a selection of other countries between 1939 and 1958.[4] The first block of economies in both tables was directly involved in World War II, while the second remained neutral. Since Ireland (uniquely) lost population over this period, it fared better over the period as a whole in Table 2 than in Table 1. Considering the sub-periods, Ireland fared worst of the neutral economies in 1939-45, and only Franco's Spain fared worse in 1945-50. And Ireland fared worst of *all* economies in 1950-58, both in terms of GDP growth and GDP per capita growth.

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[3] Ó Gráda and O'Rourke 1996.

[4] Maddison's data may be downloaded at *http://www.ggdc.net/maddison/*. They are also the source for Figure 1.

Figure 1. Ratio of Irish to UK GDP per Capita, 1938-65

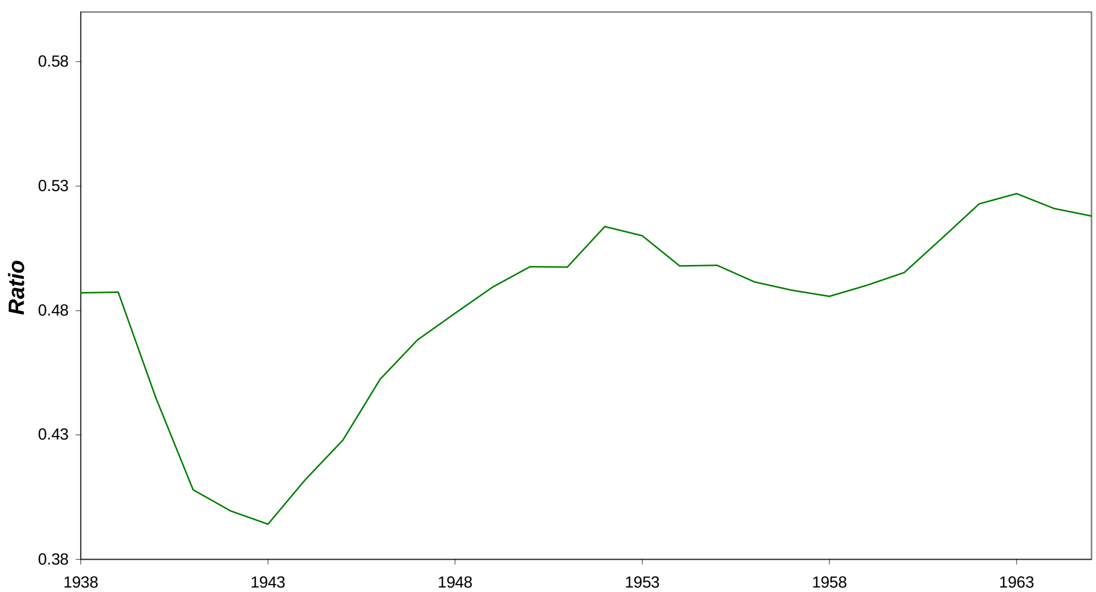

TABLE 1. GDP GROWTH RATES (% p.a.) 1939-58

Country	*1939-45*	*1945-50*	*1950-58*	*1939-58*
Austria	-14.1	15.7	5.9	2.2
Belgium	-3.0	5.3	2.6	1.6
Denmark	-1.8	7.4	2.6	2.5
Finland	0.5	5.5	4.2	3.4
France	-11.3	15.4	4.4	2.3
Italy	-9.5	12.7	5.9	2.8
Netherlands	-11.2	17.8	4.0	2.9
Norway	-1.1	7.3	3.5	3.1
Greece	-16.9	14.9	6.4	1.3
United Kingdom	2.4	0.0	2.1	1.7
Ireland	***-0.0***	***2.8***	***0.9***	***1.1***
Sweden	2.5	4.9	3.0	3.3
Switzerland	4.1	4.4	4.0	4.1
Portugal	1.5	3.9	3.7	3.1
Spain	2.4	1.7	5.4	3.5

TABLE 2. GDP PER CAPITA GROWTH RATES (% p.a.), 1939-58

Country	*1939-45*	*1945-50*	*1950-58*	*1939-58*
Austria	-14.4	15.3	5.8	1.9
Belgium	-2.9	4.6	2.1	1.2
Denmark	-2.8	6.3	1.9	1.6
Finland	0.2	4.2	3.2	2.5
France	-10.4	1.4	3.5	2.0
Italy	-10.1	1.2	5.3	2.2
Netherlands	-12.1	16.1	2.8	1.6
Norway	-1.8	6.2	2.5	2.1
Greece	-17.2	14.3	5.5	0.6
United Kingdom	2.0	-0.0	1.7	1.3
Ireland	***-0.1***	***2.7***	***1.4***	***1.2***
Sweden	1.7	3.8	2.3	2.5
Switzerland	3.3	3.1	2.7	3.0
Portugal	0.5	2.9	3.1	2.2
Spain	1.6	0.8	4.5	2.6

The economy's dismal performance in the 1950s was mainly, though not entirely, the product of poor economic policies. The lack of attractive foreign outlets for agricultural produce hurt, both during World War II and later. Two other factors mattered more, however. First, the strategy of import-substituting industrialization (ISI) practiced by all Irish administrations since the early 1930s had simply not worked. Instead of generating an expanding, self-sustaining economy, less reliant on the land, it had resulted in an inefficient, highly protected manufacturing sector that produced a small range of products in small plants with short production runs. An admittedly extreme example is the 'best kip boots' for men still produced by Hilliard & Palmer in 1959 for 56 shillings per pair, although there was only one worker left who could make them; the boots weighed three kilos per pair.[5] Many firms simply produced or assembled foreign goods under license, without giving a thought to exports. And as for exports, it is symptomatic that at a time when whiskey and linen accounted for the bulk of Irish manufactured exports to the United States, a senior member of the Marshall Plan mission to Ireland saw tourism and 'smoked salmon, Belleek, special linen products, unusually [sic] printed books and cards' as they only other potential prospects for earning scarce dollars.[6]

Second, short-run macroeconomic management in the post-war period was poor. In retrospect, it is striking how heavily—nay, obsessively—economic commentary and policy focused on the balance of trade. Thus, according to the *New York Times* (which in those days contained surprisingly frequent reports of Irish economic conditions), 'Ireland betters position in trade' (January 6 1953); 'the balance of payments has reached so dangerous a state of disequilibrium that we are within sight of national bankruptcy' (July 29 1956, citing an *Irish Times* editorial); 'Irish austerity balances trade: Dublin cuts imports' (January 7 1958). An undue, neo-mercantilist focus on the gap between imports and exports led to a succession of stop-go measures that stifled the growth potential of the economy. The disastrous budget of 1952 was the work of Fianna Fáil's Seán McEntee; in 1956 Fine Gael's Gerard Sweetman ushered through *two* deflationary budgets, the second of which—among other measures—increased levies on a wide range

[5] Ó Gráda 1997: 52; Ó Gráda 2000.
[6] Cited in Ó Gráda 2000: 267.

of 'luxuries' to a preferential rate of 40 per cent on imports from the United Kingdom, and 60 per cent on imports from most other countries. The ensuing decline in consumption was drastic enough to restore the balance of payments. Both McEntee and Sweetman, following the conventional economic wisdom of the day, underestimated the ability of the macroeconomy and the balance of payments to self-correct.[7]

THE VANISHING IRISH:

The Republic's population reached its post-famine nadir in 1961 at just over 2.8 million. Emigration, which had fluctuated considerably since independence, was largely responsible for the decline. Economic depression and the Second World War had reduced the rate of emigration since the early 1930s, but emigration took off again in the wake of World War II. So much so that it prompted the Catholic hierarchy to express its alarm in public and to express in a private resolution sent to An Taoiseach its worries about 'foreign agents [being] allowed to enter the country to attract girls abroad with promises of lucrative employment, the fulfillment of which no one in this country could control'[8]. In fact the scale of such operations was exaggerated, but the emigration of adolescents, particularly girls, would continue to worry the bishops and others.

[7] Honohan and Ó Gráda 1998.
[8] Ó Gráda 1997: 212.

The creation of a commission to inquire into 'emigration and other population problems' in 1948 was in part a response to such commentary. The experts produced no panacea, however, and their much delayed report—which did not appear until 1956—was very short on policy recommendations.[9]

During the second half of the 1950s the net outflow reached levels not matched in proportionate terms since the 1880s. Most of those who left headed for Britain.[10] Most, male and female, were literate but otherwise poorly skilled workers from rural backgrounds. Still, the significant emigration of skilled, better educated emigrants in this period—doctors, engineers, architects, nurses—is a reminder that while high levels of education may have been a necessary condition for economic growth, they were no guarantee of it. In the late 1950s Irish medical schools were producing 'about 360' new physicians, of whom only about one-third could be absorbed in Ireland.[11] This may mean that Ireland was over-investing in third-level education in the 1950s, in the sense that the benefits were being reaped where people emigrated, not in Ireland.

Much has changed in the interim. In an address to Irish fund-raisers in late 2007 former Coca-Cola president Donald Keough warned of the costs of Ireland becoming more 'mentally distant' for Irish-America.[12] This seems inevitable, given that the virtual embargo on Irish immigration to the U.S. between 1931 and 1945, followed by a restrictive immigration regime thereafter,

[9] Daly 2006: 172-79.
[10] The best account is Delaney 2007.
[11] *NYT*, July 7th 1957.
[12] *Irish Times*, November 8th 2007.

forced most Irish emigrants to head east rather than west. Still, emigration to the U.S. on a modest scale resumed after the war, and in the 1950s Irish politicians, desperate for foreign exchange, sought to tap the American market for nostalgia. In 2007 Keough spoke of Ireland's 70 million-strong diaspora; in 1955 William Norton, Minister for Industry and Commerce, spoke more modestly of 'the 20,000,000 people of Irish stock in the United States [who] might be induced to buy even a pounds worth (or $2.80) of Irish goods on a St. Patrick's Day, or during that week [as] a practical way…of helping the Irish economy to the tune of £20,000,000 a year'.[13]

FOREIGN INVESTMENT:

The success of the Celtic Tiger between the late 1980s and the mid-2000s has been linked, plausibly, to the enticements offered by Ireland's business-friendly tax regime to foreign, and particularly US, multinational corporations. Without access to foreign markets provided by the European Economic Community (which Ireland joined in 1973) and the Single European Act (1986) such a strategy would not have worked so well. The switch from a policy of penalizing importers to one of subsidizing exporters dates back to the 1950s, however.

[13] *NYT,* Aug 28 1955.

In the 1950s few Irish manufacturers focused on export markets. Those who did so were overwhelmingly dependent on the British market. From the early 1950s on, as the failure of the domestic market to deliver sustainable growth became increasingly obvious, policy shifted cautiously away from ISI. The focus on export-oriented subsidiaries of multinationals was politically attractive, since it did not threaten existing indigenous firms directly. By 1955 Irish delegations were visiting Sweden, Germany, and the U.S. seeking foreign investment.

The package of incentives they offered was remarkably similar to that already available in Northern Ireland since the early post-war period. The shift towards reliance on foreign capital in the Republic was thus not merely a question of soul-searching based on experience since the 1930s. The authorities in the mid-1950s cannot but have been aware of Northern Ireland's relative success in attracting foreign investment and of the relative buoyancy of the Northern economy. Northern policy, directed through the Northern Ireland Development Council (NIDC), sought to compensate for employment losses from the decline of traditional industries and to diversify the Northern Ireland economy. It offered aspiring investors grants and loans for premises, plant, and machinery. An aggressive marketing campaign included a series of large advertisements in the London *Times* in 1957, and repeated press announcements of new firms and expansion schemes. By late 1957 Northern Ireland could boast

130 new industrial establishments since 1945, most British, six American.[14] In late 1958 NIDC announced that it had aided 22 new firms and seven expansion schemes in the previous three years, projects which, when fully operational, would employ 6,500 men and 900 women. In October 1958 it announced the subsidiary of the eighth American firm to establish a base in Northern Ireland, a Texas company producing valves for oil wells in Carnmoney (near Belfast), which would employ about sixty males and export to 'all the oil-producing areas of the world except the United States'[15]. If the South would later steal a march on the North with its policy of low taxes on corporate profits, then Northern industrial development policy was the more innovative in the 1950s.

William Norton was a vigorous proponent of the new approach. Both he and his successor, Seán Lemass, envisaged export-oriented manufacturing industries servicing a European free trade area from bases in Ireland as the way forward.[16] Thus on 11th March 1958 Lemass announced new incentives for industrial investment (a five year exemption from taxation on all profits derived from exports, plus complete freedom to repatriate profits) and the expansion of free trade operations at Shannon (low rent on sites, construction grants, no tariffs on imports of raw materials). The success of such measures was predicated on expected Irish membership of a broader European free trade area. It would take some years for this policy shift to bear fruit.

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[14] *NYT*, Nov 27th 1957.
[15] *The Times*, Nov 11th 1958; *NYT*, Oct 9th 1958.
[16] Horgan 1998: 167-68.

AGRICULTURE:

Today agriculture accounts for only 2 per cent of GDP and 5 per cent of the labour force. Half a century ago, those percentages were about 25 and 35 per cent, respectively. Farming offered full-time employment to over 0.4 million males in 1957/58 (not to mention the number of full-time female equivalents), while live animals and food products accounted for over half of the revenue generated by exports. Farming mattered then, but its poor record affected the economy at large. Part of the problem was that since the 1930s farmers in the Republic had lacked the advantages in terms of market access and subsidization available to their Northern neighbours; the growing divergence between the composition of agricultural output in the two Irelands between the 1930s and the 1960s and its subsequent convergence in the wake of EEC membership is significant in this respect.[17] In addition, World War II had prevented Irish agriculture from fully exploiting its comparative advantage in dairying and meat exports, and had left it badly undercapitalized. An expert from New Zealand employed by Agriculture Minister James Dillon produced a report indicating that 'there is no area of comparable size in the northern hemisphere which has such marvelous potentialities for pasture production'[18], but that potential was compromised by soil exhaustion and the under-use of lime and phosphates in

[17] Ó Gráda 2000: 275-76.
[18] Holmes 1948: 8.

the wake of the Emergency. In Dillon's picturesque assessment, Irish grass 'would fill a cow's stomach and yet let her die of starvation where she stood'. The Irish Grassland Association, founded in 1946, was born of such concerns and anticipated the kind of cooperation between researcher and farmer associated with Johnstown Castle, acquired by the Department of Agriculture in 1945 and handed over to Teagasc's forerunner, An Foras Talúntais in 1959. Ireland's fertilizer deficiency backlog, a major policy preoccupation in the 1950s, would take a long time to eliminate, but the consumption of lime and fertilizers rose by almost two-fifths between 1957 and 1962.

A pioneering survey carried out by the Central Statistics Office with the 'wholehearted cooperation' of farmers in the mid-1950s confirmed the low incomes earned by a majority of farmers at that time. At the same time, it implied—after leaving out of account mini-holdings of less than five acres—an average farm family income of nearly £500, at a time when the average industrial worker earned £350-£450 a year. Inequality on the land was considerable: applying the Central Statistics Office's estimates of family income to official data on the size distribution of holdings suggests that one-tenth of farmers with holdings of 100 acres or more accounted for nearly one-quarter of family income.

Table 3: FARM INCOMES IN THE 1950s			
Farm size (acres)	No. of farms in survey	Income per farm (£)	No. of holdings in country (1955)
5-15	108	209	59,066
15-30	265	332	83,896
30-50	287	464	63,080
50-100	284	697	52,270
100-200	151	1,034	21,930
200 +	79	1,425	7,152
Total	1,174		287,394
Source: Ó Gráda 1997: 161			

In the mid-1950s, as noted, agriculture accounted for the bulk of Irish exports. However, competition from Argentina and the UK system of deficiency payments (which kept UK prices below world levels for consumers, but compensated farmers accordingly) militated against production and exports. Between mid-1955 and mid-1956 the price of prime bullocks dropped from £9 to £6 per cwt, while Irish bacon was being priced out of the British market.[19]

Between 1949/51 and 1959/61 net agricultural output (including turf) rose by 17.7 per cent. Nevertheless, the productivity of Irish agriculture in these years remained low relative to both Northern Ireland and Great Britain. Tens of thousands of farms remained uneconomic; the average farmer was poorly educated; policy (as already noted) diverted farmers away from their comparative advantage in milk and beef; and much of the land was in poor

[19] *NYT*, July 29, 1956.

condition. The sector's underperformance was the stimulus for both Joseph Johnston's *Irish Agriculture in Transition* (1951) and Raymond Crotty's *Irish Agricultural Production* (1966).

Agriculture also naturally played a major role in Dr. T.K. Whitaker's *Economic Development*. Eight of its twenty-four chapters were devoted to agriculture, which also featured prominently in several other chapters. Given manifold constraints, including the lack or markets, underinvestment, the high average age and poor education of farmers, and the large number of uneconomic holdings, Whitaker declared that it would not be easy 'to break out of the vicious circle of low production at high cost'. In a stinging critique of the role of agriculture in the universities, *Economic Development* declared that in view of An Foras Talúntais's need to hire trained staff, the time had come to reassess the role of UCD's Faculty of Agriculture. The ensuing *Programme for Economic Expansion* (1959-62) expected very modest growth from the farm sector.

It is significant too that today's two main farming organizations were founded in the 1950s. The National Farmer's Association (predecessor of the IFA) held its inaugural meeting on January 6th 1955, followed by a formal dinner at the Royal Hibernian Hotel—an event far removed from the everyday lives of most farmers of the day. In its early days, the NFA was led by a group of gentleman-farmers, with the leisure and education to organize; they included a wealthy Argentine-born tillage farmer, a Cavan-based old Clongownian, and a Donegal Presbyterian who cited papal encyclicals without scruple when the occasion demanded. Within a few years, angered at gains made by public sector workers, the NFA was claiming that it would take £83 million—presumably in transfers from the rest of the community—for farmers to regain the relative status they had in 1953. This claim prompted Taoiseach Seán Lemass to warn of 'the futility of relying on a statistical approach to the problem'[20]. The NFA's main rival, the Irish Creamery Milk Suppliers' Association, had been formed five years earlier. As its name implies, it was strongest in the dairying areas, and so its council held its inaugural meeting in Cruises Hotel, Limerick. Formed in response to Agriculture Minister James Dillon's decision to cut the price of milk back from 14d to 12d per gallon, it too acquired a reputation for militancy. A third farming organization, Macra na Feirme, had been founded in 1944 as an instrument for educating young farmers in a social setting. One of its founding members, John Litton from Wicklow, became the first chairman of An Foras Talúntais.

LOOKING AHEAD:

For all the gloom and doom, there were signs too in 1957/58 that change was afoot. On August 8th 1957, Ireland joined both the International Monetary Fund and the World Bank. In July 1958, the Industrial Development (Encouragement of External Investment) Act removed many of the remaining

[20] Cited in Ó Gráda 1997: 159; see also Daly 2002: 372-85.

restrictions of the Control of Manufactures Acts, which had discriminated against foreign capital since the 1930s. Three years later, Ireland applied for full membership of the European Economic Community.

In the late 1950s something changed in the economy, and Ireland entered a period of economic growth that would last for several years. Motor vehicle registrations, one plausible proxy for consumer confidence, suggest widespread gloom between early 1956 and mid-1957; car sales then began to rise, being two-fifths higher in 1960 than in 1959, and annual sales would continue to rise for several years thereafter. Comparing the percentage change in ordinary share values in Ireland and the UK indicate that Irish investors began to show clear signs of greater 'bullishness' from early 1960 on. Net emigration, a sensitive marker of economic performance, would be lower between 1961 and 1966 than during any intercensal period since independence.

There is still no consensus as to why the shift happened. Writing in 1971, the late F.S.L. Lyons claimed that the Department of Finance's *Economic Development* were crucial: 'it is hardly too much to say…that even today it can be seen as a watershed in the modern economic history of the country'[21]. Whitaker, main author of *Economic Development* and the ensuing *Programme for Economic Expansion*, held that 'objective students of our past philosophy and performance' would find it hard to dismiss the 'psychological stimulus of planning between

[21] Lyons 1971: 628.

1958 and 1963'[22]. Although accorded an important role in Irish accounts[23], it is curious how the foreign press made little or nothing of *Economic Development* or the *Programme for Economic Expansion*. In retrospect, the focus on agriculture and tourism in those documents seems excessive, but their insistence on the need for, and possibility of, even modest economic growth was significant. Others factors posited include the election as Taoiseach of Seán Lemass in June 1959; investments made in social overhead capital during the 1950s beginning to bear fruit; and the rapid growth of Ireland's trading partners and a commitment to trade liberalization giving the fillip to growth at home. Or perhaps all of these changes helped.

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[22] Cited in Chubb and Lynch 1969: 300.
[23] E.g. McCarthy 1990.

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