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JOB CREATION SINCE THE FOUNDATION OF THE STATE

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# Job Creation Since the Foundation of the State

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## Introduction

The population of the Republic of Ireland is now 3.2 million, just about the same as it was in 1921 when the new State was about to be formed. From the perspective of other European countries, the remarkable thing about this is the absence of growth, since every other European country has experienced a significant rise in population in this period: even in Northern Ireland, which I shall consider later in the paper, the population is now more than one-fifth greater than in 1921. But on the other hand, from the perspective of Ireland in the 1950s, when population was declining rapidly - reaching a low point of 2.8 million in 1961 - few people would have confidently envisaged restoration of the population to its 1921 level within such a comparatively short number of years.

The major determinant of Ireland's unusual population experience has been emigration, which in turn has been chiefly influenced by the search for jobs abroad that were not available at home. In this paper, I shall first outline the past record of employment creation in the Republic of Ireland. Part II considers the varying policy approaches that were adopted. In Part III, the employment experience in Northern Ireland is discussed. In the concluding part, I try to draw some lessons from the past which I hope will prove relevant to your work in the rest of the Course when you turn your minds to the present and prospective situation.

## I. The Employment Record

The first comprehensive employment figures after independence relate to 1926, and in that year there were 1.22 million recorded at work in the area now known as the Republic of Ireland. Fifty years later, in 1976, recorded employment was 1.04 million, so that there was a decline of nearly 200,000 over this period. Most of the fall occurred in the 1950s: in the decade 1951-61, there was a net loss of 165,000 jobs. Otherwise the total level of employment has been static, except for the recent world depression when there was an aggregate net loss of about 30,000 jobs in the two years 1974-75.

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The aggregate change in employment has been accompanied by vast structural changes, as shown in Table 1. Agricultural employment is now less than two-fifths of its level fifty years ago. This has involved a net decline in agricultural employment of more than 400,000 - much greater than the overall loss of jobs. Industrial employment doubled, and employment in services increased moderately.

Over time, the sectoral changes in employment have varied considerably. The fact that total employment remained roughly constant between 1926 and 1946 as against a significant fall in the period since World War II owes much to the different rate of decline in agriculture in the two periods. From 1926-46, the fall in agricultural employment amounted on average to a little over 4,000 per annum, compared with an average of 11,000 per annum in the post-war period. Two major factors involved were the depression of the 1930s and the world war, both of which greatly reduced emigration in general, and the outflow from agriculture in particular.

Outside agriculture, employment rose substantially from 1926-46 in industry, and to a moderate degree in services. The major element of expansion was in manufacturing industry in the years 1932-36 as a result of the introduction of widespread protection. At the same time, there was considerable expansion in construction, including housing, and later, during the war, in turf production.

With the return to normality after the war, and with high employment prevailing in Britain, it was almost inevitable that there would be substantial acceleration in the rate of employment decline in various activities in Ireland. This, in fact, is what happened: In the five-year period 1946-51, agricultural employment fell by 14,000 per annum. In private domestic service - another activity where employment was temporarily sustained because of depression and war - the annual rate of decline trebled to 3,000 per annum. As fuel supplies from abroad became more readily accessible the numbers engaged in turf production fell considerably.

Given these enormous reductions, the even more remarkable feature of the period 1946-51 is that overall employment only fell slightly. This was because of an industrial boom in that period when industrial employment expanded by 11,000 jobs per annum - greater than in any other inter-censal period before or since. A major influence was the increase in construction activity stimulated by fiscal policy aimed at the provision of much-needed social and infrastructural facilities. But more than half the extra jobs came in manufacturing. True there were numerous special

Table 1

Aggregate and Sectoral Employment in the Republic of Ireland,  
Various Dates, 1926-1976\*

	Total Economy	Agriculture	Industry	Services
	(i) Numbers (000)			
1926	1,219.5	652.2	162.4	404.9
1936	1,235.3	613.0	206.4	415.9
1946	1,225.7	567.3	224.9	433.5
1951	1,217.1	497.8	280.6	438.7
1961	1,052.5	379.9	257.2	415.4
1966	1,066.0	333.5	293.7	438.7
1971	1,054.8	273.1	322.7	459.0
1974	1,066	254	331	481
1975	1,050	252	315	483
1976	1,035	243	304	488
	(ii) Average Annual Growth Rates (%)			
1926-36	0.1	-0.6	2.4	0.3
1936-46	-0.1	-0.7	0.9	0.4
1946-51	-0.1	-2.6	4.5	0.2
1951-61	-1.4	-2.7	-0.9	-0.5
1961-66	0.3	-2.6	2.7	1.1
1966-71	-0.2	-3.9	1.9	0.9
1971-74	0.4	-2.4	0.9	1.6
1974-76	-1.5	-2.2	-4.2	0.7
Full period 1926-76	-0.3	-2.0	1.3	0.4
	(iii) Sectoral Shares in Total Employment (%)			
1926	100	53.5	13.3	33.2
1946	100	46.3	18.3	35.4
1966	100	31.3	27.6	41.2
1976	100	23.5	29.4	47.1

\* Figures relate to April of each year.

Source: Kieran A. Kennedy, Productivity and Industrial Growth: The Irish Experience (Oxford: The Clarendon Press, 1971); Census of Population of Ireland 1971, Vol.III; and Department of Finance, Economic Review and Outlook, June 1977.

circumstances which have led some later writers to treat this expansion as artificial and unsustainable. Extensive protection of home manufacturing prevailed; demand on the home market was particularly buoyant, following the release of pent-up demand from the war period and the post-war expansionary fiscal measures; and there was a considerable boom in tourism from Britain in the immediate post-war years due to the more abundant food supplies here and currency restrictions on travel to non-sterling countries. Nevertheless, the performance was impressive in terms of industrial employment, and contrasts sharply with the following decade when the policy of fiscal expansion was curtailed.

In fact, as far as employment is concerned, the 1950s represents the worst phase in the whole period since independence. In the decade 1951-61 employment in agriculture continued to decline at the same annual percentage rate ( $2\frac{1}{2}$  per cent) as in the previous five-year period. Since the rate applied to a reduced level, however, the absolute annual decline was somewhat reduced to an average of under 12,000 per annum. Had employment outside agriculture continued to expand at the same rate as from 1951-61, total employment would have begun to rise. Instead both industry and services contributed further to the overall decline.

The fall in total employment was arrested in the period 1961-66 and a small expansion took place. Agricultural employment continued to decline at the same percentage rate but now the average annual numbers involved were reduced to just over 9,000. The same phenomenon was operative in private domestic service, where the average annual fall was down to 1,300 for 1961-66 compared with 2,200 for 1951-61 and 3,000 for 1946-51. Industrial employment rose considerably and there was also a significant rise in services employment.

This happy state of affairs was not sustained in the following five-year period, 1966-71, when the level of total employment declined again - by an average of over 2,000 per annum. A number of factors were involved. First, the rate of outflow from agriculture accelerated sharply. Had agricultural employment declined at the same annual percentage rate as formerly in the post-war period ( $2\frac{1}{2}$  per cent), this would have involved a drop of 7,000 jobs per annum on average. Instead the rate rose sharply to 4 per cent per annum, involving an average loss each year of over 12,000 jobs. A similar experience took place in relation to private domestic service, where employment fell by an average of 2,000 per annum - well up on

the figure for the previous quinquennium. In addition, the rate of increase in industrial employment was lower.

In the period April 1971 to April 1974, immediately prior to the recent world depression, total employment rose slightly. But the rise was due more to a reduction in the rate of decline in agricultural employment rather than to any acceleration in the growth of non-agricultural employment. Indeed, the rate of increase in industrial employment declined further, but this was offset by a rise in the growth of services employment - most of it in public administration and defence and other public services such as education and health. The major effects of the world depression were felt in the period April 1974 to April 1976 when there was an overall net decline of 30,000 jobs. Industrial employment, in particular, was severely affected, despite the new jobs created under the industrial development programmes.

## II. Policy Considerations

Having sketched the factual record, let us now turn to examine the major influences underlying the actual employment experience. It had been a major hope that the achievement of independence would give freedom to devise and implement economic policies that would accelerate the development of the economy and check the sustained drain on population. For this purpose, the need for industrial development was clearly recognised by some of the leaders of the independence movement. Griffith was influenced in this direction by Hungarian experience and by the ideas of the economist, Friedrich List, who argued the need for tariff protection for "infant industries"; while other leaders, such as Connolly, looked to even more radical methods.

### The First Decade

Despite the obvious need for rapid industrialisation if employment opportunities were to expand, few industries developed in the first decade of independence. True, there were some far-sighted initiatives, such as the Shannon Electricity Scheme, but economic policy concentrated predominantly on agricultural development - the slogan of the time being "one more cow, one more sow, one more acre under the plough". The new Irish government took the view that the overall prosperity of the economy depended on agriculture, and that the prosperity of agriculture depended on the export market. This view was founded on the fact that the land provided

the only major known natural resource, that agriculture at the time accounted directly for more than half of the labour force, while exports of live animals and food amounted to three-quarters of total merchandise exports. Moreover, Britain provided a virtually unlimited outlet for livestock products. The overriding aim of policy was to raise agricultural productivity and reduce farm costs so that Irish export sales would be competitive and provide good returns to farmers. Particular stress was laid on improving the quality of output and marketing arrangements, but no direct support of agricultural prices was provided.

The policy, so far as it went, had considerable success. While it was calculated to raise real income, however, it was unlikely to generate enough new jobs without special measures to secure complementary development in industry, including, of course, agricultural processing. Why then was there such delay in pursuing what seemed to be the accepted nationalist approach to industrialisation? The following appear to be the chief reasons. First, the Civil War and its aftermath put a premium on re-establishing stability, making drastic innovations in economic policy less welcome. Second, in re-establishing stability, the government necessarily relied on goodwill and moral support from the British government, which might be eroded by an extensive network of tariffs that would mainly affect British goods. Third, many of the leaders favouring industrialisation, such as Griffith and Connolly, were dead. Fourth, the victorious party in the Civil War contained the more conservative elements and drew support from the better-off farmers and the professional classes. These were unlikely to benefit - in fact, they were likely to be worse-off - as a result of the introduction of protective tariffs which would increase the price of their consumer goods and the cost of some of their inputs. Fifth, the industrial lobby was weak. The boundary of the new State was decided on political considerations and did not correspond to any desirable economic or geographic entity: the major industries were largely located in the excluded six counties. Finally, the prevailing view among the great majority of Irish economists then, and, in particular, among those advising the government, strongly favoured the laissez faire philosophy. Indeed, it was left largely to an English economist, none other than the great Keynes, to defend the introduction of industrial protection in Ireland. Delivering the first Finlay Lecture at University College Dublin in April 1933, Keynes, to the embarrassment of his hosts, expressed his sympathy with the new government's approach to greater self-sufficiency: "let goods be homespun

whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national".<sup>1</sup>

### The Thirties and Economic Nationalism

Mr deValera's government, elected early in 1932, quickly embarked on the encouragement of industrial development on a broad front through tariff and quota protection. The objective was partly nationalistic - to keep Irish production in Irish hands - but was also aimed at providing employment and reducing emigration. It was accepted that, in the short-term at least, protection might involve a lower standard of living but this was judged a reasonable price to pay for maintaining a larger community in Ireland. Mr deValera argued that "if the servant was displeased with the kicks of the master and wanted to have his freedom, he had to make up his mind whether or not he was going to have that freedom, and give up the luxuries of a certain kind which were available to him by being in that mansion". And again that "we should get for our own people the necessities of life and try to maintain our population" and that "we should forget as far as we can what are the standards prevalent in countries outside this".<sup>2</sup>

Two events were important in winning support for the new policy: the Great Depression and the Economic War. The Depression, however, was not so influential a factor in Ireland as in other countries in the switch to protection. Between 1929 and 1931, Ireland was less hit than most countries, partly because of the absence of heavy industry and the freedom of trade with its principal market, the United Kingdom, but chiefly because the price of livestock, the main export, was well maintained until 1931: in fact, between 1929 and 1931 the terms of trade improved for Ireland. The Economic War, which began in 1932, arose out of a dispute between the deValera government and the British government when the former refused to continue payment of certain land annuity payments which the previous administration had accepted as being due to Britain. The British government replied by imposing substantial duties on Irish exports of livestock and livestock produce as well as terminating Ireland's exemption from the general 10 per cent duty imposed under the Import Duties Act of 1932.

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1. John Maynard Keynes, "National Self-Sufficiency", Studies, June 1933. It should be added, however, that Keynes warned of the dangers to be avoided in the pursuit of economic nationalism, which he classified as Silliness, Haste and Intolerance.

2. E. deValera, Fianna Fail and its Economic Policy (Dublin, 1928).

Quotas limiting Irish exports of livestock and livestock produce were imposed in Britain, effective from the beginning of 1934. The Irish government retaliated with penal duties on certain British imports. The Economic War lasted from 1932 to 1938 and, as one historian put it, "the revival of the old quarrel with England had created the atmosphere of emotional fervour which he (i. e. deValera) needed for launching a drastic experiment in economic nationalism".<sup>1</sup>

There are many criticisms of detail which might validly be made against such hasty and indiscriminate use of protection. The sudden introduction of prohibitive tariffs and quotas led to the proliferation of many small establishments in each industry. These were sharing a relatively small home market, which in many industries could at most justify only a few firms if these were to operate at an efficient scale and have the prospect of ultimately competing internationally. Also many of the new industries were engaged in relatively minor assembly operations of goods imported in semi-finished form. Yet while these and other criticisms can justifiably be advanced, it remains true that the overall strategy made a great deal of sense in the prevailing conditions. An export-oriented strategy was simply not a feasible option at that time. There was little tradition of manufacturing enterprise, so that this had to be developed almost from scratch. As experience generally shows, including the results of the export strategy adopted in the last two decades, it is difficult to expect new native enterprise to launch quickly into export markets without the learning experience acquired first through operating on the home market. This is so even at the best of times: in the conditions of the 1930s it would have been next to impossible given that the advanced countries generally were reverting to widespread protection. Nor would it have been possible to rely extensively on the other expedient adopted in the post-war period - attracting foreign enterprise - even if this were not incompatible with Mr deValera's philosophy: the Great Depression was not conducive to such enterprise, and besides the multi-national idea was not as prevalent then as it later became.

The policy of protection, and associated measures such as the Control of Manufactures Acts which limited foreign control, must be credited with the establishment of the great majority of the native private enterprises existing today; and nothing comparable in the way of new domestic enterprise has been generated since then. The policy was also

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1. W. K. Hancock, Survey of British Commonwealth Affairs, Vol. I (Oxford: Oxford University Press, 1937), p.350.

quite successful initially in expanding industrial employment. From 1931 to 1936, employment in transportable goods industries rose from 67 thousand to 101 thousand - a rise of 50 per cent in five years. But for a variety of reasons which I will not go into here,<sup>1</sup> productivity rose little. Moreover, the uncertainty generated by the introduction of tariffs against Irish goods in Britain, for which the Economic War and the Irish policy of protection were at least partly responsible, contributed to the loss of significant expansion possibilities in some industries. Ireland's premier manufacturing concern, Guinness, decided to open a brewery at Park Royal, near London, in 1936 to safeguard its British market, while Ford's decision in 1932 to use the Cork plant only for home market assembly was influenced, inter alia, by similar considerations.

What about the other major possible avenue of development - direct State involvement in production? The Cosgrave administration, as already mentioned, had established the Electricity Supply Board in 1927 and some other State bodies as well, such as the Dairy Disposal Company (1927) and the Agricultural Credit Corporation (1927). The 1930s saw the establishment of the Sugar Company (1933) and Ceimici Teoranta (1934) in manufacturing; while other new State bodies relating to productive activity included the Industrial Credit Company (1933), Aer Lingus (1936), Aer Rianta (1937), Irish Life Assurance (1939) and the Irish Tourist Board (1939). Public expenditure on housing was also enlarged. It is fair to say that the general approach was pragmatic, and the underlying ideology, in so far as there was an ideology, was to establish State bodies only where it was abundantly clear that private enterprise would not or could not operate. Even on this criterion, however, some opportunities were missed, such as the possibility of developing the fishing industry at a time when the costs, in terms of opportunities foregone, were undoubtedly far less than today. Moreover, some of the State bodies, such as the Tourist Board, operated with a level of funding that made it difficult to achieve a major impact.

Land policy reflected the same, essentially conservative approach - I use the term neutrally and not necessarily in a critical sense. Division and reallocation of holdings continued on the basis of providing small peasant proprietorships to those of farming background - generally in the same locality. The idea that land might be operated in other ways, or by people with a non-farming background, such as in collective enterprises

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1. See Chapter 2 of my book, Productivity and Industrial Growth: the Irish Experience (Oxford: The Clarendon Press, 1971).

like the kibbutzim of Israel, was probably never even considered seriously. No doubt this reflected political realities arising from the values of the vast majority of the population. The government did, however, take initiatives in encouraging the development of corn crops, fruit, vegetables, sugar beet, and even, though unsuccessfully, tobacco.

As may be seen from Table 1, the overall level of employment was slightly higher in 1936 than in 1926, and this was the only intercensal period since independence, apart from the five-year period 1961-66, in which the level of aggregate employment increased. This was not, of course, simply the outcome of new job creation: another major influence was the effect of the Great Depression on emigration, and hence on the numbers remaining in agriculture. As employment conditions improved abroad from about the mid-1930s, the outflow from agriculture increased. Moreover, once the initial import-substitution phase was achieved in manufacturing, employment growth there was much more moderate, depending primarily on the growth of the home market. The final resolution of the Economic War was achieved in 1938 with a set of agreements on defence, financial and trade matters. The effect of the trade agreement in practice was that Ireland had substantially free access to the British market while retaining most of its own protective duties, though at a preferential rate for British imports.

During World War II, the scope for emigration was again reduced. The need to produce as much as possible at home, especially food and fuel, the difficulty in acquiring or replacing machinery and equipment, and the increase in the armed forces from 7,500 in 1939 to a peak of 38,000 in 1942, all helped to maintain employment. In 1946, at the end of the war, the level of total employment was much the same as it had been 20 years earlier.

#### The Early Post-War Years

The major challenge to employment creation came with the return to normality after the war. Britain was committed to a full employment policy, so that the deterrent to emigration no longer existed. In agriculture, a large amount of labour had been bottled up by the depression of the 1930s and the war, and it was inevitable that the outflow from agriculture would be greatly increased. This could be only accentuated by the reduction in the abnormally high tillage levels required during the war, and

by the availability of new machinery and labour-saving technologies. Industry was also at a crossroads. Since the scope for new import substitution was limited, it either had to seek markets abroad, or be confined to the growth of the home market.

In the first five years after the war, economic policy responded to this challenge with considerable success. A large and growing programme of public capital expenditure was maintained, much of it devoted to building and construction. This made sense, given the need for infrastructural facilities and the high unemployment rate in the building industry. Moreover, the inevitably large outflow of unskilled workers from agriculture could often be absorbed most readily in building activities in the first instance. It would be wrong, however, to think of public capital spending as having been entirely "social": while there was substantial expenditure on houses, hospitals and schools, there was also a significant volume of investment in power, transport and communications. A high growth of home demand was sustained; and employment in industry and services rose by almost enough to match the very substantial rise in the numbers leaving agricultural employment. Important direct State initiatives in production were the establishment of Bord na Mona (1946) and Irish Steel (1947).

A major deficiency in the overall policy approach was the delay in seeking to secure a complementary development of exports, without which the approach would ultimately become unsustainable. But having said that, it must also be added that the policy of expansion was curtailed long before it need have been, and well before any export measures were likely to have had substantial effect. The 1949 devaluation and the Korean War caused a steep rise in import prices, and the balance of payments deteriorated sharply in 1950 and 1951. This led to restrictive budgetary measures to restore the balance of payments position. In retrospect, it is clear that a great part of the problem was due to external, rather than domestic, factors. Moreover, the external difficulties proved to be temporary, and the balance of payments was already on the mend even before the government's deflationary policies were introduced. Even when the balance of payments situation was corrected, there was no return for most of the 1950s to the expansionary policies that characterised the early post-war years. On the contrary, during the 1956-58 depression, the public capital programme was further cut back, especially as regards housing investment.

This approach was supported by the best economic advice available to the government. The only major protest came from two people

who would probably not regard themselves as economists, General Costelloe and your own General Secretary, Ruaidhri Roberts.<sup>1</sup> The case made for the cut-back in housing was that the resources thereby freed could be devoted to more productive uses. General Costelloe and Mr Roberts, however, argued that the circumstances of the time called for an increase, rather than a decrease, in total public investment, and that such an increase would be impossible if State investment in housing were reduced. Contrary to the view that such investment must be deferred until economic growth had accelerated, they argued that it should be "considerably expanded at times such as the present and diminished when its continuance would put a strain upon the resources of the (building) industry". They drew attention to the role of the building industry in generating economic growth, the damaging consequences to that industry of cutting back housing before other forms of investment had been developed, and the difficulty of stimulating these other investments in the conditions of depressed demand likely to follow from the reduction in housing. They also stressed the importance of housing for workers as a precondition to industrial and agricultural development and diversification. Reviewing this debate in our book on post-war economic growth, Brendan Dowling and I concluded that although these views "had little influence at the time, in retrospect they appear to have been well founded".<sup>2</sup>

In the decade 1951-61, the numbers in agriculture continued to fall rapidly, while industry and services, rather than offsetting this decline, added further to it, resulting in a total net loss of 165,000 jobs. The building industry was particularly hard hit, with employment declining from 1951-58 by over one-third - from 86,000 to 56,000. While one may justly regret the lost opportunities of the 1950s, however, it is important also to remember that many important developmental measures were initiated then which subsequently contributed significantly to expansion in the 1960s. These included the industrial development and tourist traffic acts, the introduction of export tax relief, and the establishment of the Agricultural Research Institute (1958). The objective of these and other developmental measures was given a coherent expression in Dr Whitaker's Economic Development, which had a profound effect in restoring the shattered confidence of the nation.

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1. See Minority Report to Capital Investment Advisory Committee, Second Report (Dublin: Stationery Office, 1957).

2. Kieran A. Kennedy and Brendan R. Dowling, Economic Growth in Ireland: the Experience since 1947 (Dublin: Gill and Macmillan, 1975).

### The Outward-Looking Strategy

The experience of the 1950s was taken by many as proof positive that protection did not work. Such a conclusion is open to question. The more serious failures were the reluctance to expand public investment, the discouraging effect on private investment of the resulting slow growth of home demand, and the slowness in adopting measures later used to encourage exports. Protection could only be blamed for the debacle to the extent that it acted as a disincentive to exports; and, recalling that there was already freedom of access to the large U.K. market for most industrial products, any such loss could have been countered without sacrifice to the contribution protection would have made to the success of a satisfactory domestic demand management policy.

The swing towards an outward-looking strategy of development was intensified during the 1960s and early 1970s. There were unilateral reductions in tariffs in 1963 and 1964, the Anglo-Irish Free Trade Area Agreement came into operation in 1966 and Ireland joined the EEC in 1973. The Control of Manufactures Acts were fully repealed in 1964, having been modified in 1958, and efforts to attract foreign enterprise were substantially enlarged. The period 1961-73 witnessed a rapid rate of growth of national output, at over 4 per cent per annum on average, but there was scarcely any change in the aggregate level of employment. The fact that total employment did not expand despite acceleration in the rate of output growth has led some to doubt whether economic growth can create more jobs. This conclusion would not necessarily be correct, however. During the period of more rapid growth there was an improvement in the employment situation in the sense that it was no longer declining significantly as it had been in the 1950s; and it could be argued that had economic growth accelerated still more, to about 6 per cent, this would have sufficed to achieve full employment. Nevertheless, the failure to make progress towards full employment despite an historically high growth rate does draw attention to a point to which I shall return, namely that employment creation may involve not only issues of growth but also redistribution of the fruits of that growth.

One worrying feature about experience since 1961 is that, despite the greatly intensified concentration on industrial development and the discovery of substantial new mineral resources, there seems to have been a progressive slowing down in the rate of increase in industrial employment - even before the current depression. Table 2, which gives the figures,

Table 2

Changes in Industrial Employment, Various Periods, 1961-76

	Average Annual Change in Thousands			
	1961-66	1966-71	1971-74	1974-76
Industry	7.3	5.9	2.8	-9.0
Manufacturing	4.1	3.0	2.8	-6.0

Source: Census of Population Reports and Department of Finance, Economic Review and Outlook, June 1977.

shows that this deceleration applied in manufacturing as well as in industry as a whole. It is probable that free trade has been a contributing factor: independent analyses confirm that both the Anglo-Irish Free Trade Area Agreement and the EEC would, on balance, be adverse to employment, unless there were significant dynamic benefits through, for instance, the attraction of new investment.<sup>1</sup>

Certainly the advent of free trade, while it is not the only factor involved, has made us familiar with the phenomenon of substantial job losses and redundancies - something that the more open economy of Northern Ireland has experienced for a much longer time. The losses have greatly increased in the recent depression. IDA data suggest that, in the six years 1971-76, 100,000 jobs were lost in manufacturing, equal to about half the total level of manufacturing employment. By no means all of the job losses can be attributed to the depression; in the three years 1971-73, before the depression began at all, the IDA figures reveal a loss of well over 30,000 jobs. Moreover, as McAleese and Martin point out, experience generally shows that there is a considerable time lag before the full effect of free trade on jobs is felt; and, in their view, the Anglo-Irish Free Trade Area Agreement, which came into effect in 1966, only began to bite around 1970 onwards. This is ominous for the immediate future, since only this year does the final instalment of the EEC tariff reduction take effect, so that there can be no assurance that job losses will not continue on a significant scale. To the extent that job losses in some industries are caused by the same factors which encourage job creation in other industries (e.g. the reciprocal removal of tariffs), then the losses

1. Dermot McAleese and John Martin, Irish Manufactured Imports from the UK in the Sixties: The Effects of AIFTA (ESRI Paper No.70, 1973); and Dermot McAleese, "Ireland in the Enlarged EEC: Economic Consequences and Prospects" in John Vaizey (ed.) Regional Policy and Economic Sovereignty (Dublin: Gill and Macmillan, 1975).

must properly be taken into account in evaluating the effect of the industrial development strategy. It is also worth pointing out that the job losses are not confined to the old protected industries: there have also been significant losses in grant-aided firms.

McAleese and Martin argue that the gains from free trade "improve the standard of living of those who remain employed, but they are not necessarily employment-creating".<sup>1</sup> Granted that employment has not benefited, why also do so many of those still employed feel that their standard of living has not improved, or at least not improved as much as they expected? Well whatever people may feel, the fact is that average real gross earnings have increased very rapidly from the mid-1960s as the move to free trade got under way. From 1966 to 1973 average hourly earnings in manufacturing rose in real terms (i.e. valued in terms of consumer goods) by over 6 per cent per annum, and they even rose during the current depression - at least up to the end of 1975. Though the message may not be a palatable one to a trade union audience, it would be unwise to neglect the possibility that such large incomes increases may be related, both as a cause and an effect, to the disappointing record of job creation. These large incomes increases have been underpinned, if not actively induced, by the structure of development incentives, such as capital grants and accelerated depreciation allowances, which reward the replacement of labour by capital, and ensure higher incomes for those lucky enough to hold jobs.

In recent years, there has been a large rise in employment in the public sector. Whereas employment in the rest of the economy fell by well over 60,000 (or about 7 per cent) from 1971-76, the number of civil servants increased by over one-fifth, the security forces went up by 50 per cent and there have also been substantial increases in employment in the health and education services. These increases have contributed not only to the large increases in taxation but, taken in conjunction with other public sector expenditure, have pushed State borrowing to unprecedented levels that could not be sustained for long. The rise in the numbers in the security forces is largely a consequence of the Northern Ireland conflict, a factor which has also seriously damaged employment in the tourist industry. This industry was a significant contributor to expansion in the period 1957-69. Rather than continuing to expand after 1969, however, real tourist earnings from foreign visitors in 1976 were over 25 per

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1. Op.cit., p.56.

cent below the 1968 level. In addition, the home holiday trade has also been hit by the vastly increased trend towards foreign holidays by residents of the Republic.

Finally, a word on recent employment trends related to natural resources. In agriculture, the average annual percentage decline over the period 1971-76 was much lower than in the immediately preceding quinquennium 1966-71. The major reason for the slower rate of decline was probably the absence of employment opportunities outside agriculture. Hopes are sometimes expressed that the greatly increased prosperity in agriculture may not only stem the outflow but even lead to increased employment there. Examination of the structure of agriculture, however, suggests that the prospect is for continued decline, though at a much lower rate in absolute terms than in the 1950s or 1960s. In 1971, one-third of all farms were 30 acres or less, much lower than the Land Commission's stated objective of minimum size of 45 "adjusted" acres (i.e. the land equivalent of 45 acres of good quality land). Moreover, on these small farms 30 per cent of male proprietors and nearly half the female proprietors were aged 65 years and over.

It is somewhat surprising, given the widespread public impression of a mining boom, that there has been scarcely any increased employment in this activity in the last five years; nor is there as yet any evidence of increased employment in mineral processing. Although there is also much public interest in the development of the fishing industry, the long-term history of this industry has been one of decline: from 1926-71, the numbers engaged halved, though no doubt many of those who left were only engaged part-time. In 1971, the latest year for which detailed data are available, the total employed was only  $2\frac{1}{2}$  thousand. The number engaged in forestry is also small, and fell from 5,000 in 1961 to 4,200 in 1971. It would seem only realistic to conclude that the prospect of substantial new employment related to the exploitation of the country's natural resources depends chiefly on the development of processing activities, and possibly the supply of inputs (such as machinery), rather than on the amount of new jobs in the primary activity itself.

The net effect of the trends we have been discussing has contributed to the historically high levels of unemployment experienced in recent years. But another major factor influencing the unemployment level has been the dampening effect on emigration of the depressed conditions in Britain and in the developed countries. It is possible also that the

greatly improved unemployment benefits - both absolutely and in relation to average take-home pay - may have encouraged some to stay who in earlier times, when benefits were less, would have emigrated. The rise in benefits may also tend to raise the minimum wage that workers expect to receive in employment.

### III. Northern Ireland

Unlike the Republic of Ireland, total employment in Northern Ireland is slightly higher now than at the beginning of the State. In 1974, immediately before the present depression, aggregate employment was about one-tenth higher than in 1926. The structure of the Northern Ireland economy in the 1920s was very different from that in the Republic and this partly explains the different overall employment experience. Agriculture accounted for less <sup>than</sup> one-third of total employment in Northern Ireland in 1926 as against more than one-half in the Republic. Even though agricultural employment fell at a somewhat faster rate in the North, the loss as a proportion of 1926 aggregate employment amounted to about one-fifth as against one-third in the Republic. Or putting the same point another way, the rate of increase in non-agricultural employment in the North and in the Republic over the last fifty years was very similar. Indeed, as may be seen from Table 3, if we compare Northern Ireland with the province of Leinster, there are remarkable similarities in their size, structure and experience over time.

Table 3

Employment in Northern Ireland and Leinster, 1926 and 1974

	All Sectors Nos. (000)	Sectoral Shares (%)		
		Agriculture	Industry	Services
1926: N.I.	505	32	36	32
Leinster	459	35	19	47
1974: N.I.	555	8	41	51
1971: Leinster	538	14	36	50
Average Annual Growth Rates (%)				
1926-74: N.I.	0.2	-2.6	0.5	1.2
1926-71: Leinster	0.4	-1.7	1.8	0.5

Source: Northern Ireland; NI Census of Population and Digest of Statistics. An attempt has been made to adjust the original 1926 data for comparability with the 1974 basis. Leinster; Census of Population.

Whether we compare Northern Ireland with the Republic as a whole or with Leinster, perhaps the most striking difference is the relative decline in its industrial predominance and the relative rise in its services sector. In 1926, there were more industrial workers in the North than in the whole of the Republic even though the overall labour force in the Republic was  $2\frac{1}{2}$  times as great. By 1974, however, industrial employment in the Republic was nearly one-fifth greater than in the North. The change is even more marked in manufacturing. As recently as 1951, and despite the considerable increase in protected manufacturing industry in the Republic, employment in manufacturing was about 10 per cent greater in the North. But since 1951, the numbers engaged in manufacturing have declined in the North and expanded in the Republic, so that by 1974 the total engaged in manufacturing was nearly one-third greater in the Republic than in the North. On the other hand, the numbers engaged in services have increased much more rapidly in Northern Ireland.

Northern Ireland's manufacturing industry at the time of the establishment of the State was dominated by three industries -- linen, shipbuilding and engineering. All three were strongly export-oriented and, therefore, substantially dependent on the vagaries of world demand and international competition. These industries benefited from the boom in activity during World War I but suffered in the depression following that war, which was, however, short-lived. In fact, the linen industry was prosperous during the 1920s with substantial exports of dress linen to the United States. But the Great Depression which began in 1929 had disastrous consequences for Northern Ireland's export industries. In the winter of 1930, the number of unemployed linen workers in Belfast was nearly 20,000; employment in the Belfast shipyards was down to 2,000 in 1933 (from 20,000 in 1924); and there was substantial unemployment in the engineering industry.<sup>1</sup> All told, in Belfast alone in the very bad years, such as 1931 and 1938, about 50,000 workers, or over one-quarter of the labour force, were out of work.

Recovery from the depression was slow. The 1929 level of employment in shipbuilding was not reached again for a decade, and then only as part of the preparation for World War II. Linen never fully recovered as competition from cotton and synthetic fibres intensified. During World War II and the immediate post-war years, manufacturing production

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1. W. Black, "Industrial Change in the Twentieth Century" in J. C. Beckett and R. E. Glasscock (eds.), Belfast: the Origin and Growth of an Industrial City (London: B.B.C., 1967).

boomed and there was even a temporary recovery in the linen trade. But since 1951, the trend of employment in manufacturing has been downward, despite the government's incentive programme for new job creation and the attraction of foreign investment. The linen trade suffered first in the early 1950s when the back-log of world demand for textiles was largely satisfied. By 1974, employment in textiles as a whole was only about half the 1951 level. The fall in shipbuilding came in the 1960s and by 1974 employment in shipbuilding and marine engineering was only 10,000 as against well over 20,000 in 1961. As the Managing-Director of the Northern Ireland Development Agency mentioned at this Course last year, the security situation in Northern Ireland has reduced the inflow of foreign enterprise there to a meagre trickle, and has also caused some existing firms to defer new investment or even locate it elsewhere.<sup>1</sup> Adversity has been a stimulus to self-help, however, and within the past five years or so about twenty new industrial workers' co-operatives have been formed, employing some 900 whole-time and 300 part-time.

The employment situation in Northern Ireland would be even more serious were it not for the very substantial growth in services. The growth in service employment has been particularly high in the post-war period - an average of about 3½ thousand per annum from 1951-1974, or more than twice as great as in the Republic in the same period. The rise has been predominantly in public sector activities, notably health and education. The ability to create so many such additional jobs, without recourse to unbearable taxation or insupportable borrowing, is, of course, explained by the fact that Northern Ireland was part of the richer economy of the U.K. Thus, though Northern Ireland has suffered employment losses in some sectors relative to the Republic because of its limited freedom to pursue independent policies, it has been able to increase employment in other sectors because of the ordinary fiscal redistribution mechanisms that apply between the richer and poorer regions within any country. This highlights the dilemma for the Republic within the EEC in the absence of effective regional policy. In many ways, the Republic is now as exposed as Northern Ireland has been for the past fifty years, but without the benefit of comparable regional transfers for alternative employment creation.

In the course of the recent depression, manufacturing employment has suffered severely, with a drop of nearly 20,000 in the two

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1. Ronald Henderson, "Structure and Role of a Development Corporation" in Economic and Social Planning, proceedings of the ICTU Summer Course, 1976.

year period June 1974 to June 1976. This fall has been substantially offset, however, by the continued rapid rise in services, so that the aggregate employment level fell only slightly. Nevertheless, unemployment has risen sharply from 27,000 in June 1974 to almost 60,000 in June 1977, the latter being the highest June figure of the post-war period.

#### IV. Lessons from Past Experience

1. There is a temptation for generals to fight the last war without regard to the fact that the new war may require different strategies. In seeking to draw useful lessons from the past, therefore, we must try to keep in mind that a lesson emerging from one phase of history may be inapplicable to a later phase because conditions have changed. Thus, for example, while one may be justly critical of the restrictive demand management policy of the 1950s, the position now is that, for good or ill, we are committed to a policy of total free trade. In such circumstances, though it would be going too far to say that expansion of home demand will produce no effect on employment, obviously there is a danger that a larger proportion of any stimulus will simply spill over into imports. To the extent that domestic demand measures are more circumscribed, competitiveness assumes enhanced importance.

2. The Irish economy displays many of the characteristics of a semi-developed economy. But by reason of its location and history, it aspires to a standard of living far greater than it has managed to afford for all its people, a factor that limits its freedom of action in many ways. Thus, the problem is not simply to create enough jobs: there are also high expectations about the standard of living that should exist in Ireland. These expectations are manifest in the incessant demands for higher pay, less tax and more public services. They are not confined to trade unionists, but are prevalent also among managers, farmers, the professions, and many other interests now represented by vocal pressure groups. But the satisfaction of such aspirations may for long conflict with the task of providing jobs for all at home.

3. Irish society has in the past coped with its "labour surplus" problem through emigration. Though this has alleviated the tensions that would otherwise have arisen, it was by no means a costless solution in terms of the deadening effect on the remaining community. Moreover, there is no assurance that this option will now be so open to us again. The countries of immigration are themselves suffering from structural unemployment problems, the nature of which is imperfectly understood and which

may prove difficult to solve. The willingness to emigrate may also be less, due to changed attitudes and educational endowments. For the future, the choice may lie between increasing employment, or supporting growing numbers in unemployment with all the social costs and risks involved.

4. If, as I believe, the basic problem has been and still is, one of underdevelopment, then the traditional economic virtues - enterprise, hard work and thrift - remain pre-eminently important. Of these, perhaps the one that has been most deficient is enterprise. Looking at the record of the past, I doubt if we can afford the luxury of relying on one form of enterprise to the exclusion of others. Not only do we need the contributions of both State and private enterprise, but we might seek to develop new forms of enterprise as well. In this connection, the recently announced Irish Press Young Ireland Initiative Awards, designed to evoke more enterprise among the young, is a heartening move. I referred earlier to the still small, but growing, number of industrial workers' cooperatives in Northern Ireland, a form of enterprise that has been less evident in the Republic. And might I also draw to your attention, hopefully for your consideration during this Course, that trade union enterprise has been a major source of development in Israel. Apart from its many affiliated co-operatives, the trade union movement there developed large industrial enterprises accounting for nearly 20 per cent of the nation's industrial value added and embracing such industries as metals, chemicals, electronics and construction. In addition, the trade union movement operates one of the largest banks (with over 200 branches) and has a virtual monopoly of bus transport. The basic motivation underlying such enterprise was to help provide jobs directly for the people rather than leaving the task solely to the government and private industry. If, as trade unionists, you believe that the task is one for the State, then I might ask you to consider why you expect the State to be more enterprising than the people forming it, of whom trade union members represent a very considerable portion.

5. In seeking to develop new enterprise, the home market - even a small home market like Ireland - is of great importance in the initial phases. As one writer put it, on the basis of experience in countries generally, exporting is "the end, not the beginning, of a typical market expansion path".<sup>1</sup> Even with free trade, a variety of factors, such as transport costs, afford some protection to the new firm in trying to develop

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1. S. Burenstam-Linder, An Essay on Trade and Transformation (New York: John Wiley, 1961).

experience and reach a profitable level of production. It is important to stress this because, in the current enthusiasm for free trade, opportunities for home market development may be neglected. From time to time, one reads complaints in the press that Irish suppliers have failed to get domestic contracts, not because they are uncompetitive pricewise, but because they had no previous experience. Such reports, if true, give cause for concern; if the suppliers cannot be given experience at home, how can we expect firms abroad to give them that experience. We might also look again at the possibility of substituting home production for those imports which have been growing rapidly in recent years. To take one example, in 1976 we imported over £50 million of agricultural machinery as against only £12 million in 1971 - a substantial increase even allowing for inflation. Some of the existing development incentives are not of much benefit to a new native firm. In its formative years, such a firm may make little profit, so that even if it is involved in exports, the export tax relief may be of limited value; and if it is operating only on the home market, this incentive confers no benefit at all.

6. The analysis of the past suggests that job creation is concerned with issues of distribution as well as issues of growth. Ireland is not peculiar in this respect; indeed, I know of no established school of thought in economics - classical, neo-classical, Keynesian or Marxist - that does not admit the possibility, at least, of there being a conflict between increased employment and higher living standards for those with jobs. Yet, it is not a message that any of the social partners will readily accept when it is their own standard that is at stake. In recent years, several major influences have intervened so as to make it very difficult to convince trade unionists of the trade-off between wages and jobs, <sup>true it may</sup> however/be. The depression in world demand has reduced both employment and productivity growth, involving higher unemployment and a lower progression in real incomes. Moreover, the operation of pay policy (e.g. national pay agreements, equal pay) in recent years when price inflation was high, has resulted in above average real increases for some groups while other groups have suffered real reductions. I have no doubt that many of the latter groups, rightly or wrongly, resent the fact that their sacrifice has gone to narrow differentials among the employed rather than to maintaining or increasing employment. The erosion of relativities is upsetting to established patterns at any time; when it happens in depressed conditions, it is liable to provoke far more hostility among the losers than satisfaction among the gainers. The hostility is exacerbated by the fact that various classes of incomes outside the national pay agreements (e.g. some of the professional self-employed) were subject to no comparable discipline.

7. Furthermore, there have been three major influences - oil prices, farm prices and taxation - creating a disjunction between the real wage as an income to the worker and the real wage as a cost to the industrial employer. The real wage that is relevant for the employer in deciding on his employment level is the relation between the price of his own product and the gross payment incurred in respect of an employee (including social insurance contributions, superannuation, etc). To the worker, on the other hand, his real wage is the relation between take-home pay and the prices of the goods he buys. Now, when the price of oil and other imported commodities (such as coffee) rises so dramatically as in recent years, the country as a whole is adversely affected. If workers receive full compensation for such price increases, the effect on the real cost of labour to the employer will tend to produce unemployment. The rise in farm prices poses the same dilemma, but the distributional implications are quite different. Whereas an oil price increase involves a national loss which cannot be escaped, the rise in farm prices represents a gain to one sector of the community - the farmers. A major part of the gain is on export sales, which is of national benefit; but when export prices rise so also do domestic prices, so that part of the farmers' gain is at the expense of the urban community. Rising taxation has also substantially affected real take-home pay of workers; and to the extent that they try to compensate for this, the employers' costs are raised with adverse implications for employment. The employers' labour costs have also been increased by the steep rise in social insurance contributions, which represent a direct tax on employment affecting particularly the labour intensive industries and lower paid employment.

8. These issues of distribution are likely to remain acute in the future. If support for the Common Agricultural Policy is to be maintained among the Irish population, then it seems to me inevitable that the primary gains must be shared more fairly among the community as a whole, including be it said, the poorer farmers. If we desire to create more employment in public services, then this will have to be paid for by the tax-payer. On the other hand, if pay restraint is to be sought by granting tax concessions, this must inevitably involve a curb on public expenditure which will be against the interests of some groups. Trade unions understandably ask why pleas for pay restraint are directed primarily at them; and, in my view, they are perfectly right in pressing for comparable restraint on other personal incomes and on the profits of essentially sheltered enterprises such as the banks. But if they reject pay restraint in relation

to themselves, then their moral authority in pressing for job creation is seriously weakened. Trade unions also face the dilemma that if they seek to curb profits in industries exposed to foreign competition there may be insufficient incentive to undertake the necessary employment-creating investment. But if they resent the fact that such profits accrue to capitalists then, as I suggested earlier, it is open to them, like their Israeli counterparts, to engage in such activities themselves and reap the fruits for their own members.

9. Official calls for pay restraint and thrift would be likely to prove more effective were it not that so many official policies operate in precisely the opposite direction. The move to free trade has increased real incomes for some at the expense of employment for others. In principle, the higher incomes generated by free trade could be reallocated to create alternative jobs, but experience in recent years shows how difficult it is to reclaim the gains from the initial recipients. Many of the development incentives have a similar bias. Accelerated depreciation allowances reward the replacement of labour by capital. Capital grants are designed to increase employment but do so in a way that encourages high productivity/high income activities which are liable to have adverse repercussions on the competitiveness of other labour intensive activities. Capital is treated as though its supply were unlimited, rather than as a scarce resource to be devoted primarily towards maximising employment. Personal borrowing is rewarded by tax concessions, while personal saving through any of the normal media (such as government loans, bank deposits, etc) does not earn any real rate of return - indeed it yields a substantial real loss. Lip service is no substitute for well designed policies; and policies that run counter to stated objectives are liable to generate cynicism.

10. Distributional questions are also implicit in the debate on whether or not Ireland should break the link with sterling. This is a subject on which there is much public confusion, and even though I cannot attempt a full treatment here of the pros and cons, I would like to put a few basic points on record. An appreciation of the currency vis-a-vis sterling would help to secure greater price stability. But it cannot at the same time help to expand employment; on the contrary, it would be unfavourable to employment until such time as the rate of increase in money incomes were reduced sufficiently to match the new exchange rate. It is unlikely that this would take place immediately so that there would be, at a minimum, a transitional phase during which maintenance or expansion

of employment would be harder, while the real income of those in jobs would tend to rise. It is, in fact, interesting that in the debate on changing the currency, concern with price inflation has predominated over concern with unemployment: this is probably no more than another illustration of the unwillingness of those with secure jobs to accept a reduction in their own standard of living in the interests of new employment. Certainly, if we were contemplating the use of the exchange rate to help employment creation, we would be thinking in terms of depreciation, rather than an appreciation, of the currency. Of course, I should hasten to add that depreciation provides no lasting encouragement to increased employment if it is quickly eroded by compensating incomes increases. In making these points, I do not wish to be understood as ruling out the use of the exchange rate as an instrument of policy. Rather, my purpose is simply to emphasise that in embarking on such a course we should be clear, first, about the objectives we wish most to attain, and, second, that exchange rate policy cannot achieve the desired objectives unless accompanied by more fundamental actions, such as appropriate restraint in incomes. Indeed, we need look no further than Britain to see that an independent currency is no guarantee in itself against price inflation or unemployment.

11. In conclusion, the overriding lesson emerging from Irish experience - as indeed from the experience of any country in the course of its development, be it China or the United States - is that there is no substitute for the basic economic requirements of enterprise, hard work and thrift. True, we can draw widely different conclusions about how these forces are best mobilised and their fruits most fairly shared. But in considering alternative approaches, let us not delude ourselves that there is any effective way of creating enough jobs for all except through our own efforts and sacrifices.