

A Long-term Perspective on Whitaker's *Economic Development*

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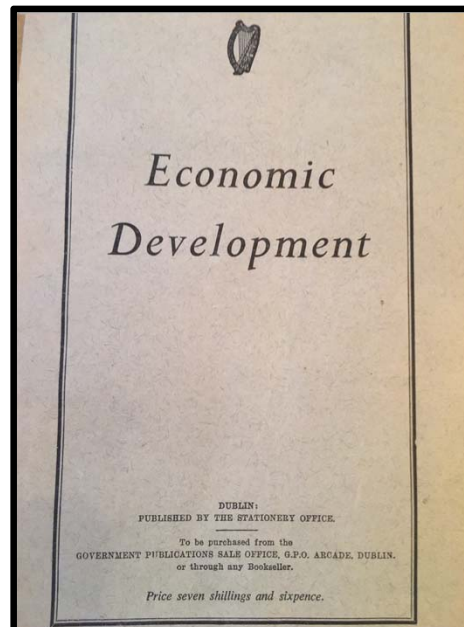
Whitaker Lecture, 17 October 2017
Central Bank of Ireland



Lecture Outline

- The essence of *Economic Development*
- Over time, how successful was Ireland in terms of reaching its major goals?
- How do we promote economic development today?

Essence of *Economic Development*

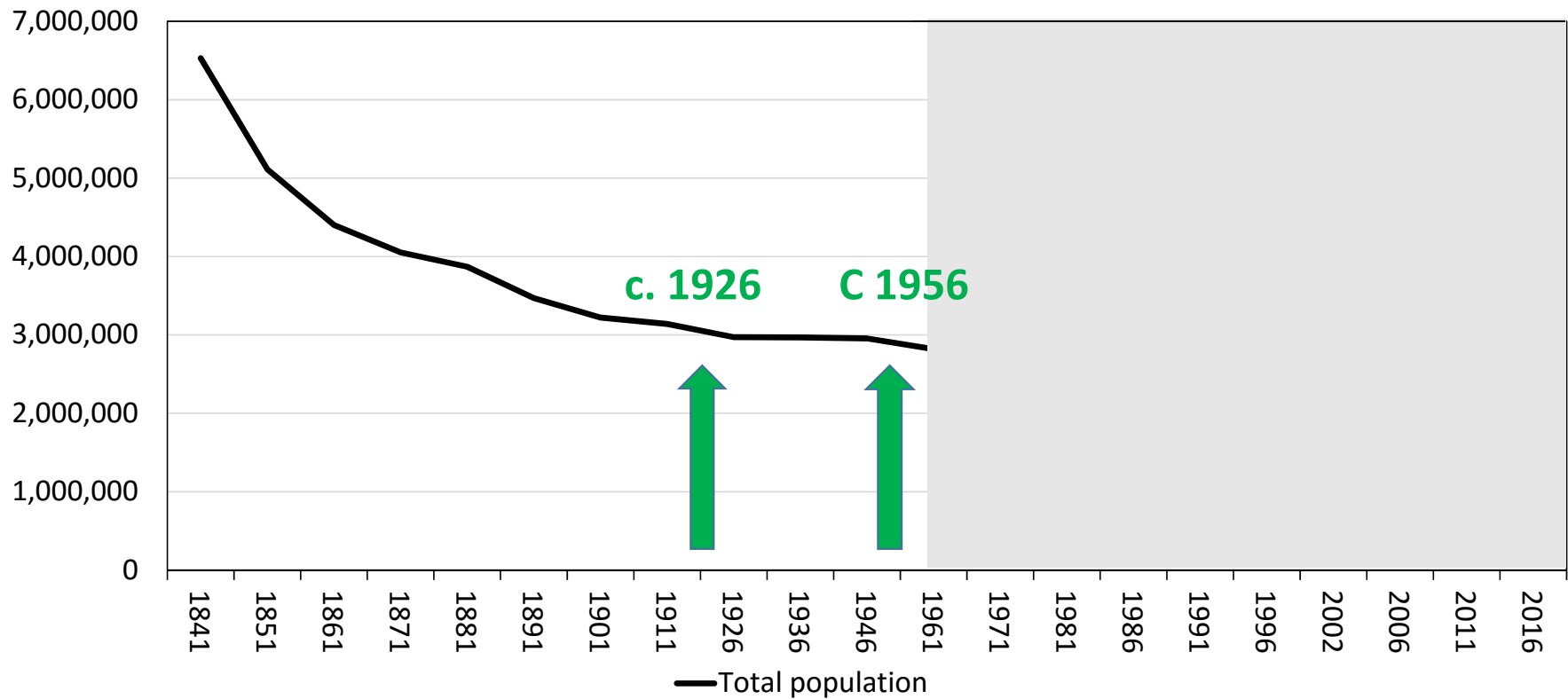


Economic Development – Approach and Context (1)

- Direct statement about the failure of current policies
- Different policy could bring improvements over time
- Dominated by reality of
 - long-term decline in population and
 - recent weak growth and balance of payments problems

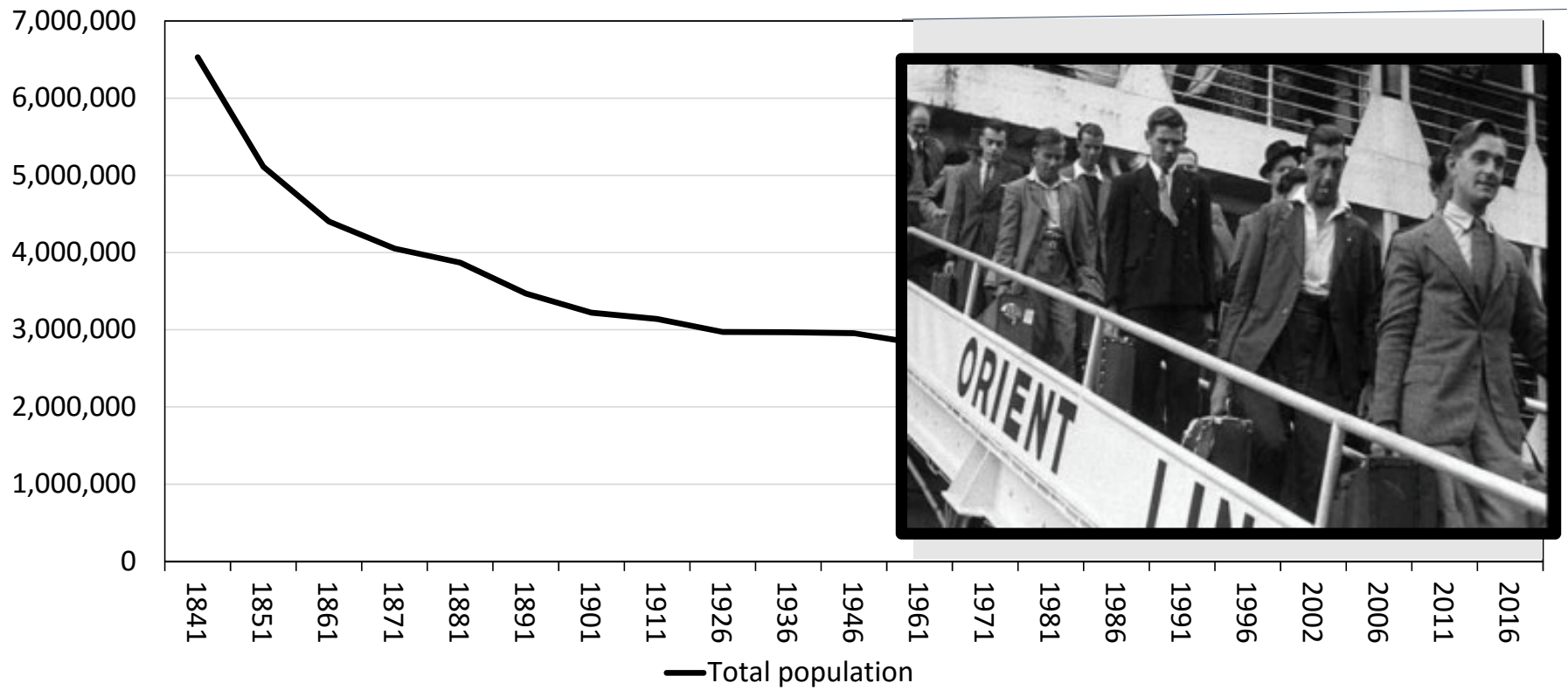
Ireland's Population Decline – 1841 – 1961

6.5m (1841) -> 3m (1926) -> 2.8m (1961)



Source: CSO, Census of Population, various years.

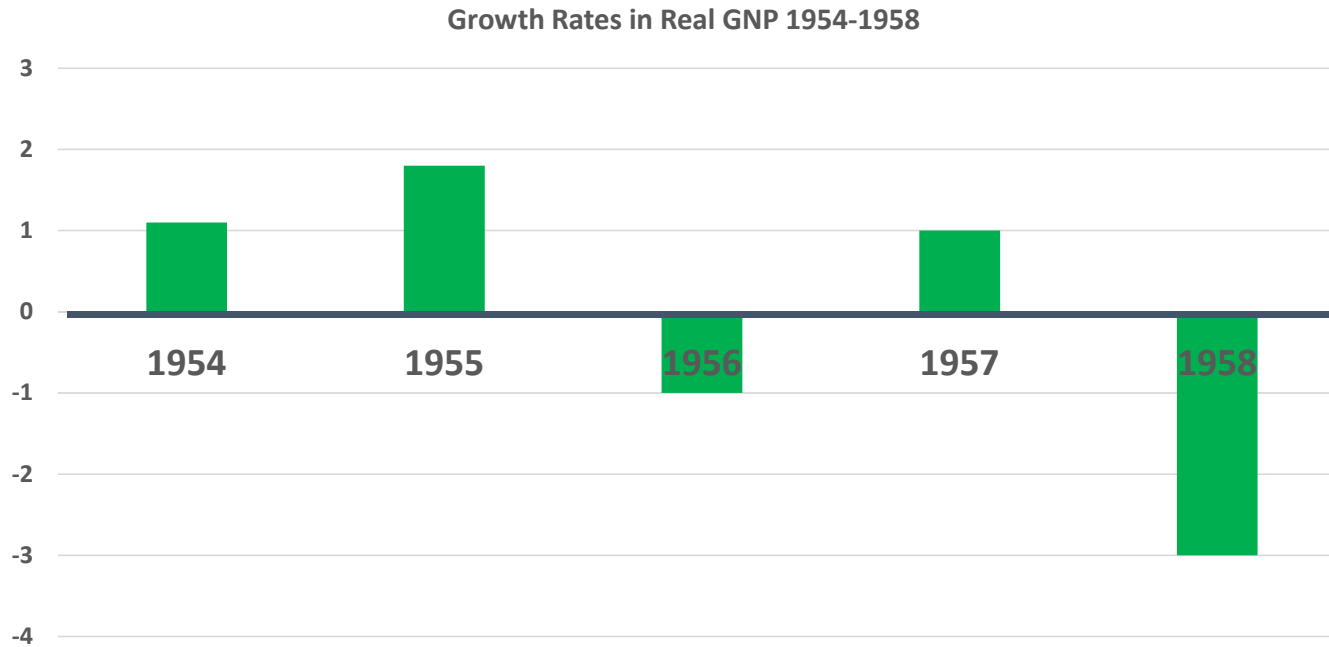
Ireland's Population – 1841 - 1961



Source: CSO, Census of Population, various years.

Weak Growth in early 1950s

% Change GNP 1949-56: Ireland (8%), UK (21%) OEEC (42%)



Economic Development – Approach and Context (2)

- **Reflected economic thinking in 1950s**

- macro / sectors / trade
- attitude to economic planning

- **Took**

- A coherent economy-wide, pro-trade approach
- Into account requirement for political, societal and public service buy in
- An approach fostering consistent but evolving policies

Key Elements in *Economic Development* (1)

- **Driving Objective:**
 - Increase economic growth as route to ending emigration and population decline
- **This required increasing:**
 - Industrial output and employment
 - Productivity in agriculture
 - Export sales
 - Living standards

Key Elements in *Economic Development* (2)

- **Key Development Policies:**

- Open up to exporting gradually
- Invest in Productive Capital – Public and External (FDI)
- Support exporting industrial enterprises (grants & tax holiday)

- **Expected Impacts:**

- Economic growth / Increased employment outside agriculture / Growth in exports
- Rising living standards /Reduced emigration, increased population

Economic Development - Making the hard calls

- “if we do not expand production on a competitive basis, we shall fail to provide the basis necessary for the economic independence and material progress of the community.”
- “Progress in the building of real national income depends on capital and labour being devoted to industrial and agricultural development, particularly for export, rather than to the provision of welfare services for home consumption”
- “a realistic long-term programme of productive investment”

Economic Development - getting buy-in

- **“...Investment which is not productive may provide employment but it does so only for a time and at the cost of weakening the capacity of the economy as a whole to provide lasting and self-sustaining employment. For these reasons, the emphasis must be on productive investment, though not, of course, to the exclusion of all social investment”**
- **“To allow social services or non-productive forms of expenditure priority over productive projects would ... increase the difficulties of development by raising our production costs, artificially stimulating our imports and and putting us in deficit again with the rest of the world.”**

Economic Development – engaging with stakeholders

- **Civil Service support organised**: Cross-Departmental Group
“it is necessary to say that no Department as such, nor any individual other than myself is committed to the whole range of views and suggestions put forward.”
- **Societal Support asserted**: “A concerted and comprehensive programme aimed at a steady progress in material welfare, even though supported by the Churches and other leaders of opinion, could only be successful if the individual members of the community were realistic and patriotic enough to accept the standard of living produced by their own exertions here”

Economic Development – engaging with economics

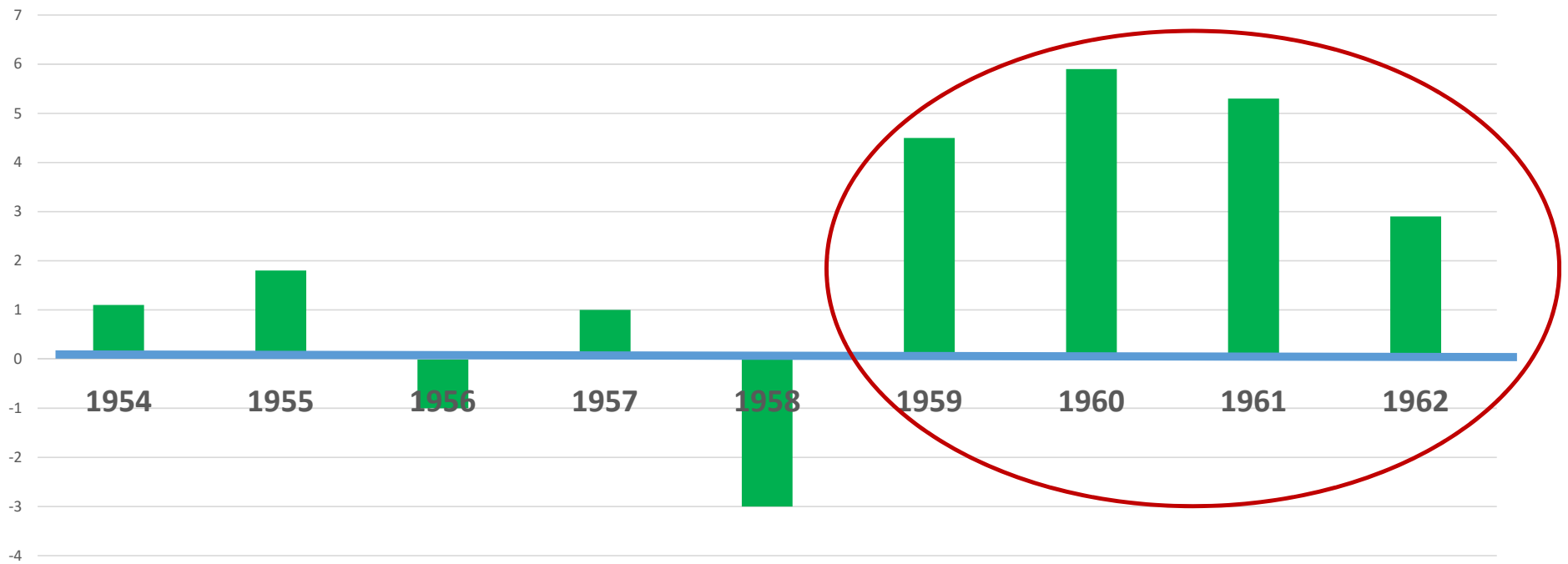
- *“Economists would agree on the central importance in economic development of capital accumulation and technological progress but they would not necessarily agree on the precise role.. played*
- *“Some .. lay most stress on education. Some represent industrialization as the key ...; others ... emphasise the difficulty of expanding ...as long as agricultural incomes are low.. Sometimes it is the heavy industries alone ...or the machine tool industry ..; sometimes .. balanced growth...rural surplus of manpower..... gains are not very significant so long as the existing technological frontiers are not advanced”*
- *“Historically, the initial advance has .. far more commonly followed the expansion of markets, especially foreign markets.... “*
Cairncross - Three Banks Review, 1957

How successful was Ireland in terms of reaching the goals of *Economic Development*?

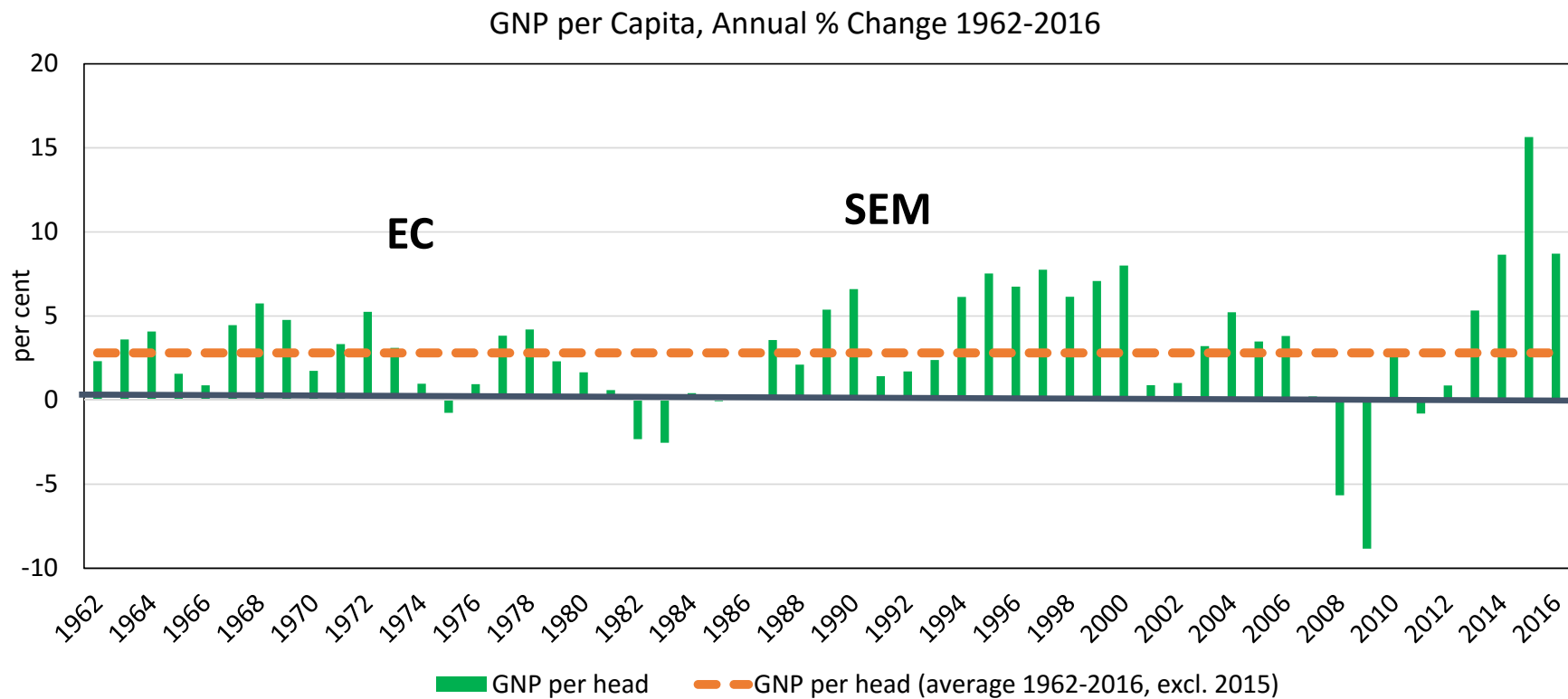
- Economic growth
- Increased employment outside agriculture
- Growth in exports
- Rising living standards
- Reduced emigration, increased population

What happened to Short-Term Growth?

Growth Rates in Real GNP 1954 – 1962



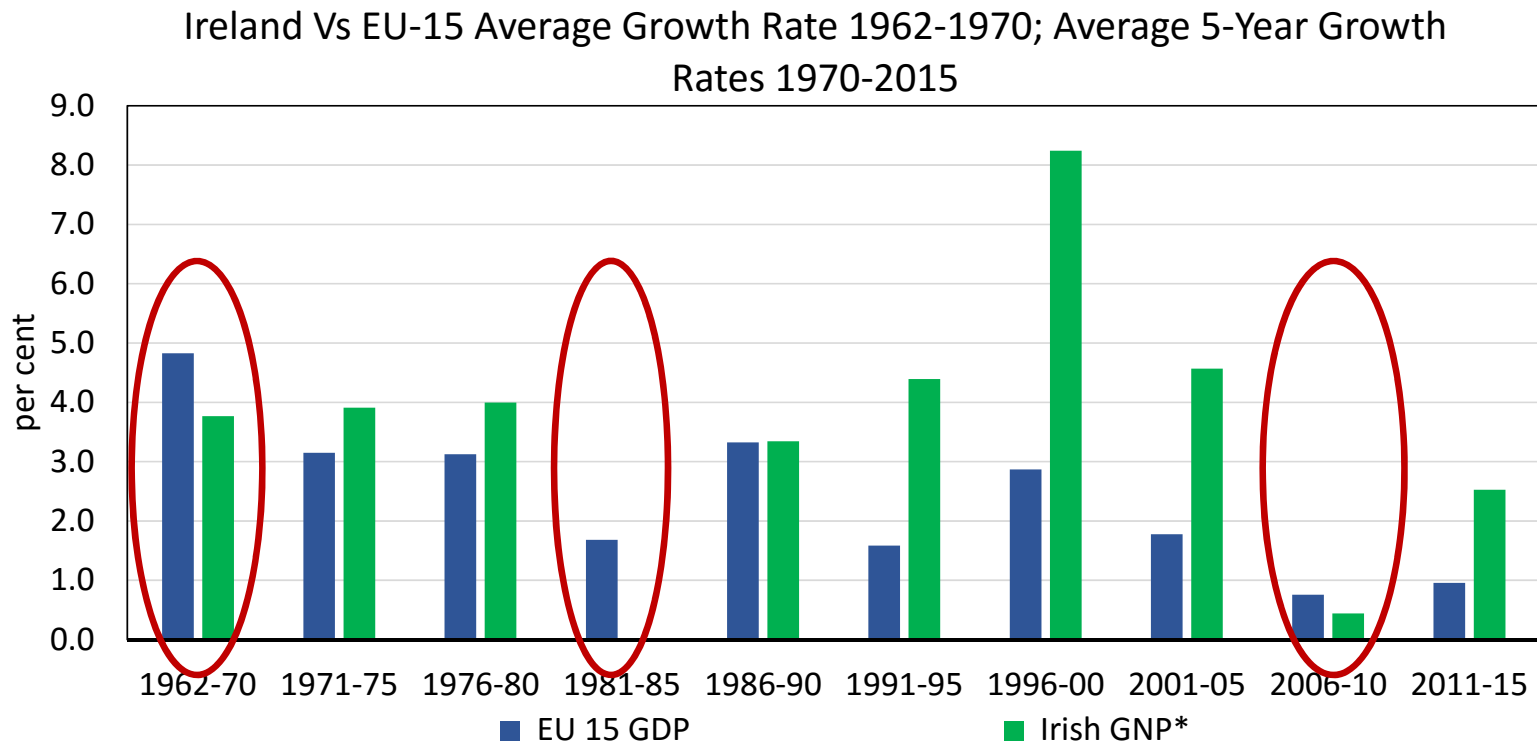
What happened to Long-term Per Capita Growth?



Source: CSO, National Income and Expenditure Accounts.

Notes: Exceptional increases in GDP and GNP were recorded by the CSO in 2015 related to the activities of multinationals, in particular the movement to Ireland of intellectual property assets by large MNCs. For this reason, the 2015 figure is excluded from the 1962-2016 average shown in the chart.

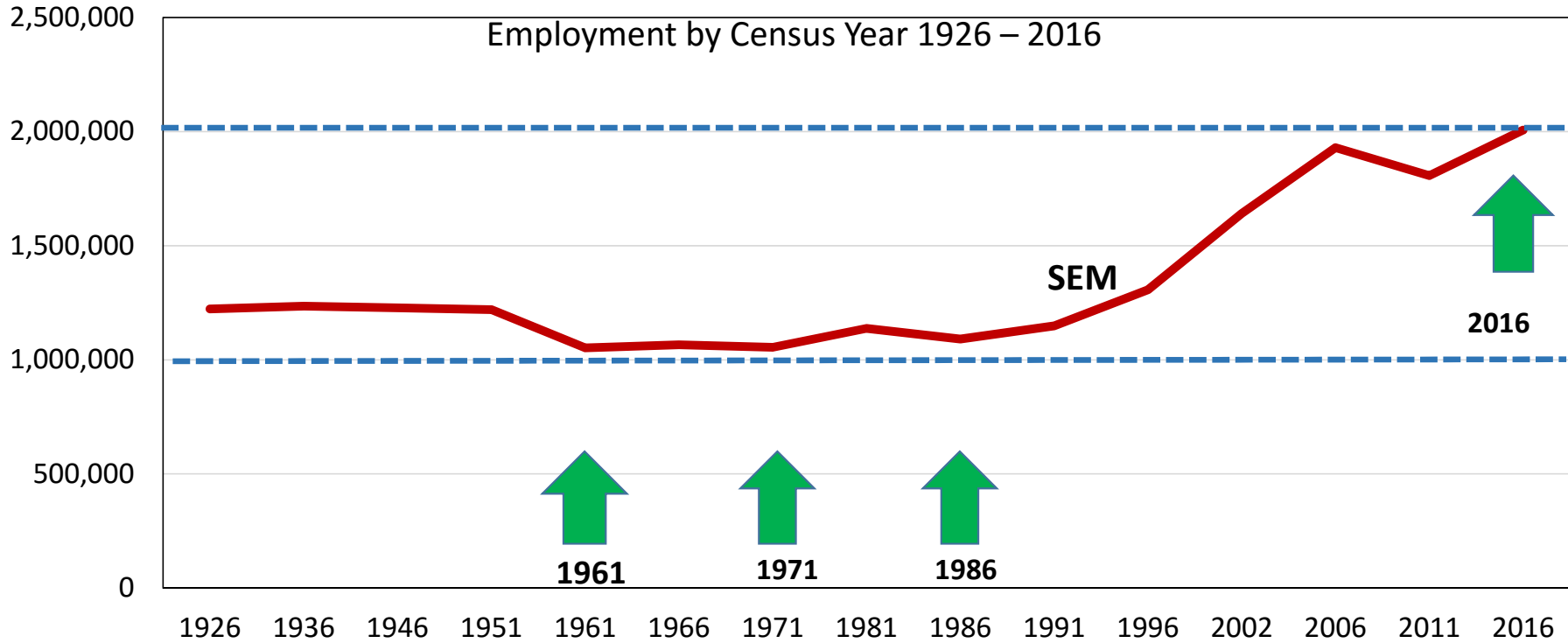
Growth: How did Ireland compare with EU 15?



Source: CSO, AMECO.

Notes: * For Ireland, GNP data are used from 1971-2010. Modified Domestic Demand used for 2011-2015 period.

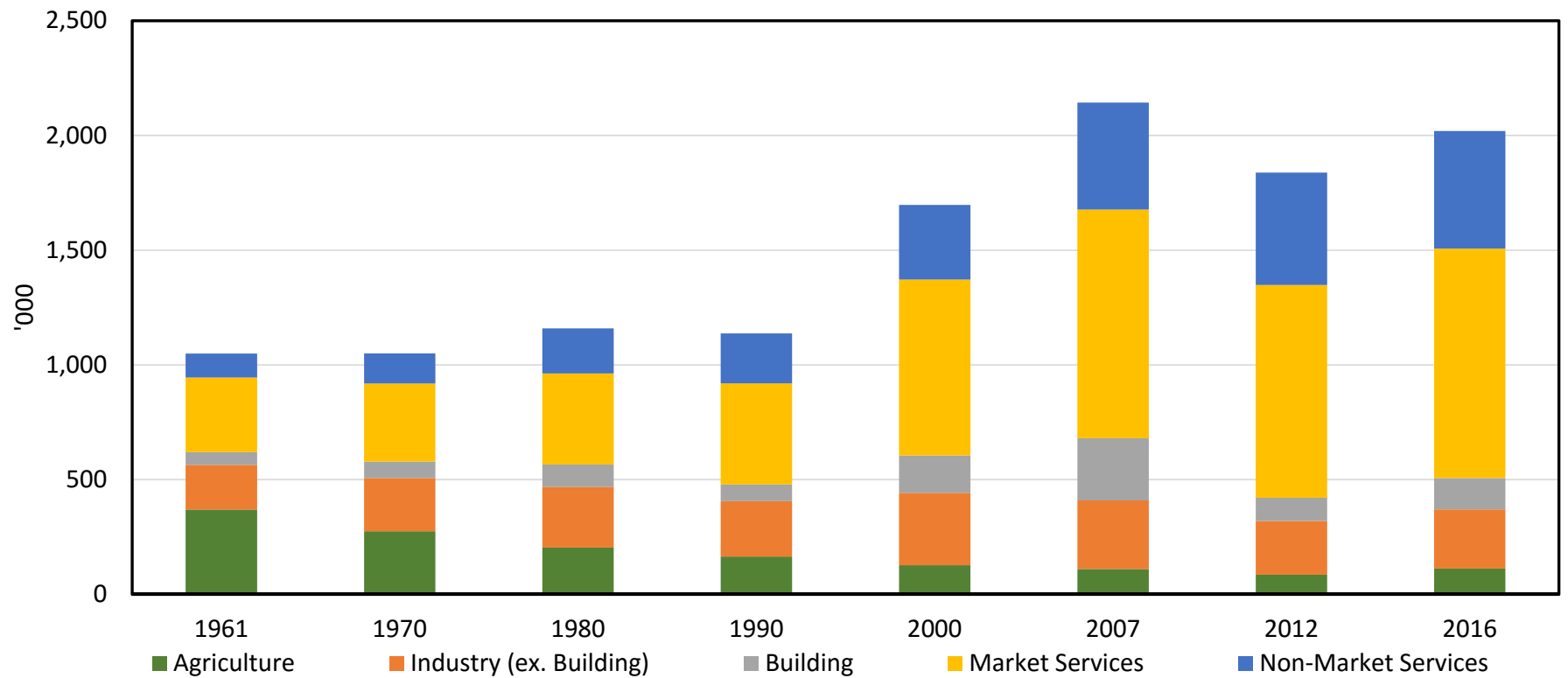
What happened to Employment?



Source: CSO, Census of Population, various years.

How did employment change ?

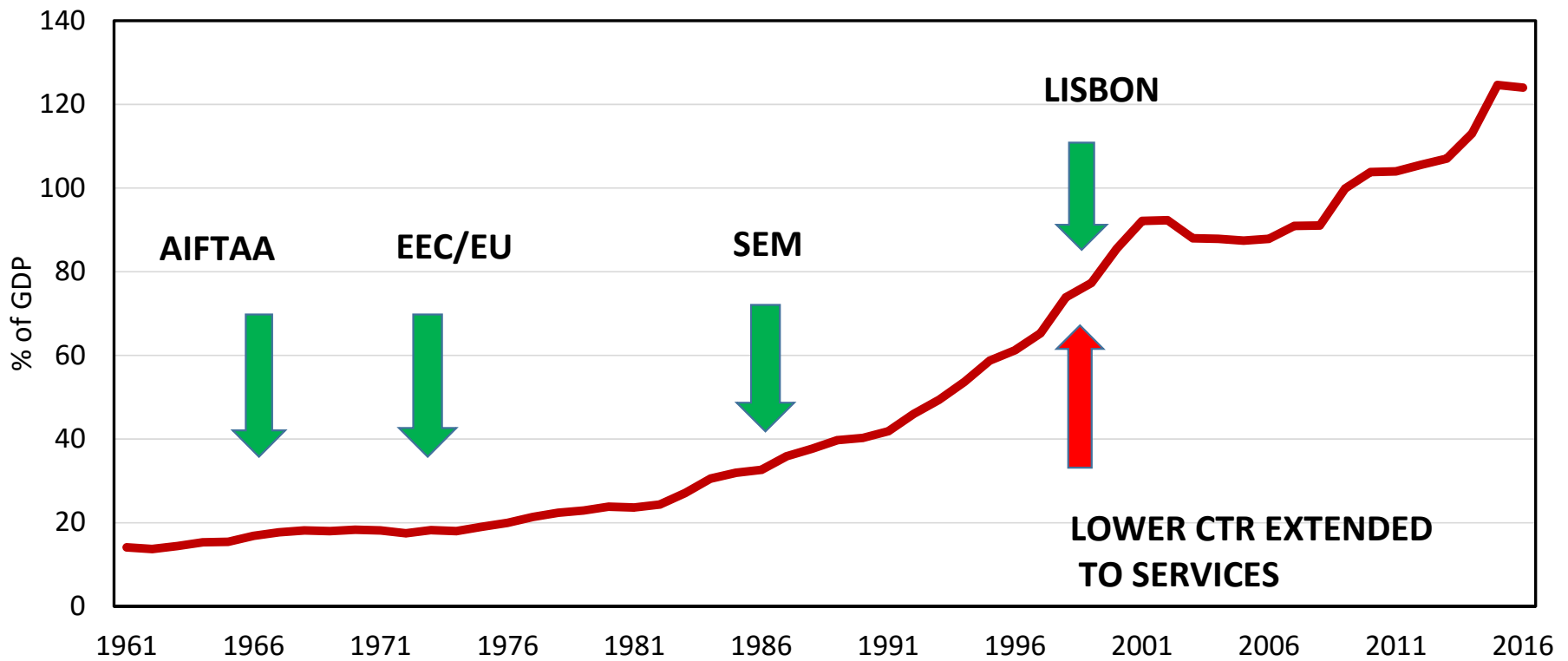
Employment Restructuring by Sector 1961 - 2016



Source: CSO, QNHS, LFS and Census of Population.

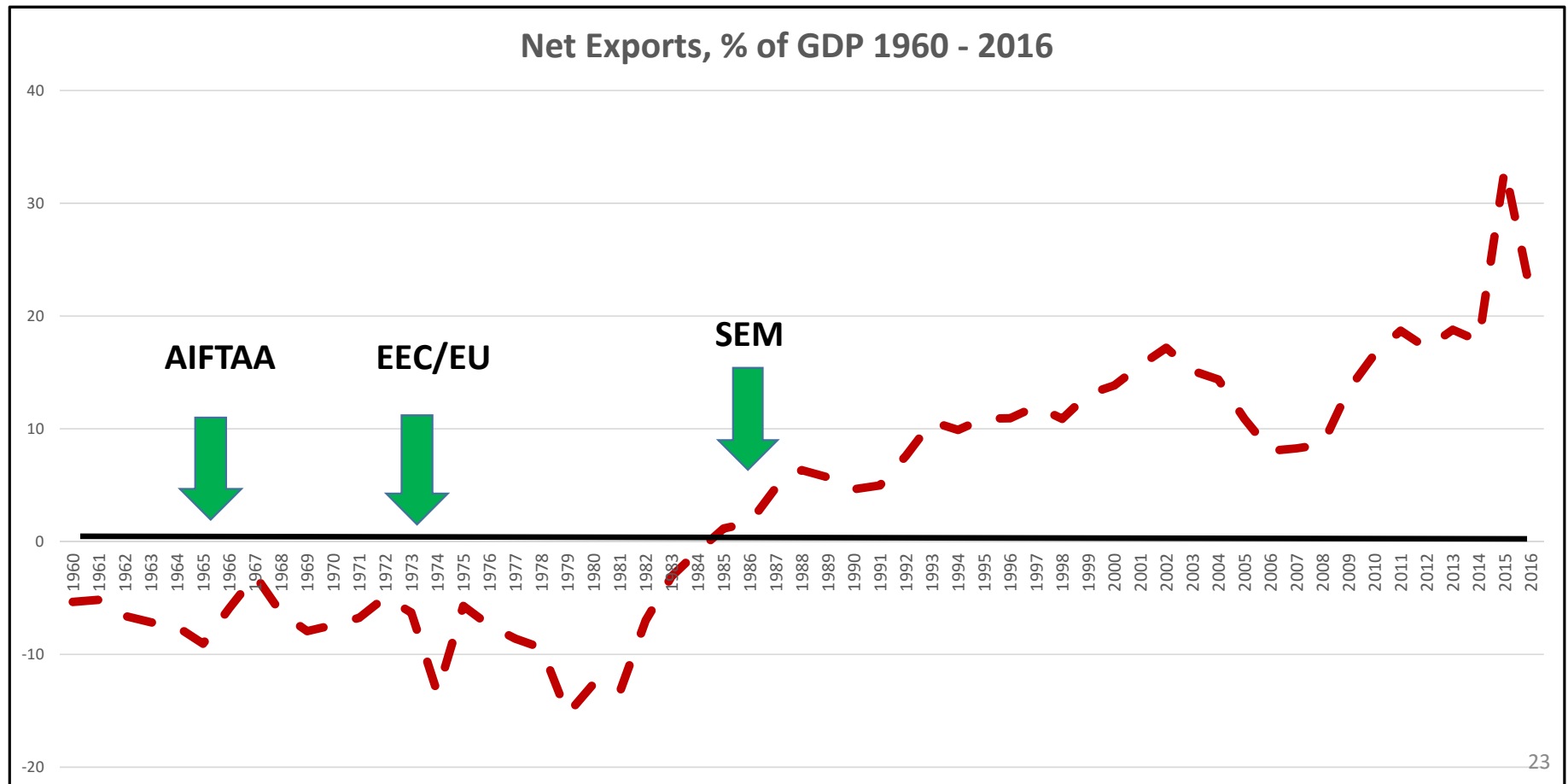
What happened to Exports ?

Gross Exports, % of GDP 1961-2016



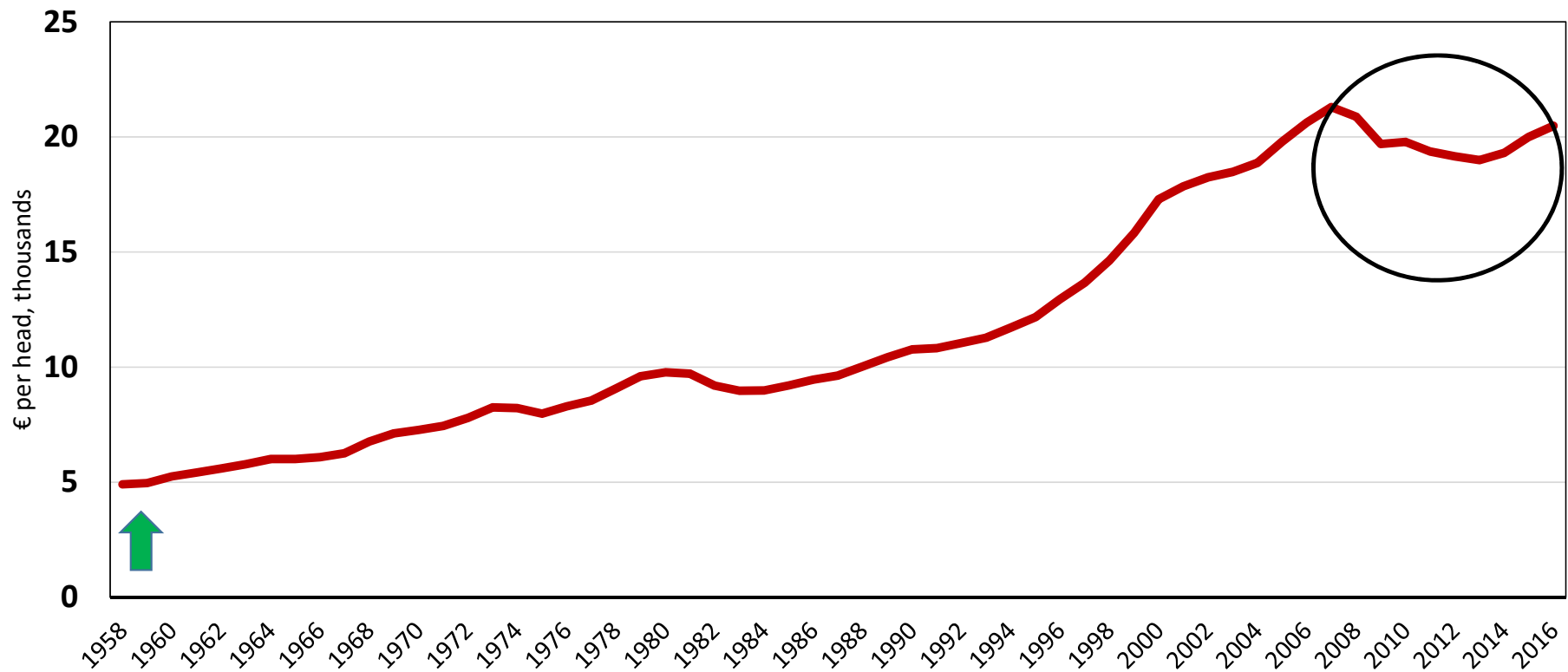
Source: CSO.

What happened to Net Exports?



What happened to Average Living Standards?

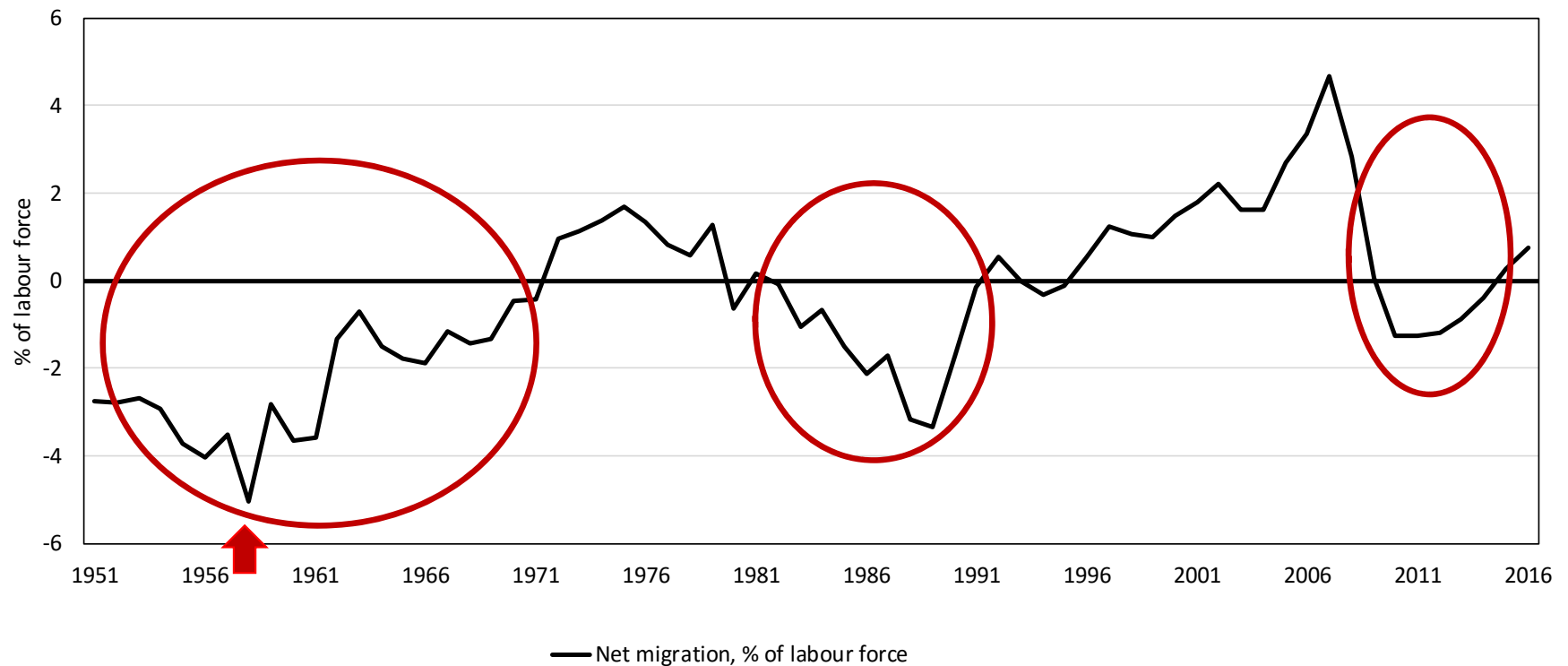
Average Real Consumption per Head 1958 - 2016



Source: CSO, National Income and Expenditure Accounts.

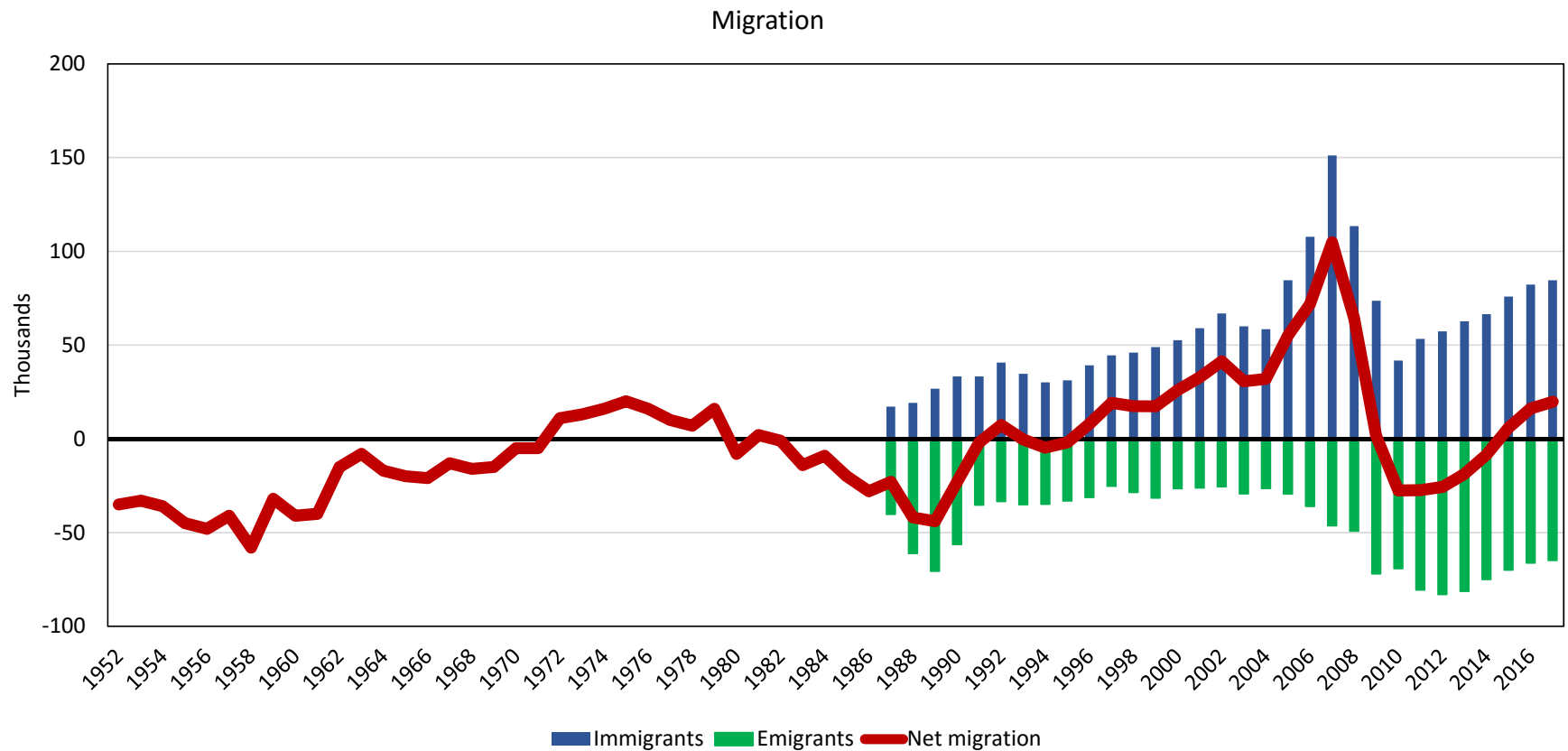
How large was Net Migration relative to the Labour Force?

Net migration as % of labour force



Source: CSO Population and Migration Estimates and Census (various years).

Gross and Net Migration 1986 – 2016 – Globalisation Effect

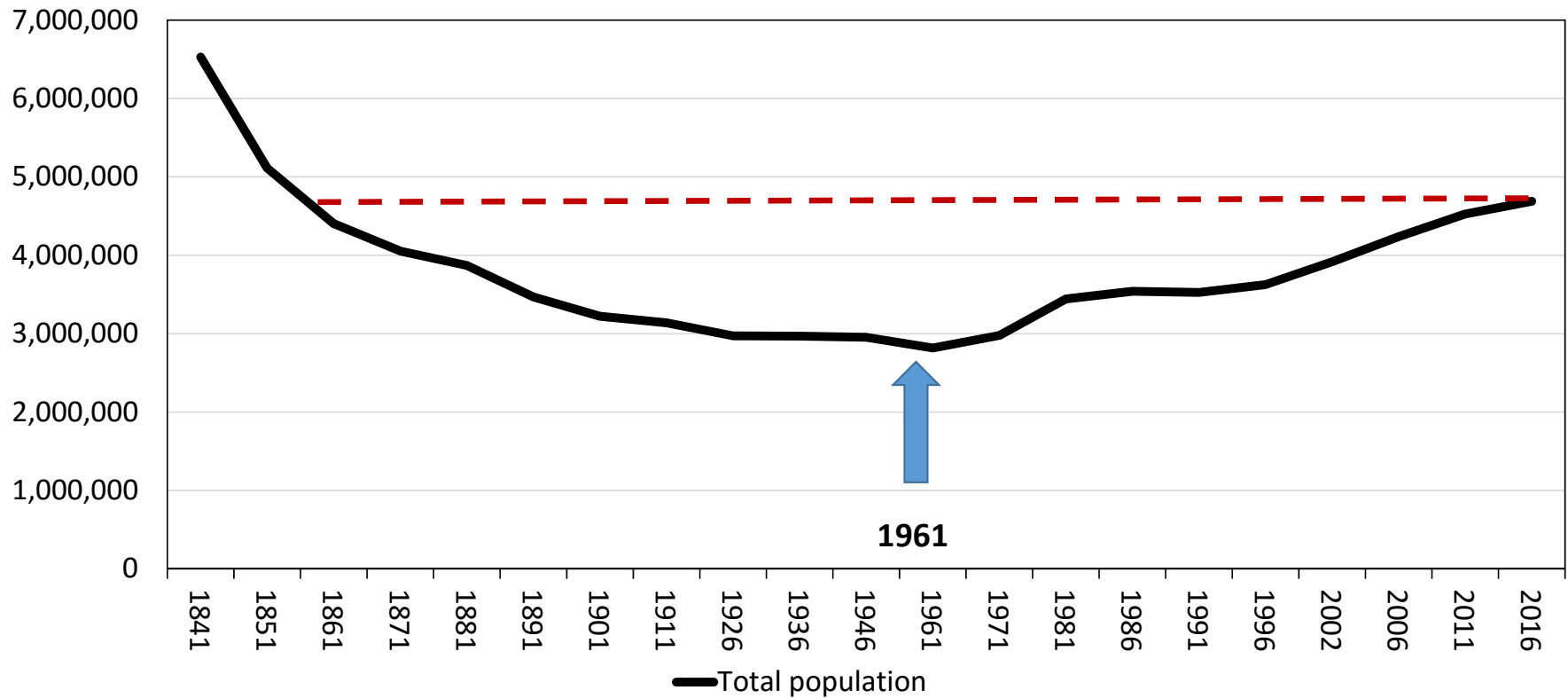


Source: CSO Population and Migration Estimates and Census for earlier years.

Notes: Estimates of gross migration flows are not available prior to 1987.

What is the impact of changing migration on Ireland's Population?

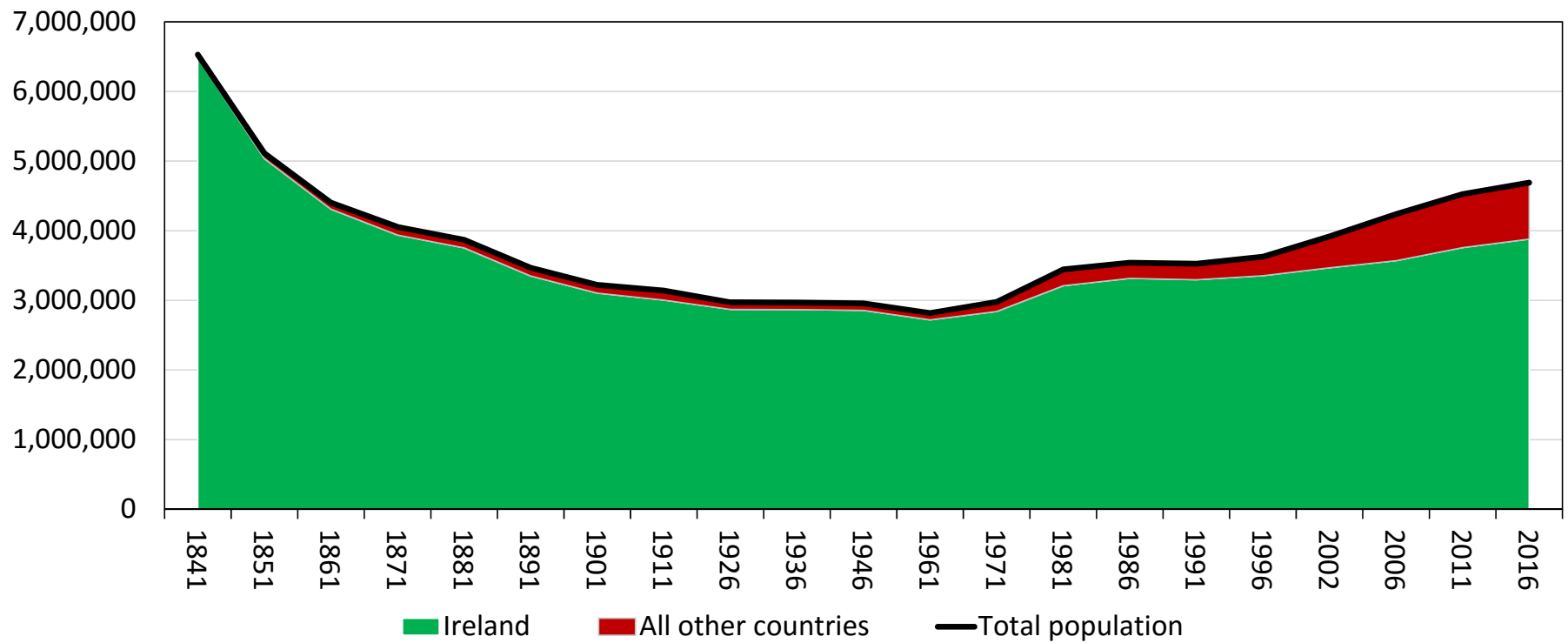
Population in 2016 is above 1861 level



Source: CSO, Census of Population, various years.

Population Growth Enhanced by Immigrants

Population by Birthplace, Census Years



Source: CSO, Census of Population, various years.

Final Quote from Whitaker Report

“Economic growth is, in fact, a complex process depending on social, psychological and political as well as economic and technical factors. In Ireland, the trend of population is an important factor inasmuch as dynamism and flexibility are rarely associated with a declining home population, whereas even a stable population would have good prospects of economic advance if its exports were competitive.”

So: How do we promote Economic Development today?

Context

Growing population

Open economy facing Global Challenges

Brexit

Global Taxation issues

Pace and forms of Globalisation

Provision and funding of good-quality public services

Successful Economic Development Policies Require...

- **Coherent Economy-Wide Framework**
 - Research informed comprehensive analysis with a long-term perspective
 - Capable of handling dynamic change – e.g., global factors; technology
- **Responsiveness to key external drivers**
 - New global players; Global Value Chains; Climate, etc
 - New global patterns of FDI, ODI
- **Building a strong national innovation eco-system**
 - Clusters and networks
 - Education, skills, research, technology
 - Strategic financial, spatial and social infrastructures

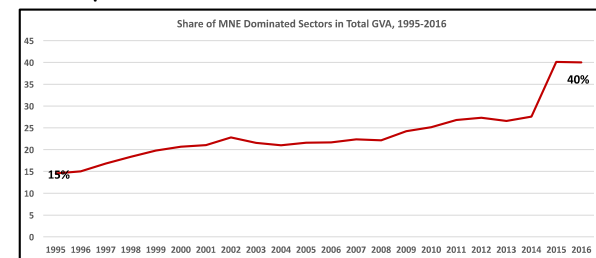
Challenges for Ireland's Current Policies ...

- **Coherent Economy-wide Framework**
 - Retention of coherence across system with long-term perspective
 - Integrated capacity to deal with globally strategic challenges
- **External drivers - BREXIT**
 - Diversification of exports in context of Global Value Chains
 - New sectors; new FDI; Irish ODI
- **National innovation eco-system**
 - Building clusters and networks in an enterprise-centric system
 - Strategic policies for education, skills, research, technology
 - Strategic financial, spatial and social infrastructures – **mobile talent**

Some Key Objectives

- **Embed views of development policy in a whole economy context**
 - Critical use of competitiveness framework
 - Take a 'critical' view of enterprises facing Brexit
 - Review long-term financing requirements of Irish-owned SMEs
- **Manage the threats to corporate tax policy**
- **Increase embeddedness of FDI**
- **Strengthen the coherence of economic development and spatial policies –**
 - *Whitaker Report Vs Buchannan Report*

Dependence on MNE-dominated Sectors



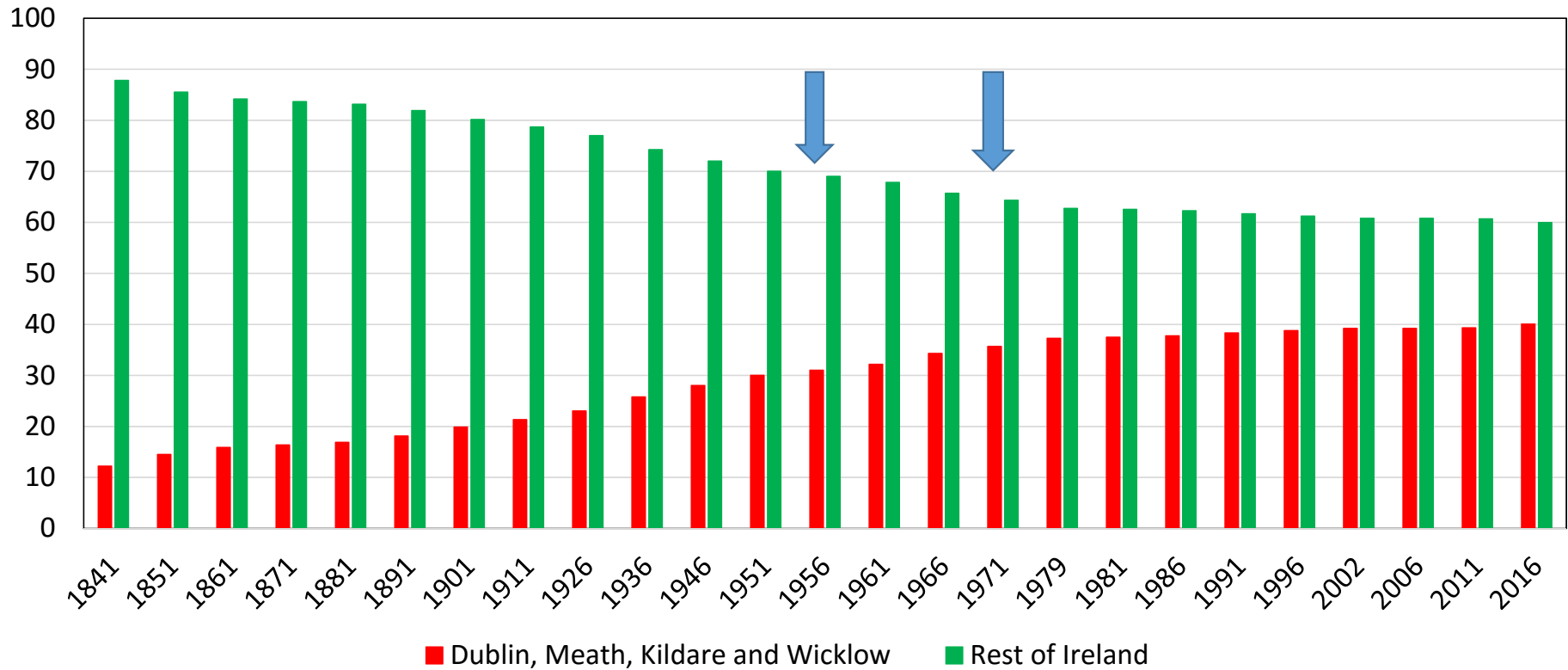
Source: CSO

Stark Contrast: Development and Spatial Policies

- **Whitaker Report – Economic Policy**
 - Major economic restructuring which won broad political acceptance;
 - Spatial consequences downplayed
- **Buchanan Report – Spatial Policy**
 - Proposed growth poles to counteract growth of Dublin Area
 - Involved identifying locations as “winners” and “losers”
- **Outturn**
 - Buchanan rejected in favour of entirely non-strategic parochial approach
 - Regional Industrial Plans (1973-77) – Targeting 172 towns and villages
- **Long-term consequences of rejecting integrated spatial strategy**

Population – Continued Growth of Greater Dublin Share

Population Shares by County



Source: CSO, Census of Population, various years.

Economic Growth without Spatial Planning



Looking ahead at Economic Development

Policy coherence to provide sustainable living standards and improving quality of life for a growing population requires

- Critical awareness of long-term demographic drivers
- Regular reviews of changes/options for enterprise development
- Alignment of enterprise strategy with
 - Spatial Planning Framework / Capital Infrastructure Programme
- Focus on challenging metrics over appropriate time horizons

The policies that affect the long term really matter