The Whitaker Turn: Overrated?

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Few figures in the history of Irish economic policy are as universally revered as T.K Whitaker. In this essay,William Foley boldly challenges the conventional wisdom that Whitaker's policies greatly improved Ireland's economic fortunes. His in-depth analysis of the period 1960-1980 shows that whileWhitaker's impact was vastly overstated, his policies were undoubtedly an improvement on the bleak era of protectionism that went before.

Introduction

A radical change occurred in Irish economic policy in the 1950s. Protectionism had been the economic orthodoxy of the previous twenty years, but this policy had ended in stagnancy and relative decline. The solution, many felt, was to open up the Irish economy and claim some of the ever-expanding exports market of the post-war global economy. T.K. Whitaker, a senior civil servant, is the most prominent figure associated with this position – and so I shall refer to this change of policy paradigms as the Whitaker Turn. In this essay I shall evaluate the accomplishments of the Whitaker Turn and conclude that its achievements are rather less glorious, and rather more tawdry than they are usually presented. I will concentrate mainly on the industrial sector, as this is the most important sector when considering Irish economic development in this period. And I shall also focus primarily on the period from the mid-1950s up to the end of the 1980s, as this is the period when most of the developments and trends associated with the new policy unfolded and reached maturity.

Protectionism

By the mid-1950s, protectionism had trundled to a halt. Fianna Fáil's protectionist doctrine had proved more successful than Cumann na nGaedhal's free trade oriented policies – though the latter had introduced some selective tariffs (Meenan, 1970, p.139-41). During the period of the Cumann na nGaedhal government, slightly over eight thousand new jobs were created in industry, an increase of 7.9 per cent between 1926 and 1931(O'-Malley, 1989: p56). On coming to power, the Fianna Fáil government rapidly introduced new tariffs, raising the average nominal tariff from 9 per cent in 1931 to 45 per cent in 1936 (O'Malley, 1989, p.59). Contrary to popular wisdom, protection had a beneficial effect on Irish industry.

Between 1931 and 1938, industrial employment increased by 50.5 per cent from 110,600 to 166,500 (O'Malley, 1989, p.59).

Nevertheless, this kind of "import-substitution" industrialisation (where domestically produced goods replace artificially expensive, tariffed imports) was inevitably limited by the size of the home market (which was particularly small in Ireland, and diminishing due to emigration) and the cost of importing inputs (Crotty, 1986, p.75). Thus, by the mid-1950s, Ireland experienced "a fairly typical conclusion to a process of import-substituting industrialisation" (O'Malley, 1989, p.70). Industrial production faltered, employment fell across the economy, emigration rose to levels not seen for seventy years, and a chronic balance of payments crisis emerged (Crotty, 1986, p.87; O'Malley, 1989, p.64-5; Department of Finance, 1958, p.7). This depressing economic situation led to what Garret FitzGerald described as a "crisis of national self-confidence" (FitzGerald, 1969, p.118).

The Whitaker Turn

Nevertheless, the morose atmosphere proved conducive to a rethinking of how economic policy should be conducted in Ireland. The man who was at the forefront of this process was T.K. Whitaker, "sometime Secretary of the Department of Finance and sometime Governor of the Central Bank" (Crotty, 1986, p.78). Whitaker penned the seminal Economic Development document, published in 1958, in which he provided the first rigorous formulation of the new doctrine. Whitaker was clear about the need to develop a new policy direction: "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" (Whitaker, 1969a, p.102).

The new direction would be fundamentally different from the old. The home market had been shown to be insufficient so the Irish economy had to become more export-oriented (Whitaker, 1969a: p103; Whitaker, 1969b, p.59; Crotty, 1985, p.87). Boosting exports meant achieving greater integration with the world market by opening up the Irish economy. This entailed ending the protectionist policies that had been in place since 1932. Whitaker put it simply: "it seems clear that, sooner or later, protection will have to go and the challenge of free trade be accepted" (Whitaker, 1969a, p.101).

Whitaker's recommendations were codified and formally adopted in the government's 1958 Programme for Economic Expansion. The document established the priority of developing export-oriented industries to facilitate industrial expansion (Department of Finance, 1958, p.36). The primary aim of government policy in the industrial sector would be to "stimulate a vast increase in private industrial investment" while ensuring that "manufacturing activities will cover all processes from the basic raw material stage" (Department of Finance, 1958, p.35). This would involve severely lowering tariffs, providing large quantities of capital through the state's Industrial Credit Corporation, lowering taxation on profits and various expenditures, extending technical assistance, establishing a permanent agency for the promotion of exports (An Córas Tráchtála Teo.), providing grants through An Foras Tionscail, and attracting foreign investment through the Irish Development Authority (Department of Finance, 1958, pp.37-40).

The exact details of the plan changed but there was a marked continuity in policy approach from the 1960s onwards (Telesis, 1982, p.24; O'Malley, 1981, p.14). The broad shape of industrial policy involved "encouraging industrial investment by Irish and foreign companies through general promotional activities and financial incentives, and opening the Irish economy to free trade" (Telesis, 1982, p.24). The government lowered tariffs progressively from the 1960s onwards, beginning with unilateral, across the board cuts in 1963 and 1964 (O'Malley, 1989, p.77). The Anglo-Irish Free Trade Agreement of 1965, and the accession to the EEC in 1973, led to a phasing out of tariffs on British and European goods respectively (O'Malley, 1989, p.77). The government also introduced a package of grants, subsidies and tax holidays offered to industries producing for export (Crotty, 1986, p.88). An Foras Tionscail tended to provide grants only to export-oriented companies. These grants were very generous, amounting to up to 50 per cent of plant and machinery costs and 100 per cent of building and land costs in designated areas, and up to 33 per cent of plant and machinery costs and 66 per cent of building and land costs everywhere else (O'Malley, 1989, p.73). In the latter half of the 1950s, successive governments introduced significant tax relief programmes for exporting industries such as the Export Profits Tax Relief (O'Malley, 1989, p.73).

Results and Responses

The economic growth that Ireland experienced in the two decades following the implementation of these policies was, by any account, impressive. Between 1962 and 1982, gross national product per capita tripled (Telesis, 1982, p.3). The productivity of industrial workers increased by more than half between 1956 and 1967, and earnings increased apace (Meenan, 1970, p.132). Irish and British wages began to converge so that by 1978 average earnings in manufacturing were 93 per cent of the British level (O'Malley, 1989, p.94). Economic growth was particularly strong in the industrial sector. Between 1976 and 1979, the Irish manufacturing sector expanded faster than in any other country in the EEC (O'Malley, 1989, p.90).

The progress of Irish industry in particular, and the economy in general, was regarded as highly successful by many people who commanded considerable respect. Garret FitzGerald, who as an economist in the 1950s and 1960s acted as a sort of cheerleader for T.K. Whitaker, regularly referred to "Ireland's economic miracle" (Crotty, 1986, p.87; p.90). Charles Haughey, as minister for finance, declared in 1969 that Ireland had solved its economic problems and now only had to deal with the issue of distributing wealth (Crotty, 1986, p.90). His rival, Des O'Malley, speaking in 1980 as Fianna Fáil minister for industry, commerce, and tourism, lauded Sean Lemass who "began the highly successful programme of planned growth, based on rapid export development, a high level of investment and selective attraction of foreign enterprise to strengthen the industrial base" (O'Malley, 1989, p.89).

Something is rotten…

However, the events of the 1980s illustrated that the Whitaker Turn had not as profoundly improved the Irish economy as had been hitherto believed. Unemployment rose to 10 per cent in 1981 and then 18 per cent in 1987. Manufacturing employment fell by 20 per cent between 1979 and 1987, an unprecedented decline. Yet the average annual growth rate in industry was over 6 per cent between 1982 and 1987, and Ireland often had the fastest rate of growth of industrial output in the OECD in that period (O'Malley, 1989, pp.89-90). Even when employment began to recover, the gains were modest. Between 1985 and1990 there was net growth in manufacturing employment of 3 per cent but real increases in output of 27 per cent and in exports of 33 per cent (Brulhart and McAleese, 1994, p.21). The explanation of this seeming paradox is explained by fundamental structural weaknesses, which were only exacerbated by the Whitaker Turn.

The outward-looking policies established since the 1950s were very successful in attracting overseas investment. The Economic Commission for Europe's judgement in the early 1970s was that Irish measures "go further than any other country in Europe in encouraging export industries and attracting private capital for this purpose" (O'Malley, 1989, p.76). Indeed, the Telesis Consultancy Group concluded that the Irish incentives package was considerably more generous than necessary and that some of its constituent funds should be reallocated towards indigenous industry (Telesis, 1992, p.28). The ultimate effect of this generosity is that new foreign firms took the lion's share of the export markets whereas, domestically, indigenous industry was reduced by competitive newcomers to low-valued added and / or non-traded activities. In fact, the overall improvement in industrial performance was almost entirely due to the establishment of new foreign firms (O'Malley, 1985, p.1). Industrial output grew in the 1960s and 1970s at three times the rate of the 1950s. Irish exports' share of foreign markets increased continuously; there was considerable diversification in production (O'Malley, 1985, p.11). But indigenous industry generally declined or remained stagnant during this period. After free trade was introduced in the mid-60s, employment in indigenous industry declined from 188,000 in 1966 to 182,000 in 1980 (O'Malley, 1985, p.15).

Indigenous Industry

In reality, most of the gains made during the 1960s and 1970s were made by new foreign firms. By 1979, new foreign firms and subsidiaries accounted for 70 per cent of manufactured exports (O'Malley, 1989, p.107). The only indigenous firms which showed any sort of improvement were in low value-added, primary processing industries such as food, or were in non-traded industries which serviced the newcomers (O'Malley, 1989, p.115-20). In 1981/2, food, drink and tobacco, clay, glass and cement, and paper and printing accounted for 18 of the 20 top indigenous firms (O'Malley 1985, p.31). Outside of the low value-added, naturally protected food sector, most of the indigenous growth took place in non-traded industries centred on servicing the new foreign firms: employment in traded industries such as textiles, clothing, and footwear fell from their 1973 peak, whereas employment in non-traded industries such as packaging, cement and metal fabrication increased between 1973 and 1980 (Telesis, 1982, p.12). In other words: everywhere where indigenous industry could be beaten, it was beaten.

This poor performance was unsurprising. The Committee for Industrial Organisation concluded in a 1965 report that there were systemic problems in indigenous industry: poor management, shortage of skilled labour, old buildings and equipment, small scale and short production runs due to the small market (O'Malley, 1989, p.78). Over fifteen years later, the Telesis consultancy concluded that indigenous Irish companies have "had difficulty in developing marketing, technical selling and distribution advantage in export markets" (Telesis, 1982, p.15).

The Newcomers

The virtual wiping out of traded indigenous industry, except in naturally protected and non-traded industries, was problematic in itself. But the new foreign firms also added to the structural problems of the Irish economy in other ways. Crotty points out that the newcomers, in general, shared three undesirable features: they were ethically and morally "dirty", they generally practised transfer pricing, and they were capital intensive and labour extensive (Crotty, 1986, p.90). Crotty offers little enough evidence that most, or even a large number of the new foreign firms were ethically or environmentally dirty. But his other two points are more readily empirically supportable. To the list of negative features of these foreign newcomers, we might also add the small quantity of linkage effects generated by them (O'Malley, 1988, p.177; Foley and McAleese, 1991, p.26; Drudy, 1991, p.167).

Crotty takes the Aughinish Aluminia Company (AAC) as a typical example of the new foreign firm. (Note: his description dates from the 1980s). It practiced transfer pricing by charging inputs and outputs so that the maximum amount of profit is registered in Ireland where the parent firm, Alcan, could avail of the various tax breaks and holidays for exporting industries (Crotty, 1986, pp.91-2). The AAC was also very capital intensive and labour extensive. It employed a lot of capital, of which Ireland has a shortage – as Whitaker was painfully aware (see Whitaker, 1969b) – and employed little labour, of which Ireland has a surplus. Indeed, the firm only employed one person per £1 million pounds invested (Crotty, 1986, p.92). Finally, AAC created few upstream and downstream linkages with Irish industry. The firm imported virtually all its imports, except for circa 1,000 tonnes of flour, and circa 11,000 tonnes of limestone, along with some discounted electricity (Crotty, 1986, p.92).

These features chime with evidence of the general character of the new foreign industries in Ireland. Firms readily availed themselves of the generous tax reliefs. For many firms the "fundamental attraction" of Irish investment was the 10 per cent corporation tax rate (Telesis, 1982, p.25). This did not augur well, financially, for the Irish state which, as pointed out above, ploughed vast quantities of capital into attracting foreign industry. The capital intensiveness of the new foreign firms was also problematic as it created insufficient demand for labour to end Ireland's long term unemployment problem. Even in the 1960s and 1970s, unemployment remained relatively high at 6-8 per cent (O'Malley, 1989, p.91). As pointed out above, the huge difference between growth in employment and growth in industrial output became very pronounced in the 1980s. Irish industry employed proportionally fewer workers than any other comparable economy. By 1987, in the opinion of Pádraig O hUiginn of NESC, it should have been employing circa 100,000 more workers (McCabe, 2013, p.108). This gap is attributable, ultimately, to the capital intensiveness of foreign firms (O'Malley, 1989, p.90).

The newcomers also created few linkage effects with indigenous Irish firms, purchasing few domestic inputs and dampening any potential stimulus effect (McCabe, 2013, p.99;). Instead, newcomers imported most of their inputs. In 1974, the import content of raw materials used by new industries in the chemicals, metal and engineering, and other manufacturing sectors (dominated by new foreign firms) was "in the region of 90 per cent or more" (McAleese, 1977, p.46). Indeed, overall, the import content of overseas firms was significantly greater than Irish firms – one of the reasons being the relatively technologically more sophisticated nature of the foreign firms (McAleese, 1977, p.46). In 1983, foreign industrial firms spent only 11.43 per cent of their revenue on Irish materials, compared with 45.84 per cent for indigenous firms (O'Malley, 1989, p.1979). Telesis pointed out that in Belgium, a small country with a proportionally similar foreign industrial sector, indigenous firms were three times as successful in supplying foreign businesses (Telesis, 1982, p.16).

Thus, foreign investment did not significantly develop the industrial base. As reported above, besides the food, drink, and tobacco sectors, the only significant industrial growth occurred in packaging, cement, glass, clay and metal fabrication. In other words, the output growth was in (effectively or absolutely) non-traded firms which, safe from international competition, supplied packaging for the new foreign export firms to ship their exports out of Ireland, and which supplied the materials for the construction of new plants and buildings.

The indigenous commercial activities which ultimately developed under the new, export-oriented policies were not involved in high-tech industrial production, but in "the acquisition of greenfield sites, the construction of factory and office space, road haulage, banking, and insurance" (McCabe, 2013, p.98).

Telesis is damning in its conclusion about the state of Irish industry: "High skilled, high-tech enterprises are rare; Irish indigenous exports are small and limited in scope; Small firms exist primarily in low-skilled non-traded businesses; Little cooperation exists between primary producers and processors in raw materials-based businesses; Foreign-owned industry is often unsophisticated and the evolution of existing companies shows inadequate promise for substantial improvement" (Telesis, 1982, p.25).

Conclusion

The Whitaker Turn was did not make the profound structural change that its cheerleaders claim for it. As the Telesis report pointed out: "Long term industrial growth can only be provided by the development of businesses exporting outside Ireland" (Telesis, 1982, p.12). The only indigenous business of any significance exporting out of Ireland by the end of the 1980s was the naturally protected food industry – which is at any rate a low value-added industry (McAleese, 1977, p.42) – and a small number of long-established exporters in the drink and tobacco sector such as Guinness, Irish Distillers and Carroll's, all of which were founded before 1824 (O'Malley, 1989, p.116).

The vast majority of industrial growth was achieved by new foreign firms. As Foley and McAleese put it, this is the "second best" form of industrialisation - overseas industry "repatriates profits; it has limited linkages with the domestic economy; it imports most of its components and materials; and it rarely includes higher-order or head office type functions in its projects" (Foley and McAleese, 1991, p.26). The main growth in employment over the 1960s and 1970s was thus in those sectors which serviced the new foreign firms – construction and provision of construction materials, packaging, property development, and finance. The type of economy developed under the Whitaker Turn remained fundamentally structurally weak. The indigenous Irish capitalist class consists not of captains of industry, reinvesting their profits and expanding the economy, but of hangers-on, feeding off foreign direct investment.

But, in a sense, the policy-makers of 1950s Ireland could not really have done any better. The only alternative, after all, was the stagnancy of protectionism. Arguably, despite the limitations of foreign direct investment, it is doubtful that alternative uses of state resources would have procured a better economic return than was generated by overseas industry (Foley and McAleese, 1991, p.26). Indeed, going into the nineties, policy makers retained the same orientation towards overseas investment (Fitzpatrick and Storey, 1991, p.59). Thus, the same cycle of the 1960s-1980s was repeated: an initial burst of foreign investment spurred on indigenous growth in construction, finance, and property development, leading to a catastrophic collapse. Arguably, the 1990s-2000s cycle only repeated that of the 1960s-1970s in a more extreme manner. Indeed, today, the exporting industrial sector is even more dominated by foreign firms, is even more labour extensive, and still maintains relatively low linkages (McCabe, 2013, p.98).

The conclusion for Ireland as a "small open economy" is thus pessimistic. With the only alternatives being the introverted stagnancy of protectionism or the precarious parasitism of openness, it seems that Ireland is fated to be one of the perennial bottom feeders of the developed world.

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