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Uneven Development and Irish Peripheralisation

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Ireland – both North and South – is commonly perceived and portrayed as constituting a peripheral region, or more accurately two peripheral regions, within a European context. A Synthetic Index of regional indicators (based on productivity and unemployment) compiled by the EC in 1984 placed Northern Ireland second-last and the Republic of Ireland fourth-last of 131 Level II EC regions. The respective index values as a proportion of the EC average were, 35 per cent for Northern Ireland and 42 per cent for the Republic of Ireland. For Hamburg, the region with the highest index, the respective proportions were 23 per cent and 27 per cent (Trimble, 1990). A more sophisticated index published in 1987 showed the Republic's, and more particularly Northern Ireland's, relative position to have improved significantly, but this was mainly due to the effect of EC enlargement. Both parts of Ireland were still more than one standard deviation worse than the EC average, and were the only EC regions outside the Mediterranean area in this category. Ireland's economic peripherality is commonly seen as essentially geographical, i.e. Ireland is located on the margins of a European economy in which economic prosperity and dynamism are strongly concentrated in a core region frequently referred to as the 'Golden Triangle'. Economic opportunity is seen as being a function of accessibility to the external economies offered by this core region (Keeble et al., 1982). From this point of view, therefore, geographically peripheral regions such as Ireland face severe disadvantages which account, in large part, for their poor comparative economic performance.

This chapter reviews some conflicting views on how the problem of peripherality should be tackled from an economic policy point of view, with respect specifically to the Republic of Ireland. The conventional economic emphasis on cost minimisation as the key to international competitiveness is dismissed as an inadequate response to the developmental needs of the Irish economy. The need to create integrated export-oriented industrial sectors is advanced, but the steps required to achieve this are considered to be beyond the conceptual grasp of the Irish economics 'establishment'. The findings of an inquiry into why Ireland has failed to create such a structure, where other small European countries have succeeded, are examined. Some ideas on how this deficiency in the Irish economy can be tackled are then presented. Initially, however, the chapter provides a historical backdrop to the current economic situation in Ireland, both North and South.

Peripheral Ireland

The modern similarity between the economic structures of Northern Ireland and the Republic of Ireland hides the fact that, until relatively recently, there were profound differences between them (Walsh, 1979). In the nineteenth century, the Belfast region in particular experienced a form of industrialisation quite similar to that of many other British regions at the time of the Industrial Revolution. This involved the creation of a specialised and integrated export-oriented economic complex built around the linen, engineering and *shipbuilding* industries (O'Malley, 1989). By contrast, the remainder of the island actually experienced a process of deindustrialisation in the early nineteenth century, due mainly to the introduction of free trade with Britain following the 1800 Act of Union, and the centralisation of the linen industry in Belfast. As a consequence, the economy of the South was almost entirely dependent on the production and export of agricultural produce to the British market. The resultant lack of diversification and widespread poverty generated a continuous stream of emigrants, mainly to Britain and the USA. By 1921, the population of the island had been reduced to almost one half of the 1841 level (Kennedy et al., 1988). At the time of partition and the establishment of the Irish Free State (subsequently to become the Republic of Ireland), only ten per cent of the South's workforce were engaged in manufacturing industry (compared with over one third in the North), while over one half were engaged in agriculture (Walsh, 1979).

The twentieth century witnessed the North's industrial base experiencing growing difficulties, due mainly to specialisation in industries which have been in secular decline throughout the UK. Thus, the shipbuilding industry is now but a shadow of its former self, while the linen industry has been all but obliterated. Government attempts in the 1960s to replace these declining industries with imported synthetic fibre plants met with considerable initial success, but ultimately foundered when this sector also experienced structural decline in the 1970s. Meanwhile the political troubles have severely constrained the ability to attract other forms of outside investment. In the South, a policy of developing a manufacturing base through providing protection for infant industries serving the domestic market met with considerable initial success. However, the small size of the Irish market placed limits on long-term growth potential, and the inability to expand into export markets inevitably led to eventual stagnation in the 1950s. With the agricultural sector experiencing rapid contraction, this meant unprecedented emigration rates and major overall population decline.

The resultant crisis forced a reversal of economic policy and a switch to export-oriented industrial growth based on the attraction of foreign investment. This policy worked quite well in the 1960s and 1970s, although the employment gains in the foreign sector were counteracted to a considerable extent by contraction of indigenous industry, especially following EC entry in 1973 and the consequent exposure of Irish industry to external competition. In the 1980s there was an overall fallback in manufacturing employment, although output continued to expand strongly. This pointed to basic weaknesses in the prevailing industrial policy, particularly its emphasis on low-skill assembly work which has proved to be vulnerable to automation, and the failure of foreign branch plants to generate a significant degree of local linkage (Breathnach, 1988). Consequently, the 1980s saw both a build-up of unemployment and a resumption of mass emigration from the Republic of Ireland.

The net effect of these trends has been to create economic structures in both Northern Ireland and the Republic of Ireland which are remarkably similar. In both economies the manufacturing sector is now dominated by overseas firms, which account for about 40 per cent of employment and a higher proportion of output in both cases (Hamilton, 1993). Further, the foreign sector consists of limited-skill branch plants with few local linkages (Borooah, 1993; Telesis Consultancy Group, 1982). This, in turn, is related to high levels of unemployment, typically in the 15–20 per cent range in both parts of the island in the late 1980s (despite on-going net emigration from the two areas). While the tertiary sector now dominates the employment structure of both economies, its growth has fallen short of that required to reduce unemployment rates to EU levels.

Overcoming Peripherality: The Conventional View

The conventional economist's typical prescription for dealing with the problem of Irish peripheralisation is to minimise transport and production costs for Irish-based producers.[1] The Irish government has responded to this prescription in part by allocating a high proportion (over one quarter for the period 1989–93) of EC structural funding to the improvement of transport infrastructure. Regarding production costs, these are generally equated by conventional economists with labour costs. This is not entirely unreasonable since, although the share of wages in total manufacturing input costs has been declining, wages remain the largest single element of these costs on average for all industries (Storper and Walker, 1989). However, to argue, as most conventional economists do, that the minimisation of labour costs is the key to international competitiveness is another matter. Thus, in his regular Saturday column in the *Irish Times* (June 5, 1993), Garret Fitzgerald, formerly an academic economist (and, of course, also a former Irish Prime Minister) argued that the fundamental cause of Ireland's current high level of unemployment was excessive wage levels. Virtually simultaneously, Kieran Kennedy, the influential director of the state-sponsored Economic and Social Research Institute, was arguing much the same thing in the June 1993 issue of the *Irish Banking Review* (Kennedy, 1993a).

The fact is that labour costs in Irish manufacturing industry are already much lower than those of Ireland's main trading partners and have been falling quite significantly in relative terms; by over one third in the 1980s (*Economic Review and Outlook*: various years). Yet this has had no apparent bearing on Irish manufacturing employment which declined overall by eight per cent in the 1980s. One may contrast Fitzgerald's one-dimensional view of the Irish employment problem with an international survey reported in the *Irish Times* (July 9, 1993) which compared 38 countries with respect to 37 different criteria for competitiveness. While Ireland performed best regarding unit labour costs in manufacturing industry, it was placed only thirteenth in terms of overall competitiveness. It is clear that there is a lot more to national economic performance than simple labour costs.

Non-conventional Alternatives

It is evident that the conventional neoclassical emphasis on the minimisation of production and transport costs as the key to success in international markets is of little relevance to the search for possible future routes for Irish economic development policy. Over ten years ago the *Telesis Report* on Irish industrial policy pointed to three broad industrial sectors which could potentially be used as a base for Irish industrial development (Telesis Consultancy Group, 1982). These included, first, activities in which low labour costs could offer competitive advantage; second, activities based on natural resources in which Ireland possesses, or could achieve, comparative advantage; and third, what Telesis called 'complex-factor-cost' industries, or what would nowadays be called 'high-tech' industries, in which the key to competitive advantage is technological organisation or marketing know-how.

Telesis went on to dismiss the first of these: Irish wage levels are already such that Ireland could never conceivably compete with those Third World countries which do actively compete in these industries and where wage costs are extremely low compared with Ireland. As regards high-tech industries, studies show that for these, neither labour nor transport costs are necessarily significant factors in market success. Thus, in a survey of American high-tech firms operating in the west European market, Schoenberger (1990) found product quality and support service to be frequently more important than price as factors influencing potential customers. More specifically, Schoenberger noted that, for most of the firms surveyed, the decision on whether or not to locate a production plant in Europe was not influenced by the cost of exporting to Europe from a US base, since 'transportation costs to Western Europe are not considered a significant barrier to competitiveness' (1990, p. 384). Of course, Ireland already exports very large volumes of high-tech products to continental Europe, and these exports have been growing consistently and rapidly over the last twenty years (Foley, 1991). The problem, as noted earlier, has been that Ireland's strong performance as an industrial producer and exporter has not been translating into spin-off jobs elsewhere in the economy. The reasons for this are by now well known. The burgeoning Irish industrial export sector is dominated by foreign firms which have very limited local linkages, mainly because they import the great bulk of their technology, goods and services, export almost all of their input, and repatriate most of their profits (Breathnach, 1988). As a result, the foreign firm sector does not act as an effective national 'economic base', in that strong export revenues have created very weak spin-offs in the form of residentiary (i.e. non-exporting) industries in the ancillary and consumer sectors (Malecki, 1991).

The problem for Ireland, therefore, is to create a vibrant industrial sector based on indigenous industries sourcing material and service inputs within the Irish economy and capable of penetrating export markets (a similar prescription for Northern Ireland has been put forward in Borooah, 1993). As the possibility of developing an indigenous export base, relying on sectors in which labour costs are a key competitive factor, has already been ruled out, the only other options are to be found in the natural resource or modern technological sectors. The question is: how does one go about creating such industries?

The Non-contribution of Irish Economists

There is little evidence that conventional neoclassical economists can be of much assistance in answering this question. This is because of their very limited range of vision. As Lee has observed, among the Irish economics profession (which is almost entirely neoclassical in orientation), 'The premium is on tunnel thinking, blind to either long-term perspective or lateral linkage' (1989, p. 583). This tunnel thinking is partly reflected in the aforementioned preoccupation with cost minimisation. It is further reflected in a concentration on the behaviour of the individual (whether the individual consumer or the individual firm) as the key to understanding the functioning of the economy. As Griffin and Gurley observe:

> No historian, sociologist, political scientist or anthropologist would systematically ignore all the social formations larger than the nuclear household ... conventional economists ... are alone in trying to understand human phenomena in terms of the behaviour of isolated households. (1985: p. 120)

Conventional economists therefore tend to have little grasp of the broad social structures which constrain and shape the behaviour of individual economic factors. Twenty years ago, Myrdal (1973) criticised economists for playing down such 'non-economic' factors as power relations, social and economic stratification, and institutions (such as religion, culture, law and politics) which act as strong impediments to economic development in underdeveloped countries. This criticism can equally be applied to Irish economists today. We may add that conventional economists have even less grasp of the historical processes which produce these social structures, a direct consequence of what Lee (1989) sees as their fixation with immediate problems and short-term movements and their resultant limited understanding of long-term development processes.

A final factor contributing to the tunnel vision characteristic of Irish economists is their tendency to confine themselves to economic models derived exclusively from the British and American experiences. This is to a certain extent understandable, given the reliance of Irish economists on English-language literature and the fact that many of them have done at least part of their training in Britain or the US. However, this has at least two negative consequences. First, it means that most Irish economists have little knowledge of the economic experiences of other countries, both developed and underdeveloped, and of alternative models deriving from these experiences. Second, both the British and American economies developed in circumstances which are quite different from those which pertained in Ireland. Accordingly, development models deriving from the British and American experience are quite inappropriate to the Irish situation. Despite this, Irish economists tend not to look beyond the British and American economic paradigms, which lead them to recommending prescriptive measures which are at odds with the real development needs of the Irish economy. Moreover, economists of conventional neoclassical orientation account for close on 100 per cent of the personnel in Irish university economics departments and in the research institutions and consultancy firms. In effect neoclassical economists inevitably exert a powerful influence in government circles and, as a consequence, policy makers do not become aware of alternative development options.

The Comparative European Perspective

Despite these layers of blinkers which festoon the Irish economics establishment, a definite beam of light was allowed to penetrate recently in the form of a study commissioned by the National Economic and Social Council with the aim of identifying why a number of other European small open economies have achieved so much more economic success than Ireland. Mjoset's (1992) study was refreshing in his socio-historical analysis which transcended the simple macroeconomic analysis of contemporary macroeconomic indicators. Mjoset's basic finding was that the countries selected for comparative purposes (Sweden, Finland, Denmark, Austria and Switzerland) had all managed to achieve what Amin (1974) defines as 'autocentric' development. This refers to a form of development whose driving force emanates from within the national economies in question, and includes a combination of import-substituting and export-oriented industrialisation. These forms of industrialisation have the effect of generating extensive domestic linkages, leading to the formation of what Mjoset terms 'development blocks' (also referred to by Porter (1990) as 'clusters'), that is, interlinked networks of producers of materials and services in particular sectors. The extensive multipliers generated by this form of development lead to the creation of mass employment, low levels of unemployment and high living standards for the majority of the population. Thus what is produced is a virtuous circle of self-expanding economic growth and development, described by Myrdal (1957) as a process of 'cumulative causation'.

Ireland, by contrast, is characterised by what Amin terms 'extraverted' or 'peripheral' development. This describes a situation where the essential structures of a national economy are determined by external forces, and usually include a high level of dependence on exports of unprocessed primary products and imports of manufactured goods, and/or a high level of external ownership of domestic productive assets. Such an economic structure creates very limited local linkages and multiplier effects and low levels of employment creation. These in turn imply marginalisation of a large proportion of the population among whom very low living standards are the norm.

Deindustrialisation, Marginalisation and Emigration

Mjoset attributes Ireland's extraverted form of development to the deindustrialisation which affected most of Ireland (apart from the northeast) in the early nineteenth century. For Mjoset, the single most important consequence of this process of deindustrialisation and associated marginalisation was the generation of a long-lasting tradition of emigration which is still with us today. In this, Ireland was virtually unique among countries with extraverted economies, due essentially to the propinquity to two of the most rapidly expanding economies of the nineteenth century, Great Britain and the US. Although this has allowed the residual population to enjoy a standard of living which is unusual among extraverted economies, it has stripped Ireland of the dynamic impulses which characterise autocentric forms of development. Mjoset concurs with the view that emigration selectively removes potential innovators and entrepreneurs from the national economy, leading to what Oldham described as the 'survival of the unfittest' (1914, p. 213). Had these people chosen to stay at home rather than emigrate, this, Mjoset believes, would have created social tensions and frictions which would have acted as a positive force for social and economic dynamism. However, they opted instead to leave, thereby facilitating the emergence of dominant social forces and institutions opposed to change, and dependent on the maintenance of emigration for their continued prosperity and domination. As a result, Ireland lacks a 'national system of innovation' such as is found in all countries characterised by autocentric development. In effect, Ireland has failed to engender a national institutional framework which encourages and facilitates the adoption of new ways of doing things.

Vicious Circles of Underdevelopment

Mjoset therefore sees in deindustrialisation, marginalisation and emigration the creation of a vicious circle of continued under-development – Myrdal's cumulative causation process working in reverse. Thus, emigration restricted the growth of the home market (and hence the impetus for import substitution), allowed the emergence of a pastoral bias in agriculture, with a limited capacity for backward linkages, and fostered social structures in the countryside inimical to social progress. These forces have produced a weak national system of innovation, leading to a lack of economic growth, limited employment opportunities, social marginalisation and further emigration, thereby completing the circle. As Mjoset sees it, this vicious circle created an institutional framework which was, if anything, strengthened by the transition to political independence by what was to become the Republic of Ireland. This is reflected in the emergence in the post-colonial period of subsidiary economic and socio-political vicious circles from the initial vicious circle which became established in the colonial period. In the economic sphere, the social structure emanating from the latter period produced a political system which gave primacy to the agrarian interest, leading to the maintenance of the emphasis on cattle exports and a continued dependence on the British market. This lack of diversification has led to the continuation of a weak national system of innovation, which in turn has failed to halt emigration and has preserved an entrenched agrarian-dominated social structure.

In the socio-political sphere, the loss of potentially radical elements via emigration led to the emergence of two 'catch-all' political parties unable to challenge the dominant elements in the conservative social structure and unable to articulate the voice of the marginalised. This again confirms the weakness of the national system of innovation and the continuation of emigration, thus maintaining the circle. Several of the key elements of the institutional structures embedded in Mjoset's vicious circles have declined greatly in influence in the last thirty years. These include the dependence on cattle and beef exports, the dominance of the Catholic Church and the agrarian orientation of the political system. However, for both politicians and the state bureaucracy, innovation remains anathema. The education system continues to inculcate deeply conservative views, particularly among the intelligentsia, and the indigenous business community remains imbued with a 'quick-buck' mentality which is a direct throw-back to the circumstances pertaining in the nineteenth-century agrarian economy.

New institutions have emerged, however, to counter potential tendencies in the direction of radical innovation. These include the penetration of foreign media which continually convey conservative ideologies, growing dependence of the indigenous business community on the foreign-owned industrial sector, and EU subsidies which have played an important role in helping the Irish government to cope with rapidly growing unemployment since the early 1980s.

What are the Real Alternatives?

Having indicated where Ireland went wrong, Mjoset provides no guidelines on how Ireland might break out of these vicious circles. While he cites, apparently approvingly, Gerschenkron's (1962) view that intervention on the part of the state (or the banking system) is a *sine qua non* for effective economic development in late-developing economies, the problem for Ireland is where the impetus for such intervention might come, given the innately conservative nature both of government itself (referring both to the dominant political parties and the state bureaucracy) and of those groups which exert effective political influence on government.

Furthermore there have been very few peripheral countries which have managed to make the transition to autocentric development. The obvious exceptions have been the newly industrialising countries (NICs) of East Asia (Korea, Taiwan and Hong Kong). The recent economic histories of these three countries have been fundamentally different from other so-called NICs (such as Singapore, Brazil and Mexico) in that they have succeeded in creating dominant indigenous industrial sectors with strong local linkages. Henderson (1990) attributes this to the fact that all three possessed governments faced with legitimation crises in the 1950s due either to the threat of rapidly developing neighbours with territorial designs (North Korea and China) or the complete absence of democratic representative government (Hong Kong). These threats, according to Henderson, were sufficiently strong to spur the governments in question to undertake the kinds of radical action required to create autocentric economic structures capable of raising living standards considerably throughout the population. In this, South Korea and Taiwan in particular had the neighbouring model of Japan to draw on. They also, it might be added, lacked the democratic structures which might have stymied the severe measures employed, particularly in the early stages of industrialisation. This is especially the case in relation to wage suppression and poor working conditions, both of which were needed in order to attract foreign technology and gain footholds in export markets.

In the case of Ireland, it could be argued that there was one instance of a legitimation crisis in the 1950s, when mass emigration seriously threatened the continued viability of the state. This did produce a radical response witnessed by the abandonment of de Valera's policy of economic autarky and protectionism. However, whereas the alternative policy of attracting foreign investment may appear at first glance to have been similar to contemporaneous policies being pursued in the East Asian 'tigers', in the case of the latter this was part of a long-term policy designed to create a self-reliant technological capacity, whereas in the case of Ireland foreign investment constituted an end in itself. For more than twenty years foreign investment did manage to keep the economic and political wolf from the Irish government's door. However, foreign investment is no longer delivering the goods, and there is little indication that anybody with political influence in Ireland has a clear notion of where to go from here. This is evident from the public reaction to the *Culliton Report* on industrial policy (Industrial Policy Review Group, 1992). From the viewpoint of this chapter, by far the most important recommendation emanating from this report was the proposal that industrial promotion policy should be oriented towards the fostering of clusters of interlinked industries. This, as we have seen, is an essential ingredient of autocentric development. However, this rather complex dimension was virtually ignored in subsequent political, media and academic comment on the report, which focused instead on the politically juicy elements such as tax reform and the restructuring of state agencies.

Conclusion

One is, therefore, less than sanguine about the prospects of Ireland escaping from its condition of economic peripherality in the foreseeable future. The institutional forces opposed to the requisite change are simply too strong and entrenched. The only conceivable source of political pressure for radical change is the high, and growing, levels of unemployment and low-paid employment. There are signs that these are finally forcing job creation to the top of the government's agenda. However, there is no indication as of yet of the formation of a coherent political movement around this issue. One suspects that a lot depends on the ability of the EU heartland to provide subsidies sufficient to keep such potential mobilisation under wraps. The latest round of enlarged EU Structural Funds, therefore, may have the effect of putting the day of reckoning back at least until the beginning of the coming century.

Note

1. In the remainder of the chapter, the terms 'Irish' and 'Ireland' refer to the Republic of Ireland only.