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Mr Whitaker and Industry: Setting the Record Straight – A Reply to Barry and Daly

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I INTRODUCTION

The turnaround in economic policy from the late 1950s was remarkable. Protectionism was abandoned and exporting incentivised. As Barry and Daly (2011) admit, *Conventional wisdom accords the bulk of the credit for the turnaround in policy to Seán Lemass, Minister for Industry and Commerce in most Fianna Fáil governments since 1932 and Taoiseach from 1959 to 1966, and T. K. Whitaker, Secretary of the Department of Finance from 1956 to 1969.* Their main agenda is to set the record straight about the role of Mr. Whitaker in this historical turnaround in economic policy in Ireland. Their bottom line: Conventional wisdom is wrong. They attempt to illustrate this through a critique of our Walsh and Whelan (2010) paper. In our response to their paper we wish to address three issues. First, outline the real essence of our paper; secondly defend our analytical frameworks; and finally, place their new thesis on the role of Whitaker in economic policy during the "long 1950s" in the context of our paper and mainstream beliefs.

II WALSH AND WHELAN THESIS

Our paper focuses on how academic ideas were disseminated into public policy in the Ireland of the 1950s. The ideas on Economic development that are beautifully written in Hirschman (1957, 1958 and 1968) on Investment Criteria, Regional Dualism, the Strategy of Economic Development through Capital Formation and the Political Economy of Import-Substituting Industrialisation are clearly present in the design and implementation of Ireland's industrial/export policy. Killeen (1975), then director of the Industrial Development Autority (IDA), in his paper to the Society (SSISI) articulates these strategies without any reference to Hirschman. Our question was simply to address who was promoting such ideas? Professor Louden Ryan addressed the Society about "Investment Criteria in Ireland" in 1961, which did quote Hirschman. His analysis was clearly a blueprint for the industrial policy in Ireland that followed. Louden Ryan was appointed to the Capital Investment Advisory Committee in 1956, which gave him a direct route into the formation of economic policy at the time. Garrett FitzGerald (1958) emphasises the role of the Capital Investment Committee in the formation of policy at the time of the great turnaround. *The Grey Book, Economic Development, has indeed served to shut the door on the past; the third thin blue pamphlet from the Capital Investment Committee has bolted it; and the Government White Paper, Economic Expansion, seems to have barred it. But simultaneously all three have opened a new door, and we who, like Alice, have for some time past been shrinking, can peer through it at "the loveliest garden you ever saw."* (p. 193).

But who was to do the re-thinking? One body, set up by the then Minister for Finance, at the end of November, 1956, was excellently equipped to start the ball rolling—to prepare the groundwork for a positive programme of economic expansion. This was the Capital Investment Advisory Committee…. (p. 194).

Barry and Daly (2011) have nothing to say about the similarities in official Irish industrial/export policy over the generations with the investment criteria outlined by Ryan in the 1960s and in Hirschman in the 1950s. This is the central thesis of our paper.

Yet, as suggested by Barry and Daly (2011) and articulated in FitzGerald (1958) we also realise that Irish economic policy came out of a melting pot of academic ideas, external political and economic pressures, and individuals from different government departments. To quote Garrett FitzGerald (1958) on his review of Whitaker's (1956) paper to the Society: *These ideas were not novel – they had been expressed for years, even for decades, by academic economists, and by the Central Bank …. But the case for a revision of current policies had rarely been so well put as it was in this paper, and, most novel of* *all, its author was a civil servant emerging voluntarily from the security of anonymity into the public forum. (p. 196).* Whitaker had emerged as a leader. Lemass and Whitaker tend to get the credit for the new economic strategy as they were the official leaders at the time of key legislative policy changes.

Barry and Daly (2011) wish to focus on how much we should credit Whitaker in person with, and in addition, as a side show, criticise our analytical backdrop to the evolution of industrial policy in Ireland. Let us defend the positions we take here.

III DEFENDING OUR POSITIONS

Barry (1999) boxes Irish industrial policy into a world of FDI induced exporting with weak linkages to domestic industry. This has always been his narrow view of the world. Going as far back as Walsh and Whelan (2000), we never fell into this narrow view of industrial policy in Ireland: *Our analysis highlights the importance of moving away from an indigenous and foreign firm dualism that has dominated the analysis of Irish manufacturing to the evolution of export promoting and import competing production within sectors of Irish manufacturing* (Walsh and Whelan 2000, p. 20). Most development economists understand that an exporting base can come first from traditional indigenous bases, in our case agri-business. Clearly foreign direct investment can help. We have always been clear that Industrial Policy in its origin and implementation throughout the years was about getting an exporting industrial base up and running. This was designed for the traditional food and drink sector with opportunities for FDI. While others like Barry (1999) continued to think in terms of FDI induced industrialisation, we always felt this was wrong, particularly when you look at employment figures over time. Our focus is, and has always been, on the origins and evolution of an exporting base. Exporting was dominated by indigenous traditional industry in the early days and such sectors remained large in employment right into the 1990s.

It is because of this emphasis on developing an exporting base that we call industrial policy in Ireland a more general export oriented policy. FitzGerald (1958) highlights this as he quotes the 1958 Government White Paper: *What is now required is a greater emphasis on productive expenditure which (will) increase national output – particularly of goods capable of meeting competition in export markets* (FitzGerald, 1958, p. 199). Cleary Whitaker's lack of emphasis on FDI and concern for agricultural interests is consistent with a focus on export expansion. We therefore do not understand Barry and Daly (2011) when they say Whitaker was not a supporter of industrial policy as his main concern was creating an export base around traditional agricultural and not FDI. Their 'evidence' that Whitaker was not a proponent of the new industrial policy because there was little mention of FDI in 'Economic Development' and because Whitaker wanted a focus on agri-business shows a gross misunderstanding of the nature of industrial policy at that time. Industrial policy at the time, and for many years after, was focused on an export policy rather than FDI in inception. Traditional food and drink industries always played a central role. FDI grew in importance over time.

In terms of the importance of linkages in Irish Industrial-export policy, there has always been an official focus on generating supply side capabilities using linkages as outlined in Killeen (1975). One of the big investment criteria was employment creation. As in Hirschman, the focus was on high valued added exporting. An economy via linkages would induce employment in other sectors as a result of an expansion in exporting. "Jobless" exporting growth was an issue for the IDA for years, but it had a long history of defending its strategy by saying employment gains would be generated elsewhere reflecting general equilibrium linkages across industries. Hirschman is the godfather of such thinking. The Walsh and Whelan (2000) paper is clear that while linkages are stronger in traditional exporting sectors, there are also some linkages in FDI sectors: *The analysis also highlights how the increasing dominance of export production has resulted in the creation of many jobs in small Irish business across all sectors of manufacturing* … (Walsh and Whelan 2000, p. 20). As stated in Gorg, Henry, Strobl, and Walsh (2009) *Moreover, Ireland has operated a number of explicit policy programs to foster linkages between foreign multinationals and domestic suppliers* (Ruane, 2001) (p. 334). Their empirical evidence further supports the idea of strong linkages between exporting FDI firms and local businesses.

We also have an econometric piece, Li, Walsh and Whelan (2007), that picks up forward vertical linkages in Ireland and should be respected for the work that is in it. Knowing that certain individuals, like Barry, ignore or feel that such linkages did not exist, we also documented IDA policy which spells out the need to create such linkages in black and white since inception of industrial policy. The Hirschman investment criteria based on linkages is a big part of official policy and our empirical evidence suggests that such ambitions have been realised in the evolution of the exporting base over time. Hirschman's big idea was to move away from an industrial policy that promoted Import-Substituting Industrialisation (ISI) of final goods to one that promoted ISI of intermediate products that supplied exporting companies. Ireland did this with some success. While important, linkages was only part II of our paper.

IV WHITAKER'S POSITIONS

Whitaker clearly fought for the abolition of tariffs and for export promotion. This is first order. This is what he gets the credit for. Barry and Daly (2011) question his involvement in promoting strategic export tax relief, strategic tariff reductions, regional policy, and foreign ownership in export policy to achieve the overall trade liberalisation objective. Barry and Daly (2011) do not give credit to the overall theory and insights we outline on the Political Economy of transition from protectionism to export led growth. Hence, they do not engage in Hirschman's dualism in industry and transition theories. He wrote a "positive" theory of change that is a feature of many countries. We recited these ideas of the political economy of transition using the models of Roland (2000). This is a theoretical foundation that explains how governments can control interest groups and design reforms that achieve the twin targets of maximising social welfare (interests of society) and winning political support. In this context, the overall aim was to simply reduce tariffs and expand exporting but as our positive theory of change suggests, whether you want to ex-ante or not, one would have to manage constituencies in society. The powerful import competing firms would have to be managed with a strategic phasing out of tariffs. Alongside this one would need to fast track export growth to build up constituencies that support the transition. While export tax relief for manufacturing only, regional policy and foreign ownership in export policy might have worried Whitaker and others, they would be obvious strategic instruments to get the export base moving.

Even if policymakers have certain objections they have to work within these political constraints and hence explain the empirical outcomes that we document. As FitzGerald (1958) quotes the *Statist's* view of Whitaker's 1956 seminal piece: *Mr. Whitaker … shows a complete grasp of his subject. Yet this is not a dust-dry economic treatise but a study which takes into account the psychological attitude underlying economic problems and which has a careful regard for the human factors involved* (FitzGerald 1958 p. 202). Whitaker at the end of the day understood the political constraints even if, as documented by Barry and Daly (2011) he had reservations about them: *We have presented archival evidence that Whitaker, as Secretary of the Department of Finance, opposed the introduction of export profits tax relief (for clearly defensible reasons), that he argued for immediate across the board tariff reductions rather than advising that they be delayed until new export-oriented industry had came on stream, and that he was overruled in arguing against decentralisation of industry* (Barry and Daly, 2011). We need to understand that political constraints in the end shape policy in implementation, but debates between constituencies rage during their design. What Barry and Daly (2011) miss is that our analysis creates a framework for understanding why these things happened and why Whitaker, and those who followed, recognised that he had no choice but to be governed by such political constraints whether he liked it or not. Whitaker clearly wanted a "big bang" implementation, but a "gradualist" implementation is always the outcome once one takes political constraints into account. Hirschman's theories on managing regional Dualism and the Political Economy of reversing the impacts of Import-Substituting Industrialisation helps us understand these outcomes.

V CONCLUSIONS

Whitaker played a key leadership role in the fight for the abolition of tariffs and for export promotion. This is the primary structural change in Ireland's economic policy. Whitaker went along with the strategic implementation of such, even if he had concerns over the policy instruments. This is interesting but only second order.

Do Walsh and Whelan (2010) provide us with an interesting political economy analytical framework to understand the move from protectionism to exporting? Do they provide some evidence that Hirschman's ideas found their way into the conversation at the top table in the design and management of our transition from protectionism to export oriented? We think yes.

Should we as conventionally done give the credit to Whitaker? Academia, external pressures, electoral pressures, agricultural lobbies all had a role but Whitaker clearly fought for the abolition of tariffs and for export promotion economy wide. We feel the credit given to Whitaker is justified.

We accept we label everything as Whitaker's export oriented industrial policy, but he was there at its inception, although political constraints may have taken over during its implementation. Our political economy framework allows one understand how this happened.

In summary, Barry and Daly (2011) do not change the conventional wisdom about Whitaker. In addition, we hope that this reply has explained the main purpose of our paper and defended our analytical framework. We believe that Walsh and Whelan (2010) does provide an interesting perspective on the political economy of transition dynamics in Ireland's road to export-oriented growth.

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