The Regional Problem in Ireland: Some Reflections upon Development Strategy

PATRICK N. O'FARRELL

The current intense level of interest in regional development problems makes this an appropriate time to review certain aspects of Irish government strategy. The urgency of an appraisal is underlined by the fact that Irish regional policy measures have not prevented spatial disparities in social and economic welfare from increasing despite a wide ranging programme of assistance. Regional inequality, as measured by per capita personal income, is still widening: the weighted coefficient of variation, measuring the dispersion of county per capita personal income levels relative to the national average, with each county variation weighted by its share of the national population yielded a $V_w$ value\(^1\) of 0.1955 for 1960\(^2\): the corresponding value for 1965 was 0.2097. This indicates that the county variation of personal per capita income levels relative to the national mean has increased by 7.3 per cent between 1960 and 1965. Without a broad package of measures including loans, grants, public expenditure programmes and fiscal inducements of various kinds spatial inequities in welfare would be considerably more excessive than at present. Little is known, however, about the relative effectiveness of individual development strategies and any appraisal of these can only be effected if the precise goals and objectives that the measures are designed to achieve are more clearly outlined than in the Third Programme.\(^3\) This paper

\[ V_w = \sqrt{\frac{\sum (Y_i - \bar{Y})^2}{n}} \]

where $f_i =$ population of the $i^{th}$ county

$n =$ national population

$Y_i =$ income per capita of the $i^{th}$ county

$\bar{Y} =$ national income per capita.


will attempt to review the broad direction of regional policy in Ireland, and to critically examine in more detail three key aspects of development strategy:

(i) capital mobility and industrial location policy,
(ii) service employment and regional growth; and
(iii) growth centre strategy.

**Capital Mobility and Industrial Locations Strategy**

In Ireland and other countries a policy to influence the movement of capital is considerably more popular than one to induce migration. Yet it would be erroneous to assume that these two strategies are in conflict; in many cases the most rational solution to the development problems of a specific region might be a continuation of outmigration and an inflow of capital, industry and technological expertise. The provision of additional jobs is not in conflict with a goal to maximise economic efficiency provided that the capital used for the job creation does not yield a higher social marginal productivity at an alternative location. Richardson has argued that this case applies only to unused reserves of labour and not underutilised capital. In the latter case if a firm in a depressed area has cut back output in response to a permanent fall in demand for its product, the value of its capital is thereby reduced and it is inefficient to subsidise its extended use in order to eliminate excess capacity. The rare exception to this would occur when production is subject to decreasing marginal costs.

It is hoped to demonstrate elsewhere that one of the basic problems of underdeveloped regions in Ireland is that they are poorly specialised: they have a poor industrial composition with a high proportion of their employment concentrated in declining or slow growth sectors of the economy. The inducement of new industries to such areas in order to improve the industry-mix and raise the level of per capita incomes arising is fundamentally a long-term strategy; even this will not be sufficient to ensure recovery. Heavy spatially concentrated infrastructural improvements will be necessary combined with measures to improve education, training and the input-output access of activities: better road, rail and telecommunications, together with more investment in airports and ports. The first objective of this paper is to examine the current range of measures employed to attract industrial development.

Ireland operates a two-tier grant structure and the standard maximum non-repayable cash grants towards the cost of industrial fixed assets are 40 per cent in the Designated Areas and 25 per cent elsewhere. An extra grant of 20 per cent of

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5. Ibid., p. 399.
7. Fixed assets for grant purposes comprise sites, site development, buildings, machinery and equipment (excluding office equipment and transport vehicles for use outside the factory).
the cost of fixed assets may be awarded if a firm satisfies the Industrial Develop­ment Authority that it satisfies certain criteria listed below. These grant maxima are subject to the constraint that the IDA will pay either a maximum of £5,000 per job created in the Designated Areas, £4,000 elsewhere or £3,000 in Dublin or the appropriate percentage grant if the latter is a lower figure. The higher tier grants of 60 per cent and 45 per cent are gross and an appropriate discounted deduction should be made for the loss of tax allowances against depreciation. The Authority may also make grants towards the reduction of the interest payable on a loan raised to provide fixed assets. To qualify for the higher level of grant, a firm must satisfy the IDA that:

(a) the significance and character of the employment likely to be provided by the undertaking warrants the making of the further grant,
(b) the undertaking will result in the development or utilisation of local materials, agricultural products or other natural resources or will achieve significant linkages either with existing firms or potential new enterprises,
(c) the undertaking will have a high technological or scientific content,
(d) the industry in which the undertaking is engaged is likely to have an exceptional growth potential.

This reflects an admirable recognition of the importance of productivity growth and raising living standards, the value of demonstration effects and the generation of intra-regional external linkages and economies and provides an adequate framework, with necessary flexibility, for decision making by the IDA.

The package of incentives offered in Ireland is also designed to facilitate the growth and diversification of industrial undertakings. Under the Industrial Development Bill, 1969, Section 38, the IDA may make a grant of up to 35 per cent of the cost of fixed assets required for requipment, modernisation, improvement or expansion of industrial firms in the Designated Areas and 25 per cent elsewhere. The government will also meet the full cost of training factory workers, supervisors and managers, including, if necessary, travel, wages and living costs for workers training abroad. If required, the state will finance the engagement of instructors, technical advisors and consultants to carry out the training. This is important, for the introduction of industry to the Designated Areas involves a changing economic structure and the need for new skills and redeployment of the labour surplus could not be achieved without an extensive retraining programme. The IDA may also provide grants of 50 per cent of the

8. In practice the grants awarded are lower than the maxima set in the Industrial Development Bill, 1969. For the year ended March 31st 1970 the grants paid as a percentage of fixed assets were 53.3 per cent in the Designated Area and 41.1 per cent in the rest of the country. (Data kindly supplied by the IDA). Note that the empirical difference of 12.2 per cent between grants paid in the Designated Areas and the rest of the country is less than the legal maximum of 15 per cent outlined in the Industrial Development Bill, 1969.

cost for research and development projects which have the promotion and
development of new or improved industrial processes as their principal objective.

One important factor, not mentioned in the Industrial Development Bill, 1969,
is the opportunity cost of investment. This criterion, as measured by returns of
factors in alternative uses, should be included in the evaluation of a subsidy. If
the objective in the allocation of limited investible resources is to achieve the
largest possible increase in the capacity of the economy to produce goods and
services the appropriate measure is the social marginal productivity of the capital
employed: the annual net contribution of a project over its life to the national
product—all discounted to the present period. Interregional equilibrium will
obtain when the SMP associated with a given investment is equal for all regions
of the economy. The only exception to this criterion is where unemployed labour
in a peripheral region is highly immobile spatially and unless employed locally
will remain unemployed. In this instance the relevant comparison is not between
the net marginal products of capital in both expanding and peripheral regions but
between the net marginal products of capital in the expanding regions and the
total increase to value added in the peripheral area (i.e. the gross marginal product
of capital).

Negative restrictive measures such as direct control of factor movements (in
particular capital) are popular in many countries as they seldom involve large-
scale expenditure of public money. The British system of restricting expansion
by means of industrial development certificates is a case in point and constitutes the
most rigorous form of development control in Europe. Such a measure, although of
negligible budgetary cost, may hide significant real costs in terms of sacrifices in

10. Let $S_{it}$ be the gross value of output of the $i^{th}$ project in the $r^{th}$ year and the project has a life
span of $n$ years. Then let $C_{it}$ be the total cost of producing that output in that year with the $i^{th}$
project. The net income of the project in the year $t$ is the difference between gross output and input
so that $Y_{it} = S_{it} - C_{it}$. The present value of this income stream for project $i$ is:

$$Y_{i} = \frac{Y_{i1} + \frac{Y_{i2}}{1+r} + \ldots + \frac{Y_{it}}{(1+r)^t}}{\frac{Y_{it}}{(1+r)^t}}$$

where $r$ is the rate of discount. The basis of the SMP criterion is to select the projects in such a way
that the sum of the present value of all projects is a maximum. Choose $m$ projects such that

$$Y = \sum_{i=1}^{m} \sum_{t=1}^{n} \frac{Y_{it}}{(1+r)^t}$$

is a maximum subject to the limitation on the quantity of investible resources available in period
one and the production functions. Hence the SMP of a project consists of the ratio of the present
value of returns minus operating costs and the amount of capital invested: the SMP of project $i$
is $\frac{Y_{i}}{K_{i}}$ where $Y_{i}$ is calculated as above and $K_{i}$ is the quantity of capital. See H. J. Bruton, Principles


national efficiency. A rigid application of this policy in the Dublin area may (a) persuade many potential foreign investors to cancel their plans to invest in Dublin and to locate abroad instead or (b) force firms to set up in a problem area but with a considerable loss of efficiency. However, a flexible strategy covering both office building and manufacturing in Dublin could make a valuable contribution to encouraging regional growth. A continuum of grants should be devised for the Dublin Area and the size of grant allocated to a firm wishing to expand or locate should be made dependent upon an assessment by the IDA of the potential loss (if any) in operating efficiency if expansion took place outside Dublin together with any extra social costs created by expanding in the city. Firms likely to suffer no loss in efficiency would receive no grant to expand in Dublin while those in the same category which would also induce social costs should be taxed if they decide to expand in the metropolis. Both classes of undertaking should be offered large inducements to develop in the regions—50 per cent in the Designated Areas and 20 per cent elsewhere outside Dublin. Those for whom a non-Dublin location would involve a permanent substantial operating handicap should be permitted to expand in Dublin and might qualify for a small grant if they are likely to generate large interregional multiplier effects throughout the rest of Ireland and to export a high proportion of their output. A key element in the success of such a policy, in particular the stimulation of service employment growth, is the rapid build-up of a few large growth centres in the regions (Cork, Waterford, Limerick, Shannon and Galway are the obvious areas) with a range of services that appear attractive to location decision makers. The current level of capital grants, 35 per cent for expansion in the Designated Areas is unlikely to be high enough to encourage large-scale migration from Dublin unless it is combined with a tax upon expansion in Dublin as in the circumstances outlined above. Such a strategy is consistent with the objective to narrow the gap between manufacturers' private cost functions and social costs. This should help to encourage manufacturers to take decisions which coincide with the interests of the community by locating in areas of surplus labour supply and in those where urban diseconomies are absent or negligible.

The range of direct and indirect inducements to encourage regional development is very wide. The most popular measures include: publicity and provision of information; improvements to infrastructure and social amenities; investment in education and retraining, taxation allowances, grants or loans to firms which may be related to capital or labour costs and may be varied regionally in a number of ways; regional discrimination in the placing of government departments; regional price subsidies in transport which affect location; selection of and stimulus to growth centres; direct controls on factor movements and so on. The mixture of high investment grants and tax concessions offered in Ireland is a sensible strategy: the former helps to offset heavy location costs while the latter have the merit that they reward success and encourage efficiency since firms must earn a profit to take advantage of them. In this context accelerated depreciation is valuable for it permits manufacturing industries in the Designated Areas to
amortise investment in plant and machinery against profits at whatever rate they choose. In non-Designated Areas initial allowances for depreciation in respect of capital expenditure on plant and machinery may be claimed at 60 per cent of expenditure. In the case of firms in the Designated Areas this amounts to an interest-free loan thereby improving the liquidity of the undertaking. If a firm reduces its declared profits to zero in the first year by amortising its new investment at an accelerated rate, it will escape tax liabilities in that year. In subsequent years, however, taxable profits will be greater than they would have been if amortisation charges had been spread over a large period. In the long run total tax payment is the same (in monetary although not in real terms) but accelerated depreciation gives the firm the right to delay its tax payments until it has recovered the whole cost of investment. However, assistance in the form of grants is subject to the important qualification that such grants, in the case of plant and machinery, must be deducted from the value of the capital against which depreciation may be claimed for tax purposes, so that in effect the real value of the grant is appreciably reduced.  

But provision for depreciation should be on a scale to allow a firm to replace the whole of its plant and equipment and not merely that fraction of it for which it paid initially. The current system means that a firm must provide for depreciation out of total profits on a scale to cover the portion of its equipment covered by the grant. Wilson has calculated that in Britain, assuming a discount rate of 6 per cent and profits tax at 50 per cent, the real value of a 25 per cent grant is reduced to 15·8 per cent. The value of a capital grant should not be deducted in determining a firm’s right to claim depreciation allowances against tax. In this way the true value of the grant may be much more easily assessed by industry and the general public, and it would also provide an increased incentive to achieve profitability. It may be considered desirable to adjust the “gross” level of the grants in removing this anomaly.

The government also wisely encourages firms to export by granting tax reliefs on profits earned from external trade: profits earned on exports are eligible for 100 per cent relief from Income Tax and Corporation Profits Tax for fifteen consecutive years from the first year the company engages in export business. Firms commencing export trade in 1970–71 would, in addition to fifteen years relief, be entitled to a further five-year period of partial relief. Under current legislation these tax reliefs are only available up to 1989–90. To help stimulate a greater investment shift to the Designated Areas the tax reliefs on export profits should be spatially differentiated. The current levels of relief should be continued in the Designated Areas but in the rest of the country outside Dublin export profits should be eligible for 50 per cent relief for five years only. It should be

12. In the case of industrial buildings tax allowances for the purposes of depreciation are calculated upon the gross cost with no deduction of any grant payment. Initial allowance for depreciation in the case of industrial buildings is 20 per cent against profits.
noted that for many new firms which export the bulk of their output full tax relief is available and the depreciation allowances are therefore irrelevant. This does not apply to industries in the Designated Areas who may postpone their claims against depreciation.

The Subsidy of Running Costs

The current package of incentives offered in the Irish Republic is somewhat biased towards capital investment rather than labour and thereby, it might be supposed, encourages capital-intensive forms of production when in many areas labour is the resource in excess supply.\(^1\) An investment subsidy in general may induce the use of more capital than is efficient, since if labour is underemployed it is not rational to economise in its use.\(^15\) This represents a degree of imbalance in the current grant package and as labour is the factor in excess supply incentives to utilise more employees would act directly upon this problem. There is also evidence that settling-in costs for new firms in Ireland are high: a survey has shown that almost 50 per cent of grant-aided firms had not achieved profitability after two years.\(^16\) Luttrell’s investigation of firms in Britain reached the following striking conclusion: “To sum up, it was fairly typical, in the range of industries we covered, for the extra operating costs in the early years to vary between half and the whole of the capital cost of construction of the new factory.”\(^17\) The high costs of early years are an important obstacle to regional development. This would appear to constitute a reasonable case for recommending that some assistance should be given in the short-term not only to capital costs but also towards running costs.

A labour cost subsidy would appear to be compatible with three objectives: (i) to alter the current capital bias of the industrial incentives package; (ii) to lower unemployment and (iii) to reduce the burden of high settling-in costs. A subsidy similar to the Regional Employment Premium in Britain would satisfy these objectives, alter the current capital bias of the grants, lower unemployment and reduce the high early settling-in costs. A subsidy could be given to new firms locating in the Designated Areas in the short-term (three to five years) in respect of each male worker employed with lower rates for females, juveniles and part-time employees. This payment might amount to approximately 10 per cent of the wages paid in each case which is not excessive, for unemployment pay is usually

14. There is some evidence that in Britain the ratio of investment per man in the Development Areas to investment per man elsewhere is higher in capital intensive industries so that the bias in favour of subsidies to capital (reduced but not eliminated by the introduction of the Regional Employment Premium) seems to attract capital rather than labour intensive industry to the regions. See Annual Report by the Board of Trade under the Industrial Development Act, 1966, London, 1968.


considered to be a higher fraction of wages. It would constitute a direct offset to the higher settling-in costs reported by the survey team and would reduce the cost differential believed to exist between the Designated Areas and the rest of the country. Wage subsidy inducements were discussed only briefly by Arthur D. Little Inc. in their revision of incentives for industry in Ireland and the idea was rejected after only a cursory examination.¹⁸

Wage subsidies have been unpopular for a considerable time as a regional policy measure on the grounds that they encourage inefficiency. Richardson has, however, argued that a wage subsidy to high-wage industries in labour surplus regions far from distorting resource allocation patterns, actually improves it by simulating a competitive labour market where market forces have ceased to operate effectively.¹⁹ This is not an argument in favour of a blanket labour subsidy to all industry in a labour surplus region to induce firms to substitute labour for capital. If subsidies were made available to all sectors including capital goods industries then, assuming no change in interest rates, the subsidy would make capital goods cheaper.²⁰ There would be no incentive to substitute labour for capital on this ground alone. If wages were completely flexible, both inefficient allocation of labour between industries and unemployment would be eliminated; a wage rate could be reached that would absorb all surplus labour except in areas where the marginal productivity of labour is zero.²¹ But in modern industrial economies, with vigilant trade unions, wage rates are inflexible downwards so that overall levels will in many cases not be low enough to absorb the unemployed. A system of employment subsidies to high-wage industries (not all sectors) can induce competitive market conditions. Richardson concludes that regional wage subsidies are called for only in areas where there is unemployment, because of restricted employment opportunities at prevailing wage rates in any industry that unemployed workers wish to enter or where there is a differential between the marginal productivity of (occupationally mobile) labour in different industries because of restricted employment opportunities in high-wage industries at prevailing wage levels. These conditions are satisfied throughout most of the Designated Areas. He states that: “The key to the solution lies in the fact that wages are not identical with labour costs. We must drive a wedge between what the worker receives (the wage) and what the entrepreneur pays (his labour cost); payroll subsidies are such a wedge.”²²

Such a measure could induce trade unions to intensify demands for higher wages but, if it is not absorbed by higher wage levels and is passed on in lower prices, it will stimulate demand for price-elastic goods which in turn will boost regional output by enabling more regional production to be sold both inside the


region and as exports. If prices remain unchanged then the higher profit margins should cause a shift of production to these areas. If profits absorb a substantial proportion of a regional employment premium this is most likely to occur in the case of firms producing for the home market and facing little competition. Such a subsidy should therefore be conditional upon exporting a large proportion of total output. It is hoped that the growth in output and employment will produce an increase in exports which should more than offset any increase in imports required by the region. This has been argued as a justification for limiting it to manufacturing industry—although in the case of the Irish regions a strong case may be argued for the inclusion of tourism. Management and labour must realise that to be effective an employment premium must be used to reduce costs. Any tendency to absorb it in the form of higher wages will defeat the purpose of the policy while increased profit margins can only be justified if the higher profits are reinvested as a means of increasing output and are not passed on to shareholders. It is most desirable that the principal effect of the premium should be price reductions and the expansion of production. In this way the maximum employment growth will be obtained, the spillover effects to the rest of the economy will be minimised and the balance of payments assisted. A regionally differentiated employment premium or payroll subsidy should be confined to firms that are new to the Designated Areas and the assistance which should be generous should be short-term (say five years) and tax free. The permanent subsidy of labour or transfer costs raises another issue. It might be argued that such a subsidy contravenes Article XVI Section A of the General Agreement on Tariffs and Trade which provides that any contracting party which grants or maintains a subsidy which has the effect of increasing exports or reducing imports must notify GATT. However, as the subsidy proposed here is temporary there should be little difficulty in negotiating an agreement with GATT and the EEC. The purpose of tax concessions, grants, low interest credit, labour or transport subsidies are to enable a firm to overcome the heavy outlays of early years; but the firm must be able to stand on its own feet at a later stage. Permanent subsidy implies an attempt to offset some inherent locational or managerial disadvantage and while such a policy may be considered justifiable on social or political grounds it could not be reconciled with an objective to maximise national output. A permanent running cost subsidy would merely form a protection for decaying and inefficient industrial concerns.

A degree of risk is inherent in the process of industrial development and although grants may help to prop up declining industries as well as encourage expanding ones the financial inducements cannot be held back until the projects have proved themselves. The criterion of willingness to invest in new productive capital should provide a reasonable safeguard against any large-scale propping up of individual concerns. With regard to the future development of incentives it is important to

continually review the mix of attractions offered. A firm's response to such inducements as investment incentives, tax concessions, advance factories and the like is a function not only of its locational costs but also of its investment decision-making procedures and its perception of the map of spatial opportunities. Despite a lengthy period of governmental activity in regional development the relative effectiveness of alternative policies is not clear. Is it more economical for the government to offer free depreciation or high investment grants in steering industry to the Designated Areas? Are direct grants or subsidies to firms more or less effective than improvements in regional infrastructure? Should there be a continuing emphasis upon offering capital assistance with buildings and plant or should there, as I have argued, be a shift of policy towards short-term subsidy of certain running costs? Which industries have the largest intra-regional multiplier effects (in all probability those processing locally produced inputs) and do they also induce the greatest overall multiplier effect to the national economy? It would be difficult to identify such firms beforehand without a detailed input-output analysis of their future operations and there is evidence that there are considerable variations between firms in the same industry. How does the employment multiplier (which depends upon the elasticities of the aggregate supply curves of labour facing the investment and consumer goods industries) compare in magnitude with the income multiplier (which depends upon the marginal propensity to consume)? Which industrial groups have performed best in relation to their projected targets for exports, jobs and investment? If subsequent performance relative to objectives is independent of industry group—does it vary by location? Given that a goal to create more employment is acceptable there is a need to calculate within a cost-effectiveness framework the real opportunity cost of the IDA expenditure compared to say, the partial subsidy of labour costs in the short-term, the creation of autonomous service employment or the expansion of the fishing industry. Does the government-financed industrial incentive programme stimulate more income in the country than is foregone as a result or providing funds for the programme? The economy will lose income through the sacrificed earning possibilities of the capital taken from the private sector to finance the incentives. If this lost income is greater than the income induced by the grants, costs will be considered greater than benefits. This raises a number of unsolved issues concerning the measurement of both real and opportunity costs and the quantification of direct and indirect multiplier effects. If the effectiveness of policy is to be improved then it is important to assess it from three angles: first, are industrial incentives the most efficient way, in cost-benefit terms, of generating income and employment growth; second, assuming that they are, is the package of measures of the right type to achieve the objectives and third, are the incentives applied on the right scale?

One feature of the grants policy operated by the government since 1962 is that
with small exceptions it has been insufficient to prevent existing regional dis­
parities from increasing. Table 1 shows the sums granted in each county per head
of population from 1962 to 1970 and the grants for each planning region over the
same period. The regions which received the lowest grants per head—Midlands,
Donegal, North-West and West—all, with the exception of part of the Midlands
region, lie within the Designated Areas. The group of regions which have fared
best in grant payments corresponds with the three with the highest incomes per
head. In certain isolated cases in the Designated Areas some degree of successful
industrial development has been achieved: notably in Clare (mainly Shannon­
Ennis), Kerry, Galway (largely confined to the city), Cavan and Monaghan.


<table>
<thead>
<tr>
<th>County</th>
<th>Total Grant (£)</th>
<th>Grant per Capita*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clare</td>
<td>4,316,643</td>
<td>58.7</td>
</tr>
<tr>
<td>Louth</td>
<td>3,250,978</td>
<td>46.8</td>
</tr>
<tr>
<td>Waterford</td>
<td>2,854,885</td>
<td>39.1</td>
</tr>
<tr>
<td>Monaghan</td>
<td>1,221,418</td>
<td>26.7</td>
</tr>
<tr>
<td>Kildare</td>
<td>1,727,371</td>
<td>26.0</td>
</tr>
<tr>
<td>Kerry</td>
<td>2,403,944</td>
<td>21.5</td>
</tr>
<tr>
<td>Cork</td>
<td>7,131,828</td>
<td>21.0</td>
</tr>
<tr>
<td>Galway</td>
<td>2,866,932</td>
<td>19.3</td>
</tr>
<tr>
<td>Cavan</td>
<td>1,011,579</td>
<td>18.7</td>
</tr>
<tr>
<td>Sligo</td>
<td>872,747</td>
<td>17.0</td>
</tr>
<tr>
<td>Dublin</td>
<td>13,401,013</td>
<td>16.9</td>
</tr>
<tr>
<td>Kilkenny</td>
<td>1,023,016</td>
<td>16.9</td>
</tr>
<tr>
<td>Longford</td>
<td>434,939</td>
<td>15.0</td>
</tr>
<tr>
<td>Wicklow</td>
<td>830,005</td>
<td>13.7</td>
</tr>
<tr>
<td>Offaly</td>
<td>685,662</td>
<td>13.2</td>
</tr>
<tr>
<td>Donegal</td>
<td>1,276,862</td>
<td>11.8</td>
</tr>
<tr>
<td>Wexford</td>
<td>810,530</td>
<td>9.7</td>
</tr>
<tr>
<td>Westmeath</td>
<td>471,605</td>
<td>8.9</td>
</tr>
<tr>
<td>Roscommon</td>
<td>438,960</td>
<td>7.8</td>
</tr>
<tr>
<td>Limerick</td>
<td>1,003,168</td>
<td>7.2</td>
</tr>
<tr>
<td>Mayo</td>
<td>825,255</td>
<td>7.1</td>
</tr>
<tr>
<td>Meath</td>
<td>463,842</td>
<td>6.9</td>
</tr>
<tr>
<td>Carlow</td>
<td>223,419</td>
<td>6.6</td>
</tr>
<tr>
<td>Laois</td>
<td>239,348</td>
<td>5.3</td>
</tr>
<tr>
<td>Tipperary</td>
<td>608,490</td>
<td>5.0</td>
</tr>
<tr>
<td>Leitrim</td>
<td>139,429</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Industrial Development Authority, Review 1952–70, Table 1A, p. 37.
Looked at in absolute terms an even more stark contrast emerges. Dublin with a total of £13.4 million in grants paid between 1952–1970 has received 26.8 per cent of all payments and the East region as a whole has obtained almost one-third of the total payout. Conversely, Sligo and Leitrim combined have only received 2.0 per cent while Donegal with 2.5 per cent and the Midlands with 4.5 per cent have also fared very badly. Hence, if the relative disparities in social and economic welfare between the Designated Areas and the remainder of the country are to be even maintained at this current level there will need to be a radical change in the spatial distribution of grants with a considerably greater emphasis upon the Designated Areas.

**Total Grants by Regions**

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Grants (£)</th>
<th>Grant per Capita*</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-East</td>
<td>5,484</td>
<td>32.4</td>
</tr>
<tr>
<td>Mid-West</td>
<td>5,624</td>
<td>21.2</td>
</tr>
<tr>
<td>South-West</td>
<td>9,563</td>
<td>21.1</td>
</tr>
<tr>
<td>East</td>
<td>16,422</td>
<td>16.8</td>
</tr>
<tr>
<td>South-East</td>
<td>5,216</td>
<td>16.3</td>
</tr>
<tr>
<td>West</td>
<td>3,692</td>
<td>14.0</td>
</tr>
<tr>
<td>North-West</td>
<td>1,012</td>
<td>12.4</td>
</tr>
<tr>
<td>Donegal</td>
<td>1,277</td>
<td>11.8</td>
</tr>
<tr>
<td>Midlands</td>
<td>2,271</td>
<td>9.7</td>
</tr>
</tbody>
</table>

*Figures based upon 1966 population.

**Service Employment—the Neglected Sector**

The number employed in services was 438,700 in 1966 and is expected to reach 470,000 out of a total work force of 1,081,000 by 1972. This may be compared with an anticipated labour force of 277,000 in agriculture, forestry and fishing and 344,000 in industry in 1972. Hence the Tertiary sector will account for over 43.5 per cent of the total employed compared with 35.2 per cent in 1946. As per capita income levels continue to increase there will be a continual shift of resources into the service sector which will therefore be relied upon to provide a substantial proportion of the net increase in total employment. Many planners in Ireland seem to regard new employment in the regions as being virtually synonymous.

with industry, while service employment expands in response to demands created within the local community. Such a neglect of services and their potential contribution to regional growth by the government could be forgiven if services were relatively unimportant in the Irish economy, but, as has been demonstrated, they are not.

Service employments have certain characteristics which are highly important for an appreciation of the role they play in regional and local economies. The first of these is that many services are not dependent upon local consumer demand and patronage to sustain them. Such activities as universities, civil service departments, many sections of semi-state bodies, research and development establishments, the head offices of insurance companies and building societies are all supported by national operations and not by direct customer contributions services.\(^{28}\) The spatial relevance of this is that the provision of the service and hence of employment in a particular area is not a function of the ability of the locality to pay for it. The tourist industry, although supported by direct customer payment, draws the bulk of its patrons from beyond the local region. Induced services, those that are dependent upon the size and incomes of the locality, are supported locally by the incomes generated in the autonomous sector. They are characterised by direct consumer contact and the demand for such services is spatially restricted so that they are located close to the populations that they serve (e.g., public houses, wholesalers, shops, etc.).

Another important characteristic of autonomous services is that being reliant upon external financing they are largely insulated from the immediate impact of local economic change.\(^{29}\) The service sector has greater potential than manufacturing for high incomes with corresponding effects upon the regional multiplier and on the retention of bright school leavers in the area; it raises the female activity rates and is less susceptible to unemployment fluctuations. Many services cater for social needs and are under public control. Gas, electricity, water, transport and communications, public administration and vocational education are almost completely publicly controlled while the health service and education are increasingly influenced by the public interest: the spatial reorganisation of the hospital and primary school systems are obvious examples of this latter trend. The construction industry relies greatly upon public body contracts for council housing, road building, advance factory construction and other public works. Hence the service sector displays a far greater degree of public ownership and control than manufacturing which creates a greater potential for implementing government location policy in this sector. Furthermore, Baker has demonstrated that “so far as the nature of non-agricultural autonomous employment is concerned, there appears to be no great difference in ‘induction effect’ between

\(^{28}\) The definition of autonomous and induced activities is discussed elsewhere in a scholarly paper by T. J. Baker, *Regional Employment Patterns in the Republic of Ireland*, Economic Research Institute, Paper No. 32, 1966.

‘export’ oriented commercial, manufacturing or services on the one hand and social and administrative services on the other”.

The one industry within the Tertiary sector where investment grants and other incentives are available is tourism. Bord Failte offer a very wide ranging series of grants which cover hotel and guesthouse accommodation, the development of camping and caravan facilities (grants of up to 50 per cent of the development cost of the site), holiday villages (chalets and central block), residential accommodation for foreign students and holiday camps. The Board will pay up to 35 per cent of the total construction costs of new hotels in Special Development Areas (with minor exceptions coterminous with the Designated Areas); up to 50 per cent of the cost of guest bedrooms and lower level grants for other hotel facilities. Outside the Special Development Areas new hotels may avail of a maximum construction grant of 25 per cent and up to 40 per cent of the cost of guest bedrooms; the grants for ancillary facilities are the same as in the Special Development Areas. Extension grants for existing hotels are 20 per cent of cost throughout the country. Grants towards the payment of interest are available and 10 per cent of the construction cost of new hotel buildings may be written off against profits each year until the full capital cost is covered. There is also a grant scheme operated by the Regional Tourism Organisation for supplementary and farmhouse accommodation (minimum three guest bedrooms) and the maximum grant for approved cases is £500 in any one year. These grants are only available in the Special Development Areas.

The current tourist development grant system has one major weakness: lack of capital. At present the grant fund is fully committed for an indefinite period and consequently Bord Failte are not in a position to make any grants available. It is therefore an appropriate time to review the wisdom of reviving these grants in the next decade. The tourist sector showed a real decline in income for the year 1970 while the country has an ample supply of hotel plant. A cost-effectiveness study would demonstrate whether capital grants for hotels should be renewed and whether a greater return could be obtained by investing scarce public capital in, for example, industry, services or fishing. For social reasons the grants for farmhouse accommodation should not be discontinued.

Unfortunately we know little of the locational needs of services—information which, if it was available, regional planners could transform into practical policy; there is a notable lack of theory concerning the factors relevant to the location of service activity. What conditions encourage the growth of office employment in Dublin? Can this growth be reproduced elsewhere? In Britain, the impact of the Control of Office and Industrial Development Act, 1965, has been negligible in terms of decentralisation to the regions. Almost 80 per cent of the offices moving out of London have selected locations within the South East Planning Region and there has been no serious research into the reasons behind the failure of the policy

31. The author is indebted to Mr. C. J. Cooney, Accommodation Development Adviser, Bord Failte Eireann, for much of the information in this sector.
to relocate offices in the regions.\textsuperscript{32} What sort of incentives can alter the pattern of offices? It is likely that financial inducements will be necessary if private sector offices are to be encouraged to migrate to the regions and if new offices are to locate outside Dublin. The form of such inducements can only be a matter of speculation in the absence of research findings but they might consist of the following: a primary financial inducement, e.g. tax relief based on the size of the office; a premium for each new job created by relocating the office outside the Dublin region; a separate premium for each employee moved by the new firm from its central Dublin location; a grant towards the equipment for the new offices. If relocation requires the construction of purpose-built premises it may be feasible to provide a grant towards this cost. Most private sector offices are likely to seek locations, assuming that any incentives work, in the major provincial centres of Cork, Limerick and Waterford. Communications will probably be an important control on the potential relocation of offices and a research project to investigate the communication links between different sections of the civil service and between these sections and outside agencies would identify which types of function could be removed from Dublin without seriously impairing their efficiency. The initiatives taken by the government to redistribute public sector employment interregionally will be a key factor in the potential success of any regional office location policy. Their record so far is not reassuring; attempts to move the Department of Education to Athlone and the Department of Lands to Castlebar have not yet been successful and although the headquarters of Gaeltarra Eireann have migrated to Co. Galway the number of people involved in this move was relatively small.

\textit{The Growth Centre Issue}

The concepts of polarised growth and development centres and the related theories of polarised development, the spatial incidence and transmission of growth and of regional organisation are at present being given increased attention in the search for tools to resolve problems of national and regional development in both industrialised and less industrialised countries. No single development problem in Ireland has generated so much controversy and emotion as the concept of spatially polarised growth. As a prelude to a brief discussion of the potential utility of such a strategy in Irish regional growth policy it is salutary to examine the history of the evolution of this idea in Irish development thinking. Such a strategy was first recommended thirteen years ago by Whitaker when he stated: “a realistic appraisal indicates that if we are to have any hope of success... we must site our industries at, or convenient to, the larger centres of population.”\textsuperscript{33} The Committee on Industrial Organisation was of the opinion in 1962, that “economic development under free trade condition... will be achieved if a


\textsuperscript{33} Department of Finance, \textit{Economic Development}; (Pt. 4803), Dublin 1958, p. 160.
small number of centres are selected for major industrial development, and effort concentrated on these.” The Report of the Committee on Development Centres and Industrial Estates, in December, 1964, suggested Waterford as a growth centre. The government then referred the problem to the National Industrial Economic Council, which, in July 1965—broadly endorsing the views of the CIO and the special Committee—recommended that Waterford and Galway be designated as growth centres and in addition pointed out that there should only be a limited number of centres of major development—“perhaps in the foreseeable future not more than six, outside Dublin and Cork”. The government accepted these recommendations on the 31st August 1965. In May 1968 the NIEC again stressed that “only in growth centres can the pace of industrialisation be sufficiently accelerated to provide the increase in industrial employment that is required, if appreciable progress towards the goal of full employment is to be made over the next decade” They also emphasised that a “firm decision must now be made on the number of growth centres that are to be developed” and that a “decision must be made at national level and we urge that it be taken quickly”. The government have been criticised by Fitzgerald for delays caused by asking a second committee to cover the same ground as the original CIO report, for further delays in asking the NIEC to comment on the findings of the special committee and finally for another time lag of fifteen months before commissioning the Buchanan Report. According to the Third Programme the Buchanan Report was submitted to the government in September 1968 and was published in mid-May, 1969. Furthermore, the government statement issued after the publication of the Report, while accepting that “growth centres can be a valuable element in a regional programme” added that the “growth centres recommendations should be further considered in the context of proposals for regional development”. Meanwhile the NIEC, yet again supporting the growth centre concept, fully endorsed the “composite strategy put forward in the Buchanan Report”. This

37. Ibid., p. 7.
41. Third Programme, op. cit., p. 167.
is the stage the debate has reached at the time of writing and it is now proposed to critically review the arguments for and against development pole strategy in the Irish context.

The case for a degree of spatially concentrated growth rests primarily, but not exclusively, upon five major premises.

1. A planned public investment infrastructure programme at low cost sites will yield significant economies and will avoid both the undesirable diseconomies of private development in the over-congested Dublin region and the high marginal cost of providing public infrastructure to support private investment in small scattered places.

2. There are significant external economies of localisation and urbanisation that may be derived by firms locating in a growth centre which will improve operating efficiency and enhance the chances of further growth.

3. Infrastructure investment of a spatially concentrated as opposed to dispersed form is likely to maximise the inflow of exogenous capital into the region. 44

4. There are marked indivisibilities in the provision of many public and private facilities and such functions are unlikely to locate in a region unless there is a large metropolitan node. These high order services serve as an added attraction for capital and human skill from outside.

5. A growth pole policy will maximise income growth over the region as a whole in the long term and will therefore expedite the attainment of the national goal of full employment.

In the West there is a further factor operating in favour of a degree of polarised growth: population distribution. Many parts of rural Ireland have high rates of unemployment (and considerable underemployment) but insofar as the surplus labour remains scattered in small pockets, a factory of even moderate size cannot be manned without drawing people from a very wide area.

The concept of development poles was originally conceived as a model to study the anatomy of economic development in abstract economic space. Its scope has been considerably broadened and the theory generalised so that it can now be said to deal synthetically with the problem of development in a simultaneously sectoral-spatial-temporal setting. 45 A growth pole is conceptually a concentrated core of growth surrounded by zones of influence with polarisation flows of commodities, labour, traffic and information gravitating towards the centre. Distance decay functions vary considerably from one commodity to another such that the intensity of flows and interaction falls with increasing distance from the


node. The recent development of the concept stems from François Perroux’s *pôle de croissance* and Boudeville’s notion of a regional growth pole as a “set of expanding industries located in an urban area and inducing further development of economic activity throughout its zone of influence”. A group of key firms or “propulsive industries”, manufacturing products with high income elasticities of demand, forging backward and forward linkages, drawing a high proportion of its inputs from within the region and displaying marked polarising and regional multiplier effects are envisaged as being the major dynamic force behind the expansion of the centre and region. The advanced technology of the key industries and the higher wages of its workers will help to make other sectors more productivity oriented and may transform social attitudes.

The importance of the industrial grouping aspects of growth centres has probably been exaggerated; what is more significant is that not only should there be rapid expansion at the pole but that this should also induce growth throughout the surrounding region. These “trickling down” effects depend largely upon the existence of complementarities between the industries of the growth centre and its hinterland. The demand for various productive factors from within the region (such as labour, material, inputs, transport and other services) is crucial to the successful stimulation of regional growth by this or any other strategy. Development pole theory conceived as a tool to study the process of unbalanced economic growth is basically dynamic but contributes little to the explanation of how the process starts, why it is localised in some places and not in others and how the mechanism of the spatial transmission of development operates.

The establishment of industrial zones or estates is often regarded as a key element in growth centre policy and it has proved in many developing countries to be a most effective instrument to induce the flow of small and medium sized industrial firms into an area. They can realise considerable economies of scale in construction for it is cheaper to level a site and lay on public services such as gas, sewage, water and roads for a number of firms occupying factories on the same site than it would be to supply each of them individually on separate sites. A cluster of firms can also ensure better division of labour by utilising common technical, repair and information services. The possibility of obtaining factories to rent must, by means of capital savings alone, enable firms, particularly Irish ones, to expand more quickly than might otherwise have been possible. Advance factories are an important element in an industrial estate since they enable production to begin about a year earlier than would be the case when a new factory has to be built and this together with the greater liquidity from renting may be more important than

50. *Report of the Committee on Development Centres on Industrial Estates, op. cit.*, p. 44.
the contribution to running costs represented by a rent subsidy as for many firms rent constitutes a very small proportion of total costs. Growth zones also require houses, schools, roads, hospitals, etc. and lower order central places are too small to yield the necessary scale economies in the provision of such facilities. There are also types of public and private investment that cannot be provided at all except in certain larger metropolitan centres. Small urban centres of less than 40,000 can hardly justify frequent rail services, airports or universities which have large population size thresholds. Yet the existence of such facilities may be an important factor in making the location attractive for certain types of industry. Large towns generate a sufficient level of demand both internally and externally to offer a wide range of tertiary economic and social services, cultural and recreational facilities. The more sophisticated and numerous such functions are in a town the greater its appeal as a potential location for all types of economic activity. The implementation of a growth pole strategy will mean that in every region higher order central functions such as theatres, cinemas, swimming pools, museums, galleries, restaurants, department stores, antique shops, book shops, etc., which improve the overall level of service provision but which have large population thresholds, will become profitable enterprises. Many of the economies arise as a result of indivisibilities which do not permit proportionality to be maintained between inputs at all levels of output, and result in increasing returns to scale. The establishment of specialised services for repair, information, advertising, banking an energy together with the provision of technical colleges consequent upon industrial expansion at one location are all examples of this for these specialised facilities can only be provided in discrete units when the level of demand for them exceeds some minimum threshold level in the region. The appearance of an area, the quality of social life and shopping facilities, the availability of leisure pursuits and other environmental preferences relating to psychic income may be more important than production cost advantages in attracting investment. If private enterprise will not provide these facilities in the early stages of the expansion of a growth pole then the public authorities should assist in their development with grants and loans. This aspect of planning has been relatively neglected both here and abroad.

Yet a striking feature of the Survey of Grant-aided Industry was the emphasis given by factory managements, particularly in the West, to the need for improved social amenities. This was considered by many managements "to be a threat to

51. Fortunately, as real income rises, the minimum size of centre required to support an airport theatre, concert hall, high class department store or luxury hotel will become smaller. Nevertheless, outside Dublin, Limerick and Cork there are currently probably no other centres in Ireland large enough for such a range of functions to be viable.


the long-term viability of their industries” and was isolated as “one of the most
cogent causes of high labour turnover”54 An imbalance in male and female
employment opportunities was also cited as a cause of high labour turnover and
such a problem is most acute for firms located outside the larger population
centres. Moreover, there is a strong tendency for managers to be concentrated in
centres of innovation and in cities where agglomeration economies exist. This
partly reflects the demand for such personnel in these places, but also most
managers prefer to work in cities because they offer a wide range of social, leisure
and cultural facilities. The developing region dominated by a large provincial
centre is likely to attract managers more easily than the rural area with few large
population centres. The deliberate expansion of a number of growth centres would
make a considerable contribution to solving both of these problems.

The existence of various external economies and inter-industry linkages is a
powerful argument in favour of concentrated growth. Such economies may take
many forms: the sharing of specialist service industries of various types including,
engineering, maintenance and component suppliers (thereby reducing the need
for firms to tie up capital in maintenance equipment and stocks of spare parts)
marketing, banking and financial services; the benefits to be derived from the
presence of a skilled labour pool; and the minimisation of transport costs. Trans­
port costs are reduced because large centres support a greater range of transport
services both road, rail, and air and with more frequent deliveries many firms
requiring regular supplies of inputs avoid the need to carry large stocks thereby
cutting overhead costs. Also with numerous plants juxtaposed in an area it may be
possible to reduce costs by cooperating on loads. Further economies may be
obtained from the concentration of several industries at a point—external econ­
omies for firms which are engaged in further processing the outputs of others
(i.e. backward and forward linkage effects). Economic activity is increasingly
footloose by nature and economic opportunity is associated less with land and
natural resources and more with the presence of capital and human skill. One of
the principal factors underlying this trend is the increasing non-linearity of
transport costs with respect to distance.

Another agglomeration economy, often overlooked, are communications
economies. Modes of communications—word of mouth, telephone, post, news­
print, research journals and reports, radio and TV—transfer information over
space.55 Producers require information concerning fluctuations in demand,
government economic policy, the level of business activity, market prices,
competitors pricing policies, new techniques and fresh sources of factor supply.
Communication costs will normally be lower where production and population
centres coincide. This is important since personal interaction is still an important
mode of communication and thus growth poles are likely to yield communica­
tions economies by providing opportunities for face-to face-contact with account­

54. Ibid., p. 78.
The most frequent complaint made to the survey team investigating grant-aided industry concerned the telephone service. Over two-thirds of the firms visited experienced difficulties with the service and complaints were particularly strong from firms located in western counties. Many of the operational difficulties mentioned to the survey team such as the lack of social amenities and their influence upon labour turnover, insufficient water supplies, transport costs and delays, the inadequate telephone service, and distance from repair, maintenance and supply firms are the sort of problems least likely to arise in development centres and most prevalent in smaller towns or isolated locations.

When emphasising the existence of substantial agglomeration economies it must be remembered that, at some level of population size, the benefits accruing from concentration will be outweighed by diseconomies. Growth centres, therefore, have a minimum population size that permits scale economies and generates growth throughout the region and an optimum size beyond which net diseconomies set in. The national evidence cited by the author elsewhere would suggest that Dublin is the only Irish centre where net diseconomies are being or will be realised in the foreseeable future. A decision to select and create growth points in the space economy must be followed by a diversion towards them of a disproportionate share of government investment in infrastructure, which can generate significant external economies in advance of the demand for such services. This form of public investment is normally so extensive that it is difficult to calculate its social rate of return in the long term.

A growth centre strategy will be of benefit nationally because a rapid rate of economic growth is a necessary condition for achieving full employment and the main prerequisite of faster growth in Ireland is export-led expansion. Such export growth is heavily dependent upon the industrial sector and this can most efficiently be achieved by concentrating a large proportion of future industrial investment in a number of major growth centres. Such a strategy will be beneficial to the regions for: (i) it concentrates new employment on a regional basis to help absorb surplus unemployed and underemployed labour resources at locations that are reasonably accessible within the region; (ii) it will ensure a more rapid increase in permanent employment (and living standards) at regional level than is possible under current policies; (iii) the development of a number of large urban centres with improved higher order retail, social, cultural and recreational facilities should enable the regions to attract investment and management which currently favours a location in Dublin, or abroad; (iv) the level of service provision at regional level

58. If full employment is to be achieved by 1981, G.N.P. must expand at a rate of 5.5 per cent per annum—a rate that has been recorded in 1960: see National Industrial Economic Council, Report of Full Employment, (Pr. 9188), Dublin Stationery Office, 1967, pp. 50-51; and exceeded only in 1968, when it reached 7.8 per cent.
will be radically improved and this should help to reduce the alarmingly high rate of labour turnover in many firms; (v) the provision of social overhead capital in such places in advance of demand will improve operating efficiency; (vi) arrangements for transporting materials and products could be extended or developed with beneficial economic effects; (vii) most firms, because of various external economies and linkages will be able to expand output more rapidly than if they were in an isolated location; (viii) investment opportunities for local entrepreneurs will grow faster than at present; (ix) a degree of urbanisation is necessary if progress is to be made in encouraging offices and other services to migrate to the regions.

Dublin has some of the characteristics which are partly the result of growth and partly the cause. These features include a high standard of social and cultural facilities, access to major transport terminals, the presence of a wide variety of types of employment with an emphasis upon office and commercial development, a large and diversified labour market and an extensive market area containing the the type of residents who are likely to be innovators in consumer expenditure. Growth centres would appear to require some of the features of the capital while avoiding the diseconomies that arise from its size and lack of planning. This suggests that a couple of large towns (Cork, Limerick-Shannon) should be designated as growth poles of international standing, as Buchanan has suggested in the case of Cork and Limerick, so that the regions, as well as the country, may attract large-scale male-employing technologically based industry; and, just as significant and related, to provide the population and income base to sustain a sophisticated range of social, retail and recreational services. The expansion of Cork to 250,000 and Limerick-Shannon to 175,000 by 1986 should help to realise these goals. To ensure that all regions benefit from sustained growth, smaller but equally dynamic centres should be selected in other regions and although one might quibble about the precise towns nominated by Buchanan and their proposed growth rates as well as the highly conjectural basis of the several population projections, the overall policy of a tiered hierarchy of development poles appears, a priori, to provide the greatest probability of maximising national output and achieving full employment while transforming and boosting the growth rates of all regional economies. If regional policy commences from the assumption that every community and every job within it must be saved then little progress towards the full employment goal will be achieved.

There appears to be grounds for questioning the Buchanan strategy at the levels below the proposed national growth centres of Cork and Limerick-Shannon. In recommending regional centres at Waterford, Galway, Athlone, Sligo, Dundalk and Drogheda and local centres at Tralee, Castlebar, Cavan and Letterkenny scant consideration was given to the possibility of distributing growth over a group of

60. For example, the author would prefer to see Galway expand to 75,000 by 1986 rather than 47,000 (the target of Buchanan) in order to build up one large, dynamic growth core in the West.
closely-spaced centres in the regions. Whether sufficient spatial concentration can be achieved as efficiently and successfully through the simultaneous injection of social overhead capital (advance factories, housing, roads, etc.) into a group of towns within reasonable distance of each other as it can by concentrating investment upon a single urban node is a problem worthy of investigation in the Irish context. The geographical extent over which a growth pole can operate optimally may vary: the scale of area appropriate to realise economies in public investment may be smaller than the optimum spatial scale for maximising external linkages. This may be briefly illustrated by reference to the Midland Planning Region where the Buchanan Report has proposed one regional growth centre at Athlone and has predicted expansion of this node from 10,987 in 1966 to 18,000 in 1986. Under this strategy Athlone is destined to remain a small development centre and the “spread” effects of growth there are unlikely to be felt in the peripheral parts of the region. However, this is one region where there are a number of urban areas which could form the vertices of a dynamic growth triangle: the towns of Mullingar (7,943) and Tullamore (6,874) are both expanding centres (population growth 6.7 per cent and 6.9 per cent respectively 1961-1966) which could constitute two other nuclei of growth in the depressed Midland Region. Which of the two strategies—concentration upon Athlone or the expansion of Athlone, Mullingar and Tullamore would maximise social benefits for the costs involved for all sections of the community in the region? Such an analysis lies beyond the scope of this article but the Regional Development Organisation should seriously consider such an alternative. It is unlikely that consideration could be given to such a strategy in many other areas because of the low density of urban centres throughout much of the country.

A regional growth pole strategy is in the long-term consistent with maximising national growth and is also in harmony with an objective to seek convergence in relative per capita income growth between regions. While such a policy of “concentrate decentralisation” may initiate convergence in regional per capita income relatives it is possible that intra-regional per capita inequalities may increase through the creation of spatial disequilibria. Growth pole strategy involves the hypothesis that per capita income growth will be maximised in the polarised region as a whole by concentrating a large proportion of development at one or two locations and initiating a degree of spatially imbalanced development within the region. Whereas the growth centre may well be the major market outlet for producers in the region, the producers in the growth pole are not dependent to the same extent upon hinterland markets. Consequently, the hinterland areas are always likely to run a favourable balance of trade with the urban centres. Nevertheless there will be marked disparities between the extent of industry in the growth point zone and in the surrounding area. At long distances from the

61. Regional Studies in Ireland, op. cit., p. 130.
growth pole (beyond commuting range) incomes will rise more slowly and local employment opportunities will not expand so rapidly. The growth point philosophy is that regional output, employment and incomes will expand at a greater rate than under any other policy (and therefore regional emigration, unemployment and underemployment will fall more quickly). The price of such a strategy will be a higher level of intra-regional mobility than under a dispersed policy and slower growth of employment opportunities in some peripheral localities in the region. Are the costs of a dispersal policy (slower national and regional output and employment growth, higher national and regional unemployment, larger national, regional and county emigration rates, lower national and regional living standards and poorer retail, social, cultural and recreational provision at regional level) worth the benefits—a lower level of intra-regional mobility and a marginally faster growth of employment opportunities in distant localities in the region?

If the growth centre strategy is implemented major resettlement problems will arise and the government should introduce selective aid to migrants to encourage intra-regional migration towards the designated centres. This implies, as Fitzgerald has suggested, the need for an advanced manpower policy—integrating education, vocational guidance, placement, resettlement and housing policies in a single system. External mobility to Britain is high. A need exists, therefore, to reduce the impediments to internal movement in order to ensure that the supply of labour matches the demand at a particular point in time and location in space.

A regional development policy with an emphasis upon growth centres and their zones of influence does not imply an abandonment of the remainder of the less prosperous areas. Rural areas may offer certain advantages to an industrial firm such as lower wages, cheaper land and ample room for expansion. Many firms, particularly those processing local raw materials of large bulk and high weight loss or supplying local markets, may thrive in smaller towns. For this reason the efforts of local development associations to attract growth to their areas should not be frustrated, provided that these plans are compatible with regional and national objectives. Such voluntary bodies should also be encouraged to co-operate on a regional basis around their development centre and should have a voice upon any proposed regional development councils. It should be realised that provincial authorities are usually much better informed about local development potential than the central government. Within the framework of growth pole theory there should always be room to incorporate local initiatives. But for the majority of firms, particularly those which are export-oriented concerns, there are likely to be greater benefits from locating in the larger towns. The wide range of grants and financial inducements offered to industrialists are, and should remain, available everywhere. The small Industries Division of the Industrial Development Authority should concentrate the bulk of its resources upon generating growth and employment in smaller communities on the periphery of the

major nodal regions—beyond the normal commuting distance of the growth centre. The ability of these smaller towns to develop will depend largely upon the energy, vitality and persistence of their populations; entry to the EEC with the consequent boost to farm incomes will benefit the smaller service centres which are largely sustained by the demands of the farming community.

Conclusion

The two basic premises underlying the strategy recommendations outlined in this paper are (i) the need to increase the rate of expansion of the national economy and (ii) to generate higher growth rates than heretofore in the Designated Areas through a degree of spatially concentrated development. The problems of the Irish regions cannot be solved through Keynesian policies and a reliance upon prosperity to percolate through the regional economic system. Structural unemployment is endemic and requires an active manpower policy if labour reallocation is to be achieved efficiently and if high unemployment amongst unskilled labour is not to continue to coexist with short supply of skilled labour. Mulvey and Trevithick have shown that excess demand exists and has existed for some time for electricians and other skilled groups.\(^6\) The spatial supply and demand schedules for different skills must also coincide if redeployment is to be successful.

In general it seems clear that the form in which industrial grants have been provided in Ireland did not always provide assistance at a time when the need was greatest. In particular, it is important to recognise that settling-in costs are high in the first few years and this, together with the current capital bias of the grants package in a situation where surplus labour exists, is sufficient to justify some assistance towards running costs in the short term. The basic objective of policy should be to provide assistance in such a way and on a sufficient scale to generate self-sustaining growth in the regions consistent with maximising the social marginal productivity of capital in the long term. This requires a rational appraisal of the growth prospects of individual regions, selection of the areas with the greatest potential based upon efficiency criterion measured by social costs and benefits and a certain concentration of resources upon these communities. The forthcoming regional industrial development plans of the IDA will fulfil this need for one sector of the economy but, as already outlined above, there has been little thought and no plans for influencing tertiary sector investment at regional level. There is a trend towards less differentiation in economic and social structure, as well as locational advantage, between the regions, but a the same time increasing differentiation among large and small centres in the urban hierarchy. In other words, the location of economic activity is more free with respect to regions but less so

with respect to size of community. Hence those Irish regions dominated by large
urban centres are likely to be more successful in attracting further growth; indeed
the fact that places such as Waterford, Limerick-Shannon, Galway and Dundalk
have expanded so rapidly in the past decade lends support to the argument that
the location of economic activity is influenced more by size of centre than regional
location. Some regions, in particular the North-West and Donegal, do not
possess sufficiently large centres upon which to base large scale development. In
the case of the North-West, Sligo town should be expanded to 40,000-50,000
by 1986 and not the 25,000-30,000 recommended by Buchanan.66 The Donegal
region is a problem area, much too small to be considered a separate economic
planning unit, and cut off from its logical growth core at Derry. Strenuous efforts
should be made to co-operate with the Northern Ireland authorities on the
development of the North-West; the Buchanan recommendation of a growth
centre at Letterkenny should be accepted; a Gaeltacht growth pole should be
rapidly developed in the Bunbeg area; and the whole county should qualify for
tourist grants, even if they are withdrawn elsewhere.

As in many other countries we know very little about the cost aspects of different
patterns of development which means that decision makers at the centre do not
know the optimum spatial distribution of resources which will provide the
greatest social benefit in relation to social costs. Nevertheless, all investment
projects should be scrutinised carefully with particular emphasis on long run
social opportunity cost considerations. Because of the inadequacy of regional
statistical data which is necessary, not only for an analysis of regional economic
conditions, but to provide a basis for choosing between policy alternatives, the
direction of regional policy has been determined too much by the strength of the
social and political pressures to which the regional problems give rise: this is
common in most countries and Ireland is no exception. The way forward to a
more rational policy lies in being able to fill in the gaps with more research upon
the magnitudes and nature of externalities, regional input-output relations,
urban diseconomies, operating costs at different locations and a cost-benefit
analysis of alternative patterns of regional development. The need to formulate
ambitious research programmes which, albeit only gradually, will erode the
uncertainties which continue to haunt the regional development programme
should not overrule the necessity for the government to make judgements and
decisions today. Specifically urgent decisions are required from the government
on the choice of towns to be developed as growth centres, their future size and
occupational structure, the proportion of national resources that should be
devoted to their development and how this should be allocated between them.

Summing up, it is proposed to draw the major thoughts expressed in this paper
together in a series of policy recommendations:

66. Regional Studies in Ireland, Colin-Buchanan and Partners in association with Economic
(1) The Designated Areas Industrial Grants policy should be continuously reviewed so that places within the Designated Areas that generate self-sustaining growth may revert to non-Designated Area status and conversely locations outside the Designated Areas whose social and economic welfare is lagging may be incorporated in the Designated Areas.

(2) If the relative disparities in social and economic welfare between the Designated Areas and the remainder of the country are to be reduced and the excessive concentration of activity in Dublin is to be curbed a radical change in current policy will be necessary. Assuming that these goals are desirable it is recommended that the grant differentials between the Designated Areas and the rest of the country should be increased to become 45 and 20 per cent respectively with the higher tier at 65 per cent and 40 per cent. The expansion grants should be increased from 35 to 50 per cent in Designated Areas and reduced from 25 to 20 per cent for the remainder of the country outside Dublin. A continuum of grants should be devised for the Dublin area ranging from a tax upon expansion for firms which would suffer no loss of efficiency by expanding in the regions and which would cause extra social costs in Dublin to small grants firms for those for whom a non-Dublin site would result in a permanent operating handicap. The measures should be applied to new undertakings in addition to expansion and to both manufacturing and office development.

(3) A short term labour cost subsidy should be paid to new manufacturing firms which export a high proportion of total output. The subsidy, which should be available in the Designated Areas only, will help to alleviate the high running costs of early years, will remove the current capital bias in the grant structure and assist in relieving unemployment.

(4) The tax relief for profits earned from exports should be reduced from 100 to 50 per cent and the period of relief shortened from fifteen to five years in the non-Designated Areas. No relief should be granted to firms in the Dublin area.

(5) The value of a capital grant should not be deducted in determining a firm’s right to claim depreciation allowances against tax.

(6) A clear and unambiguous statement from government planners as to the role of service employment in stimulating future regional growth is required. A package of incentives should be introduced to foster an inter-regional shift of office employment and to encourage new office development to locate outside the Dublin region. The Government should set an example in the process by decentralising the public sector office employment which will suffer no loss of operating efficiency by virtue of being located in the regions.

(7) Decisions on growth pole policy are urgently needed—further unnecessary delays are simply serving to postpone the date when the full employment goal is likely to be achieved.
The wide range of grants and inducements should remain available throughout the country; local enterprise and initiative in attracting growth to smaller places should be encouraged and the Small Industries division of the IDA should concentrate more resources in areas remote from the selected growth poles.

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