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European Community The Three "New" Members

The following articles deal with the adjustment problems and development prospects of Ireland, Denmark and Great Britain in the light of EC Membership.

Ireland — Importance of EC Membership

by Dr Garret FitzGerald, Dublin *

Membership of the EC has a special importance for Ireland. It brings to an end a relationship of economic dependence on Great Britain which for historical and geographical reasons continued even after Ireland became an independent state in 1922. In the conditions of international trade that existed between European countries during the early decades of Irish independence, it was impossible for Ireland to secure free access on equitable terms for its farm products to European markets other than Britain; as a result Ireland was forced to rely almost exclusively on the British market to provide an outlet for its agricultural produce — and the British market was throughout this period one of the most unrewarding in the world for exporters of food-stuffs because of the British

cheap food policy. This situation was seriously aggravated after World War II, when the reduction in the British farm population to only 5 p.c. of the total labour force made it economically possible for successive British Governments to drop all previous inhibitions to the pursuit of their cheap food policy, supplementing the reduced incomes of this small number of farmers by direct deficiency payments.

Growth Problems

The consequences for Ireland were disastrous. Irish agriculture, which in the immediate post-war period employed almost half the country's total labour force, and was directly responsible for over one-third of national output, was reduced to a condition of stagnation, with a sectoral output growth rate barely exceeding 0.5 p.c. a

year. This dragged down the overall national growth rate to the lowest figure in Europe. The small industrial sector was also indirectly affected by this situation, with the result that between 1954 and 1961 there was virtually no expansion of the economy that could absorb the outflow of young people from the schools and the flight from the land, and emigration soared to a level which during these seven years accounted for the equivalent of over three quarters of what would have been the net population increase. Even in the 1960's, when new policies induced an industrial expansion which was one of the most rapid in Western Europe, the continuing drag on the economy in the agricultural sector kept growth rates down below the European norm, and prevented a solution to the labour surplus problem — which was, however, greatly

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mitigated by this industrial revival.

Membership of the EC, together with Britain, has brought this long debilitating period of agricultural stagnation and slow national growth to a sudden and welcome end. Ireland is now rapidly moving towards the point at which the prices paid to farmers in Ireland for their farm products must be identical with or very close to those paid to British farmers, while at the same time offering to Irish farmers for the first time total security of access not alone to the traditional British market but also to a vast market on the Continent, which for some products is more remunerative than that of Britain.

As it happens the entry of Ireland to the Community coincided almost exactly with a world beef shortage, boosting Irish cattle prices by over 50 p.c., while the Government in anticipation of the relief to be provided by the transfer to the EC institutions of responsibility for subsidisation of farm surpluses, was able to raise milk prices quite sharply. These and other price increases in agriculture helped to boost farm output, which between 1970 and 1973 will probably rise by about 17 p.c. — about seven times as fast as during the bad years of the 1950's and early 1960's.

Industrial Growth Generated

This agricultural expansion has helped to generate industrial growth, as the multiplier effects of farm prosperity spread throughout the economy. The national growth rate, which averaged around 4 p.c. in the 1960's is now moving up towards 5.5 to 6 p.c., in response to the stimulus provided by the much more favourable trading conditions which Ireland now enjoys within the EC — conditions which for the first time in many decades have enabled the

capacity of the Irish economy for growth to be fully utilised.

So much for the benefits of EC membership. But there are problems too. Irish industry has been experiencing a painful transition to free trade conditions, within the context of the Anglo-Irish Free Trade Area, established in 1965. The impact of free trade on small highly-protected home industries has been intensified by EC membership, and many problems of adjustment have to be faced — problems that are eased, but no more than eased, by the wave of agricultural prosperity. Redundancies have been running at twice their normal level in recent years, and while the current recovery of industrial output will help to ease this problem there is still a significant number of firms which are likely to suffer further as a result of more intensive competition with the EC.

Regional Effects

Moreover, it has to be said that the benefits of EC membership will tend to be unevenly spread throughout the country. The dairying areas of the south and the beef areas of the east will certainly benefit fully from the improved trading conditions available to Irish agriculture. And the industrial areas of the east and south coasts may also do well, when they overcome the transitional problems associated with moving to free trade conditions. But the west and north-west of the country are ill-equipped to secure major benefits from existing Community policies. The farms are small in these areas, the land is poor, and opportunities for increasing production in response to price increases are much more limited than in other areas. Moreover, these regions have few industries, and past efforts of Irish Governments to speed up industrialisation of the west and north-west, using such limited

resources as are available domestically, have had only limited success.

Capital Requirements

If these regions are to survive economically in the much more competitive conditions of EC membership, they will need massive injections of capital both for infrastructural purposes and for industrial promotion. Such aid is, indeed, needed in other areas also, for even in the east and south the improved growth rates brought about by membership of the Community will not of themselves be adequate to solve the employment problems of these areas — that is why the whole of Ireland has been accepted as a peripheral region for the purpose of Community competition policy. But in the north and west the scale of aid needed is very large indeed; for these areas an effective Community regional policy on an adequate scale is vital. That is why the Irish Government is so concerned at what it sees as the possible inadequacy of the Community Regional Fund — which even in its third year will amount to no more than about £ 400 mn, to be spread amongst all the peripheral regions of the Community. In the small Irish region alone the additional investment needed to secure the objective of the Summit communiqué — the elimination of regional imbalances — would represent a very large fraction of this proposed Regional Fund.

For Ireland then the preservation of the Common Agricultural Policy and the establishment of an adequate Community Regional Fund are vital interests. Without these elements of the Community's common policy, Ireland could not hope to catch up with the other parts of the Community within any reasonable period of time — much less to stand the strains of Economic and Monetary Union.