Irish Economic History & Lessons for the Future

Ronan Lyons

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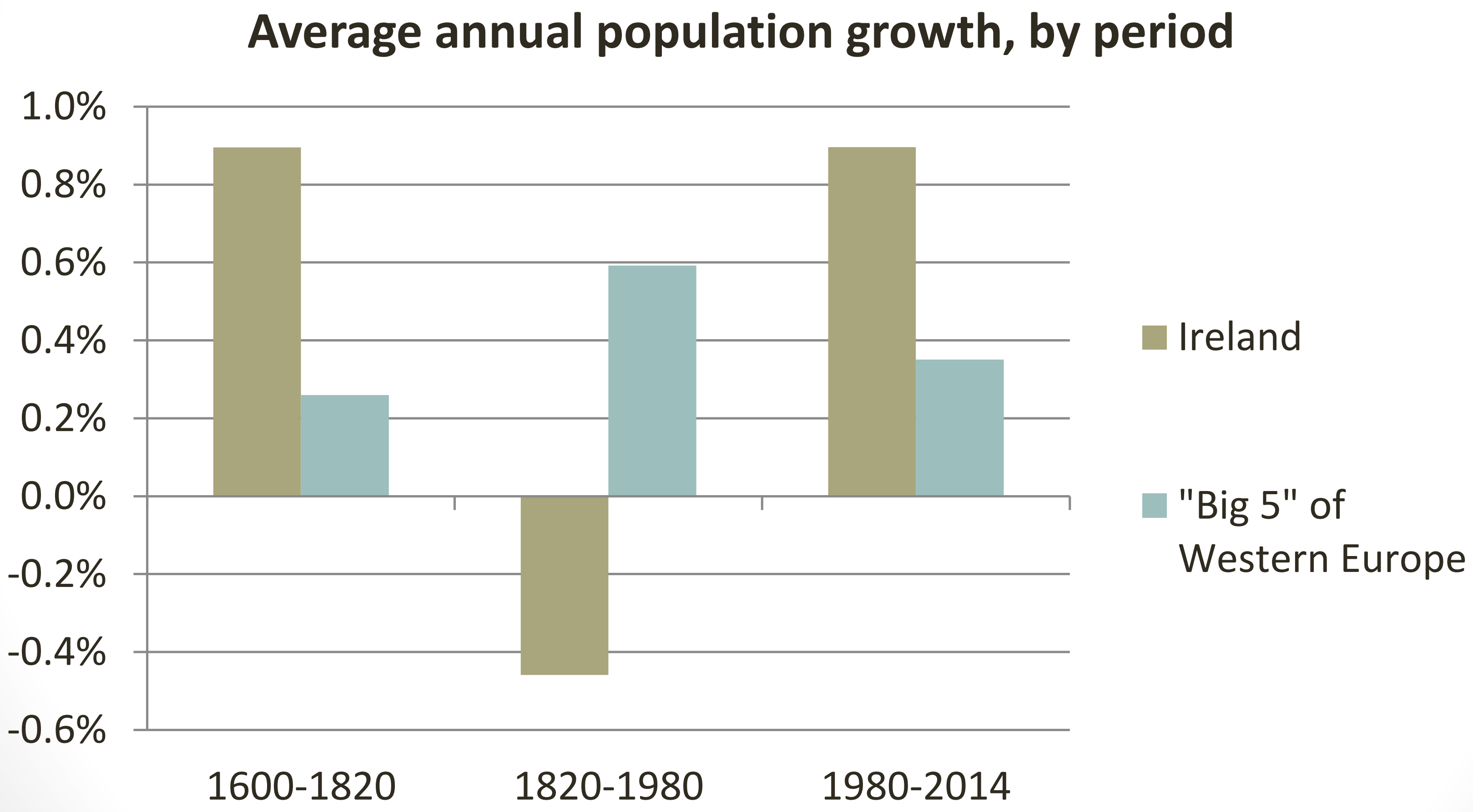
Ireland: always a demographic outlier!



Source: Maddison dataset

Ireland before the famine: a test case for Malthus?

George O'Brien (1921)

VS.

Joel Mokyr (1983)

"The destiny of Ireland in the early 19th Century was very largely moulded by the ideas of two great economists, Adam Smith and Malthus, and of the two, the latter was probably the more influential."

"At least as far as pre-famine Ireland is concerned, Malthusian models seem to have little explanatory power."

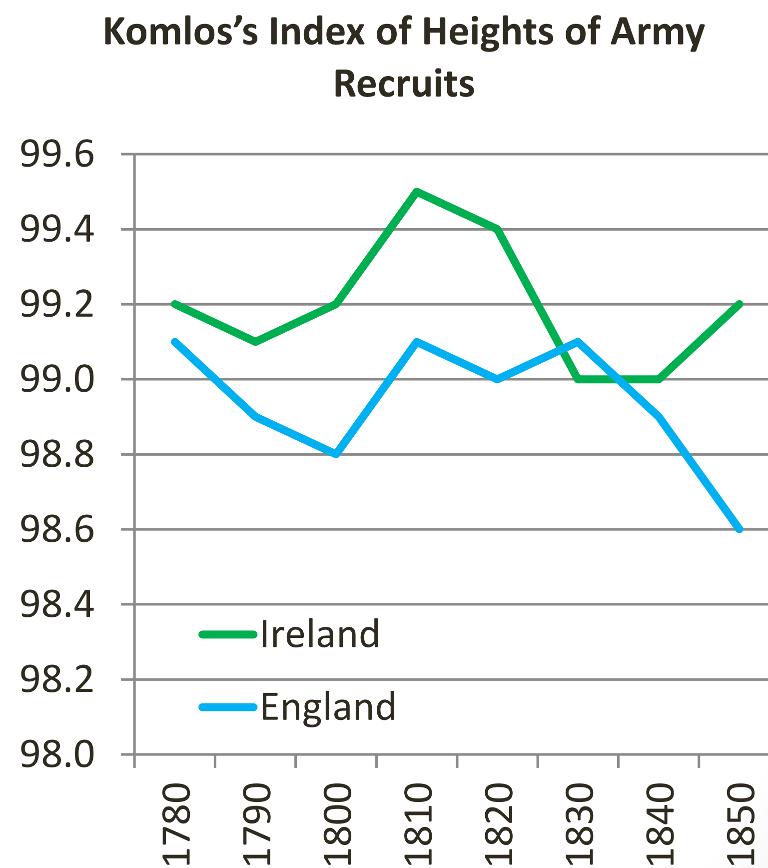
Ireland in lead-up to the Famine does not look like a country teetering on the brink

- Per capita income ~40% of that in Britain – similar to much of Europe then
- Wages: fall in wages for unskilled building workers
  - But cost of living also fell
- Consumption: imports of tea, sugar, tobacco
  - No significant fall
- Education: “income-elastic”
  - % in school increased
- But… Average vs. poorest

1840 Metric	Europe (similar incomes)	Ireland
Birth-rate (crude)	39	39
Death-rate (crude)	29	24
% male LF in agri	73%	70%
% male LF in industry	10%	15%
School enrolment	17%	20%
Urbanization	13%	14%

Evidence that Famine-era Irish were not as poor as previously thought

- Ireland had a “height advantage” over other countries that seems to have persisted into 1800s
  - A Nutritious if boring diet
- Evidence from Philadelphia immigration
  - 1850s/60s: Irish migrants had heavier babies than others
- The awkward question: was Ireland stupid or unlucky?
  - Balance of evidence suggests unlucky



Ireland after the Famine: emigration helped drive convergence

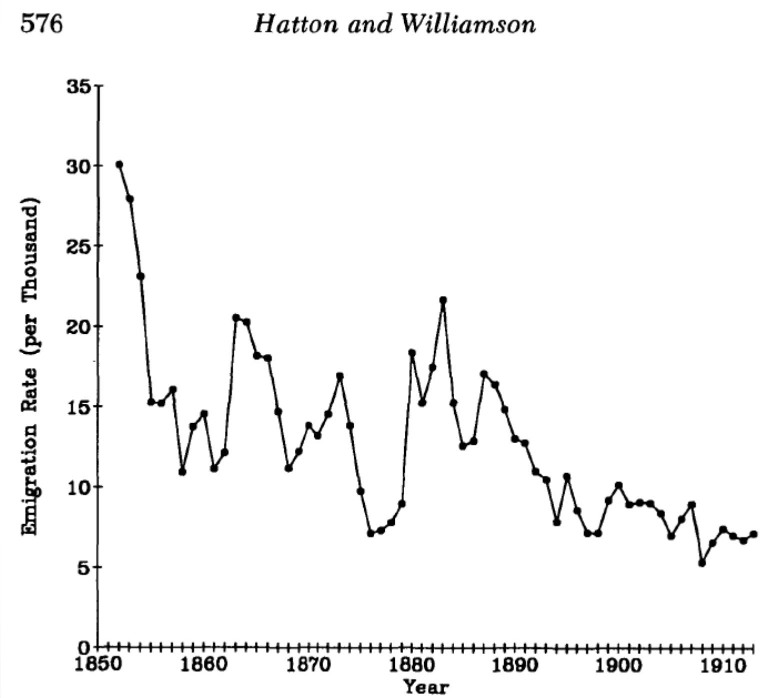


FIGURE 2

REAL WAGE RATIOS: UNITED STATES AND GREAT BRITAIN TO IRELAND

Emigration Rate

Ratio of real wages

Openness without industry… An Irish puzzle?

- An open economy, enjoying the convergence benefits of integration
  - Exports ~50% of GDP; 1-2% of population emigrated annually
  - Britain-Ireland transfers ~2% of national income
  - Up to 1890s, catch-up in living standards
- Win-win: those who left and those who stayed benefited
- But why did Irish industry so spectacularly fail to take off?
  - Given where Irish industry was in late 18thC, Ireland appears to have deindustrialized in 19thC
  - Definitely a legacy issue in 20thC

Ireland before independence: Tackling (the lack of) Irish industry

- Before 1820s vs. after 1820s
  - Six key sectors – textiles (cotton, linen, wool), non-textiles (shipbuilding, distilling, brewing)
- Explaining deindustrialization
  1. Natural resources and turf
  2. Capital markets, entrepreneurship and property rights
  3. Productivity
  4. Agglomeration economies and regional specialization

Great Industrial Exhibition, Kildare Street, 1853

Blame it on Britain?

- Instructive contrast 1780s vs. 1800s
  - 1783-4 depression led to Dublin-London initiative to lower tariffs – post-Adam Smith World
  - British manufacturers opposition ‘noisy and effective’ – e.g. of 80,000 signatories to Lancashire petition
  - In 1800 Act, Article 6 a response to Dublin industrialists’ fears
- Simple nationalist version of 19th Century deindustrialization doesn’t stack up: technology-induced fall in textile prices
  - If Act of Union hadn’t occurred, tariffs would have made very little difference
- Also somewhat inconsistent – blame protectionism pre-1800 and free trade after 1800

Ireland after independence: Delayed convergence vs. regional economy

- Two major competing conceptualizations of Ireland’s economic performance 1920-2000
- Delayed convergence
  - Follows from basic theories about economic growth
  - Catch-up natural, hindered by poor policies before the 1990s
- Regional economy model
  - No guarantee of catch-up and long swings of growth/recession can only be understood recognising unusually mobile factors of production
  - Out-migration prevents wage lowering, thus dampening attraction of FDI – hence need for government policy
- Other perspectives exist (e.g. role of interest groups)

Early independence: From free-trade to protectionism

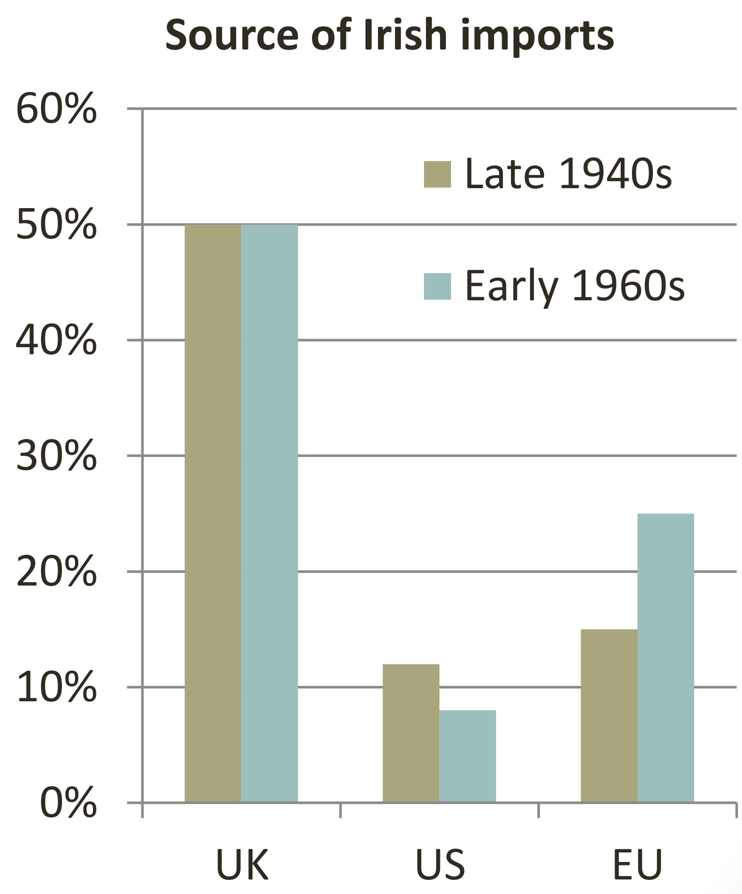
- Pro-trade bloc led by Departments of Finance & Agriculture
  - Based on pragmatism: agricultural export earnings ‘paid the bills’
  - Vast bulk of these exports were to UK
- Context of significant cumulative trade surplus, 1914-1921 (£77m)
  - 1920s a time of trade deficits, falling agri prices
- Protectionist bloc led by Dept of Industry & Commerce
  - Cf. nationalist vision of less dependence on Britain
  - Irony: ‘tariff-jumping’ British investment
- “Import-substituting industrialization”
  - Tariffs – paid for by consumers – could help generate broader base
- Mirrored in attraction of FDI later

Ireland after 'The Emergency': A switch to export-led growth

- Not an overnight switch to export-led growth
  - 1949-1952: establishment of IDA; Coras Trachtala
  - 1953-1958: removal of restrictions on FDI; Export Profits Tax Relief Scheme (0% CGT until 1980); exemption of exports from Control of Manufactures
- Nonetheless, landmark seen in T.K. Whitaker's 'Economic Development' paper
  - Reallocate social expenditure into more productive areas
  - Led to "First Programme for Economic Expansion" (Lemass)
- Joined EFTA with UK (EEC founded 1957)
  - Further pressure on agriculture sector

Post-war patterns of trade suggest moving towards Europe

- In 1920s, UK accounted for 97% of exports and 80% of imports
  - By WW2, export figure was higher, imports down to ~50%
- Coras Trachtala helped boost Irish exports to US
  - From 1% to nearly 10% by early 1950s
- UK markets open to Irish manufacturers from 1965



Ireland's decisive break with Britain

- Entry into EEC gave Ireland access to world's largest market
  - Harness foreign capital to benefit of local labour
  - Break with UK complete in 1978 – independent currency
- Direct benefits also
  - Transfers amounted to 2% of income after entry and 8% in early 1990s, before falling back to 1% by late 2000s
  - Bulk of this through CAP support: typically >2/3s
- Single European Market (from 1992)
  - Cohesion funds – to offset regional disparities – well-timed for Ireland: allowed investment that otherwise would not have taken place
  - Diversification of export destinations

(Mis)Use of Fiscal Policy

- Only in 1970s was fiscal policy used to directly impact economic activity
  - 1972, Colley deficit – continued with FG/Lab (1st Oil Crisis)
  - 1977, FF manifesto – promised abolition of property and motor tax, reduction of income tax and increase in public employment
- O'Donoghue 'dash for growth' saw current deficit grow from 3.6% 1977 to 6.1% 1978
  - Stimulating demand without increasing supply: inflation and wage-price spiral
- Exchequer deficit was 10%-16% of GNP from 1976 to 1987 – both current and capital

1980s were about regaining control, the 1990s about building consensus

- 1983 ‘National Planning Board’, “Building on Reality” Coalition strategy
  - Deflationary fiscal policy, employment creation
  - Contraction of spending, not expansion of taxes reflects economic thought at that time (UK, US) – but also reality?
- Late 1980s: era of ‘Tallaght Strategy’ and PDs
  - Current deficit fell from 6% of GNP (1987) to 1.6% (1988)
  - Programme for National Recovery
- 1990s governments adhered to three core principles:
  1. Social Partnership – learnt from lessons in demise of 1960s and 1970s predecessors
  2. Maastricht criteria – binding constraint on fiscal policy
  3. Attracting FDI through low corporation tax – confluence of external and Irish circumstances

Celtic Tiger Ireland: Devil-may-care fiscal (and monetary) policy?

- Key part of fiscal policy has been favoured sectors
  - 1950s – industry; 2000s – construction
- Stimulating supply-side in 1990s (vs. demand-side in 1970s)
- After a long history of large deficits, government had a current account surplus 1997-2007
  - Allowed capital A/C deficit, cutting of taxes
- 2008: fiscal policy was tightened precisely at the time it was needed!
- In relation to monetary/currency policy, the long-run theme [which continues today!] is changing relationship with UK
  - Advantage of 1:1 link eroding over time – cf. trade patterns
  - 1826 monetary union ended in 1978 (joined EMS)
  - 1999 entry into € – decided by political (not economic) reasons

Wrapping up:
Themes from Irish History

- Specialization in agriculture, deindustrialization in century to independence
  - Little success at later attempt to promote native industry
  - Much more success since 1950s at export-led growth
- All the while… transition to urban, services-based economy
  - In line with – but later than – our European peers
  - Blurring of lines between industry and services – tradability
- Trade dependence
  - Natural to pick a small number of sectors (e.g. livestock or ICT) – but more vulnerable?
- Convergence in living standards… but at own pace
  - Role of government as agent of state's economic fortunes?

Wrapping up:
Some Things Never Change?

"…Strafford, writing at a time [1630s] when the country had enjoyed over thirty years of peace and, with the <u>recuperative power for which Ireland has always been remarkable</u>, had again become quite prosperous, if not contented."

Edward McLysaght, writing in 1939

Wrapping up: Turning points in Irish economic history?

- Open for discussion…
- Some candidates
  - 1815, End of Napoleonic Wars – Corn Laws, focus on labour-intensive tillage (and within Union, on agri not industry)
  - 1845, Start of Great Famine – integration of Irish and world labour markets
  - 1922, Independence & Partition – the path from agri-led trade openness to autarky (and attempts at Irish industry)
  - 1958, From autarky to openness
  - 1972, Entering Europe – the economic 'break with Britain'
  - 2010, Troika Programme?
- And if that last one belongs on the list, what will be different about the period after, compared to before?