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Five Crises

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FIVE CRISES [*]

Central Bank of Ireland T.K. Whitaker Lecture, 29 June 2011

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FIVE CRISES

Ábhar mór bróid dom an léacht seo a thabhairt in onóir an Dochtúra T.K. Whitaker. Agus mar bharr ar sin, é bheith i láthair anocht. It is a great honour to be asked to deliver this lecture in honour of Dr. Ken Whitaker, all the more so in his presence. *Go maire sé an céad!* Or even better, as the Yiddish saying goes, '*biz hundert un tsvantsik*'.

Economic crises often prompt us to look backwards and, perhaps, to seek solace in parallels and precedents in the past. Just as rising unemployment and fluctuating exchange rates in the late 1970s and 1980s prompted comparisons with the 1920s and 1930s, sovereign debt defaults in the 1980s and early 1990s led to broadly reassuring analyses of earlier defaults.¹ And the recent global financial crisis has again prompted comparisons with the Great Depression. Barry Eichengreen and Kevin O'Rourke's 'Tale of Two Depressions' prompted half a million hits on the electronic journal *VoxEU* in 2009, while Carmen Reinhart and Kenneth Rogoff's *This Time Is Different* was a runaway best-seller.² Ireland's current economic woes are this lecture's pretext for a look backward at our earlier crises.

In broadest outline, the economic history of independent Ireland has been one of underachievement for six decades or so, followed by remarkable catch-up between the late 1980s and the very recent past. Figure 1a is one simple way of telling this story. It describes the well-known convergence pattern across modern developed economies, whereby economic growth is a function of initial GDP per head. In the era between independence and the

birth of the late Celtic Tiger in the late 1980s, Ireland's poor performance is indicated by its outlying position, well below the convergence line indicated by broader European and New World experience. However, when the data are extended to 2007, and using Irish GNP rather than GDP per head to allow for the well-known distortion (due to transfer pricing by multinational corporations) that GDP per head data introduces in the Irish case (Figure 1b), Ireland has jumped across the convergence line and is re-invented as an over-performer. The shift from under- to over-achiever was indeed remarkable.

Before the crash, scores of books and articles from far and near focused on explaining the Irish economic miracle.³ Some held, incorrectly, that the Irish economy had found a steady-state of rapid output and productivity growth; others acknowledged, correctly, that the achievement was genuine, though not for replication. Some commentators, such as the late Garret FitzGerald and Nick Crafts⁴, linked our economic success to reduced dependence on the UK economy. Now, just a few years later, others question the economic viability of an independent Ireland, as happened too in the 1980s and in the 1950s. These contrasting assessments underline the uneven character of progress since the 1920s, and make the case for a longer-term perspective. Is the present crisis, as some commentators have asserted, the 'worst crisis in our history'? This paper is in part an attempt to answer that question. Our focus will be on four previous crises.⁵

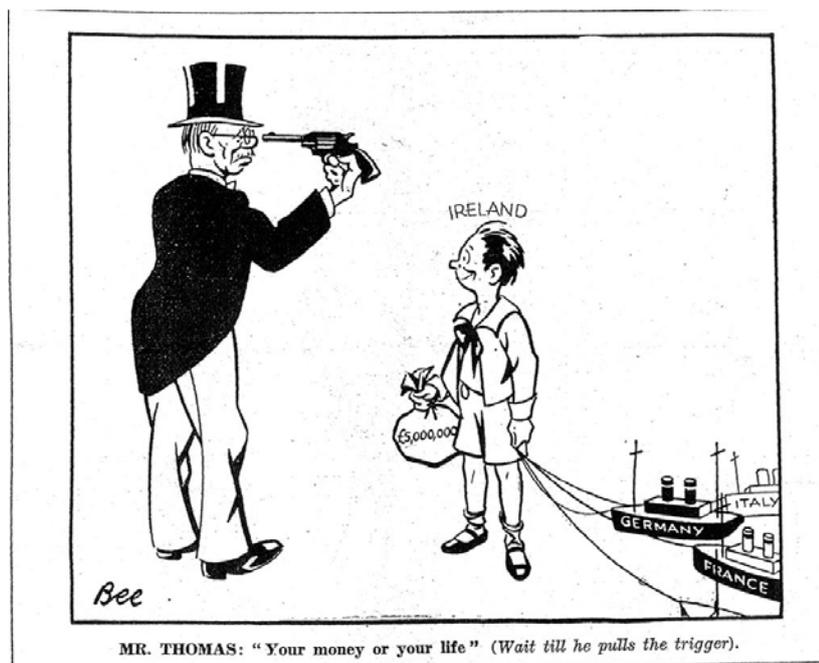
[Figures 1a and 1b about here]

The crises can be identified in various ways. One convenient indicator is the annual movement in net emigration rates (Figure 2). A caveat is that this ignores the role of pull factors; in mitigation, during the crises at issue here push factors dominated. The first peak refers to the crisis brought about by the so-called Economic War (1934-38), when the net emigration rate peaked at 10.4 per thousand in 1937. The second, known in Ireland as the Emergency, coincided with World War II, and saw the net emigration rate peak at 15.5 per thousand in 1943. Dating the third and fourth crises is not so straightforward. Emigration data suggest that the third straddled most of the 1950s, with the net outflow reaching a new high of 20.3 per thousand in 1958. Some would date the origins of the fourth in the mid-1970s, but its impact on emigration can be seen only from the late 1970s. It lasted a decade, with net emigration peaking at 12.5 per thousand in 1989. The massive turnaround from a net immigration rate of 16.9 per thousand in 2006 to a net emigration rate of 7.7 per thousand in 2010 imply that the downturn of the 2000s was the sharpest of all, and that it still has some way to go. The collapse in the numbers of new private cars registered, another tell-tale marker, was also proportionately much greater since 2007 than in the mid-1980s or—a more far-fetched comparison—in 1956-57 (Figure 3). And GDP data corroborate (see Figure 4). But more on that later: let us first discuss the other crises in turn.

[Figures 2, 3, and 4 about here]



Master Thomas bent his bow,
 Aimed at a pigeon and killed a crow.
 —With apologies to the Nursery Rhyme.



MR. THOMAS: "Your money or your life" (Wait till he pulls the trigger).

1. THE ECONOMIC WAR:

The post-independence administrations of 1923-32 stressed fiscal and monetary rectitude, a small public sector, and the pursuit of comparative advantage. This may have been good economics but it was bad politics, since it handed victory to Éamon de Valera's Fianna Fáil in the general election of February 1932. The changeover was one of those defining moments of twentieth-century Irish economic history. It marked a shift toward import-substituting industrialization, on which more later. Let us focus first on the 'economic war' which within a few months of taking office Fianna Fáil was waging against Britain. The war began when Ireland defaulted on payments that were part of the Anglo-Irish Financial Agreement of 1923, and honoured as such by the previous government. The payments, totalling the significant sum of £5 million per annum or about four per cent of national income, referred mainly to re-payments of loans made to Irish farmers—the so-called land annuities—before 1921. Thus the economic war began with what was, in effect, a sovereign default,⁶ and which was interpreted as such from the outset by those hostile to the move. Ireland was by no means alone in defaulting at the time, however: one frequently cited study of sovereign default in the interwar period⁷ found that 21 of 58 borrowers defaulted on their international bonds between 1930 and 1935; another four had already defaulted by 1929.

At first the Irish government simply set aside the land annuities and related payments in suspense accounts, pending arbitration. The British, through Dominions Secretary J. H. Thomas, reacted calmly but firmly to the

default. Rejecting pleas from Dublin for independent arbitration on the legality of the payments, they simply recouped the sums due through special levies on Irish exports. With no end to the dispute in sight, in early 1933 the Irish side unfroze the payments and began to divert them to meet fiscal needs and to compensate those most affected by the dispute. This move helped to consolidate Fianna Fáil's grip on power in the general election of 1933.

At the outset some commentators hoped that Ireland might wield some market power, especially as purchaser of coal and seller of livestock. A cartoon on the front page of the *Irish Press* on July 7th 1932 illustrated the caption 'Master Thomas bent his bow, aimed at a pigeon (Ireland) and shot a crow (British trade)'. A second, also featuring J. H. Thomas, appeared on July 20th 1932. The cartoons were wishful thinking, and a memorandum penned by the formidable James J. McElligott⁸ of the Department of Finance in December 1936 compellingly rebutted claims that the burden of the duties on Irish exports had fallen 'to a large extent at any rate' on British consumers rather than Irish producers. McElligott pointed to the wedge that the dispute had created between Irish and British wholesale agricultural prices, and noted that the British would have countered any increase in the cost of Irish imports by turning to alternative sources. As further evidence of where the incidence of the tariffs fell, the same memorandum also noted how the first coal-cattle pact—a limited arrangement agreed in 1936—had increased wholesale prices in Ireland.

De Valera saw things differently, envisaging the country being 'driven back to the first duty of agriculture—to feed our own people'. As a result, he said, 'our hungry people will get food'⁹. There was a political aspect to this, since those strong farmers who lost most by the Economic War were less likely to vote for Fianna Fáil anyway. For them the mid-1930s marked a nadir in welfare in an independent Ireland.¹⁰

De Valera's vision would have proved disastrous in the long run. Yet fortune favoured Fianna Fáil. The Economic War reduced living standards, but ended in a net, albeit unanticipated economic gain. The value of the concessions gained through the Anglo-Irish Agreement of 1938 exceeded the losses incurred since 1934, because in exchange for a once-off payment of £10 million, Britain agreed to write off all future annuity payments.¹¹ Britain also returned the so-called Treaty ports which would allow Ireland to sit out a war that seemed inevitable. The 'default' thus ended well and, because it was not about solvency and markets did not expect a repeat, its impact on bond yields was minimal. Raising the funds necessary to honour the 1938 Agreement was relatively painless. And so Éire, which had lost the battles, ended up winning the Economic War. Lemass, not ordinarily given to rabble-rousing, crowed, 'It is a complete waste of time to discuss who began [the Economic War]. The important thing is that we won it'.¹² The reason is clear; the much greater threat of Nazi Germany prompted the British to be generous. The one sensitive element from an Irish standpoint was a clause in the 1938 agreement that seemed to commit the Irish to freer trade in the future.



1 Off to the Front in the economic war.



2 '- and that's the cheque-book your father fought with in the economic war!'

The Economic War helped to change the size and composition of Fianna Fáil's electoral support. Between 1932 and 1938 its share of the total vote rose from 44.5 to an all-time high of 51.9 per cent. Cheap food, a by-product of the

Economic War, and a post-1932 industrialization drive that created considerable employment, benefited workers in the towns and cities most. And so in Dublin Fianna Fáil's share of the vote rose sharply, from 34.1 per cent to 47.3 per cent. By 1944, for all of De Valera's attachment to bucolic values, his party was more popular in the capital than in the country as a whole.

[Table 1 about here]

2. THE EMERGENCY:

One of the first acts of the government on the outbreak of war in September 1939 was to declare a state of emergency and pass an Emergency Powers Act. Hence the 'Emergency', and it was a real emergency. First of all, it was a political emergency, with much intimidation from representatives of three of the warring parties. Winston Churchill and David Gray, the U.S. ambassador, were notoriously unsympathetic, taking turns in their attempts to force Ireland off the fence. Had the country been seriously divided on the issue of neutrality, the situation would have been much more critical.¹³

But let us focus on the economics. Fears of mass unemployment were very real. A hastily-prepared confidential 'Report of Inter-Departmental Committee on the Probable Effect on Employment of the Complete Isolation of Eire' predicted that a complete end to international trade (including cross-border trade) from July 1st 1940 would increase unemployment by from 60,000 to 76,000 immediately, and that an additional ten thousand would lose their

jobs in the following two months. This calculation was on the basis that the stocks of materials and fuel available were sufficient only for three months of normal activity. Obviously, the situation was bound to deteriorate rapidly thereafter, as stocks of materials and fuel ran out. Were autarky to last longer and the economy forced to rely entirely on native resources, the committee estimated that 'the additional unemployment which might be expected at this point would be approximately 161,000 persons'. The report excluded the impact on employment in agriculture and fisheries, on the liberal professions, and on the self-employed.¹⁴

The strategy of import-substituting industrialization [ISI] pursued since 1932 had not prepared the economy for the degree of self-reliance dictated by the war, because it still depended on Britain for fuel and producer goods. Ireland was now faced with a neighbour with considerable monopsony and monopoly power and determined to supply only those raw materials deemed necessary for agricultural production [so that Ireland could continue to supply Britain with food]. By the summer of 1940 British coal exporters were demanding payment prior to delivery. Ireland's representative in London tried to convince the colliery owners that 'if they want to maintain their monopoly in future, [not] to take advantage of the present position in the manner proposed'.

In visits to London when war was imminent John Leydon, secretary of Seán Lemass's Department of Industry and Commerce, 'was assured that there would be no difficulty in respect of shipping, [that] we would be on the same

footing as Britain'. Yet from the start of the war the British authorities refused to provide any tonnage for Irish bulk cargoes from abroad, even though this traffic had relied heavily on British shippers before the war. The government accordingly created Irish Shipping Ltd. and bought or chartered fifteen second-hand ships to service Irish trade. Two of these were sunk by U-boats in 1943, including the biggest, the Irish Pine (5,621 tons), with the loss of thirty-three lives. A dozen other Irish-registered ships were lost between 1940 and 1943, mostly in the Irish Sea, with a total loss of nearly one hundred lives.¹⁵

The Emergency put a new gloss on Dean Swift's famous admonition to 'burn everything that comes from England except its coal'. At the outset there was talk of an annual eight million tons of turf to make good the shortfall in British coal supplies. Turf production did increase significantly, but such a target was never on. Although the turf campaign waged during war years represented considerable mobilization, the Emergency proved, if proof were needed, that turf was not a viable long-run substitute for coal. Its bulk and its location in remote regions were against it. Railway historian Peter Rigney has referred to the country being 'a gigantic outdoor fuel laboratory', with the railway network acting as the national grid for turf.¹⁶ The country would have been in direr straits without bogs; none the less, the lack of fuel, more than perhaps anything else, had a serious impact on the Irish economy and on health and living standards.

Meanwhile there was the hope that the war would make the tariff reductions envisaged under the 1938 Agreement a dead letter, but the British

kept up the pressure on this score. Within days of the outbreak of war John Leydon ordered the secretary of the Prices Commission established in the wake of the agreement to suspend all tariff reviews without further notice. His disclosure of the suspension to the British Board of Trade provoked the response that it was 'a little arbitrary to disband the whole machine and deprive us of the major benefit which we obtained in the commercial sphere from the Agreement of last year'. Leydon replied that the measure was merely temporary. However, Sean McEntee, the most conservative member of De Valera's cabinet, wanted to proceed with tariff reviews, while Lemass, now in charge of the all-important Department of Supplies, did not.¹⁷

Much more ominously, the British demanded that storage and transshipment facilities be made available in Ireland in return for trade concessions. A memo penned by McElligott on behalf of other departmental secretaries unhelpfully noted that, setting aside the political risks involved, 'there would appear to be definite economic advantage for this country if trans-shipment facilities were possible.' But German ambassador Dr. Eduard Hempel had anticipated all this. Barely a month after the outbreak of war, he noted that 'pressure might be brought on Ireland to allow her ports to be used for a re-export trade to Great Britain'. Don't risk it, he advised. Should Germany learn that this was happening, 'they would find it very difficult not to regard all cargo coming to Ireland with suspicion, and they might find it very difficult not to take measures to prevent imports coming to Ireland'.¹⁸

Fortunately, the British did not persist with their demands.

Inevitably incomes were squeezed. Real earnings fell significantly. In distribution, manufacturing, and construction they dropped by a mighty 26-39 per cent between 1938 and 1944; in agriculture the fall was 9 per cent; in the public service it was 24 per cent; and in the higher professions it was one-third between 1938 and 1943 (Figure 5). Those on middling incomes were worst affected.¹⁹ Even by the standards of today, these were big falls. Farmers, who bore the brunt of Economic War, fared best, but there was no golden age for them as there had been during the Great War.

Surprisingly, given the predictions made on the eve of the war, unemployment fell during the Emergency. The decline was progressive and affected all sectors. The rise in emigration was the main reason for this, but wage moderation, an increase in the size of the defence forces, and job sharing schemes also helped.²⁰ As Figure 2 implies, the immediate impact of the outbreak of war was a significant return migration to Ireland, but in the following years the net outflow to Britain grew, peaking at new high of 46,000 in 1943. Emigration to Britain during the war was controlled but most who wanted to emigrate did so. The increase in emigration is readily accounted for by the widening gap between wages in Britain (where they were rising) and Ireland (where they were falling).²¹

Nevertheless other data imply a bleak picture of economic conditions between 1939 and 1945. The supply of basics such as potatoes, eggs, sugar, milk, and meat were adequate, but butter was rationed, and tea, margarine, and imported fruit were extremely scarce or virtually unattainable. Health

worsened as reflected in data on infant mortality and deaths from TB. Figure 6 shows that the decline in the death rate from TB was interrupted, while there was a big increase in the infant mortality rate in 1943 and 1944. The rise in infant mortality, mainly due to gastroenteritis, was particularly severe in Dublin.

[Figures 5 and 6 about here]

The economic hardship initially produced more anti-Fianna Fáil feeling than at any stage since 1932 but there was no meltdown in support. True, the Labour Party won most seats on Dublin City council in 1942, and Fianna Fáil's vote in the general election of 1943 fell by nearly one-fifth to 41.9 per cent. However, in 1944 its share was back up to 48.9 per cent.²² This reflected popular support for neutrality and confidence in De Valera's ability to maintain it.

Seán Lemass ran his own version of command economy through his Department of Supplies. Coping with the Emergency required a good deal of improvisation and imagination. A short account of the leather and shoe manufacturing during the Emergency may be useful here.²³ After 1932 Ireland quickly built up a footwear sector, and on the eve of the war the country had become virtually self-sufficient in footwear. In 1940 the Free State produced 4.5 million pair of leather footwear and 1 million pair of rubber footwear. Only a quarter of a million pairs were imported. But this was not self-sufficiency,

because although Irish tanneries produced most of the necessary leather, only about half of the hides they used were home-produced, and virtually none of the chemicals, nails, and other components. Naturally, the raw materials for rubber boots and shoes were all imported.

A United Kingdom prohibition on the export of hides in March 1941 created panic in the industry, but the government negotiated an agreement which allowed production to be maintained at about two-thirds of the norm. This led to discussions between the Department of Supplies and the industry in order to ensure that the production of 'essential types of footwear' be prioritized. It would also be necessary to reduce variety. The department controlled the producers through its allocation of leather to their factories. Once quarterly quotas of bottom and upper leather for the different factories had been decided, each factory was informed of its allocation and requested to declare the quantity of 'essential types of footwear' it proposed to produce and how much leather it required for that purpose. The declarations ensured that a reasonable proportion of factory output was allocated to priority requirements. The Secretary of the Tanners' Federation then arranged deliveries. A further check on production figures ensured that guarantees were met. An internal history of how the industry was managed noted that control was based on 'the voluntary acceptance by the trade interests of the restrictions imposed'. The leather and footwear industry was in a privileged situation in this respect. Controlling production in the clothing industry and the textile distributive trade was much more challenging, and the costs of

monitoring output in the latter cases were much higher, with the threat of prosecution often replacing voluntarism and moral suasion.

The Emergency also produced a defining moment in Irish banking history. Until then, Ireland's lack of a central bank had not worried its joint-stock banks; on the contrary, they did not relish the idea. For over a century the Bank of Ireland had played the role of quasi-central bank, while looking on the Bank of England as its friend in need. Just a few days before the outbreak of war a delegation from College Green traveled to London for reassurance about the availability of foreign exchange and the free repatriation of Irish bank assets held in London. In what must have been a difficult moment for the Irish bankers, the Governor of the Bank of England Montague Norman told them that²⁴:

notwithstanding the long and intimate relations between the two institutions he was not prepared to commit the Bank of England by promising to come to the assistance of the Bank of Ireland in an emergency of the nature under discussion. As an ordinary banking transaction there would be no question whatever about making an advance to the Bank, but in an emergency situation there was an important principal (sic) involved. The Bank of England looked upon Eire as a Dominion... Mr. Norman stressed the view that the Bank 'whose centre of gravity was in Eire' should look to their own Treasury or the Currency Commission to help them over difficult periods. Sir John [Keane, Deputy Governor of the Bank of Ireland] pointed out that the position in Eire did not admit of a solution in that way, as the Treasury came to the Bank when it was short of funds, and the Currency Commission was not a lender of the last resort. Mr. Norman then urged

that as Eire was a separate political entity it should have a Central Bank of its own.

And so it took the Emergency and Montagu Norman to persuade the Bank of Ireland to switch its loyalty fully to the new state, and for the other joint stock banks to appreciate the need for an Irish central bank. The Central Bank Act followed in 1942.

[Table 2 about here]

3. THE LOST DECADE OF THE 1950s:

In Europe generally the 1950s were a decade of growth and convergence. In Ireland, by contrast, this was the lost decade, the period of underachievement and self-doubt that prompted recently-appointed secretary of the Department of Finance, Ken Whitaker, to remark that 'after 35 years of native government people are asking whether we can achieve an acceptable degree of economic progress'. The resonances with the present are clear.

Ireland was a true outlier. During the war it had been the slowest-growing of the unoccupied non-belligerents, and its recovery in 1945-50 was weakest of all European economies with the exception of Spain. Again its growth record in 1950-58 was the worst in western Europe. The convergence regression in Figure 7 is an alternative way of telling the story.

[Figure 7 about here]

Sean Lemass has been described as an 'instinctive' free trader²⁵, but there was a time when he saw ISI as a means of reducing unemployment and developing the economy. It seemed to work in the 1930s while the economy was adjusting to a new protectionist equilibrium, but Lemass's faith in ISI was severely tested thereafter. The minutes of informal meetings between him and leaders of the Federation of Irish Manufacturers (forerunner of today's IBEC) betray a recurring tetchiness on Lemass's part. In February 1945, for example, he asked that the Federation 'put on record that, of the very large number of plans received relating to export development, very few have been received from firms which might be considered as wholly national'. And he warned that there would be no return to protecting cloth imports until 'Irish mills have reached a satisfactory standard, not only of quality but also of variety and price in addition to quality. Cheap cloths for the working-man's type of suit are not being made here.' It was also in 1945 that the Department of Industry and Commerce first sought to combine ISI with some export-subsidizing industrialization (ESI), only to have its plans scuppered by the Department of Finance.²⁶

When manufacturers complained against the temporary lifting of tariffs on footwear and clothing in 1947 Lemass testily asked whether they 'would advocate going without finished goods which are in short supply?', adding that the government was determined to 'get rid of a sellers' market', which could be achieved 'only by an increase in the volume of goods within the country, be

they imported or manufactured.’ Lemass then stated that ‘most of our pre-war tariffs had been too high and that quantitative restrictions were of a variable quality’.²⁷ Some months later when a representative of the clothing industry complained that it was impossible to sell their wares because of the quality of imported raw materials, Lemass retorted testily by asking ‘if the manufactures wished him to restrict imports to enable them to sell what the public did not want.’²⁸

Back in power in 1957, Lemass immediately began to warn industrialists of the prospect of Ireland joining a European free trade area, and in early 1958 bluntly stated that tariff protection was no longer ‘the main instrument of industrial policy’²⁹. His frustration at industry’s reluctance to go beyond producing or assembling foreign goods under license, without giving a thought to exports, was shared by William Norton, leader of the Labour Party and Tánaiste both in 1948-51 and 1954-57.

The crisis of the 1950s, as commentary at the time increasingly recognized, had its roots in the policies of the 1930s. Instead of generating an expanding, self-sustaining economy, less reliant on the land, ISI had resulted in an inefficient, highly protected manufacturing sector producing a small range of products in small plants with short production runs.

From the early 1950s on, as the failure of the domestic market to deliver sustainable growth became increasingly obvious, policy shifted cautiously away from ISI. But a return to the policies of the 1920s was not very palatable either. The promotion of export-oriented subsidiaries of multinationals was

politically attractive, since it did not threaten existing indigenous firms directly, at least in the short run. By 1955 Irish delegations were busily seeking foreign investment in Germany, the U.S., and elsewhere, and in 1956 the inter-party government led by John A. Costello of Fine Gael enacted a fifty per cent tax remission for a fixed period on export-derived profits.³⁰ Lemass trumped Costello's concessions with new incentives (one hundred per cent tax exemptions on export-derived profits, and complete freedom to repatriate profits) in 1958. The success of such measures was predicated on expected Irish membership of a broader European free trade area.

Why did manufacturers not offer stouter resistance to trade liberalization? One reason is that its abysmal record in providing employment weakened its political influence. A second is that Britain's plan to create a European Free Trade Area left it little choice; it was inconceivable that Britain should join and Ireland remain aloof.³¹ Thus by 1956-57 manufacturers were already reconciled to the prospect of trade liberalization. And so in late 1957 their president of the Federation of Irish Manufacturers proposed a 're-adaptation fund for Irish industry', on the lines envisaged in the Treaty of Rome's clauses on regional aid.

An economic nadir was reached in 1956. The prevailing gloom was intensified by Finance Minister Gerard Sweetman's draconian fiscal response to a balance of payments disequilibrium that would have righted itself in time.³² The publication of the preliminary 1956 census returns on June 2nd - which showed a sharp fall in population since 1951 - deepened the pre-existing

gloom. 'Obviously, our whole economy, industrial as well as agricultural, is badly in need of a fresh stimulus', lamented the *Irish Press*. For the *Irish Independent* the census figures represented 'a severe shock to confidence'. Sceptical of the capacity of capital investment policies, industrialisation and urbanisation to deliver the goods, the *Independent's* rather unimaginative editorial asked, 'is it possible that we shall re-discover the primary importance of agriculture as the basis for prosperity and, if only indirectly, population, and re-shape our policies accordingly?'



8 Out of our census.

Thanks in part to Sweetman's fiscal squeeze, Fianna Fáil won the general election of March 1957 handily.³³ De Valera's new appointee as Minister for Finance, James Ryan, was greeted by a sharp and apocalyptic memorandum from his departmental secretary. 'I felt an obligation', Ken Whitaker recently reminisced, 'to try and put things right. I was bold enough to

write a note to the then [Finance] Minister of the day saying if we continued the way we were, it wouldn't be long before we'd have to ask England to take us back'.³⁴ Whitaker's note, called simply 'The Irish Economy, 1957', set out starkly the message later elaborated on in *Economic Development*:

It is accepted on all sides that we have come to a critical and decisive point in our economic affairs. It is only too clear that the policies we have hitherto followed have not resulted in a viable economy. It is equally clear that we face economic decay and the collapse of our political independence if we elected to shelter permanently behind a protectionist blockade. For this would mean accepting that our costs must permanently be higher than those of other countries, both in industry and large sections of agriculture. That would be a policy of despair...The effect of any policy which entailed relatively low living standards here would be to sustain and stimulate the outflow of emigrants and make it impossible to preserve the 26 Counties as an economic entity.³⁵

The message sunk in. In the following months Ireland joined both the International Monetary Fund and the World Bank and in July 1958 all remaining restrictions on foreign investment in manufacturing were removed.

Emigration reached its highest level since independence in 1958. Recovery and the beginnings of significant economic growth in 1958-59 had probably much more to do with the end to recession in the United Kingdom than frequently-cited factors such as economic planning or Seán Lemass's accession as Taoiseach.³⁶ Figure 8 corroborates.

The policy shifts described above ensured that growth would continue. For the following two decades the rate of emigration fell, with only minor interruptions, and population began to grow again - modestly at first but eventually making Ireland one of the fastest-growing populations in Europe. The Irish economy had begun to catch up, but convergence with the leading economies of Europe was still far in the future.

[Figure 8 about here]

4. THE 1980s: DURATION, IMPACT

Misguided fiscal policy had exacerbated the difficulties of the mid-1950s, but it was entirely responsible for next crisis. Both the Coalition government of 1973-77 and the Fianna Fáil government of 1977-81 sought to counter the deflationary effect of high oil prices and global recession by running ever-bigger budgetary deficits, and generating an unsustainable increase in the national debt. The National Development Plan 1977-1980 envisaged unprecedented growth rates stimulated by tax cuts and higher public spending, with the public finances restored through 'revenue buoyancy, control of expenditure and an enhanced private sector contribution to the process of development'.³⁷ The gap between projection and outcome was alarming (Table 3).

[Table 3 about here]

Economists Colm McCarthy and Brendan Walsh were already warning in 1980: 'there are simply no macroeconomic policies that can be implemented in our current predicament that would move the country painlessly towards financial balance. Time should not be wasted searching for means to avoid the unavoidable'. Another voice raised against looming fiscal meltdown was that of T. K. Whitaker, who in May 1981 reminded fellow-members of Seanad Éireann that 'the result of all the mistaken or wrongly-timed policies of the past decade, since deficit financing of current expenditure was first set up here as respectable, [could] be summed up by saying that, while it took 50 years for the State debt to top £1,000 million, it has been multiplied eight times in as few years'. Not afraid to criticize the 'magnanimous man'— Taoiseach Jack Lynch—who had nominated him to the Seanad, Whitaker spoke of his duty 'to speak his mind on matters within his competence'. Some months later, in an attack on the crude Keynesianism underpinning Irish fiscal policy, he complained 'how expansionary budgetary policies [had lost] much of their impact by spilling over into imports, creating huge deficits in the balance of payments and destabilising our public finances, rather than raising productive activity at home'.³⁸

At that time the OECD still deemed 'the very high level of unemployment' the most serious problem facing the country, though it changed tune in 1982. It took the National Economic and Social Council until 1985,

however, to recognize 'the consequences of continuing present policies'³⁹. By then the situation had become so serious that maverick economist Raymond Crotty⁴⁰ counselled repudiation of the national debt, on the grounds that this would prevent future irresponsible governments from borrowing abroad. Political instability in the early 1980s delayed the necessary fiscal correction. Although this crisis had its origins in the mid-1970s, the medicine necessary to reduce the ratio of debt to GDP began to take effect only from 1983 on. A Fine Gael and Labour coalition began the task, which was completed by a minority Fianna Fáil government, offered conditional support by Fine Gael through what came to be known, rather grandly, as the Tallaght strategy. Fiscal adjustment was complicated by the sluggish growth of the real economy.⁴¹ Between 1979 and 1986 private consumption barely rose and unemployment increased from 6.8 per cent to 17.1 per cent, its highest level in the history of the state. Due to renewed net outward migration, which did not peak until 1989, population declined in the late 1980s—the first such set-back in a generation. Net emigration fell fast in the early 1990s and would not turn significantly positive again until 2010.

The crisis ended in a series of severely contractionary budgets, and the first taste of the economic growth that would shape the Celtic Tiger. Whether this episode represented an expansionary fiscal contraction—as claimed in a previous Whitaker lecture by European Central Bank governor Jean-Claude Trichet—is unlikely. Contrary to Trichet's claim that 'the so-called "Ricardian" effect [was] more important than the "Keynesian" effect', Patrick Honohan

and Brendan Walsh have found that such a neo-Ricardian interpretation 'has an uphill struggle to find empirical support' in Ireland in the 1980s, while Colm McCarthy has recently argued that in those years the cuts in capital expenditure were excessive and 'tax rates... raised to self-defeating levels'.⁴² Thus Trichet's assertion that the economy deflated itself out of recession in the 1980s contains few resonances for our current fiscal predicament. The Irish economy had failed to grow at all between 1980 and 1986; then, spurred on by well-executed currency devaluations, a booming UK economy, a successful tax amnesty, and the beginnings of social partnership, in the following decade it would grow by more than five per cent annually.⁴³ Not a menu of recovery aids readily available today!

5. THE CURRENT CRISIS

'Surely no other country in the rich world has seen its image change so fast', mused *The Economist* in 2004. But change comes in many versions. The country dubbed 'Europe's shining light' in 1997 is now 'EuroDisasterLand, Part III'.⁴⁴ One cliché deserves another, and so the lag between Roy Foster's mildly celebratory *The Luck of the Irish* and Kevin Lynch's *When the Luck of the Irish Ran Out* was only two and a half years.⁴⁵ This is not the place to delve in any depth into the causes of the current crisis. In one sense ours is just an extreme version of what a poorly regulated, perversely innovative, get-rich-quick banking culture produced in many economies. One might have hoped that the

European project had removed our freedom to score economic own goals—and so it seemed for a while—but economic integration did not extend to regulation. And thus, the excesses of our banking system were facilitated by a home-spun regulatory regime ‘which was and was perceived to be excessively deferential and accommodating; insufficiently challenging and not persistent enough’.⁴⁶ The resultant fall has left us with a severely wounded economy that will require extraordinary measures to repair. Today Ken Whitaker’s old doubts about the viability of an independent Irish economy haunt us once more, and with a vengeance. If we overcome this current crisis, is another—due again to the incompetence of those who rule us—inevitable in a few decades?

Here I discuss just one aspect of the present crisis, the link between unemployment and migration. The Celtic Tiger did not put an end to emigration. Between 1991 and 2006 gross out-migration fluctuated narrowly between 25,300 and 36,000, before rising thereafter to 65,000 in 2010. The big change was in immigration. But the turnaround in net migration, from a peak of 71,000 in 2006 to -34,500 in 2010 has been much more dramatic than the turnaround in gross migration—and more dramatic than any of the previous four crises (see Figure 2). Most of the net migration during the downturn has been by non-nationals, and their departure has tempered the impact on domestic unemployment to an unprecedented extent.

The speed of the migrant response has been remarkable (see Figure 9). Between 2008:2 and 2010:2 the number of non-nationals in the labour force dropped from 360,600 to 276,500. Had it remained constant, as did the

number of nationals in the labour force, in 2010:2 non-nationals would have accounted for 37 per cent of the unemployed rather than the actual 16 per cent.⁴⁷ And that is why unemployment seems unlikely to reach the heights it did in the 1980s.

[Figure 9 and Table 4 about here]

6. BROAD SUNLIT UPLANDS?

Unlike the periodic crises of classic business cycle theory, each of our Irish crises has tended to be *sui generis*. True, the first two shared essentially political and post-colonial origins, while the first and third were in large part the consequences of post-independence policy choices. It is also true that the economic damage wrought by the first three was linked in different ways to the smallness of the Irish economy, and its consequent lack of market power. The message of all three was that no economy is an island, not even an island economy. All five crises, moreover, were self-inflicted, bar one (the Emergency). All inflicted net harm on living standards and economic welfare bar one (the Economic War). But, apart from being products of a shared institutional framework, it is the uniqueness of each crisis that is most striking. Thus our current crisis is closely tied to collapse of the banking sector, but for earlier crises linked to Irish bank failures one must go back to the nineteenth century: and none of those crises inflicted significant, lasting damage on the real economy.⁴⁸

Is the current crisis the most serious of the lot? The answer must be yes, although its eventual cost will depend on imponderables such as the timing and extent of, if any, the restructuring of our national debt. The nearest in terms of reduced living standards is the Emergency. Then the decline was in a context where the margin above hardship was much narrower than today and the scope for remedial action limited by wartime conditions. That is why the Emergency, unlike the present crisis (so far), had a small but perceptible impact on health and mortality in the community at large. It is also important to remember that, to some extent, the post-2007 losses merely cancelled out the unwarranted 'hothouse' gains of the previous five to seven years, although the eventual losses will surely go far beyond that. On the other hand, if the current crisis has not impacted on mortality in general, one troubling by-product already visible is the increase in a very different measure of health and wellbeing, the number of people who have taken their own lives. The Celtic Tiger reduced the suicide rate; now, it seems, the numbers are up again.⁴⁹

Over a century ago George Santayana famously noted that 'those who cannot remember the past are condemned to repeat it'. It is admittedly small consolation in our very grave current situation that none of our crises was the same, so that history was not repeating itself. It would be good to conclude on a cheerful note, but I can think of no more hopeful way of ending these downbeat musings about our economic history than by quoting a wise nonagenarian, who had been through most of it, and who in late 2009 told a visiting American journalist: 'Down the years, it has been seen that, although

we can be as wrongheaded as anybody else, we do have a capacity to recognize when we are doing wrong. I mean tacitly we do so—we may not confess openly to our wrongdoing—but I think we learn from experience... and then we hopefully will re-emerge on the broad sunlit uplands.⁵⁰ Let us hope Ken Whitaker is right, as he usually has been.

Figure 1a. Convergence 1929-1988

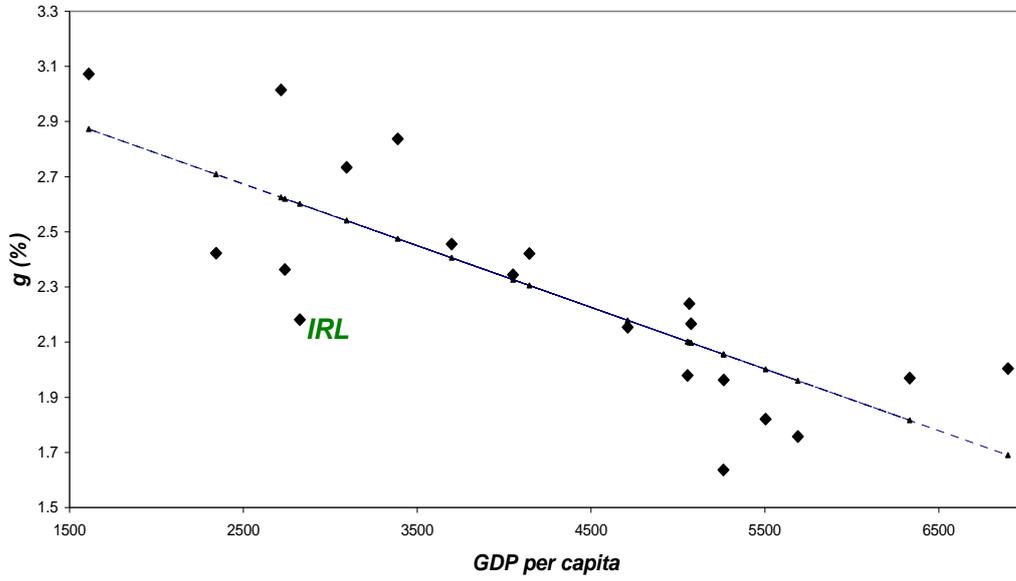


Figure 1b. Convergence 1929-2007

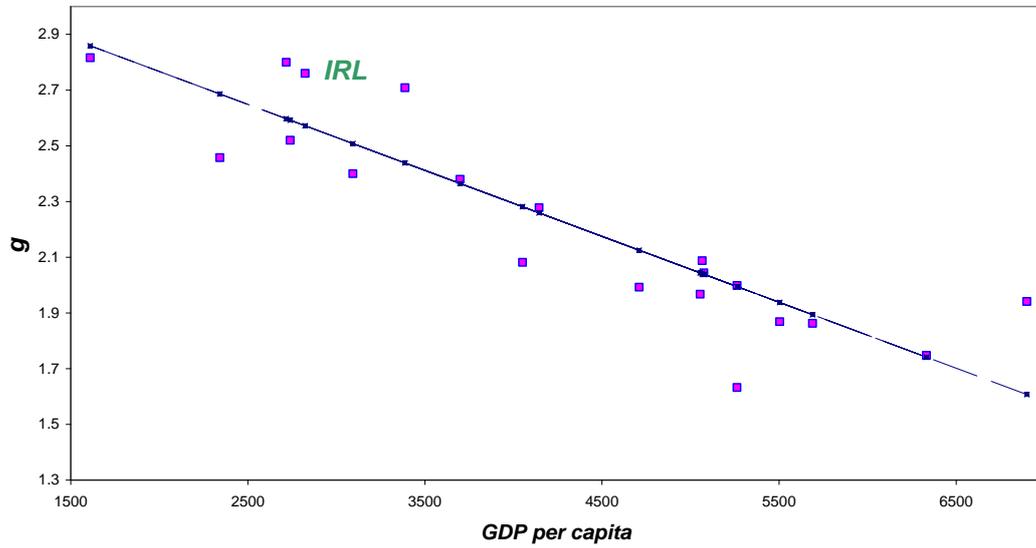
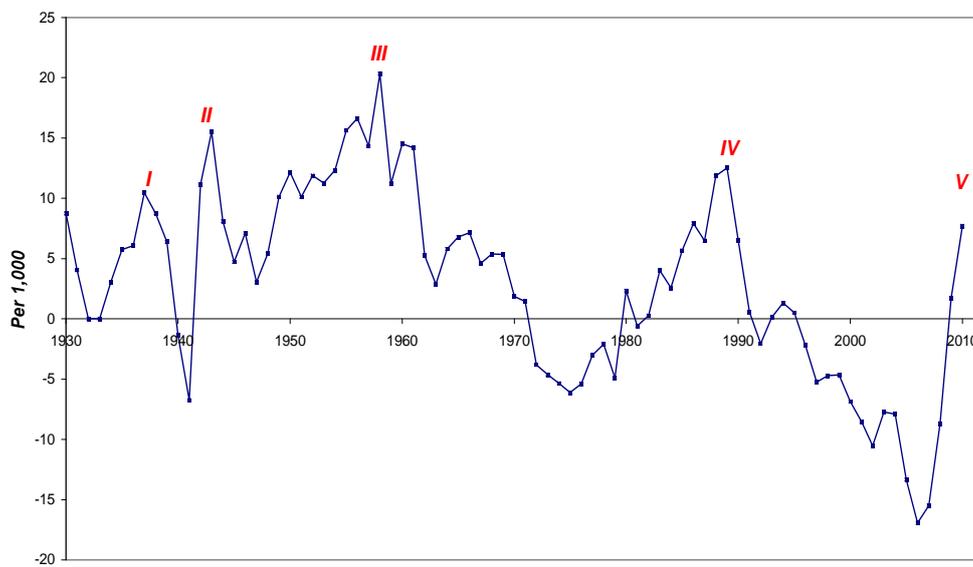
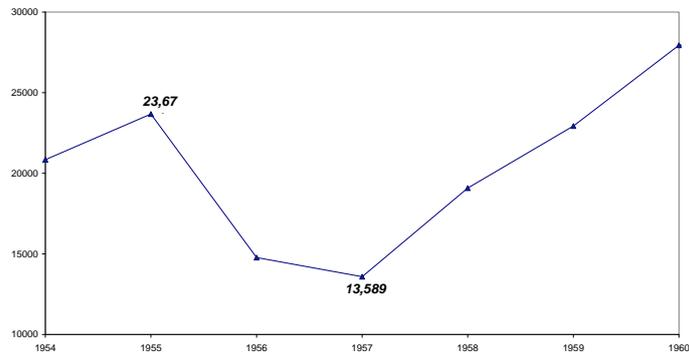


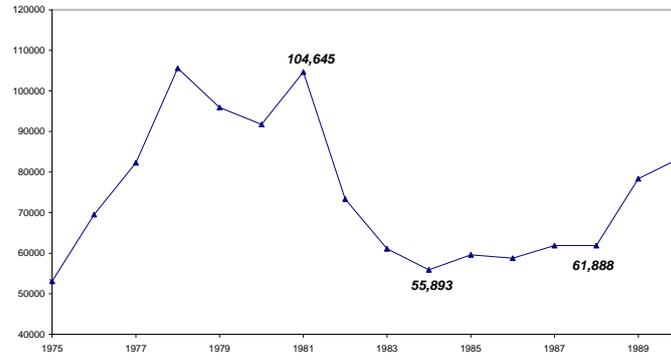
Figure 2. Net Emigration Rate, 1930-2010



A. 1954-60



B. 1975-90



C. 2005-10

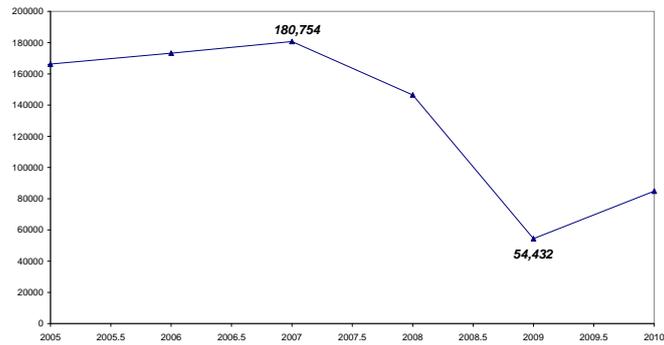


Figure 3. New Private Car Registrations during Three Crises

Figure 4. Annual Rate of Change in GDP (%)

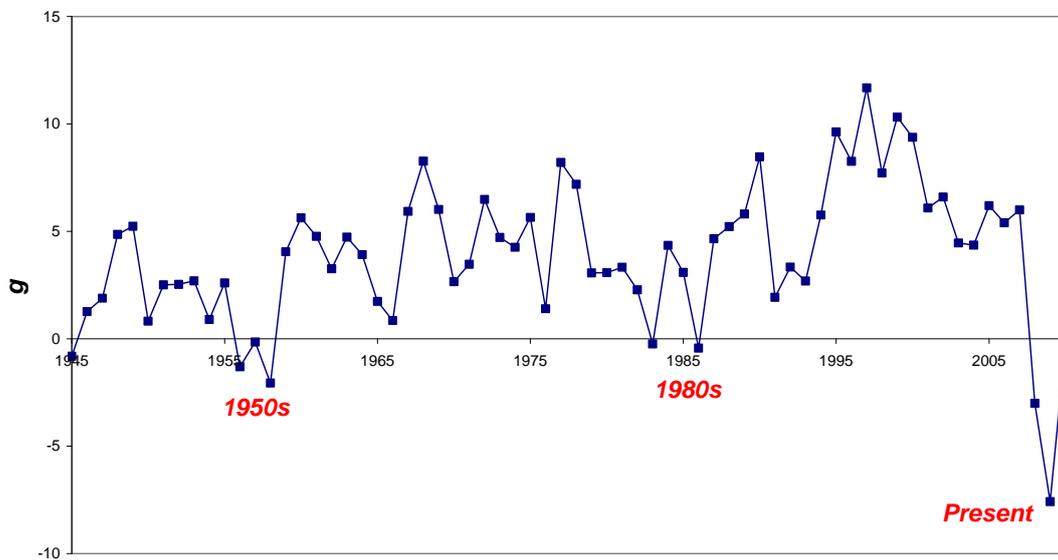


Figure 5a. Real Earnings in Selected Sectors, 1938-1944

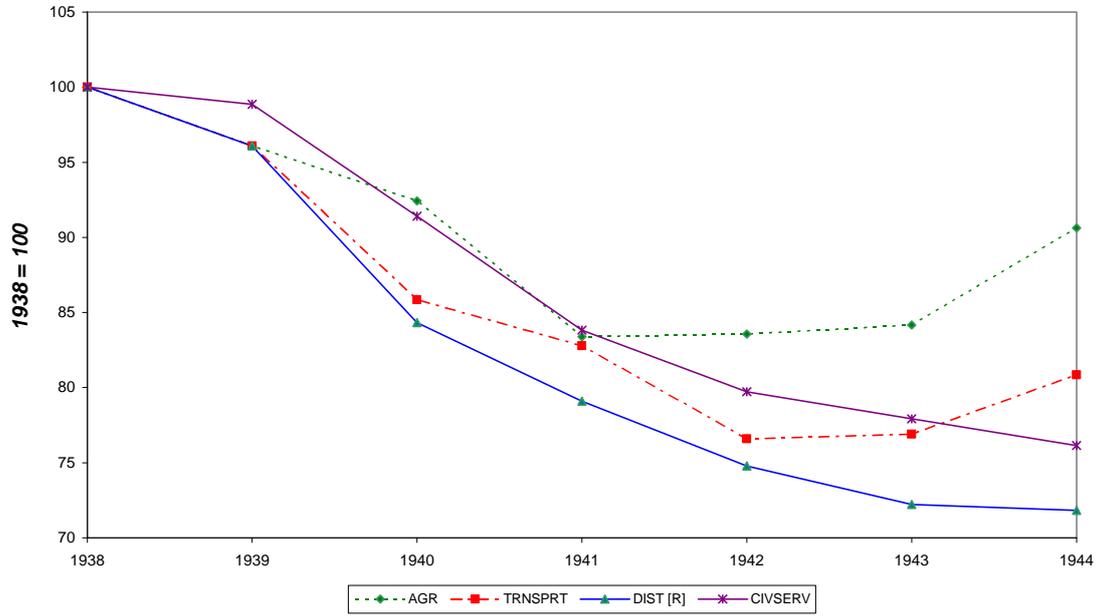


Figure 5b. Real Wages in TG and Construction, 1939-45

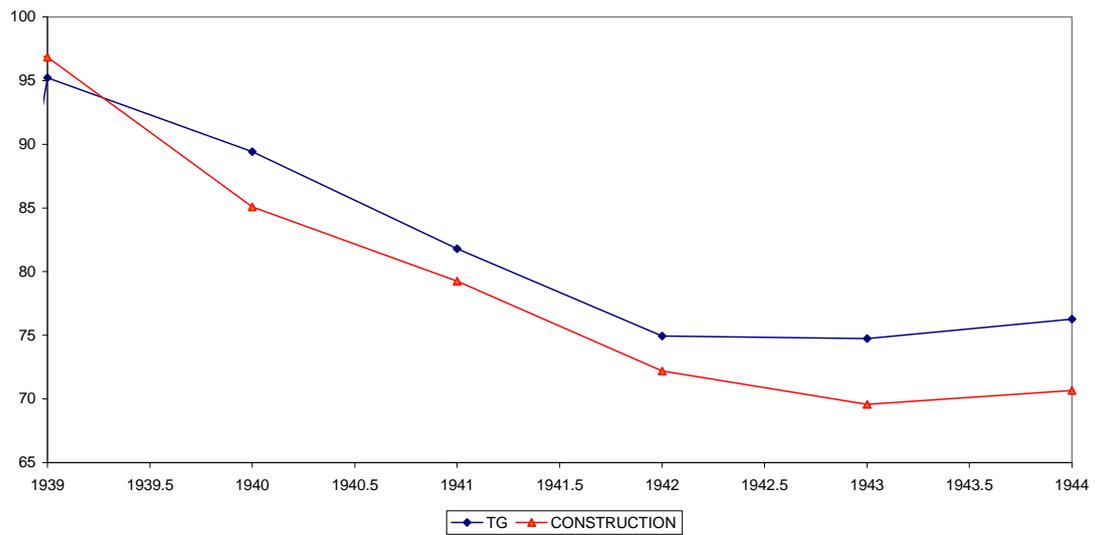


Figure 6. TB death rate and IMR, 1923-1949

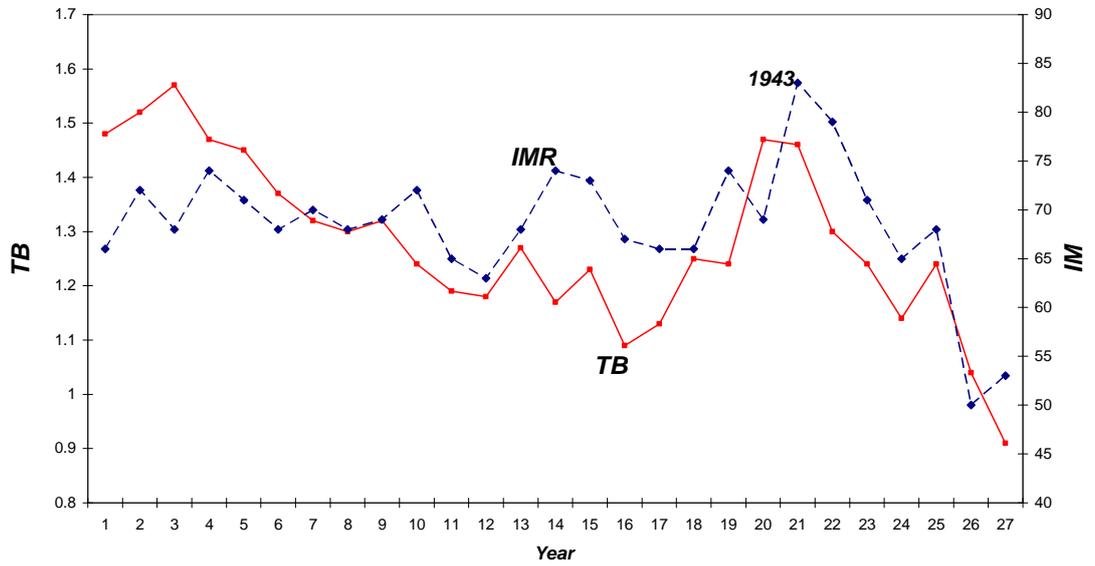


Figure 7. Relative Performance in the 1950s

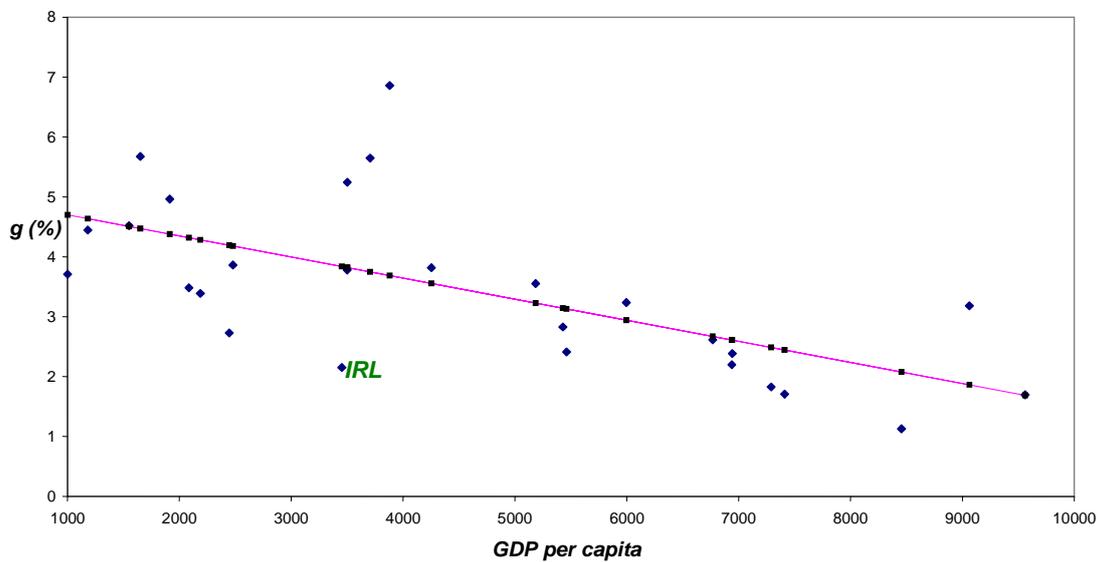


Figure 8. Irish and UK GDP Growth 1953-1965

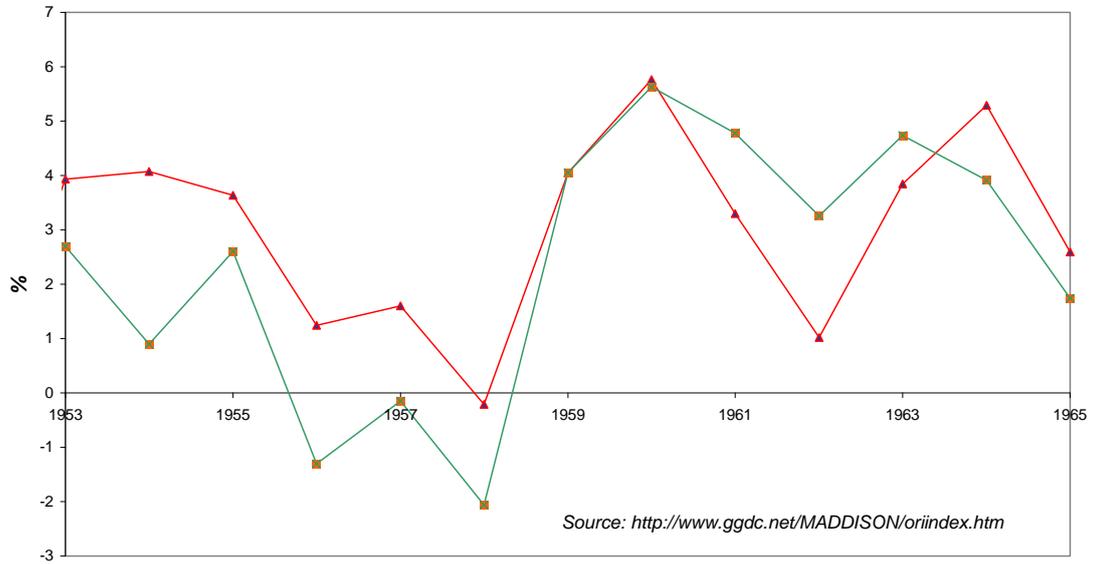


Figure 9. Net and Gross Emigration Rates, 1987-2010

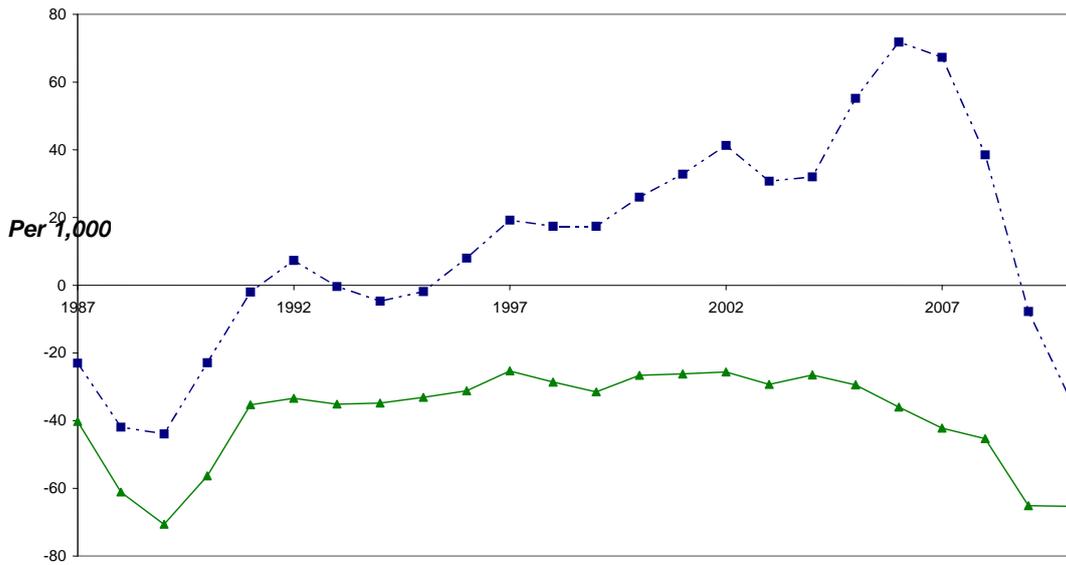


TABLE 1. MAIN AGRICULTURAL EXPORTS BY DESTINATION, YEAR ENDING 30th SEPTEMBER, 1936 (£)			
Item	Exports to UK	Exports Elsewhere	UK share of Total [%]
Cattle	6,058,000	289,000	4.6
Sheep and Lambs	565,361	125	0.0
Horses	963,000	271,000	22.0
Pigs and Other	488,000	9,000	1.8
Mutton and Lamb	96,216	780	0.8
Bacon	1,518,000	38,000	2.4
Hams	78,000	13,000	14.3
Fresh Pork	322,000	4,000	1.2
Turkeys (dead)	227,958	457	0.2
Butter	1,642,000	177,000	9.7
Eggs	849,000	161,000	15.9
Cream	134,000	1,000	0.7

TABLE 2. FOOTWEAR PRODUCTION IN IRELAND, 1940 AND 1944 (pairs)			
Leather footwear	Average Quarterly Production		
	1941	1944	+ / -
Men's heavy	126,780	149,247 *	22,467
Boys' heavy	28,188	100,356 *	71,168
Women's and girls' heavy	16,515	68,101 *	51,586
Infants	57,711	50,933	-6,778
Men's light	206,217	108,653	-97,564
Boys' light	109,167	40,277	-68,890
Women's light	354,663	255,169	-99,494
Girls' light	61,929	91,078	+29,149
Sandals (rubber soled)	133,041	-	
Other classes	148,782	70,028	-78,754
Total	1,125,693	933,842	-191,851
* Including wooden soled footwear			

TABLE 3. PLAN AND OUTCOME, 1979-1981 (%)						
	Projected			Outcome		
	1979	1980	1981	1979	1980	1981
Unemployment	7.5	7.0	5.0	8.7	7.0	10.0
Inflation	5.0	5.0	5.0	13.8	18.2	20.4
PSBR	10.5	8.0	7.0	13.2	13.5	15.9
GNP Growth	7.0	7.0	7.0	3.5	2.2	0.6
Source: Wiles and Finnegan, <i>Aspirations and Realities</i> , 2010						

TABLE 4. NET MIGRATION BY NATIONALITY [1,000s]					
Country/Region	2006	2007	2008	2009	2010
Ireland	3.6	6.9	2.8	0	-14.4
United Kingdom	7.7	3.6	4.6	1.5	-.2
Other 15	7.6	3.5	4.4	3.1	-3.5
EU 12	44.8	38.3	14.9	-16.6	-13.3
Rest of World	10.2	15.1	11.9	4.1	-3.2
Total	71.8	67.3	38.5	-7.8	-34.5
Source: CSO					

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ENDNOTES

¹ Eichengreen and Portes, 'After the deluge'.

² Eichengreen and O'Rourke, 'A tale of two depressions'; Almunia *et al.* 'From Great Depression to Great Credit Crisis: Similarities, Differences and Lesson'; Bordo and James, 'The Great Depression analogy'.

³ The best is Honohan and Walsh, 'Catching up with the leaders'.

⁴ FitzGerald, *Reflections on the Irish State*; Crafts, 'The Celtic Tiger in historical and international perspective', 74-75.

⁵ I am ignoring here the sharp but short-lived crisis of 1947-48. This crisis was at its most intense during the cold and harsh winter and spring of 1947.

⁶ The term 'default' was used at the time (c.f. 'Land Annuities. Fifteen Days Still for Payment', *Irish Times*, 15 June 1932), as was 'economic war' (e.g. *IT*, 4 July 1932).

⁷ Suter, *Debt Cycles in the World-Economy*.

⁸ Kennedy et al., *Documents on Irish Foreign Policy*, vol. 4, no. 387 [NAI, DT S9240]. The memorandum was signed by the secretaries of the departments of Finance, Industry & Commerce, Agriculture, and External Affairs. On McElligott see Lee, *Ireland*.

⁹ *Irish Times*, July 14th 1932.

¹⁰ Conacre rents, a sensitive measure of returns in agriculture, fell from nearly £2 per acre in 1930-2 to just over £1 in 1934-5. See Nunan 'Price trends for agricultural land in Ireland 1901-1986'; Murphy and Nunan, 'Analysis'.

¹¹ Neary and Ó Gráda, 'Protection, economic war, and structural change'; O'Rourke, 'Burn everything British'.

¹² *Dáil Éireann Debates*, lxxi, 183 (28 April 1938).

¹³ When in July 1941 James Dillon T.D. proposed in the Dáil that the western allies be allowed the use of Irish naval and aerial bases he found himself in a minority of one, and berated by leaders of his own party (*Parliamentary Debates Dáil Éireann*, vol. 84, 17 July 1941). On the pro-Britishness of Irish neutrality, see Fanning, *Independent Ireland*, 124-5.

¹⁴ National Archives: INDC/EMR/19/8.

¹⁵ National Archives: INDC/EMR/7/19 (Shipping); Ó Gráda, *Rocky Road*, 8-9. These losses were small compared with the loss of life among Irish seamen on allied boats in the North Atlantic.

¹⁶ Rigney, *Trains and Coal and Turf*, 222.

¹⁷ National Archives, INDC/EMR/19/21.

¹⁸ National Archives (INDC/EMR/19/12): Re-export and Transhipment Trade, Foreign Affairs Memorandum of 2 November 1939.

¹⁹ The share of non-agricultural households on less than £150 rose marginally from 47 to 47.9 per cent, while that of those on over £1,000 rose from 12.2 to 13.3 per cent.

²⁰ *National Income & Expenditure 1938-44*, p. 46. It bears noting, however, that unemployment rates were much lower in economies at war.

²¹ Ó Gráda, *Rocky Road*, p. 18.

²² This was on a very low poll. The recovery in Fianna Fáil's vote was greatest along the border. In Cavan its vote rose from 38.9 per cent to 50.8 per cent; in Monaghan it rose from 43.6 per cent to 57.1 per cent.

²³ Based on National Archives, INDC/EMR/7/13.

²⁴ Cited in Ó Gráda, 'Money and banking in the Irish Free State', pp. 419-20.

²⁵ Horgan, *Seán Lemass*, p. 52.

²⁶ Ó Gráda, 'From frugal comfort to ten thousand a year', pp. 266-67; Horgan, *Seán Lemass*, pp. 90-91, 112-13; Barry, 'Foreign investment'.

²⁷ IBEC archives, Box 15: Memo of Federation delegation meeting with Lemass, 2 April 1947.

²⁸ Ibid, 'Memo of conference with Minister 17 December 1947'.

²⁹ Cited in Garvin, *News from a New Republic*, p. 74. In an address in Dublin in December 1957 Lemass deemed the European Free Trade Area 'by far the most important development which they could now foresee that would shape the economic and political future of the country'. For more on Lemass and businessmen see Ó Gráda, 'From frugal comfort to ten thousand a year'. For an excellent overview of the period see McCarthy, *Planning Ireland's Future*.

³⁰ A somewhat different package of incentives had been available in Northern Ireland since the early post-war period. The authorities in the South cannot but have been aware of Northern Ireland's relative success in attracting foreign investment and of the relative buoyancy of the Northern economy. Northern policy, seeking to compensate for employment losses from the decline of traditional industries and to diversify the Northern Ireland economy, offered aspiring investors grants and loans for premises, plant, and machinery. By late 1957 130 new industrial establishments had been established, most British, six American.

³¹ In the *Irish Press* two articles on the proposed European Free Trade Area by Labhrás Ó Nualláin sounded the alarm (9-10 January 1957).

³² Honohan and Ó Gráda, 'The Irish macroeconomic crisis of 1955-56'.

³³ Lee, *Ireland 1912-1985*, pp. 326-330.

³⁴ *Sunday Independent*, December 26th 2010.

³⁵ Cited in Fanning, 'Economic Development', p. 32.

³⁶ Kennedy, *Modern Industrialization of Ireland*, pp. 14-15.

³⁷ Ó Gráda, *Rocky Road*, pp. 69-71.

³⁸ *Parliamentary Debates Seanad Éireann*, 20 May 1981(vol. 95); 20 Jan 1982 (vol. 97, no. 2).

³⁹ Ó Gráda, *Rocky Road*, pp. 31, 84.

⁴⁰ Crotty, *The Irish Crisis*, pp. 130-135.

⁴¹ McCarthy, 'Ireland second round of cuts', pp. 42-47.

⁴² Trichet, 'Structural reform and growth'; Honohan and Walsh, 'Catching up with the leaders', p. 15; McCarthy, 'Ireland's second round of cuts', p. 47.

⁴³ David Madden, 'The Irish Economy', 20 August 2010 [<http://www.irisheconomy.ie/index.php/2010/08/20/the-enduring-influence-of-irelands-1987-adjustment/>].

⁴⁴ *The Economist*, May 17th 1997; *Vanity Fair*, March 2011.

⁴⁵ *The Economist*, October 14th 2004; Foster, *Luck of the Irish*; Lewis, 'When Irish eyes are crying'.

⁴⁶ Honohan *et al.*, *The Irish Banking Crisis*, p. 16.

⁴⁷ Tim Hatton and Jeff Williamson, 'Global economic slumps and migration', have coined a 'Ten Per Cent Rule', which posits that in economies where migration is relatively free a one per cent increase in the unemployment rate leads to a one per cent increase in the net emigration rate. In Ireland the labour market response has been more elastic than that posited by Hatton and Williamson.

⁴⁸ Ó Gráda, 'The last major Irish bank failure'. A closer and grimmer parallel might be the collapse of the Credit Anstalt in 1931!

⁴⁹ Ó Gráda, 'Éirvana'; Walsh and Walsh, 'Suicide in Ireland'.

⁵⁰ Lynch, *When the Luck of the Irish Ran Out*, p. 216.

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