Burn Everything British but Their Coal: The Anglo-Irish Economic War of the 1930s

KEVIN O’ROURKE

The Anglo-Irish Economic War of 1932 to 1938 was eventually settled on terms highly favorable to the Irish. This article uses a computational general equilibrium model of the interwar Irish economy to argue that the welfare costs of the war were not so great as has been thought, and that the dispute helped de Valera electorally. These considerations help explain the eventual Irish “victory” in the Economic War.

The international debt crisis of the 1980s has refocused economists’ attention on the debt crisis of the 1930s, which saw many debtor nations defaulting on their obligations. The Anglo-Irish Economic War of the 1930s is an interesting but little-known episode of the period. It involved a default on intergovernmental debts, retaliation in the trade sphere escalating into an all-out trade war, and an eventual settlement implying victory for the defaulting nation. This article provides an introduction to the dispute and asks why it was that the Irish eventually won. While political factors were undoubtedly important, some advance can also be made by using a simple model of the interwar Irish economy to demonstrate the effects of the economic war on aggregate welfare and income distribution.

1. THE COURSE OF THE ECONOMIC WAR

In March 1932 Eamonn de Valera’s Fianna Fáil party came to power in the Irish Free State. One of the new government’s first acts was to suspend the payment of land annuities to Britain. These were obligations arising from the compulsory sale of land to Irish tenant farmers under various land acts; together with other annual payments (chiefly pensions) they amounted to £5 million a year. This compares with a GNP of roughly £150 million annually; the financial burden was said (by the Irish government) to exceed in per capita terms that associated with German war reparations. The suspension of payments was a clear

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breach of the financial agreements arrived at by the British and Irish
governments in 1923 and 1926.

The British reacted promptly and severely, imposing emergency
duties on Irish agricultural exports, notably cattle (which faced a 68 to
88 percent ad valorem duty by 1935). The severity of the response can
be explained by political factors: de Valera’s move was seen as a first
step toward the eventual demolition of the many constitutional ties still
linking the Irish Free State with the United Kingdom. British ministers
hoped that trade sanctions, by damaging the interests of Irish farmers,
would make de Valera’s minority government unpopular and lead to his
replacement by the more cooperative Cumann na nGaedheal party. In
her history of the period, Deirdre McMahon showed how long-lived was
this forlorn belief that de Valera’s government would prove a merely
temporary embarrassment. As this article shows, the British miscalcu-
lated seriously: the Economic War actually helped rather than hurt de
Valera.

The Irish responded to the British emergency duties by imposing
restrictions on imports of British coal, cement, sugar, iron and steel, and
machinery. This coincided with a general increase in Irish protection-
ism. From 1931 to 1936 the average Irish tariff level rose from 9 to 45
percent, while the number of articles covered by Irish tariffs rose from
68 to 281. By 1937 some 1,947 articles were subject to some sort of
import control.

The coal-cattle pact of 1934 reduced duties on those two commodi-
ties; yet the Economic War was not brought to an end until 1938, on
terms highly favorable to the Irish. Trade restrictions were eased on
both sides, and the land annuities were canceled in exchange for a £10
million lump-sum payment. (The British Treasury had earlier calculated
that the capitalized value of the disputed payments amounted to no less
than £100 million.) Most importantly, the “Treaty Ports”—British
naval facilities on the Irish coast—were handed back to the Irish,
abling de Valera to remain neutral during the ensuing world war.

Why did the Irish do so well? The threat of war undoubtedly made
Chamberlain anxious to secure friendly relations with Ireland. Another
factor was the British Treasury’s assessment that the Irish would not be
able to raise the money to pay more than £10 million. It is certainly also
the case that de Valera would have found Churchill a more formidable
opponent than Chamberlain: de Valera was in many respects simply
lucky. Nevertheless, the British emergency duties singularly failed to

2 Johnson, The Interwar Economy, p. 16.
3 Deirdre McMahon, Republicans and Imperialists: Anglo-Irish Relations in the 1930s (New
Haven, CT, 1984).
4 Johnson, The Interwar Economy, p. 28.
6 Ibid.
break de Valera’s resolve over the land annuities issue, contrary to initial British expectations. This can only have strengthened the Irish bargaining position. De Valera’s intransigence during the Economic War can be better understood if (1) the aggregate welfare cost of the dispute to Ireland was not so great as has been thought and (2) the dispute helped rather than hurt de Valera electorally. The next two sections use a simple model of the interwar Irish economy to argue that both conditions in fact obtained.

II. THE AGGREGATE COSTS OF THE ECONOMIC WAR

What Is the Counterfactual?

In an earlier paper I constructed a simple general equilibrium model of the interwar Irish economy and calculated the welfare cost of protection to that economy as compared with a hypothetical free-trade situation. The paper found per capita welfare losses ranging from 3.1 to 5.9 percent arising from protection. These figures should provide an upper-limit estimate of the cost of the Economic War, but they are not in themselves estimates of the cost of that war. This is because the appropriate no–Economic War counterfactual is not free trade (as many commentators have implicitly assumed) but a reduced level of protection between Britain and Ireland. To get some sense of what a realistic counterfactual scenario might look like, a comparative perspective is needed.

The British tariff that hurt Ireland the most during the 1930s was that on Irish agricultural exports. It is interesting therefore to consider the treatment received by two countries rather similar to Ireland: New Zealand (in the Commonwealth and thus entitled to Ottawa accords treatment) and Denmark (a foreign country not entitled to Ottawa treatment).

The similarities between the three countries’ trade structures can be seen in Table 1, which describes their trade in 1931, the eve of British protection. All three countries’ exports (but especially Ireland’s) were based on agriculture and on exports to the British market. Butter was the dominant New Zealand export; bacon and pigs were slightly more important in Denmark. Ireland was unusual in that live animals, particularly cattle, predominated among its exports. Denmark and especially Ireland were running trade deficits (Ireland’s being based on the repatriation of earnings on its investments abroad), New Zealand a surplus. More important for the issue at hand, both New Zealand and Denmark were running strong bilateral surpluses with Britain, whereas Ireland was running a bilateral deficit. This gave Britain a strategic

TABLE 1
TRADE IN 1931: IRELAND, DENMARK, AND NEW ZEALAND

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports from U.K.</th>
<th>Exports to U.K.</th>
<th>Exports by Item (to All Countries)</th>
<th>Live Cattle</th>
<th>Eggs</th>
<th>Butter</th>
<th>Live Pigs</th>
<th>Live Sheep and Lambs</th>
<th>Ham and Bacon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>40.8 (50.5)</td>
<td>35.0 (36.3)</td>
<td></td>
<td>12.7</td>
<td>2.2</td>
<td>2.1</td>
<td>2.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>New Zealand</td>
<td>12.1 (24.8)</td>
<td>27.5 (30.7)</td>
<td></td>
<td>9.7</td>
<td>5.9</td>
<td>5.0</td>
<td>1.3</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>219 (1465)</td>
<td>814 (1260)</td>
<td></td>
<td>375</td>
<td>423</td>
<td>76</td>
<td>54</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>


advantage in trade negotiations with the two former countries, an advantage it did not possess vis-à-vis the Free State.

In 1932 Britain imposed duties on foreign dairy produce, eggs, and wheat. Under the Ottawa accords, however, Empire goods were let in duty free; thus British farmers did not benefit greatly, while suppliers such as Argentina and Denmark were badly hit. Britain therefore moved to a system of quotas on foreign goods, and voluntary export restraints agreed with countries such as Australia and New Zealand. Meanwhile, a bilateral treaty was made with Denmark in 1933, forcing that country to import at least 80 percent of its coal requirements from Britain (displacing cheaper Polish imports). In return Denmark received some concessions on its agricultural exports; the harsh terms of the agreement were attributed at the time to Denmark’s weak bargaining position (due to its strong bilateral surplus with Britain).

By 1933 or 1934, therefore, all three countries were facing restrictions on their exports to Britain. It is unfortunately impossible to calculate an accurate index of the relative levels of protection the three countries

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TABLE 2
EXPORT PRICE CHANGES IN IRELAND, DENMARK, AND NEW ZEALAND 1926–1936
(pound sterling)

<table>
<thead>
<tr>
<th>Country</th>
<th>( p_{26} )</th>
<th>( p_{26}^{UK} )</th>
<th>( t_{26} )</th>
<th>( p_{36} )</th>
<th>( p_{36}^{UK} )</th>
<th>( t_{36} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>7.58</td>
<td>3.67</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eggs</td>
<td>0.64</td>
<td>0.34</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cattle</td>
<td>15.99</td>
<td>16.70</td>
<td>0.044</td>
<td>8.53</td>
<td>12.2</td>
<td>0.43</td>
</tr>
<tr>
<td>Sheep</td>
<td>2.56</td>
<td>1.43</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pigs</td>
<td>7.39</td>
<td>3.68</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>8.90</td>
<td>9.23</td>
<td>0.037</td>
<td>4.96</td>
<td>6.18</td>
<td>0.246</td>
</tr>
<tr>
<td>Bacon</td>
<td>6.04</td>
<td>6.46</td>
<td>0.070</td>
<td>4.49</td>
<td>5.09</td>
<td>0.134</td>
</tr>
<tr>
<td>Eggs</td>
<td>0.71</td>
<td>0.88</td>
<td>0.239</td>
<td>0.43</td>
<td>0.55</td>
<td>0.279</td>
</tr>
<tr>
<td>New Zealand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>7.44</td>
<td>8.63</td>
<td>0.160</td>
<td>4.40</td>
<td>5.31</td>
<td>0.207</td>
</tr>
<tr>
<td>Lamb</td>
<td>3.68</td>
<td>4.92</td>
<td>0.337</td>
<td>2.60</td>
<td>3.76</td>
<td>0.446</td>
</tr>
</tbody>
</table>

Note: The symbols \( p_{26} \) and \( p_{36} \) refer to export prices in the three countries in 1926 and 1936, respectively. The symbols \( p_{26}^{UK} \) and \( p_{36}^{UK} \) refer to prices in London in the same two years. The proportional difference between London and export prices in the two years is given in the \( t_{26} \) and \( t_{36} \) columns.


faced, owing to the wide variety of protectionist instruments used by the British. Some sense of the effects of protection can be gained by comparing agricultural price movements in the three countries. If they were small in world agricultural markets, and if the prices they received were set in London, then different price experiences would simply reflect different levels of British protection. Even given these assumptions, however, measuring different price experiences would be a complex matter, as account must be taken of movements in exchange rates as well as of various government policies affecting domestic agricultural prices in the three countries.

Export prices rather than domestic prices are needed here, and some notion of these can be inferred by comparing the value and the volume of exports of various commodities from the three countries. This ignores problems of changing product and quality mix within a given commodity category, but it is preferable to calculating from domestic prices.\(^{10}\)

Table 2 gives some price changes experienced by the three countries between 1926 and 1936. Irish prices (including butter prices) did indeed

\(^{10}\) British prices for Irish cattle are not readily available; I used the data sources given in J. Peter Neary and Cormac Ó Gráda, “Protection, Economic War and Structural Change: The 1930’s in Ireland,” Irish Historical Studies (forthcoming).
TABLE 3
ALTERNATIVE TRADE POLICY SCENARIOS (1936)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Irish Tariff (%)</th>
<th>Irish Export Price (%)</th>
<th>Export Subsidy?</th>
<th>Grain Tariff?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>45.0</td>
<td>58.2</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>MIN</td>
<td>44.5</td>
<td>61.6</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>LOW</td>
<td>35.0</td>
<td>61.6</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>HIGH</td>
<td>8.1</td>
<td>69.6</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>MAX</td>
<td>8.1</td>
<td>70.8</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>SCAN</td>
<td>8.1</td>
<td>61.6</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>38</td>
<td>35.0</td>
<td>69.6</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Note: Alternative Irish export “prices” assume different export prices for Irish cattle, implying different values of “pasture” exports and hence different “pasture export prices.”

Sources: See text. Irish tariff levels (actual and counterfactual) were taken from W. J. L. Ryan, “Measurements of Tariff Levels in Ireland,” Journal of the Statistical and Social Inquiry Society of Ireland, 18 (1948–1949), pp. 109–32; see pp. 122, 123, 130.

decline by more than prices elsewhere; yet Denmark and New Zealand both clearly suffered from British protection. Where the data are available, London prices are also given and the price wedge (in ad valorem tariff equivalent form) calculated. As can be seen, large price wedges opened up between 1926 and 1936 in Ireland and Denmark; protection seems to have had a comparatively minor effect on New Zealand butter prices, but a not insubstantial effect on its lamb prices.

I have used the model described below to calculate a range of counterfactual equilibria. Four trade policy–related parameters are varied in these scenarios: (1) the export price received for Irish agricultural produce, (2) Irish government export subsidies to the animal products sector, (3) the Irish tariff on imported traded (nonagricultural) goods, and (4) the Irish tariff on imported tillage products. Table 3 describes seven scenarios in terms of those four parameters, with the Irish export price for animal products being given as a percentage of its 1926 level.

The first scenario imposes the shocks that actually occurred. The MIN scenario assumes that the Economic War made very little difference. The Irish tariff level is calculated by subtracting from 45 percent the percentage amount that tariffs fell as a result of the abolition of special Irish duties in 1938 (0.5 percent). The export price is calculated by assuming that Irish cattle would have faced a similar level of protection as did Danish butter. The LOW scenario assumes that the Economic War gave an impetus to overall Irish protection: the 35

11 O’Rourke, “Costs,” shows that the model tracks reality well when the shocks that actually occurred are imposed on it.

12 All Irish tariff calculations are from Ryan (see source note to Table 3). In Ireland: A New Economic History (in progress), Cormac Ó Gráda argues that Ryan may have overestimated Irish tariff increases during the period. If that is true, it clearly strengthens the arguments of this paper.
percent tariff level is Ryan's calculation of the Irish tariff level in 1938 after the end of the dispute. The HIGH scenario assumes that the Economic War mattered a lot: the alternative Irish tariff level is set at 8.1 percent, the Swedish tariff level of the time, while the Irish export price assumes the same wedge between British and Irish cattle prices as existed in 1938 (after the Economic War). The Irish are assumed not to protect the tillage sector. The MAX scenario further assumes no export subsidies, and assumes that Irish cattle exports would have been treated as favorably as New Zealand butter exports. SCAN takes the Swedish tariff and the Danish export price, and 38 takes the 1938 tariff and export price.

Calculating Counterfactual Equilibria

The model I used is a simple small open economy trade model based on that given in Neary and Ó Gráda.\textsuperscript{13} There are four sectors: pasture, tillage, manufacturing, and services. The two agricultural sectors employ land, labor, and agricultural capital; the two nonagricultural sectors use labor and sector-specific capital only. Land and agricultural capital can move between tillage and pasture, but adjustment costs mean that this mobility is less than perfect. Similarly, labor is less than perfectly mobile between agriculture and the rest of the economy. Labor is, however, perfectly mobile within agriculture and between manufacturing and the services sector. In some simulations the amount of labor in the economy is fixed; in others, manufacturing labor is perfectly mobile between Ireland and the rest of the world, at a given real wage. If the real return to Irish manufacturing capital exceeds the world level, foreign capital enters Ireland until the two returns are driven into equality; Irish capital does not, however, leave Ireland when the Irish return falls beneath the world return.

One consumer's welfare is being measured. Services are consumed in fixed proportions with the other three goods. The elasticity of substitution between the other three goods is equal to one.\textsuperscript{14} As the model is static in nature, the trade deficit is simply given exogenously. Ireland exports pasture output and imports manufactures and tillage output: the world prices of these three goods are given exogenously. Services are nontraded.

The model is calibrated with 1926 data. Alternative simulations are then run by imposing price and trade policy shocks occurring between 1926 and 1936. Certain parameters associated with adjustment cost functions are not observable: these are set so that the model best

\textsuperscript{13} Neary and Ó Gráda, "Protection," Neary and Ó Gráda used back-of-the-envelope methods to calculate the costs of the war. For a full description of the model used in this paper, see O'Rourke, "Costs."

\textsuperscript{14} In O'Rourke, "Costs," it is shown that the precise form of the utility function matters little for the welfare results of exercises such as these.
Table 4
COUNTERFACTUAL SCENARIOS: OUTPUTS AND AGGREGATE WELFARE

(a) Labor Supply Fixed

<table>
<thead>
<tr>
<th>Scenario</th>
<th>P</th>
<th>T</th>
<th>M</th>
<th>S</th>
<th>U</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>0.93</td>
<td>1.22</td>
<td>1.64</td>
<td>1.06</td>
<td>1.043</td>
</tr>
<tr>
<td>MIN</td>
<td>0.95</td>
<td>1.16</td>
<td>1.37</td>
<td>1.07</td>
<td>1.067</td>
</tr>
<tr>
<td>LOW</td>
<td>0.94</td>
<td>1.28</td>
<td>1.04</td>
<td>1.06</td>
<td>1.073</td>
</tr>
<tr>
<td>HIGH</td>
<td>1.02</td>
<td>0.92</td>
<td>0.76</td>
<td>1.05</td>
<td>1.07</td>
</tr>
<tr>
<td>MAX</td>
<td>0.99</td>
<td>1.05</td>
<td>0.77</td>
<td>1.06</td>
<td>1.092</td>
</tr>
<tr>
<td>SCAN</td>
<td>0.93</td>
<td>1.52</td>
<td>0.71</td>
<td>1.04</td>
<td>1.067</td>
</tr>
<tr>
<td>38</td>
<td>0.97</td>
<td>1.15</td>
<td>0.92</td>
<td>1.05</td>
<td>1.069</td>
</tr>
</tbody>
</table>

(b) Real Manufacturing Wage Fixed: Labor Internationally Mobile

<table>
<thead>
<tr>
<th>Scenario</th>
<th>P</th>
<th>T</th>
<th>M</th>
<th>S</th>
<th>U</th>
<th>L</th>
<th>U/L</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>0.93</td>
<td>1.22</td>
<td>1.64</td>
<td>1.06</td>
<td>1.043</td>
<td>1.01</td>
<td>1.033</td>
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<tr>
<td>MIN</td>
<td>0.95</td>
<td>1.15</td>
<td>0.74</td>
<td>0.96</td>
<td>0.9808</td>
<td>0.923</td>
<td>1.063</td>
</tr>
<tr>
<td>LOW</td>
<td>0.94</td>
<td>1.21</td>
<td>0.67</td>
<td>0.95</td>
<td>0.9757</td>
<td>0.919</td>
<td>1.062</td>
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<tr>
<td>HIGH</td>
<td>1.04</td>
<td>0.65</td>
<td>0.45</td>
<td>0.91</td>
<td>0.952</td>
<td>0.872</td>
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</tr>
<tr>
<td>MAX</td>
<td>1.00</td>
<td>0.88</td>
<td>0.54</td>
<td>0.94</td>
<td>0.9798</td>
<td>0.900</td>
<td>1.089</td>
</tr>
<tr>
<td>SCAN</td>
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<td>1.36</td>
<td>0.48</td>
<td>0.91</td>
<td>0.9503</td>
<td>0.904</td>
<td>1.052</td>
</tr>
<tr>
<td>38</td>
<td>0.98</td>
<td>1.00</td>
<td>0.59</td>
<td>0.95</td>
<td>0.984</td>
<td>0.909</td>
<td>1.082</td>
</tr>
</tbody>
</table>

Note: All variables are expressed as multiples of their 1926 benchmark values. For example, under the Actual scenario, the model shows pasture output declining to 93 percent of its 1926 level in 1936 (whether or not labor is internationally mobile).

Source: See text.

replicates reality when the shocks that actually occurred over the period are imposed on it. Table 4 gives the result of simulating the seven scenarios described earlier. P, T, M, and S are output levels in the four sectors, and U is aggregate utility. L, given in the internationally mobile labor scenarios, is total employment; U/L is per capita welfare. All variables are expressed as multiples of their 1926 levels.

The results are much as expected: a smaller manufacturing sector is associated with lower Irish tariffs, a larger pasture sector with higher export prices. Welfare is in all cases higher than in the Economic War (Actual) scenario. Welfare gains range from 2.3 to 4.5 percent in the immobile labor case and from 1.8 to 5.6 percent in the mobile labor case (divide the counterfactual by actual utility). The median welfare loss is 2.8 percent. The results are in line with those calculated by Neary and Ó Gráda. They are much smaller than earlier authors had suggested: Johnston claimed that welfare losses were on the order of 25 percent, Ryan that the “excess cost of protection” amounted to £9 million (or around 6 percent of the GNP).

15 Neary and Ó Gráda, in “Protection,” derived welfare costs on the order of 1.3 to 1.9 percent of the GNP.
16 O’Rourke, “Costs,” p. 3.
TABLE 5
DUBLIN AND NATIONAL VOTES, 1927–1943

(percentage of total vote in Dublin; national figure in parentheses)

<table>
<thead>
<tr>
<th>Election</th>
<th>Fianna Fáil</th>
<th>Fine Gael</th>
<th>Labour</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1927 (June)</td>
<td>23.2 (26.1)</td>
<td>31.4 (27.4)</td>
<td>10.2 (12.6)</td>
<td>35.3 (33.9)</td>
</tr>
<tr>
<td>1927 (Sept.)</td>
<td>28.6 (34.9)</td>
<td>47.8 (38.4)</td>
<td>5.2 (9.9)</td>
<td>18.4 (16.6)</td>
</tr>
<tr>
<td>1932</td>
<td>34.1 (43.7)</td>
<td>38.9 (35.3)</td>
<td>6.3 (7.7)</td>
<td>20.8 (12.5)</td>
</tr>
<tr>
<td>1933</td>
<td>43.4 (49.7)</td>
<td>40.4 (30.5)</td>
<td>3.6 (5.7)</td>
<td>12.6 (14.1)</td>
</tr>
<tr>
<td>1937</td>
<td>42.6 (45.2)</td>
<td>30.9 (34.8)</td>
<td>7.6 (11.2)</td>
<td>19.0 (8.8)</td>
</tr>
<tr>
<td>1938</td>
<td>47.3 (51.9)</td>
<td>34.3 (33.3)</td>
<td>8.7 (10.4)</td>
<td>10.0 (4.3)</td>
</tr>
<tr>
<td>1943</td>
<td>45.0 (41.9)</td>
<td>26.0 (23.1)</td>
<td>16.2 (16.0)</td>
<td>12.7 (19.0)</td>
</tr>
</tbody>
</table>


III. THE ECONOMIC WAR AND DOMESTIC POLITICS

If politicians are primarily interested in getting re-elected, the electoral effects of a trade war will be more important than aggregate welfare effects in determining their willingness to pursue such a war. Income distribution effects will then be crucial in determining the outcome of the game played by the nations engaged in the trade dispute. The Economic War provides a good example of these theoretical considerations.

The split between Fianna Fáil and Fine Gael/Cumann na nGaedheal originated in the Civil War, but national voting patterns can hardly be said to date from that period. Fianna Fáil is now the “natural party of government,” yet the pro-Treaty party won the election of 1922. As Table 5 shows, Fianna Fáil’s rise to electoral dominance came in the 1930s and was largely the result of a huge increase in its share of the Dublin vote, which first exceeded 40 percent in the 1933 general election (that is, after the start of the Economic War). The “greening of Dublin” during this period makes sense, as a major effect of the Economic War was to redistribute income from rural to urban areas. Within the countryside, small farmers lost less than large farmers; they also benefited when unemployment assistance was extended to them in 1933. Thus small farmer support for Fianna Fáil was retained, and the shift of income to the towns resulted in a net electoral gain for de Valera.\footnote{To this day, small farmers support Fianna Fáil and large ones Fine Gael. The farmers’ dole is a rare example of a “first best” solution being applied to the problem of maintaining agricultural employment. Current European Community Commission proposals to reform the CAP envision buying small farmer support in a similar manner.}

The model can be used to calculate the effects of the Economic War on income distribution. Table 6 gives the results of the model for two counterfactual scenarios (the same pattern emerges in the others). Nonagricultural labor gains as a result of the Economic War, either in terms of real wages (Table 6) or employment (Table 4), and in general the nonagricultural sector tends to gain. Returns to land and agricultural capital fall sharply, while real agricultural wages are relatively unaf-
### Table 6
**Impact of the Economic War on Real Factor Returns**

(percentage of changes in real returns)

<table>
<thead>
<tr>
<th>Demand</th>
<th>( w_A )</th>
<th>( w_{NA} )</th>
<th>( d_p )</th>
<th>( d_T )</th>
<th>( r_p )</th>
<th>( r_T )</th>
<th>( r_M )</th>
<th>( r_s )</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIN</td>
<td>+1.4</td>
<td>+3.1</td>
<td>-42.8</td>
<td>-6.8</td>
<td>-79.1</td>
<td>-9.9</td>
<td>-0.8</td>
<td>+1.4</td>
</tr>
<tr>
<td>MAX</td>
<td>-3.8</td>
<td>+19.1</td>
<td>-79.2</td>
<td>-36.1</td>
<td>-95.2</td>
<td>-48.3</td>
<td>-7.8</td>
<td>+14.8</td>
</tr>
</tbody>
</table>

(b) Elastic Labor Supply—Constant Nonagricultural Real Wage

<table>
<thead>
<tr>
<th>Demand</th>
<th>( w_A )</th>
<th>( w_{NA} )</th>
<th>( d_p )</th>
<th>( d_T )</th>
<th>( r_p )</th>
<th>( r_T )</th>
<th>( r_M )</th>
<th>( r_s )</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIN</td>
<td>+1.1</td>
<td>constant</td>
<td>-41.2</td>
<td>-5.7</td>
<td>-79.2</td>
<td>-8.4</td>
<td>+2.2</td>
<td>+13.7</td>
</tr>
<tr>
<td>MAX</td>
<td>+2.6</td>
<td>constant</td>
<td>-74.5</td>
<td>-14.8</td>
<td>-94.5</td>
<td>-34.4</td>
<td>+61.5</td>
<td>+16.5</td>
</tr>
</tbody>
</table>

**Note:** The results of this table show how real factor returns in the counterfactual scenarios compare with real factor returns in the Actual scenario. For example, in the fixed labor supply case, real agricultural wages are 1.4 percent higher in the MIN scenario than in the Actual scenario. **Source:** See text.

...ected. Thus small farmers (who by definition are endowed with a lower ratio of land and capital to labor than are large farmers) lose less than large farmers.

### IV. Conclusion

The Economic War appears to have been a good thing from the Irish point of view. Say that 3 percent of the GNP was lost in the seven years between 1932 and 1938; this amounts to roughly £4.5 million per annum, or £31.5 million in all. Against this a capitalized £100-million liability was settled with a £10-million lump-sum payment, and Ireland gained the Treaty Ports. The model's results suggest that (1) the aggregate welfare cost of the Economic War was less than has been claimed by some, and (2) the dispute shifted income to workers and the towns, thus helping de Valera electorally. Both factors help explain de Valera's tough bargaining stance, which in turn largely explains the eventual Irish victory in the dispute.

The fact that de Valera won the Economic War does not mean that his trade policy was blameless, of course. In particular, Ireland lagged behind in the general move to free trade after World War II. This paper suggests, however, that the search for policy failures in the de Valera era should focus on that issue, rather than on the Economic War per se.