"THE OLD CONNECTION SUNDERED? IRELAND AND THE UK SINCE 1916".

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1. *Economic dimensions of nationalism: Visions and reality*

Determined to be free from the oppressive control of an alien power, each nationalist thinker on the eve of the Easter Rising sought a new approach to economic structures and policies. But their visions differed. How has the performance of the Irish economy since the Easter Rising measured up to the varied hopes of the nationalists of a century ago?

Without doing too much violence to their published views, I think we can associate James Connolly, Arthur Griffith and Thomas Kettle with three quite contrasting visions: respectively socialist, autarkic and liberal-continental.

- James Connolly[1] aimed for a worker's socialist republic, building on a syndicalist model, with clear goals for improving the wellbeing of the working class. This could not be achieved without national independence: "Unless you set about the organization of the Socialist Republic … England would still rule you. She would rule you through her capitalists, through her landlords, through her financiers, through the whole array of commercial and individualist institutions she has planted in this country." Connolly (1897).
- Arthur Griffith[2] took a less explicitly class-focused view. He deplored the dependence that came from what was an almost exclusive reliance on agriculture (and specifically the cattle-trade) for exports. Far better to have a strong manufacturing arm producing "large quantities of raw materials and provisions and supply[ing] merely the deficiency from importation". For Griffith an Irish parliament must "institut[e] a system of protection for Irish industries." Such a tariff regime would allow Ireland to "gain possession of the home market," especially since every Irish person would know their duty "to use where possible none but Irish goods" (Griffith, 1918).
- Thomas Kettle's idea of an economic divergence from Britain contrasted with that of Griffith by embracing a wider internationalization: Ireland should proactively engage with the European economy. As Ambassador Mulhall has reminded us in his recent

[1] James Connolly (1868-1916) intertwined socialism and Irish nationalism in a remarkable manner, in both his writings and his political activities. His economic goals: nationalisation of railways, canals and banks, provision of agricultural machinery for farmers, establishment of a 48 hour week and a minimum wage, free maintenance for children, widows and orphans' pensions, popular control of schools, and free education up to university level, were defined in the programme of the Irish Socialist Republican Party which he helped organize in 1896. As Mac Aonghusa and O Réagáin (1967) (whose list this is) remark, for him national freedom was only a beginning, the pre-condition for achievement and fulfilment. It was "well and fitting that we of the working class should fight for the freedom of the nation from foreign rule as the first requisite of the national powers needed for our class" (Connolly, 1916).

[2] Arthur Griffith (1871-1922) can be taken as representing one type of economic vision of a separate Irish economy, drawing on the theories of Frederick List. But to describe him as envisaging an autarkic society of small-holder farmers, small businessmen and professionals functioning in a largely static and self-reliant economy, would be to caricature Griffith. After all, he did emphasize the need to build diplomatic and business relations in other European capitals "to secure a profitable market for Irish goods and produce abroad." (Griffith, 1918, p.93).

> lecture touching on Kettle the poet, it was Kettle's view that for Ireland to become deeply Irish, she must become more European. His recent biographer remarks that Kettle, who was the youngest of the three, "rejected the extravagant and unscientific claims about Ireland's economic potential made by Griffith", instead adopting a liberal "continental perspective" critical of "tariffism" and advocating free trade in "ideas and commodities" as the "desired regime of those who have obtained maturity" (cf. Pašeta, 2009, pp. 65, 67).[3]

Clearly Ireland did take its place among the nations of the world, but how did it do, in relative terms, and which of these three models best characterize its economic structure as it evolved, generating its past, present and prospective economic performance?

The Irish economy underperformed rather badly in the first half-century, but showed a strong recovery in the second half. It was the eventual adaptation of Ireland to close engagement with all of our economic neighbours in the global economy that is the defining characteristic of its later performance. While Griffith's vision was reflected in the early decades – which in economic terms must be regarded as lost decades – of independence, economic performance only improved decisively when that approach was abandoned.[4] Though he never entered the nationalist pantheon,[5] it is Kettle's vision that ultimately characterized Ireland's economic destiny.

Despite resonating in the Easter Rising Proclamation, Connolly's vision was not pursued, though the eventual adoption of welfarist measures – largely reflecting, albeit imperfectly, the evolution of policy in Britain – did deliver many of the living standard improvements that he had hoped for. Indeed, the data suggests that broad trends in inequality and poverty in Ireland did not ultimately differ all that much from those in Britain.

2. *Long-term aggregate economic performance: A game of two halves*

Figure 1 shows that the overall size of the Irish economy eventually caught up and then passed out its starting position relative to the UK. The wider comparison in Figure 2[6] shows a strong Irish move up the global ladder in living standards in the past half century.

[3] Kettle (1880-1916) was the first professor of the National Economics of Ireland at the newly founded University College Dublin (though his first successor in that role said he would be better described as a "professor of things in general"). Prominent in the Young Ireland Branch of the Irish Parliamentary Party and an MP from 1906-10 he has been seen as pursuing a Redmondite line on the outbreak of war.

[4] In his 2006 essay, Brendan Walsh wondered whether, had he survived, Kettle would "have promoted his moderate views effectively against the rampant protectionism of the 1930s."

[5] Shortly before he was killed on the Somme in September 1916, he lamented perceptively that, while the leaders of the Easter Rising would go down in history as heroes and martyrs "I will go down – if I go down at all – as a bloody British officer".

[6] Figure 2 uses all available data from countries with a 2011 population larger than 3 million and either a GDP per capita of more than $10,000 (2005 international dollars) or a total GDP of more than $500 bn. There are 42 such countries and the figure shows the 10th and 90th percentiles and the median of a measure of living standards. Ireland's relative position on this measure does not improve until the last 30 years. The living standard measure is GDP for 1913 and 1955; and a measure based on aggregate domestic expenditure at international prices (RGDPe) from the Penn World Tables; this measure (also shown in Figure 1) is less subject than others to the well-known statistical distortions created by the activities of multi-national corporations.

But they also show that the acceleration was a long time coming. The first decades after the Rising saw stagnation as various forms of Griffithian policy were pursued up to the 1950s.[7] This is most dramatically illustrated in the way in which the ratio of population in Ireland to that in Britain first continued to fall, and then recovered sharply back to where it was a century ago (Figure 3).

It was only in mid-Century that Ireland began its move into hyper-globalization in economic policy.[8] By now, it tends to be first or second in the many different world rankings of internationalization or globalization.

It was fundamentally the shift from Griffith to Kettle-style policy that determined the shift in Ireland's trend rate of growth and employment; though only Dr. Pangloss would see this choice as trouble-free.

Ireland's membership of the European Union was an important staging post in this expansion (a very recent not-altogether-incredible estimate[9] says Ireland's GDP would today be half what it is had Ireland not joined). Ironically, though, that step too was taken in the shadow of Britain. Indeed, Britain is very far from having become irrelevant to Ireland's economic evolution in the past 43 years of EU membership.

3. *Escaping the economic influence of Britain?*

A century ago, Ireland's international trading and financial relationships were predominantly with Britain. As Ireland widened its economic relations with the rest of the world the relative importance of Britain in those relations did decline, albeit slowly. But this widening of horizons did not represent a turning of the back on our closest economic neighbour.

(a) Trade and investment:

This point is perhaps not sufficiently evident from the various measures of merchandise trade especially since the raw data can mislead. Indeed, whereas on the eve of the Second World War almost 94 per cent of Irish exports went to the UK (and still almost three three-quarters fifty years ago) the UK's share of Irish exports has since fallen steadily to less than 15 per cent today (Figure 4). But if fully weighted by the employment content of these exports, I suspect the figure would be closer to a quarter. Half of Ireland's agricultural exports still go to the UK and it is the biggest customer for the rapidly growing export of services.

[7] I am conscious of eliding much of the historical granularity of Ireland's economic policies. Ironically, although Griffith was pro-Treaty, it was the first anti-Treaty Fianna Fáil governments whose policies most clearly followed his prescriptions.
[8] To be sure, Ireland had long been internationally connected – "Island of Saints and Scholars"; oceanic emigration of the 19th Century – but now the international came to Ireland.
[9] Campos, Coricelli and Moretti (2016)

The UK's share of imports has held up better, especially when it comes to consumer goods: the value of imports coming from the UK in recent years has been about the same as from the rest of the European Union put together.[10]

Another striking fact is that, for those Irish companies that have expanded abroad, almost one in three of those that they employ abroad are in the UK.

While the US is more important in certain fields – notably as a source of inward direct investment – by any overall reckoning, though, the UK is still the largest economic partner of Ireland.[11]

(b) Financial sector:

Equally noteworthy is the persistence of financial links, despite abandonment of the one-for-one sterling peg about two thirds of the way through the century. Although not as strong and mechanical as in the 1950s, when a costly Irish recession was triggered as a result of Irish policymakers mistakenly assuming they had the freedom to set interest rates autonomously from conditions in London, the links remain strong.

This was very evident in the decade before the crisis when the rapid growth in financialization of the UK economy (itself influenced by US developments) spilled over dramatically into Ireland, especially as the two most aggressive UK main street mortgage lenders expanded energetically in Ireland, stimulating a competitive response on a scale whose damaging effects we have been living with for the past 8 years.

The connection was not all adverse. And, as sentiment toward Irish banks reversed during 2007 and 2008, it was the British lenders who remained loyal to the Irish banks for longest. (Figure 5). And even today, UK-based investors are by far the largest source of foreign demand for Irish Government Securities, taking almost a third of the new issues in the last months.

Now with retrenchment in banking on both sides of the Irish Sea the linkages have been quantitatively weakened, but the cultural connection still remains and, I suspect, still influences the behaviour of financial firms. The post-crisis widening of mortgage interest rate margins was seen first in the UK before it established itself in Ireland.

(c) Labour market institutions:

Even if the character and geographic pattern of migration flows have changed over the years, and despite our membership of the euro area, the role of British labour market conditions, reflecting the long-integrated labour market between the two countries, has remained

[10] There are numerous challenges of interpretation in the statistics on the direction of trade (the data shown are from the IMF's Direction of Trade database. Much of the non-UK exports relate to products that have themselves a very large import component: exports to the UK tend to have a much larger Irish value-added or employment content. As one concrete illustration, over half of Irish agricultural exports got the UK.

[11] Perhaps the most convincing single fact about these still-close trading ties is that London-to-Dublin is the busiest international air route in the World.

remarkably strong. As we all know, Britain has been a vital recourse for many young people in the recent crisis: some 100,000 Irish people migrated to the UK in 2011-15.[12]

Indeed, the timing and extent of the recovery in Irish unemployment after the crisis has been influenced as much by the evolution of British unemployment as it has by the pick-up in job growth in Ireland (and surprisingly little by developments in the rest of the currency union). (Figure 6-7)

4. *Faster but volatile growth: Globalization's "monoculture" trap*

Globalization has had profound effects on the location of economic activity and has generated winners and losers at the level of individuals as well as firms and countries. It has been an important factor in transmitting increased aggregate productivity around the world, but globalization has also been associated with an increase in economic volatility.

Even if Ireland has succeeded – especially, but not only, in the period 1994-2000 – to grow fast in the global economy to which it had opened up so decisively, we hardly need to be reminded that Ireland's economic development since 1916 has been marked by recurrent crises (Whitaker 1983; Honohan and Walsh 2002; Ó Gráda 2011). These are also evident in the dips shown in Figure 1.

Indeed, Ireland has had more than its fair share of sizable business sector and governmental policy errors that were amplified by their international dimensions. In addition to the recent banking collapse there has been a catalogue of corporate failures (Cahill, 1997), some of them on a scale which reflected leverage from the rest of the world (Irish Shipping, GPA).

Global forces can bring great amplification to bear on business and policy errors. The privately controlled economy is not inherently stable and this calls for greater policy attention to vulnerabilities.

Specifically, to coin a metaphor, small economies can be lured into a form of "monoculture" by the power of globalization both in supply of resources and demand for what you are good at producing.

Ireland was prone to a form of monoculture a century ago also, based in those days (as Griffith bemoaned) on agriculture and specifically the cattle trade.[13]

But the anti-Griffithian export-oriented industrial structure that then emerged over the past fifty years could also be considered to be a type of monoculture, as Ireland has relied disproportionately on a small set of subsectors: IT, pharma, software, whose characteristics

[12] That is the gross number of emigrants; net emigration was about half that number. Other destinations, especially Australia and the US, have also remained important.

[13] The importance of that sector in the early decades of independence is easy to forget now, with only 5 per cent of the workforce in that sector today, compared with 53 per cent in 1926. In 1926 652,000 of the 1.22 million people at work as recorded in the 26-county census of that year were in the agriculture, forestry and fishing sector, whereas the corresponding numbers at end 2015 were just 106,000 in the sector out of 1.98 million total at work. Ironically, though (despite his ambitions for the development of manufacturing) pursuit of Griffith's autarkic policy approach during the first quarter-century of independence, resulted in the persistence – for a while – of that quasi-monoculture of cattle.

are arguably not especially related to inherent Irish resources, but are characterized by an ability to benefit from the structure of Irish taxation—so another vulnerability to be watched and managed.

The property and construction bubble of the 2000s can be thought of as another form of monoculture, in that case heavily dependent on being pumped-up by unlimited access to global credit.

But continuing to limit exposure to the global economy on a semi-autarkic basis would have entailed a substantial penalty in terms of overall living standards. While less exposed to global shocks, that poorer economy would still be a vulnerable economy: vulnerable to internal shocks, crop failures, domestic policy failures, and with thinner buffers to absorb such shocks.

5. *And what of Connolly's vision? Assessing the record on inequality and poverty*

What would Connolly think of all of this? To be sure, Connolly was also an internationalist. But he also aspired to a society where workers' living standards were protected. Even if globalization has not had the lasting adverse structural impact on middle and lower income households in Ireland that it seems to have had in the United States, the volatility that it can bring calls for societal buffers. Ireland's partial adoption of a British-style welfare state from the 1950s has laid some foundations in this respect.

Clearly Ireland is not a workers' republic. Indeed, the rise of the British Labour in the decades after 1916 was not mirrored in the very different evolution of political parties in Ireland. How does Ireland's protection of lower income groups from economic volatility compare with that of the UK? The recent crisis provides some evidence.

Built-in stabilizers[14] reduced the inequality impact of the recent crisis. It is striking that market income (i.e. income received before the effect of taxes and social payments are taken into account) has been more unequally distributed in Ireland. As a result, the combatting of income inequality is a bigger challenge for Irish society, and the fact that (relative) inequality in the net disposable distribution is brought down to the same level as in the UK may say something about a degree of shared norms about inequality (Figure 8).

But *absolute* poverty and deprivation indices went up in the crisis: at the same level of (relative) income inequality a smaller overall average income and higher levels of indebtedness implies an increase in (absolute) poverty and hardship for many. More progressivity would have been needed to prevent an increase in the incidence of poverty.

And what of the super-rich, a group for which Connolly had little sympathy? Available data provide little reason to believe that Ireland has evolved in such a way as to limit the share of total income that goes to the top half per cent.

[14] And, at least in the years 2008-11, the distributional impact of tax and spending choices made by Government.

Figure 9 suggests that, while that share is lower in Ireland, it does seem to have tracked the growth in the UK share in recent decades (much more so than the does the French data, which is shown for comparison).[15] Independence from Britain does not seem to have broken whatever political and economic links or parallel processes have resulted in a sizable increase in the share of the super-rich.

Conclusion

For better or worse, it has been Ireland's navigation of the global economy that has driven its performance. Over the past half century growth rates have been on average high, but volatile, reflecting the opportunities and challenges of globalization; of embracing the continental rather than the insular. Ireland has not dodged all the hazards, and in particular needs to avoid the trap of over-reliance on a monoculture of specialization, whether on a foreign-funded property bubble or in a narrow range of export sectors.

In opening to the global economy, Ireland did not turn its back on Britain. Strong economic influences remained. For example, the partial insulation of living standards in Ireland from market inequalities seems to reflect (albeit imperfectly) the degree and the ways in which Britain has addressed these issues over the past century. The old connection was not altogether sundered.

[15] Data for the top 0.1% is available for earlier decades and suggests that the decline in the share of the super-rich in Britain the half-century to the 1970s was mirrored in Ireland.

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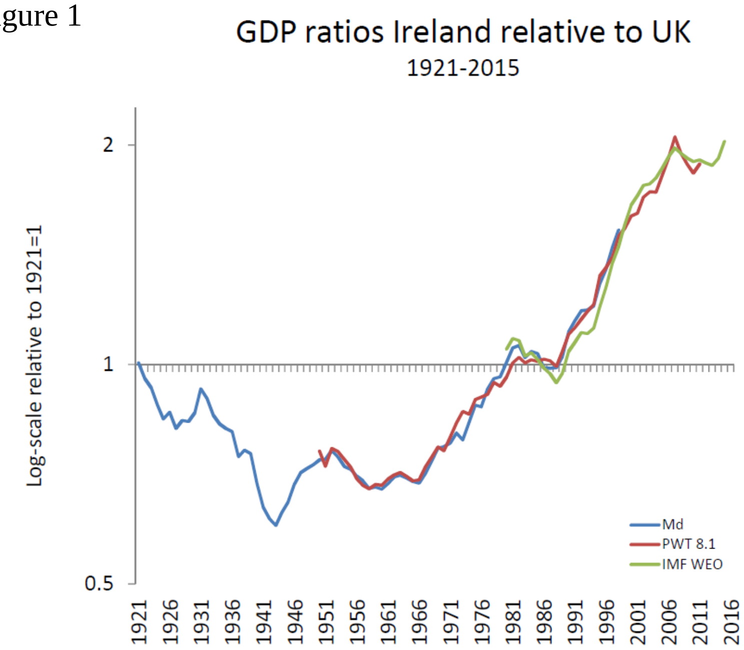
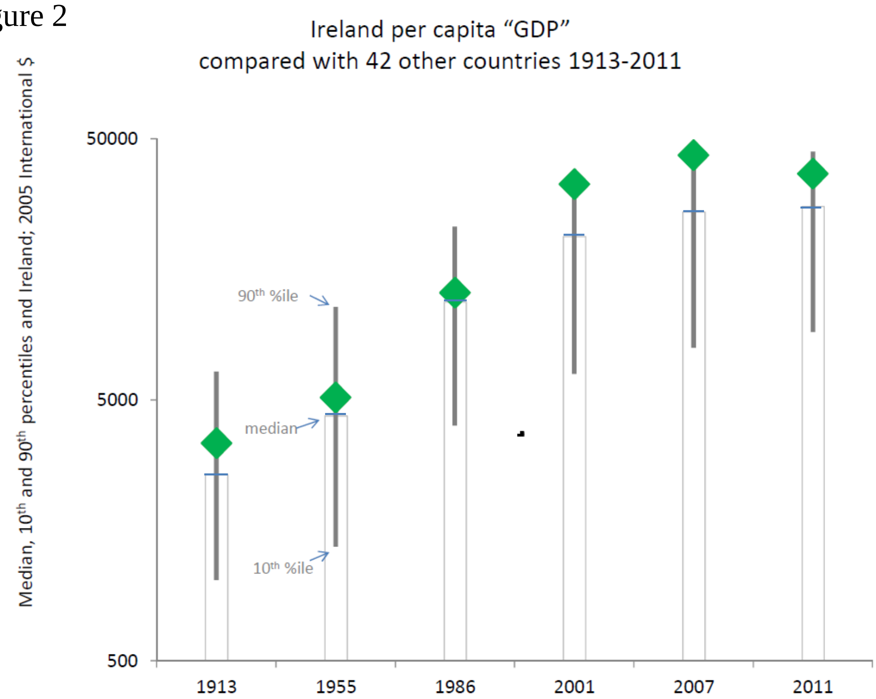
Figure 1



Source: Maddison (2003); Penn World Tables 8.1 (2015); IMF World Economic Outlook database (2016)
PWT data series is RGDPe.

Figure 2



Source: Penn World Tables 8.1, except Maddison for 1913 & 1955.
Concept is PWT *RGDPe* per head of population; GDP for 1913 & 1955.

Sample: all countries with 2011 population > 3mn
or GDP/head > $10k 2005 PPP or GDP > $0.5trn

Figure 3

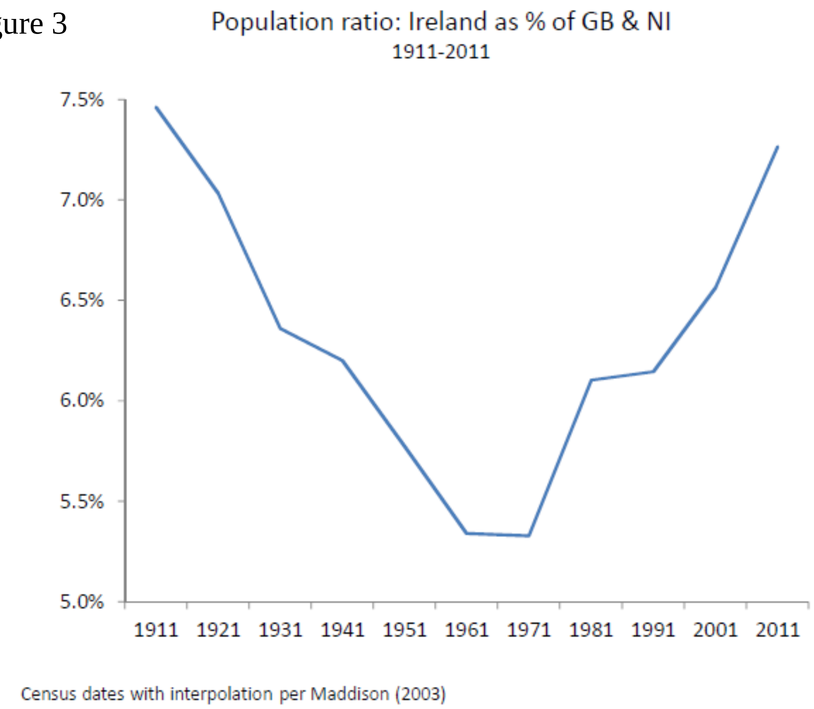


Figure 4

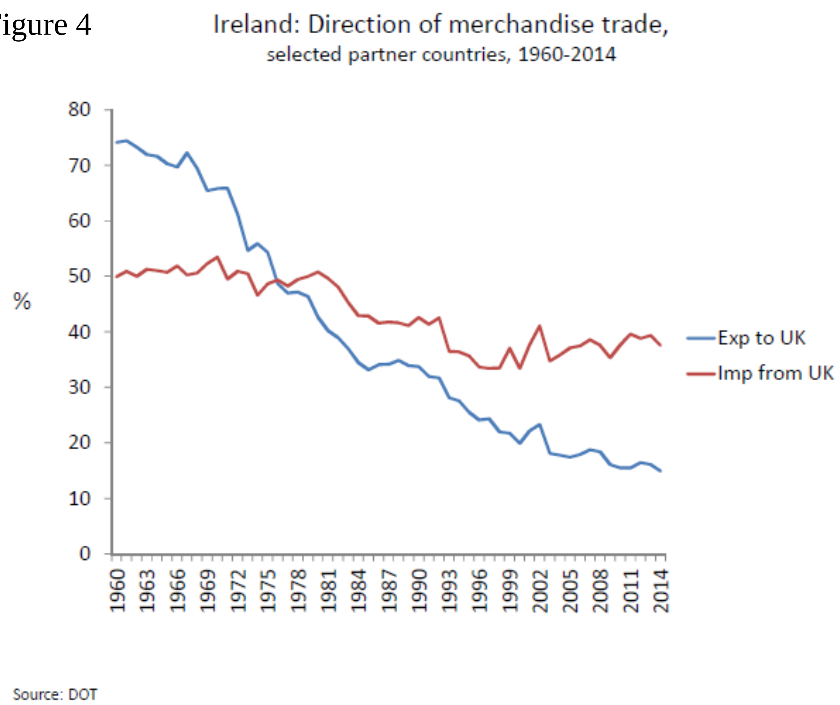


Figure 5

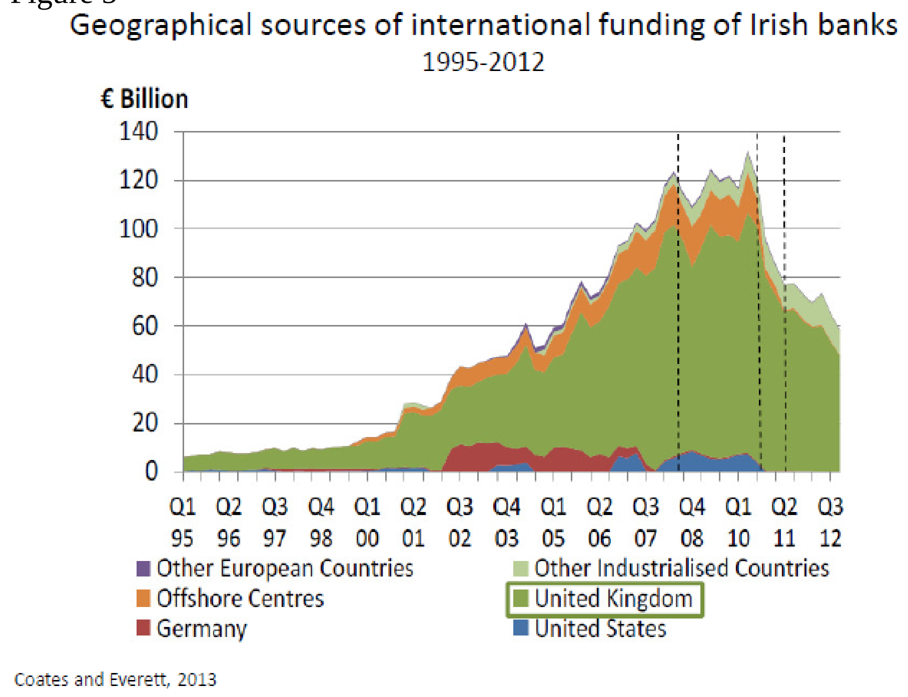


Figure 6

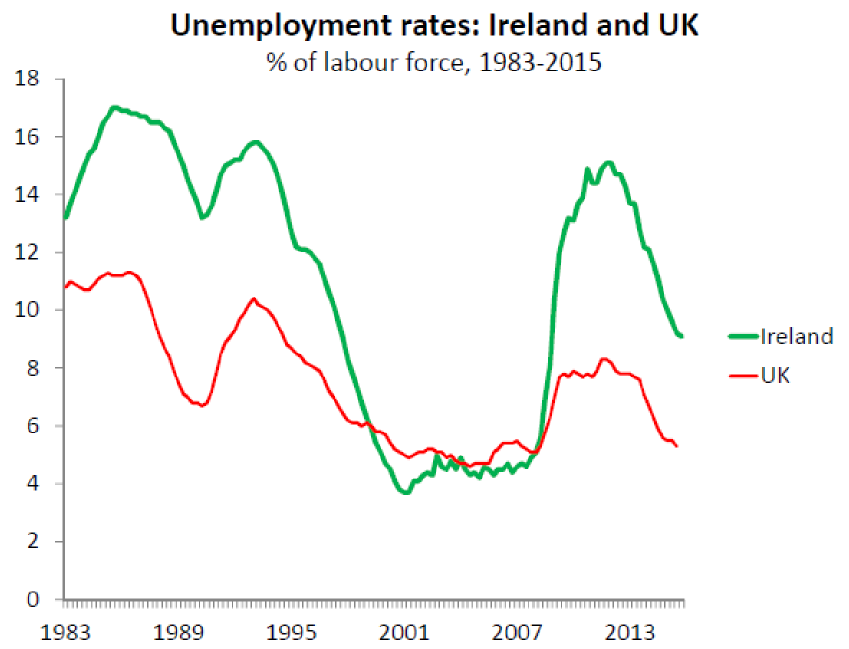


Figure 7

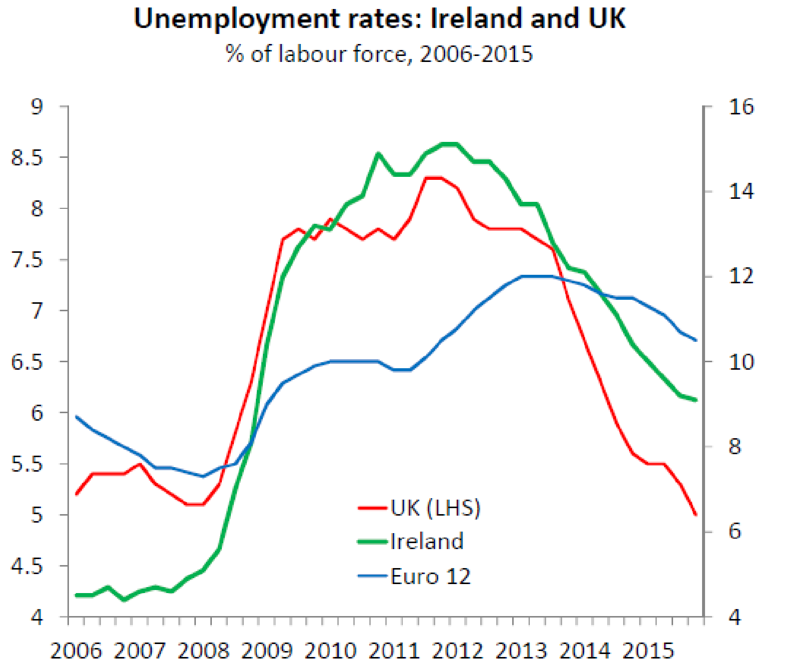
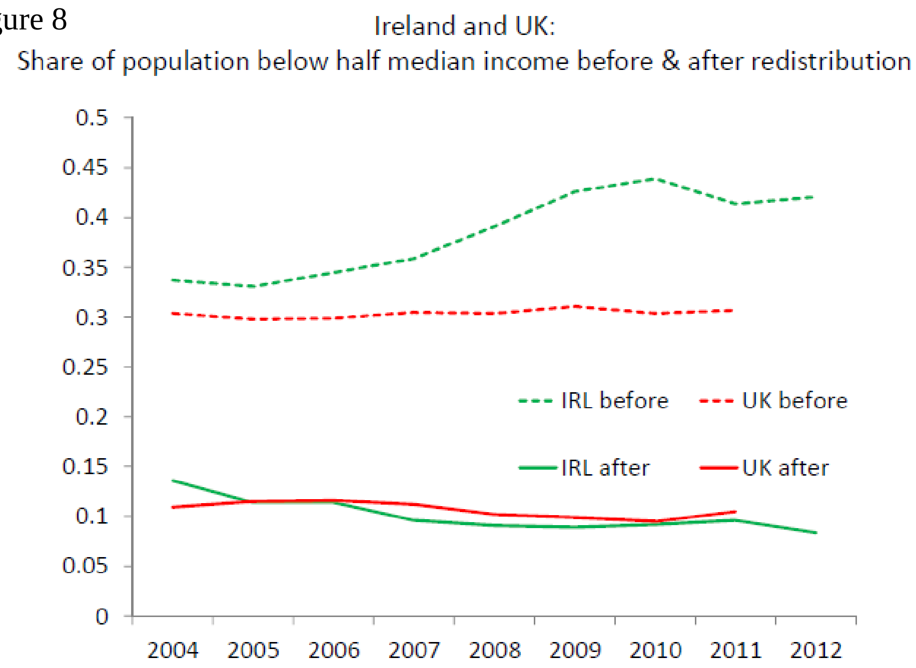
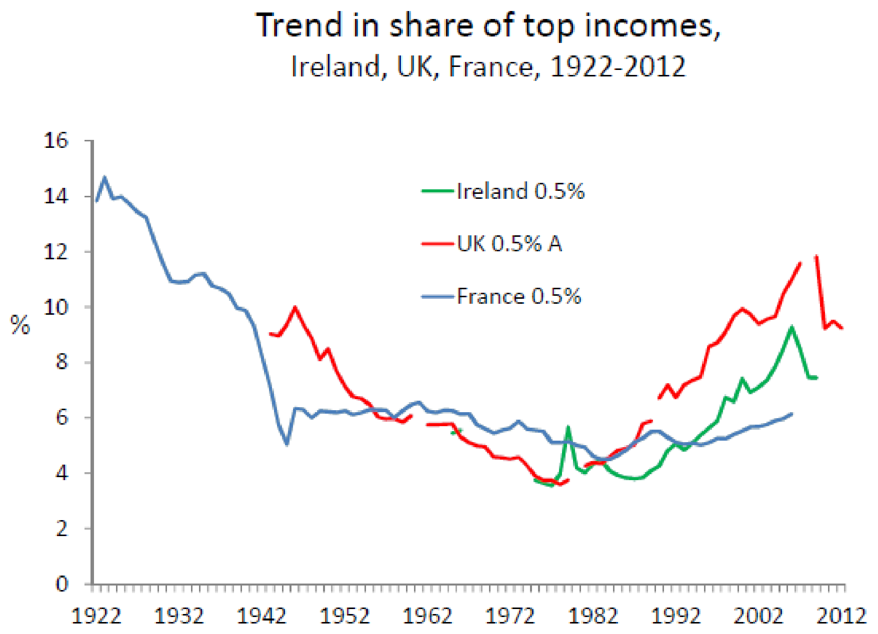


Figure 8



Source: OECD

Figure 9



Source: World Wealth and Income Database