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LESSONS FROM OUR ELDERS

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"Like a caged bird that learns that pecking on a lever gets it food", Niamh Brady picks through independent Ireland's economic history, with informative consequences.

Those of us born in the eighties find ourselves for the most part immersed in the generation of the 'why'. We take little for granted, especially the word of our elders. Economic history is a subject which many of this generation believe has little to do with our preferred area of knowledge; thus, we naturally turn to investigate the validity of such a study. In order to do this, I have decided to examine the economic policies and success of my parents' and grandparents' time – in other words, Irish economic history from the formation of the Irish Free State in 1921. The objectives of research in economic history, both recent and dated, are obvious. Why repeat the now infamous mistakes of our predecessors, when history has already tested many theories and therefore provides us with a clear manual of instructions from which to develop our present policies? History may also discredit once popular policies, by providing a vast perspective and discouraging popular myths emerging from the different interpretations on economic history. Finally, economic history satisfies the curiosity of all those who wonder where our economic and indeed social, historical and cultural roots lie– a fascination that spans across many generations.

With each successive government, since the inception of the Free State in 1921, have come new economic theories and policies on how best to achieve primary objectives such as economic growth and low unemployment. The problem remains that a theory of economic growth does not guarantee fulfilment of the ultimate aims. History is our reference map by which to test theories. Ireland, as a relatively young independent nation-state, has tested many opposing theories with varying success. In 1932, for example, the Fianna Fáil Government headed by Eamon de Valera reversed the Cumann na nGaedhael government's policies of free trade, minimal state intervention and parity with sterling. In its place, a programme of protectionism was instigated, with the aim of establishing Ireland as a self-sufficient entity. Behind these actions was the idea that high tariffs, which averaged at 9% between 1931 and 1932 and went on to peak at 45% in 1936, would prevent the post-Wall Street Crash United States from 'dumping' stock on the Irish economy. It was thus hoped that indigenous industry could be promoted through protection from international competition. It must also be acknowledged that there were ideological considerations behind the protectionist stance, as the nationalist community sought to prove that Ireland could be a prosperous economic power without being dependent on Britain. Although the formation of the Irish Credit Corporation resulted in a 40% increase in industrial output between 1931 and 1936, unemployment soared. The policies implemented in the 1930s not only failed to provide the concrete foundations for trade and sustained industrial growth in that decade, but have often been labelled as the cause of industrial stagnation through to the 1950s.

On a more positive note, in 1958, T.K. Whittaker proposed that trade might be bolstered by reduced tariffs and by partially redistributing social investment funding. This prompted a change in policy and a change in fortune for the Irish economy. His report signalled the start of the so-called "Golden Age" of the sixties by producing an unprecedented rise in GDP of 4% per annum, rather than the expected 2%. By the seventies and eighties, however, one negative consequence had became obvious; the increase in social investment resulted in little housing for the poor – a situation that later generations would inherit.[1]

Taken as a whole, then, such examples illustrate that economic history can prevent current governments from introducing policies which have already been attempted and failed. It provides examples of specific approaches which have yielded either the desired results or have had a detrimental effect on the economy. For a small, open economy such as Ireland, achieving the correct policy mix is essential, rendering economic history an especially relevant tool.

If the sixties are nostalgically remembered as the "Golden Age" of the Irish economy, history allows us to test this perception against a broader time span. Between 1960 and 1973, Irish real output increased by 4.4% per annum – truly a 'golden' merit in comparison with past records. However, this figure seems less substantial given the favourable results in other economies at the time. Furthermore, Ireland was simply playing catch-up with these countries, and so these rates of growth were not so outstanding. Radiating from the solid trade foundations laid in 1958 came the tariff reductions through the Anglo-Irish Trade Agreement in 1965 and the formation of GATT in 1967. Together with the introduction of tax breaks and subsidies, this caused foreign direct investment to increase. Thus, new industry accounted for 60% of industrial output by 1974.

[1] Editor's aside: see Nick Hodsman and David Comerford's paper on housing policy, *Accomodating a Crisis*

If a broader perspective is taken on this, it is obvious that the dramatic boom in Europe was influencing the Irish economy. Increases in trade spread growth across many economies. During the thirties, protectionism may have been instrumental in protecting an infant economy, but on a wider time-frame, it slowed later economic growth. Perhaps this proves that perspective alters initial views on policies; if this is the case, then surely the study of economic history is a vital component of policy formation.

Like a child who burns their finger on a hot cooker or a caged bird that learns that pecking on a lever gets it food, so too do economists, and the human population in general, learn from negative and positive reactions to our actions. In psychology we call this conditioning; in economics, it is the study of history. When de Valera came to power in 1932, he taught future Irish governments about the negative and long-lasting consequences of being 'too big for one's boots'. The overly-protectionist policies of import-substitution and dramatic tariff hikes of the thirties may have prevented a U.S. dump on the fragile Irish economy after the "Crash" of 1929, but the unemployment rate soared, and the U.S. economy offered no incentives for immigrants. The short-term positive effects on industrial output ended in 1936, when Ireland realised that the economy was not large or diverse enough for import-substitution to be fully feasible. Even the agricultural sector had stagnated, moving from a trade balance of 75% of GNP in 1926 to only 54% by 1938. Future generations of policy-makers have, fortunately, learnt from this and realised that a certain level of trade is required for such a small country to prosper. This can be found in the motivation behind the European Union, which was set up primarily as a single market for goods and services. History has taught us the benefits of foreign direct investment if employment is to be created or output increased in an economy.

Students of history will testify that our knowledge of historical events and success rates is dependant on subjective interpretation. History, like statistics, can easily be manipulated to support one's intentions. We, however, must only concern ourselves with an informed view. The Fianna Fáil government of the thirties truly personifies the nationalistic view of history; Britain was alleged to have dramatically reduced the Irish economy's potential for growth in the past. The formation of the Free State saw agreement between the two countries that Ireland would repay land loans or annuities; nationalists were, in this context, angry that the State was in debt to Britain, repaying roughly 4% GDP per annum. De Valera, once in government, reneged on these annuities and caused the beginnings of a 'tariff war' between the two countries. With the Anglo-Irish Trade Agreement, nationalists believed that they had achieved complete success; a one-off lump sum of ten million pounds was paid to Britain out of a potential one hundred million. The terms of the agreement were not entirely favourable, however. Guinness, one of the larger industries in

Ireland, relocated to London, thus reducing Irish exports as agriculture stagnated. Many fallacies have been laid bare by historical research into past success rates.

It is part of human nature to be curious, although it will manifest itself in many different forms. In medicine, scholars are interested in our physical make-up. Economists are in general, fascinated by the roots of economics. This fascination is expressed in economic history. A brief example may be found in the dramatic increases in emigration to the U.K. in the eighties, which have interested many, economists and others. Government borrowing was vast and, by 1986, 94% of income from tax revenue was used to service debts. Despite government efforts to increase revenue by increasing taxes, the pound was devalued within the European Monetary Union and, in 1987, a restrictive budget was introduced to cut deficit. In relative terms, the U.K. was still growing; there were, therefore, a greater number of job opportunities across the Irish Sea. Many Irish people emigrated to British factory jobs, just as, in the past, their predecessors had travelled to Scotland as "tatty-pickers". Given that recent economic developments have reversed this trend, it is important to acknowledge this one-time emigration flow; the very fact that it has been reversed is fascinating.

In conclusion, to study economic history in a full and fair manner, in-depth study of a vast time-frame is required. The scale of such a study incurs a cost, true, but it returns dividends. Economic history may develop policies, but, in a broader sense, it may be used to answer questions about the roots of our economy. In doing so, we better understand the hurdles overcome to produce the economy we now have.

Reference

O'HAGAN, J. W. (Ed) (2000) *The economy of Ireland: policy & performance of a European region*.