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## Introduction

Ireland was a largely agrarian economy, trading almost exclusively with the UK, at the time of the Great Depression. Beef and dairy products comprised the bulk of exports, and Ireland fared well relative to many other commodity producers, particularly in the early years of the depression, because of the high price elasticities of demand associated with what have been termed “semi-luxury” foodstuffs.

Ireland was also fortunate in entering the period with substantial external assets, accumulated through the export surpluses of the First World War. Thus it avoided the heavy debt service burdens, default crises and devaluation dilemmas that plagued many other primary producers.

Given the prevailing currency board arrangement, Ireland naturally followed sterling off the gold standard in 1931. Depreciation cushioned the UK’s subsequent downturn and it became the first major country, in 1934, to surpass its 1929 level of industrial production. The advantages to Ireland were limited by the fact that its competitors on the UK market, Denmark and New Zealand, also devalued. Canada provides a salutary lesson as to the possible counterfactual however. Its appreciation against sterling – and especially against its Scandinavian competitors in the UK newsprint market – damaged it by more than its Empire preferences helped (Kindleberger, 1973).

Ireland’s other main external link was with the United States, until then the dominant destination for Irish emigrants. The weakening of the US job market and the tightening of immigration regulations in 1929 saw emigration collapse, and Irish unemployment began to rise. The relatively *laissez-faire* Cumann na nGaedheal government, which had been in power since independence in 1922, responded by raising trade barriers.

Isolating the impact of the depression on Ireland is complicated by internal political developments, specifically by the change of government in 1932. Unlike the previous administration, the newly-dominant Fianna Fáil party – which had emerged from the defeated side in the post-independence civil war and which would remain in

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power for the next 16 years – was ideologically committed to protectionism. Superimposed on this was the tariff war with Britain which was triggered by the new government’s stance on the controversial “land annuities”. Agrarian unrest in the late 19<sup>th</sup> Century had induced the then colonial power to provide loanable funds to Irish tenants in a massive land redistribution programme. The incoming Irish administration refused to forward the annuities to London, retaining them instead for the Irish Exchequer. In an attempt to recoup the value of the annuities, Britain retaliated with a 20 per cent tariff on Irish livestock exports (later raised to 40 percent) and a 30 percent tariff on other Irish agricultural products. The dispute, though it declined in intensity after a number of years, was comprehensively settled only in 1938.

The trade war and the growth in protectionism affected how the Great Depression was perceived in Ireland. The perspectives discussed here are primarily those of politicians and the bureaucracy. Though the subject of economics was taught at a number of Irish universities, academic economists had little influence on economic policymaking. Thus Fanning (1983) describes the Secretary of the Department of Finance as being incensed at the “heresy” committed by an academic economist in suggesting in 1939 that discussion of the sterling link should not be “confined to anonymous bureaucrats”.

Chief among the academic economists were George Duncan and Joseph Johnston of Trinity College Dublin, George O’Brien of University College Dublin, and John Busteed of University College Cork. Duncan was appointed to the Professorship of Political Economy at Trinity College in 1934 and was a committed follower of the Austrian School, inspired in particular by von Mises and Hayek (Murphy, 2006). Joseph Johnston was a senior colleague. Fanning (1983) notes that their ferocious hostility to Fianna Fáil economic policies was “shared with other university economists of their generation (and with George O’Brien and his acolytes in particular)”. O’Brien had held the Chair of National Economics at University College Dublin since 1926, while Busteed was appointed to the Professorship of Economics and Commerce at University College Cork in 1924.

## **2. Overview of Economic Performance in the 1930s**

The Depression exerted a milder and more delayed impact on Ireland than on most other European countries. Though official national income data are not available, the Maddison dataset, which is derived from a variety of sources, records 1933 as Ireland’s worst year, when real GDP fell back to the level previously attained in 1929.<sup>1</sup> Twenty one of the twenty-two European countries for which Maddison provides data experienced sharper falls on 1929 income levels, with 1932 generally marking the trough. Britain’s GDP at its trough in 1931 was 6 percent below its 1929 level. Though subsequent Irish growth over the 1930s was relatively paltry, most studies record Ireland as climbing in the GDP rankings up to the end of the decade.<sup>2</sup>

The initial mild impact on agriculture was due to the nature of the sector. As a 1935 *Journal of the Royal Statistical Society* review of TCD economist Johnston’s book on

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<sup>1</sup> <http://www.gdc.net/MADDISON/oriindex.htm>.

<sup>2</sup> Different international comparative methods yield different results. Maddison (1995) records Ireland as rising from 19<sup>th</sup> to 18<sup>th</sup> place among developed countries. Bairoch (1976) reports a rise from 15<sup>th</sup> to 12<sup>th</sup> place, though Ireland falls from 15<sup>th</sup> to 19<sup>th</sup> place in Prados de la Escosura (2000).

*Economic Nationalism* put it, “the position of the British and Irish farmer is still relatively good compared with that of farmers in the rest of the world, but that is only secured because the bankruptcy of the cereal farmer provides him with very cheap raw material for his production of meat and milk products.”

The impact on agriculture should not be underestimated however. O’Connor and Guiomard (1985) calculate that net agricultural output declined in value by almost 40 percent between 1929/30 and 1934/35 and only partly recovered by the end of the decade. While strong farmers may have been particularly adversely affected by the ‘economic war’ (Ó Gráda, 1994, 416), smallholders faced very severe conditions over the 1930s.

Reports from Department of Agriculture officials in the west of Ireland noted that ‘Small farmers have certainly suffered great losses owing to the duties imposed on sheep and young cattle. For a long period sheep could not be disposed of atal (sic) with the result farmers got carless (sic) about their flock. Many farmers were in a bad way and had to start slaughtering their sheep and sell meat from door to door, this in itself helped many poor farmers to dispose of odd sheep at small prices. In many place along the mountain side the stock were not in good condition and were not in demand, shippers would not buy them as they were not good enough for shipping, and on the other hand graziers will not buy owing to depression on trade caused by tariffs.’<sup>3</sup>

Another official estimated that a farmer in this area who would have earned £80 in 1929 would now earn approximately £53.<sup>4</sup> Poorer smallholders benefited little if at all from the price guarantees, export bounties and tillage programmes for wheat and sugar beet introduced during these years. A 1937 report from Fianna Fáil party representatives in West Cork showed that farmers in that area had to purchase Irish sugar and maize meal, for use both by humans and animals, while finding it almost impossible to sell young cattle, which was their primary and often their only cash product. Other reports noted that emigrants’ remittances fell and harvest work in England dried up.<sup>5</sup>

The collapse in emigration was due to the dearth of job opportunities abroad. The flow to North America fell from an average of 19,000 per annum over the period 1926-31 to less than 1,000 per annum over 1932-39, while emigration to other destinations rose, but by far less – from almost 4,000 to slightly over 14,000 per annum.

Employment numbers rose in both construction and industry. Of the almost 91,000 houses built between 1923 and 1938, over 65,000 were built after 1932. Real industrial output, which had shown a modest gain between 1926-31, rose by almost 50 percent between 1931 and 1938, with only a slight fall in output per worker.

Overall, Neary and Ó Gráda (1991) conclude that “a massive drop in rural living standards during the mid-1930s is not in dispute (while) despite qualitative accounts

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<sup>3</sup> NAI (National Archives of Ireland), AGI G 2256/1934 - Position of Small Holders on Ox Mountains

<sup>4</sup> *ibid*

<sup>5</sup> NAI, AGI G4121/1933 - Poverty in Laherdane

suggesting greater prosperity in the towns and cities, the trend in real wages seems to have been ‘little change’.”

### **3. Contemporary Irish Thought on the Causes of the Depression**

In response to a communication from the League of Nations, the Secretary of the Department of Finance responded in March 1931 that:

“No special investigation has been carried out by this Department as to the causes of the present economic depression... So far as other countries are concerned the depression which prevails at present is generally attributed to various causes including reparations, international indebtedness generally, tariffs, political unrest in South America, China, India, Russia and elsewhere, over-production of certain primary products, rationalization, decline in the value of silver, inflation of currencies, maldistribution of gold, and a number of other factors. Economists are not agreed as to the priority or relative importance of the various causative factors, and this Department is not disposed to formulate any conclusions on the subject.”<sup>6</sup>

A number of academic papers published over the early to mid-1930s addressed aspects of the crisis. All of them reflect the influence of Austrian thinking. In a 1934 review of Lionel Robbins’ *The Great Depression*, George O’Brien of UCD writes approvingly of the book’s thesis that “the great depression is the result of too much interference by governments with the free play of private enterprise. Attempts have been made in all directions, it is pointed out, to maintain prices and wages, to prevent bankruptcies and liquidation, and to save the investor from paying the price of his errors of judgment and of accepting the consequences of his follies. The only hope of recovery, according to Professor Robbins, is to be found in a relaxation of State interference with the price structure, in the stabilization of exchanges, ‘the removal of trade restrictions, the freeing of the market, the restriction of restrictionism and the restoration of capitalism’.”

Responding to O’Brien’s 1933 paper on “Monetary Policy and the Depression”, published in the *Journal of the Statistical and Social Inquiry Society of Ireland*, George Duncan of TCD notes that hitherto the advocates of easy money had had all the publicity;

“The opinions of the more orthodox economists—that the liquidation of the disequilibrium must be allowed to proceed, that hardship to many persons is not only an inevitable but a necessary part of that process, and that the utmost collective action can achieve is the removal of obstacles to that liquidation—have been complex, revolting to a false sentimentality and anathema to all kinds of legal, class and nationalistic vested interests— and therefore buried in professional journals. I agree with the two principal contentions of the paper: (a) that, while monetary authorities acting independently can effectively check expansion or induce contraction, the contrary course of inducing expansion requires the co-operation of solvent borrowers with sound projects; (b) that it could not be expected that the indiscriminate raising of prices by effective inflation would restore the system of relative prices shaken up by the slump.”

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<sup>6</sup> No. 530 NAI, DFA 7/55,

O'Brien also argues that while the benefits of public works proposals are conjectural, the problems of debt are concrete. "Any suggestion that wages, even in certain narrow categories, might be advantageously reduced is usually met by the argument that a reduction of wages amounts to a reduction of purchasing power in the community and would, therefore, deepen rather than relieve a depression. This view is so widely held and is so superficially attractive that it must be refuted, as it is responsible for many misapprehensions in discussions on monetary policy today."

Writing in 1932 in the same journal, J.P. Colbert – who was chairman of the state-controlled Agricultural Credit Corporation and would later sit on the Banking Commission with Duncan and O'Brien – echoed Schumpeter in defending the "creative destruction" associated with the cycle:

"The spirit behind a gamble in paper values is in a sense a revolt against the factors making for excessive economic standardisation. It is a healthy unrest... It is the spirit that creates a call for new inventions, applies the discoveries of science to human needs, sends out the prospector and explorer and encourages bold enterprises".

TCD economist Joseph Johnston in *The World Crisis: Its Non-Monetary Background*, read to the Institute of Bankers in 1932, focused on the price rigidities that had emerged in the post-war world, including "the price of labour in sheltered industries, and the price of goods monopolistically produced."<sup>7</sup> Governments too had failed to allow the price mechanism to operate, instead reacting to international trade disequilibria by imposing tariffs. His 1934 book, *The Nemesis of Economic Nationalism*, argues that "efforts to raise prices by restricting imports (are), in present world circumstances, akin to the method of draining a leaky boat by boring another hole to let the water out." All of these points clearly echo the sentiments of Robbins' *Great Depression*

Influenced perhaps by his contacts with Keynes and his reading of Berkeley however, Johnston breaks with the Austrians in arguing for economic stimulus. He proposes a ten-year programme of capital development by public borrowing for housing, afforestation, and land reclamation and drainage. He advocates abolishing all import duties and paying for the necessary raw materials by repatriating some of Ireland's substantial external assets. "I would abolish all unemployment pay, and impose a universal obligation to work (on these public works projects) on all unemployed citizens at rates of pay fixed by the State."

A review of the book carried in the *Journal of the Royal Statistical Society* criticises Johnston for omitting "consideration of the burden of interest on the new public debt, especially on that part of it applied to long-term schemes like afforestation", and is dismissive of the suggestion that the same policies might be appropriate for the UK.

Johnston's 1938 paper on *The Monetary Theories of Berkeley* purports to identify anticipations of some of Keynes' ideas – "in his emphasis on the importance of consumption as a factor in the production of wealth and in his realisation of the vital part played by the quantity of money in the promotion of commerce and enterprise."

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<sup>7</sup> Eichengreen (1992) concurs that prices in the second Gold Standard period, from 1925 to 1931, were less flexible than under the earlier Gold Standard.

Though Keynes, as editor, published the paper in a supplement to the *Economic Journal*, he commented in pre-publication correspondence that though he had read Berkeley a few years previously, he did not have the latter's theories vividly in mind when writing the General Theory (Johnston, 2003).

#### 4. Ireland and the Great Depression

##### 4.1 *The Period to Sterling's Departure from Gold in September 1931*

Local commentary over the early period of the Great Depression focused largely on how well the Irish Free State was weathering the storm. The budget speech of the Minister for Finance, Ernest Blythe, on 30 April 1930, noted that 'however difficult may be the replenishment of the national purse, every indication points to the conclusion that although the improvement in the country's economic health is very gradual, it is unbroken.'<sup>8</sup>

*The Round Table*, 'a quarterly review of the politics of the British Commonwealth', provides a valuable contemporary insight into trends in, and perceptions of, the Irish economy. Though the report for December 1930 noted some worsening of conditions, with the "Ford factory at Cork, which manufactures for the world market, virtually closed down since early summer owing to a lack of demand for its products", nevertheless:

"Conditions in the Free State are relatively more normal than in most other European countries. This is probably due to the fact, so often deplored by our politicians, that the Free State is predominantly agricultural and pastoral, and so the reactions of the almost world-wide economic depression are slow to take effect here. There has not, in fact, been any serious increase in unemployment, and, as there is no dole, there is no inducement to become unemployed by artificial means"<sup>9</sup>

UCC Professor of Economics John Busteed drew the same conclusion, arguing in a 1931 paper that the extent of peasant proprietorship in Ireland was "an explanation of why destitution is not as prevalent in Ireland as in other countries. You cannot 'fire' a small farmer in the same way as you can 'fire' 5,000 Ford workers."

In a statement to Dáil Éireann, prompted by calls for the government to introduce measures to relieve unemployment, W. T. Cosgrave, President of the Executive Council, noted that trade returns from 43 countries for the first 8 months of 1930 showed that the state was one of only 10 countries to show an increase in the value of exports. Livestock prices had fallen much less than grain prices and the fall in the price of imported animal feedstuffs was "one of the factors which have saved the country during the last three years". He concluded that "many other countries envy our condition... The register of unemployed is practically the same this year as last, notwithstanding the termination of the great Shannon (electricity generation) works, and is much lower than in previous years."<sup>10</sup>

The opposition tended to view the depression in structural rather than cyclical terms. In his response to Cosgrave, Fianna Fáil leader Eamon de Valera spoke of economic

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<sup>8</sup> PDDE (Parliamentary Debates of Dáil Éireann), vol 34, 30 April 1930, col. 1092.

<sup>9</sup> *Round Table*, 81 December 1930 Events in the Irish Free State, p.158.

<sup>10</sup> PDDE vol 36, 19 Nov 1930, cols 62-70.



decline over 80 or 90 years.<sup>11</sup> Seán Lemass argued that “of those unemployed in the Irish Free State a very large number are persons whose occupations are permanently gone, due to causes that are neither temporary nor stationary, and which arise out of the fact that there is a dearth of industry in this country... Until the system of using the land is altered so that more employment can be provided on it and until industries have been started that will give occupation to the surplus population on the land, we are likely to have these periods of depression recurring quite frequently, and relief votes being passed here in order to deal with them.”<sup>12</sup>

Minister for Finance Ernest Blythe remained sanguine. His budget speech for 1931/2 asserts that ‘the surplus achieved in the previous financial year was achieved ‘due to our having in the past declined to embark on rash schemes of expenditure and to our having endeavoured to keep in check increased outlay even on the most desirable objects.... If the same line of policy is pursued in future in, if possible, a more rigid spirit of economy, we shall be able to escape all the major difficulties under which so many countries are at present struggling.’<sup>13</sup>

Others were less optimistic. A memorandum sent by the Department of External Affairs for transmission to the Secretary General of the League of Nations a few months later concluded that:

“There are certain disquieting features which suggest that 1931 will prove a more difficult period. Already there has been a severe fall in livestock prices during the first part of 1931 and the slump which occurred in the dairying industry in 1930.. shows no sign of improvement.. A continued depression in that industry would react seriously on the whole of the farming population”.<sup>14</sup>

By September 1931 the section on economics in the *Round Table* has taken precedence over the discussion of politics. Tax revenues for the first quarter of 1931 had fallen sharply, expenditure was rising and the government was in deficit. Trade statistics to the end of April showed a significant fall in exports. Emigration to the USA had almost ceased and, with the increasing numbers of unemployed young men, a growing number could be expected to be involved in “illegal conspiracies and illicit drilling”.

Less than two months later, ‘the Red Scare’ surfaces in discussions between the state’s representative and Pope Pius XI. The Irish official reported from the Vatican that:

“An Irish priest in Rome had informed me that even in Killarney the Little Sisters of the Poor had been told by people from whom they asked for subscriptions that the Church had too much wealth already, and that such answers must be the result of definite propaganda. His Holiness said that the method of the Communists was to attempt to identify the Church with Capitalism, and that He himself received the *Bezbosnik* (the organ of the Godless) and saw such attacks.”<sup>15</sup>

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<sup>11</sup> PDDE 19 Nov 1930, col. 72.

<sup>12</sup> PDDE 19 Nov 1930, col. 89

<sup>13</sup> PDDE 38 6 May 1931 col. 756, 784.

<sup>14</sup> No. 564 NAI DFA 7/55

<sup>15</sup> No. 591 NAI DFA 19/1B

#### 4.2 *Sterling's Departure from Gold*

The 1927 Currency Act and amending legislation in 1930 provided for a Saorstát (Irish Free State) pound valued at parity with sterling and backed 100 percent by a reserve of gold, sterling balances and British and US government securities.

As pressure on sterling increased in the autumn of 1931, Joseph Brennan, chairman of the Currency Commission, travelled to London to inform the Bank of England that 'the Currency Commission had been considering the option of converting some of its assets into gold or gold-based currencies other than sterling but felt that it would be inexpedient to weaken the Bank of England's reserves by withdrawing gold'. The British representative 'applauded this sentiment and hoped that if the Currency Commission drew any gold, it might do so in limited instalments which would cause the minimum of disturbance' (Moynihan, 1973, 167-8).

On September 19, Brennan sent a further memo to the Bank of England indicating that he was giving serious consideration to buying gold, as strains were emerging on the Saorstát pound.<sup>16</sup> Before the memo was delivered however, he received unofficial information from the National Bank that Britain was about to abandon the gold standard, and this was confirmed in a telephone call from the Bank of England some hours later.<sup>17</sup> Irish banks remained closed on Monday 21 September.

A memo written by a senior Department of Finance official suggested that "in view of the present difficult situation and the obscure outlook, it would probably be better to avoid any statement if at all possible."<sup>18</sup> In Fanning's (1979, 210) words, "the policy advocated by the senior officials of the Department of Finance was to do nothing and to say nothing." Although the Cabinet met to discuss the crisis, the minutes record no decisions taken, and the words 'gold standard', 'Saorstát pound' and 'sterling' do not appear.

Sir Otto Niemeyer of the Bank of England advised Brennan against consulting the Bank for International Settlements for advice on setting up a central bank at a time when 'there were far more urgent things to do in trying to deal with a world crisis', going on to emphasise the strong arguments for the Irish Free State to maintain parity with sterling (Moynihan, 1973, 172-3). McElligott, Secretary of the Department of Finance, had previously expressed the opinion that this would be the correct course, and had detailed the technical problems that a separate currency would create, including the need to provide a gold reserve.<sup>19</sup>

Cosgrave's public statement in response to the currency crisis merely urged the population to buy Irish goods in order to ease its impact.<sup>20</sup> The Dáil (parliament) did not resume until more than three weeks later, and there was no immediate debate on the currency crisis. Instead, through the government's invoking of the "Red Scare" (in the form of republican group Saor Eire), concentration was

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<sup>16</sup> Moynihan, p. 170

<sup>17</sup> Moynihan, p. 169.

<sup>18</sup> Memo dated 22 September 1931 – Blythe Papers, cited in Fanning p. 210.

<sup>19</sup> Fanning (1979, 208-9), citing Minutes of meeting of Currency commission 14 Sept 1931.

<sup>20</sup> Irish Independent, 23 September 1931

focused on a bill to amend the Constitution to make it easier to tackle political crime (Fanning, 1983, 104).

When Blythe spoke about the decision to leave the gold standard and maintain parity with sterling, he emphasised that Ireland's trading relations with Britain would have made it impossible to remain on gold independently of Britain. For Irish products on the British market, it would in effect be 'a tariff against ourselves'. Denmark had abandoned the gold standard. People who received incomes from England would suffer a loss in income which would encourage them to leave Ireland. He made repeated references to the need for soldiers to guard gold if Ireland were to hold its own reserves, and 'it would be difficult to create the confidence in a stable Irish currency.'<sup>21</sup> Joseph Brennan similarly described 'the pound sterling as a raft and the Saorstát pound as a swimmer who clings to it' (Fanning, 1979, 209).

By contrast, Seán MacEntee, the opposition deputy who would shortly succeed Blythe as Minister for Finance, described sterling "as a millstone round the necks of the people.. dragging them down to the bottom of the sea".<sup>22</sup> Fianna Fáil senator Joseph Connolly claimed that Ireland was in crisis as a result of 'being tied almost completely to an economic outlook, a banking outlook and a financial outlook that is entirely Imperial and that has ignored the potentialities of internal development in this country'.<sup>23</sup>

John J. Horgan, the Cork solicitor who was the Irish correspondent for the *Round Table*, commented in December 1931 that 'it would be idle to suggest that Great Britain's failure to maintain the gold standard has not shaken our confidence in England's financial position and prestige, and were the pound allowed to slide further towards the bottomless pit of inflation, there can be little doubt that there would be an irresistible demand for the creation of an independent currency.' However he was confident that this would not happen 'as long as the reasonable stability of sterling is assured'.<sup>24</sup>

#### **4.3 From the Fall of Sterling to Fianna Fáil Accession**

By September 1931, there were growing concerns about the trade balance and the rising government deficit.<sup>25</sup> The impact of the deteriorating position was reflected in the introduction of anti-dumping legislation similar to that introduced in the UK some weeks previously by the new protectionist National Government. Blythe told the Dáil that the government feared that large quantities of goods destined for the British market might be dumped on the Irish market instead.<sup>26</sup>

Two days later, he introduced an emergency budget to meet an expected deficit of £900,000 against anticipated revenues of around £21.2m. His speech to the Dáil however showed little understanding of the wider economic picture. The deficit was portrayed as almost accidental. The largest shortfall in revenue from the sale of beer

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<sup>21</sup> PDSE (Seanad Éireann) 14 Oct 1931, col. 1884-5

<sup>22</sup> PDDE 6 November, cols 1125 and 1147.

<sup>23</sup> PDSE 14, 14 October cols 1931, 1852-3.

<sup>24</sup> *Round Table*, December 1931, pp 139-40.

<sup>25</sup> Documents on Irish Foreign Policy, DIFP III pp 832-4 DFA Paris Embassy 101/2.

<sup>26</sup> PDDE vol 40, 4 Nov 1931, col. 804-6.

and spirits was not due to falling consumption but resulted instead from ‘things that have caused a reduction in the stocks of beers in the hands of the brewers’. Revenue from motor cars was also below target – because of falling car prices. Revenue from income tax would not meet the target because of an unanticipated slow-down in collecting outstanding arrears and because industrial securities were yielding very low dividends.<sup>27</sup>

While Finance had proposed to meet the deficit by cutting public expenditure, the government focused instead on tax increases, with details of spending cuts postponed to a future date, presumably reflecting the imminent general election.<sup>28</sup> Cosgrave could have waited several months before going to the country, but the *Round Table* suggested that world developments “which involve the relations of the Free State with other countries – and especially with Great Britain – make it imperative that the Government which handles these difficult and delicate questions should have a fresh and decisive mandate”.<sup>29</sup>

A general tariff was introduced by the UK under the Import Duties Act of February 1932. Reciprocal preferences for Commonwealth members were negotiated over the summer at the Imperial Economic Conference in Ottawa and enacted in November. Because imperial preferences would have undone much of the benefit to British farmers however, Britain followed up with quotas on foreign goods and voluntary export restraints with countries such as Australia and New Zealand. It is unlikely then, as Ó Gráda (1994) notes, that free access to the British market could have been preserved by any Irish government.

#### **4.4 *Fianna Fáil Fiscal Policy***

The main political parties competing in the election differed strongly on economic policy. While Cumann na nGaedheal was committed to low taxation and the maintenance of close trading links with Britain, Fianna Fáil favoured economic self-sufficiency. It championed small farmers rather than the larger commercial farmers and wished to sustain the maximum possible population on the land. The onset of a global depression gave these policies an appearance of greater relevance and broader political appeal.

The Fianna Fáil manifesto drew a parallel between the land annuities and war reparations, claiming that Irish payments to Britain ‘constituted a burden relatively heavier than the burden imposed on the German people by the war reparation payments’. Its job creation strategy, as outlined in the election manifesto, focused on protecting industries and promoting tillage. It made little mention of welfare payments, housing, or public works, though the Mosley proposals in Britain would have been common knowledge and programmes of relief works in Ireland to provide employment dated back to at least the famine of the 1840s.<sup>30</sup>

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<sup>27</sup> PDDE vol 40, 6 Nov 1931, cols 1114-1116.

<sup>28</sup> Ibid. Cols. 1118-9

<sup>29</sup> *Round Table* March 1932.

<sup>30</sup> Backhouse (1985, 252) states that “it would involve only a slight exaggeration to endorse Keynes’ remark, made in 1929, that ‘I know of no British economist of reputation who supports the proposition that schemes of National Development are incapable of curing unemployment’.” R. Hawtrey however, one of the important originators of “the Treasury view” in the UK, remained sceptical (Laidler, 1999, 125).



The general election of 16 February 1932 brought Fianna Fáil to power as a minority government supported by the Labour Party. On March 9, William Norton, the new leader of the Labour Party, set out his terms for supporting the government: work or maintenance for 85,000 unemployed (believed to be the number unemployed at the time); a major housing programme, and the introduction of widows and orphans pensions.

Responding to a Dáil motion on unemployment, Lemass, the new Minister for Industry and Commerce, held to the established Fianna Fáil position that unemployment in Ireland was only marginally related to the current depressed state of the world economy.<sup>31</sup> The demands for immediate measures to relieve unemployment appear to have been seen by Fianna Fáil as a distraction from the party's agenda, but they could not be ignored by a minority government.

Minister for Finance Sean MacEntee did not present a budget until two months after taking office. Feeney (2009, 65) describes the budget speech as 'the first major statement of economic policy by Fianna Fáil in government', and the budget itself as 'unashamedly redistributive'. Though the fiscal position had continued to deteriorate from the autumn of 1931 and the balance of payments had deteriorated sharply, MacEntee gave a commitment that there would be no cuts in social services and announced additional measures to relieve unemployment 'in view of the special emergency'. These included grants for housing, road works, drainage and public health schemes, and some agricultural rates relief and free milk for necessitous children.

Optimistically, he expressed the hope that by next year the government's plans for developing protected industries would be generating sufficient jobs to make relief works unnecessary. Over subsequent years however, unemployment assistance would be introduced (under legislation that came into effect in April 1934) and extended also to smallholder farmers (Cousins, 2003, 60-65). The new housing programme of the Department of Local Government would represent a major source of additional employment.<sup>32</sup> MacEntee closed his Budget speech by referring to the land annuities. If these repayments were relieved, the Budgetary position in the next financial year 'will be an easy one', with sufficient money to develop agriculture and relieve rural poverty.<sup>33</sup>

The budget was a major break with the parsimony of the past. Government spending rose from 24 percent of GNP in 1931/32 to over 30 percent the following year (O'Hagan, 1980). Many years later, in 1974, MacEntee reminisced that it 'was the very first Keynesian budget in this island'.<sup>34</sup> While his tax and spending increases would not have been welcomed by senior officials in the Department of Finance, he nevertheless respected orthodox views on balanced budgets and borrowing. Ó Gráda (1994, 421) comments that "the real difference between Fianna Fáil and Cumann na

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<sup>31</sup> PDDE, vol 41, 20 April 1932, col. 289.

<sup>32</sup> PDDE vol. 41, 20 April 1932, col 289; Daly (1997).

<sup>33</sup> PDDE 11 May 1932, col 1520.

<sup>34</sup> Feeney p 66, citing *Irish Times*, 23 July 1974. Cousins (2003, 85) argues however that "Fianna Fáil's policy mix of protectionism, industrial development, agricultural policy and welfare measures represented a political rather than a coherent economic logic".

nGaedheal was not fiscal recklessness versus fiscal rectitude, but that Fianna Fáil had fewer reservations about raising revenues to finance higher current spending”.

#### 4.5 *Protectionism and Economic War*

Fianna Fáil came to power with an ideological commitment to protectionism. Its implementation saw the average tariff level rise from 9 percent in 1931 to 45 percent in 1936 (Ryan, 1949). Its policies raised fears of capital flight from an early stage. Biscuit manufacturers Jacobs suggested that over 1,000 jobs, or half its workforce, could be lost if the Free State left the Commonwealth, and Ford warned that recent political developments had occasioned ‘great concerns’ in the company.<sup>35</sup> The closure of the company’s tractor section had already seen employment decline from 4355 in 1929 to just under 2000 in 1931 (Girvin, 1989, 64). The growth in protectionist sentiments on both sides of the Irish sea had led the company to build a plant at Dagenham in 1928 while Guinness built a brewery near London. Jacobs already had a British plant at Aintree (Daly, 1992, 56).

Ireland’s failure to pay the second annual moiety of land annuities due for 1932 resulted in Britain imposing retaliatory tariffs on all Irish exports to Britain, which were ostensibly designed to collect the £5m in unpaid annuities. Ireland responded by removing the preferential rates previously given to British products. The episode resulted in major panic in many sections of Irish business and serious disruption to established patterns of trade. The *Round Table* column of September 1932 claimed that two-thirds of the market for bacon and hams had been lost and even more for fresh pork. The retaliatory tariffs imposed by Ireland on iron, coal and steel had a serious impact on the motor trade and the Ford plant in Cork, while Irish railways struggled to switch to German coal.<sup>36</sup>

Lemass was crossing the Atlantic as part of the Irish delegation to the Imperial Conference in Ottawa when Britain imposed the retaliatory tariffs. In his message to de Valera he opposed the imposition of special duties on British goods, arguing that ‘they cannot be of much value. Apart from the probability of our people paying the full amount of such duties, they would be too slow in operation on British public opinion’. Other details of his response, though, display a limited understanding of world markets. He recommended a ban on exports of any goods subject to British duties, except through a government export organisation, which would also determine export bounties and import duties.<sup>37</sup> Britain however was dependent on Ireland only for store cattle, and even that could be surmounted; alternative supplies of all other products were readily available. McElligott, Secretary of the Department of Finance, responded to a similar memo by arguing that a deficit is ‘a symptom of a disease, and to cure it by a drastic limitation of imports and an artificial stimulation of exports will do nothing to remove the underlying causes and may only do harm by diverting attention from them’.<sup>38</sup>

On 7 November Lemass sent a further memorandum to de Valera, which he described as ‘revolutionary in character’. He began by noting that Ireland was facing ‘a crisis as grave as that of 1847’. The sharp fall in agricultural export prices, he argued, ‘has

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<sup>35</sup> *Round Table*, May 1932, pp 517-8 The Economic Position

<sup>36</sup> *Round Table* Sept 1932, p. 120

<sup>37</sup> DIFP 4 p 86, 15 July 1932 – original in De Valera papers

<sup>38</sup> S6511A

nothing to do with the British tariffs. It would exist if these tariffs had never been imposed or were removed tomorrow'. The collapse in tillage prices had destroyed any realistic prospect of developing tillage. Many farmers were now uneconomic. Unemployment was running at 100,000 – a figure that could not be absorbed by 'the fullest possible industrial development here'. "The situation is black... Famine can come not because our farmers cannot but because they will not continue to produce food. The stoppage of exports should mean cheaper food for our own people but cheaper food means still lower prices for the farmers".

He could not see any alternative other than to abandon the economic war 'until we are in a better position to fight it', and to attempt to negotiate a secure market in Britain for Irish agricultural produce.<sup>39</sup> McElligott, unsurprisingly, expressed his support for this alternative option (Fanning, 1983, 248-50).

De Valera's speech to the Fianna Fáil Ard Fheis (party conference) on 8 November 1932 – the day after Lemass' dramatic memo – does not reflect the apocalyptic mood of that document (Moynihan, 1980). His playing down of the significance of the land annuities dispute contrasts starkly with the views of the opposition, which tended to attribute to it all of Ireland's economic woes. There is little doubt however that both Lemass and MacEntee were opposed to the trade dispute, as was the Department of Agriculture.

#### **4.6 *Developments in 1933 and Beyond***

1933 brought continuing depression and the realisation that the dispute with Britain would not be settled for some time. A general election in January 1933 nevertheless saw Fianna Fáil returned to office with an overall majority. The government had halved the annuity payments in 1932 and put the sum collected into a suspense account, pending a possible resolution of the dispute. In March 1933 they appropriated the reduced annuity payments for government spending.

In April 1933, Keynes delivered a lecture in Dublin on the theme of "National Self Sufficiency". The scene is memorably described in Meenan's (1980) memoir of UCD Professor George O'Brien:

"Almost all of the members of the new government were present. Headed by Mr. De Valera, they sat on one side of the theatre as far removed as possible from the members of the government whom they had replaced. It was assumed, for some reason which is lost to memory, that the lecturer would denounce the pursuit of protection by high tariffs which had contributed to the Great Depression. The smiles and self-confidence were therefore much more obvious on one side of the theatre than on the other. But as Keynes proceeded to show himself unexpectedly friendly to the erection of economic defences, above all when he declared that 'were I an Irishman, I should find much to attract me in the economic outlook of your present Government towards greater self-sufficiency', the smiles faded from one side and appeared on the other."

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<sup>39</sup> S6274 Economic Committee. This conclusion seem inconsistent with his earlier argument that the sharp fall in agricultural export prices had nothing to do with the British tariffs.

By this stage, Keynes had begun to argue that tariffs could be stimulatory in the face of unemployment and downward wage rigidity combined with a fixed exchange rate (Kindleberger, 1973, pps. 134, 171; Irwin, 1996, pps. 189-206). Some Irish economists were clearly aware of the arguments. R.C. Geary (1981), in a review of Meenan's book on O'Brien, notes that "it was going from the luncheon to the lecture with the two Georges that I heard a remark which influenced me all my life (by Duncan, I think): 'Bertil Ohlin has shown that the classical optimality argument in favour of free trade is valid only when the factors of production are fully engaged'."

Keynes noted that:

"As lately as 1923 I was writing that Free Trade was based on fundamental truths.. I should not charge Mr. Baldwin (now), as I did then, with being 'a victim of the Protectionist fallacy in its crudest form' because he believed that, in the existing conditions, a tariff might do something to diminish British unemployment... Ideas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national. .. Over an increasingly wide range of industrial products, and perhaps of agricultural products also, I become doubtful whether the economic loss of national self-sufficiency is great enough to outweigh the other advantages of gradually bringing the producer and the consumer within the ambit of the same national, economic and financial organisation'.

He offered some qualifications in his comments about Ireland however. He asked in particular whether the Free State was large enough, 'with sufficiently diversified natural resources, for more than a very modest measure of national self-sufficiency to be feasible without a disastrous reduction in a standard of life which is already none too high'. Partly answering the question himself, he suggested that it would be 'an act of high wisdom' if the Irish government were to agree some economic arrangement to preserve Ireland's traditional trading relationship in a manner that did not constrain Irish development. He expressed concerns at the consequences if Ireland ploughed 'her rich pastures' and suggested that any break with established economic relationships should be slow and gradual.

Meenan's memoir of George O'Brien picks up the story:

"The lecture was followed by a dinner that evening to which George invited, on Keynes' prompting, some of the best known wits of Dublin. It was, by George's account, a total failure. There were too many wits and Gogarty talked too much. Worse still, Keynes was called to the telephone in the middle of the meal. When he came back, he said: 'You may be interested to know that the United States has just left gold'. The short silence that was felt to be appropriate was broken by Gogarty: 'Does that matter?'"<sup>40</sup>

By June 1933, the tone of the *Round Table* has become much more moderate than in earlier articles written since Fianna Fáil's accession to power. Though there is evidence that Cosgrave himself was no longer committed to repaying the land

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<sup>40</sup> Gogarty was the model for the "stately, plump Buck Mulligan" who features in the opening sentence of James Joyce's *Ulysses*. With reference to Gogarty's question, note the comment recorded by Kindleberger (p. 202) that "this is the end of Western civilization".



annuities, he continued to criticise the economic war and particularly the emergency duties:

“The difference between emergency duties imposed here and emergency duties imposed in England, as far as I can judge the situation, is that the cost of the article is increased to the consumer here. We collect from our own nationals. On the other side the tariff is imposed against our agricultural products and that tariff falls heavily upon the producers of agricultural produce in this country.”<sup>41</sup>

By 1934 the sense of imminent collapse had receded. National income, it now appears, had begun to grow again. The budget was largely in balance because of the retention of the annuities. Income tax was reduced to the prevailing British rate in 1934, while tax rates on tea and Irish-grown tobacco were also reduced. The Coal-Cattle trade pacts of the following few years took some of the steam out of the economic war, and the dispute was comprehensively settled with the signing of the Anglo-Irish Trade Agreement of 1938.

As Daly (1992, 174-75) notes:

“By the late 1930s, international collapse had been averted (though) government programs were not providing the promised revitalisation of Irish rural society. Consequently the attack on cattle farming, reflecting a deep-seated antagonism in Irish radical agrarian traditions, was ended, and cattle farmers regained their dominant position, though this time they were harnessed to protected rather than export manufacturers. The 1938 agreement reflected a new alliance of conservative forces in Irish society: owner-occupying farmers, protected manufacturers, and equally protected industrial workers.”

## Conclusions

Throughout the period under discussion, politics took precedence over economics, as might have been expected at this early stage of independence. Those in the corridors of power had nevertheless to face up to the severe economic challenges of the time, which were not purely macroeconomic but developmental as well. Fanning (1984, 155) concludes that “the winds of change in Irish economics blew vigorously in the corridors of the public service long before the faintest zephyr disturbed the tranquility of the groves of academe”.<sup>42</sup>

Thorough analysis would have been inhibited by the paucity of reliable economic data. The Swedish economist Per Jacobsson, who provided expert advice to one of the Irish Banking Commissions of the 1930s wrote that he had:

“found here in the Saorstát no co-ordinated annual review of the financial position of the country. In a country where so much is heard about planning, one ought at least obtain from the authorities the full facts regarding their own financial position with a full estimate of the financial results of the various public activities. We know that there is in fact very little real public information about these matters, .. that there is no real coordination of policy.. There must be some permanent organisation whose business it should be to continue the studies which have begun and see that government departments

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<sup>41</sup> PDDE vol 47 10 May 1933

<sup>42</sup> Brownlow (2011), however, provides a contrary view.

are acquainted with the main facts as to the balance of payments, national income, etc.”<sup>43</sup>

What can be said in hindsight of the policies pursued? O’Rourke (2003) notes that “contemporary Irish economists condemned the tariffs as running counter to the principles of comparative advantage, and claimed that they imposed enormous costs on the Irish economy: 25 percent of GNP according to Joseph Johnston. Cliometricians have begged to differ. According to the ‘back-of-the-envelope’ calculations in Neary and Ó Gráda (1991), the economic costs of the Economic War (reflecting both Irish and British protection) were small... O’Rourke (1995) used computable general equilibrium techniques to estimate the cost of British and Irish protection, and came up with estimates ranging from 3.5 to 5.4 percent of GNP, with most of the losses arising from British protection rather than Irish retaliation. Moreover, the Economic War ended up being settled on terms which were highly favourable to the Irish; and simulations suggest that domestic tariffs may actually have helped the economy if they helped lower unemployment in an era of reduced migration opportunities overseas (O’Rourke 1991, 1995).”

He cites the evidence from Latin America that recovery was aided by policies such as debt default, protection, and monetary and fiscal expansion. The withholding of the land annuities in the Irish case can be seen as a type of default, abandoning the gold standard was equivalent to monetary expansion, and the fiscal expansion undertaken by the early Fianna Fáil governments has already been noted. The dramatic expansion in the supply of housing in Ireland over the 1930s might also usefully be viewed in the context of the role that housing construction played in the UK recovery (Kindleberger, 1973, pps. 181, 244).

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<sup>43</sup> Cited by Fanning (1984). The first official estimates of national income were not, however, published until 1946 (Neary and Ó Gráda, 1991).

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