

Development of the Irish Economy

Section C — Ireland Before the Celtic Tiger

Outline

- Section Recap
- Meet the data: how to find data in practice?
 - You choose what we will search → think about metrics for this period you would like to see!

Section Recap

Conceptualizations for the period

- Delayed convergence
 - There is a natural catch-up for all countries, and delays are caused by lack of capitals
- Regional economy model
 - Migration of capitals (i.e., factors of production) explain most of the change in economic growth

Demographics

- Population mostly decreased up until the 1960s. Brief increases due to...
 - Weaker *pull* factors
 - Worse economic conditions abroad, war
 - Weaker *push* factors
 - Living standards
- Last period of population decrease in 1980s

Trade

- 1920s
 - **Pro-trade** Exporting sector: agriculture, food and drink industries (86% of exports, 56% of workforce in agriculture), Dept. of Finance
 - **Protectionists** Not-performing-so-well industry
 - Dept. of Finance controls the tariff commission but despite trade openness, not very performant
 - 1930s
 - Switch to protectionism → aims to protect nascent industries and increase employment
 - Trade war with UK (land annuities, British tariffs retaliation) → size of Irish trade in UK shrank
 - 1938: Anglo-Irish trade agreement → back to low tariffs
- Trade deficit during the period

Trade

- Late 1940s
 - Sharp rise in imports, while exports stay stable → trade and current account balances are negative
- 1950s: gradual switch to export-led growth
 - Foundation of Industrial Development Agency, *Economic Development* report
 - *But* plans to join EFTA taken down by still powerful agricultural sector
- 1965: new Anglo-Irish Free Trade deal
 - Restored pre-1932 status quo
 - Precursor to European Economic Community

Trade

- End of 1960s
 - Trade deficits still present, current account deficit hovering around 2% of GNP
- 1972: EEC referendum → “Yes” wins by a landslide
 - Immediate increase in both import and exports
 - Shift out of UK trade towards EEC
- 1980s: trade starts to heavily specialize in chemical/pharma and IT manufacturing
 - Rapid growth in export: trade balance positive by 1984, current accounts are balanced in late 1980s
 - Focus on attracting FDI (foreign direct investment), export-led industries

Government

- 1920s: state relatively small, limited deficit
- 1930s, 1940s: still small spending, budget balanced. Debt rises to 40% of GNP.
 - End of 1940s, government gets more involved in economic planning and infrastructure spending
- Mid 1940s–1970s: Government doubled in size, and with it debt/GNP ratio.
 - Government balance still mostly positive → indicates lack of active fiscal policy
- Entrance in EEC (1972) freed government revenue
 - Most of agricultural subsidies now paid by EEC
 - Discovering fiscal policy → first large deficits, increase in debt/GNP ratio

Government

- 1980s: neoliberal influences from US and UK
 - “Expansionary Fiscal Contraction”: austerity policies (cutting spending) hopefully compensated by overall growth
 - Debt ratio and deficit decrease

Monetary policy

- Until 1950s, effectively tied to the UK financial and monetary system
 - Pegged currency, same interest rates
- 1955: monetary experiment
 - Ireland did not pass on the increase in UK interest rates → capital fled to UK
 - Labour also emigrated, which decreased unemployment
- 1978: joining the European Monetary System (EMS)
 - Exchange rate bound to bands, Deutsch Mark as anchor
 - Devaluations used to reduce burden of debt → eased growing fiscal policy

Standards of living

- WW2
 - High inflation (up to 15%) and high unemployment (~12%)
 - Real GNP decrease
- Improvements in late 1940s up to 1955
 - Monetary experiment had Real GNP stagnate and decrease
- 1960s saw steady improvements, although UK's economy was in decline and pulling Ireland down. Growth still slower than the rest of Western Europe
- 1970s: increased standards of living, but high inflation and unemployment

Standards of living

- 1980s: first half saw decrease in Real GNP per capita, but then sustained growth up to 1990
 - Unemployment still high

Policy Toolkit

1920s vs 1980s

- Trade policy
 - Control of Dept of Finance → conservative and free-trade oriented
 - Fiscal policy
 - Cost of war, regressive taxation
 - Remittances from and assets abroad
 - Monetary policy
 - Close ties with UK, continuity
- Trade policy
 - Switch to attracting FDI
 - Fiscal policy
 - Learning how to manage active fiscal policy
 - Monetary policy
 - Effectively pegged to DM
 - Learn how to manage increasing cost of debt

Meet the data

Meet the data

- What are the metrics you want to look for?