Abstract: From 1970, the return of many Irish economists who had studied abroad contributed greatly to the volume of research on the Irish economy and to the related debate on policy. This was reflected in the establishment of The Economic and Social Review in 1969 and, since its establishment, the research published in the Review has made an important contribution to our understanding of the behaviour of the Irish economy and to improving the quality of policymaking.

I  INTRODUCTION

After the nightmare of the Second World War the rest of Western Europe woke up to the benefits of free trade and European integration. By contrast, Ireland continued with the failed policies of the past, involving high levels of protection. In addition, while the rest of Northern Europe, from the Urals to Snowdonia, invested in free second-level education, in Ireland access to second-level education depended on parents’ ability to pay fees. The consequence of these failed policies was serious under-performance by the economy. Many studies have considered in detail these and other policy failures of the immediate post-war years (Honohan and Walsh, 2002; Ó’Gráda, 2002; Barry 2002; FitzGerald, 2006).

Lee (1989) comments very unfavourably on the role of the domestic economics profession in contributing to policymaking in the period to 1970. In particular, he argues that there was little economic research coming from Irish universities helping...
to analyse the reasons for the poor performance of the Irish economy of the time. In the 1950s and the 1960s the one forum where there was real debate on the issues of economic importance for Ireland was the Statistical and Social Inquiry Society of Ireland (Daly, 1997).

In the late 1950s and the early 1960s the need for change and the impetus to develop economic research in Ireland came from the Department of Finance under the leadership of the Secretary, T.K. Whitaker. He saw the serious lacunae that existed at the time in understanding the economy and he took a number of measures to address the problem.

At Whitaker’s instigation, the Economic and Social Research Institute (ESRI) was established in 1960 to help fill the gap. At its formal opening in June, 1961 the Taoiseach, Mr Seán Lemass T.D. said the

> Institute has been founded to meet the growing need for more advanced economic research on Ireland; to enlarge our knowledge of the social and economic conditions of our society, and, by that means, to increase our capacity to improve them.

By securing Ford Foundation funding for the ESRI in its first few years, Whitaker sought to establish the ESRI’s independence from the administration and its ability to perform its new role.

While Lee was broadly correct in his assessment, a few key Irish economists from the universities did make significant contributions to policymaking at the time. In addition, Roy Geary played an important role in developing Irish economic research capacity, first as Director of the CSO and later as Director of the ESRI.

At Whitaker’s instigation, Louden Ryan of TCD worked for a period in the Department of Finance on the Second Programme for Economic Development. He continued to play a very important role in public policymaking in subsequent decades. Also, Paddy Lynch of UCD and Martin O’Donoghue of TCD were among the authors in 1965 of the very important report *Investment in Education*, which presaged a major change in policy on developing Ireland’s human capital. However, up to the end of the 1960s the Department of Finance continued to rely on a panel of UK economists to provide important advice on macro-economic policy.

Over the course of the 1960s quite a number of young Irish economists, having graduated from Irish universities, travelled to the UK or to the US to do PhDs in economics. The Department of Finance itself funded a number of people to undertake postgraduate study in economics abroad, including Kieran Kennedy, who went on to be Director of the ESRI. When these “emigrant” economists began to return at the end of the 1960s there was a step up in research capacity in Ireland.

The returned “emigrant” economists included Brendan Walsh and Dermot McAleese who began teaching in UCD in 1969, and others such as Paddy Geary, Colm McCarthy and Terry Ryan who followed in the early 1970s. At the same time,
there was a significant expansion in economics staff in Irish universities and the ESRI, with economists being hired from outside Ireland to raise research capacity. From the mid-1960s the Irish Association of University Teachers of Economics, which metamorphosed into the Irish Economic Association in the 1980s, was active in organising conferences on economic research. Initially economists from Queens University in Belfast (QUB) played a leading role in the Association. This reflected the relative strength of QUB in academic economics in Ireland in the late 1960s.

While the Statistical and Social Inquiry Society of Ireland continued to provide an important forum for debate on economic policy, there was a perceived need for a publication devoted to academic research on the Irish economy. This resulted in the establishment of *The Economic and Social Review* in 1969. This innovation was part of the wider development in capacity among the economics community in Ireland.

The subsequent 50 years has seen the success of the *Review*, with a wide range of economic and social research being published, having a primary focus on the Irish economy and society.

In subsequent sections, I single out a number of topics on which research published in the *Review* has made a significant contribution to understanding the Irish economy and society. I also signal some areas of public policy where the debate largely occurred through other channels. However, the contribution of academic research on economics to good policymaking is not just due to the research published in the *Review* that tackled specific policy problems. The wider understanding of the discipline through published research has played an important role in developing economics in Ireland.

### II THE 1970S

In the mid-1970s a number of articles outlining recent research on the Irish economy proved very important in changing policymakers’ understanding of how the Irish economy worked. In 1974 the then coalition government published a White paper *A National Partnership*, dealing with the problem of the very high inflation rate. The analysis in the paper suggested that the cause of the surge in inflation in the early years of the decade was to be found in domestic factors – in particular from excessive wage demands. No reference was made to the role in driving inflation of the fixed exchange rate with sterling and the related stance of UK monetary policy.

However, from the late 1960s, the academic economics community had moved on and there was a growing understanding of how the behaviour of a small open economy was different from larger economies, and also an enhanced understanding of how monetary policy worked. Four papers were published in 1975-1977, three of them in *The Economic and Social Review*, which applied this approach...
to explaining the then high rate of inflation. This research showed that the high inflation rate was imported from the UK as a result of the fixed exchange rate.

Very rapidly the Department of Finance absorbed the implications of these papers and in September 1976 consideration was given by the Department to revaluing against sterling to deal with the high inflation rate consequent on UK monetary policy. While at the time it was decided to maintain the fixed link with sterling, this research was influential in the subsequent analysis undertaken by the Department of Finance in the run up to the establishment of the European Monetary System (EMS) at the beginning of 1979. This resulted in Ireland joining the EMS in January 1979 and the ending of the sterling link.

Even after Ireland joined the EMS, ending the fixed exchange rate with sterling, Irish inflation continued to be determined by UK inflation and the bilateral exchange rate, with prices adjusting more slowly to exchange rate changes. A further series of articles in the Review analysed how the inflationary process was changed as a result of the new exchange rate regime (Honohan and Flynn, 1986; Callan and FitzGerald, 1989; and FitzGerald and Shorthall, 1998). However, since the beginning of EMU, the process driving Irish prices in the short term has become more opaque.

### III THE ECONOMIC CRISIS OF THE 1980S

Initially there was limited analysis of the origins and solutions to the economic crisis of the 1980s in the Review. Two important papers that flagged in advance the dangers of fiscal policy in the late 1970s were published in less formal formats (Geary, 1978; 1980). However, the cogency of this analysis was ignored by the then government, with serious consequences for the economy in the 1980s.

It may have been that in the early 1980s it appeared that the causes of the crisis were sufficiently obvious that more formal academic research was not needed to understand them. Also much of the economic analysis dealing with the major macro-economic problems was published in other fora, including ESRI publications.

However, once the economy began to recover, a number of articles in the late 1980s and the early 1990s reflected on the very painful experience of the 1980s, helping understand how such crises should best be addressed in the future. Honohan (1992) looked back at the experience of the mismanagement of fiscal policy and how the crisis of the 1980s was eventually brought under control. Paddy Geary (1992) provided a broader reflection on the experience of the 1980s and, in turn, Desmond McCarthy (1992) provided further reflections on the Geary paper.

---

1 Geary and McCarthy (1976); Geary (1976a); Geary (1976b); and Bradley (1977).
The understanding gained from these and other papers proved useful when formulating the response to the more recent financial crisis, beginning in 2008.

Some aspects of the Irish experience of the 1980s proved of interest to the wider international economics community. In particular, the timing of the fiscal adjustment of the 1980s, and the response of the economy to the resulting deflationary shock, gave rise to significant debate on whether Ricardian equivalence held: when the government tackled the fiscal crisis by very tough deflationary policies in the 1987-1989 period did the public feel better off because they anticipated lower taxes in the future and, as a result, raise consumption? An article by Michael Moore in the *Review in 1987* argued that this was true for Ireland.

In a subsequent paper in 1990, Giavazzi and Pagano also argued that the fiscal adjustments in Ireland and Denmark in the 1980s showed evidence that the deflationary effects of the fiscal adjustment were offset by higher consumption, as consumers anticipated lower tax burdens in the future. This paper achieved widespread recognition outside Ireland.

However, Whelan (1991) in the *Review*, looked again at the evidence for Ireland and he concluded that:

*Updated tests presented here also fail to accept the hypothesis. It would seem, then, that those who advocate that fiscal contractions can have expansionary effects may need to look to other theories which, perhaps, do not require economic agents to have the ultra-rationality and foresight required of them by the Ricardian equivalence hypothesis.*

A further paper by Bradley and Whelan (1997) carried out further analysis on this hypothesis and also concluded that the Irish case did not show evidence of an “expansionary fiscal contraction”. Even more recently, Perotti (2013) revisited the Giavazzi and Pagano paper, and he concluded that an important reason for their conclusions about Ireland was that the OECD data which they used were wrong.²

While the belief that an “expansionary fiscal contraction” was possible was quite widely canvassed outside Ireland in the 1990s, the research undertaken for Ireland, cited above, convinced Irish policymakers that this hypothesis was not valid.

If this hypothesis had been correct it would have meant that the pain involved in the very large fiscal adjustment that had to be undertaken between 2009 and 2013 would have been limited. If such a response had been expected it could have supported a faster pace of adjustment. Instead, as we now know, the fiscal contraction produced a very painful fall in output and rise in unemployment.

---

² Generally data available from international institutions, such as OECD, are less reliable for small countries such as Ireland, as they are less frequently used and, hence, tested. Thus, wherever possible, it is best to rely on CSO data for Ireland.
It was the research on the fiscal adjustment of the 1980s by Honohan and others, mentioned earlier, that proved more influential in formulating the policy response to the financial crisis in Ireland from 2009 to 2013. This research suggested that expenditure cuts had to be an important part of an adjustment package. In the end they made up about two-thirds of the “cuts”. The fiscal adjustment of the 1980s had been a “stop-go” process (Kearney et al., 2000). The results of that policy in the 1980s suggested that a steady but reasonably rapid adjustment was better when faced with the need for a very large adjustment. This was the policy actually implemented from 2009 onwards.

A further paper in the Review by Honohan and Irvine in 1987 has proved very influential. This paper looked at the marginal social cost of taxation. The authors showed that, with very high marginal rates of income tax, there was a serious loss of output from raising additional revenue. Thus, to justify raising taxation with high marginal rates, the social benefits from the expenditure that it financed also needed to be over twice the headline costs. With such a high social cost, many areas of government expenditure would be difficult to justify.

The case for having a tax system with a broad base and lower marginal rates had already been convincingly made in the early 1980s by the first Commission on Taxation. The research published in this Review proved a further strong reason for change. As a result, from the late 1980s onwards, the tax base was broadened and marginal tax rates dramatically reduced. Even in the fiscal adjustment between 2009 and 2013, while marginal tax rates were raised significantly, they were kept far below those experienced in the 1980s.

The insights from Honohan and Irvine (1987) have also influenced a series of studies setting out a methodology for assessing the benefits from state investment, both in the enterprise sector and for public capital expenditure. Honohan (1998) developed a formal methodology for assessing the value to the state of enterprise supports. This incorporated a modified estimate of the marginal social cost of taxation. This methodology was updated in 2003 (Murphy et al., 2003), and again in 2018 by Indecon, which all reference the 1987 paper published in the Review.

The Public Expenditure Code also incorporates the insights from the original 1987 paper. This code sets out the methodology for determining whether individual public investment projects are justified. The relevant parameters, that include the marginal social cost of public funds, are discussed in an IGEES (2018) paper.

---

3 Because of the reform in the tax system from the late 1980s, with a broadening of the base and a reduction in marginal tax rates, the marginal social cost of taxation was well below twice the amount of the revenue raised, whereas in the late 1980s the cost to society was more than twice the value of the increase in taxes.
IV WHAT DRIVES THE ECONOMY – THE 1990S AND BEYOND

The research explaining the success of the Irish economy in the period 1994-2007, popularly referred to as the “Celtic Tiger”, was published across a wide range of fora. Most notably, Honohan and Walsh (2002) provided a very coherent analysis of all the factors involved. Barry (2002) placed major emphasis on the importance of the corporation tax regime and O’Gráda (2002) provided a slightly different point of view, emphasising, *inter alia*, the importance of the move away from protectionism. Durkan *et al.* (1999) emphasised the importance of investment in human capital. Many other relevant papers were published by the ESRI and in other journals. A limited number of articles dealt with the topic in the *Review*.

However, the second major policy issue of the 1990s, the decision to join Economic and Monetary Union in 1999, was the subject of a number of articles in the *Review*. The first article on this theme by Michael Devereux in 1991 considered the need for fiscal co-ordination in a monetary union. Perceptively it concluded that:

*The core implication of the paper is that it is difficult to envisage how fiscal authorities can operate independently of one another under the umbrella of a monetary union.*

Honohan and Conroy (1994) considered experience on interest rates and how they were affected by movements in sterling within the EMS.

Some of the research underpinning the Irish decision to participate in monetary union was published in Baker *et al.* (1996). However, there was a very wide debate on the topic over the course of the period 1992 to 1999 and the debate on the benefits and problems arising from membership of Economic and Monetary Union (EMU) continues to this day in the *Review*.

Barry (1997) considered the problems posed for Ireland of joining EMU without the UK, given the strong links between the two economies. This gave rise to a debate in the *Review* on this issue, with contributions by FitzGerald (1998) disagreeing with Barry and a rejoinder by Barry in the same issue.

In 2002 a series of articles considered the effects of EMU on the Irish, Finnish and Spanish economies. In 2006, Honohan and Leddin, considered the shock to the Irish economy from the fall in interest rates consequent on EMU. They concluded that:

*The interest rate fall has had a lasting effect on property prices, construction activity and the capacity of the labour market to absorb sizeable net immigration.*

They were concerned about the resulting loss of competitiveness which could have proved difficult to reverse.
A full review of the academic debate by Irish economists on the topic of EMU is provided in Barry, 2017.

V THE GREAT RECESSION AND BEYOND

The experience of the Great Recession has resulted in an extensive range of important contributions to the Review. In contrast to the 1980s crisis, the economic problems of the 2008-2013 period are well covered by research published in the Review.4

In 2009, the Review published an important paper by Honohan. This paper has been widely cited and it provides a very clear exposition of how best to address the collapse of the banking system so as to minimise the economic damage and the direct cost to taxpayers. The paper was written before he became Governor of the Central Bank of Ireland.

Whelan, 2010, considers some of the policy failings that resulted in the financial collapse, and in an article in 2012 he looks in detail at how the collapse of Anglo-Irish Bank was handled and what the long-term costs were likely to be for the State.

Lane (2013) looked at the recent experience in a wider EU context. He concluded that:

We describe how the external and fiscal adjustment challenges facing the euro periphery amplify the growth risks facing these countries. We address how growth prospects can be improved by shifts in the macroeconomic policy mix, carefully-timed structural reforms, debt restructuring and the resolution of the existential crisis facing the Euro Area.

A range of other papers have considered the lessons from the crisis, such as Everett (2015) and the likely path to economic recovery, Crafts (2014).

Reflecting some of the gaps in economic analysis which the financial crisis highlighted, there have also been a number of papers published developing more comprehensive methodologies, such as that by Clancy and Merola (2016).

VI CONCLUSION

After fifty years The Economic and Social Review has amply justified its existence, providing a vital channel for communicating a wide range of important insights from economic research on Ireland, both to other economists and to the wider

---

4 The research suggesting the dangerous nature of the fiscal policy pursued between 2001 and 2007 was generally published elsewhere (FitzGerald, 2015).
policymaking community. As I have indicated, the research published in the Review has resulted in better policymaking and, as a result, contributed to a half a century of economic progress in Ireland.

In contrast to when it was established, the Review today is competing in a much wider pool as a location for publishing economic research on the Irish economy. A broad range of economic research relevant to the Irish economy is now being published in major international economic journals. Periodic booms and busts appear to make research on the Irish economy more interesting to researchers worldwide than the steadier progress of some other small economies!

Within Ireland the ESRI, the Central Bank of Ireland, and now the Irish Government Economic Services, are all publishing important research on the Irish economy. Nonetheless, the value of the Review is recognised by all Irish economists, as reflected by the wide range of affiliations of those who publish in it. The introduction of a policy forum a decade ago has also helped ensure the timeliness of the policy-relevant research appearing in the Review.

The aftermath of the financial crisis has received much more attention in the research published in the Review than was the case in the 1980s crisis decade. Judging from the range of significant research published in the Review over the last decade, it is playing a bigger role than at any time in its previous forty years. That augurs well for the next half century!

REFERENCES


