

Irish economic policy 1922-1939

<i>Headings</i>	<i>Notes</i>
<i>Cumann na nGaedheal's economic policy 1922-1932</i>	<ul style="list-style-type: none">• The Cumann na nGaedheal government had to decide on an economic policy but Cosgrave, Blythe, and the other leaders had no economic experience.
<i>Deciding on an economic policy</i>	<ul style="list-style-type: none">• They asked advice from civil servants who had worked in the British system and bankers/businessmen who traded mostly with Britain. They urged the government to continue the economic policy the British had followed since the 1890s.
	<ul style="list-style-type: none">• As a result, Cumann na nGaedheal:<ul style="list-style-type: none">• Retained free trade and refused to introduce protection (taxes on imports).• Concentrated on improving agriculture.• Kept taxes low and cut spending (e.g., reduced the old age pension by 10%).
<i>Agricultural policy</i>	<ul style="list-style-type: none">• Agriculture was badly hit by (a) the post-First World War fall in food prices and (b) damage to creameries etc., in the civil war. It also had serious structural weaknesses: 60% of farms were under 30 acres - too small for economic development; 25% of farmers were over 60 - too old to adopt new techniques.• Patrick Hogan, the Minister for Agriculture, tackled these problems in the way the British had by:<ul style="list-style-type: none">• Completing land purchase with the 1923 Land Act.• Letting the Land Commission buy up under-used big farms and distribute the land to raise farm size.• Setting up the Agricultural Credit Corporation to give farmers cheap loans.• Getting the Department of Agriculture to instruct farmers on new techniques and set quality standards on eggs, butter, etc., to recover the British market lost after the First World War.
<i>Industrial policy</i>	<ul style="list-style-type: none">• Advised by civil servants like J. J. McElligott, Minister for Finance Ernest Blythe did not intervene in industry (which provided 20% of GNP in the 1920s).• The only exception was the state-financed Shannon Scheme in 1923 and the Establishment of the state-owned ESB to provide cheap power through a national grid in 1927.• Some Cumann na nGaedheal TDs wanted to protect industry from British competition with tariffs, but Blythe resisted.
<i>Keywords</i>	<i>Summary</i>

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<i>Industrial policy</i>	<ul style="list-style-type: none">• He set up an enquiry which proposed tariffs on a handful of items. In 1926, a Tariff Commission was established to look at individual demands for protection. By 1930, they had agreed to impose tariffs on three items.• After the Great Depression developed, they agreed to several more in 1931.
<i>The Depression and the defeat of Cumann na nGaedheal</i>	<ul style="list-style-type: none">• The Depression hit in 1930. Industries closed and foreign goods were dumped here. The demand for protection grew.• Like most governments, Cumann na nGaedheal cut spending (wages for teachers, guards, etc.), making them unpopular.• In the 1932 election, they pointed to the success of their economic policies.• But Fianna Fáil promised to create jobs by (a) investing the land annuities in Ireland (b) protecting Irish industries, and (c) self-sufficiency (making everything possible in Ireland to replace imports). This was popular, and they won.
<i>Fianna Fáil's economic policy 1932-1939</i>	<ul style="list-style-type: none">• Fianna Fáil's two aims of protection and dismantling the Treaty led to an 'economic war' with Britain in 1932.
<i>1932-1935: The economic war</i>	<ul style="list-style-type: none">• Their first budget put tariffs on over 40 items, mostly coming from Britain. It also withheld €5 million in land annuities.• The British retaliated with a tax on Irish cattle to collect the equivalent of the €5 million.• Fianna Fáil then imposed tariffs on 1000 items.• This damaged trade between the two countries. Irish exports to Britain fell from €47 million in 1929 to €18 million by 1934.
<i>Agricultural policy: 1932-1939</i>	<ul style="list-style-type: none">• The economic war hit farmers badly. It was almost impossible to find a market for their produce.• Fianna Fáil encouraged farmers to switch to growing wheat and sugar to replace imports. Fianna Fáil called this 'self-sufficiency' which was a popular idea in the 1930s.• It made little difference. Up to 1936, arable farming (i.e. crop-growing) increased by just 10%.• Fianna Fáil policy did little for small farmers of the west. In 1937, some farmers formed a new party - Clann na Talmhain.
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J. J. McElligott (1893-1974)	<ul style="list-style-type: none"> In 1927, he replaced Brennan as secretary of the department of finance, the top job in the civil service, a post he held through several changes of government until 1933. Under Cumann na nGaedheal, McElligott worked closely with finance minister Ernest Blythe. To help big businesses and farmers, they kept government spending and taxes low, while maintaining free trade. But this policy left little to spend on healthcare, education and housing. Blythe appointed McElligott Chairman of the Tariff Commission to look at requests, one by one. By 1930, they had dealt with 12 requests, but granted only three – on rosary beads, margarine and flour. McElligott opposed government involvement in industry. He opposed spending on the Shannon Scheme and setting up the ESB as a state-run company. The Depression in 1930 led to a new policy. McElligott was removed from the Commission and tariffs imposed, even before interference in the economy. McElligott was uncomfortable with Fianna Fáil's policy of protection, high government spending and government interference in the economy. He clashed with Seán Lemass, but got on better with Minister for Finance Sean MacEntee, who came to share his views. McElligott approved of de Valera's decision to talk to Britain in 1938. He was on the Irish delegation and was closely involved in negotiating the end of the dispute over land annuities. When Fianna Fáil set up a Banking Commission in the mid-1930s, McElligott strongly influenced its report which recommended keeping the Irish pound linked to the British sterling and setting up a Central Bank. This was done in 1943. McElligott was involved in the government's preparation for war. Wartime conditions forced him to accept more government involvement in the economy, e.g. he supported a government-owned Irish Shipping. In 1943, when planning for post-war conditions began, McElligott successfully resisted Lemass' suggestion that the economic ideas of John Maynard Keynes be adopted. He also opposed Irish involvement in post-war financial organisations like the International Monetary Fund (IMF) and all new economic thinking up to his resignation in 1953.
Keywords	Summary

Cumann nGaedheal Economic Policy

Background

1. Cumann na nGaedhael inherited a backward economy, burdened by Civil War debts and an overwhelming depression in agriculture.
2. Economic realities included:
 - Realisation that the Irish economy was enmeshed with the British economy.
 - Few cabinet members had economic experience.
 - The world economy was in recession.
 - Ireland was a predominant rural economy and the major industrial area had been partitioned off.

Political considerations

1. Generate support for the new State and confidence among certain crucial classes - the bankers, the large farmers and the Anglo-Irish community.
2. Government adopted a conservative policy -
 - Concentrated on agriculture (2/3 of the population lived in rural areas and half the workforce were employed in agriculture).
 - There was a belief that industrialisation could not be engineered.
 - Maintained the link with Sterling which left the Irish pound over-valued - which avoided problems with inflation in the 1920s.
 - The government needed to avoid bankruptcy by a policy of low taxation, avoidance of borrowing and balancing the budget.

Agriculture – The Problems

1. Small farms who had no money for new technology.
2. Conservative and old farmers who did not relinquish their farms to their heirs until they were relatively old, cautious and conservative.
3. Ireland had supplied poor quality produce to England during the war so her reputation for quality was poor.
4. Britain adopted a cheap food policy in post-war period so the British market - traditionally the chief one - had to be competed for and this meant that prices obtained for Irish produce declined.

Agriculture – The Policies

1. Minister for Agriculture, Patrick Hogan
2. Set standards for production of butter, meat and eggs.
3. Advisory service to improve breeding stocks and crops.
4. Interventionist policy to improve standards in marketing.
5. Established the **Agricultural Credit Corporation** to make loans - few took advantage of it.
6. The 1923 Land Act completed the compulsory purchase of all land still held by landlords - but many farms were too small to be viable.
7. Income tax was kept low, cut from 25% to 15% between 1924 - 26.

Agriculture – The Outcomes

1. Limited success in the early years.
2. Little change in volume of output or the structure of exports.
3. Value of butter exports rose very slowly.
4. The number of cows actually fell a little.
5. The total value of exports reached a peak in 1924 at £51.6m, fell to £42m in 1926, recovered to £48m in 1929 and did not reach that figure again until 1948.
6. Loss of tillage and a new dependence on imported foodstuffs. Development of sugar beet as new cash crop - this was the exception to this.
7. Policies benefited the strong farmers, rather than the smaller ones.

Industry – The Problems

1. Not a priority for Government.
2. Home market was too small to cope with imports.
3. No source of power.
4. The government was convinced that industry could not be forced but it was unlikely that industry would emerge without the help of protectionism, bounties or special financial provision.
5. Larger industries opposed protectionism
6. The outstanding exception was the **Shannon Scheme** at Ardnacrusha and the establishment of the 'semi-state company', the ESB.

Specific Economic Measures

1. Cut wages of teachers, gardai and civil servants by 10% in 1923.
2. Cut in Old Age Pension by 10% in 1924.
3. Government used the building of the Ardnacrusha Shannon Scheme to drive down wages by up to 30%, provoking a nine month long strike in Limerick involving hundreds of workers.

Impact of Economic Policies

1. Economic growth was slow.
2. Unemployment never fell below 6% and could have been much higher than this official figure (perhaps 17% in 1926) and was deemed to be due to laziness of workers or restrictive trade union practices.
3. Emigration averaged 33,000 each year.
4. Income tax remained low, which meant that it was difficult to tackle intractable poverty and social problems.

Fianna Fail Economic Policies

Free Trade and Protectionism

1. Free trade is an economic theory which promotes unlimited international trade - an open market leads to increased competition, lower prices and greater choice. It benefits exporters but smaller producers may suffer from competition. During the 1920s Cumann na nGaedheal favoured it but there was shift to protectionism under Fianna Fail.
2. Protectionism favours protection of domestic industry from foreign competition and is achieved by high tariff on foreign imports - followed by Fianna Fail to make Ireland politically and economically independent of England.

Fianna Fail Government 1932

1. Cumann na nGaedheal's policies had relied on continuity & caution - felt there was no need to protect infant industries.
2. Fianna Fail's victory in 1932 brought a shift to protectionism.
3. Fianna Fail wanted government involvement in the economy to create prosperity for a drive to independence, promotion of native Irish resources and protectionism in the light of international economic crises.
4. They wanted to break all links with Britain to make Ireland more independent – stopping land annuities.
5. There was a drive for self-sufficiency.

Industrial policy

1. Self-sufficiency & development of industry was prioritised. Lemass (Minister for Industry) developed industry in time of global crises.
2. High tariffs on industrial imports to make them expensive & loans/tax breaks to Irish industrialists.
3. In 1932 and 1933 budget restrictions were imposed the on import of thousands of items and Lemass encouraged factories making textiles, footwear, cutlery, cement etc.
4. From 1931 - 38 - industrial output rose from £55 - £90m in a world economic crises - only supplied the Irish market.
5. The **Control of Manufactures Act** of 1932 & 1934 decreed that all new firms should be Irish owned - but flexible to allow Cadburys etc to set up through subsidiaries.

Support Measures

1. Set up **Industrial Credit Company** - to make loans to industries.
2. To finance big projects set up **semi-state companies** such as the Irish Sugar Company to develop the sugar beet industry, Aer Lingus to develop transport, Bórd na Móna to develop bogs & Irish Life to develop insurance.
3. Many firms were given **monopolies** to incentivise them.

Agricultural policies

1. Grants and subsidies to cattle farmers and encouragement of tillage (more employment & self-sufficiency).
2. Guaranteed prices for wheat & sugar beet. Imports of wheat, sugar, bacon butter were restricted.
3. Fianna Fail wanted to modernise farms and make farms bigger and more tillage.
4. Policies not a success for taxpayers and consumers - items were expensive.

Policies of Fianna Fail - Economic war

1. Land Annuities: annually £3m. DeValera argued they were unjust, needed for economic recovery at home, had never been voted for by the Dáil in 1926. They were not paid by Northern Ireland. He stopped paying them.
2. Economic War ensued, Britain imposed duties & restrictions on imports of Irish beef/cattle. In 1932 Government passed **Emergency Imposition of Duties Act** - duty on British coal and 20% duty on various goods.
3. Some historians argue - *"The economic war was a godsend to Fianna Fail, as it enabled them to introduce their own protectionist programme under the guise of patriotic necessity"*
4. Economic War greatly affected Irish population. Wealthy cattle farmers suffered, farm labourers lost their jobs, living standards fell, basic foreign goods became more expensive. Some amelioration with **Coal - Cattle Pact 1935**.
5. But political success in **Anglo-Irish Agreement 1938** – one off payment to British for land annuities (£10 million) and return of the three naval ports.

Success or Failure

1. Major social problems remained – poor housing, unemployment, low wages, large-scale emigration.
2. Economic War had a major impact on the economy and was followed by shortages as a result of World War 2.
3. Plan for self-sufficiency didn't work. Some industrial development did occur but unemployment remained high.
4. Protectionism led to poor quality products and higher prices.
5. Taxes increased and there was increased spending on health, education and welfare.

Cumann na nGaedheal and Fianna Fail in Power: Economic Policies - Comparison

Cumann na nGaedheal	Fianna Fail
<ul style="list-style-type: none"> • Economic crisis - Aftermath of War of Independence and Civil War • Partition – southern Irish economy poor – high unemployment • Dependence on UK for finance and trade • Rural focus – low industrialisation • Central Policy focus on Agriculture sector – free trade – low taxes – link Irish pound with sterling • Introduced standards of production, advisers, ACC set up to offer cheap loans, land commission, land Act • Less focus on Industrial Policy – Free Trade V Protectionism debate – Fiscal Enquiry Committee • Tariffs on small amount of products 1924/35 – concentrate on free trade • Shannon Scheme – major achievement 1929 – cheap power for Industry and public – ESB set up to distribute through one of the first National Grids in Europe • Low Taxes and cuts in spending • Cuts in Old Age pension and no of people getting social Welfare • 'Ultimate Financial Agreement' with Britain – commitment to pay €5million of Land Annuities • Some success – agricultural exports increase, small increase in industrial employment, budget balanced • 30's World Depression 	<ul style="list-style-type: none"> • Economic War + 30's depression – devastating effect for farmers • Self – Sufficiency • Subsidies for farmers – encourage to switch from cattle (arable farming) to crops (tillage) – fixed prices for sugar beet • Industry focus – Sean Lemass • Protectionism – encourage Irish industry set up ICC to give cheap loans to Industry • Semi State Companies set up – Irish Sugar Company, Aer Lingus, Board na Mona, Irish Life • Increase in taxes and some spending • 1933 – Unemployment Assistance Act, National Insurance Act – improve benefits. • Improved Old Age and blind pensions 1935 – pensions for widows and orphans introduced. • 1932 – Housing Act – improved housing provisions • End to Land Annuities – final Lump Sum Agreed • Some success – more in Industry than Agriculture - some increase in Jobs in Industry but still high unemployment and wages low – increase