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Concluding Remarks: Economic Policymaking in Ireland over the Past Half-Century

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These presentations and discussions provide a splendid panorama of the role of economic policy and of policy advisors in the Ireland of today. Allow me to offer some personal reflections on how these matters have evolved in Ireland over the past half century.

1.1 Evolution of the Irish economy: thrills and spills

Few economies can have offered the economic researcher as much variety as the Irish economy has during my professional career. It has constantly been throwing up new idiosyncrasies and remains structurally exceptional – not always in a good way.

Back in the 1960s it was demography that generated the most interesting features: massive recent net emigration, low rates of marriage and fertility and so on. Things hotted up with the first oil shock in the mid-1970s. The misguided attempt to use unsustainable fiscal expansion to dig the economy out of the slump that this generated led to the big fiscal bust of the 1980s, from which the economy recovered only after 1987. There followed the *Weltwunder* that was the Celtic Tiger. For several years the economy was internationally competitive and the rapid export growth, much of it through newly arriving US-owned firms, eliminated involuntary unemployment for the first time in decades. Around the turn of the millennium, though, this expansion gradually morphed into a spectacular but doomed property price and construction boom. Once again there was a sudden stop creating the Irish strand of the Great Financial Crisis. But, half a decade later, recovery was well

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under way supported by what is presumably the last and strongest surge of the foreign direct investment and corporate tax bonanza.

I have greatly enjoyed studying these volatile developments in real time, whether it was (for example): documenting the way in which Irish unemployment rates were strongly influenced by those across the Irish Sea, thanks to a substantially integrated labour market; considering alternative financial indicators for assessing fiscal sustainability in a period of high and variable inflation and interest rates; or trying to understand the impact of transfer pricing by multinational corporations on macroeconomic aggregates (starting with "the black hole in the balance of payments" in the early 1980s). The work was especially rewarding when done in a collaborative mode: counting names, I discover that I have had no fewer than 29 Irish research co-authors in published work – many of them present at this conference.

1.2 Data for economic research in Ireland

The three papers presented and discussed here push forward our knowledge on some of the most important policy areas: growth, fiscal and financial policy. They also illustrate the improvements in the quality and quantity of data on which research can be built. Martina Lawless' paper analyses data on industrial structure, the correct interpretation of which is key to understanding the evolution of Ireland's growth model. Barra Roantree's paper shows how survey data can be used, for example, to quantify the degree to which fiscal policy redistributes the fruits of that growth. The data in the paper presented by Tara McIndoe-Calder throw detailed light on how the financial sector – whose missteps were so damaging two decades ago – interacts with firms and households: such data can help evaluate direct and indirect effects on them of financial sector policy measures. All three papers exemplify how data availability on a comparable basis has allowed international quantitative comparisons to become the bread-and-butter of much of our policy debate.

Modern use of economic data for analysing Irish economic problems dates back to the return from US doctoral programmes in the late 1960s of Brendan Walsh, Dermot McAleese and others, who revolutionised the teaching of economics in Ireland and from whom I learnt a lot. (By the way, Brendan, the big authority on population issues, was my referee of choice back in those days, so if any former employers have complaints, you know who to blame.) What a contrast there was between how these Young Turks taught economics in Ireland and the old school which had largely prevailed up to then. The old school had its strengths too, of course, and I am particularly glad that I did not miss Paddy Lynch's enthusiasm for writers from Keynes to Veblen; this inspired an eclecticism in his students' reading which would not be customary, I think, in most American PhD programmes today.

In addition to the sheer increase in the volume of data, there have been great advances in technical analysis of Irish economic data. Back in the early 1970s no published multi-equation macro-econometric model of the Irish economy yet existed; without such a model, stabilisation policy for this small open economy was being carried out in a dense fog. Software packages were almost unknown: in order to run even simple linear regressions, Peter Neary had himself to write a FORTRAN programme which he made available to Irish colleagues. That was a far cry from the household level datasets which can now be analysed, thanks to the enormous increase in the power of computing and the ease of using the sophisticated econometrics packages that are available. One striking consequence of the new data is that the emphasis in applied econometric work has shifted strongly from time-series to cross-sectional analysis.

1.3 Economic policy

That said, it should be noted that it still seems to be a lot harder for Irish researchers to get access to household-level and firm-level datasets for Ireland than for other EU countries, and this naturally weakens the potential contribution of economic research to effective policymaking. Collecting microdata is more expensive in small countries because of the economies of scale in collecting surveys of sufficient statistical size, but it seems clear that access by researchers to Irish administrative data is something that can be improved with better organisation and greater recognition of the social value of economic research.

It is a regrettable reality that economic policy advice is not always welcomed. After all, economics' moniker as the dismal science is not altogether undeserved. The economic policy adviser must be always pointing out the indirect or systemic consequences that will nullify or make destructive what seems at first sight to be a plausible measure. A high point of policy advocacy by the Irish economics profession were the warnings in the late 1970s by Colm McCarthy, Paddy Geary, Brendan Dowling and other founders of the Dublin Economics Workshop (DEW) that the naively expansionist measures of those years would drive Ireland off the rails for a decade; which is what duly happened. The DEW itself, a weekly academic seminar rotating between the Dublin universities, the ESRI and the Central Bank, was an important innovation helping to encourage local economic researchers like myself (just returned from study at the LSE).

When macroeconomic warnings go unheeded and collapse occurs, there is much work for the economic policy advisor, as government tries to dig itself out of the hole into which it has fallen. How lucky I was to have been called to the ringside to help in this process, not only in the crisis from which we recovered a dozen years ago but also the previous one with which Garret FitzGerald's government struggled a quarter century earlier.

Is economics better at warning against errors and at helping restore balance to a distressed economy than it is at proposing ways of improving economic prospects in steady times? It has often seemed to me that there is such an asymmetry in what economic policy analysts know best. They have coherent tools for calculating whether the overall costs of a spending initiative exceeds its likely social benefits. They can be quite good at warning about – and dealing with – downturns. This helps explain the negativity of much economic policy advice. Irish economists' record in foreseeing risks and in helping to restore balance to a depressed economy is not perfect, but arguably better than their record in identifying positive measures needed to generate a trend improvement in wellbeing.

That asymmetry has contributed to economics having the reputation of being dismissive of the role of government, and of neglecting issues of inequality. I believe this does Irish economists an injustice. Recognising the importance of having a capable governmental machine to underpin national economic performance, many have worked to boost that capacity. As is well-known from distributional analysis of the impact of tax and social benefits, Irish economic policy has displayed more concern with inequality over the years than in many other countries. Certainly in the two big downturns that happened in the past half-century, although the adjustment required sharp reductions in borrowing, Irish Governments were not at all influenced by the ideology of small government which prevailed at the same time across the Irish Sea. The Garret FitzGerald government actually increased real rates of unemployment assistance even as unemployment rates were soaring. Garret was intrigued by the idea of a basic income, and he had me doing elaborate but still back-of-the-envelope calculations to see if it could work. Actually, the scale of reliance on social welfare payments in Ireland in the mid-1980s, the relatively meagre weekly flat figure amounts being paid (relative to Continental Europe) and the high marginal income tax rates of those years probably made a basic income approach more nearly viable than usual (i.e. it could have been financed with tax rates that would not have been as far above current rates, as is normally the case).

In the later crisis I recall the concerns of Brian Lenihan (much maligned for remarking that "we all partied"), when he realised that the plain people were suffering in a crisis generated by elites. He was anxious to find ways of reducing the burden of adjustment on lower income groups. While Irish economic policy was influenced in good times (like the late 1990s) by a degree of market fundamentalism, in bad times none of the main Irish parties lost sight of distributional concerns.

1.4 Role of the policy advisor

Government capacity depends not only on elected politicians but also requires skilled, experienced and committed officials. Given the complexity of the modern economy, this is especially so when it comes to ensuring that policies supporting economic progress are effective. Let me take this opportunity to offer a few words of caution.

One thing that I believe has shifted over the years is the degree to which Irish public servants perceive their role in policy. My impression is that the growing emphasis on ensuring proper process in official action – proper governance – has somewhat displaced the perceived responsibility of officials for ensuring that policies actually work, and not just that the measures proposed by Ministers are implemented and properly accounted for. Most Ministers arrive as amateurs in the technicalities of policy. The measures they have in mind will often not be the most effective to achieve the goals they seek. A senior official who sees their own role as being limited to ensuring that proper procedures are followed in the implementation of government policy is not, in my opinion, doing enough. Slavishly implementing an ineffective measure serves neither the government nor the people. Nor is it enough to merely follow the *Yes Minister* model by dissuading the Minister from taking action. Instead it should be the official's task to draw on official expertise to persuade the Minister of the merits of a refined policy which will better achieve the Government's aim. That is how most senior public servants saw their role in the time of T.K. Whitaker; I am not sure that it is so often the case today.

In the run-up to this conference, Philip Lane asked me what the key turning points were in my own career.

I have to say that I learnt a lot that was relevant to Ireland from my years as an international civil servant working at the Bretton Woods Institutions: first at the IMF which was a tautly run hierarchical organisation with definite opinions; but mainly later at the World Bank, a more free-wheeling organisation whose flexibility opened the door to a range of divergent opinions. These years exposed me to the variety of economic policy problems that can exist and to the way in which the official sector in different countries deals with them (well and not so well). Getting to know how policymakers and advisors think and operate in other countries also proved to be useful later on. A dozen years at the World Bank, working to understand how countries all over the world can best avoid financial crises and how best to manage those crises when prevention fails, was an invaluable foundation for dealing with our own macro-financial crisis when it blew up after so many Irish Icaruses flew too near the sun.

But I learnt most during the years I spent working for Garret FitzGerald. Working so close to the economic policy decision-making enabled me to put all the pieces together: the different aspects of public policy, the role of the politicians, the role of the officials. This was of immense value for me in later years, working with public authorities both at home and abroad.

Philip also asked: What policy issue generated the most fun?

One candidate would have to be the planning of the 1986 devaluation of the Irish pound in the European Monetary System. By restoring Ireland's international competitiveness, that step provided a foundation for the subsequent export-led recovery.

In the end, though, the 2013 "promissory note deal" wins. This financial engineering operation was undoubtedly complex. It had to be complex if it was both to satisfy legal requirements, and, in effect, to claw back a large fraction (in net present value terms perhaps a third) of the outlay the government had made in stabilising the banks following the bank guarantee of 2008. Given the source of the problem, the operation was morally and financially the right thing to do, as was generally recognised by the decision-makers at the European Central Bank.

What comes next for the Irish economy? It is not hard to imagine exogenous set-backs that could put an end to its remarkably rapid and distinctive growth over the past decade. But the speed of recent changes has also generated endogenous tensions that require decisive and comprehensive economic policy responses, without which further progress will be stifled. It continues to be up to researchers and advisors to ensure that they understand the Irish economy so that these responses are well designed and effectively implemented.

What a wonderful birthday present this conference has been. Thanks so much to TCD and the ESRI for organising it and to all of my friends for the papers and the panel discussions, and for coming along. And for all the overblown compliments.