

IRELAND began the twentieth century as an export-enclave economy, the result of landlordism. It is due also to end the century as one, thanks to the land deal struck between its nationalist leaders and the British government 100 years ago.

"What was the Ireland the Free State took over? It was the Ireland that we made," A. J. Balfour was able to claim 30 years after his Conservative Government had sealed the transfer of Irish land titles from landlord to tenant with the Wyndham Act of 1903.

The transfer had begun with the Ashbourne Act of 1885 during the first Conservative administration of his uncle, Lord Salisbury. That act was designed to fend off mounting popular criticism of the institution of landownership and the parliamentary clamour for Home Rule.

Referring to the act, the extension of the franchise, and the defeat of Gladstone's first Home Rule Bill in June 1886, James Meenan has written, "It is hardly too much to say that the form of society and state in which we live was determined during that crowded twelve months."¹

But the underlying form of land tenure, private rent possession, remained unchanged, so the characteristics of the economy, developed under landlordism, were to continue.

THE 19th century had seen Ireland increasingly using extensively-produced exports to pay for intensively-produced imports, allowing its domestic economy to wither.

Its natural advantage in livestock had enabled landlords to maximise their rents for very little outlay on local products and labour. Exchanging the rents for goods produced abroad had further minimised opportunities for local employment.

Taxation also took demand out of the economy, as the Childers Commission discovered in 1896.² Being mainly indirect taxes on consumer goods such as tea, tobacco and whiskey, it had come to bear disproportionately on the poorer regions of the U.K., such as Ireland, especially the west of Ireland.

The taxes were spent mainly for im-

Maximising cornerstone

perial purposes (the army and the navy) rather than in ways that might foster economic growth.

Industry was also starved of a supply of venture capital. Landlords' incomes were tied up, whilst foreign investors were deterred by the "agrarian outrages" of a population increasingly denied access to land.

Almost every industry dependent on the home market therefore declined. The catastrophic fall in the demand for labour, and hence low wages, allowed the textile industry to retain its labour-intensive linen sector, however.

It was restricted to the Belfast area, where passenger liners became another major employer. Belfast came to account for one-third of the country's net industrial output.

Half the total industrial output was exported in the first decade of this century. Ireland had become the most export-orientated small country in the world. But the linkages of its enclave industries into the rest of the economy were few. "The effects of the export boom were thus narrow in their diffusion," writes Cullen in the standard economic history.³

He points to "the paradox of Ireland's position." (p.170). The profits of its world famous industries and the land rents of the graziers were producing a net outflow of capital and supporting a "highly developed infrastructure of banking, commerce and railways". Yet Dublin's slums were the worst in the U.K.

and the Congested Districts of the west its poorest areas.

Thus the Ireland which the Conservatives created was one which particularly exemplified what Henry George at the time of the Land War had called "the great enigma of our times . . . the association of poverty with progress."⁴

George traced the origin of this phenomenon to the private possession of land rents. In *The Irish Land Question*, 1881, he attempted to persuade the Irish people that their quarrel was not with the English but with "the system that oppresses both". What source other than land rent could have funded the many viable investment projects identified by Royal Commissions, or raised the real incomes of the people to enable them to invest themselves?

But the Irish Free State was to go on to adopt the maximisation of the private rents of landowners as virtually the cornerstone of its economic policy.

It followed the same policy the Tories had relied upon for "killing Home Rule with kindness" which had demonstrably failed but succeeded in its aim of creating a "rampart" of a few hundred thousand rural landowners to defend the institution of private landownership.

The result was that just as the prosperity of Irish agriculture was at its peak with the tripling of output prices during the First World War, a vast pool of surplus rural labour looked to the Irish Republican Army to throw off the perceived cause of its poverty - British rule.

THE IRISH Free State's economic policy for its first 10 years was decided by the majority report of the Commission on Agriculture, 1922-24. Its recommendations were applied by Patrick Hogan, Minister for Agriculture 1922-1932.

In one of the earliest general textbooks on the political economy of Ireland, James Meenan pays tribute to that policy: "If the Irish state ever finds itself obliged to put first things first and to get full value for the money it spends, it will find an admirable model in the manner in which Hogan's policy was framed."⁵

One of the signatories of the majority report was Meenan's mentor, George O'Brien. He set out the issues in his influential obituary on Patrick Hogan:⁶

Hogan started from the

HOW MR BUSH COULD MAKE REAL

VICE-PRESIDENT George Bush has received some caustic advice from the U.S. magazine *New Republic*.

In noting that Mr. Bush has expressed contradictory views on trends in the price of petroleum, the magazine noted (April 28): "The ideal price for oil would be \$0. As Henry George explained more than a century ago in *Progress and Poverty*, the cost of natural resources is nothing more than a tax on the productive elements of the economy - labor and capital. "The \$15 plummet in the price of oil during the past few months . . . has been like a \$90bn annual tax cut for the American economy. The policy question is what we should do with our \$90bn." After itemising the Vice-

PROGRESS

President's various views, the magazine then advocated a gasoline tax which would encourage conservation and increase the government's revenue (as elaborated in *Land and Liberty* in May-June, p. 42).

After describing how the oil-rent revenue could be spent on socially useful projects, the magazine then adds, finally: "Oh. And a few dollars might profitably be invested in a copy of *Progress and Poverty* for George Bush."

rents as a policy of the state

assumption that agriculture was and would remain by far the most important industry in the Free State, and that the touchstone by which every economic measure must be judged was its effect on the prosperity of the farmers.

He believed that economic policy should be directed to maximize the farmers' income, because, the farmers being the most important section of the population, everything that raised their income raised the national income of the country. Prosperity amongst farmers would provide the purchasing power necessary to sustain the demand for non-agricultural goods and services, and it was useless to encourage secondary industries unless the primary industry was in a position to purchase their products.

... the farmers' profit is the difference between what they put into the land and what they take out of it, i.e. the difference between costs of production and selling prices; selling prices were, in most cases, outside the control of the Free State government. When the problem is stated in this way, it becomes obvious that the only thing the government could do to help the farmer was to assist him to reduce his costs of production.

Meenan summarises: "Thus, a thorough-going tariff policy was ruled out. Equally, central and local taxation should be kept as low as possible ... In the 1920s, after eighty years of free trade, it was fairly clear that the forms of production which the Irish farmer had adopted under those conditions were prima facie those in which he had the greatest superiority ... if land, labour, capital and skill were applied in the first place to the further development of those forms of production ... wealth would be increased all the more quickly."

That was the theory. The practice was that, apart from the improvements in breeding and marketing organisation, such a policy had already been pursued

for eighty years with completely the opposite results.

Mansergh, for example, writing in 1940 on the period since the Famine, is approvingly quoted by Meenan: "the disappearance of the smaller farms encouraged the extension of cattle-rearing [actually the other way round] thereby facilitating the decline of agriculture and lessening the demand for labour. The consequence was that the major advantages were secured by the large farmers and land-owners ... and were not distributed evenly throughout the population."

The policy-makers' aversion to the facts was remarkable. O'Brien defended Hogan's policy

on the following grounds. In the first place, it utilised to the maximum the physical and geographical resources of the country; secondly, it developed those branches of production which are particularly suitable for the average Irish farm; thirdly, it did not involve any breach of continuity in the tradition of Irish farming ...; fourthly, it promised to provide abundant rural employment, as the agricultural statistics prove that mixed farming with dairying as its principal feature gives more

employment per acre than almost any other type of agricultural activity; fifthly, food production would be stimulated ..."

The only one of these propositions that was true was the third one. But that tradition was one of cattle grazing not mixed farming. Over the previous 80 years the number of dry cattle had at least quadrupled to more than 4m in the Free State. Milch cows had remained constant at about 1.2m.

"Thus the major industry of the country assumed a form, which, if it did not actively promote depopulation, certainly did nothing to create a demand for labour," writes Meenan. The policy which he endorses would appear to have fallen at the first hurdle.

He also writes (even in the 1960s) "it is generally agreed that the inherent fertility of the soil has been barely developed as yet". That takes care of propositions one and five.

There was also a question mark over proposition two. Those branches of production that had proved "particularly suitable for the average Irish farm" under institutional arrangements involving capital starvation, might not necessarily be suitable under conditions of capital availability.

THE FLAW in the Free State's thinking may be found in its unexamined postulate. It is a fallacy to assume that what is good for farmers must be good for the rest of the economy. The composition of farmers' profit or income needs to be analysed.

O'Brien's definition above was the difference between total costs and total

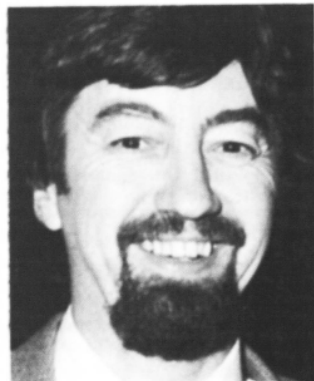
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NUNN WISER

TREVOR NUNN, joint artistic director of London's Royal Shakespeare Company, is sympathetic to observations that his absence from the RSC - in favour of lucrative work in the commercial theatre - was causing problems.

He analysed the problem in these terms: "The problem ... has been around for many hundreds of years. It choked the whole of Ireland and has bred there a resentment that only revolution can assuage. It is called 'Absentee Landlordism'.

"The RSC will dwindle and blunder until this situation is remedied. If the absentee landlord isn't prepared to come and live on the estate, then he should be kicked out for good and all."



• Trevor Nunn

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sales. "Net yields are the measure of the prosperity of the men on the land," he also wrote.

It would seem from this that farmers' profit and the net yield of their farms are assumed to be identical. But what was the situation 50 years before, when farmers had to yield up part of their net yield in rent to landowners? Their profit then did not equal the net yield of their farms.

Had the cost of land been abolished by legislative fiat? Obviously not. The cost of land (economically necessary for the efficient allocation of land) had been converted into profit by combining in the owner-occupier the two economic roles of farmer and landowner.

Hency George had warned at the time that the two roles should be distinguished and that the interest on the farmer's capital and the wages for his labour and enterprise should not be confused with the rent that he gained merely through landownership. His warning, however, was not heeded; the farmer's profit is now taken to include the landowner's rent.

There is another peculiarity of logic. The net yield of farmers does not equal the net yield of, or income arising in, agriculture as a whole, because the wages of hired labour are not included. Why the net yield of farmers rather than *the whole* of "the most important industry in the Free State" should be regarded as the touchstone of economic policy is inexplicable economically.

It meant that farmers' profit could now be raised without raising the net yield of agriculture. By going over to extensive forms of agriculture, the rent of land, and hence the farmers' yield, could now be raised simply by reducing the cost of labour. It might also compensate for reduced personal inputs of capital and labour.

As Raymond Crotty put it, the security

Divorce Bill was 'threat to farms'

THE IRISH have voted overwhelmingly against a proposal to permit divorce. One of the anti-divorce lobby leaders was Alice Glenn, an M.P. and a member of Prime Minister Garret FitzGerald's party, Fine Gael.

In rural areas, warned

Mrs. Glenn, new divorces would lead to the breakup of farms.

And this, according to the *Newsweek* report of the referendum campaign (July 7) was "a frightening prospect to people who consider proprietorship over land all but sacred".

of land ownership "gave a new freedom to farmers not to invest". Primogeniture also encouraged consumption on the farm by all the family rather than enhancing the farm's value by investment for the benefit of just one heir.

"Their seems little doubt that ... the marketed surplus would fall," writes T. J. Byres of this type of land reform. "The poor peasant would presumably use the newly acquired land for subsistence farming, and would increase his self-consumption." Poultry on Irish farms expanded from 11.8m to 20.2m between 1891 and 1914.

Thus the incomes which the policy makers sought to enhance by encouraging the existing output mix were not at all "farmers' profits", economically speaking. They were the profits of those who for 80 years had chosen that output mix, namely the landowners. The Free State's policy was truly a private rent-maximising policy.

Other aspects of policy also tended to reduce true farmers' profit and raise land rent. Taxation, especially on income and property, was kept low in order not to drive labour and capital away to the U.K. This restricted useful public investment but lifted a restraint on the value of land.

Grant aid in relief of rates (the property tax) directly reduced a cost of land-ownership and hence raised the land's rental and sale value. The taxes that paid for the grant, however, raised costs and penalised the most intensively farmed

land, not to mention the farm labourer.

Apart from directly discouraging farmers from actually putting anything into the land, Government policy had another effect: it encouraged misallocation of the land and thus indirectly reduced the capital and labour put into it.

The economic function of rent is to direct land to its most efficient user, but that function had been suppressed. Land prices are related to rents and perform the function to an extent, but most land was inherited. Meenan is acquainted with the problem:

"Estates were usually divided, as they came under the provisions of the Land Purchase Acts, between the existing occupiers, irrespective of their skill or competence or of the quality of the land ... Thus, standards of production varied greatly ... It was no wonder that Horace Plunkett should talk so often about the economic man on the uneconomic holding and the uneconomic man on the economic holding ..."

"Farm sizes cannot be easily adjusted to changing conditions. Too many holders of large farms allow them to run down, through force of circumstances or lassitude, with impunity. This is a growing weakness when greater capitalization and skill are so urgently needed."

A vicious circle was thus created. Mis-allocation of land stunted the production of wealth. This made it more important to hold on to the security of land. Land mobility was reduced and misallocation increased.

The overwhelming vote in rural areas against relaxing the divorce laws in the referendum of June 1986 was grounded in this vicious circle. Duty to an ex-wife would require a husband to either earn an extra income or forfeit some land — difficulties that are interlocked in Ireland to this day.

THE HENRY George/Michael Davitt alternative to the Irish land reform would have gone to the root of the problem. Nationalisation of land rents would have preserved rent-charging without allowing the rents to be squandered by private landowners. Market allocation of land and productive investment of the rents would have created a virtuous circle in place of the vicious circle.

Taxation that drives labour and capital

* WORLD NEWS * WORLD NEWS *

MIDDLE EAST: As revenue from oil rent dropped in the past few months, construction has contracted and property prices have collapsed — particularly in the Gulf States. In Kuwait, where landlords are entitled to double rents every five years, they are now trying to find tenants at two-thirds or half last year's rents, for 30,000 empty apartments. Land values have crashed by up to 60%.

LONDON: Comedian Freddie Starr, whose favourite figure of fun is Adolf Hitler, is quitting showbiz. Standing on Blackpool beach in his Nazi regalia

he explained why he could now afford to retire. He had made £18m. on a land sale in Spain. "That is why I don't need showbiz any more."

CUBA: Fidel Castro, who has tried to offset the inefficiencies of the socialist system by allowing a measure of economic freedom, is now campaigning for a revival of ideological purity. He has attacked corruption and profiteering, especially in the construction industry and the housing market.

BRAZIL: Sixty-three slaves on an isolated farm in the Amazon have been freed. They were

discovered by police during a routine search for guns in a region notorious for violent disputes over land rights.

MADRID: Cash flow problems are said to explain the crisis in the empire built by Adnan Khashoggi, whose fortune was once estimated at \$2,000m. Several companies, including a London gambling club, have served writs in their attempts to recover money. Explained one of Khashoggi's right-hand men: "We have a liquidity problem because we moved more rapidly than we should in a couple of real estate markets."

FIGHTING TYRANNY

ROME: The Vatican has published a 59-page pamphlet dealing with the THEOLOGY OF LIBERATION — a call for religious activism in the struggle for improving the living conditions of the world's impoverished citizens.

The document, *Instruction on Christian Freedom and Liberation*, states that "to put an end to an obvious and prolonged tyranny, which is gravely damaging to the fundamental rights of individuals and the common good"

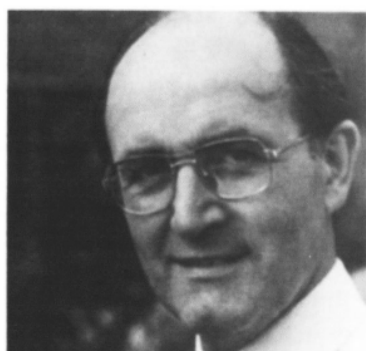
people may justifiably be forced into an armed struggle. "The fight against injustice is meaningless," the Vatican warns, "unless it is waged with a view to establishing a new social and political order in conformity with the demands of justice."

While not offering any specific alternatives, the document condemns shortcomings of both capitalism and Marxism.

End in sight for 'unwanted

food' subsidies

BY DUNCAN PICKARD



• Dr. Duncan Pickard, a lecturer at Leeds University, runs his own farm in Yorkshire

away would have become unnecessary. Interest on capital and wages for labour and enterprise — that is, more intensive production — would have become the cornerstones of the economy.

James Meenan, unlike Raymond Crotty, does not allow his observations on land allocation to lead him to this conclusion, however.

The Land Purchase Acts had abolished "a pernicious form of land tenure" and created "the conditions in which progress became possible". Though he stresses that this "could not and did not guarantee improvement", he does not say that it actively stands in the way of improvement.

In this view he is in line with the succession of policy-makers since 1922. Several alternative cures for the country's economic ailments have therefore been tried, but each has been found wanting.

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ONE decision reached at the Tokyo summit meeting of the leaders of the seven leading Western industrialised countries has received little attention but has serious implications for international trade, food prices and farm incomes. That is the decision to arrest the ever-increasing cost of subsidising farmers to produce food for which there is no genuine market.

Those seven leaders acknowledged that unless surpluses are curbed there will be a trade war, especially between the U.S.A. and the E.E.C., which will begin with agricultural produce but quickly spread to other commodities. Already the accession of Spain and Portugal to the E.E.C. has produced angry reactions in the U.S.A. because U.S. feed grains are prevented from entering those countries by import duties.

The current high cost of subsidising farmers in western countries to produce food (estimated at \$100 billion this year) was seen at the Tokyo summit as unimportant compared with the huge potential cost of an international trade war.

As a consequence, the O.E.C.D. in Paris has been asked to seek a solution. Officials there are seriously considering a plan which would give individual E.E.C. countries responsibility for supporting farm incomes, provided that such support does not lead to surpluses of food which at present have to be stored and disposed of at enormous cost to the E.E.C. budget.

Such a move would at least recognise that farmers in the various Common Market countries cannot compete on equal terms because they operate with different rates of interest, different systems of land tenure and different taxation laws.

Despite the fact that farm support costs are at a record high level, farming is in recession, particularly in the U.S.A. Land prices in Iowa have fallen from \$3,600 a few years ago to only \$600 this year. Many farmers are bankrupt and are embittered at losing their traditional grain markets as a result of what they see as irresponsible expansion of production in Europe.

It is hard to believe that decades of support for farm incomes have led to bankruptcy, despair and even suicide amongst farmers whose incomes have recently declined and continue to fall. It is almost certain that many farmers in Europe will face the same problems as their American counterparts.

The main reason for the fall in net farm incomes is not that the price of agricultural produce is too low, nor that the grants and subsidies are insufficient. It is the fixed costs of farming, mainly rents and interest charges, which have soared in the last 10 years. Unless these are reduced many farmers will not recover from their desperate financial plight.

Prospects are not hopeful, because there is no official recognition that all attempts to enrich poor farmers by subsidising farm production are doomed to failure.

It has been estimated that about 90% of all the money which has been given to support farm incomes has been capitalised into land prices and rents. There is no limit to the amount of money which can be absorbed by land prices and rents, and it is obvious to anyone with more than a passing acquaintance with farming that those farmers who own their land have benefited from the grants and subsidies whereas tenants and nominal owners (i.e. recent purchasers who are called owners but are in fact the tenants of the bank or mortgage corporation) are the ones in trouble.

Although land prices have fallen in the U.K. over the last year, they would be lower still but for the grants and subsidies and are still above the price at which anyone could buy land, finance the purchase by borrowing and make a living from the land.

There is no doubt that western governments intend to cut their financial support for farming; how the impact is felt by individual farmers will depend on the way their farms are currently financed, not on their degree of technical efficiency.