An Interview with Brendan Walsh

J. PETER NEARY
University College Dublin and CEPR

Peter Neary: Can I start with some biographical background. Your father worked in the Department of Industry and Commerce while your mother ran a shop on Dublin’s Talbot St. into her eighties (surviving the May 1974 bombings). Did this “public-private partnership” colour your thinking on the role of the state in economic activity?

Brendan Walsh: Well, it certainly gave me some insights into the difference between the entrepreneurial and the bureaucratic approach to life! My mother’s stories about how civil servants tried to enforce cloth rationing during the Second World War, and my father’s about the closure of independent electricity generators in order to secure the Electricity Supply Board’s monopoly gave me a healthy scepticism about central planning.

PN: What led you to study economics?

BW: Being at school in Ireland in the 1950s one couldn’t help but wonder why things were going so wrong with the economy. The emigration crisis impinged even on relatively secure urban families. And some of my Jesuit teachers persuaded me that the country needed more people educated in disciplines like economics – which they only vaguely understood – rather than more lawyers and doctors!
PN: You left Ireland to study in the US and stayed there for almost ten years before returning to Ireland. Have you ever regretted either of those decisions?

BW: No. Completing my degree from UCD in 1961 I just about knew enough to know how much more I needed to learn. I was offered a scholarship to the University of Tennessee by a professor visiting on a Fulbright exchange. That enabled me to start my Master’s in the September term, without having to wait the results of my BA degree, which were not available until October in those days – so that many who wanted to do post-graduate studies had to spend another year in their Alma Mater before eventually going abroad. I suppose the more interesting question might be whether I regret returning to Ireland in 1969. On balance, I think I did the right thing – both in leaving and in returning. A factor that precipitated the decision to return was the turbulent state of the US in the late 1960s. But my timing in coming back to Ireland was poor – the first fatality in the Northern Ireland “troubles” occurred the week after we arrived back!

PN: Turning to research, in your Ph.D. thesis you estimated the first macroeconometric model of the Irish economy, but you never returned to that type of modelling. How do you feel about the extraordinary developments in computing power and econometric method that have revolutionised applied economics in the intervening period?

BW: I did all the calculations for my thesis on a Monroe mechanical machine. (I feel like the Monty Python character describing the poverty of his childhood, living in a cardboard box, who was reminded that he was lucky to have had a box!) We learned short-cut ways of inverting matrices – who now recalls the “Doolittle method”? Now students manipulate vast data sets at the touch of a button. I did try to progress Irish social science in this direction as far back as the 1970s by getting R.C. Geary to look for an anonymised sample of the Population Census from the CSO, but that was premature – such samples were not made available until the 1990s. Obviously, there is vastly more data available now compared to anything earlier generations had available. Some caution is warranted, however. First, the quality of the data for some of these datasets – especially in macro statistics relating to trade flows, the composition of GDP etc. – may be worse than practitioners believe. Second, there may be some merit in the old-fashioned belief that researchers should “get to know” their data, which is clearly not the case for many published papers today. And sometimes there is a danger that the availability of data drives the research – the proliferation of empirical growth studies based on the Penn World Tables and related datasets is a case in point. And it is interesting
to note that the low cost of large-scale models has not really transformed macroeconomic analysis as much as might have been expected – forecasts based on relatively simple models still command as much attention as more elaborate exercises.

**PN:** Much of your early work was on demography and on the interactions between demographic pressures and labour-market adjustment, especially through migration. What are your thoughts about this early work, especially in the light of the continued importance of migration in the Irish economy, though today it is mostly inward rather than outward?

**BW:** I recall in the late 1990s putting a question on an exam about the effects of immigration on the Irish labour market and being asked by a student if this were not a misprint – surely I meant emigration! Of course, the underlying issues are similar, whether the flows are inwards or outwards. What economics offers is a framework for analysing (i) the reasons for the flows and (ii) the costs and benefits associated with them. Because of the scale of emigration from this country, and our unique history of population decline, we in Ireland implicitly debated these issues before they had acquired the great international interest they now have. And looking back on the debate, the quality of the analysis was not bad. But one issue that we did not have to concern ourselves with too much was the assimilation of Irish emigrants in their host countries – by and large the Irish assimilated well, especially in Britain. Now by contrast we see this social issue somewhat overwhelming the strictly economic aspects of immigration, especially in Europe.

**PN:** You were the leading academic chronicler of the poor performance of the Irish economy in the late 1970s and 1980s. But you were also an active participant in policy debates, through your popular writings, your innumerable media contributions and your various public service roles, most notably as a member of the National Planning Board, which made 241 “main recommendations” for policy change. How would you rate the role of academic economists in changing public and politicians’ perceptions of the need for reform? Was Charlie Haughey exaggerating when he said after becoming Taoiseach in 1987 “We’re all monetarists now”?

**BW:** I think Irish academic economists played an important role in moulding public opinion during the 1980s, first alerting it to the scale of the problem facing the country, and then to the remedial actions that were needed. Of course there were risks as well as attractions associated with entering the fray – those debates were more glamorous than scholarship – and it would not have
been appropriate if too many academics had been distracted from their vocation. But the 1980s marked a watershed. We gained a much more sober appreciation of what a small country like Ireland could and could not do to promote faster growth. The switch from grandiose strategies – protectionism and state enterprise from the 1930s to the 1960s, state fiscal expansionism in the 1970s – had to be accompanied by a more detailed examination of sectoral issues – taxation, privatisation, pay policy, etc. Haughey was right if he meant that by the late 1980s crude Keynesianism (espoused by his party in the late 1970s with very damaging consequences) was discredited. And indeed Ireland’s entry into the European Monetary System, although premature in 1979, was a similar acknowledgement of the limits to independent macro policy in a small, open economy. Although the report of the National Planning Board was certainly turgid, its emphasis was correct and most of its recommendations hold up well a generation later.

**PN:** Fast forward to the Celtic Tiger. You and Patrick Honohan have argued that it was mostly delayed convergence, making up for what in retrospect looks like a long recession centred on the first half of the 1980s, but that correcting the policy mistakes of the past was also crucial. Have you been surprised at the strength of the economy over the whole period since the mid-1990s?

**BW:** Convergence is not automatic – if it were, Chad or Bolivia should be among the fastest growing economies in the world. I have been a bit exasperated by some of our colleagues who, first, doubted that Ireland’s fast growth was anything but a statistical artefact (GDP versus GNP and all that) but later – when the boom was undeniable – argued that our high growth rate was “inevitable” – we were “just” playing catch-up. Then we were told that the catch-up game would be over by the early years of this decade. Lo and behold, Ireland continues to outpace its neighbours. Economists tend to be too ready to look back and say “Of course, we all knew that would happen”. In fact few if any anticipated the strength of the recovery from the recession of the 1980s and the duration of the subsequent boom. And – being Irish – we tended to downplay our successes. Of course, the sort of “upsie downsie economics” that focuses on short- to medium-term forecasting is not very fashionable in academic circles. But – and here’s a refutable prediction – I think it will come back into fashion as the world economy adjusts to the massive US current account deficit and related international economic imbalances.

**PN:** Are you hopeful that the current construction-led boom in Ireland will have a soft landing?
**BW:** Well here’s another area where it’s not clear sophisticated economics has much to offer. What is the “right” size for the construction sector as a proportion of GDP? I am sure the economic historians could adduce examples of economies where the construction sector was much higher relative to GDP than Ireland’s is at present. I suppose the key insight that economics can offer is that adjustment requires flexibility. Given the growth of immigration to Ireland and the prospect of construction booms in Britain and Europe as ours subsides, perhaps we should not be too worried about how the economy will adjust. A collapse of house prices could lead to a retrenchment of consumer spending, but falls in the nominal value of houses have been rare and, given the artificial scarcity of building land, I doubt if there will be a general collapse of house prices. As the housing boom levels off, and the growth of the labour force and population slows, we can expect a slower rate of growth of total GDP, but GDP per capita should hold up.

**PN:** You stayed neutral in the debate between Irish economists in the late 1990s on the wisdom of joining European Monetary Union without the UK. What is your verdict on the first eight years of EMU membership, or, as Zhou Enlai said of the French Revolution, is it too soon to tell?

**BW:** The euro has proved to be a “strong” currency and in that sense a success. But it is about time those who claimed that it would be a major factor in promoting economic growth, trade, and integration conceded they were wrong (after all, these are refutable predictions!). Contrasting the experiences of the UK and Germany over the past decade, it seems clear that the currency regime has not been a crucial determinant of growth, nor even of the growth of trade between countries participating in a currency union (as some claimed it would be). It is probably true that monetary policy within the straightjacket of the EMU has been too loose for Ireland, too tight for Germany. But I know on which side of that divide I would prefer to be and I consider that Ireland has been lucky in this regard. We know that national central bankers tend to take the punch bowl away just as the party is getting under way. So far we have not done too badly, absent this killjoy factor.

**PN:** Although it features less than other fields in your publications, you have always taken an interest in development economics. You taught a course on that topic for many years in UCD and spent long periods in two relatively underdeveloped countries, Iran and The Gambia. (In both cases your departure was soon followed by a violent revolution!) Seriously, what lessons do you think we can draw from decades of only mixed success with raising low-income countries out of poverty?
**BW:** Surely one of the big challenges we face, as economists, is whether we have much to contribute to poverty alleviation in low-income countries. There was a time when foreign aid was viewed as potentially very helpful because it would relax the savings and/or balance of payments constraints. Then there was enthusiasm for what it could achieve by being linked to the pursuit of better economic management – “conditionality” – which is where I came in. But in a country like The Gambia one had to wonder whether adherence to largely monetarist IMF rules was anything more than a necessary condition for economic development. I wince when I recall helping to enforce the IMF recommendation of a 10 per cent sales tax on package tours – one of the few growth sectors in the Gambian economy. As the 1990s wore on the emphasis shifted to “good governance” – something I doubted that essentially US-supported institutions were well-placed to enforce. There is a gulf between the well-intentioned idealists who think that if all the richer countries raised their foreign aid budgets to some target percentage of their GDP there would be a significant effect on the poorest countries, and the more sceptical view of most academic economists who find it hard to discern much benefit from foreign aid in the performance of poor countries. And even policy prescriptions are hard to make. While it is flattering to be invited to lecture on Ireland’s success around the world, I am not sure how many lessons can be transported from Ireland to Chad or Bolivia, to cite the two cases I mentioned earlier.

**PN:** Turning to other matters, you worked for many years in the Economic and Social Research Institute and continue to be associated with it. What are your views on the appropriate differentiation between research institutes and universities?

**BW:** The easy answer is to advocate co-operation and “synergy”. I do believe that economic theory should not be divorced from the problems and issues that exercise policy makers. But economists who revere the market as a resource allocation mechanism are deeply wary of following its imperatives in regard to their own research! It is true that applied research quickly becomes arid if it is not continually upgraded by advances in theoretical economics. However, theorists underestimate the intellectual challenge of applying their insights to real-world problems, while consultants are too ready to shun the complexity of sophisticated analysis. Ideally, research institutes should combine the strengths of both approaches.

**PN:** You have been called the “Adlai Stevenson of UCD”: the greatest President the university never had! What do you see as the main challenges facing Irish universities today and how do you think they are dealing with them?
BW: The comparison is flattering – although I wonder how many of our readers remember Adlai? You recall the anecdote that when on the campaign trail he was told he was sure “to get the vote of every thinking man in America” he replied “Thank you, but I need a majority to win”! Things have changed radically and for the better in Irish universities – or certainly in UCD – since 1993, when I went on the campaign trail. Of course change involves losers as well as winners, but I am confident that the transformation that is at present underway will leave the university stronger and better able to face challenges such as the declining domestic school-leaving population – and its increasing reluctance to study “hard” subjects (including economics). There are other issues that will have to be faced as well, such as the inherently anti-intellectual bias of some of the more recent academic fads and the reluctance of our colleagues to tell some of the noisier newcomers on campus that their approach is not in keeping with what makes universities so valuable a part of our societies – namely a spirit of free inquiry and a respect for intellectual discipline.

PN: Now that you have retired from the School of Economics at UCD, you have joined Frank Convery’s group in Environmental Policy at the other end of the Belfield campus. Do you think that environmental problems will be the major challenge of the twenty-first century, and how do you think Ireland is dealing with them?

BW: The School to which I have moved encompasses Geography and Urban Planning as well as Environmental Policy. It is interesting to try to bring some of the insights of an economist to bear on these areas – spatial and urban planning in particular – that have an important impact on the development of the economy. There is an inherent tension between the more market-based approach of economists and the faith of others in their ability to achieve better outcomes, essentially by looking into their own hearts. The more I get involved in these areas, the more important I think it is that all students should learn some simple economics – namely, our faith in the market’s ability to allocate resources, but, equally, our long-standing awareness of market failures and our interest in ways to deal with these failures. It often strikes me that many influential commentators in Ireland today have got to, and rejected, the first chapter of the economics textbook – the one that presents a simple paradigm of market economics as the optimal outcome – but have not read the later chapters where the shortcomings of this paradigm are explained and economic remedies discussed. Hence too many people glibly dismiss economics as irrelevant without understanding the crucial contribution it has to make,
especially in areas where markets do fail. This applies to global issues like climate change as well as to more immediate concerns like how to manage the rapid growth of our population.

PN: Finally, what advice do you have for ambitious young economists?

BW: That’s easy – as a counsel of perfection I would urge them to become technically proficient, but not overspecialised, to remain in touch with current and emerging issues, and to keep a step ahead of the posse in publishing relevant research and analysis at different levels of complexity and accessibility. Surely the great strength of economics in America today is the way it combines analytical expertise with relevance to the big policy issues and a willingness to enter the public debate on topics such as immigration, social security, the fiscal deficit etc. It is gratifying to see the emergence of a new generation of Irish economists with similar strengths.
Publications of Brendan M. Walsh


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