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# The Transformation of Ireland 1958 - 93: the role of ideas in punctuating institutional path dependency at critical junctures

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**Abstract**

Ireland experienced two critical junctures when its economic survival was threatened: 1958/9 and 1986/7. Common to both crises was the supplanting of long established practices, that had become an integral part of the political culture of the state, by new ideas that ensured eventual economic recovery. In their adoption and implementation these ideas also fundamentally changed the institutions of state – how politics was done, how it was organised and regulated. The end result was the transformation of the Irish state.

The main hypothesis of this thesis is that at those critical junctures the political and administrative elites who enabled economic recovery were not just making pragmatic decisions, their actions were influenced by ideas. Systematic content analysis of the published works of the main ideational actors, together with primary interviews with those actors still alive, reveals how their ideas were formed, what influenced them, and how they set about implementing their ideas.

As the hypothesis assumes institutional change over time historical institutionalism serves as the theoretical framework. Central to this theory is the idea that choices made when a policy is being initiated or an institution formed will have a continuing influence long into the future. Institutions of state become 'path dependent' and impervious to change – the forces of inertia take over. That path dependency is broken at critical junctures. At those moments ideas play a major role as they offer a set of ready-made solutions.

Historical institutionalism serves as a robust framework for proving that in the transformation of Ireland the role of ideas in punctuating institutional path dependency at critical junctures was central.

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*and especially Evelyn McCarthy (b. 27 January 2010)*

- *the joy of all our lives.*

*To the memory of my parents*

*Nadie and Tom McCarthy*
*Church St.*
*Cloyne*
*Co. Cork*

*They believed in the transformative power of education*

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Many of those interviewed are long retired from public life but they welcomed me into their homes and gladly shared their memories and experiences. Old files were recovered from the darkest corners and checked against memories. The lasting impression is of having met a group of people who had served their country with patriotism and dedication, often paying a high personal price in time spent away from home and family. It was a real privilege to meet them and Ireland owes them an enormous debt of gratitude.

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**List of Abbreviations**

| | |
|---|---|
| AFT | An Foras Talūntais |
| CAP | Common Agricultural Policy |
| CIO | Committee on Industrial Organisation |
| CRC | Central Review Committee |
| CSO | Central Statistics Office |
| CTT | Córas Tráchtála Teoranta |
| DIRT | Deposit Interest Retention Scheme |
| EC | European Community |
| ECSC | European Coal and Steel Community |
| EEC | European Economic Community |
| EFTA | European Free Trade Area |
| ERDF | European Regional Development Fund |
| ERI | Economic Research Institute |
| ESB | Electricity Supply Board |
| ESF | European Social Fund |
| ESRI | Economic and Social Research Institute |
| EU | European Union |
| FIE | Federation of Irish Employers |
| FII | Federation of Irish Industry |
| FUE | Federated Union of Employers |
| IBEC | Irish Business Employers Conference |
| ICTU | Irish Congress of Trade Unions |
| IDA | Industrial Devlopment Authority |
| IFSC | International Financial Services Cetre |
| IIRS | Insitute for Industrial Research and Standards |
| IMF | International Monetary Fund |
| NESC | National Economic and Social Council |
| NIEC | National Industrial Economic Council |
| OECD | Organisation for Economic Cooperation and Development |
| OEEC | Organisation for European Economic Cooperation |
| PEE | Programme for Economic Expansion |
| PESP | Programme for Economic and Social Progress |
| PLAC | Pro-Life Amendment Campaign |
| PNR | Programme for National Recovery |
| SFADCO | Shannon Free Airport Development Company |
| SSB | State-Sponsored Body |
| SSISI | Statistical and Social Inquiry Society of Ireland |
| TCD | Trinity College Dublin |
| TVA | Tennessee Valley Authority |
| UCC | University College Cork |
| UCD | University Collge Dublin |
| UCG | University College Galway |
| VEC | Vocational Education Committees |

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# Chapter 1: Introduction

In an address to the American Bar Association at the Law Society of Ireland, Blackhall Place, Dublin on 21 July 2000, Tánaiste Mary Harney posited that whereas Ireland was geographically closer to Berlin than Boston, spiritually it was nearer to Boston. That affinity to Boston was, in her view, evident in an Irish tax system that was based on the American rather than the European model - low tax rates, particularly, on capital and corporate profits. This new, low tax regime was proving very successful in attracting American industry to Ireland and, for Harney, a founding member of the Progressive Democrats, a party wedded to economic liberalisation, this was a matter of considerable pride. Furthermore, these changes had been achieved without dismantling the welfare state or increased social exclusion – very much a cornerstone of the 'Berlin' model. What she did not say was that the introduction of this low tax policy coincided with the adoption of neocorporatism in the first social partnership agreement. Ireland had, Janus like, adopted two models of governance that were, in theory at least, mutually exclusive. A low tax economy presupposes 'small' government whereas social partnership grants the state a central role in economic and business activity.

The adoption of a low tax policy and neocorporatism in the period 1986/87 was in response to an economic crisis. A previous crisis in 1958/59 had resulted in the abandonment of protectionism and the adoption of free trade and foreign direct investment – in reality a new model of state that embraced Keynesianism and implemented an Irish version of it through a combination of indicative planning and the establishment of a number of key state-sponsored bodies. Common to both crises was the supplanting of long established practices that had become an integral part of the political culture of the state, by new policies that ensured eventual economic recovery. In their adoption and implementation these ideas also fundamentally changed the institutions of state – how business was done, how it was organised and regulated. The end result was the transformation of Ireland.

When looking at the evolution of the Irish state a noticeable feature is how little institutional change took place for almost forty years after independence. All the historians listed below comment on this fact and attribute it to the longevity of the political and administrative leadership that emerged at the birth of the state and continued in office until there was intergenerational handover of power in the late 1950s. Even 1932, and the coming to power of

Fianna Fáil, did not lead to any appreciable institutional change. The emphasis was on continuity and self-sufficiency which was reinforced by protectionist economic policies and isolationism during and after World War II. The result was ongoing budgetary difficulties and falling further and further behind the rest of the developed world. Only with the coming to power of a new breed of political and administrative elites in the late 1950s did Ireland experience real change. The abandonment of protectionism in favour of free trade and foreign direct investment radically altered the institutions of state. In political science such a time of radical alteration is referred to as a critical juncture. This thesis contends that the events of 1958/9 were the first critical juncture in the Irish state. The policies adopted did lead to a measure of economic prosperity and development and hereafter the state continued those policies until the mid 1980s when a combination of factors led to another economic crisis and another critical juncture in 1986/87 – Garvin (2004: xiii) refers to both periods as 'key cusp dates'. At the second critical juncture Ireland adopted a low tax economy and neocorporatism as the new ideas to implement change. A noted feature of both critical junctures is that the policies implemented continued long after they had outlived their usefulness and contributed to the next critical juncture. (The probability is that Ireland is now experiencing another critical juncture that can be directly attributable to the policies adopted at the second critical juncture – a 'Boston' model that featured low taxes and light touch regulation; a 'Berlin' model that adopted social partnership).

Much has been written about the events surrounding each critical juncture by political scientists such as Garvin (2004) and Murphy (2009), historians such as Ferriter (2004), Coogan (2004), Keogh (1994) Lee (1989), and economic commentators such as Kennedy (1981, 1993), FitzGerald (1959, 1968, 1991, 2003, 2008) and the Economic and Social Research Institute. There is also a wealth of political biography and memoirs written about the relevant periods. All of the foregoing very effectively describe, from their perspectives, the events of the time, identify the causes of economic and/or political failure and describe what steps were taken to remedy the situation. What emerges from the literature is that at each crisis point the solution involved a radical change in public policy, the jettisoning of old orthodoxies that had been found wanting and their replacement with something new – an idea that had not been tried before. These ideas were seen as heretical by many of the political and administrative elites; they vigorously opposed them and this opposition is well documented. In fact the impression from much of the literature was that Irish public life was an 'ideas free' zone. And yet the more one interrogates the literature the more obvious it becomes that new

ideas did gain credence and were accepted and implemented. They worked their way into the public consciousness and seemed to offer a solution for the problems of the day. In time the heretical became orthodox. From a review of the literature it appeared that no study had been completed on the role of ideas in transforming the Irish state – the provenance of those ideas, their promulgation, dissemination, acceptance and implementation.

A whole range of questions arose: from where did the new ideas, implemented by the political and administrative elites, come? What inspired those elites? What were their influences? How did they set about ensuring acceptance of the new ideas? What obstacles did they encounter and how did they overcome them? How did they implement those new ideas? Were there unintended consequences? Were there other ideas circulating at the time that could have been adopted and, if so, why were they discarded in favour of the ideas that were adopted? Could the change that appeared to flow from the adoption of new ideas be measured? How did the relevant actors now view their part in the change process? And even if all of these questions could be answered would the findings have any relevance for other polities – were they generalisable?

The main hypothesis of this thesis is that at both critical junctures the political and administrative elites who enabled economic recovery were not just making pragmatic decisions: their actions were influenced by ideas. Furthermore, the ideas adopted to resolve the crises of 1958/59 and 1986/87 resulted in major institutional change that led ultimately to the transformation of the state. To establish what ideas were in circulation at the relevant times would necessitate a search of the literature. Perusal of the published works of the main ideational actors, and where possible interviews with those authors, would establish how their ideas were formed, what their influences were and how they set about implementing those ideas.

To test the hypothesis also requires a theoretical framework. As the hypothesis assumed institutional change ensued from the implementation of new ideas then institutionalism as a theory seemed a good starting point. Institutionalism is concerned with the central role of law in governing; structures/institutions not only matter, they govern behaviour; how the political system is embedded in its historical development as well as its socio-economic and cultural present is important; and whole system analysis is required for an understanding of how states

function. Several sub-disciplines of institutionalism have developed, one of which is historical institutionalism.

For historical institutionalists history really matters because the present and the future are connected to the past by the continuity of a society's institutions. At the heart of historical institutionalism is the idea that policy choices made when a policy is being initiated or an institution formed will have a continuing influence long into the future. Not only that, the path chosen may often be sub-optimal due to compromise and political expediency. Once governments make their initial institutional formations and policy selections these choices will persist and become 'path dependent' – the forces of inertia take over. That path dependency is broken at critical junctures. At those critical junctures ideas play a major role as they offer a set of ready-made solutions. Timing and sequencing are also important – the order in which things happen shapes the outcome.

Critics of historical institutionalism point out that its value only lies in postdicting changes in the equilibria. A further problem is, that with its emphasis on structure, how to explain human agency? The counter argument of historical institutionalists is that no other theory can reliably predict change and that human agency can be explained by their use of a 'calculus' or a 'cultural' approach. Overall, historical institutionalism seemed to offer the most suitable framework to test the hypothesis and to offer an understanding of this thesis - **The Transformation of Ireland, 1958-1993: the role of ideas in punctuating institutional path dependency at critical junctures.**

The theoretical framework is explored in Chapter 2. It looks briefly at rational choice theory and behaviouralism before settling on institutionalism as the most suitable theoretical framework. March and Olsen (1984, 1989) brought institutionalism back into fashion in the 1980s and sparked a new wave of research in the genre. Political scientists such as Skocpol (1979, 1985, 1992, 1994, 1995), Thelen, (1992, 1999, 2000), Steinmo (1992), Pierson, (2000, 2002, 2004), Bulmer and Burch (1998, 2001, 2003, 2005, 2009) have written extensively on historical institutionalism, as a sub-set of institutionalism, and this is the framework chosen because it concentrates on the relationship between institutions and individual behaviour; the asymmetrical nature of power; the path dependency of social causation; socio-economic factors and the diffusion of ideas and beliefs. It also offers the possibility of looking at change over time. Drawing on the work of the above mentioned political scientists, together with that

of Arthur (1989, 1994), North (1990), Campbell (2004), Hall (1986, 1989, 1992, 1996), what is meant by 'institution' is explored as is 'path dependency'. Central to an understanding of path dependency is the idea that initial choices made at institutional foundation become 'locked in' and difficult to change especially if they exhibit 'positive feedback', i.e. each action confirms the validity of the previous choice. The institution then becomes 'path dependent' and difficult to change from that course, even when there is a demonstrably more effective and efficient course available. 'Path dependency' is only broken at a 'critical juncture' when change becomes inevitable. At those 'critical junctures' ideas matter and offer ready solutions to economic and /or political crises. How those 'ideas' are transposed from 'foreground concepts and theories' to 'background underlying assumptions' that become embedded in the 'public sentiment' is traced using a Typology of Ideas developed by Campbell (2004). Hall (1989) developed a Framework to show that for a new idea to gain viablility it has to first achieve economic, administrative and political acceptability. To track the process of change following the adoption of a new idea Bulmer and Burch (2001) devised a Template that measures change at the systemic, organisational, regulative and procedural levels. Campbell's Typology of Ideas, Hall's Framework and Bulmer and Burch's Template will be used when looking at both critical junctures.

In examining the first critical juncture 1958/59 Chapter 3 traces the symptoms of failure through the use of economic and social data and then looks at the causes of failure. These were deemed to be: continuing reliance on a theory of 'self-sufficiency', supported by protectionist economic policies, long after it had become obvious that it was a failed entity; 'the official mind', epitomised in the gerontocratic political and administrative elites that had become path dependent and firmly wedded to structures and budgetary policies put in place by the British prior to the handover of power at independence; 'the Catholic Church' which controlled the education and health systems and the agenda for any change in social policy; and 'the political culture' which was reflective of a conservative agrarian society that was largely happy with de Valera's 'frugal comforts'.

To establish what 'ideas' were in circulation at the time the three leading journals, *Administration, Studies* and the *Statistical and Social Inquiry Society of Ireland*, were researched. *Tuairim*, a quasi think-tank established in University College Dublin in 1954, and many of whose members went on to play leading roles in Irish political, administrative, judicial and academic life, also offered an influential forum for the dissemination of ideas.

The main ideational actors to emerge were Professor Carter, who held the chair of applied economics at The Queen's University of Belfast; Professor Lynch, who held the chair of economics at University College Dublin; Professor Ryan, who held the chair of economics at Trinity College, University of Dublin; Dr. Garret FitzGerald, who was an economic consultant in the 1950s, and subsequently served as Minister for Foreign Affairs and Taoiseach; and Dr. T. K. Whitaker, who served as Secretary of the Department of Finance and subsequently as Governor of the Central Bank of Ireland. The 'new ideas' offered for the economic salvation of Ireland were 'free trade' and 'foreign direct investment'. These 'ideas' received an economic *imprimatur* from the above named and in so doing conformed to the first leg of Hall's framework. To become viable they would also need administrative and political acceptability.

How that acceptability was achieved is traced in Chapter 4. Whitaker, as Secretary of the Department of Finance, produced a forensic analysis of the Irish economy. *Economic Development (1958)* proved to be a seminal document. He bluntly stated that 'self-sufficiency' was a failed entity and that the new 'ideas' offered the only salvation. How he sold those ideas to the administrative and political elites is fully explored. The role of Lemass as Taoiseach, and his relationship with Whitaker, was to prove crucial. Interviews were conducted with Whitaker and T. O Cofaigh, the only two surviving authors of *Economic Development*.[1] Dr. Garret FitzGerald, economic commentator in the 1950s and subsequently to become Taoiseach, and Dr. Miriam Hederman-O'Brien, who served as Secretary of *Tuairim*, also offered some fascinating insights into what happened at the first critical juncture.

The new 'ideas' of free trade and foreign direct investment had received acceptability on all three axis of Hall's Framework. Proving that 'ideas' mattered, and became background underlying assumptions that effected change on all four levels of Bulmer and Burch's framework, is demonstrated in Chapter 5. Lemass and Whitaker effected major institutional change through the creation and/or reconstitution of a plethora of state-sponsored bodies and the putting in place of a quasi-corporatist framework that linked unions and employers to the policy process. A government white paper, based on *Economic Development*, set out the targets to be achieved in the agricultural, fisheries, tourism and industrial areas. Agricultural

[1] The literature on the spelling of Irish names can be ambiguous. Throughout this text the spelling of names is as found in correspondence from the individuals concerned, specifically O Cofaigh, O hUiginn and Mac Sharry.

produce accounted for the bulk of exports in the 1950s and the main developmental effort was to be in this sector. The establishment of *An Foras Talūntais* (the Agricultural Institute) and *An Bord Bainne* (the Milk Board) proved to be major catalysts for the transformation of the agricultural sector. On the industrial front the Commission on Industrial Organisation effected similar transformation. Bulmer and Burch's template is used to prove that transformation took place at the systemic, organisational, regulative and procedural levels. All the targets set out in the first real effort at economic planning were achieved through the acceptance and implementation of the ideas of free trade and foreign direct investment.

Within a generation Ireland faced a second critical juncture. Chapter 6 traces the symptoms of failure and shows that, with the exception of 'self-sufficiency' the same causes applied: the 'official mind', the Catholic Church and political culture. It seemed that few, if any, lessons had been learned and the institutions of state had again become path dependent. The ideas that emerged for economic deliverance were monetarism and neocorporatism, or to give them their more acceptable names in an Irish context – a low tax economy and social partnership. To establish how these ideas emerged the journals of the day were again researched. The work of the National Economic and Social Council (NESC) and the Economic and Social Research Institute (ESRI) was highly influential. To establish the influences of the leading actors interviews were also conducted with the following: Ray Mac Sharry and Alan Dukes, former Ministers for Finance; Bertie Ahern, former Taoiseach; Des O'Malley, former Minister for Industry and Commerce and founder of the Progressive Democrats; Padraig O hUiginn, former Secretary General of the Department of the Taoiseach; Seán Cromien, former Secretary General of the Department of Finance; Peter Cassells, former General Secretary of the Irish Congress of Trade Unions; and John Dunne, former Director General of the Irish Business Employers Conference. Interviews were also conducted with a number of other serving and retired public servants who wished to remain anonymous but nevertheless provided valuable background information.

On his return to power in 1987 Haughey concentrated power in his own hands and in that of his department where O hUiginn was Secretary General. How these two men, more than ably abetted by Mac Sharry as Minister for Finance and Cromien as Secretary General in that department, broke the path dependency of the institutions of state is examined in Chapter 7. The National Economic and Social Council, chaired by O hUiginn produced *A Strategy for Development 1986 – 90* which had been agreed by the social partners. It proposed tax reform

in return for industrial peace and wage moderation in the context of addressing the public finances. On his first day in office in March 1987, Haughey had lunch with Mac Sharry and O hUiginn where the economic strategy was agreed. Mac Sharry was given authority to cut public expenditure, a complete *volte face* for the governing party, and O hUiginn, who said that he could deliver the main thrust of the NESC document, was instructed to do so. The end result was Mac Sharry, and his Secretary General Cromien, implementing swingeing cuts in public expenditure and, against the odds, O hUiginn delivering the first social partnership agreement. The ideas of a low tax economy and social partnership had achieved economic, political and administrative acceptability.

How the new ideas were actually implemented is traced in Chapter 8. A change of government in 1989, when the Progressive Democrats and Fianna Fáil, formed a coalition government reinforced the application of monetarism. Incremental tax reform was introduced in successive budgets and the social partners largely complied with the terms of the first social partnership agreement. Benefits began to flow fairly quickly and a second agreement was implemented in 1990. At the Second Critical Juncture state-sponsored bodies were little used with one notable exception: the establishment of the International Financial Services Centre (IFSC). While enormously successful in both employment and tax revenue generated for the state, the regulatory framework put in place facilitated 'light touch regulation' which was to become a major cause of the present banking crisis. All of the above contributed to a major transformation of the state in the years following 1987.

Chapter 9 summarises the changes that took place at both critical junctures, the similarities and the differences in the response to the crises, the importance of timing and sequencing and concludes that, whereas economic, political and administrative acceptability do indeed lead to the viability of a new idea, other factors also come in to play.

# Chapter 2: Theoretical Framework

Central to this thesis is state transformation and the role of ideas in that transformation. Given the variation in size (geographically and population-wise), development and maturity, the myriad systems of government that exist, a review of all states would be well beyond the scope of this research. Ireland is being taken as an example of a modern state that is a relatively mature liberal democracy and a case study will be conducted of the transformation that has taken place in that polity. This chapter sets out the theoretical framework to be used to assess that transformation.

## The State

The state has become the ubiquitous form of social organisation and there are now over 200 states, up from 74 at the end of World War II (Colomer, 2007). Strayer (1970: 3) has no doubt about the reason for that ubiquity:

> A man can lead a reasonable full life without a family, a fixed local residence, or a religious affiliation, but if he is stateless he is nothing. He has no rights, no security, and little hope for a useful career. There is no salvation on earth outside the framework of an organized state (1970: 3).

For Miller: 'Just as we know a camel or a chair when we see one, so we know a sovereign state. It is a political entity which is treated as a sovereign state by other sovereign states' (1981: 16). Nevertheless, what is understood by 'state' needs to be examined.

The formation of the nation state in western Europe has been shaped by three key processes: the building of managerial capacity to politically administer a territory through institutions staffed by 'civil' servants; the use of military power to not just wage war but to extract taxation and impose the rule of law within the territory; and economic processes that standardise exchange relationships and sustain contract and property relationships (King and Kendall, 2004). The Renaissance and the Reformation further ensured an increasing role for a centralised state, a decreasing role for the Catholic Church, and the idea of a neutral political authority. The peace treaties of Westphalia in 1648 established a new concept of international law that recognised sovereign territorial states, with these states recognising no superior authority to their own. Furthermore, these states had absolute power within their territory to make laws and settle disputes. The concept of sovereignty continues to dominate the international order and has two dimensions: 'internally, it means that there are no authorities

higher than the state' (Gill, 2003: 5); externally it means 'that other states recognize the authority of the state within its borders and accept that the state can speak for its citizens in international affairs' (*ibid*.). For Hay and Lister the modern state is 'an institutional complex claiming sovereignty for itself as the supreme political authority within a defined territory for whose governance it is responsible' (2006: 4).

The rise of nationalism and liberalism through the nineteenth century further ensured that the concept of the state came to be seen as a distinct form of authority independent of those who exercised power within the territory. This concept of the state continues to dominate discourse on the subject and was most famously framed by the German sociologist, Max Weber, who defined the state by its institutions and *modus operandi* rather than its functions. He explained it as a 'compulsory political organization with continuous operations will be called a "state" insofar as its administrative staff successfully upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order' (Weber, 1921/1978: 54). It possessed a legal and administrative order subject to change by legislation. 'This system of order claims binding authority, not only over the members of the state, the citizens, ... but also to a very large extent over all action taking place in the area of its jurisdiction' (*ibid.*: 56). The bureaucratic organization at the core of the state is run by an official hierarchy (civil service) on formal rules designed to ensure efficiency and social order.

Concepts and theories of state are critical to how the state is viewed. Whether one pursues a pluralist, elitist, Marxist, public choice, institutionalist, feminist, green or poststructuralist theory – there is universal acceptance that the concept of the sovereign state is under attack. For 'state-centric' scholars (realists), the state is still the principal player in world affairs and even if there are new challenges, such as globalisation, states' capacity for responding to these challenges has increased dramatically. For 'retreat' scholars the power and autonomy of the state is in decline vis-à-vis other actors such as transnational corporations and capital markets – a view largely associated with liberals. Sørensen (2004) cogently argues that it does not have to be either/or as argued by the 'state-centric' and 'retreat' scholar but offers the 'critical view' which emphasizes the coexistence of sovereign states with a global economic system based on capitalism. Ireland is an example of a relatively mature liberal democracy - a multi-party system; free and fair elections on a regular basis with universal suffrage; a written constitution; the rule of law; and a clear separation of powers. It coexists within a global economic system, and specifically a European Union framework. This thesis contends that it is a state in transformation and that transformation can be best understood by utilising

Weber's concept of the state – the state understood through the operation of its institutions and its bureaucracy.

For this writer the following quotation from Schmitter neatly summarises the modern state:

> Despite its manifest policy incompetence, its multiple institutional entanglements, its burgeoning economic interdependence, its increasingly challenged status, its diminished capacity for unitary action, its ineffectual claims to sovereignty and even its demonstrable irrelevance in solving many of the problems that preoccupy its citizen/subjects, the state malingers on (1996: 211).

The state malingers on - in transformation.

**Perspectives on the State**

The theoretical frameworks that can be applied are many and varied but, in the main, can be broadly categorised as having three distinctive perspectives: rational choice theory; behaviouralism; and the new institutionalism.

The underlying assumption for proponents of *rational choice theory* is that individuals are rational and apply a cost-benefit analysis to all their choices in life before opting for the one that maximises their own utility, with little or no consideration being given as to how individual choices impact on others. This theory has been particularly useful in highlighting the role of free-riders who, acting rationally, realise that their individual behaviour will not have a significant impact on collective action. If all individuals act rationally cooperation will be non-existent and outcomes will be both individually and collectively sub-optimal. Rational choice theory constructs stylised and mathematical models of political conduct predicated on the above assumptions, not only as they apply to individuals, but also to political parties and public officials. It is limited in the attention it pays to preference formation, the institutional contexts in which rationality is exercised, and has a narrow conception of human behaviour. It makes no allowances for altruism and compassionate behaviour. Also, while professing to be ostensibly predictive, much of its justification is based on *post hoc* rationalisation (Hay, 2002).

*Behaviouralism* as a concept and theory emerged in the 1950s. By the late 1960s it had become the dominant theory and submerged the old institutionalism. It had also overshadowed 'systems theory' as promulgated by Easton (1971, but first published in 1953). 'Methodological individualism' replaced 'methodoligical holism' as favoured by Marxian scholars 'while the old institutionalism was dismissed as mere description' (Schmidt, 2006:

100). Whilst also claiming to be a predictive science of the political, behaviouralism bases its approach on extrapolation and generalisation from observed empirical regularities and recurring cycles. Theoretical hypotheses may be used for probabilistic predictions based on the assumption that regularities in the data are generalisable beyond the immediate context and time parameters. Furthermore, political power is synonymous with decision-making and political outcomes can be predicted from political inputs. This causation and correlation is problematic as the link is not always readily explainable. Also, in times of rapid social, cultural and political change relying on inductive inference for patterns of regularity has to be questionable.

*New institutionalism* rejects the assumptions of rational choice theory as being too narrowly focussed and challenges the assumed regularity of behaviouralism as also being unsuitable, particularly in a time of rapid change. In their place new institutionalists 'propose more complex and plausible assumptions which seek to capture and reflect the complexity and open-endedness of processes of social and political change' (Hay, 2002: 11). The emphasis is on the mediating role of institutional contexts and emphasises the importance of history, timing and sequence in explaining political outcomes. Institutions are embedded in society, difficult to reform, restrain political actors and lead to periods of relative tranquillity that are punctuated by periods of change. 'Punctuated equilibria', the 'path-dependent' nature of institutions, the periodic 'critical junctures' that presage change, are all central to the new institutionalism.

## New Institutionalism

Before looking in depth at 'new' institutionalism it is necessary to consider briefly its origins in the 'old' institutionalism. From the earliest times scholars have been concerned with the role and nature of the institutions that governed society and how they could influence the behaviour of the governing and the governed. Aristotle, in *The Politics,* wrote on the success, or otherwise, of the institutions then extant, and made recommendations on the design of new institutions. Those recommendations mark the birth of political science. Hobbes, in *Leviathan*, argued for strong institutions to protect people from their own worst instincts. Locke, in *Two Treatises of Government*, had a more contractarian idea of governing institutions that were more democratically accountable. Montesquieu, in *The Spirit of the Laws*, promulgated the need for balance in political structures and his writings influenced the

founding fathers of the United States of America and the separation of powers that became a cornerstone of the American political system.

By the late nineteenth century political science was emerging as an academic discipline in its own right and not just as an adjunct of the study of history. Woodrow Wilson was president of the American Political Science Association in the 1880s, president of Princeton University 1902-1910, and later president of the United States.[1] He is seen by many as the father of institutionalism in political science and wrote extensively on the formal institutions of government and defined the state in terms of its political, administrative and legal arrangements. The 'old' institutionalism can be summarised as being underpinned by the following criteria: legalism – the central role of law in governing; structuralism – structures not only mattered, they determined behaviour; holism – the use of comparative studies led to whole system analysis; historicism – how the political system was embedded in its historical development as well as its socio-economic and cultural present; and normative analysis – mainly concerned with norms and values and making government better (Peters, 2001: 3-11).

Post World War II 'systemic approaches to political science had largely superseded the old institutionalism, whether structural-functionalist or other 'holistic' approaches such as Marxian analysis' (Schmidt, 2006: 100). Behaviouralism emerged with its emphasis on individuals. Political behaviour could be reduced to its social or psychological attributes (Dahl, 1961). With the emergence of rational choice theory political behaviour could be understood through economic motivations and considerations. Political actors, individuals and groups, were assumed to be rational utility maximisers (Parsons, 2005). For proponents of behaviouralism and rational choice theory institutions are of lesser significance.

The term 'New Institutionalism' was first coined by March and Olsen in their seminal article 'The New Institutionalism: Organizational Factors in Political Life' published in 1984. They were concerned that the then contemporary theories tended

> ... to portray politics as a reflection of society, political phenomena as the aggregate of consequences of individual behaviour, action as the result of choices based on calculated self interest ... decision-making and the allocation of resources as the central foci of political life (1984: 734).

[1] Originally founded as the College of New Jersey in 1746 the college changed its name to Princeton University in 1896.

More importantly for them was the fact that the state had lost its centrality. The state had been sidelined. Their criticism of the behaviouralist and rational choice schools was based on the following phenomena they perceived as dominating those models:

- *Contextualism* – politics was subordinate to exogenous forces. The causal links between society and the polity run from the former to the latter. Society effects politics but the reverse does not apply.
- *Reductionism* – political actions are best understood as the aggregate consequences of individual behaviour. There are macro consequences of micro behaviour.
- *Utilitarianism* – political events are the consequence of calculated decisions.
- *Functionalism* – institutions and behaviour are thought to evolve through an efficient historical process that is conditional on current conditions and therefore independent of the historical path.
- *Instrumentalism* - primacy is given to outcomes and the decision-making process, once seen as vital for fostering a sense of purpose, direction and identity, was now seen as part of a manipulative process to control outcomes.

As an antidote to the above they proposed a 'new' institutionalism that brought the state back centre-stage in political analysis and that collective action was central to understanding the political. They also argued that the correlation between the collective and the socio-economic environment is reciprocal – politics shapes society as much as society shapes politics.

Skocpol has been one of the leading voices in the arguments for bringing the state back centre-stage. In *Bringing the State Back In*, she offered two alternative, but complementary, analytical strategies for studying the state: 'On the one hand states may be viewed as organizations through which official collectivities may pursue distinctive goals' that are realisable; or alternatively states may 'be viewed more macroscopically as configurations of organization and action that influence the meanings and methods of politics for all groups and classes in society' (1985: 28). She further argued that a natural corollary of the above will be a requirement to 'respect the inherent historicity of socio-political structures' and the 'inescapable intertwinings of national-level developments with changing world historical contexts' (*ibid*.). In conclusion she argued:

> We do not need a new or refurbished grand theory of "The State." Rather, we need solidly grounded and analytically sharp understandings of the causal regularities that underlie the histories of states, social structures, and transnational relations in the modern world (*ibid*.).

Within ‘new institutionalism’, scholars offer a variety of sub-disciplines. Thelen (1999) offers the following: *rational choice institutionalism,* which is characterized by ‘a search for generalizable features of political behavior rooted in the incentive structures that individuals face’ (1999; 370); *historical institutionalism,* which emphasises ‘how institutions emerge from and are embedded in concrete temporal processes’ (1999: 369); *sociological institutionalism,* that specifically incorporates ‘considerations of power and/or legitimacy in explaining how institutions emerge and are reproduced’ (1999: 371).

Peters (2001) offers the following variations: *normative institutionalism*, emphasises the norms of institutions as a means of understanding how they function and determine or shape individual behaviour; *empirical institutionalism,* which is close to the old institutionalism, and argues that the structure of government makes a difference to the way in which policies are formulated and implemented and the choices that governments select. He also adds these variations: *international institutionalism*, refers to the theoretical place assigned to structures in understanding the actions of states and assumes the existence of structured interactions in international relations, similar to what would be expected with state-level institutions; and *societal institutionalism*, attempts to describe the structuring of relations between society and the state, be it in a pluralist model as witnessed in the United States, or the corporatist model experienced in Europe.

Schmidt (2006) adds *discursive institutionalism* which is primarily concerned with ideas and how they are communicated through discourse. This branch of institutionalism has also been called *ideational institutionalism, constructivism institutionalism* and *economic constructivism.*

From the above it can be seen that there is a plethora of sub-disciplines in new institutionalism. Nevertheless, all branches of institutionalism have more points of tangency than divergence. Central to all is the importance of institutions. All of the above cited authors in their different ways are saying that politics shapes society as much as society shapes politics and that ‘shaping’ is effected through the institutions of state - the state understood through the operation of its institutions and its bureaucracy as articulated by Weber.

Because this thesis is examining transformation over time historical institutionalism, with its emphasis on the temporal, seems the most appropriate framework.

**Historical Institutionalism**

Pierson and Skocpol (2002), in their Harvard University essay, 'Historical Institutionalism in Comparative Political Science,' offer the following cogent explanation and justification for the discipline:

> Historical institutionalists *address big, substantive questions that are inherently of interest to broad publics as well as to fellow scholars*. To develop explanatory arguments about important outcomes or puzzles, historical institutionalists *take time seriously*, specifying sequences and tracing transformations and processes of varying scale and temporality. Historical institutionalists likewise *analyze macro contexts and hypothesize about the combined effects of institutions and processes* rather than examining just one institution or process at a time. (Italics in original)

As a concept, historical institutionalism began to emerge in the early 1980s. (There is some debate as to its exact provenance but all scholars point to the early work of Skocpol). It developed as a counter-weight to various group and structural- functional theories of politics. Also, in contrast to the behaviouralist and rational choice schools, it attempted to bring the state back centre-stage. Building on the 'institutionalist' origins of political science it saw the institutional organisation as the principal factor governing collective action and outcomes and looked 'more closely at the state, seen no longer as a neutral broker among competing interests, but as a complex of institutions capable of structuring the character and outcomes of group conflict' (Hall and Taylor, 1996: 938).

For Thelen and Steinmo, historical institutionalism is an attempt to understand how political struggles are mediated by the institutional settings in which they are located and those same institutions

> …constrain and refract politics but they are never the sole "cause" of outcomes. Institutional analyses do not deny the broad political forces that animate various theories of politics: class structure in Marxism, group dynamics in pluralism. Instead, they point to the ways in which institutions structure these battles and in so doing, influence their outcomes (1992: 3)

Peters refers to 'the deceptively simple idea' at the heart of historical institutionalism, that 'policy choices made when an institution is being formed, or when a policy is initiated, will have a continuing and largely determinate influence over the policy far into the future' (2001: 63). Once governments make their initial institutional formations and policy selections these choices will persist and become 'path dependent' – the forces of inertia take over. (This will be developed further at a later stage).

Hall and Taylor (1996) summarise four distinct features of historical institutionalism:

*Firstly*, there is the relationship between institutions and individual behaviour. There are three seminal questions: how do actors behave, what do institutions actually do and why do they persist over time? How one answers these questions is dependent on one's perspective. For those who take a 'calculus approach' the emphasis will be on human behaviour that is instrumental and based on strategic calculation – utility maximisers. They also view institutions as providing a degree of certainty as to how others will behave as their actions are constrained by the enforcement mechanisms and penalties imposed by institutions. These institutions persist because of a type of Nash equilibrium whereby individuals persist with patterns of behaviour because the cost of deviation outweighs the cost of adherence. For those who take a 'cultural approach' individual behaviour is bounded by experience and actors revert to established routines and patterns of behaviour to achieve their goals – individuals as satisfisers. The individual is embedded within the world of institutions, which not only provide useful information, but also affect the identities and preferences of actors. Institutions are collective constructions that cannot be readily transformed by individual action and furthermore these very institutions are not only enduring but resistant to reform and redesign because they structure and constrain the debate about reforms. Historical institutionalists use both the *calculus* and *cultural* approaches to specify the relationship and interaction between the individual, institution and action.

*Secondly*, there is the role and asymmetrical nature of power in the relationship between actors and institutions. Historical institutionalists are particularly interested in the uneven distribution of power across social groups and assume that institutions give some groups disproportionate access to the decision-making process.

*Thirdly*, social causation is path dependent. Institutional formation at the birth of a state propels the state down certain pathways that have unintended consequences and inbuilt inefficiencies. Existing state capacities and policy legacies affect subsequent policy choices. Timing and sequencing are also important. Over time the flow of historical events is interrupted by 'critical equilibria' or 'critical junctures' when substantial institutional change takes place and historical development moves on to a new path. The major challenge for historical institutionalists, and for this research, is to understand and explain what precipitates critical junctures.

*Fourthly*, while the major consideration for historical institutionalism is institutions there is also a role for socioeconomic factors and the diffusion of ideas and beliefs which may be particularly discerned when new developmental pathways are chosen. Ideas also play a crucial role in shaping policy and changing institutions over time and this particular facet of historical institutionalism is critical. The main hypothesis of this thesis is that at critical junctures major change occurs and that that change is predicated on the implementation of new 'ideas' that rupture institutional path dependency and propel the state down new developmental pathways. How those 'ideas' are formulated, gain credence and acceptance, and are eventually implemented as a solution to the perceived crisis is central to this thesis.

As in all the social sciences definitions can be problematic, and often ambiguous. In this respect historical institutionalism is no different. The only non-contentious part is what is understood by 'history' in this context. For historical institutionalists history really matters 'not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society's institutions' (North, 1990: vii). Some of the other terms used in the discipline require explanation and elaboration. What is an institution, what is meant by path dependency, what are critical junctures and punctuated equilibria, does timing and sequence matter, do ideas matter?

**Institutions**

North (1990: 3) offers the following definition: 'Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction' and can be both formal and informal. They reduce uncertainty by establishing a stable, predictable (but not necessarily efficient) structure for human interactions. Institutions are continuously evolving and changing and even though the formal rules may change overnight, as a consequence of political or legal change, the 'informal constraints embodied in customs, traditions and codes of conduct are much more impervious to deliberate policies. These cultural constraints not only connect the past with the present and the future, but provide us with a key to explaining the path of historical change' (1990: 6). North further distinguishes between institutions and organizations which include political, economic, social and educational bodies. Both are interdependent. How and why organizations come into existence is dependent on the institutional framework and they in turn influence the institutional framework which may have to adapt to facilitate and/or constrain organizations.

Hall and Taylor offer their understanding of institutions as

> ... the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or the political economy. They can range from the rules of a constitutional order or the standard operating procedures of a bureaucracy to the conventions governing trade union behaviour or bank-firm relations. In general, historical institutionalists associate institutions with organizations and the rules or conventions promulgated by formal organization (1996: 938).

They further make the point that institutions should be seen 'as culturally specific practices, akin to the myths and ceremonies designed by many societies' which are in turn assimilated into institutions 'not necessarily to enhance their formal means-end efficiency, but as a result of the kind of processes associated with the transmission of cultural practices' (1996: 947).

March and Olsen see the institutions of politics as primarily administrative institutions that provide order and influence change. 'Bureaucratic agencies, legislative committees, and appellate courts are arenas for contending social forces, but they are also collections of standard operating procedures and structures that define and defend values, norms, interests, identities and beliefs' (1989: 17). These institutions have a repertoire of responses and procedures which are embedded within a set of rules which have implications for politics. The rules, which may be formal or informal, reflect the historical experience of the institution and actions are tailored to comply with a concept of identity ('a logic of appropriateness') which overrides any calculus of costs and benefits. Even though rules bring order and predictability they can also bring ambiguity, contradiction and conflict and the network of rules and rule-bound relations are sustained by a confidence and trust that appropriate behaviour can be expected most of the time. Individual personality and the will of political actors is subservient to the historical traditions of the institution and learning from history-dependent routines and norms is more important than expectations of the future.

This 'learning from history-dependent routines' is central to this thesis as it demonstrates the path dependency of institutions which, in turn, acts as a major constraint on the implementation of new ideas. But institutional design can also act as a blocking mechanism. Pierson (2004) posits that specific institutions invariably have a wider impact than intended ('multiple effects') and lead to unanticipated consequences. Skocpol takes a more organizational realist approach to institutions 'viewing them as actual patterns of

communication and activity, rather than seeing them primarily as values, norms, ideas, or official rules' (1995: 105). She is primarily interested in studying processes and outcomes and, somewhat surprisingly, sees these as almost accidental outcomes ('without intentional foresight and control') of the actions of actors whose capacities are institutionally constrained. There may well be unintended consequences ('accidental outcomes') but, even allowing for institutional constraints, in the opinion of the writer, outcomes invariably reflect the views of the main actors.

Pierson (2004) is also concerned about institutional design. Designers, motivated by what they deem appropriate than by what would be effective, may have short-term political horizons that have long-term institutional consequences. Also, slow moving social processes may alter the functioning of institutions and over time it may be found that 'previously desirable institutional effects are now problematic' and gaps may emerge 'because the actors who inherit institutional arrangements are not the same as those who designed them' (2004: 120). Within the majority of institutions there is also resilience and inbuilt obstacles to revision. Pierson describes these as 'coordination problems', which actors solve by converging on a sub-optimal focal point, and 'veto points' which coalesce around nested rules and cultural norms.[2]

Historically, political science portrayed decision making in institutions as being primarily concerned with a sense of purpose, identity and belonging. The modern perspective gives primacy to outcomes (instrumentalism) and ignores symbolism or sees it as part of a process that attempts to manipulate outcomes.

> Administrators solicit public participation in decision making in order to secure public support for policies to which they are already committed… Information is gathered, policy alternatives are defined, and cost benefit analyses are pursued, but they seem more intended to reassure observers of the appropriateness of actions being taken than to influence the actions (March and Olsen, 1989: 7).

In reality these are purely symbolic actions, strategic moves, or instruments by which the administrative and political elites exploit/manipulate the general public.

[2] Bulmer and Burch (2005) also refer to these institutional veto points and to their obverse – institutional opportunity structures.

Scott (2001: 48) offers the following omnibus conception of institutions which encapsulates all of the above to varying degrees:

- Institutions are social structures that have attained a high degree of resilience;
- Institutions are composed of cultured-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life;
- Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artifacts;
- Institutions operate at multiple levels of jurisdiction, from the world system to localized interpersonal relationships;
- Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous.

Institutionalists 'typically analyze how sets of organizations and institutions relate to each other and, in turn, shape the processes or outcomes of interest' and 'generally expect to see powerful effects stemming from interactions among institutions, or between institutions and organizations' (Pierson and Skocpol: 12). Furthermore, Thelen makes the rather critical point that 'rather than conceiving of institutions as holding together a particular pattern of politics, historical institutionalists are more likely to reverse the causal arrows and argue that institutions emerge from and are sustained by features of the broader political and social context' (1999: 384). . Thelen and Steinmo also remind us that:

> Institutions are an independent variable and explain political outcomes in periods of stability, but when they break down, they become the dependent variable, whose shape is determined by the political conflicts that such institutional breakdown unleashes (1992:15).

In assessing transformation in Ireland this thesis views the institutions of politics as primarily administrative institutions that provide order and influence change – as per March and Olsen, and Weber. But it also recognises that organisations are also institutions with a high degree of resilience and that they are culturally bounded and likely to be highly path dependent.

**Path Dependency**

> *And one should bear in mind that there is nothing more difficult to execute, nor more dubious of success, nor more dangerous to administer than to introduce a new order of things; for he who introduces it has all those who prosper from the old order as his enemies. And he has only lukewarm allies in those who might profit from the new.*
>
> Machiavelli (1532/1998: 21)

Central to path dependency is the idea that initial choices not only influence, but often dictate, further actions. A useful analogy from the world of mathematics is the 'Polya Urn' process. Imagine an urn in which there are two balls, one black, one red. Placing one's hand in the urn randomly remove one ball and then return it to the urn with an additional ball of the same colour and keep repeating the process until the urn is full. We have no idea as to what the eventual distribution of balls will be and if we run the trial a hundred times we would probably get a hundred different results. In any individual trial the ratio will eventually reach equilibrium. Sequencing is critical. The early draws in each trial will have a considerable random element but a powerful effect on the final distribution. Likewise with institutions, the decision rules link future outcomes to the outcomes of preceding selections and consequently exhibit 'positive feedback' (or self reinforcement). Each step along the path increases the attraction of that path for the next round.

From the world of technology we get the QWERTY keyboard effect. The configuration of a typewriter keyboard became standard even though other configurations would now be more efficient, especially in an electronic age that does not have to rely on highly mechanical devices to effect an action. Arthur argues that 'when two or more increasing-return technologies "compete" then, for a "market" of potential adopters, insignificant events may by chance give one of them an initial advantage in adoptions' (1989: 116). This technology may then improve more than the others and appeal to a wider array of potential adopters, leading to wider adoption and further development and improvement. These technologies, for no particular reason, can achieve an initial dominance, lock out alternative technologies, and maintain that dominance even if in the long run the alternative may have been more efficient (think Apple and Windows, Betamax and VHS).

The world of economics offers the concept of 'increasing return'. The idea is that each increment added to a process yields larger, rather than smaller returns. (This is in contrast to

'decreasing returns' where economic actions generate decreasing returns). Arthur (1989, 1994) argues that in the development of a new technology an early edge may generate positive feedback that locks in this technology even if it not the most efficient in the long run. Also, large set-up or fixed costs lead to long production runs that enable those costs to be spread over more output thereby reducing unit costs. Those costs become a barrier to entry. The knowledge gained from the operation of complex systems leads to higher returns from continuing use and increased familiarity leads to more efficiency (Porter, 1980). Also, the experience gained leads to further innovation in related activities (learning effects). There are increased benefits as others adopt the technology (coordination effects). The effect will be more pronounced when the technology is linked to other infrastructure (e.g. cars with road infrastructure and fuel distribution). Finally, choosing options that fail to win broad support will have major drawbacks down the road. People will want to back the winning horse and will adapt their actions accordingly (adaptive expectations).

Historical institutionalists believe the same principle applies to the political process. Thelen argues that politics involves some elements of chance (agency, choice), 'but once a path is taken, then it can become "locked in," as all the relevant actors adjust their strategies to accommodate the prevailing pattern' (1999: 385). Likewise, Pierson argues that timing and sequence matter and starting from similar conditions a range of different social outcomes is not only possible but likely: 'large consequences may result from relatively "small" or contingent events; particular courses of action, once introduced may be virtually impossible to reverse' (2004: 18). Institutional actions become self-reinforcing and these positive feedback processes have unique and intriguing characteristics (Arthur, 1994). Chief among these is unpredictability – early actions (which may be random) have large effects and many outcomes are possible. It is not possible to predict the end-state. There is also inbuilt inflexiblity and the more advanced the process the more difficult to change to another path, particularly if the process had absorbed large set-up costs. An emerging stability becomes apparent. Accidental events early in the process do not even out, are not forgotten, and feed into future choices (Arthur refers to it as nonergodicity). Finally, there is potential path inefficiency as the pay-offs generated may be lower than a foregone alternative and, consequently, inefficient.

Even at an intuitive level understanding the idea of positive feedback in path dependence has two key elements: the cost of switching from one of course of action to another (at an institutional level) will increase over time; not just what happens but when and in what

sequence really matters. Pierson (2004), in making the case for path dependence and positive feedback, draws a useful analogy with the world of cooking: A cook will prepare the ingredients and will also carefully measure each. The good cook will know that the timing and sequencing of how the ingredients are added to the mix is crucial to the finished product. Moving the argument back to political analysis he posits that the discipline has over-concentrated on the 'variables', which just give a snapshot in time and that there is a strong case for moving pictures – situating events and moments in a temporal sequence over extended periods of time can greatly enhance our understanding of social and political events. He also cautions of the necessity to look at the long- term process: 'Slow-moving processes may be cumulative, involve threshold effects, or require the unfolding of extended causal chains' (2004: 82). He elaborates on these:

- *Cumulative Causes* – he refers to 'incremental' or 'cumulative' variables and how social and political conditions may change dramatically over time **but** at a very slow pace.
- *Threshold Effects* – processes may have a modest or negligible impact until they reach critical levels which trigger major change (Gladwell's Tipping Point).
- *Causal Chains* – may not run on a straight trajectory. If *x* initiates the sequence *a,b,c* which yields *y,* any temporal or other changes in *a,b,c* may lead to a substantial lag between *x* and *y.*
- *Slow-moving outcomes* – have long time horizons, e.g. a change in birth rates will only impact on the population over a long period of time.

Even though politics differs from economics in many ways there are certain aspects of the political world that are conducive to the study of path dependence and positive feedback. A fundamental of political life is the provision of public goods such as defense, environmental protection, education etc. The distinguishing factors of these goods are jointness of supply – provision costs may not be greatly affected by the numbers who will use the good; nonexclusability – use cannot be readily restricted and cannot easily exclude free riders.

There is a collective nature to politics and the consequences of individual action are not only highly dependent on the actions of others but individual benefits are constrained by the 'collective action' of others. In the 'collective' sphere there is an absence of a linear relationship between effort and effect and we see this particularly in interest group activity. Furthermore, as collective decisions will have the coercive force of law, the law itself

becomes a public good and institutional restraints become ubiquitous. Politics involves struggles to establish who sets the agenda (makes the laws) and this will have an enormous influence on who exercises power. Power is asymmetrical and often hidden from view and, perversely, where it is most unequal it does not have to be used openly. Institutions have in-built self- reinforcing mechanisms that are difficult to reverse. In all of the above there is virtually an inbuilt path dependency and positive feedback mechanism.

(The quote from Machiavelli at the beginning of this section illustrates that resistance to change (and the breaking of path dependency) is not a new phenomenon. In reading the biographies of many political leaders (Roosevelt, Truman, Kennedy, Churchill, de Gaulle, Thatcher, Major, Blair, de Valera, Lemass, Lynch, Haughey, Reynolds, Ahern) they all complain of how difficult it is to make change happen. Even the biographies of despotic leaders such as Hitler, Lenin and Stalin describe resistance to change but they were more ruthless in overcoming that resistance.

In economic theory path dependency is not deemed critical because the market quickly provides exit mechanisms. A new, more efficient organisation will enter the market and ensure the demise of non-competitive, sub-optimal organisations. Alternatively, organisations learn from their own and others' mistakes and correct them over time. The world of politics does not offer such mechanisms and reversing course may be much more difficult. In all probability there will not be a competitor to learn from. Indeed the rules of the game may preclude competition and even if learning does occur reform is particularly difficult in systems that exhibit positive feedback. Allied to this is the fact that the further down a path one has travelled the greater the costs of switching to a foregone alternative (North, 1990: 94-95). Add in to the mix the short time horizons of many political actors (the timing of the next election being especially significant) a strong *status quo* bias exists among those who make the rules and ensures that path dependent effects are particularly intense in politics.

If the arguments presented above in relation to path dependency are valid does this mean that institutional change is non-existent or, at best, incremental? For historical institutionalists the answer is no. Every so often some seismic events will occur that radically change the political landscape and the trajectory of institutions. Also, over time, incremental change can predicate substantial institutional change. Be that change seismic or incremental historical institutionalists refer to those moments of change as 'critical junctures'. The proposition that

institutional path dependency is ruptured at critical junctures is central to this thesis and, furthermore, the power of ideas is central to that rupturing.

**Critical Junctures and Punctuated Equilibria**

> *I shall be telling this with a sigh*
> *Somewhere ages and ages hence:*
> *Two roads diverged in a wood and I –*
> *I took the one less travelled by,*
> *And that has made all the difference.*
> 'The Road Less Travelled' (Frost, 1949)

Malcolm Gladwell in *The Tipping Point*, using the analogy of the spread of disease, refers to that 'one dramatic moment in an epidemic when everything can change all at once as the Tipping Point' (2005: 9) and extrapolates that social change follows a similar path. Ideas and trends become contagious, social dynamics cause rapid change, cross a line and spread like wildfire. Kuhn, in his seminal *The Structure of Scientific Revolutions*, makes a similar point. He argues that scientists, even when they begin to lose faith in an existing theory and begin to seek alternatives, will not renounce the theory that has led them into crisis. 'The decision to reject one paradigm is always simultaneously the decision to accept another' (1970: 77). With the emergence of this new theory a paradigm shift occurs and the new theory revolutionises thinking. He draws a very useful analogy with the world of politics:

> Political revolutions are inaugurated by a growing sense, often restricted to a segment of the political community, that existing institutions have ceased adequately to meet the problems posed by an environment that they have in part created. [It is] much the same way [with] scientific revolution..... In both political and scientific development the sense of malfunction that can lead to a crisis is prerequisite to revolution (1970: 92)

The adoption and implementation of the new theory, rather than just building on existing theory, can be truly revolutionary and changes the scientist's world view.

For historical institutionalists it is 'critical junctures' – those moments when change becomes inevitable – periods of profound change that produce significant legacies. But it is not just periods of profound change. Sometimes, seemingly insignificant institutional change can lead to profound societal change. Pierson puts it as follows:

> Although analyses invoking the language of "critical junctures" sometimes focus on large-scale events, those qualities are neither necessary nor sufficient to generate path-dependent dynamics. In fact, the point in path-dependent analyses is that "causes" may

> often seem relatively small compared with their effects. What makes a particular juncture "critical" is that it triggers a process of positive feedback (2004: 51).

The term 'critical juncture' is primarily attributed to Collier and Collier and their 1991 work *Shaping the Political Arena: Critical Junctures, the Labour Movement, and Regime Dynamics in Latin America* in which they argue that governments exhibit large inertia to change and change can only occur when there is a conjuncture of a variety of political actors that individually do not have the capacity to generate significant change but that acting collectively make change inevitable. Bulmer and Burch (2001:81) make a subtle but important distinction between critical junctures and critical moments.

> A 'critical moment' is when an opportunity arises for significant change. Such opportunities may not be realised and exploited but, if they are, the outcome is a 'critical juncture' at which there is a clear departure from previously established patterns. Critical junctures create branching points at which institutional development moves on to a new trajectory or pathway which is then followed incrementally until a new critical moment arises and (potentially) a new critical juncture follows and a new direction is taken.

Krasner (1984) explains institutional change through the concept of 'punctuated equilibria'. Implicit in this is the idea that institutions exist in a state of equilibrium and function in accordance with norms established at initiation or at a previous point of punctuation. New structures originate at times of crisis, establish a life of their own, and 'once a path is taken it canalizes future developments' (1984: 240). This conceptualization has been referred to as the branching tree model of sequential development.[3] Krasner cites the work of Stephen Jay Gould who was critical of Charles Darwin's synthesis of evolution as a continuous process in which species adapt to their environment. Gould (2002) saw change taking place rapidly in geographically isolated groups which then displace their populations of origin and he poses the following question: is the world primarily in constant change and is structure a mere incarnation of the moment, or is structure primary and restrictive, and is change a phenomenon that becomes inevitable when a stable structure is stressed beyond its capacity to resist and absorb?

For Krasner 'Punctuated equilibrium is an apt description of an analytic stance that sees political institutions enduring over long periods once they are established' (1984: 243). However, stasis is punctuated by crises emanating from the outside environment that can lead

[3] The branching tree model has been used, *inter alia*, by Lipset and Rokkan (1967) in *Party Systems and Voter Alignment* and by Daniel Dennett (1995) in *Darwin's Dangerous Idea*.

to the breakdown of the old institutions and precipitate intense political conflict over new institutional arrangements and configurations. As Thelen and Steinmo put it: 'At the moment of institutional breakdown the logic of the argument is reversed from 'Institutions shape politics' to 'Politics shape institutions'' (1992: 15).

Whether policies are influenced by earlier policy choices, and the institutional nature of those choices, or by the normal incremental nature of the policy-making process has led to much debate in the discipline. Burch, Hogwood and Bulmer (2003) cogently argue that this 'incremental change', through interaction and accumulation, can have transformative effects on institutions and states comparable to seismic events.

This thesis holds that the branching tree model as described by Krasner, Gould *et al* (or Gladwell's tipping point and Kuhn's paragigm shift) offers the most apt description. Institutions reach a branching point when change is inevitable, they then travel down that trajectory until the next crisis which, in turn, creates a new branching point and the process is repeated. History shows that every polity at some stage reaches a critical juncture where change becomes inevitable. Roosevelt's New Deal in America in the 1930s, the birth of the welfare state in Britain in the late 1940s, these are just two examples of radical transformation at critical junctures.

**The Role of Ideas**

Critical for historical institutionalists is the role of ideas in precipitating change and defining institutions. Peters (2001: 66) posits that 'ideas tend to provide a set of ready solutions for policy problems that arise within their domain'. Conversely 'institutional change to some extent becomes a question of how to change ideas' (2001: 70). Hall (1989: 367) puts it as follows:

> When an evocative set of ideas are introduced into the political arena they do not simply rest on top of the other factors already there. Rather they can alter the composition of other elements in the political sphere, like a catalyst or binding agent that allows existing ingredients to combine in new ways

Historical institutionalists are primarily concerned with how ideas affect institutions and public policy. North (1990) acknowledges that institutional change has to be understood in the

context of political actors trying to interpret their world through the ideas (ideologies), norms and values which helped them to identify their interests in the first place.

Campbell (2004: 92) poses the following questions: What do we mean by 'ideas'? Who are the actors and what are their ideational roles? How do ideas affect institution change – the causal mechanisms? What conditions most likely ensure their adoption? What is the most appropriate methodology for determining if ideas do effect institutional change? He argues that ideas can reside in the background where they can be taken-for granted assumptions that are culturally and politically acceptable and in the foreground where they are explicitly expressed by the decision-making elites and are routinely contested as they challenge the *status quo*. Background ideas, because they are culturally imbued, tend to constrain change. Foreground ideas, because they challenge perceived wisdom, tend to facilitate and/or enable change.

Tables 2:1 offers a useful summary of the typology of ideas, the actors who may both utilize them and be influenced by them, the frames those actors (sometimes) use to strategically cloak their agendas in the rhetoric of public sentiment, and their effects on the policy-making process.

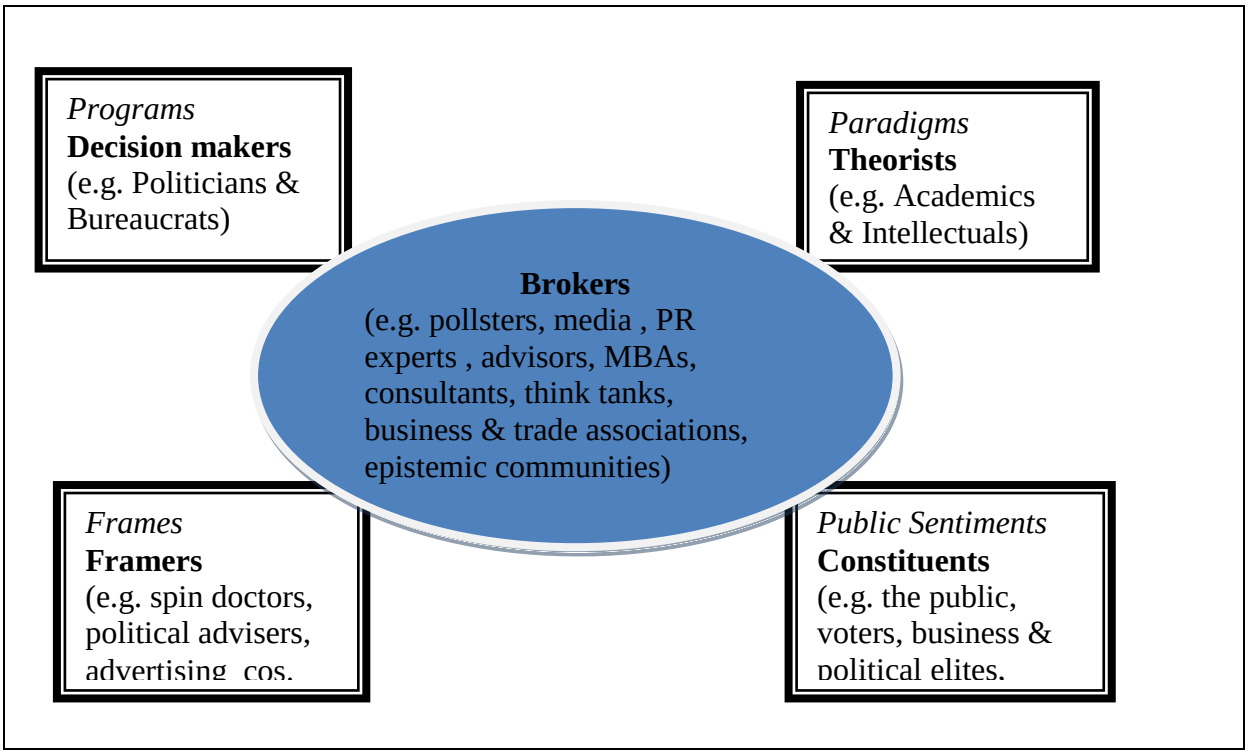
**Table 2.1: Typology of Ideas**

| | **Foreground**<br>**Concepts and Theories** | **Background**<br>**Underlying Assumptions** |
|---|---|---|
| | *Programs* | *Paradigms* |
| **Cognitive (Outcome Oriented)** | Ideas as elite prescriptions that enable politicians, corporate leaders, and other decision makers to chart a clear and specific course of action | Ideas as elite assumptions that constrain the cognitive range of useful programs available to politicians, corporate leaders, and other decisions makers |
| | *Frames* | *Public Sentiments* |
| **Normative (Non-outcome Oriented)** | Ideas as symbols and concepts that enable decision makers to legitimize programs to their constituents | Ideas as public assumptions that constrain the normative range of legitimate programs available to decision makers |

Source: Adapted from Campbell, 2004: 94)

Ideas do not emerge spontaneously or gain purchase without actors. Table 2:2 offers a very useful illustration.

**Table 2.2: Ideational Actors**




(Source: Campbell, 2004: 101)

To even to begin to make a difference ideas have to gain acceptance among the political and bureaucratic elites. These ideas may have their origins in academia or business where theorists can often effect an intellectual- paradigm shift. The idea then has to be framed to fit within the prevailing cognitive norms while at the same time not straying too far beyond the dominant norms and values of public sentiment. Simultaneously, the decision makers and framers have to carry their constituents in order to implement a programme and effect institutional change. At the centre of the web are the ideational brokers whose role can be critical in implementing change. The point also needs to be made that often the difference between ideas and interests is not always easily discernible.

Sometimes the affect can be direct and obvious; sometimes it can be indirect and nuanced and the adoption of new programs often facilitates and/or forces institutional change. The affect is largely influenced by how well the ideas become embedded in institutions and how the carriers of ideas access decision makers. Once ideas have been adopted 'constituencies and implementation capacities tend to develop that constrain in path-dependent ways further programmatic change' (Campbell, 2004: 110). Furthermore, paradigms and public constituents, as long as they remain stable, can also constrain change in a path-dependent

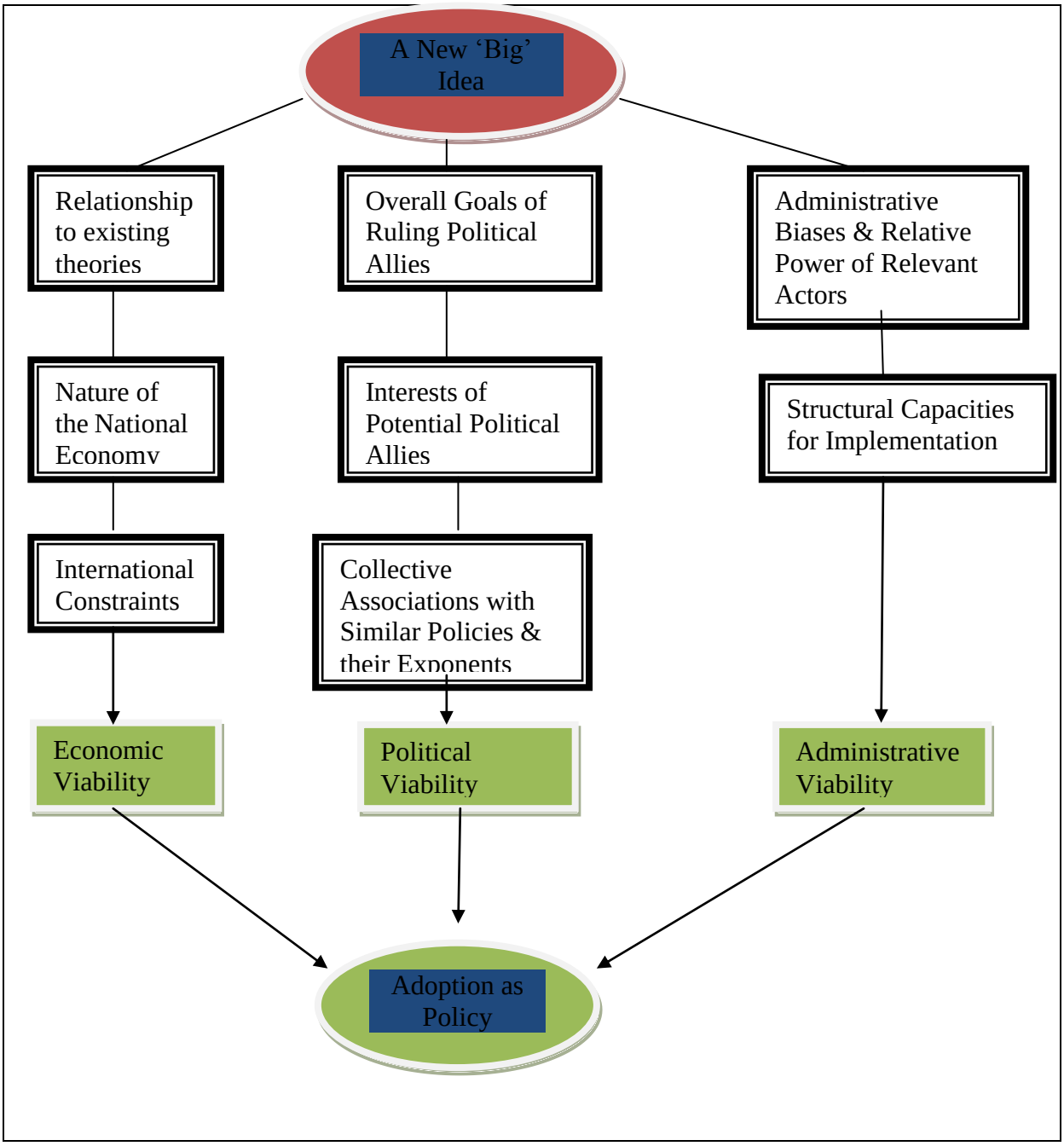
fashion. Similarly institutions can affect ideas through mediating the impact of programmes, in setting the frames and paradigms in which ideas operate and, critically affect public sentiments. 'Finally it is important to recognize that fragmentation, conflict, and overlap among institutions often provide important opportunities for ideas to compete in ways that may lead to institutional change' (Campbell, 2004: 113).

Ideas, no matter their provenance, be they cognitive or normative, background or foreground, will remain as just 'ideas' unless they can be adopted and implemented. A new idea may have political and administrative appeal but the short time horizons of those political actors may blind them to the full economic consequences. Similarly an idea may have both economic and administrative appeal but be politically unpalatable. And history tells us that ideas that held enormous political appeal (especially with an impending election on the horizon) may not be either economically or administrative acceptable. Hall (1989) argues that for a new idea to gain viability it needs to do so at three levels: the economic – has to be relevant and applicable to the national economy and acceptable to international markets; political – accepted by the ruling party and potential allies, and then the acquiescence of the public; administrative - biases have to be overcome and structural capacities for implementation put in place.

Hall developed his framework when assessing why Keynesian policies were adopted in some countries and rejected in others. 'Prosaic as it may seem the orientation of the governing party appears to have been the single most important factor affecting the likelihood that a nation would pursue Keynesian policies' (1989: 376). Parties with strong ties to the working class were much more receptive to the new ideas. The other major factor was the institutional framework in which political discourse took place – the prevailing set of common political ideas. 'These include shared conceptions about the nature of society and the economy, various ideas about the role of government... and collective memories of past experiences' (1989: 383). It is in this prevailing political discourse that a new idea has to make its way and its plausibility or otherwise will be judged.

Hall's Framework is set out in Table 2.3

**Table 2.3: Hall's Framework**




(Adapted from Hall, 1989: 371)

This table will be further adapted to apply to the Irish situation over the coming chapters.

Campbell's typology of ideas offers a ready theoretical understanding of moving a new idea from the 'foreground' to the 'background' where it becomes an underlying assumption. Hall's framework demonstrates the path that a new idea has to follow – economic acceptance, administrative acceptance and political acceptance – before it becomes viable. It is only then that a new 'idea' can be fully implemented and effect change. Both Campbell's typology and Hall's framework will be used to track the emergence of new ideas and how they wound their way through the economic, administrative and political mazes of institutional life and punctuated institutional path dependency at critical junctures in the transformation of Ireland. It should then be possible to track and measure the transformation that follows the critical juncture.

Bulmer and Burch, both individually and collectively (1998, 2001, 2003, 2005, 2009) have written extensively on how Europeanization has impacted on the institutional life of the member states of the EU through policy transfer and the implementation of new ideas. They posit that the change that follows from a critical juncture can be seen at the following levels:

1. *The systemic level*: the constitutional framework of state and government;
2. *The organisational level*: the offices and networks and the positions within them (including the powers, resources and skills attached to them), delineating who are the key players and the nature of the connections between them;
3. *The regulative level*: the rules and guidelines about who should do what and the extent to which there is a strategic capacity to ensure tasks are fulfilled and to think ahead;
4. *The procedural level*: the processes shaping how business is handled including information systems and policy processes.

(2001:77)

They further point out there is often a degree of overlap in the above components but that for analytical purposes it is useful to treat them as separate. And then there is an added component which needs to be taken into account: 'The cultural dimension concerns the norms and values that are prevalent within the institution and how these are inculcated. This dimension is slightly different form the other four because it is present at all four levels' (2001: 77). At the systemic level, it could refer to issues such as sovereignty or national identity. At the organisational level, it could be as simple as the roles people fill in an organisation. At the procedural level it could refer to the traditional civil service values of how information is shared between departments. At the regulative level, it could refer to values concerning when officials in a ministry should take legal advice on a matter. Their

general point is that this cultural dimension is present at all four levels and particular attention will be paid to political culture.

Their template will be used to demonstrate the change that occurred in Ireland after each critical juncture.

## Conclusion

Historical institutionalism can be used as a framework to successfully look back and see how and why change occurred over time. Its value is in 'post-dicting changes in the equilibria' (Peters, 1999: 76). Critics of historical institutionalism point at its inability to predict future paths and transformation. But, from this writer's perspective, the reality is that no other theory can do so either when attempting to predict outcomes, especially at times of profound change and transformation. Historical institutionalism was chosen as the preferred theoretical framework for this thesis because of its emphasis on institutions; the asymmetrical nature of power in the relationship between actors and institutions; the role of path dependency in resisting change; and the role of ideas in punctuating that path dependency at critical junctures. To track the path of ideas through the institutional framework use will be made of two tools described by Campbell (2004):

- Process Tracing – is extremely descriptive and focuses on how ideas affect outcomes. It tells plausible stories about how ideas, to be effective, must fit into existing cognitive and normative constraints.
- Complex Inductive Counterfactual – marries the public pronouncements with the private views of the relevant actors through perusal of private papers, diaries etc. and, primarily in this thesis through personal interviews.

It is proposed that when looking at the critical junctures of 1958/9 and 1986/7 in Ireland to use historical institutionalism as the theoretcial framework. This will demonstrate the path dependency of institutions that contributed to the economic crisis and precipitated the critical juncture; establish what ideas were in circulation that offered possible solutions; use Campbell's Typology of Ideas to demonstrate how 'new ideas' moved from being foreground

concepts and theories to background underlying assumptions; on Hall's Framework demonstrate how the economic, administrative and political acceptability of the 'new ideas' led to their adoption and implementation; and then, using Bulmer and Burch's Template demonstrate the ensuing change and the systemic, organisational, regulative and procedural levels that led to the transformation of Ireland at each critical juncture.

# Chapter 3: First Critical Juncture in the Transformation of Ireland

> *It is apparent that we have come to a critical and decisive point in our economic affairs. The politics hitherto followed, though given a fair trial, have not resulted in a viable economy.*
>
> T. K.Whitaker (1958: 2)

By the late 1950s, Ireland was in a state of economic crisis and political stalemate and had reached a critical juncture. Many of its citizens were wondering if the price of independence had been too high. However, key policy changes that were set in train in the period 1958/9, particularly the move from protectionism to free trade and the encouragement of foreign direct investment precipitated a chain of events that radically transformed the Irish state. The central hypothesis of this thesis is that transformation was effected through the power of ideas, ideas that were circulating among the administrative elite and, to a lesser extent, the political elite for some time. Those ideas had enormous consequences for Ireland. They, in effect, led to a critical juncture, broke the existing path-dependent nature of Irish institutions and projected those institutions, and the state, down new developmental pathways.

Using a historical institutionalist perspective this chapter will trace, through the institutions of the state, the symptoms of the failure that were evident to most people by the middle of the 1950s (but not openly acknowledged), the causes of that failure, the ideas that were proposed for a solution and how those ideas were formulated, disseminated, and eventually gained acceptance.

## Symptoms of Failure

By the mid 1950s Ireland was unique in the world in having an excess of births over deaths each year and yet, because of emigration, a declining population. By 1961 the population had shrunk to 2,818,341, its lowest ever recorded level, and in the period 1946-61 there was total emigration of 528,334 (Coakley, 2003: 365). Emigration was running at its highest levels since the Famine. Critically, the young and vigorous were emigrating and Ireland was an exporter of brains at a time when it was in critical need of them. Lee (1989: 341) refers to 'the deepening despair that spread during the mid- fifties' and the realisation that the old ways had been tested and found wanting. Public discourse had focussed on a narrow band of 'essentially rhetorical themes relating to sovereignty, constitutional relations with Britain, reunification of the national territory and the restoration of the Irish language' (Farrell, 1986:

143). The bread and butter issues of employment, emigration, inflation, and taxation were peripheral to the basic partisan cleavages. Neutrality during World War II had accentuated the country's isolation and introversion. Even though Ireland was a founding member of the Council of Europe it used it primarily for speeches on 'the fester of partition' (Hederman, 1983:43). Meanwhile, Europe was prospering and recovering from the effects of World War II but the Irish economy was falling behind by the day. In mainland Europe between 1952 and 1958 the main states' economies grew by 40 – 60 percent. In the same period the Irish economy failed to achieve any net growth with continuing emigration and 'within a 12-month period to March 1958, our population fell by over 1 percent' (FitzGerald, 2008a). Economic comparison with Great Britain was even more telling. Irish income per head was 55% of that of Britain. In Leinster the figure was 65% which means that for the rest of the country the figure was less than 50% (Carter, 1957). The differential with the United Kingdom was most noticeable when one looked across the border to Northern Ireland which was prospering while the South was stagnating. Writing in 1955, Garret FitzGerald highlighted the unwillingness of the official mind to acknowledge that reality and suggested that Southerners should look to their Northern cousins 'from whose experience in the garden one might have something to learn – especially if his crops of fruit are notably more successful than one's own!'(1955: 373).

By 1956, the country had reached a crisis point which forced, for the first time, 'a full realization of the economic problems posed by political independence and of our notable failure since 1922 to make any substantial progress towards their solution' (FitzGerald, 1957: 271). The crisis resulted from a confluence of events: the linkage of the Irish pound to sterling (at parity); various sterling crises; an artificially high demand for Irish food exports in Britain, which in turn fuelled a demand for imported consumer goods in Ireland; and the demand for labour in England which further fuelled Irish emigration.

A sense of the prevailing social conditions of the time can be gauged from the following:

- Of the 662,654 housing units in the country 152,995 had an indoor lavatory, 255,383 had an outdoor flush lavatory, 320,571 had no special facilities and the balance had either a privy or chemical closet. The majority had no running water.
- Childbirth was a hazardous occupation with a maternal death rate of 1.35 per 1,000 live births – almost 70 times higher than in 2008.

- Only 3,492 boys and 3,173 girls sat the Leaving Certificate examination.[1]
- By 1960 only 29.8 per cent of 15-19 year olds were in full-time education.
- In a workforce of 1.25m one person was employed in industry for every eleven in agriculture. Many of these comprised a cohort officially known as 'relatives assisting'.
- 20.5 per cent of farmers and 89.3 per cent of 'relatives assisting' never married.[2]
- 69.2 per cent of farms were less than 50 acres.
- Unemployment was c. 6 per cent but was greatly masked by the above 'relatives assisting', who numbered over 600,000, were largely illiterate, not entitled to unemployment benefit and lived lives that now seem, at the very least, stultifying.

(All above figures taken from *Statistical Abstract of Ireland 1958, Department of Education Reports 1956 – 58,* Breen et al.)

In 1956 the average income per head in Ireland was $423, Denmark $809, Britain $909, Canada $1,420, USA $2,067. Between 1949 and 1956 GNP grew by 8 per cent. This compared with 21per cent for Britain and 42 per cent for OEEC countries generally. Over the same period agricultural output grew at an average rate of 1.5 per cent and industrial output by 30 per cent. The comparable figures for the OEEC were 4 per cent and 60 per cent respectively (Whitaker 1958: 10-12).

There was an increasing despondency and what can be clearly deciphered, with the benefit of hindsight, is the path dependent nature of the institutions of state.

## Causes of Failure

The Great Depression of the 1930s, followed by World War II, devastated the economies of the world and recovery was to be slow and painful. In Ireland's case recovery was to be much more elusive. This thesis contends that the malaise that affected Ireland from independence up to the late 1950s was largely due to the path dependent nature of institutions evidenced in the following: the belief in 'self-sufficiency' which resulted in an over-emphasis on agriculture and an almost visceral abhorrence of big business; the 'official mind' with its emphasis on

[1] Girls outperformed boys. Only 23% of boys achieved an honours Leaving Certificate. The figure for girls was 30%.

[2] 'Relatives assisting' was a euphemism for unpaid relatives on farms too small to offer them gainful employment. As Whitaker (2008: 19) puts it they 'formed a reservoir of hopeless, poverty-stricken men and women who filled the emigrant ships for decades'.

continuity and fiscal rectitude, and gerontocratic political and administrative elites; the power of the Catholic church, particularly in education and healthcare; and the political culture of the state. It has already been demonstrated that the Irish economy was falling further and further behind the rest of Western Europe – countries that were benefitting from Marshall Aid and the adoption of free trade economic policies. Can it be pure coincidence that Ireland, which still clung to protectionism, was increasingly the poor man of Europe? To this writer's mind the causal link is very strong.

**Self-Sufficiency**

Political independence had been conflated with economic independence and underpinning the myth was the concept of 'self-sufficiency'. Since independence, 'self-sufficiency' had been the underlying philosophy of the main political parties in Ireland and 'was the economic nationalism of Griffith and Sinn Fein and indeed of an old lineage' (Murphy, 1975: 85). In the Irish body politic it resided as a background, underlying assumption (as described by Campbell in his Typology of Ideas (2004: 94)) within a paradigm that constrained the cognitive range of useful ideas that could be adopted. In the area of public sentiment it constrained the normative range of legitimate programs available to decision makers.

When Fianna Fáil assumed power for the first time in 1932 they were even more vigorous than their predecessors in the drive for 'self-sufficiency'. The withholding of payment to the British exchequer of land annuities paid by Irish farmers in part settlement of the nineteenth century land wars led to retaliatory action by the British who imposed a 20 per cent *ad valorem* duty on the import of Irish livestock. There followed an 'economic war' with Britain with each side taking retaliatory action and settlement was finally agreed in 1938. The episode reinforced the idea of 'self-sufficiency' in the public consciousness but also highlighted the uncomfortable truth of continuing reliance on the British. The fact that the Irish pound was linked to sterling (on a parity basis), and that over 60 per cent of exports went to Britain, meant that various sterling crises, particularly in the post-war years, had an often catastrophic effect on the Irish economy. The reality of a near total dependence on Britain exposed the myth of independence.

Agriculture was expected to be the main driver of economic development as it was the predominant source of exports. Indeed Ireland was predominantly an agrarian society with a plethora of small farms, which were further sub-divided with each succeeding generation, and

that in effect were barely feeding many of their extended family owners. There was a very strong attachment to the land which had been fostered by the various 'land wars' and by the fact that the Famine was still very much alive in folk memory. Government policy post 1932 also switched the emphasis from cattle production to tillage – the former being the domain of large farmers who supported Cumann na nGaedheal (and had prospered since independence) and the latter who were mainly small farmers and supported Fianna Fáil.[3] This had some short-term gains but ultimately was counter-productive as Irish land was more suitable for milk and beef production.

Protectionism became the dominant economic philosophy.[4] On the industrial front the government, especially from 1932 onwards, moved to develop a system of control of imports and the introduction of tariffs to protect home industries.[5] Most of the industries that were set up in this period, though providing employment, did not flourish for a variety of reasons: the Irish market for industrial goods was minuscule; industries were too small in scale to develop export markets; high interest rates and labour charges meant they never achieved economies of scale and, most critically of all, they were dependent on imported fuel, raw materials and machinery.

The state had also introduced a plethora of schemes to encourage industry and agriculture, relieve unemployment and improve social conditions. A central plank of government policy was the Control of Manufactures Acts 1932-34 'a keystone of Fianna Fail's anti-foreign capital and protectionist stance' (Garvin, 2004: 112). The Act stipulated that Irish companies, established behind increasingly punitive tariff barriers, remained in Irish control by requiring that more than half of the equity of newly formed companies must be Irish owned. To facilitate access to capital the Industrial Credit Corporation was also established in 1933 and did have limited success but the emphasis was on small, locally based industries that relied heavily on protectionism.

A lack of private capital, allied to the innate caution of the Irish investor, who was not entrepreneurially minded, necessitated the state taking the initiative through the creation of a

[3] The argument coalesced around 'the cow or the plough'.
[4] Protectionism is the doctrine or practice of restricting international trade to favour home production by the use of tariffs or quotas.
[5] The following import duties applied: fuels 250 per cent; foods 72.5 – 82 per cent; textiles 35.5 – 37.5 percent. In addition the Economist calculated in 1938 that 1,947 articles were subject to restriction and/or control (Whitaker, 1983: 63).

number of new state bodies. The Electricity Supply Board and the Agricultural Credit Corporation had both been founded in 1927. To these were added the Industrial Credit Corporation and the Irish Sugar Company in 1933, Aer Lingus in 1937 and Irish Life Assurance Company in 1939. Industry, supported by government funding and operating behind protectionist walls did offer employment opportunities and the beginning of managerial training but it was also prone to inefficiency and corruption. In total there were 19 major state bodies set up between 1927 and the outbreak of World War II. In many parts of the world the evolution of state-sponsored bodies was part of a deliberate policy of state socialism. In Ireland 'socialism' was a dirty word. As Carter put it 'you are not afraid of Socialism; or (to be more accurate) you are very much afraid of being *called* socialists' (1959: 20). Chubb (1954: 22) believed that 'these bodies came into existence as pragmatic solutions to separate problems' in what would be called state socialism by many but those who set them up would recoil at the term'. His main concern was the lack of control and democratic accountability. Lynch and Carter (1959) generally agreed with Chubb's diagnosis.[6]

It is apparent at this remove that the myth of 'self-sufficiency' and the retreat behind higher and higher protectionist barriers reinforced the path dependency of Irish institutional life and constrained the economic and social development of the country.[7]

**The Official Mind**

The civil service structures put in place in Ireland, by the British in 1920, resulted from the Whitley Report of 1919 and a visit by Sir Warren Fisher, permanent Secretary to the Treasury. These structures were to remain in place, virtually unchanged, until after World War II.[8] This institutional legacy ensured that when the British departed the top civil servants left behind were cast very much in the British mould, 'one of a predominant negativity towards proposals for increasing state expenditure and a strong predilection for balancing the books at all costs' (Coogan, 2004: 172). All the top officials in the Department of Finance came from that tradition and that legacy was to prove highly path dependent.

[6] Despite the criticisms attributed to him above Carter was also quite complimentary referring to "some very successful and progressive examples of State enterprise" (1959: 20). Whitaker (1983: 59) attributes the following to Keynes who, on a trip to Dublin in 1933, declared that 'if I were an Irishman I should find much to attract me in the economic outlook of your present government towards self-sufficiency'!

[7] Girvin (1989: 159) makes the intriguing point that from 1932 – 48 Fianna Fáil did not see the need to change its economic policies as it kept winning elections!

[8] The Great War of 1914-18 had exposed some glaring weaknesses in the British administrative system and the Whitley Report was the official enquiry into the shortcomings and recommendation for change.

Whitaker (2008) refers to the 'inverted Micawberism' that permeated the Department of Finance (which he joined in 1938) where they were always waiting for something to turn down! It exercised strong central control on fiscal policy which became noted for its unchanging nature. March and Olsen (1989) refer to institutions as having a repertoire of responses that are embedded within a set of rules and how actions are constrained by a logic of appropriateness (compliant with a concept of identity) and that a calculus of costs and benefits is subservient to that identity. Learning from history-dependent routines and norms is more important than expectations of the future. Hall and Taylor (1996), writing on institutions, refer to the 'cultural approach' where individual behaviour is bounded by experience and actors revert to established routines and patterns of behaviour to achieve their goals. The Department of Finance conformed fully to both of these propositions.

Not only in its actions but in its personnel the Department of Finance demonstrated its unchanging nature. J.J McElligott was Secretary from 1927 to 1953 before he was appointed Governor of the Central Bank of Ireland, a position he held until 1960.[9] Noted for 'his tenacious preoccupation with economy and stability' (Whitaker, 1978: 97), he was the quintessential 'official mind'. He was succeeded by the sixty three year old O. J. Redmond as Secretary of the Department of Finance in 1953. Redmond had joined the public service as a fifteen year old clerk in 1906 and was one of the first half-dozen officers transferred from the British civil service to the Department. He 'climbed the last rung on the ladder leading to the highest post in the Irish civil service – a truly remarkable testimony to the endurance of the *ancien regime*' (Fanning: 1978: 493). This was replicated across the entire civil service. Jacobsen (1994: 63) refers to the 'cohort of doctrinaire conservatives populating all government departments'. Arthur (1994) argues that institutional actions exhibit positive feedback processes which become self-reinforcing and the Department of Finance was a classic example of this where actions were perpetuated without any apparent questioning of the outcomes. The 'official mind' was path dependent and continued to look to the British civil service as a role model.[10]

[9] A noted feature of the Central Bank of Ireland is that, since its foundation in 1943 until 2009, most Governors, had been Secretary of the Department of Finance. The sole exception was Maurice Moynihan, who had been secretary of the Department of the Taoiseach,

[10] Professor Ivor Browne, referring to his time as Chief Psychiatrist of the Eastern Health Board and Professor of Psychiatry at University College Dublin, in his dealing with the Department of Health, found that 'the Civil Service still had the characteristics of a colonial administration. When you put forward a suggestion the typical response was 'What are the British doing?' ...it was if their mental horizon didn't extend beyond the English

Even the great moderniser Whitaker, was restrained by the cultural approach of his department. In response to a proposal from the Department of Agriculture in 1951 that Ireland investigate the feasibility of joining a proposed European 'Green Pool' for the marketing of agricultural produce, he wrote: 'No useful purpose would be served so far as this country is concerned by the creation of a European organisation for the marketing of certain agricultural products' (Fanning, 1978: 489). Queried at interview about this memo Dr Whitaker did not remember it. On further questioning he said that at that time his own view, and the Department view, was that expansion could only be considered when the balance of payment difficulties, which were inextricably linked to sterling, had been resolved.

Following the change of government in 1948, Seán Lemass, who had been a cabinet minister since 1932, offered the following advice to the new cabinet:

> Beware of the Department of Finance. It has always been restrictive of development ... any plans [the new government] may have had in their mind coming into the Dáil will be lost, and lost forever in the dim recesses of the Department of Finance' (Fanning, 1978: 465).

In a Dáil debate in 1951, Sean MacEntee, who had been Fianna Fáil Minister of Finance, decried the Department of Finance's 'complete subservience to the British Treasury' while James Dillon referred to the officials 'who were delighted in their hearts but consternated in their minds' when the country had not gone broke as they had prophesied. In more emollient tones Taoiseach John A. Costello said of those same officials: 'They are the watchdogs of public finance. It is their duty to point out certain dangers but it is not their duty to create economic policy' (Fanning, 1978: 466).

But it was not just at civil service level that the 'official mind' was evident. At a political leadership level the men (and they were all men) who led the state from its foundation were of a particularly frugal disposition. De Valera's famous address to the nation on St. Patrick's Day 1943 talked about only valuing material wealth as the basis of right living and a 'people who were satisfied with frugal comfort and devoted their leisure to the things of the spirit'. Garvin (2004: 113) cites an interview de Valera gave to *The Manchester Guardian* in 1927 where he argued that a lower standard of living might be no bad thing. For Garvin 'this

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Channel' (2009: 138) Browne goes on to make the point that decisions were often made to ape a British policy just when the British themselves were about to abandon that policy in favour of some other initiative that quite likely came from continental Europe.

strange anti-economic economics informed much of Fianna Fáil's thinking for a long time' (*ibid*.).

This research shows that the political and bureaucratic elites were essentially cut from the same cloth and a noted feature of both is their longevity in office. The political sphere was no different. When Lemass eventually succeeded de Valera as Taoiseach in 1959 his cabinet contained four ministers who had been part of the first Fianna Fáil government of 1932.[11] Gerontocracy ruled in the political and administrative elites. The men at the helm were wedded to self sufficiency, protectionism and, in the best British civil service tradition, a balanced budget. Irish institutional life exhibited the classical characteristics described by Arthur: inflexibility, nonergodicity and potential path inefficiency. The institutions of the Irish state were highly path dependent.

**The Catholic Church**

There is unanimity on the overarching influence of the Catholic Church on all aspects of Irish political and social culture. Catholic thought was deeply embedded in Irish life as a background underlying assumption. The only debate is which dominated: direct Church influence or the Catholic beliefs of the political elites? The Church operated at two basic levels: religious faith and social institution. Each impacted the other and 'it is precisely the conjunction of the two which makes Irish Catholicism a truly unique clerical phenomenon' (Biever, 1976: 490). Garvin argues that the Church controlled much of the elite culture and 'the mind of the collectivity' (2004: 24). Since independence the Catholic Church played a leading role in Irish life and was often referred to as 'a state within a state'. Ironically, there is no formal link between state and church in Ireland.[12] However, the Church in Ireland remains inextricably linked to the state through the central role it has played in education and health care provision since the middle of the nineteenth century, quite often when the state's provision was totally inadequate. Since the 1830s successive British governments had actively encouraged and promoted church involvement in educational provision. They also part financed the seminary in Maynooth, where the majority of priests were trained, with the

[11] Lee (1989: 337) points out that only twenty two men held office in Fianna Fáil governments between 1932 and 1954.

[12] Many European countries carry a legacy of the post-Reformation principle, *cujus regio, ejus religio*. In Britain the queen is the 'Supreme Governor' of the Church of England and until recently the appointment of bishops was a crown prerogative, exercised by the Prime Minister. In the Scandinavian countries the Lutheran Churches are state churches and the clergy are civil servants. In Germany there are taxes to support the churches. In Greece the Orthodox Church is a state church.

express intention of using those same Catholic priests to ensure that the Irish were protected from the anti-Catholic politics of the French Revolution.[13] But, more importantly, 'London and Maynooth were united by a common terror of revolution' (Garvin, 2004: 130) and this close cooperation led to an increase of clerical influence, a clergy that was increasingly English speaking, and a concomitant decline in the Irish language. It also led to increased Church participation in secular politics that was to prove critical for the next one hundred and fifty years. Again, this institutional legacy was to prove highly path dependent and incredibly slow to change.[14]

By the founding of the State the Catholic Church had become so entrenched in education that the underground Dáil of 1919 did not have a ministry of education. 'The idea that priests should control education appeared natural, inevitable and desirable' (Garvin, 2004: 132). Speaking in the Dáil, on the 1940 Department of Education estimate, de Valera said that 'for nine out of ten of our people, the primary school is their only educational experience' (Garvin, 2004: 135). More ominously, Tom Derrig, who served as Minister for Education for most of the period from 1932 – 48, 'believed privately that education beyond the elementary level destroyed children's ancestral cultures' (Foster, 2008: 14).[15]

A 'Council of Education' was set up in 1950 by Richard Mulcahy, Minister for Education in the first inter-party government. Consisting of 29 members, of whom 26 were professional educators (including 11 clerics) and three members representing rural interests, its remit was a review of the primary and secondary education systems. The minister acknowledged that '... the State approach to education ... is one which unreservedly accepts the supernatural conception of man's nature and destiny ... [and] that the foundation and crown of youth's entire training is religion' (Garvin, 2004: 140). In its report the Council rejected any need for wider access to second-level education.[16] It also recommended the formal recognition of the virtual total denominational nature of the entire educational system thereby institutionalising a background underlying assumption.

[13] Catholic emancipation had only been achieved in 1829. British concerns were much more about the spread of republicanism than an apparent concern about the anti-Catholicism of the French Revolution.
[14] The state agenda for education in the nineteenth century, both at national and university level, was ostensibly secular. The *de facto* position was a Catholic Church gaining an increasing influence and control of the educational system.
[15] Before entering politics full-time Derrig had been a teacher in Mayo and in his youth was a student leader in University College Galway.
[16] Archbishop McQuaid of Dublin believed that the Commission was seriously wrong in this conclusion and, to his credit, lobbied for the spread of secondary education.

Vocational education had been put on a statutory basis with the passing of The Vocational Education Act 1930 (the first educational act passed by the new state). It set up thirty eight vocational educational committees (VECs) throughout the country and offered an opportunity to poorer children to acquire some technical education. The Church was ostensibly excluded from the system as the Act did not mention religious education. Partly at clerical insistence, the schools were precluded from preparing students for the leaving certificate.[17] More tellingly, the appointment of CEOs of the various VECs was to be by the Local Appointments Commission and, in theory at least, free from clerical influence. Teacher appointments were made by the VECs which left the Church, and McQuaid in particular, fulminating about the lack of Church control (Cooney, 1999). The Church may have lost that battle but it did not lose the war. It achieved representation on the VECs (clerics chaired some), but also succeeded in having various modifications made to the system including the provision of religious education. There is ample evidence of clerical influence at senior level in the Department of Education, particularly through the influence of the Knights of Columbanus, and some officials were clearly in breach of the Official Secrets Act by passing classified policy documents to the hierarchy (Garvin, 2004: 137).

Could the technical backwardness of Ireland be attributed to the role of the Church? There was a woeful lack of training in science in the Irish school system. 'In 1959 – 60 there were a total of 2,702 Certificates awarded in Chemistry, 2,493 in Physics, and 813 in Agricultural science, compared, for instance, with 46,929 in Irish literature' (Biever, 1976: 341).[18] Biever was an American Jesuit who completed a major study on Religion Culture and Values in Ireland in the early 1960s. He found that the dominant role of the Church in education had produced a people that believed their prime function was to obey 'no matter whether this makes sense [to them] or not' (p. 495). He goes on; 'This obedience syndrome, we submit, must be taken as one major factor influencing the much lamented lack of creativity and initiative in contemporary Ireland, and for this the Church cannot avoid its share of responsibility' (*ibid*.). The Church in Ireland had achieved a dominance that, for Biever, was not entirely welcome:

[17] The curriculum of boys' secondary schools in particular was dominated by Latin and Greek, the prerequisites of a classical education and, more tellingly, for education to the priesthood.

[18] Biever goes on to raise the interesting question as to whether the Church's opposition to science was based on the amorality of science that in turn challenged traditional morality. As will be seen when reviewing Irish agriculture there was also, in spite of the avowed importance of the connection to the land, an aversion to scientific methods of farming.

> It has done this primarily through educational monopoly and currently, through lack of receptivity to all non-ecclesiastical ideology. There is no sense of religious community; none is needed, for church and state, religion and nation have so intertwined that they cannot be conceptualized except in terms on one another. In this process of intermingling it may be suggested that the church has become more socially oriented than religiously relevant, more intent upon control of society and preservation of its privileged position than sensitive to the changing needs of its flock (1976: 500).

Attempts by the government in the 1920s to introduce divorce were successfully opposed by the Catholic Church (Lee, 1989: 158). In addition the Censorship of Publications Act 1929 prohibited any publication deemed 'indecent or obscene' as well as all literature advocating birth control.[19] It was faithfully upheld and promulgated by the Church and the list of publications banned now seems risible. Bunreacht na hĒireann of 1937 acknowledged the special place of the Church and de Valera sought specific Vatican approval prior to its publication.[20]

The vast majority of the hospitals in the state were either owned or run by religious orders such as the Sisters of Mercy and the Daughters of Charity. The publication of the Beveridge Report in Britain in 1942 and the setting up of the National Health Service some years later brought the whole question of healthcare provision centre-stage in Ireland also and led to the first really serious clash between Church and State. Ferriter (2004: 502) argues that the Mother and Child Scheme 'became one of the most celebrated and vitriolic controversies of twentieth-century Ireland'. The ostensible genesis of the controversy was the Health Act 1947 which introduced a limited national health system broadly based on the British system. The act proposed free (voluntary) ante and post-natal care for mothers and free medical care for all children under sixteen, irrespective of means. With the failure of Fianna Fáil in the 1948 general election the implementation of the act fell to the new inter-party government of John A. Costello. On his first day in the Dáil Dr. Noel Browne was appointed Minister for Health and he moved to implement the provisions of the act. He was vociferously opposed by the medical and church authorities – the former because they saw their incomes and influence eroded, the latter because they saw the state interfering in family life and, more worryingly

[19] The act confined itself to 'sexual immorality'. Lee (1989) posits that in confining itself to the sixth commandment the Act permitted a blind eye to be turned to the others! The Censorship Board was invariably chaired by a cleric.

[20] It has been fashionable to deride the constitution as being unduly influenced by Catholic teaching. Given what was happening in other Catholic countries such as Spain, Italy and Germany it may be more appropriate to ask: "how did a document so protective of citizens' rights emerge from a decade so heavily influenced by anti-democratic ideas rooted in Catholic authoritarianism, vocationalism, corporatism, fascism and Nazism?" (Keogh and McCarthy, 2007: 207).

from their perspective, possibly introducing contraception and, more alarmingly still, abortion. The scheme was eventually withdrawn because the 'official mind' capitulated to the Church. Browne did not receive cabinet support and resigned.[21] An editorial in the Irish Times lamented that 'an honest, far-sighted and energetic man' had been driven out of office but its main point was that 'The most serious revelation however is that the Roman Catholic Church would seem to be the effective government of this country' (Murphy, 1975: 133).
For years the Church position on birth control was the state position. All aspects of social policy were dominated by Church policy with the Church having a virtual right of veto. Most tellingly of all, in its dealings with the state, be it in education, health or the provision of social services the institutional Church saw itself as governed by canon law rather than state law. In the context of the times Catholic ideology was firmly established as background underlying assumptions that constrained all other ideologies and ideas.

This research shows an Irish polity whose purpose, from a Church perspective, was to pray, pay and obey. Consultation with clergy was taken for granted before any change in government policy. Education, health and social policy were, in effect, dictated by the Church. Senior clergy had ready access to a supine media that reported Episcopal utterances without comment or criticism. It has already been shown that cabinet ministers were expected to attend at the bishops' palaces when requested to do so. Right across Irish society deference was shown to the Church and its representatives. Access to the political and administrative elites (and to the media) far exceeded any other grouping in Irish society and is a neat illustration of the asymmetrical nature of power – one of the features of historical institutionalism.

**Political Culture**

Reference has already been made to the 'official mind', its fixation with self-sufficiency, and how it was influenced by the Catholic Church. But political culture permeates all strata of society and the political culture of Ireland remained largely unchanged from independence up to the late 1950s. Coakley (2006: 37) defines political culture as the 'fundamental, deeply held views on the state itself, on the rules of the political game and on the kind of principles

[21] In his autobiography, *Against the Tide*, Browne recounts being summoned to Archbishop McQuaid's palace to discuss the scheme. Being Minister for Health he thought the Archbishop should come to see him as all other citizens did. 'Yet my colleagues informed me that it was in fact the practice, under Irish Government protocol, for a minister to be expected to attend, when told to do so, at a bishop's palace' (1986: 157).

that should underlie political decision making'. Agriculture dominated the economy and Ireland, in the period under review was predominantly an agrarian society. Again, Coakley (2006: 40) offers a useful definition:

> Agrarian society has been typified as that in which the population, by definition, is overwhelmingly involved in the primary sector of the economy (with peasants relying on mixed subsistence agriculture, and the industrial sector being confined to small-scale cottage industries and crafts); with predominantly rural settlement patterns; mainly illiterate, ... with only a restricted transport network; and with poorly developed communications media. In industrial society these characteristics are reversed....

In agrarian society an individual is born into a particular rank in society and faces restricted social mobility and a limited set of vocational choices – for the majority in rural Ireland, given the low acreage of the farms and large families, this meant they were consigned to a life of 'relatives assisting'. In theory, at least, Irish urban dwellers could envisage occupational and spatial mobility.

Given that the population was largely agrarian and that Catholicism and 'self-sufficiency' were background underlying assumptions, not only of the general public but of the bureaucratic and political elites, society was largely conservative. An added reinforcement of that innate conservatism was the isolationism experienced because of the state's neutrality in World War II and subsequent exclusion from the post-war boom that was fuelled by the Marshall Plan. Society was also paternalistic with the role of women largely confined to the home. Those fortunate enough to receive a limited education and a job in the civil service had to resign their positions on marriage.

Foster (2008: 65) refers to 'the most traditionalist paradigms that defined national identity since the foundation of the state: that calcified congruence of Irishness, Catholicism and Republicanism'. The early years were also marked by the enormous gap that existed between the pedestrian realities of everyday life and the rhetoric and hyperbole of the revolutionary leaders – nowhere more evident than in de Valera's famous radio address on St. Patrick's Day 1943 when he eulogised 'sturdy youths' and 'comely maidens', a countryside bright with 'cosy homesteads' and a people satisfied with 'frugal comfort'. But the countryside was not bright with homesteads, cosy or otherwise. 'In Ireland in 1945 only two per cent of rural homes had electricity; for rural Denmark and Holland the figures were 85 and 98 percent respectively' (Ferriter, 2004: 425). Rural electrification, when it came, brought huge cultural

change. It helped emancipate rural women from a life of drudgery and brought in the outside world through increased reading and the radio. Paradoxically, concomitant with rural electrification, and its developmental potential, there was a mass exodus from the land and increased urbanisation.[22]

Rhetoric was nowhere more evident than in the areas of a united Ireland and the revival of the Irish language. Irish unity was a cornerstone of Bunreacht na hĒireann and the promised solution to all the ills of the fledgling nation. The fact that successive governments did nothing to encourage unity, perversely, perpetuated that particular shibboleth. The underlying myth was that Irish unity would solve all the economic woes of the country and the only reason the country had not prospered was because of the continuing occupation of part of the national territory by perfidious Albion. The vision of many of those who fought for, and secured, independence was for a Gaelic nation - Irish speaking, Catholic and agrarian with the land of Ireland belonging to the Irish.[23] The revival of the Irish language was another core value for Fianna Fáil and enormous sums were spent in the efforts to promote the language but revivalists never succeeded in building a sustainable mass movement.

From a political science perspective Ireland was *sui generis* in that it did not conform to any of the traditional cleavages: left/right, centre/periphery, church/state etc. Rather, the political cleavages that occurred at independence, and which coalesced around civil war politics, continued right up to the first critical juncture and permeated political culture.

The perceived wisdom of 'self-sufficiency' remained long after it had become obvious that it did not deliver economic prosperity. The 'self-sufficiency idea', and likewise the 'official mind' and 'the Catholic Church' had all become institutionally bound, path dependent and highly impervious to change. They permeated not only political culture, but all aspects of Irish life. At a theoretical level they conformed to Campbell's typology of background ideas - taken-for granted assumptions that are culturally and politically acceptable. Background ideas, because they are culturally imbued, tend to constrain change and, as this research shows, Irish society was characterized by its unchanging nature. Foreground ideas, because they challenge perceived wisdom, tend to facilitate and/or enable change. Ideational change

[22] Garvin (2004: 42) notes that de Valera, in lamenting the flight from the land, at one stage considered making cheap radios available to rural dwellers. It fell to one of his advisers to remind him that radio was a medium that exacerbated rural discontent and enhanced the apparent glamour of urban living.
[23] At no time did a single Gaelic culture exist because Gaelic culture meant different things to different people.

would require a major paradigm shift for Irish political life. Heretofore, as Garvin (2004) argues, cultural expectations of government policy were zero-sum in nature: if I gained you lost. A natural corollary was that wealth could only be gained at the expense of others and this mindset had been perpetuated by successive Land Acts from 1870 to 1903 which were redistributive in nature and arguably anti-developmental.[24] Redistributive policies were perpetuated by successive governments in the new state. To change the culture of the state would require a major paradigm shift.

## The Role of Ideas

> *A new idea comes suddenly and in a rather intuitive way. But, intuition is nothing but the outcome of earlier intellectual experience.*
> Albert Einstein (1949)

Lee, writing on the transition of Ireland since 1960, bemoaned the lack of a culture of ideas – the Irish were imitators rather than innovators and had 'failed to develop a serious tradition of native social thought' and in the import of ideas had 'imitated much but learned little' (1986: 163). For Taoiseach Lemass 'the essence of the national problem is the insufficiency of ideas rather than of resources of either men or money' (1959: 205). Lynch (1959: 17), who for many years was very critical of government (in)action, advocated that 'the most desirable form of free trade is in ideas' and in particular the necessity to look outside of Ireland for those ideas. All of the above, in their different ways, were making the point that to get the country out of the political and economic morass that prevailed in the 1950s would necessitate new approaches and new ideas.

The symptoms and causes of the economic morass have already been dealt with in this chapter. The underlying ideological structure that justified the existing economic regime was a continuing belief among the political and administrative elites of the power of protectionism and a balanced budget to generate economic wellbeing. This continued after the rest of Europe had adopted growth policies and supported them with suitable policy instruments whereas economic management in Ireland was being utilised 'to preserve economic stability rather than to generate a modern industrial economy' (Girvin, 1989: 171).

[24] Garvin (2004) poses the intriguing question: did the fact that Northern Ireland (Britain's Ireland) was outperforming the Republic (Irish Ireland) provoke the latter into embracing indicative planning?

Historical institutionalists such as Peters (2001) argue that 'ideas' provide a set of ready solutions for policy problems and that institutional change becomes a question of how to change ideas. Hall (1989) argues that at critical junctures 'ideas matter' and are the catalyst or binding agent that allow existing ingredients to combine in new ways that break the cycle of path dependency. At the first critical juncture in the transformation of Ireland what ideas were proposed for the ills besetting Irish society? Unfortunately most of the ideational actors of the time are no longer alive. Two important ideational actors of the period, Dr. Garret FitzGerald and Dr. T. K. Whitaker, were interviewed and their views will appear later in this chapter. There was no television or 'think-tanks' operating at an Irish level. The printed press confined itself largely to reportage rather than prescriptions for change. An important purveyor of ideas was *Tuairim*, a quasi think-tank and debating club which was founded in University College Dublin in 1954. It published some important papers and attracted a membership that proved to be highly influential in later years. Political and economic journals relevant to Ireland were few and far between. The exceptions were - *Administration, Studies* and the *Journal of the Statistical and Social Inquiry Society of Ireland (JSSISI).*[25]

All of the above journals for the period 1950 – 58 were extensively examined and each article sorted by category, e.g. Economics, Political Theory etc.[26] (A similar exercise was carried out on all relevant book reviews). Articles of a purely historical or technical nature were excluded from the study. The majority of articles in *Studies* and *JSSISI* were full length journal articles, as indeed were many of the articles in *Administration*, but there was no weighting given to the length of articles. The primary aim of the research was to ascertain what ideas were circulating at the time and who was promoting those ideas – the ideational actors.

**What 'ideas' became acceptable?**

***Tuairim***

Tuairim's constitution stated that 'the prime purpose of the society is to bring together members of the post-treaty generation and to provide a platform for young people with new ideas' (Finn, 2008: 390). Membership was confined to those between the ages of twenty one and forty, who would make themselves 'intelligently conversant with one of the main problems of modern Ireland' (*ibid.*). It involved itself in five main subject areas: Northern

[25] Bodies such as the ESRI and NESC were in the future.

[26] A more general search of the back issues from the 1920s onwards shows an ongoing debate about the (de)merits of free trade, protectionism and the rise of Keynesianism.

Ireland, economic development, European prospects, social and educational policy, and the practice and development of government (Hederman, 2008: 67). Acceptance of Articles 40 to 45 of Bunreacht na hĒireann was a prerequisite, including Article 44 which recognised the special position of the Catholic Church.[27] Nevertheless it was liberal in nature with a questioning attitude being the most significant requirement for membership. Finn (2008) conducted many interviews with members who recalled the 'necessity to challenge the dominance of a reactionary Catholic Church and conservative political elites during the fifties... [and a] shared frustration at the stagnation and conservatism evident throughout the country' (p. 13).

Originally conceived as holding monthly meetings at which papers would be read by members it quickly expanded to include guest speakers and also created a panel of expert speakers on all its five main areas of interest (See Appendix 6for a full list). Branches were also established in Cork, Limerick, Galway, Nenagh, Clonmel, Athlone, Waterford, Kerry, Sligo, and London (Hederman, 2008: 70).

Political reaction to *Tuairim* was initially suspicious.[28] Hederman, who acted as secretary of *Tuairim*, says:

> The veterans of the state's creation were in no mood to cede either their positions of power or the certitudes that had brought them so far against such odds. Any challenge to the social, economic and political realities was regarded at best as uninformed and, at worst, as a step towards treason (2008: 66).

At interview (2009) Dr Hederman-O'Brien was still exercised by the negativity of the times and the stultifying influence of the Catholic Church in particular. She had studied music in Rome in the late 1940s and the enormous disparity in wealth evident in post-war Italy had a profound influence on her subsequent political activism. She joined *Tuairim* at its foundation and served as Secretary. She also served on the international secretariat of *Pax Romana*, (the only woman to do so). She became a life-long Europhile and committed to Ireland's participation in the Europe project – 'I saw Europe as the only hope for Ireland'

[27] *Tuairim* was 'approved' by Archbishop McQuaid but subsequently drew down his wrath for a pamphlet it produced on education. Writing to the Papal Nuncio he advised that *Tuairim* had committed the ultimate sin: 'In its discussion on education the group used the services of Dr. Mitchell, the Registrar of Trinity College, Dublin, a bitter Protestant' (Cooney 2006).

[28] Minister for Justice, Gerry Boland, instructed the Garda Special Branch to attend the inaugural meeting and report on the *bone fides* of those attending. They reported that 'there does not appear to be anything significant in its aims and it is unlikely to make progress' (Finn, 2008: 18).

Taoiseach Costello, whose son Declan attended and addressed *Tuairim* meetings, in direct reference to *Tuairim*, said 'study groups... may do a real disservice to Irish Democracy if they seek to imply that there is some virtue in aloof neutrality or if they condemn the political function' (Finn, 2008: 59). Later, Taoisech Seán Lemass, who spoke at a private dinner held at a *Tuairim* study week-end, commented in the Dáil on 21/07/59 that 'Tuairim was one of the organisations that was facilitating a greater understanding of the country's problems and was part of a new spirit in the country, a spirit which was greatly to be encouraged' (Finn, 2008: 61). Clearly, Lemass was receptive to the new 'ideas' being promulgated by *Tuairim.*[29]

***Administration***

Administration had its origins in the Customs House in Dublin in October 1952 when a group of senior civil servants, led by Tom Barrington, Secretary of the Department of Local Government, started a discussion group on public policy and up to five hundred people turned up to some meetings (Murphy, 2009: 122).[30] Papers read to it were published privately to members only. The beginnings were tentative and nervous because the fiction still persisted that policy was for politicians and the role of the public servant was to administer that policy. It soon became clear that the papers presented could/should be published and *Administration* first appeared in 1953 with Barrington as editor. The first issue was devoted to 'Efficiency in the Civil Service' and in subsequent issues the majority of articles related to the theory and practice of management. The first edition also contains a note that reads: 'It is supplied on condition that no public reference to its existence is made'. Early editions included a number of 'Anonymous' articles (in the culture of the time public servants were largely invisible, existing to serve their political masters) but this anonymity quickly disappeared as the journal gained acceptance.

[29] Some members of *Tuairim* were to prove very influential in Irish Public Life. Donal Barrington, who was a founding member, became a Supreme Court judge. Ronan Keane became Chief Justice. Several other members went on to prominent positions in legal circles. In the world of politics Garret FitzgGerald, Michael D. Higgins, Barry Desmond, Jim Kemmy, David Thornley, Michael Woods, Declan Costello all were members. Maurice Doyle later became Secretary of the Department of Finance and Governor of the Central Bank. Miriam Hederman chaired the Commission on Taxation and became Chancellor of the University of Limerick. Colm O'hEocha became President of University College Galway while several other academics later held chairs in various universities. Leading Catholic clerical intellectuals such as Fr. Enda McDonagh and Sr Margaret Mac Curtain were also members.

[30] Barrington subsequently became the first director of the Institute of Public Administration in 1957 and is widely perceived as a moderniser and intellectual who tried to educate the 'official mind' in modern management techniques and theory.

At this remove, it is not possible to find what articles were rejected for publication but many articles were published (e.g. Chubb and Lynch) that were very critical of the 'official mind. *Administration* never strayed into the overly political, maintaining the political/administrative divide, but it did publish on political and economic theory and practice.[31] It was circulated to all senior civil and public servants. Throughout the 1950s circulation averaged 5,000 copies per issue (IPA, 2009) and articles published reflected contributions from all the senior grades in the civil and public service.[32]

Given its target audience in the public sector it is not surprising that there is a predominance of articles on management theory and practice (74 articles) and none on politics. It is also noticeable that there are many articles (six) and reviews (11) on what was happening in Britain (confirming the Anglocentricity of the service?). The other main categories were economic theory and practice with 16 articles and seven book reviews, 14 articles on political theory, nine on Europe, seven on social policy, and six on world affairs.

What this research shows is that under Barrington's editorship it provided a forum for ideational actors to promulgate their theories. It was not afraid of dissenting voices and played a not insignificant role in nudging the 'official mind' down new pathways.

***Studies***

*Studies* was founded in 1912 by the Jesuits and was another purveyor of 'ideas'. The full original title was *Studies: An Irish Quarterly Review of Letters Philosophy and Science*. As would be expected there were many articles on Catholic theology and religious affairs but it also included (see Appendix 1 for articles deemed relevant) wide ranging articles on communism, socialism etc. It always strongly advocated freedom of expression and 'contrary' views. In 1968 Archbishop McQuaid summoned the Jesuit Provincial to an audience with the intention of pressurising him to order the editor not to publish a special edition on Irish education. The Jesuits listened but declined and the edition was published without amendment (Cooney, 1999: 397).

[31] Only four articles by clerics, Newman, O'Doherty, O'Mathuna and Philbin were found, which, given the dominant role of the Catholic Church, may give some weight to the independence of the publication.
[32] Murphy (2009: xxx) gives a figure of 2,000 copies in the early years. The figure of 5,000 was obtained from the IPA as the average circulation in the 1950s.

Economic theory and practice (45 articles) dominated *Studies*. The other main categories were political theory (24 articles) and politics (13 articles), social policy (nine articles) and Europe (eight articles).

It is not possible to ascertain what articles were rejected for publication, nevertheless the above anecdote about Archbishop McQuaid, suggests a strongly independent line. As with *Administration*, the emphasis is on economic theory and practice and political theory. But perusal of *Studies* shows a very different side of Catholic Ireland. There was a real willingness to push the boundaries on public discourse, challenge the *status quo* and offer some really radical options for the transformation of the state. It published articles on 'The Communist Theory of Law', 'Recent Economic Development in Europe', 'Political zionism', 'The Platonic Doctrine of Ideas', 'Some Recent Trends in Soviet Science and Philosophy' and many more. *Studies* confronted the background *underlying assumptions* ingrained in the *public sentiment* and raised uncomfortable ideas about fairness and social justice.

***The Statistical and Social Inquiry Society of Ireland (SSISI)***

*SSISI* organised approximately six public meetings *per annum* at which a major paper was read followed by an open forum. Since its inception in 1847 the Society has provided a unique meeting ground for discussion between decision-makers in the business, public service, trade union, academic and research communities. Its constitution precluded any discussion on politics and religion but it was of course free to discuss economic and political theory. Prior to the founding of *Administration* it provided one of the few forums where civil servants could discuss policy and many senior civil servants presented papers (frequently of a technical nature and these have not been included in the analysis). The only known case of a paper being withdrawn by a civil servant was by Joseph Brennan, Chairman of the Currency Commission, in 1932 when Fianna Fáil came to power (Daly, 1997: 110). (Brennan served as President of the *SSISI* from 1934 to 1938.)

All the papers presented since 1847 are available but there are no records of attendances (ESRI, 2009). Anecdotal evidence suggests attendances varying between 30 and 100. Garret FitzGerald, who presented his first paper in 1952, cautions that the official record does not always show what happened on the night. When Whitaker presented his seminal paper in 1956 he was roundly criticised by John Leydon, recently retired Secretary of the Department

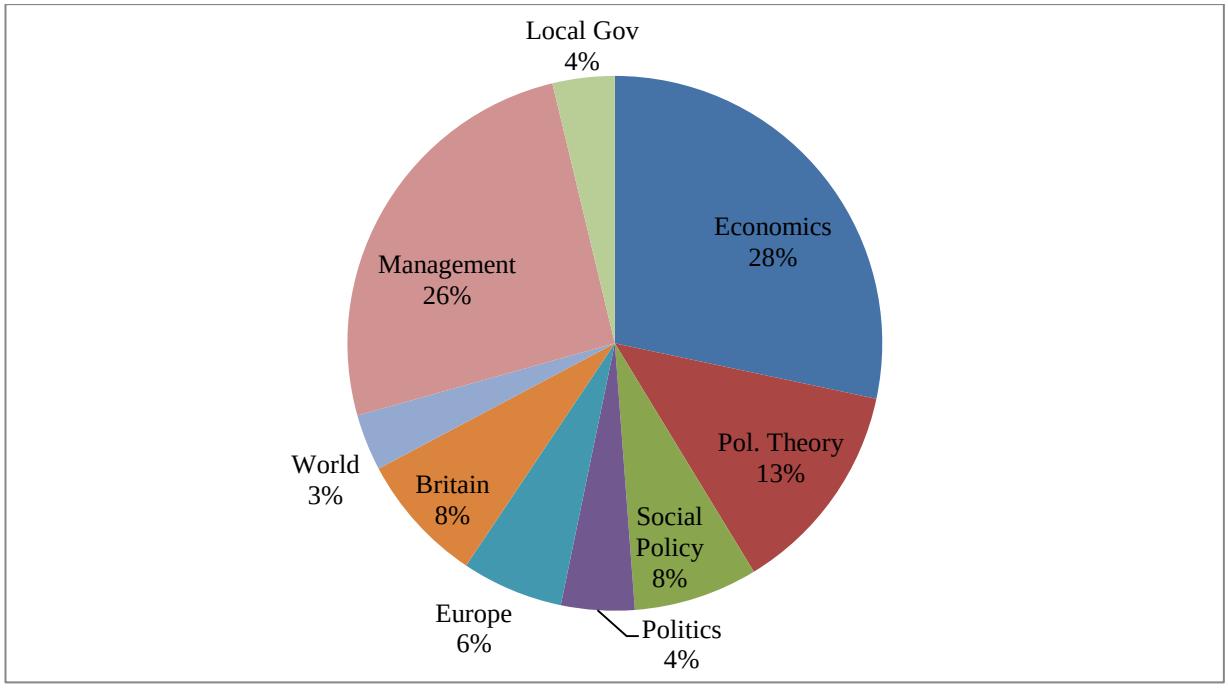
of Industry and Commerce and defender of protectionism (Fitzgerald, 2008).[33] The official record does not carry any of the relevant exchange.

Economic theory and practice (15 articles) dominated the *JSSISI*, followed by social policy (six articles) and Britain (five articles).

**Analysis of Articles and Book Reviews in *Administration, Studies and JSSISI***

Articles, papers and book reviews of a purely historical or technical nature are excluded from the analysis as they are judged not relevant to 'ideas' that were proposed for the transformation of the state. In total there were 293 articles and reviews (192 articles and 101 book reviews) which are listed in Appendix 2. For analysis purposes these articles and reviews have been categorised in Table 3.1

**Table 3.1: Articles and Book reviews in *Administration*, *Studies* and *JSSISI***




The above classifications need some elaboration. Articles on Britain, Europe and the World represent 14% of the articles and collectively form the third largest category.

[33] At interview Dr FitzGerald recalled presenting his first paper in 1952 describing himself as a terrified twenty six year old appearing before the great and the good in an upstairs room over Roberts Cafe in Grafton St and hoping that no one would turn up. In the event there was a good turnout and his paper 'Factors influencing air transport rates and fares' was well received. After the meeting he recalled walking contentedly down Grafton St with T. K. Whitaker and Dr. D. McCarthy, Director of the Central Statistics Office. McCarthy subsequently served as President of University College Cork.

**Table 3.2: Articles on Britain, Europe and the Rest of the World**

| | Administration | Studies | JSSISI |
|---|---|---|---|
| **Britain** | 17 | 1 | 5 |
| **Europe** | 9 | 8 | 1 |
| **Rest of World** | 6 | 5 | 0 |
| | **32** | **14** | **6** |

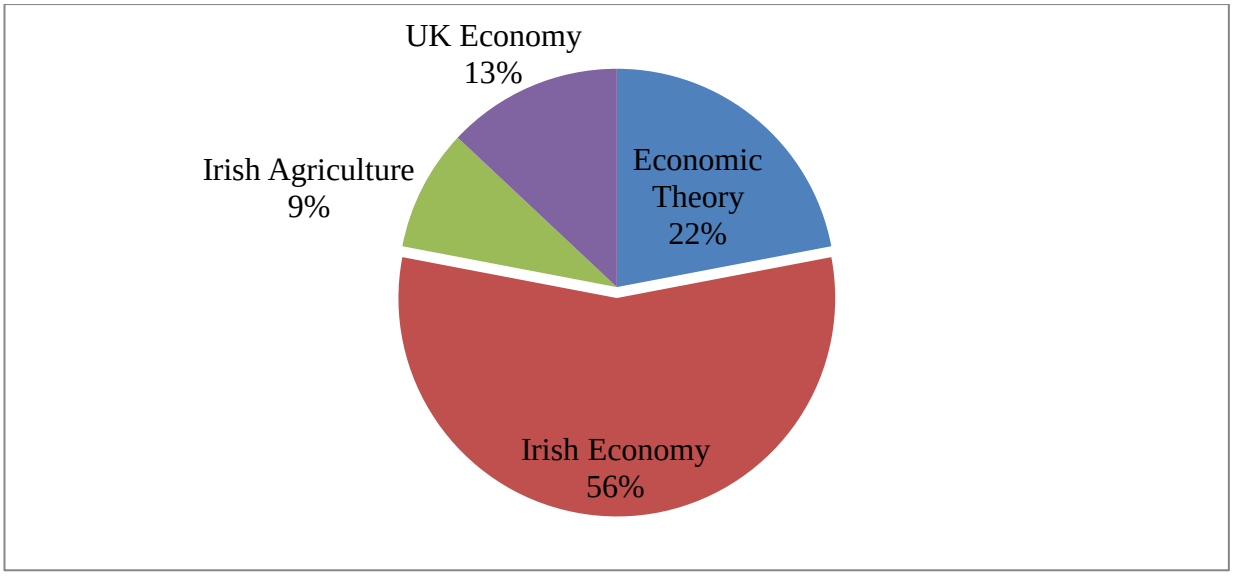
The following table gives a breakdown of the above 52 articles and reviews, assigning them to the classifications in the above pie chart.

**Table3.3: Article Classification**

| | Economics | Social Policy | Politics | Management |
|---|---|---|---|---|
| ***Administration*** | 4 | 1 | 0 | 27 |
| ***Studies*** | 8 | 1 | 5 | 0 |
| ***JSSISI*** | 5 | 0 | 1 | 0 |
| | **17** | **2** | **6** | **27** |

In total there were 293 articles and book reviews in the three journals of which 83 were classified as 'economics' and a further 17 related to economics in Britain, Europe and the rest of the world. This means that 100 out of 293 (34%) related to economic theory and practice and a breakdown of same is shown in Table 3:7.

**Table 3.4: Analysis of 100 Economic Articles**



Appendix 1 lists all the published papers in the respective journals together with the books reviewed. Perusal of same shows the increasing influence of Keynesianism, events in Europe, and the probability of 'free-trade' in some shape or form. The articles covered all the main prevailing economic and political theories prevalent at the time. Apart from the contributions by Lemass there is no other evidence of politicians engaging in intellectual or theoretical debate.

Fanning (2008) offers the following summation of *Studies* and *Administration*:

> ... [both] advanced the same recipe for economic development: the cultivation of enterprise, the abandonment of protectionism, the use of foreign capital and membership of the European Economic Community. Overall, Europe was viewed as positive political influence on Ireland, a chance for economic and social uplift (p. 7).

What is clear from all of the above is that the theory and practice of economics and management dominated the three journals. *Administration* concentrated on management, both public and private, in Ireland and other jurisdictions. Outside influences were mainly British, perhaps inevitable given Irish history and a common language, but the research shows clearly the 'official mind's' continuing fealty to its Treasury origins. The other somewhat surprising conclusion is, that contrary to the current widely held perception of the 1950s as a cultural desert, there was an active, if select, cohort of *ideational actors* actively involved in debate about the economic and social life of the country. At interview Whitaker, O Cofaigh, FitzGerald and Hederman-O'Brien all confirmed this with the latter stating: 'There was no shortage of ideas – it was just that there was nobody listening'.

**Who were the Ideational Actors?**

The following table summarises the leading contributors and frequency of publication in the main journals during the 1950s.

**Table 3.5 Analysis of Authors and Articles**

| | Barrington | Carter | Chubb | FitzGerald | Lynch | Ryan | Whitaker |
|---|---|---|---|---|---|---|---|
| ***Admin.*** | 6 | 2 | 4 | 2 | 5 | 2 | 3 |
| ***Studies*** | | 2 | | 5 | 2 | 3 | 1 |
| ***JSSISI*** | | 4 | | 1 | 1 | | 2 |
| **Totals** | **6** | **8** | **4** | **8** | **8** | **5** | **6** |

As already described Barrington became the first director of the IPA. Carter, an Englishman, held the chair of applied economics at The Queen's University of Belfast from 1952-59 before moving to Manchester where he held the chair of political economy until 1963 when he left to become a founding Vice-Chancellor of the University of Lancaster.[34] Chubb was professor of political science at Trinity College, University of Dublin. FitzGerald was an economist and journalist who became in turn a lecturer in University College Dublin, Minister for Foreign Affairs and Taoiseach. Lynch was professor of economics in University College Dublin and economic adviser to Taoiseach John A. Costello. He also served on numerous public bodies and was chairman of Aer Lingus from 1954-75. Ryan was professor of economics at Trinity College, University of Dublin and was seconded to the Department of Finance in 1960 to help with the implementation of the First Programme for Economic Expansion. He too served on numerous public bodies and as governor of the Bank of Ireland from 1985-9. Whitaker was Secretary of the Department of Finance and subsequently Governor of the Central Bank of Ireland. On his retirement he was appointed to the Senate and also chaired many government commissions.

Given their respective backgrounds it seems reasonable to suggest that the contributors from academia in particular were largely disinterested parties offering ideas that provided 'a set of ready solutions for problems that arise within their domain' (Peters, 2001: 66). Research on their writings shows the following common thread: protectionism was not only incapable of solving the country's problems but was the major cause of those problems; free trade was not

[34]Carter was strongly influenced by his mother's Quaker beliefs. He refused to serve in World War II and consequently spent some time in Strangeways prison. In 1979 he was knighted for his services to education. In his relatively short time in Ireland he played a very influential part in public life.

only desirable but inevitable; the 'official mind' would have to be open to new ideas. They were a little more circumspect about criticising the role of the Catholic Church.

(Barrington and Chubb wrote mainly on administrative efficiency and reform and best practice in other jurisdictions. They also contributed 27 of the 66 book reviews in *Administration*.)

**Carter's Papers and 'Ideas'**

In a general context Carter understood the background and necessity for protectionism but by the 1950s much of the protectionist measures were no longer working and were counterproductive as they utilised scarce resources and nurtured bad management practice in protected industries. Not only that but some of these protected industries had become state monopolies.

The following papers were published by Carter (full details in the bibliography).

1. Symposium on the Economic Outlook, 1954 (relates specifically to U.K.)
2. Comparisons of National Incomes, Northern Ireland, Ireland and United Kingdom, 1955
3. Symposium on Inland Transport, 1957
4. The Irish Economy viewed from without, 1957
5. The Unity of the Irish Economic Problem, 1958
6. Economics and the Public Servant, 1958
7. A Problem of Economic Development, 1959
8. Estimates of GDP of Northern Ireland, 1959

For the purposes of this research concentration is on papers 2, 4, 5, 6, 7.

Paper 2, on comparing national incomes, showed national per capita income as follows: United Kingdom £246, Northern Ireland £169, Ireland £131 (1955: 68). The cost of living in Belfast was marginally cheaper (98.7%) than Dublin (p.65) and the gap in standards of living was widening. However, in 1957 'official' Ireland finally began to take notice. In paper 4, 'The Irish Economy viewed from without', delivered to the Irish Association in Dublin, Carter was much more forthcoming and prescriptive.[35] At the outset he was aware of the folly of an Englishman commenting on Irish affairs as there was still a widespread belief that all Irish travails could be laid at the feet of Britain. In the event his fears were unfounded and his views were well received. *Inter alia* he said: 'on economic matters there is a great gulf

[35] The paper was circulated to members of the government on April 1st and received favourable comment in the Dáil (Garvin, 2004: 109). As Garvin puts it 'Carter was taking on republican petit-bourgeois hostility to 'Big Business', and the old Sinn-Fein and de Valeran idea that the imagined fearsome social and moral consequences of big industry could be bypassed by having many small factories scattered around the country'.

between the hard reality and the popular fantasy, so that I have to take the unpopular position of a destroyer of illusions' (1957: 137). He did not spare the body politic: 'The universal resort of politicians is to seek refuge in fantasy, and usually in the dreary fantasy that prosperity must wait on the reunion of Ireland' (1957: 138). For him the root cause of the problem was bad management and technical backwardness perpetuated south of the border and fostered by protected industries operating behind high tariff walls. The answer to same could immediately come 'from subsidiaries of large foreign companies; and it would be worth very large inducements indeed, including complete exemption from taxes for a period, to get more of them' (1957: 140). To do so would run against a whole lot of favourite illusions: that small was beautiful and locally owned was better than foreign owned; that foreign ownership links one in bondage to the foreigner and in particular to England. He concluded with the following exhortation:

> ...economic prosperity is not beyond the reach of the Republic, but it is not to be found in self-satisfied isolation, nor in the narrow pride of economic nationalism. It is to be found by looking outside and taking what is best in the practice of other nations; by seeking the co-operation of others in a development which will benefit them as well; in fact, by using brains and ability and common sense, and (if they are in short supply) by attracting them back from overseas (1957: 142).

In paper 5, 'The Unity of the Irish Economic Problem', he again challenged myths on both sides of the border, commenting that it was commonsense for neighbours to help one another – 'though it is a form of common sense greatly lacking in Ireland' (1958a: 379). Continuing reliance on agriculture, based on a belief that the land must come first because it was Ireland's principal natural resource was, in Carter's view, misplaced and inappropriate in the short term. ('In the long run the pressure of world population seems bound to ensure prosperity to a country which can offer an agricultural surplus so close to great centres of industrial population' (p.382)). For both jurisdictions the immediate problem was in securing industrial development because domestically there was a 'shortage of ideas and shortage of business ability to carry them out'. Shortage of finance was a less serious problem because such shortage is 'often a mere symptom of the lack of ideas and ability to be expected from credit-worthy borrowers' (p. 383).

In paper 6, 'Economics and the Public Servant', (originally read as a paper to the IPA and subsequently published in *Administration*) he advocated throwing the majority of economists into the river Liffey because of their detachment from the real world. He castigated those 'who develop a Theory of Demand without ever consulting their wives to find out how human

beings really act when they buy things' (1958: 44) and advised his audience to always remember that there are human beings at the end of the chain. Making decisions requires sound judgement on what will be the reaction of the businessman, the worker or the housewife to the effects of an extra tax on prices and demand. He would rescue some of the economists from the Liffey so that they could provide some academic training that would help the public servant. However, 'if you come with an imaginative understanding of the human being that is the greatest advantage of all' (p.49).

In paper 7, 'Problem of Economic Development', Carter again does not pull his punches. The process of economic development can be broken down into six stages: a definition of the principles of development; the gathering of information; assessment of the information; preparation of specific projects; the ranking of projects; the decision to proceed. He continued: 'It is my view that we are fairly good on principles, that information gathering is deficient, that assessment is weak, and that in the preparation and execution of specific plans we are very weak' (1959: 146). Where private enterprise is not prepared to undertake the necessary projects the State should be prepared to do so, using the above criteria in assessing projects for productive investment.[36] Whitaker's *Economic Development* (see below) is praised for its efforts on the agricultural side but found wanting for its efforts in other areas. Any plan, no matter how laudable 'must have first class brains to prepare it' and he questioned if we had the right people? 'A great deal of the future of Ireland may depend on the quality and training of those found for the key positions' (1959: 153).

(He also contributed a paper to the Commission on Emigration in1956).

Carter was proposing a paradigm shift for the Irish body politic, attacking the assumptions that were embedded in institutional life by proposing new elite prescriptions and offering frames that would enable decision makers legitimize programmes to their constituents. Being an outsider may well have increased his influence. What comes across on reading his papers is a man who was prepared to call it as he saw it, an independent academic who dealt with the empirical evidence, and at the same time acknowledged that his audience might be sceptical of an Englishman daring to speak out on Irish economic problems. Nevertheless, it appears

[36] Somewhat tongue in cheek he went on: 'though Planning (like Socialism) is a naughty word, I propose to use it' (1959: 147).

that his contributions were well received and he was appointed to the Capital Advisory Committee by Minister for Finance Sweetman. He was held in high regard by fellow economists and was consulted regularly by Whitaker.

One is left with the inescapable conclusion that here was a first class mind. His papers are highly readable, intellectually rigorous, and appear to have been delivered with a certain degree of panache. His contribution to Irish public life was significant, especially when one considers that his tenure in Ireland was only for seven years and during that time he was attached to The Queen's University of Belfast, a body that would have been viewed with a good degree of scepticism south of the border. This makes his contribution all the more remarkable.

**Lynch's Papers and 'Ideas'**

In contrast to Carter, Lynch was an insider and his influence may have been diluted by his association with Fine Gael and his role as economic adviser to John A. Costello. He was the most strident critic of the 'official mind' as evidenced in both the political and administrative elites. An analogy he used about criticism of public policy (1953: 258) could equally be applied to himself: 'the urge to shoot the man at the piano often arises not so much from the quality of his performance as from dislike of the tune'!

His main papers from the period are listed below:

1. The Economist and Public Policy, 1953
2. Public Enterprise in a Free Economy, 1954
3. The Irish Economic Prospect, 1955
4. Administrative Theory and the Civil Service, 1956
5. The Economics of Independence, 1959 (originally delivered as a *Tuairim* lecture)
6. Economic Planning in Ireland, 1960
7. Administrative Efficiency, 1960

In paper 1, 'The Economist and Public Policy', he was trenchant in his criticism of public policy and the quality of the official mind[37]:

> The success of any public policy depends no less on its intrinsic merits than on the quality of the public service that executes it. In that public service procedure,

[37] Lee refers to Lynch's contribution as 'a subversive and lethal assault on the quality of existing thought, but presented with sufficient diplomatic finesse to make it difficult for the immediate targets to express public indignation' (1989: 341).

> precedent, protocol, expediency, all have an importance, but it is the intellectual capacity to respond to ideas that best serves the public (1953: 260).

State involvement in enterprise was often detrimental to capital formation and, more importantly, to enterprise and innovation. In private enterprise capital was expected to look after itself but in a collectivised system (which he believed Ireland was becoming) capital formation 'becomes a matter solely for the central planning authority' (1953: 245). Continuing reliance on protectionism was stifling initiative. Nevertheless, he acknowledged both the necessity and desirability of state intervention in the economy but it had to be concentrated in productive development. He points out that in a period of high state activity between 1946 and 1951 the workforce only increased by 800 per annum while emigration was about 24,400 per annum. What was needed was 'intelligent centralized planning' that would 'achieve a better balance in the state capital programme between socially desirable investments, such as hospitals, and investment that earns revenue directly or indirectly' (1953: 250). It required a Civil Service with 'an enlightened approach to problems, flexibility of mind and an awareness of contemporary trends in informed thought' and not 'an obstinate and hidebound adherence to notions which may be as obsolete as the mammoth and the dodo' (1953: 256). He finishes this seminal paper with a quotation from Keynes' *General Theory*:

> Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of some vested interests is vastly exaggerated *compared with the gradual encroachment of ideas* [italics added] (1953: 260).

In paper 2, 'Public Enterprise in a Free Economy', he again wrote about the 'curiously mixed form of economy' (1954: 13) where state-sponsored bodies were neither private enterprises nor totally collectivist. This time his ire was directed at the lack of accountability of such bodies: 'There is little merit in using the machinery of state to eliminate private monopoly and replace it by a public monopoly that retains the vices of the old system but reveals them less openly' (1954: 20).

Central to paper 3, 'The Irish Economic Prospect', (published in a special edition of Studies devoted to the theme, Ireland Tomorrow) was his argument that any optimism about the performance of the economy since independence was misguided because what little success existed was due to foreign earnings from the savings of earlier generations that were held

outside the state, primarily in sterling assets.[38] The volume of total exports in 1953 was less than 25 five years previously. In 1928 exports paid for 76 per cent of imports; by 1953 that figure was down to 62 per cent (1955: 6) and the 'total number of persons at work in Ireland was only 12,000 or 1 per cent more than in 1926' (p. 9). Net capital formation in 1952 amounted to £59m of which £25m was spent on social (unproductive) investment and £10m was spent on the replacement of existing capital, leaving only £25m to improve industrial and agricultural output. Sacrifice of current consumption (as done in other countries) would be required and 'to escape from the stagnation that has held the country in thrall since the Treaty there must be more productive investment' (1955: 14). Protectionism was having a stifling effect on production.

In paper 5, 'The Economics of Independence', he was writing that 'Irish political economy sometimes tends to be more political than economic. This imbalance merely stultifies and confuses' (1959: 2). For Lynch the fault lay in the 'Sinn Féin myth' which continued to be a decisive influence on public discourse since independence and 'assumed that political independence implied economic independence' (1959: 3). He was broadly supportive of Whitaker's analysis in *Economic Development* and did acknowledge an on-going role for state enterprises as Ireland 'is a mixed economy in which private and public enterprise each has its place' (1959: 10). But clearly the present system was not working and led to the worst of both worlds – inefficient (protected) private enterprise and haphazard public enterprise. Concentration must be on productive investment and closer economic links with our nearest neighbours. He concludes with a challenge to the 'official mind', the path dependent nature of Irish institutions, and the continuing search for new ideas:

> An essential condition for progress is the desire for change, a resentment of stagnation, a willingness to depart from obsolete ideas, leadership with a consistent sense of direction... concern for the preservation of reform, where necessary, of every institution which the community has established.... More than anything else, new ideas count in the long run – provided they are the right ones (1959: 17).

The other papers continue the challenge to the 'official mind' by a continuing search for increased efficiency and better management practice allied to more long-term planning.

[38] In 1931 income from foreign investments was £14.4m (almost 24 per cent) of total foreign earnings of £61m. By 1953 foreign investment income at £23m (when the balance of payments deficit was £7.1m) 'the income from sterling investments which unobtrusively made equilibrium possible is often treated with the somewhat guilty silence that surrounds a legacy inherited from a disgraced and discarded relative' (1955: 11).

Running through much of Lynch's writings is a palpable sense of frustration, and indeed anger, at the lack of progress the country had made since independence. He was in no doubt that protectionism and the official mind were the root causes of the problem. For him free trade and productive investment were the obvious answers. He regularly excoriated the hypocrisy permeating Irish public life and the unwillingness to face economic reality. The writer recalls seeing him on television on numerous occasions since the mid 1960s and even as an old man he lost none of his anger and passion for a better Ireland, always backing his arguments with economic data and repeating *ad nauseam* the necessity for productive investment and being open to new ideas. Like Carter, his contribution was enormous. His papers offered cogent arguments for change and when one gets behind his sense of frustration there is a distinct sense of patriotism running through his writing. He only wanted what was best for his fellow countrymen.

**Ryan's Papers and Ideas**

With Carter and Lynch, Ryan was the other leading economist of the period and all three served as economic advisers on the Capital Investment Advisory Committee that was set up by Gerald Sweetman, Minister for Finance in 1956.

His main papers for the period were:

1. Some Public Enterprise Problems: the Pricing Policy of the Public Enterprise, 1954
2. A National Investment Board, 1954
3. Protection and Efficiency of Irish Industry, 1954
4. Irish Manufacturing Industry, the Future, 1955
5. The Irish Balance of Payments, 1956

Ryan was, perhaps, the most academic of the 'Three Wise Men'. His papers are theoretical in nature and outline the economic theory underpinning various options. He dealt with the facts as he saw them from a theoretical perspective. Unlike Carter and Lynch, he does not stray into the prescriptive.

**FitzGerald's Papers and Ideas,**

In the 1950s FitzGerald variously worked as an economist, lecturer and journalist. The following are his main papers from the 1950s:

1. Factors influencing air transport rates and fares, 1952
2. The Irish Economy North and South, 1956

3. Ireland and the Free-Trade Area, 1957
4. Irish Economic Problems, 1957
5. Grey, White and Blue, 1958
6. Training Public Servants for National Development, 1959
7. Mr. Whitaker and Industry, 1959
8. P.R. The Great Debate, 1959

Reference has already been made to FitzGerald's paper 2, 'The Irish Economy North and South' and the unwillingness south of the border to look at the neighbour's northern garden and the prosperity that was evident there. Throughout the 1950s Europe, under the umbrella of the proposed European Free Trade Area (EFTA), the European Coal and Steel Community (ECSC) and the Treaty of Rome, was also featuring and was to play an increasing ideational role. In paper 3, Ireland and the Free-Trade Area, he was an early and eager promoter of the European idea, and rather presciently wrote the following:

> Membership of the Free Trade Area would clearly be a first step towards ending our long isolation from Europe. It would bring with it new contacts, new friendships and, perhaps, a modification of the hitherto unchallenged anglocentricity of Irish life, whether anglophone or anglophile (1957: 25).

In paper 4, 'Irish Economic Problems', he echoed Lynch's views about the poor performance of the economy being masked by the realization of foreign assets and attacked the complacency and cynicism that opposed any remedial action 'on the grounds that the status quo is good enough or, alternatively, because there is no hope of achieving the desired result' (1957: 271). By 1956 the economic state of the country had become apparent to all with an adverse trade balance (import over exports) of £100 million. A psychological shift in attitudes and ensued and there was a growing realisation that EFTA may provide an answer.

> The prospect of emerging, however perilously, from behind the shadow of our tariff wall has been welcomed by many ... with the result that the protected manufacturers, long accustomed to tacit public acceptance of their subsidization through tariffs, have been almost overnight placed on the defensive and shocked into cautious silence or non-committal attitudes ... the case against Irish participation in the Free Trade Area has almost gone by default ... its emergence at this stage has already altered the balance of power in Ireland between protectionists and free traders. The days of unlimited tariff protection are now numbered (1957: 273/4).

His judgement was proved correct but his timing somewhat off because of the path dependent nature of the institutions of state and of what Pierson (2004: 82) had to say about timing and sequence: Slow-moving processes may be cumulative, involve threshold effects, or require the unfolding of extended causal chains'. The economic argument for free trade may have

been irrefutable but the 'idea' still had to gain administrative and political acceptability before it could be implemented.

In papers 5 and 7, 'Grey White and Blue', and 'Mr. Whitaker and Industry' he offers an assessment of Whitaker's efforts and analysis in *Economic Development* and that of the Government White paper.

At interview Dr FitzGerald was quite modest about his contribution inferring that all he was doing was stating the obvious![39] However he had some interesting observations of the 1950s.

On the fixation with sterling he pointed out that the nature of Irish undiversified trade meant that our major foreign exchange earnings were in sterling and whereas there was plenty of talk about economic independence and breaking the sterling link 'no one knew how to do it'.

On the close ties that continued to exist between the Department of Finance and the British Treasury he commented that 'Finance officials used the Christian names of Treasury officials while using surnames when corresponding with other [Irish] civil servants'.

On the fixation with agriculture he had some sympathy with the prevailing view pointing out that it was only in 1957 that industrial output equalled agricultural output for the first time.
For him free trade was the only way out of the morass and the fixation with protectionism, and more critically with self-sufficiency, was 'fundamentally flawed because the country did not have a sufficient climatic range north to south to produce all the year round and on top of that we only had three million people'. It also became clear that he was a great admirer of Whitaker, whom he had first met through the *SSISI*, and spoke with enthusiasm of the psychological effects of *Economic Development*.[40] On the Department of Finance, learning post 1959 to say 'yes', he quipped that 'they quickly forgot'. With Whitaker as Secretary, the Department had changed dramatically and was now supportive of productive expenditure. This was in marked contrast to his experience of the Department when he served as Taoiseach in the 1980s. He also suggested that, in his experience, the relationship that developed

[39] He credited his own 'European' views to the fact that as he grew up at least half the books in his father's library were in French. His two older brothers were partly educated in France and it was planned that he too would do likewise but World War II intervened.
[40] When Whitaker was governor of the Central Bank of Ireland FitzGerald was part of an informal group that used to assemble at the Bank in the evening time to discuss economics (Fitzgerald 2009).

between Lemass as Taoiseach and Whitaker as Secretary of the Department of Finance was 'absolutely unique' and not experienced before or since and that this was the key to their success.[41]

His writing in the 1950s was quite prescient and what he had to say at interview was consistent with same. He was a committed European from an early stage and saw the possibilities for Ireland in that field before many of his contemporaries did. His contribution to the intellectual and economic debate was significant. Unfortunately, his time as Taoiseach was not marked with economic success and the difficulty of marrying theory and practice proved beyond him in the circumstances of the time – he led a coalition government of Fine Gael and Labour and there were deep divisions on taxation and fiscal policy (Hussey, 1990; Quinn, 2006; Desmond, 2000; Dukes, 2009).

**Whitaker's Papers and Ideas**

The following are the main papers published by Whitaker of which 2, 4 and 5 are the most significant:

1. Symposium on National Incomes and Social Accounts 1952
2. The Finance Attitude, 1953
3. Balance of Payments, dollar and non-dollar areas, 1954
4. Capital Formation, Savings and Economic Progress, 1956, (*Studies* and *Administration*)
5. Economic Development 1958
6. Staid na Tíre, 1960

Given the seminal role that Whitaker was to play in Irish public life it is appropriate to give some biographical background and historical context. He joined the civil service in 1934 and moved to the Department of Finance in 1938 where he swiftly rose through the ranks and was appointed Secretary of the Department in 1956 at the age of thirty nine. It was a highly significant appointment because his promotion came over the heads of more 'senior'

[41] On his own relationship with Maurice Doyle as secretary in Finance it was quickly apparent that it was not a harmonious one. 'Maurice Doyle was very negative and suspicious of politicians and I was very unhappy with the information I was getting from Finance'. He went on to describe an incident (subsequently confirmed at interview with Alan Dukes, Minister for Finance in FitzGerald's government) where Doyle briefed the government that the maximum that could be borrowed from the markets was £750 million. FitzGerald approached Henry Kissinger, then heading an economic consultancy, who quickly reported back (on a *pro bono* basis) that the markets would happily lend £900 million giving the government an extra £150 million with which to balance the budget. 'I trumped Finance's £750 million and they were not happy. That was Maurice Doyle'.

colleagues and departed from the hitherto accepted practice of promotion on seniority.[42] This is an example of the cultural dimension of organisational change that Bulmer and Burch refer to as 'understandings about who is eligible to fill a position and what they are expected to do' (2001: 7). Whitaker is widely acknowledged as the pre-eminent Irish civil servant.[43] He had served under both McElligott (who was Secretary for twenty seven years) and Redmond, both highly conservative Secretaries of the old school. On being notified of his appointment by the Minister for Finance, Gerald Sweetman, Whitaker went in to see Redmond, then on his second last day in office, to inform him of his appointment as his successor. Having received less than enthusiastic congratulations Redmond added: 'You should know that I did not recommend you' (Interview with author).

In paper 2, 'The Finance Attitude', (originally delivered as an address to the Association of Higher Civil Servants on 28/10/1953), Whitaker outlined his Department's thinking on public expenditure (and conformed to Lynch's prototype of the 'official mind'). 'The first principle of financial administration is the inevitability of choice between competing ends' (1954: 63). As every proposal involving public expenditure required Department of Finance approval 'our function is not to select the most meritorious and clap these on the taxpayer's back but, rather, to see that as few as possible emerge as new burdens on the community' (p. 64). He went on to quote Gladstone's dictum that the more you leave in the taxpayer's pocket, the more prosperity there will be. In many ways he was confirming the path dependent nature of the Department of Finance and the continuing Treasury influence. In concluding he again quoted Gladstone: if the Department of Finance should 'become popular that fact itself would be conclusive proof that it was not properly fulfilling the purpose for which it exists' (p. 68).

In paper 4, 'Capital Formation, Saving and Economic Progress', delivered to the *SSISI* in May 1956, ten days before his appointment as Secretary in Finance, he gave a very brave and

[42] The senior, and expected, candidate was Sarsfield Hogan who, in the event, rose above any personal disappointment he may have felt, and was always supportive of Whitaker. 'I could not say the same for the rest of his senior colleagues' (Whitaker 2009). His appointment was generally welcomed by those working in the Department, especially by ambitious, younger colleagues who believed that Whitaker would break the mould (O Cofaigh). Why he was appointed by Sweetman has never been disclosed. One interviewee, who asked to remain anonymous, suggested that a contributory factor may have been a perception in some quarters that Hogan, the senior man, was more interested in rugby (an essentially British game!) than finance.

[43] Lee (1987: 342): Whitaker 'combined exceptional ability with exceptional dedication' and 'the sheer intellectual calibre of the man at the helm of the premier department of state'. Coogan (2004: 21): 'the dynamic Whitaker'. Collins (2001: 21): 'the combination of Lemass and Whitaker changed the face of Ireland in a few short years'. Fanning (2009: 33): Whitaker acquired 'deservedly heroic stature'. Fitzgerald (2009: 60) referred to him as 'my hero then as now!'

'personal' summary of the Irish economic performance that showed his paradigm was no longer constrained by the background underlying assumptions that hitherto permeated his department.[44] The primary need was for increased output in both agriculture and industry which would require both increased capital formation and an 'incentive to invest in productive enterprises' (1956: 54). Any subvention by government to agriculture, in particular, 'should be directly linked to the objective of increased production rather than be given as a general subvention' (p. 57).

> Prolonged protection, sheltering high domestic costs or inferior quality, blocks both the incentive and the capacity to expand production for export markets. Modification of protection, improvements in industrial organisation, and a closer gearing of pay to productivity are necessary.... (p. 58).

New industries were required that could compete effectively in export markets but to attract same 'tariff protection may have to give way to other stimuli, such as grants towards the initial capital cost of factories or towards technical training' (p.59). In this paper he also gave a nuanced criticism of Keynes, whom he greatly admired, but pure 'Keynesianism' would not work in a small open economy such as Ireland's. He concluded:

> Saving and production should be encouraged and excessive consumption discouraged... capital development of a *productive* nature should be encouraged... there should be a liberal attitude towards profits to encourage their expansion and use for productive purposes... [government assistance] should be directed specifically towards the development of productive capacity (p. 76).

Whitaker's paper 5, 'Economic Development' was to prove seminal, not only in gaining administrative acceptability of an economic 'idea', but in the transformation of Ireland and will be dealt with in the following chapter.

Whitaker occupies a unique position at the First Critical Juncture. Not only was he an ideational actor who played a significant part in the formulation of the 'ideas' that were to be implemented he also sold them to the political elites, thereby attaining political acceptability, and also ensured administrative acceptability and implementation. Remarkably for someone in public life he appears to have made few, if any, enemies. He epitomises all that is best in a public servant: a keen mind and the courage to speak out when necessary.

[44] Fitzgerald (2008) recounts being at that particular meeting and that Whitaker's views on protectionism were strongly challenged by John Leydon, recently retired Secretary at the Department of Industry and Commerce.

**New Ideas' for the Transformation of Ireland**

*Tuairim, Administration, Studies* and *JSSISI* were the main purveyors of ideas at the first critical juncture and has been demonstrated all the main ideational actors published across the spectrum. *Studies* was founded in 1912 and *JSSISI* in 1847 but *Tuairim* and *Administration* were very much creations of the 1950s and represented a clear-cut break with tradition: they became the mouthpieces of the post revolution generation. The rising to the top in the civil service of people such as Whitaker and Barrington allowed for new thinking. 'A logjam had burst that allowed for institutional recognition of what were now long-established orthodoxies in other Western countries' (Fanning, 2008: 194).

All of the above ideational brokers were in agreement, and consistent, that protectionism had outlived its usefulness. For them, Keynesianism was the new dominant economic philosophy and free trade inevitable. Unless Ireland wanted to fall further behind the rest of the world it would have to change. Free trade is the exact opposite of protectionism with no barriers or tariffs to trade. Its main appeal is that its efficiency principle ensures that 'the socially optimal quantity of any good is the quantity that maximizes the total economic surplus that results from producing and consuming the good... Efficiency is an important social goal because when the economic pie grows larger, everyone can have a larger slice' (Frank and Bernanke, 2004: 82).[45] It is met with opposition because 'although free trade benefits the economy as a whole specific groups may not benefit (*ibid*: 413). This particularly applies to inefficient protected industries and, as will be seen in the next chapter, opposition to change was deeply ingrained in the Ireland of the time.

The move from protectionism to free trade would have to be gradual. New employment opportunities for displaced workers (who would need to be retrained to work in the new 'efficient' replacement industries) could/would arise from the attraction of foreign direct investment largely through the use of tax incentives and through moving state investment from social to productive investment. These were the proposals of the ideational actors for the transformation of Ireland that had largely received economic acceptability. In framing their proposals they were well aware of the opposition that would be encountered from various institutions of state. Carter and Lynch, forcefully, and FitzGerald and Whitaker more diplomatically, had pointed out the institutional veto points that would be encountered. What

[45] This was understood intuitively by Lemass who wanted to move from the redistributive model that had become ingrained in Irish society. For him it would be much better to have a bigger pie.

was being proposed entailed a major paradigm shift to replace the background underlying assumptions of self- sufficiency and protectionism, embedded in the public sentiment almost since the foundation of the state, with the new ideas of free trade and foreign direct investment.

Ireland had arrived at a critical moment, what Burch, Hogwood and Bulmer call a *perceived opportunity* for significant change.

> At such critical moments formerly rigid institutional hierarchies become more malleable and the bias of an institution is subject to pressure... The opportunity may *not* be realised and exploited: it may effectively be missed. However if it is realised, the outcome is a 'critical juncture', incorporating a clear departure from clearly established patterns (2003: 7).

It is a central tenet of this thesis that the critical moment did become a critical juncture when the ideas of free trade and foreign direct investment, which had received economic acceptability, then went on to receive administrative and political acceptability thereby conforming to Hall's Framework (1989: 371) for the adoption and implementation of a new transformative idea.

How this was achieved will be demonstrated in the next chapter.

# Chapter 4: Achieving Administrative and Political Acceptability at the First Critical Juncture in the Transformation of Ireland

Administrative and political acceptability were inextricably interlinked and highly dependent on two men: Seán Lemass as Taoiseach and T. K. Whitaker as Secretary of the Department of Finance. The events that unfolded over 1958/9 are a neat encapsulation of the cumulative causes that had the threshold effects described by Pierson as needing to be understood in the context of their timing and sequencing, i.e. situating events and moments in a temporal sequence can greatly increase the understanding of those events. In the previous chapter it was shown how the ideas of free trade and foreign direct investment achieved economic acceptability. Peters put it that 'ideas tend to provide a set of ready solutions for problems that arise within their domain' (2001: 66) and Whitaker certainly subscribed to this. His appointment as Secretary of the Department of Finance came about somewhat unexpectedly but at a critical moment 'when a perceived opportunity arises for significant change. That is, an event takes place which raises a general expectation that significant change will follow' (Burch, Hogwood and Bulmer, 2003: 7). That event was to be the publication of Whitaker's *Economic Development*.

On the political front change was in the air with the generation which had led the country since independence retiring from the scene, and the emergence of a new political elite and an intergenerational transfer of power. Similar change happened on the administrative front with the emergence of senior civil servants who had not worked for the British. Pierson (2004: 120) refers to the problem of actor discontinuity – when 'gaps' may emerge 'because the actors who inherit institutional arrangements are not the same as those who designed them'. One of the central characters to step into the 'gap' was Seán Lemass who succeeded de Valera as Taoiseach. His acceptance of the economic proposals was to prove crucial in gaining political acceptance and so complete two of the three strands identified by Hall for the viability and enactment of a new idea. It is also highly probable that both men were not only influenced by a new idea but the political realities of a changing international situation, the emergence of the EEC, and the vulnerability of Ireland to any change of policy by the British.

Using process tracing and interviews with some of the key actors this chapter will trace the steps that ensured administrative and political acceptance of the ideas of free trade and foreign direct investment. The main hypothesis of this thesis is that this in turn resulted in the transformation of Ireland at the first critical juncture.

## Administrative Change

On his accession to the top job in Finance Whitaker quickly moved to make his mark. On 21 March 1957, on his first day as Minister for Finance in the new Fianna Fáil administration, Dr Jim Ryan received a ten page memorandum from Whitaker on the Irish Economy. It outlined his concerns and the stark choices facing the country.[1] Considering that Whitaker had been appointed by a Fine Gael government, Fanning (2009: 31) rightly calls this memorandum 'seminal and apocalyptic' and 'tantamount to fluttering a Union Jack under the nose of a Fianna Fáil bull' (p. 32) and incredibly brave in the circumstances. In his submission to the new Minister for Finance, Whitaker wrote:

> It is accepted on all sides that we have come to a critical and decisive point in our economic affairs. It is only too clear that the policies we have hitherto followed have not resulted in a viable economy. It is equally clear that we face economic decay and the collapse of our political independence if we elect to shelter permanently behind a protectionist blockade ... if we do not expand our production on a competitive basis, we shall have failed to provide the economic basis for the political independence and material progress of the community. Indeed if we expect to fail, it would be better to make an immediate move towards reincorporation in the United Kingdom rather than to wait until our economic decadence became even more apparent (Cited in Fanning, 2009: 32).

Whitaker clearly believed that the country was at a 'critical moment' and as Bulmer and Burch point out 'in theory, at each critical moment the opportunities for institutional innovation are at their widest' (1998: 605) and Whitaker was innovative. In mid-May he formed a committee of his senior personnel and asked them to put on their thinking caps and informed them that it was 'desirable that this Department should do some independent thinking and not simply wait for Industry and Commerce or the IDA to produce ideas'. Their biggest challenge was 'how to reshape and redirect the capital programme so that, in association with development in agriculture, industry etc it will provide productive and self-sustaining employment' (Fanning, 1978: 509). Whitaker also consulted with McElligott, then Governor of the Central Bank of Ireland, and with Professors Carter, Ryan and Lynch, the

[1] At interview Dr. Whitaker advised that Ryan's response, and that of the few other ministers that mentioned it to him, was largely positive. It is also worth noting that when Ryan delivered his first budget shortly less than two months later his opening remarks were almost identical to those used by Whitaker in his memo.

three leading economists cited above who were also economic consultants to the Capital Investment Advisory Committee.[2] He was also in touch with his contacts at the World Bank and the International Monetary Fund (IMF).

What Whitaker was proposing for the Irish economy was very much based on indicative planning which originated in France. It was carried out by the *Commission Generâl du Plan* and sought to solve the problem of bottle-necks in the economy through a combination of centralised planning and decentralisation that offered incentives and inducements as necessary. At interview Whitaker talked at length about how he was influenced by French planning and in particular by the memoirs of Charles de Gaulle and quoted at length, in French, what de Gaulle had to say. He was also very *au fait* with ideas emanating from the World Bank and the International Monetary Fund, even prior to Irish membership. Once Ireland joined both bodies in 1956 he developed strong contacts with some of the principal personnel in those organisations.

By 12 December 1957 the work underway had progressed sufficiently for Whitaker to inform his Minister of the work carried out to date and seeking ministerial approval to further develop same. His proposal was laid before the cabinet and formal approval, which issued on 18 December 1957, stated that for 'the purposes of the study the Secretary of the Department of Finance would have free access, for information, advice and assistance, to officers of the other Departments and State organizations concerned' (Whitaker, 1958: 230). The fact that he received formal approval within six days of submitting his proposal is a clear indication of how well Whitaker had prepared the political ground. The resulting report was entitled *Economic Development* (paper 5 in Whitaker's writing cited in the preceding chapter) and any history of modern Ireland refers to its ground-breaking role.

**Economic Development**

In essence *Economic Development* was a forensic examination of the Irish economy.[3] It runs to 249 pages, including appendices. There are twenty four chapters in total. The introduction, the general economic, financial and monetary commentary, the assessment of resources and needs, together with the recommendations and conclusions were all written by Whitaker. All

[2] This committee was appointed by Gerald Sweetman and in addition to the three economists it included leading industrialists and businessmen. To their chagrin it included no one from the Department of Finance, and to their further dismay was chaired by John Leydon, the archetypical protectionist.
[3] It also builds on Whitaker's 1956 paper 'Capital Formation, Saving and Economic Development'.

the other chapters were written by seven named officials in Finance. Whitaker acknowledges the advice and comments he received from various organs of the state. For 'ideas', as a practising economist, he inevitably drew heavily on the advice and works of other economists such as Professors Carter, Ryan and Lynch (all cited in the previous chapter), the writings of Professor A.K. Cairncross and of J.M. Keynes. He also acknowledges an aricle by the Bishop of Clonfert, Dr. William Philbin, 'Patriotism and the Public Servant (*Administration*, Vol. 6, No. 3) which decried the lack of initiative and organisational ability in agriculture, industry and commerce.

Central to Whitaker's whole critique was: 'The policies hitherto followed, though given a fair trial, have not resulted in a viable economy' (p.2). He supported his arguments with the following figures:

- *Income* – in 1956 the average income per head in Ireland was $423, Denmark $809, Britain $909, Canada $1,420, USA $2,067.
- *Emigration* – between 1951 and 1956 the rate of emigration grew 60% over the previous five years
- *GNP* – between 1949 and 1956 grew by 8%. This compared with 21% for Britain and 42% for OEEC countries generally.
- *Agricultural output* – (1949/ 56) grew at an average rate of 1.5% compared to a rate of 4% for the OEEC.
- *Industrial output* – (1949/56) grew by 30%, the OEEC by 60%

In the 'Introduction' the spectre of free trade in Europe is seen as carrying 'disquieting implications' and that it was clear 'that, sooner or later, protection will have to go' (p. 2). It would not just be a matter of further investment it would also require '... a better appreciation of the dependence of material progress on individual output ... raising the general level of education, health and skill ... the loosening of restrictive practices ... practical encouragement of initiative and enterprise ... adoption of improved methods, techniques and principles of organisation and management ... a greater readiness to apply scientific advances' (p. 7). What seems strange now is that there was a belief that Ireland had 'power [electrical], transport facilities, public services, houses, hospitals and a general "infrastructure" on a scale which is reasonable by European standards' (p. 2). This had resulted from large scale investment in social programmes which, though desirable, were 'non-productive' and future investment

should concentrate on 'productive' investment. It also took a swipe at the futility of decentralisation and trying to locate industry in remote areas.

The body of the work concentrates on four main areas: agriculture, fisheries, industry and tourism.[4] There are 113 pages devoted to agriculture and agricultural related industries, 24 pages to semi-state industries and only 16 to general industry. The concept of a trade in services was still in the future. Critical was the call for the continual reappraisal of all investment decisions to distinguish between productive and non-productive investment. The report was nuanced and requires careful reading with some of the more contentious proposals almost hidden away. Tax initiatives to encourage investment in Irish enterprises only appear in Appendix 2 (p. 232) and do not appear in the main text. Education gets very little mention and agriculture takes precedence over all else.

In the context of the times *Economic Development* was truly seismic.[5] It signalled a clear shift from protectionism to free trade and challenged the rhetoric of self-sufficiency, a cornerstone of Fianna Fáil economic policy since the foundation of the State. Another sacred cow was slain with the encouragement of foreign investment and ownership which had been constrained by the Control of Manufactures Acts. In agriculture the focus would be on export oriented ventures. Perhaps, most important of all, it showed that the 'official mind' was no longer exclusively obscurantist and negative, and could no longer be accused of myopia and an inability to look beyond the next budget. It also showed that Whitaker accepted the views of both Lynch and Chubb on the need for public confidence in the quality of the official mind as a prerequisite for national progress.[6] It set down a clear marker for his fellow civil servants: 'That an official should put his name to a virtual manifesto dismayed those whose power lay partly in their ability to stifle dissent behind the amiable facade of ministerial responsibility' (Lee, 1982: 4).

[4] At interview, and also in correspondence from Dr Whitaker when he had read the chapters on the First Critical Juncture, he emphasised that agriculture provided most of our exports.
[5] Fanning (2008: 194) points out that most of the ideas presented in Economic Development as a new national project had been percolating in Studies for over a decade.
[6] Lynch's views on the 'official mind' have already been cited. In *Administration*, Vol. 8, No. 4 (1960) Chubb, in 'A Political Scientist's View' on efficiency in the public service wrote of the need of fitting men *to* jobs and men *for* jobs (training) which made it necessary to diagnose the qualities necessary for the job. The primary qualities for an efficient public service are responsibility or responsiveness and leadership – a desire to contribute. The authors of *Economic Development* fulfilled those criteria.

In retrospect it is easy to look back and wonder what all the fuss was about. Why such a concentration on agriculture? Why was action not taken sooner? Why was the link to sterling not broken? Why did the Department of Finance not act sooner?

In researching this chapter contact was made with the three authors of *Economic Development* still alive: Dr. Whitaker, T. O Cofaigh and M. Doyle.[7] Requests were made to all three for interviews. Unknown to the author Doyle was terminally ill and understandably declined an interview. (He died three months later in September 2009). Both Whitaker and O Cofaigh gave freely and generously of their time. Fifty years after the event their excitement was still palpable on recalling the compilation of *Economic Development*. Whitaker, at interview, quoted from Wordsworth's poem on the French Revolution:

> *Bliss it was in that dawn to be alive*
> *But to be young was very Heaven*

O Cofaigh had joined the civil service straight from school and had been appointed administrative officer in 1948. He served as private secretary to Gerald Sweetman, Minister for Finance from 1954 -7 – which he described as 'a truly great time'. It also gave him first-hand experience of the political process. On *Economic Development* he spoke of a sense of 'enterprise, imagination, challenge', of 'being asked to use our imagination and not to be stultified by precedence.' For him there was no 'big idea' but that they had to come up with a lot of small, specific ideas that would enable them 'to butter the bread: jam might come later'. This conforms to what Pierson (2004: 51), writing on critical junctures, had to say: large-scale events are not necessary to generate path dependent dynamics. Cumulative causes may be incremental and 'may often seem relatively small compared with their effects'. Those working on *Economic Development* were very much aware of the snowballing effect that could be generated by small changes and initiatives. On the larger scale they were very aware of the threat and, indeed opportunity, of Europe and often talked among themselves about *briseadh an sleamhra* – breaking the link with Britain, and sterling in particular.[8] It came across clearly at interview that Whitaker was greatly respected by his staff and they were more than happy to put in long hours in the compilation of *Economic Development*. One gets

[7] Both O Cofaigh and Doyle followed in Whitaker's footsteps and served as Secretary of the Department of Finance and Governor of the Central Bank of Ireland. Maurice Doyle died in September 2009.
[8] This was something that eventually happened in 1979 when O Cofaigh was Secretary in Finance and is something of which he is tremendously proud. He also provided a lot of other useful information that will be presented when looking at the second critical juncture.

a sense of their excitement and pent up frustration with the path dependent nature of the Department until then.

From the mid-1950s ‘there was an intellectual enthusiasm for the concept of Europe’ (O Cofaigh interview) and in preparation for Europe they started, at that time, classes in German and French in Finance at 5.15 pm each evening. This was subsequently taken up in other government departments.

At interview O Cofaigh pointed out that cooperation between government departments in the collation of information was generally very good and wherever any resistance was felt at the top level there were a number of officers down the line only too happy to help, particularly younger officers who were not as ‘hidebound by tradition’. This should not be construed as denoting total administrative acceptance of the theories propounded in *Economic Develo*pment. When I queried the emphasis on agriculture O Cofaigh, who was raised in inner-city Dublin, was adamant that, for many of those working on the project, agriculture was the problem rather than the solution. Redemption could only come through other avenues *and* a radical overhaul of agriculture. For him Bord Bainne (covered in next chapter) got things right in its approach to agriculture. (Whitaker, by contrast, was much more circumspect pointing out that for every person working in industry there were over ten people ‘engaged’ in agriculture).

On questioning Whitaker about the period he was quite clear that action could not have been taken sooner because of continuing balance of payment difficulties allied to sterling crises. In effect people were not ready for change until then and he happened to be the one who acted as catalyst. His overriding influence was the threat of free trade and that immediate action would have to be taken to prepare for its imminent arrival. He spoke of feeling ‘a conscientious obligation to the state’ and that he ‘owed something to the country’. His main inspiration came from his study of economics but he also acknowledged outside influences such as IMF and World Bank and when Ireland joined he found ‘that there was great support for us internationally’. He particularly mentioned the support of Louis Rasminsky who subsequently became Governor of the Bank of Canada (the Canadian Central Bank).

What Whitaker was proposing for the Irish economy was indicative planning as practised in France and he arranged ‘for someone to come over and talk to us about it’.

(In relation to the relative success of the Northern Ireland economy both Whitaker and O Cofaigh were quick to point out that its success was almost entirely attributable to large scale subsidies from Britain).

When asked to comment on the legacy of *Economic Development* both men were quite modest about its impact and their own role. Whitaker's perception now (2009) is that in the immediate aftermath of *Economic Development* the world was entering the Kennedy era where there was widespread optimism across the developed world of better things to come. To a certain extent *Economic Development* captured the zeitgeist of the times and its legacy is psychological – 'it offered hope and that hope was coming from Finance, not noted until then for hope!'

Interviews were also conducted with a number of other retired civil servants who did not wish to be named. They provided some very useful general background information on the public service generally and how it interacted with the body politic. Those who served in the 1950s all spoke of the sense of hope that permeated the service around the time of the publication of *Economic Development* and its aftermath and confirmed that a cultural shift did take place.

What *Economic Development* proposed would require enormous change at the systemic, organisational, regulative and procedural levels. More problematically it would require change at a cultural level. Bulmer and Burch posit that the cultural level constrains all four institutional levels:

> At the systemic level, culture could refer to overarching issues, such as the understanding of national sovereignty or national identity. At the organisational level, it could refer to understandings about who is eligible to fill a position and what they are expected to do. At the procedural level it could refer to the traditional Whitehall value of sharing information between ministries. At the regulative level, it could refer to values concerning when officials in a ministry should take legal advice on a matter. Our general point is that this cultural dimension is present at all four levels (2001: 77).

Given that Ireland's administrative and political systems were based on the British model it is reasonable to assume that the same constraints applied. *Economic Development* called into question the very survival of the state – in reality it questioned the most basic systemic tenet, national sovereignty. The background underlying assumptions (self-sufficiency from the foundation of the state and protectionism from the 1930s onwards) that had been reinforced in the public sentiment since independence were being challenged and new elite prescriptions

emanating from economic theory proposed that would require administrative and political acceptability before they could even begin to be framed as legitimate programmes.

Burch, Hogwood and Bulmer posit that at a critical juncture 'there is a clear departure from previously established patterns' (2003: 7). Were the actions of Whitaker and the innovations he put in place just reflective of a critical moment 'when formerly rigid institutional hierarchies become more malleable and the bias of an institution is subject to pressure' (*ibid*.) or were they more than that? Again, Burch, Hogwood and Bulmer argue that, irrespective of its magnitude if

> ...change impacts solely on its own immediate institutional environment then it is unlikely to transform a critical moment into a critical juncture. On the other hand, change which may be observed as originating in one institutional field – again, irrespective of its magnitude – and then pervading further institutional fields of the polity to affect a number of dimensions and levels, has the potential to transform the polity. It is, therefore, the *accumulation* of *pervasive* changes that accounts for the realisation of a critical moment as a critical juncture' (2003; 14).

This research argues that over a very short period of time the ideas propounded in *Economic Development* led to profound change, achieved administrative and political viability and led to a critical juncture in which the institutions of state were fundamentally altered. At such junctures Thelen writes that 'rather than conceiving of institutions as holding together a particular pattern of politics, historical institutionalists are more likely to reverse the causal arrows and argue that institutions emerge from and are sustained by features of the broader political and social context' (1999: 384). . Thelen and Steinmo also remind us that:

> Institutions are an independent variable and explain political outcomes in periods of stability, but when they break down, they become the dependent variable, whose shape is determined by the political conflicts that such institutional breakdown unleashes (1992:15).

This research shows that a process of transformation was set in train with the publication of *Economic Development* and the institutions of state experienced change at many levels. How institutional change was effected will be demonstrated in the next chapter.

(The Irish administrative system is based on the British model where there is a high level of impermeability. Politicians rely on their senior civil servants when making complex economic decisions. Consequently ideas originating within the civil service are much more likely ot find acceptance).

**Political Dimension of 'Free Trade' and Ireland**

In Chapter 3 the symptoms and causes of the economic failure of the Irish state were set out and were demonstrated to be largely attributable to the continuation of protectionism for too long. But outside influences could not be kept at bay forever.

Since 1948 Ireland had been a member of the Organisation for European Economic Co-operation (OEEC), the forerunner of the OECD.[9] In 1957 the OEEC set up formal working groupings to establish a European Free Trade Area. The previous October the inter-party government announced that, acting under the direction of the Taoiseach, a grouping of the Secretaries of the Departments of Finance, External Affairs, Industry and Commerce, Agriculture and the Taoiseach would examine the likely impacts on Ireland of the emerging EEC and OEEC initiatives. This grouping was 'to play the key role in moving Irish economic policy from a protectionist framework to one where interdependence with other European economies was assumed' (Murphy, 2009: 238). Although concerned about the future of tariffs on agricultural products, continuing access to the British market, and special treatment for undeveloped countries, the inter-party government issued the following statement on 8 February 1957:

> In accordance with her general attitude to movements by European countries towards closer economic association, Ireland welcomes the proposal to form a European Free Trade Area. While her attitude to the question of participating in an area, will as in the case of other countries, be determined in the light of consideration of her own national interests, Ireland views with sympathy this latest movement towards closer association among European countries and wishes the proposal every success (Cited in Murphy, 2009: 241).

It is clear from the foregoing that at the highest level there was at the very least an acknowledgment of the real possibility of free trade in some shape or form. Ireland agreed to take part in a number of the working groups set up by the OEEC to prepare the way for a free trade agreement and sought special treatment as an undeveloped country. However, as Lee (1989: 352) puts it: 'The scant sympathy shown by members of EFTA towards Irish demands for 'special treatment' carried the warning that a supplicant posture was unlikely to win concessions'.

[9] Ireland had chosen not to join both the General Agreement on Trades and Tariffs and the North Atlantic Treaty Organisation. However, from 1954 onwards there is increasing evidence of a realisation at the highest level that Ireland could not ignore moves towards European economic cooperation and that these moves could have serious impact on Irish trade.

History shows that events moved rapidly and Ireland was powerless to influence them. For a variety of reasons related to protectionism in the first instance, and existing trade relations with Britain, Ireland withdrew from entry negotiations. Meenan (1970: 81) posits that Ireland's decision not to apply for membership was pragmatically 'on the grounds that participation would not offer any advantages in view of the patterns of Irish trade'. When Britain signalled its intention in 1961 to formally apply for membership of the EEC Ireland found itself with no choice but to do likewise and later the same year made a concurrent application with Britain.

In the Ireland of 1958/9 free trade was still only a foreground idea and elite prescription. Protectionism remained as a background underlying assumption lodged in the public sentiment. But things were changing. An export profits tax relief of 50 percent, introduced in the Finance Act 1956, membership of the World Bank and the International Monetary Fund, tentative engagement with the OEEC on free trade, (all instigated by the inter-party government) and a balance of payments surplus in 1957, indicated the first real signs of change. What subsequently happened was a neat encapsulation of de Tocqueville's (1838/1969) argument that revolution actually occurs when things are improving rather than when they are at their worst. It is also a reminder of Pierson's advice of the importance of sequencing and timing.

**The Role of Lemass**

Having 'progressed from gunman to politician, from parliamentarian to minister' (Farrell, 1983: 97), Lemass became Taoiseach on 23 June 1959.[10] Although 60 years of age 'he was like a man who had inherited a potentially valuable house which had been allowed to run down, but who had thrown open its stifling shutters, seen what needed to be done, and set about doing it vigorously and largely successfully' (Coogan, 2004: 419). He was a founding member of Fianna Fáil and an ever-present and influential minister in all Fianna Fáil governments from 1932 until his retirement in 1966. His republican credentials were impeccable yet, in spite of his achievements, he was never fully accepted by some of his fellow TDs because of his urban roots, his perceived ambivalence on the Irish language and relative lack of interest in agriculture.[11] Within the cabinet and the wider parliamentary party

[10] Many historians refer to an intergenerational handover but Lemass was only 17 years younger than de Valera.
[11] James Dillon, leader of Fine Gael, famously quipped that Lemass 'couldn't bid a dog good day in Irish' (Horgan, 1997: 302).

opinion polarised around MacEntee, the arch-conservative, and Lemass who was willing to take a gamble and push for development.[12] By the late 1950s he was not only the heir apparent but had also attained the reality of power and was in a position to shape the thrust of public policy, being in effect CEO. Having de Valera still as head of the party, and Taoiseach again from 1957 when he was then seventy five years old, was a political advantage that enabled Lemass 'to push through changes that were cloaked by the apparent changelessness of the Chief' (Farrell, 1971: 57).[13]

Lemass had been one of the main architects of protectionism and an ardent promoter of semi-state bodies.

> [He] was very much a Roosevelt-style New Dealer. That American Democratic spirit had much more influence on Fianna Fáil than the meanderings of continental Catholic authoritarians. While Lemass espoused the cause of protectionism and put up with the silliness of the economic war, he refused to make excuses for inefficiency (Keogh, 1994: 90).

However, by the late 1940s Lemass was pragmatist enough to realise that protectionism might no longer be the best option. In 1947 he introduced the Industrial Efficiency and Prices Bill which attempted to reconcile the dilemma of improving efficiency and productivity as a prelude to re-examining the tariff policy. He 'had come to the conclusion that the protected industries – or at least a substantial number of them – had utterly failed to deliver their part of the bargain and were profit-taking rather than developing or providing additional employment' (Horgan, 1997: 129). The bill never became law because of the change of government in 1948 but it is clear that he was having second thoughts on protectionism and pragmatist enough to know that it had become a background underlying assumption that was sacred to his party and also constrained by public sentiment.

After much internal debate in Fianna Fáil, and widespread opposition, especially from MacEntee, his old nemesis, in an address to the party faithful in Clery's Ballroom in Dublin on 11 October 1955, Lemass announced that on return to government Fianna Fáil would create 100,000 jobs in five years. This figure caught the headlines even if there was a distinct lack of detail on how these jobs would be created. But the speech does give a very clear

[12] Much has been written about the ideological differences between MacEntee and Lemass and how opinion polarised around them. But their differences were not personal and they remained lifelong friends. When it came to appointing a successor to de Valera Lemass was proposed by MacEntee (Horgan 1997, Murphy 2009).
[13] McCarthy (1990: 51) writes that de Valera endorsed Whitaker's study at the cabinet meeting and suggested that it was merely an extension of government policy and indeed of Fianna Fáil policy since 1926. He reiterated this to McCarthy at an interview in 1969.

indication of the ideas that he had and the realisation that the old ways had failed. *Inter alia* he said:

> The Fianna Fáil party has accepted the conclusion that the economic development programme which it initiated 25 years ago, notwithstanding its many and very substantial achievements and its subsequent acceptance by all political parties has not proved to be sufficient to bring about all the economic and social progress which we desired and which we believe can be accomplished....The aims of the proposals are, firstly, to give the national economy the necessary initial boost; secondly, to bring about an increase in private investment activity to the extent required to secure an adequate and continuing expansion of the scope and efficiency of private productive enterprise; and thirdly to show that the effort needed is not beyond the country's possibilities.[14]

Even though his speech had been cleared in advance with the national executive of his party the ideas it contained were anathema to many of the old guard. Bulmer and Burch (2005) refer to the misfits around new policy implementation leading to institutional veto points with the obverse being institutional opportunity structures. In this instance, even though Lemass was proposing the abandonment of 'self-sufficiency', accepting foreign investment and *de facto* foreign ownership of new Irish industries, he skilfully negotiated those institutional veto *points*. By the time of the launch of *Economic Development* he had fully shed his protectionist clothes and had become an ardent supporter of free trade. This was Lemass at his most pragmatic. He was quite happy to look at anyone else's ideas, especially those emanating from the public service. 'The responsibility of civil servants is to press matters to a conclusion. The responsibility of government is to press matters to a decision' (cited in Murray, 1990: 29). He repeatedly called on all government departments to become development corporations. 'It is perhaps the normal attitude [of a government department] ... to be passive rather than active, to await proposals from outside ... to avoid the risks of experimentation and innovation ... to vetting proposals brought to them by private interests and individuals rather than to generate new ideas themselves' (Lemass, 1961: 5). Bring him ideas and he would make quick decisions because 'the quick decision is always better than the long delayed decision ... once you had some clear concept of a problem that you rarely added to your wisdom by going back and looking at it again, and again and again, delaying the decision' (Farrell, 1971: 59). Whitaker, at interview, also confirmed Lemass' preparedness to look at new ways of doing things. He was also happy to look outside the country and two large state-interventionist programmes appealed to him: the Tennessee Valley Authority in the United States of America and the Vanoni Plan in Italy. They are included here in an attempt

[14] Quoted in Great Irish Speeches edited by Richard Aldous

to show how different Lemass was from the majority of his political contemporaries and always open to new ideas.

***Tennessee Valley Authority (TVA)***

The Tennessee River basin curved through seven states and often led to disastrous flooding. It was an area of dire poverty, in some parts thirty percent of the population had malaria, tuberculosis was rampant, children went hungry and ninety seven percent of the farms had no electricity. Roosevelt's plan was to build dams to control the flooding, provide cheap electricity, set up fertiliser plants and replant the forests. There was widespread opposition in Congress with cries of 'socialism' and that the whole project reeked of communism. 'Roosevelt handled these charges with aplomb. "I'll tell them it [TVA] is neither fish nor fowl, but whatever it is it will taste awful good to the people of Tennessee Valley"' (Jenkins, 2005: 77). The TVA did not fit any easy categorisation. When the three member executive board asked the President what the TVA was supposed to be he explained: 'It was a regional agency ... It wasn't just providing navigation and flood control and power, it was reclaiming land and human beings' (Morgan, 1986: 385). The project proved to be a major long-term success. This direct intervention by the state, where the administration perceived a clear need, appealed not only to Lemass' populism but his desire for action and practical solutions.[15] Quoting Roosevelt directly that the TVA was 'a corporation clothed with the power of Government but possessed of the flexibility and initiative of private enterprise' (1959: 277), Lemass clearly saw the template that he was to emulate in setting up new, and reconstituting existing, state-sponsored bodies.

***The Vanoni Plan***

The plans announced by Lemass in the Clery's Ballroom speech referred to above were the result of some creative borrowing on his part. He had heard of the Vanoni Plan in Italy, obtained a copy of same from the Italian embassy in Dublin and prevailed on C.S. Andrews to help him to adapt it to Irish conditions (Horgan, 1997: 165).

[15] Garvin (2004: 189) opines that the Shannon hydro-electric scheme in the 1920s was one of the models looked at by Roosevelt and that he openly cited the Shannon scheme as an inspiration. However, the scope of the TVA was much broader in its ambition.

The Vanoni Plan (or, probably more correctly the Vanoni-Saraceno Plan because of the work of Pasquale Saraceno who was head of an organisation, founded in 1946, to promote the development of industry in the impoverished south of Italy) was a government plan, named after the finance minister Ezio Vanoni, to redress the regional imbalance that existed between the Mezzogiorno and the much wealthier, developed northern part of Italy.

> The main objectives were full employment (and the creation of 4 million jobs), balance of payments equilibrium, and reducing the North-South economic divide. Key elements of the plan were an increase in investment, some sort of economic planning (supported by both public and private investments), as well as strengthening integration between backward nonindustrialized regions and the more developed areas (Maes, 2008: 501).

The Vanoni Plan was central to Italy's negotiating position for the treaty of Rome with insistence on deliberate government policies to tackle regional imbalances, the establishment of a European Investment Bank (for investment in under-developed regions) and a European Social Fund (for the redeployment and retraining of workers). Apart from Lemmas' attempts to plagiarise it the Vanoni Plan ultimately had enormous beneficial consequences for Ireland through the European Social Fund (ESF) and the European Regional Development Fund (ERDF).

Lemass was no ideologue but he nevertheless believed in the power of Keynesianism, in a managed welfare capitalism of a type that emerged post World War II, in a quasi-corporatist style of government, and had become an ardent proponent of free trade and foreign investment. In his persona he was perceived as being somewhat gruff and not given to small talk and almost obsessed with efficiency. At interview Whitaker confirmed the above but went on to say that Lemass was 'the most dynamic and intelligent minister I worked with'. He also confirmed that Lemass was a voracious reader and was especially interested in new ideas. Whitaker admits to being very pleasantly surprised by Fianna Fáil acceptance of *Economic Development* and credits Lemass for its success: 'Without Lemass' drive and also probably without de Valera's benevolent blessing, change would not have come about nearly as quickly' (Horgan, 1997: 176).

Commentators continue to be intrigued by Lemass, his conversion to free trade and the fact that he was open to ideas wherever they came from. Garvin describes him as 'a quiet agnostic' who was more than well aware of the cultural power of the Church and insisted that all his Ministers should have copies of the Encyclicals of Pope John XXIII in their desk

(2009: 261). But above all he was impatient for change and spent his life trying to get people to try new ideas and new ways of doing things.

> He cajoled, bribed, bullied, helped, begged and pushed people into overcoming objections, both real and unreal, so as to grow industrial activity and to bypass the extraordinary thicket of institutional and cultural obstructiveness that characterised Ireland's little emergent democratic polity (Garvin' 2009: 259).

In the process he succeeded in moving the concept of free trade which, prior to his accession to office, was constrained as a foreground idea and elite prescription, out of that frame and ensured its transposition to that of a background underlying assumption embedded in the public sentiment and in the process ensured political acceptability, not just within his own party, but the entire body politic. His accession to power and its coincidence with the rise of Whitaker offers another reminder of the importance of timing and sequencing as described by Pierson.

**Political Acceptability**

*Economic Development* was presented to the government on 29 May 1958 and then circulated, by the government, to all Departments and state-sponsored bodies with instructions that they were to feed back their comments for consideration at the cabinet meeting of 1 July. The outcome was the formation of a cabinet sub-committee of ministers chaired by Lemass (Industry & Commerce) and with Ryan (Finance), Smith (Agriculture) and, somewhat incongruously, Childers (Lands) whose role was peripheral but was there 'as a listening post for Taoiseach de Valera' (Horgan, 1997: 177). An inter-departmental committee, comprising the above departments, with the exception of Lands, was also set up under the chairmanship of C. H. Murray of the Department of the Taoiseach.[16]

The cabinet sub-committee, which was largely in agreement with Whitaker's recommendations, reported on 11 October and its findings were accepted by the government. On 28 October Seán Lemass, Tánaiste and *de facto* leader in waiting, announced at the Fianna Fáil Ard-Fheis that a programme of National Economic Development would be published within a few days that would re-define the parameters of economic policy.[17] On 11

[16] Murray and Whitaker had joined the civil service on the same day in 1934 and became lifelong friends. He later succeeded Whitaker as Secretary in Finance and as Governor of the Central Bank of Ireland.

[17] Referring to a discussion on *Economic Development* at a parliamentary party meeting in December 1958 John Healy wrote in the Irish Times, ten years after the event, that it was 'a myth to even think of a huddle of Fianna Fáil deputies solemnly considering the implications of the Whitaker Grey Paper ... The poor whores, most of them still don't know what GNP means and "indices" looks like a dirty word' (Horgan, 1997: 178).

November the ensuing white paper, *The Programme for Economic Expansion (PEE)* and now generally referred to as the *First Programme for Economic Expansion* was published. It drew heavily on *Economic Development* and was largely collated by Murray who worked in close collaboration with Whitaker throughout its preparation. On 22 November1958 *Economic Development* was also published. Shortly thereafter both documents were laid before the houses of the Oireachtas.[18] This was the ultimate seal of political acceptability.

(*Economic Development* became known as 'The Grey Book' because of the colour of its cover and to delineate its semi-official origin as being neither a government 'white' or 'green' paper. Whitaker (at interview) believes that whoever called it 'The Grey Book' must have been colour blind as to his eyes, and indeed to the eyes of the writer, the cover is unmistakably green. Publication implied acceptance of its contents and was also seen as an attempt to depoliticise its proposals given its provenance in the Department of Finance.)

It was not just within the ruling Fianna Fáil party that political acceptance occurred. Fine Gael, the main opposition party, whose actions in government during 1954-7 (joining World Bank and IMF, export tax relief, and, most crucially of all, appointing Whitaker as Secretary of the Department of Finance) facilitated change, ardently supported free trade and *Economic Development*. Even after the 1961 general election, which returned a minority Fianna Fáil government, Fine Gael tacitly supported the government on economic policy.

The striking feature of the political process is how quickly things happened. It will be recalled that when Whitaker proposed the undertaking of *Economic Development* he got formal approval from cabinet within six days. There were also extremely short time frames for feed-back from interested parties when *Economic Development* was circulated. It was followed within a few short months by the *Programme for Economic Expansion* (*PEE)* and the political landscape was changed. The old background underlying assumption of protectionism had been displaced by free trade and foreign investment was to be welcomed. This was change on a seismic scale and a huge paradigm shift ensued at the systemic and organisational levels. As Bulmer and Burch would have it views of sovereignty and identity were effected and also understandings of roles. Regulative and procedural change would also follow.

[18] Remarkably, no debate ever took place on either document even though they became the cornerstone of economic policy and gained acceptance across the political divide.

**Administrative Acceptability**

In a clear illustration of the path dependent nature of the institutions of state administrative change and acceptability of the 'new ideas' was to be more slow moving. The *PEE* was in essence a distillation of *Economic Development,* with some minor changes in emphasis. It was authored by Charlie Murray, in close collaboration with Whitaker. At the time Murray was Assistant Secretary in the Department of the Taoiseach. Whitaker 'arranged' the transfer of Murray to the Department of Finance on promotion where he was put in charge of a new Economic Development Branch.[19] This was the first change in the organisational structure of the department since the foundation of the state. Central to a critical juncture is a clear departure from previously established patterns and, as Bulmer and Burch (2001: 77) argue such change can be evidenced in the delineation of 'who are the key players and the nature of the connection between them' (2001: 77). Whitaker and Murray were key players and the relationship between them was extremely close. Here was a Department of State, hitherto associated with always saying 'no', now restructuring itself to say 'yes' – yes to productive investment. It arrogated to itself some of the powers of the Department of Industry and Commerce and took a more radical approach on grant aid to industry – emphasis would be on productive investment. It was also 'strong evidence of a shift in power away from the Department of Industry and Commerce' (Keogh, 2009: 72).[20]

Friction between the two Departments remained with Industry and Commerce firmly wedded to maintaining 'protectionism'. A Departmental Secretaries Committee (Finance, Industry and Commerce, Agriculture, External Affairs) had been set up by the previous government and continued by Lemass to advise the government on trade policy and it was in this forum that the final battle between protectionism and free trade was fought.[21] The recalcitrance of the Department of Industry and Commerce neatly encapsulated the path dependency of that institution and the logic of appropriateness of its actions which complied with its concept of identity. It was, as Thelen described it, 'locked in' and exhibiting signs of positive feedback where all decisions linked future outcomes to the outcomes of preceding outcomes only – there was no other way of doing things. In its loyalty to protected Irish firms it overplayed its hand in stating that removal of protection would result in 100,000 job losses in protected

[19] Interview with author 2009.

[20] The Department, and in particular its Secretary, J.C.B MacCarthy, were very unhappy about this. Lemass had appointed Lynch as his successor in Industry and Commerce and Lynch spent much of his time solving demarcation issues and acting as peace maker (Keogh, 2009).

[21] The relevant correspondence was published by Whitaker in 2006 as *Protection or Free Trade – The Final Battle*

industries (total employment 148,000). In refutation of Whitaker's arguments for the reduction of protection MacCarthy (secretary at the Department of Industry and Commerce) countered with the following:

> I cannot accept the views set out in it other than as a, if you will not mind my putting it that way, somewhat idealistic approach which is not, as I am sure you will agree, backed by anything more than faith in the operation of the economic laws which are expounded (Whitaker, 2006: 68)

Much of the correspondence continues in the same vein with MacCarthy steadfastly defending protectionism and the *status quo* while Whitaker appealed for innovation, the application of a Keynesian approach to economic management and stimulus and the adoption of new ideas. It will be shown in the next chapter that the more go-ahead Irish industries felt stymied by the approach of the Department of Industry and Commerce and gladly bypassed it to deal directly with the Department of Finance where they discerned a much more pro business approach.

Whitaker was the *de facto* head of the civil service and in a position to drive change and to overcome the institutional veto points. The causal chains identified by Pierson did not run on straight trajectories and often had slow moving outcomes. But political viability had already been achieved and, critically, Whitaker had the support of Lemass who was firmly committed to the new ideas and was more than ready to knock heads together when required. Even as late as 1965, at the final negotiations of the Anglo-Irish Free Trade Agreement, Whitaker had to ring the Taoiseach to instruct the Department of Industry and Commerce to comply with Whitaker's position (Interview with author).

Fanning writes of Lemass and Whitaker that 'Only when, as Taoiseach and as Secretary of the Department of Finance respectively, they had climbed to the top of their respective greasy poles, could they afford to give full rein to their more radical instincts' (2009: 29).

**Next Steps**

In reviewing the events of the 1950s (which Keogh (1994) so appositely called 'the politics of drift') one is left with the inescapable question of why it took so long to implement change. Fanning (2009: 290 posits that perhaps it 'was not easy for the long-term politically disabled to learn to pick their way without crutches across a terrain unknown to all and alien to many'.

Nevertheless, the country was at what historical institutionalists call a critical moment 'when a perceived opportunity arises for significant change. That is, an event takes place which raises a general expectation that change will follow' (Burch, Hogwood and Bulmer, 2003: 7) Even though new ideas were advanced by ideational actors such as Carter et al, breaking the path dependent nature of Irish institutional life was constrained by cultural boundaries, logic of appropriateness, and background underlying assumptions. All of these were deeply ingrained in the public sentiment. But change was happening slowly and Irish institutional life could not forever remain impervious to that change – a changing European order, an intergenerational handover at both the political and administrative levels, and what Peters (2001: 66) called, the emergence of a set of ideas that 'tend[ed] to provide a set of ready solutions for policy problems'.

What happened in Ireland in the period 1958/9 was a series of cumulative causes, what Burch, Hogwood and Bulmer called 'the accumulation of pervasive changes' (2003: 14) that effected dramatic change over time, albeit sometimes at a slow pace; processes sometimes had modest, incremental effects until they reached critical levels that triggered major change - threshold effects. All of the above neatly illustrated Pierson's view of the importance of timing and sequencing. Sometimes, seemingly insignificant institutional change can lead to profound societal change. Pierson puts it as follows:

> Although analyses invoking the language of "critical junctures" sometimes focus on large-scale events, those qualities are neither necessary nor sufficient to generate path-dependent dynamics. In fact, the point in path-dependent analyses is that "causes" may often seem relatively small compared with their effects. What makes a particular juncture "critical" is that it triggers a process of positive feedback (2004: 51).

To distinguish between a critical moment and a critical juncture Bulmer and Burch (2001:81) offer the following:

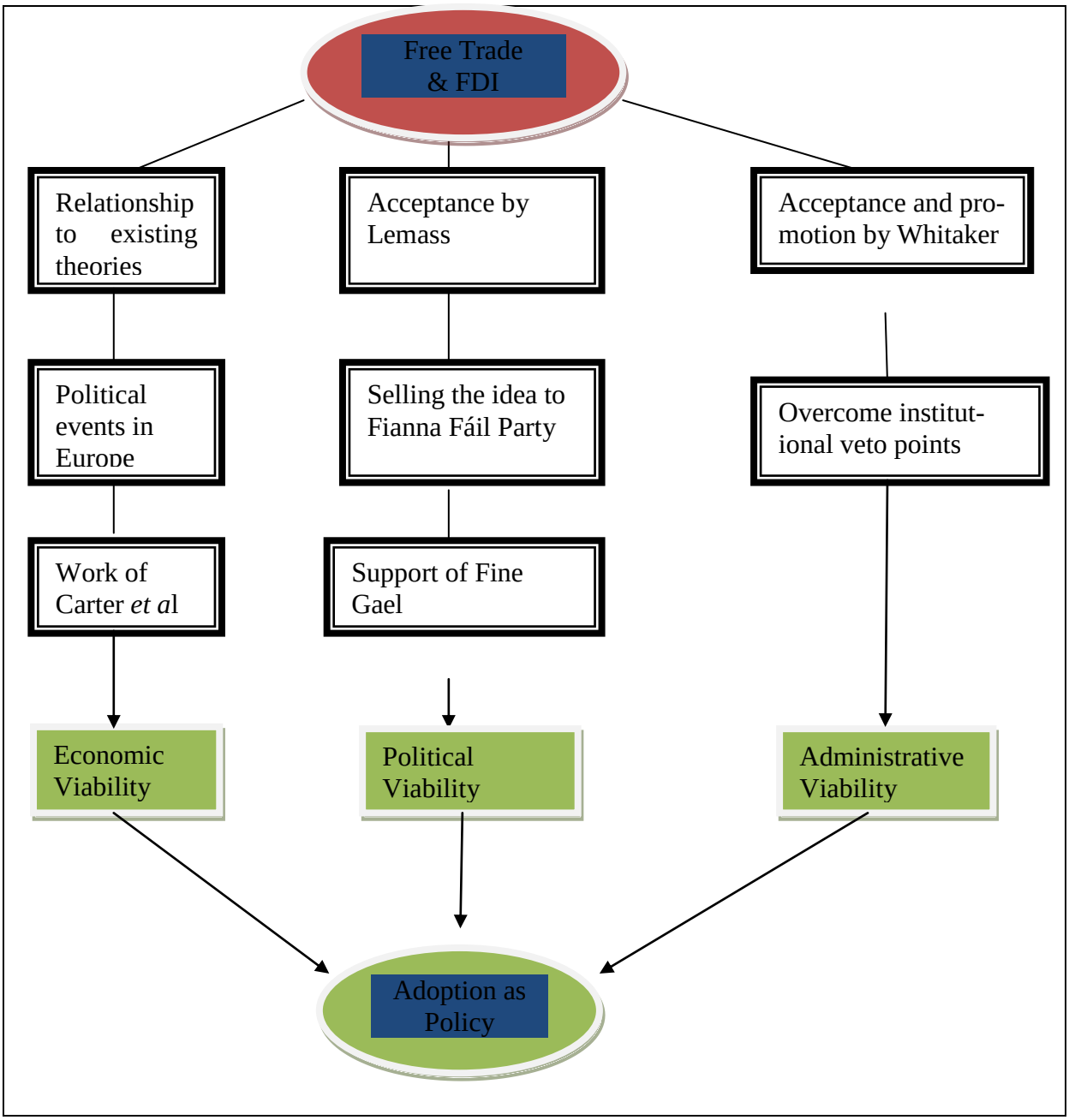
> A 'critical moment' is when an opportunity arises for significant change. Such opportunities may not be realised and exploited but, if they are, the outcome is a 'critical juncture' at which there is a clear departure from previously established patterns. Critical junctures create branching points at which institutional development moves on to a new trajectory or pathway which is then followed incrementally until a new critical moment arises and (potentially) a new critical juncture follows and a new direction is taken

The central hypothesis of this thesis is that the causal chains linking ideational actors and administrative and political elites, precipitated a critical juncture when there was 'a clear

departure from previously established patterns' (Burch, Hogwood and Bulmer, 2003: 7). The ideas of free trade and foreign direct investment had achieved economic, political and administrative acceptability. Is acceptance of ideas enough? To make things happen would it require political and administrative will to implement those ideas? The next chapter will show that the critical moment became a critical juncture that led to the transformation of Ireland and that there was enormous political and administrative will involved.

An adaptation of Hall's Framework (see next page) shows a three legged model, depicting the changing Irish economic, administrative and political environment, achieving equilibrium. As with a three-legged stool, equilibrium can be found on uneven ground, and the Irish political landscape was uneven ground and, as will be demonstrated in the next chapter, some of the causal chains had slow-moving outcomes and had to overcome many institutional veto points. The research also shows the importance of viewing events as a moving picture as advocated by historical institutionalists rather than taking a snapshot in time as favoured by rational choice theory.

**Table 4.1: Hall's Framework applied to Ireland**




(Adapted from Hall, 1989: 371)

# Chapter 5: First Period of Change – implementation of the 'ideas' of free trade and foreign direct investment.

In the previous chapter, using Hall's Framework, it was shown that the 'ideas' of free trade and foreign direct investment gained a large measure of economic, political, and administrative acceptability. Using what I refer to as the Bulmer and Burch Template change at the first critical juncture will be tracked and demonstrated. Bulmer and Burch (2001: 77) posit that institutional change following a critical juncture can be tracked at the systemic, organisational, regulative and procedural levels and demonstrate that new ideas punctuate institutional path dependency and lead to state transformation. In addition to the above four levels of change they also argue that there is an overarching cultural level which constrains change. To implement the ideas of free trade and foreign direct investment would require a change in political culture. This chapter will show that this was achieved using neocorporatist policies that brought employers and unions into the decision making process, and the use of indicative planning, as developed in France, to turn Ireland into a developmental state.

## Political Culture

The arrival of the 1960s brought more than just a change of decade. Lemass had assumed the leadership of Fianna Fáil, and become Taoiseach.[1] Soon thereafter James Dillon succeeded John A. Costello as leader of Fine Gael and Brendan Corish succeeded William Norton as leader of the Labour party. In effect there was a generational handover and change was in the air. Rural electrification and mechanisation were also changing the face of Irish life.[2] The election of Pope John XXIII in 1958, and the Second Vatican Council which he convened,

[1] There was a subtle change in the organisation of government meetings: Lemass replaced the rectangular table, where the Taoiseach used to sit at the head, with an oval one where he sat in the centre and his old nemesis MacEntee sat opposite him. He told a civil servant that he 'was able to see who was saying no to me' (Horgan, 1997: 196). The pace of cabinet meetings also increased with Lemass moving for quick decisions not the 'peace by exhaustion' of de Valera's time at the helm.

[2] Rural electrification connected over 420,000 houses in rural Ireland between 1945 and 1979. It was greatly accelerated after enactment of the Electricity Supply (Amendment) Act 1955 authorised the ESB to borrow to fund the project. Some houses received electric power and television at the same time and this had profound social effects as the outside world could no longer be kept at bay. Electrification was a great boon to agriculture as it enabled speedier mechanisation, especially of milking. In 1950 there were 402,000 horses in Ireland, mainly engaged in agriculture. By 1970 that number was 124,000 (CSO, 1997: 62).

changed the face of Catholicism forever. He called for an opening of the shutters to let in the light and for a voice for the laity in Church matters. Perhaps, most significant of all was the replacement of Latin with the vernacular in all Church services and a gradual erosion of the power of the clergy. The launch of Radio Telefís Ēireann in 1961 also had a profound effect on Irish life through the new medium of television which opened people's minds to a life outside the island. It opened up a world where prosperity was deemed desirable and de Valera's 'frugal comforts' no longer seemed enough.

On the world stage the coming to power of John F. Kennedy as president of the USA helped create a climate of hope and optimism. There was a concomitant increase in demand for products and exports arising from improved conditions in the developed world and a general economic upturn.

Against this background Lemass and Whitaker set to work on moving Ireland from protectionism to free trade. The *PEE* set out the targets to be achieved in Ireland's first real effort at medium to long-term planning with agriculture and industry to be the main drivers of economic prosperity. They would utilise a mixture of state-interventionist measures allied to inducements to private industry in a classic example of indicative planning. The state-interventionist measures would focus mainly on state-sponsored bodies and legislative changes that would, hopefully, encourage private enterprise. They would also use corporatism as means of effecting change.

Central to corporatism is the notion of interest intermediation that links producer interests and the state. It specifically incorporates interest groups into the policy making process, both in terms of the negotiation of policy and the securing of compliance with the agreed policy. As a political philosophy it has been influenced by Catholic social teaching beginning with the papal encyclical *Rerum Novarum* by Leo XIII in 1891. As an antidote to Marxism he argued that class conflict was not inevitable and capital and labour were in fact mutually interdependent. At that time there was a general growth in associative action and Leo XIII proposed that working conditions and general social welfare could be greatly improved through specially established organisational structures with the state approving and protecting such arrangements. This would obviate the necessity for the class warfare called for by Marxists. Somewhat paradoxically the Pope saw such arrangements as superseding the undue influence of the state while calling on the self-same state to protect such arrangements. The association between Catholicism and corporatism has remained and it became a major

political philosophy in Catholic countries such as Austria, Germany, Spain, Portugal and Italy in the inter-war period. It also developed uncomfortable associations with national socialism and fascism and, as a consequence, guilt by association which resulted in its disappearance from most political discussion. Concomitant with the growth of social democracy there emerged a neocorporatism that saw tripartite arrangements between the state, labour and employers. This facilitated state concessions on social and taxation issues, employer concessions on wages and unions accepting wage restraint and industrial peace.

It has already been stated that Lemass was no ideologue and was happy to take ideas from any quarter. He saw the advantages and opportunities offered by corporatist arrangements. Within ten days of taking office as Taoiseach he wrote to the presidents of the Federation of Irish Industries, the Irish Congress of Trade Unions, the Chambers of Commerce of Ireland and the National Farmers Association inviting them, in best neo-corporatist fashion, to meet him and discuss the current state of the economy and its prospects and the role they might play. At a meeting with farmers on 27 July 1959 he told the delegates that he was anxious to have regular consultations with them 'on major economic policy' (Daly, 2002: 343).[3]

However, he was in no doubt that it was politicians that should make the hard decisions and 'the development of the country in economic terms necessarily evolved around a corporatist style arrangement ... [and] ... for that to happen, Lemass realised that the government in its political form would have to be the hegemonic player in the administrative system' (Murphy, 1997: 4). With this in mind he instigated, or readily agreed, a number of neocorporatist measures that were to enable/force change and improve efficiency in the short term, and also have long term effects. He did have a grand design to involve unions and industry in developing the economy through institutional change that integrated the various interest groups 'through a system of representation and co-operative mutual interaction at leadership level, and social control at the mass level'. (Murphy, 2009: 193).[4] Lee (1989: 403) refers to

[3] Lemass is often accused of having no interest in agriculture and was mistrusted by the rural members of his own party on the issue. (Lee, Coogan). Even his staunch ally, Todd Andrews, said of him that 'he had little real rapport with rural Ireland ... had surprisingly little intimate knowledge of the countryside and its people. He was essentially the Dublin jackeen with the ready wit and derisive humour' (Murphy, 2009: 234). Nevertheless he could see business opportunities in agriculture. In a Dáil debate on March 9th 1950 on the setting up of the Industrial Development Authority Lemass, albeit in opposition, heretically declared: 'If we are ever going to build up a national economy that can withstand the storms that are bound to arise in international trade, it has to be through industrial development' (Horgan, 1997: 165).

[4] As far back as 1945 Lemass had this to say about union involvement in public policy: 'In a democratic state, the trade union movement must play an increasingly important part in the national life of the country ... as an

'emerging institutional structures tending in a neocorporatist direction, as the main stimulus for efficiency'.

Initially the corporatist structures put in place were bipartite. The Employer Labour Conference was established as a forum for employers and unions to meet and primarily negotiate national wage deals. The unions withdrew from it in 1963 after the White Paper 'Closing the Gap', was published in February and, without ever being formally disbanded, the conference went into abeyance until 1970. Given that the government, then as now the biggest employer, was not a party to the conference, it was unlikely to succeed. But Lemass was determined to maintain a neocorporatist stance and did so through the establishment of a new body and even though this did not happen until 1963 (an example of the slow moving outcomes of the causal chains) it did play a significant part in changing the political culture of the country.

The National Industrial Economic Council (NIEC), which was subsequently renamed the National Economic and Social Council (NESC), had Whitaker as chairman, eight other government nominees, and ten each from the union and employer bodies. Its terms of reference were laid before the Houses of the Oireachtas on October 23rd 1963.[5] Secretarial support would be provided by the civil service, in effect primarily the Department of Finance, and, *ab initio,* the council had access to the best brains and the best information available at the time. Its main task was

> ... to prepare general reports expressing the views of the Council on the principles which ought to be applied for the development of the national economy and the realisation and maintenance of full employment at adequate wages with reasonable price stability and reasonable long-term equilibrium in the balance of external payments. The Council shall have regard to the level and trend of incomes, including wages, salaries, profits, rents and other incomes, with a view to the inclusion in its reports of policy recommendations on these matters. (NIEC 1963).

The fact that agriculture was excluded from its remit was an indication of the changing emphasis at official level and the new reliance on development through industry. Replying to queries in the Dáil (Debates 23 October 1963) Minister for Finance Ryan rather feebly

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essential part of industrial organisation ... [and] formulating and carrying into effect a general policy for the furtherance of the long term interests of the workers as a class' (Lee, 1987: 401).

[5] The secretary at the Department of Industry and Commerce was the only other purely civil service appointment. The rest were prominent in the semi-state sector and business. FitzGerald (1968: 158), while lauding the absence of political partisanship, notes that it has the unfortunate side effect of detaching politicians from the policy formulation process.

defended the decision that inclusion would make the NIEC too unwieldy and more pertinently that 'agricultural policy is determined to a large extent by external conditions which we cannot alter by decisions taken here' i.e. near total reliance on British markets and the trade agreements governing them.

The great strength of the NIEC was that its membership was very widely drawn and even with government appointments the urge to make 'political' nominations was resisted. This not only gave it credibility but challenged the hitherto exclusive role of the public service in policy formulation – a significant organisational change on the Bulmer and Burch Template. The council's reports, which varied from general reviews of economic performance and prospects to specific reports such as 'Report on Incomes and Prices Policy', quickly became established as being reliable and offering an honest appraisal of the situation. They also had the advantage of wedding all parties to the process, making change more likely and easier to implement and of advancing Lemass' neocorporatist agenda.

What is evident from the above is that the political culture was changing in a real way as was the asymmetrical nature of power. Hall and Taylor (1996) argue that the role and nature of power in the relationship between actors and institutions is asymmetrical and that historical institutionalists are particularly interested in the uneven distribution of power across social groups. They further assume that institutions give some groups disproportionate access to the decision-making process. Organised labour now had not only access to the political and administrative elites but an influence on policy hitherto constrained by a cultural approach endemic in the political and administrative elites. Labour and employers adopted a calculus approach that was instrumental and based on strategic calculation. As Hall and Taylor (1996) contend institutional involvement not only brings an element of power but also a degree of certainty as to how others would behave as their actions are constrained by the enforcement mechanisms and penalties enforced by institutions.

On the Bulmer and Burch Template the NIEC, which had been statutorily established, is evidence of systemic level change. It also demonstrated regulative level change (who should do what) and procedural level change (the processes shaping how business is handled). But, more importantly, it brought cultural change.

**Administrative Change**

Administrative change was already evidenced at the organisational level in the Department of Finance with the appointments of Whitaker and Murray, and the setting up of the Economic Planning Division. The Industrial Development (Encouragement of External Investment) Act 1958 in effect repealed much of the Control of Manufactures Acts, particularly the prohibition on foreign ownership of Irish industry. The Industrial Grants Act 1959 broadened the remit of, and gave grant-aiding powers to, the Industrial Development Authority (IDA). These changes ensured that Finance assumed a much more proactive approach in the running of the country.[6] Under the 1959 Act grants would be made available nation-wide (hitherto grants to industry were restricted to 'undeveloped areas' as set out in the Undeveloped Areas Act 1952) and the maximum grant allowable was increased from £50,000 to £250,000. Responsibility for dealing with the establishment of new Irish industries, or the expansion of existing ones, was left with the Department of Industry and Commerce. This, allied to the fact that grants to new industries (more likely to be established by foreign interests) were more generous than to established industries, gave an impression of favouritism to foreign firms 'which offered an unfortunate encouragement to the latent xenophobia of a small country that had only recently secured its independence'(FitzGerald, 1968: 240). It is debatable as to whether the Department of Industry and Commerce was an institutional veto point but at the very least there is evidence that its actions were constrained by what March and Olsen (1989) called a logic of appropriateness where institutional actions are tailored to a concept of identity – and that concept of identity was the necessity for protectionism. (Industry and Commerce was largely sidelined in 1966, when all responsibility for grant aid to Irish industry was transferred to the IDA. This was as much a mark of faith in the efficacy of that body, and by extension a rebuke to the Department of Industry and Commerce.)

But change was permeating the public service. Lemass clearly believed that the role of Finance was fundamental to that change:

> In the administration of any Government in any country the mood and attitude of the Finance Department is reflected throughout the whole administrative body. If it is hyper-critical of development proposals the effect is to discourage the formulation and presentation of new ideas. If the Finance Department is itself seeking to stimulate and encourage new thinking, the whole approach to the problems of all Departments is altered for the better. At this time, the positive stimulating attitude of our Department

[6] Keogh (2009: 72) mistakenly states that the Act transferred grant-aiding powers from the IDA to *An Foras Tionscal*. Until then the IDA had no grant-aiding powers.

> of Finance is a very important fact in the building up of the widely deployed development effort which is now evident (Lemass, 1961: 5)

Even Patrick Lynch, one of the harshest critics of Irish economic policy and of the shortcomings of the 'official mind', lauded the positive role played by the Department of Finance noting that 'real economy can sometimes be secured more effectively by fruitful and selective spending than by parsimonious thrift' (1963: 149). More complimentarily he noted that 'State investment is becoming more economically productive than redistributive as it has been formerly' (p. 160), and with proper planning a growth rate of four per cent (then unheard of) could be achieved but would require persuading 'every group in the community that the choice is between economic growth and stagnation' (p. 162).

Applying Bulmer and Burch's Template to the administrative system change took place at all levels: systemic level changes took place through the enactment of legislation; organisational level change was demonstrated in the Department of Finance; regulative and procedural level change occurred right across the public service.

There were to be hiccups along the way and administrative change was uneven. Nevertheless, by 1960 there was clear evidence that the idea of free trade had gained administrative acceptability. It has already been demonstrated that economic and political acceptability had been achieved. If historical institutionalists are correct then the conditions were now in place when a critical moment, 'when formerly rigid institutional hierarchies become more malleable and the bias of an institution is subject to pressure' (Burch, Hogwood and Bulmer, 2003: 7), could morph into a critical juncture with 'a clear departure from previously established patterns' (*ibid.*). It will be demonstrated that this is what happened and the result led to the transformation of Ireland.

**Making Change Happen**

Having achieved economic, political and administrative viability, and the beginnings of a changing political culture (including a neocorporatist framework), implementing the transition from protectionism to free trade would require political and administrative will. It would also require systemic, organisational, regulative and procedural level changes as outlined by Bulmer and Burch. For the political and administrative elites the ideas of free trade and foreign direct investment were to be implemented through the achievement of the targets set

out in the *PEE*. One of the cornerstones of implementation would be the neocorporatist framework already referred to. Another was to be the establishment of new, and the reconstitution of existing, state-sponsored bodies.

***State-Sponsored Bodies (SSBs)***

From 1932 onwards Lemass was the arch promoter of state-sponsored bodies. In an address delivered to the Institute of Public Administration on 2 March 1959 Lemass set out his thinking on the role of *SSBs*. In all cases initiation and shaping of policy in the broad sense would remain the prerogative of government and how such bodies were controlled would be 'settled on a *pragmatic* (italics added) rather than theoretical basis' (1959: 277). He went on to give a brief resume of those bodies for which he had direct responsibility (ESB, CIE, Bord na Mona, Irish Sugar Co., Irish Shipping etc.) and expressed general satisfaction with how they performed. However, he was very alert to the dangers inherent in all such bodies: once established they 'may settle down to routine operation characterised by extreme caution'; 'may be directed and administered with decreasing regard for the national needs' and 'undue concerns for the benefit and convenience of staff'; there is 'no automatic spur to efficiency' and 'a danger that bureaucratic procedures may stifle efficiency and delay necessary or desirable innovations and changes' (1959: 287). It was incumbent on the relevant minister to be vigilant and, in his experience, there was rarely any difficulty between the minister and a board 'when a board is progressing vigorously and intelligently to accomplish developments which both desire' (p.288). When things did not progress as expected then the role of the minster was clear cut.

> The Minister's main instrument is criticism. His responsibility is to the public and he would fail in his responsibility if he withheld criticism where he considered it to be due. As a general guiding rule, the relations between the Minister and the board should never be too cordial. At least the board must feel that criticism will be prompt and vigorous whenever circumstances call for it (p. 289).

Lemass as Taoiseach was never constrained by existing institutional boundaries. Whenever he saw an unfulfilled need or gap in the provision of state support he promptly set up a new body or reconstituted an existing one to reflect the changing economic and political landscape. Thelen points out that 'rather than conceiving of institutions as holding together a particular pattern of politics, historical institutionalists are more likely to reverse the causal arrows and argue that institutions emerge from and are sustained by features of the broader political and social context' (1999: 384). . Thelen and Steinmo also remind us that:

> Institutions are an independent variable and explain political outcomes in periods of stability, but when they break down, they become the dependent variable, whose shape is determined by the political conflicts that such institutional breakdown unleashes (1992:15).

As will be seen when reviewing agriculture and industry that is what happened to many state-sponsored bodies.

**Agriculture**

The *PEE* had the following main objectives for the agricultural sector:

- Increased output thorough increased productivity fostered through grassland improvement (fertilisers) and management (specifically 1.5 million cows by 1964).
- Eradication of bovine tuberculosis.
- Development of agricultural education.
- Improved marketing and development of trade relations.
- More targeted use of state aid to obtain more competitive prices, higher turnover and increased farm incomes.

The Department of Agriculture, setting out policy in June 1959, elaborated on the above, emphasising grassland improvement as the most important objective that would help to achieve the other aims. The Secretary in Agriculture, Michael Barry, wrote 'In principle Government expenditure which increases productivity permanently is to be preferred to Government expenditure in the form of price subsidies' (Daly, 2002: 345).

The industry was very underdeveloped and this underdevelopment had its origins in history and, as will be demonstrated, owed its continuance to the philosophy of 'self-sufficiency', the 'official mind' and, strange as it may seem, the Catholic Church.

Breen *et al* offer the following summary of the industry:

> The present structure of Irish agriculture is rooted in events of the nineteenth century, particularly the Great Famine of mid-century, the resulting changes in demographic patterns, and the Land Acts of the late part of the century, which established the tenants of Irish land as peasant proprietors. It was in this period too that the question of the ownership of land became bound up with the question of Irish self-determination (1990: 184).

A proliferation of small holdings and the continuance in folk memory of the effects of the Great Famine ensured that the philosophy of 'self-sufficiency' found a very receptive audience in rural Ireland. By 1961, in spite of continuing emigration and a declining rural population, out of a total workforce of 1,108,108, there were 392,675 engaged in agricultural occupations (Statistical Abstract of Ireland 1964: 45).[7] The underdeveloped state of agriculture in 1958 was neatly summarised in the *PEE:* 'Of total agricultural output, approximately one- third is consumed on the farms where it is produced, one-third is sold off-farms for consumption within the country and the remaining one-third is exported' (PEE, 1958: 11). Given that there was little scope for increased home consumption added production would be for the export market. To succeed on the export market produce would need to be competitively priced, without incurring increased subsidisation by the exchequer, of high quality, and offer guaranteed continuity of supply.[8]

In effect farming was largely supported by price guarantees in what was 'the agricultural equivalent of protectionism' (Loftus, 2008: 159). As in all relations with Britain, history, nationalism and economics had an uneasy relationship. Through a series of trade agreements Ireland had favoured access to British markets, particularly for agricultural produce. With the emergence of the EEC and EFTA Ireland sought an accommodation that would see British agricultural price supports extended to Irish farmers. The debate in cabinet for closer ties with Britain exposed the traditional fault lines: the Departments of Finance and Agriculture were in favour, Industry and Commerce opposed any increased access of British goods that competed with protected Irish industry, and External Affairs was concerned that 'any agreement for joint development would imply that Ireland was economically subservient to Britain' (Daly, 2002:359). The trade agreement signed in April 1960 offered meagre gains for Irish farmers. This in itself was a reasonably good outcome given what was happening on the European front and British trade relations with its former colonies. Also, two days before the start of negotiations, Britain signed a bilateral trade deal with Denmark, a member of EFTA, primarily granting increased access for Danish agricultural produce.

[7] This was approximately half the number that had been engaged in 1926. The number was to halve again by 1981.

[8] Whitaker in particular was anxious to encourage beef production at the expense of dairying given the level of subsidisation of butter exports. This was because of a cheap food policy by successive British governments which heavily subsidised food prices and Irish produce had to compete on price.

The beef industry, in particular, was inexorably linked to the British market and successive Anglo-Irish trade agreements copper-fastened this dependency. Beef exports were predominantly to Britain and almost exclusively of live animals.[9] A 1952 industry report by a firm of US business consultants was highly critical of the situation and did not mince its words

> '... the essential fabric of Ireland's cattle policy has been based on a warp of pessimism crossed by a web of timidity ... [justified] by an appraisal of market outlook sufficiently dismal to warrant adherence to a pattern that had been proved devoid of dynamic growth, on the ground that meagre certainty is better than the most promising hazard' (Daly, 2002: 300).

Bovine tuberculosis was rampant and fear of foot and mouth disease meant that until the early 1960s there was a total prohibition on the importation of breeding stock from outside Britain. Eventually in 1962 14 Charollais and 2 Hereford bulls were imported from the USA, the first cattle to reach Ireland from a destination other than Britain in over sixty years. This, allied to the increasing use of artificial insemination, led to a dramatic improvement of both beef and dairying animals. The eradication of bovine tuberculosis proved to be extremely costly (estimated net cost of £40m) and the country was declared disease free in 1965.

The dairy industry was also highly fragmented with approximately 160 central creameries, each with several branches, duplicating production and competing with each other on the export market (Foley, 1993: 131).[10] Ironically, because of the seasonality of production and issues of preservation of product, Ireland actually imported butter for domestic consumption. With a plethora of suppliers and processors, production costs were high and economies of scale were virtually non-existent, even among the larger co-operatives. The average milk herd size was 5.5 cows with an annual yield of 420 gallons of milk per cow.[11] (The respective figures for 2001 when production peaked were 36 cows and 1041 gallons (Dept of Agriculture)).

In spite of the disadvantages listed above Irish agriculture had one enormous advantage; the natural quality of its pastureland was ideally suited for both beef production and dairying. A

[9] As late as 1960, there were no commercial slaughtering facilities for cattle in the country. Pig slaughtering facilities had a 50 per cent spare capacity (Smith, 2008).
[10] Through amalgamation and rationalisation there were fewer than thirty by 1976 and the giants of the industry, such as Kerry, Avonmore, Golden Vale, Mitchelstown (now Dairygold) and Waterford, had emerged (Foley, 1993).
[11] In Denmark the average yield was 736 gallons and in the Netherlands 825 (Whitaker, 1958: 71).

report commissioned in 1948 by the Minister for Agriculture on grass production, and carried out by G.A. Holmes, a New Zealand world expert on the subject, stated:

> There is no area of comparable size in the northern hemisphere which has such marvellous potentialities for pasture production as Ēire... I have seen old permanent pastures with a density, colour, composition and grazing capacity superior to anything in Western Europe (Commission on Emigration, 1952: 41)

However, this advantage was totally underutilised for a variety of reasons:

- the plethora of small holdings, many of which were totally uneconomic: [12]
- compulsory tillage orders introduced during WW II, though not enforced had never been revoked;
- the under-usage of fertilisers and lime negated the natural advantages of Irish pastureland;
- the innate conservatism of Irish farmers;
- in the main areas of dairying and beef the predominant use of breeds of cattle which were general purpose rather than using specialist breeds suitable for milk production or beef production.

There was little in the way of worthwhile research being undertaken and those undertaking the research, the Department of Agriculture and the universities, were not in agreement. As Manning (1999: 296) put it 'the department felt university research did not respond to the real needs of agriculture, while the universities blamed the government for chronic underfunding. Both were right'.[13]

Irish agriculture was highly path dependent. Self-sufficiency had become a background underlying assumption that remained in the public sentiment long after it was evident that as a concept it had failed. Pierson's (2004) resilience and inbuilt obstacles to revision were clearly evident and farmers possessed the ultimate veto points by continuing to operate as their fathers before them. To break the path dependant nature of Irish agricultural institutions was a

[12] Out of 287,394 holdings 206,042 (72%) were under 50 acres and and produced a family farm income of less than the average industrial wage (O'Grada, C. 2008a: 9).

[13] In *Economic Development* (Chapter 11) Whitaker is not only critical of the quality of education and research, and the status of the agricultural faculties in the universities, he also points out that in the period 1926 – 56 the numbers of agricultural students in UCD increased fifteen fold but the staff numbers were unchanged. He goes on to make the point that UCD had not sought any state assistance to remedy the situation. Implicit in his comments is that they would have found a willing ear in Finance. However, Daly (2002: 388) points out that in 1949 Michael Tierney, president of UCD, complained to Finance about the inadequate facilities available to the faculty of agriculture which he believed should become an independent college within UCD with a much larger budget.

real challenge. However, two critical decisions were made which would have a profound effect on Irish agriculture and lead to its transformation: the setting up of *An Foras Talūntais* (the Agricultural Institute) and *An Bord Bainne* (The Milk Board). Of lesser significance was the reconstitution of the *Pigs and Bacon Commission*. It will also be seen that for all their innovation and dynamism these organisations were subject to slow moving outcomes because of institutional resistance and veto points.

***An Foras Talūntais (AFT)***

The setting up of *AFT* neatly encapsulates the difficulties of implementing a new 'idea': achieving political, administrative and economic acceptance; breaking the path dependant nature of existing institutions; changing political culture. The idea for an all-embracing agricultural institute was first promulgated by Joseph Carrigan in 1949. A former dean of agriculture in Vermont he was then the first head of the European Recovery Programme (the Marshall Plan) in Ireland. He was shocked at the poor state of development of agriculture and devised a plan for its modernisation. His proposals, for which he obtained approval of a grant of £1.84m, were to develop a new campus that would incorporate an agriculture and veterinary facility; take over agricultural education from the universities and centralise and standardise farm advisory services. James Dillon, in his first period as Minister for Agriculture, became an enthusiastic supporter of the scheme as was de Valera in both opposition and on his return to power in 1951 (Manning 1999). The 'official mind', manifest in both the administrative and political elites, fought a protracted, obstructionist battle which kept a project, for which there was approved American taxpayers' funding, on the drawing board for nine years. The Department of Finance opposed the scheme in the beginning but in time that attitude changed and Whitaker became not only an avid supporter of *AFT* but, as will be seen below, ensured that adequate funding was made available for everyday running and expansion. (Its rigorous scientific approach would certainly have appealed to him).

As it was proposed that the institute would have a large scale of independence from the Department of Agriculture officials in that department were not particularly happy and saw the foundation of an agricultural institute as both a diminution of its role and a criticism of its performance to date. Daly (2002) refers to the relationship between the Department and *AFT* as the story of the 'Two Departments of Agriculture'. In the best civil service tradition Agriculture did not openly express its opposition as the principle of an institute had been approved by the government and communicated to the Department. It wrote that the concept

of an institute 'involves quite a number of perplexities, uncertainties and controversial points that will have to be resolved before the proposal can be further advanced' (Daly, 2002: 392). Thereafter its response seemed to be one of benign neglect and Daly notes the lack of official correspondence and discussions taking place 'outside the normal administrative channels' (p. 390). In effect the Department was an institutional veto point.

Originally envisaged as a 'recognised college of both the National University of Ireland and Trinity College; students would spend two years studying fundamental science at one of the universities and then transfer to the institute for two years further study' (Manning, 1999: 297). UCC's Dairy Science department would also be absorbed and Carrigan was proposed as the first president of the new institute.[14] The universities, the quality of whose research and teaching was questioned by Carrigan, and indeed subsequently by Whitaker in *Economic Development*, were, understandably, vehemently opposed.

The Catholic Church had traditionally opposed state intervention in the lives of the people as socialism by another name. Proposals for an agricultural institute directed from Dublin, taking over the farm advisory service heretofore controlled at county level (funding came largely from central government) and mostly seriously of all putting Trinity College on an equal footing with the National University of Ireland, inevitably drew the ire of the Church. Archbishop McQuaid of Dublin vehemently opposed increased Protestant influence through Trinity College. A delegation of Bishops Browne and Lucey bluntly told the government that Trinity 'must not have a say in the teaching of agriculture in the new institute' (Manning, 1999: 299). By October 1955, Bishop Fergus of Achonry, in his capacity as secretary to the hierarchy, wrote to the Taoiseach, in trenchant terms strongly reminiscent of the mother-and-child debate, of the dangers to Catholic students of a secularist education and furthermore...

> We regard with serious misgivings the trend in recent years to allocate to Trinity College a state subsidy out of proportion to the number of Protestants in the state... even though Trinity has an extensive endowment originating from the confiscation of state property... It is a serious matter for the Irish Catholic taxpayer to be asked to endow an institution which is prohibited to Catholics as intrinsically dangerous... (Manning, 1999: 301)

Meanwhile Bishop Lucey at confirmation ceremonies preached on the immorality of artificial insemination in cattle – a practice that would be commonplace within a few short years, and

[14] A delegation from UCC to meet the government included the Catholic Bishop Lucey. Manning says of UCC that it 'tended to express itself in a particularly truculent way' (1999: 298).

actively researched and promoted by *AFT*. [15] Bishop Brown of Galway continued to oppose the institute because University College Galway had no agricultural faculty and, to his mind, any new facility should be located there (Miley, 2008).[16] Willingness to accommodate as many views as possible, and a 'continuing flexibility on the government's part, it seems, was only met with continuing dogma on the part of vested interests' (Loftus, 2008: 174).

Nevertheless, eventually, in 1958, under the Agricultural (An Foras Talūntais) Act, and in receipt of the funding promised by Carrigan back in 1949, the *AFT* was established.[17] Its remit included the following: providing facilities for carrying out research and the control and administration of such facilities; grant-aiding research and funding scholarships and fellowships; organising conferences, seminars and publishing papers; advising the Minister for Agriculture on research matters (Daly, 2002).[18]

There was no central grand institute as first envisaged. The universities held on to their respective roles and *AFT* developed close links with the sector on which it relied 'to provide the basic scientific knowledge and to produce the creative scientists so vital to a research body' (Dooney, 1988: 116). The role of the agricultural advisory service remained fragmented until eventually brought under the umbrella of An Chomhairle Oiliūna Talamchíochta (ACOT) in 1977.

Dr. Tom Walsh was appointed the first director of *AFT*.[19] An expert on soils and grassland and a dynamic manager who inspired enormous loyalty from his staff, he proved to be an inspired choice and very much in the Lemass mode – high energy, willing to implement new ideas and a developmentalist at heart. Relationships with the Department of Agriculture were tetchy. Within a few months of its inauguration the *AFT*, through its chairman, appealed to de

[15] Bishop Lucey had been part of the Commission on Emigration and issued a minority report charging that 'the neglect of agriculture for industry in recent decades is not only socially and morally indefensible but demographically unjustifiable as well' (Horgan, 1997: 162).
[16] UCG still does not have an agricultural faculty.
[17] The final Dáil debate (12 February 1958) on the Act was worthy of a Gilbertian comic opera. James Dillon queried Taoiseach de Valera on the provenance of 'talūntais', apparently only introduced into the act at a late stage. De Valera responded 'It is common in most languages to form abstract nouns from adjectives and that is what was done in this case'.
[18] The board had four representatives from the universities (including Galway which did not have an agriculture faculty!), five from the farming bodies and three government appointees.
[19] At the time of his appointment Walsh was employed in the Department of Agriculture as a senior inspector. He had published 60 papers in international, peer-reviewed, agricultural scientific journals. In 1961 he launched *The Irish Journal of Agricultural Researc*h and insisted that all research carried out by *AFT* adhered to the highest international standards and was subjected to international review and approval (Miley, 2008).

Valera to arbitrate on disputes with the Department. In a Jesuitical pronouncement the Taoiseach replied: 'the legislation did not specifically entrust *AFT* with responsibility for the actual carrying out of agricultural research on a national level but it was a specific and sole responsibility of the council to coordinate all agricultural research at that level' (Miley, 2008: 25). Tensions remained ongoing with Walsh, well supported by his board, constantly confronting 'the official mind' and backing his arguments with good science and research.[20]

Demonstrating the flexibility, nimbleness and 'can-do' attitude that appealed so much to Lemass, by its formal foundation on 19 May 1959 the *AFT* had already appointed forty research scientists and within a year had acquired 2,000 acres of land and established eight research centres. By 1963 there were twenty one research centres and satellite demonstration farms with a total area of 4,500 acres and by March 1964 total employment had risen to 884.[21] State grants for running costs rose from £146k in 1958/9 to £1.4M by 1965/6 (Miley 2008: 21). Early research on dairying from the research unit at Moorepark in Fermoy, County Cork, and on beef from the research unit in Grange, County Meath offered the following results that in time would have a profound effect on Irish agriculture:

- Heifers (female cattle that had not begun lactation), with good management and breeding, could be safely put in calf at fifteen months rather than twenty months as heretofore. This gave an extra year's lactation, an extra calf and reduced non-productive feeding costs.
- Nationally it was taking 3.3 acres to produce 350 gallons of milk. Within a year Moorepark was using 1 acre to produce 400 gallons and within a few years had this figure up to 1,000 gallons through the use of specific dairy cattle (rather than the generic general purpose Dairy Shorthorn animal then widely used), improved animal husbandry and grassland management.
- The peak supply of milk in summertime was 13 times that of the winter trough. Again, through the judicious use of feed, in particular the making of silage instead of hay for winter feeding, researchers halved this figure.
- The introduction of paddock grazing system, for both dairying and beef, greatly increased output.

[20] Hoctor, who served as Assistant Secretary in Agriculture and wrote the semi-official history of the department, comments that on the setting up of *AFT* 'the Department could now divest itself of *some* (Italics added) of its research activities' (1971: 248). The reality was more prosaic with the Department vigorously defending its own position and reluctant to concede any area of influence.

[21] 173 research officers, 291 technical staff, 70 administrators, 350 farm workers.

(The above figures taken from Murray, 2008 and Smith, 2008).

While the above figures were very encouraging and were soon achieved by the more progressive farmers they were not generally transferable across the country and are a very good example of the causal chains and slow-moving outcomes referred to by Pierson where there may be a substantial time lag between X (research) and Y (implementation at farm level. Farmers, also, were path dependent.

On the setting up of new institutions Pierson (2004) says, *inter alia*, that institutional designers may not act instrumentally, i.e. actors may be motivated more by what they deem appropriate than by what would be effective and that certainly applied to *AFT*. The reporting structures and areas of responsibility *vis a vis.* the Department of Agriculture were deliberately left vague to placate Agriculture; the universities and the Church got their way on third level education; University College Galway had a representative on the board even though it did not have a faculty of agriculture. Rather than rationalisation the farm advisory service became even more fragmented. All of the above meant that the causal chains did not run on a straight trajectory and led to slow moving outcomes. The real surprise is that *AFT* achieved what it did and one cannot but conjecture what might have been if Walsh and his team had been given free rein.

On the Bulmer and Burch Template *AFT* effected change at all levels: systemic – it was a new statutorily established state-sponsored body; organisational – brought new key players, offices and networks to Irish agriculture; regulative – who should do what and ensure strategic capacity became quickly apparent in the area of research; procedural – information systems and policy processes were fundamentally altered.

***An Bord Bainne.***

Ireland has a dairying tradition going back to the seventeenth century. The Cork Butter Market became the largest butter market in the world and the price on the market was the world price (Cork Butter Museum). By the turn of the twentieth century Ireland was exporting 40,000 tons of butter per year. In 1889 Sir Horace Plunkett set up the first true co-operative for the processing of milk. An umbrella group, The Irish Agricultural Organisation Society, was set up to promote the co-operative movement and ten years later it had 876 societies.

Over the years many of these failed and in 1927 the government set up the Dairy Disposal Company to take over creameries that were in trouble. Changing tastes led to a decreased demand for heavily salted Irish butter but post World War II a new and unexpected market opened up for Irish dairy produce with the demand for chocolate crumb, used in the manufacture of milk chocolate, offering a new market for milk. This was largely in the hands of private companies and the larger co-operatives leaving the government with the less profitable liquid milk/butter surplus. (Hoctor, 1971, Bord Bainne, 1982).

A 1959 report from the Advisory Committee on the Marketing of Agricultural Produce, chaired by Dr Juan Greene of the National Farmers Association, contained the following: 'The fundamental point to be decided is whether this country should be an exporter of whatever temporary surplus of dairy produce that may arise from time to time or whether the country should be a long-term and regular exporter of dairy produce' (Bord Bainne, 1982: 32). This mirrored the thinking of Lemass and Whitaker. The developmental model chosen was largely based on both the New Zealand and Australian Dairy Boards which were product buying organisations with quasi-monopoly powers.[22] The *Bord* made an inspired choice in its first general manger, Tony O'Reilly (now Sir Anthony J. F. O'Reilly), then only 25 year old.[23] Within six months of his appointment he launched the Kerrygold brand on the English market. This proved to be a watershed in the marketing of Irish products overseas as it offered an identifiable brand that was uniquely Irish. Exports of butter to the English market rose from 3,516 tons in 1960 to 18,401 tons in 1965 and 32,959 tons by 1970 (some of the increase was attributable to changes under the trade agreement with Britain).

More importantly, the *Bord* brought a degree of scientific management to the whole purchase of produce. It introduced a standard costing system which involved 'a weekly consolidation of milk take and utilisation which enabled the *Bord* to direct production to those products

[22] Set up under the Dairy Produce Marketing Act 1961 it had a nine member board, three each from government suppliers and manufacturers of dairy produce.

[23] A renowned rugby player, capped both for Ireland and the Lions, he subsequently was appointed General Manager of *Comhlucht Siūcra Ēireann Teo* (Irish Sugar Co) where he quickly established a joint venture with the Heinz corporation developing innovative freeze drying technology for vegetables that were produced and branded under the Erin label, a subsidiary of the Sugar Co. He was subsequently head-hunted by Heinz and became world-wide president in 1979 and chairman in 1987. Such was his perceived importance to the development of Irish agriculture that Taoiseach Jack Lynch offered him the position of Minister of Agriculture in 1969 (this could be done by appointing him to the Seanad thus obviating the necessity of O'Reilly standing for election). He is reputed to have declined because of the presence of Haughey saying there was only room for one bull in the field.
In 1980 O'Reilly completed his PhD thesis, 'The Marketing of Agricultural Produce: Strategy, Structure and Performance', in the University of Bradford.

carrying the lowest subsidy or highest reward to the milk industry, and you had a format for growth and importantly, a blueprint for capital investment' (O'Reilly, 1982: 7). In effect, using its monopoly powers the *Bord* knocked a lot of heads together and encouraged 'co-operation' – then sadly lacking – in the co-operative movement. In spite of the level of marketing success structural change would be incremental. Even with the dynamism of O'Reilly the causal chains did not follow a straight trajectory and slow-moving outcomes are still evident in the industry with a number of small, independent creameries still hanging on almost fifty years later. The Dairy Disposal Board sold all of its creameries to the larger co-operatives in an effort to streamline and rationalise the industry.[24]

Writing in 1982, when he was President of Heinz, on his time in Bord Bainne, O'Reilly said: 'In retrospect it was the most exciting job I ever had' (1982: 7). Reflecting on the times generally and the gradual transformation then underway, he said:

> The farming community began to cast aside many of the inhibitions and prejudices of a century of frustration... [they] were ready to put themselves to the test of world markets... Time, experiment and a great deal of government support was going to be required to achieve their ambitions... but a good start had been made (*ibid*: 34).

The success of *An Bord Bainne* was due in no small part to the dynamism of O'Reilly but lessons had also been learnt at government level. It had a relatively small board and its powers were very specific as it had, in effect, monopoly powers in the purchase of produce. On the Bulmer and Burch Template it made change happen at all levels: systemic – it was a new statutorily established state-sponsored body; organisational – it concentrated marketing of Irish dairy produce in one body; regulative – with its monopoly buying powers it set the price of produce; procedural – information systems and policy processes were fundamentally altered. It should also be added that it made a profit and that farmers were generally happier with the prices they received. It should also be recalled that O Cofaigh at interview was highly laudatory of its role seeing it as highly influential in putting agriculture on a proper commercial footing.

### *The Pigs and Bacon Commission*

Originally established in 1939 the Pigs and Bacon Commission was reconstituted under the Pigs and Bacon (Amendment) Act 1961 to coordinate and assist in the development of the

[24] A former senior member of the Department of Agriculture who agreed to be interviewed but wished to remain anonymous, and who was actively involved in the process, said: 'We got a good price for what we sold but in reality we would have sold them at any price to get rid of them'.

industry with a renewed focus on agriculture. That it was successful is evident from the fact that between 1959 and 1964 the numbers of pigs rose by 30 per cent and the number of sows by 45 per cent and the sector achieved the highest increases in the agricultural industry.

Again, the choice of a general manager was to be critical. Michael Conlon had been appointed Cork County Manager in 1960 at the age of thirty three. He was seconded to head up the Pigs and Bacon Commission on its reconstitution in 1961. As with all agricultural produce the market was mainly British. He travelled the world developing and establishing markets for Irish pig meat. One of the more unusual successes was in selling pigs snouts to the West Indies! At interview he said 'selling was the easy bit. The real difficulty was in getting processors to present the meat as the market wanted it'. Hitherto processors delivered 'Wiltshire sides' - a specific way of cutting the meat favoured by the British. Continental buyers wanted it differently and this necessitated sending butchers abroad, mainly to Denmark, for training. There was huge resistance to change – another example of the path dependent nature of institutions.

As with An Bord Bainne on the Bulmer and Burch table and the Pigs and Bacon Commission effected change at the systemic, organisational, regulative and procedural levels.

***Changes in Agriculture - Conclusions***

What becomes clear from a review of agriculture is that even with political, economic and administrative acceptance of the need for change and acceptance of the 'ideas' of free trade effecting institutional change was constantly stymied and obstructed by the 'official mind', the Catholic Church, and the philosophy of 'self-sufficiency' which was still a dominant background underlying assumption that permeated the public sentiment. Farmers were highly resistant to change and did not act instrumentally – what was good enough for their fathers was good enough for them. There was also institutional resilience and multiple veto points.

According to Daly (2002) by 1963 agricultural output was only one per cent higher than 1957 - bad weather in 1958 caused an 11.5 per cent drop in output and it took several years to recover; over the period industrial output rose 47 per cent; agriculture was absorbing 19.5 per

cent of the capital programme and 12.5 per cent of the current budget[25]. Crotty (1966: 202) is quite critical of the impact of the *PEE* stating that it 'introduced very little that was new into Irish agricultural policy and that such innovations that were brought in were ineffective or of doubtful value'. He calculated that in the period 1957 – 1963 GNP rose by an annual rate of 3.0 per cent while the equivalent figure for agricultural output was 1.3 per cent. He also points out that the target of maintaining the level of milk export subsidy at the 1957 rate was not attained and rose in line with the level of exports. Nevertheless, enormous change was underway and what becomes obvious is that filtering change down to farmyard level and implementing the quality research being undertaken by *AFT* would take time.

The outcomes achieved confirmed Lemass' view that the development of the Irish economy would be dependent on industrial growth and the view of O Cofaigh, (interview with author) one of the authors of *Economic Development*, that 'agriculture was the problem, not the solution' may not be that far off the mark. However, the five main targets set in *PEE* were largely achieved and change was underway in agriculture.

1. Increased output and grassland improvement

The specific target of 1.5m cows by 1964 was not achieved until the following year (1.547m). The 50 per cent spare capacity in the pig sector was greatly reduced with a 30 per cent increase in the number of pigs and, more importantly, a 45 per cent increase in breeding sows. Sheep number were also greatly increased (CSO 1997)

Grass and tillage management also showed significant improvement. Between 1957 and 1962 consumption of lime and fertilisers rose by almost two-fifths (Ō Gráda, 2008a: 8). In the period 1950–59 the average annual yield of produce of tillage was 2,082 starch lbs per acre. In the period 1960-65 this had increased to 2,308 starch lbs per acre (Hoctor, 1971: 271).

[25] The writer recalls being an altar boy in 1958 and in the sacristy after early mass on a Sunday morning, the first fine day in weeks. A number of men, including his father entered, literally cap in hand, to seek permission from the parish priest to harvest corn that day. This would be a breach of the widely observed prohibition on unnecessary servile work on the Sabbath. The priest declined and they accepted, apologising for having dared to broach the subject. In the event there was not another day fit for harvesting for ten days or so and a valuable opportunity had been lost. The story is included here as a demonstration of the overarching power of the Catholic church, the subservience of the people, and the contributory role it played in the disastrous harvest of 1958. Discussing it many years later with some of the men involved, all of them still practicing Catholics, some of them still bristled with the refusal and their acceptance of it. One of them remarked: 'He [the parish priest] still expected us to put his dinner on the table even if we did not have it for ourselves'.

2. Eradication of bovine TB.

The target set had been achieved but at enormous expense. *Economic Development* gave the cost of the eradication scheme, begun in 1954, as £1m per annum (1958:80) and would need to be increased substantially. The eventual cost up to 1965 was £40m. The reality was that bovine TB had not been eradicated and still has not. By the end of the 1980s the cost to the exchequer was £488m (Keogh, 1994: 215).

3. Development of agricultural education.

The number of undergraduates increased from 480 in 1956/57 to 800 in 1964/65 – an increase of 67 per cent – and all before the introduction of free secondary education.

4. Improved marketing

The (re)establishment of *CTT*, The Pigs and Bacon Commission and *An Bord Bainne* all proved to be enormously successful. Apart from establishing the Kerrygold brand, exports of butter to Britain rose from 3,516 tons in 1960 to 18,401 tons in 1965 (Bord Bainne, 1982: 36)

5. More targeted use of state aid.

More targeted use of state aid by definition meant a decrease in 'social' (housing and infrastructure) capital expenditure. This will be covered later.

The agricultural industry and the changes that took place are a very good example of the necessity to look at the long-term process as advised by Pierson. Cumulative causes led to profound change but at a slow pace. Processes, of apparent negligible impact, cumulatively achieved threshold effects. Causal chains did not follow straight trajectories and had slow-moving outcomes.

**Industry**

*Economic Development* devoted 113 pages to agriculture and only 16 to general industry. Whitaker (1958), in outlining the industrial background offers the following figures: in 1926 there were 164,000 engaged in industry against 647,000 in agriculture; by 1957 the respective figures were 284,000 and 436,000, with a much higher output per person in industry; 82.5 per cent of industries employed less than 50 persons. Agricultural exports (mainly live cattle) accounted for 57 per cent of total exports in 1957. Of the remainder a further 18 percent was the export of agriculture based produce. He concluded Chapter 15 with the following: 'The process of transition... from a predominantly agricultural to a more balanced economy is still incomplete. The acceleration of that process is one of the major problems facing the Irish economy'.

In contrast with the agricultural sector there are no specific industrial targets set out in the *PEE*. While acknowledging (S.90) that 'there is no substitute for private enterprise... the main objective of Government policy in this field is to create the conditions in which it will be stimulated and encouraged to embark on new activities'. Key factors for success, set out in S.94, are:

- Provision of adequate state facilities for encouragement of industrial development;
- State funds to be made available to meet the long-term needs of industry that cannot be satisfied from private sources;
- Be prepared to abandon and/or overhaul policies which have served their purposes and likely to hamper future development;
- Welcome foreign participation in new industries aimed at exports.

Realising that free trade in some shape or form was inevitable the Federation of Irish Industry (FII) commissioned economists Garret FitzGerald and Gerry Quinn to undertake a study of the woollen and worsted industries. FitzGerald subsequently approached Professor Louden Ryan, then on secondment to the Department of Finance, with a proposal to extend the study to cover all protected industries. Given their hitherto close relationship it might reasonably be expected that the FII should approach Industry and Commerce, but they had concluded that 'Industry and Commerce had remained protection-oriented and unlikely to be supportive' (FitzGerald, 2009). Horgan (1997: 227) refers to previous efforts to get the Department of

Industry and Commerce to encourage industry to adapt for free trade receiving 'a polite brush-off'.[26] The organisational changes in the Department of Finance meant that it now offered an institutional opportunity structure (Bulmer and Burch 2005) that circumvented Industry and Commerce's veto point. In effect that Department was, as Thelen described it, locked in and constrained by a culture that ensured institutional actions were tailored to comply with a concept of identity – the 'protector' of protectionism and established Irish industries.

Even though FitzGerald knew Whitaker since 1952 through their membership of the *SSISI* (FitzGerald interview) Ryan formally introduced FizGerald and his proposal to Whitaker who readily agreed, jointly with the FII, to finance the project and the Committee on Industrial Organisation (CIO) was set up in 1961.[27]

***Committee on Industrial Organisation (CIO)***

The CIO's terms of reference were:

> To make a critical appraisal of the measures that may have to be taken to adapt Irish industry to conditions of more intensive competition in home and export markets, to undertake an examination of the difficulties which may be created for particular industries and to formulate positive measures of adjustment and adaptation (Brock, 1964: 176).

Reviews were undertaken of twenty two industries that employed 83,000 workers (52.8% of total industrial employment).[28] A lengthy questionnaire was circulated by the CIO to each industry and this in turn was followed up by a visit to most industries employing more than ten people. Most of the visits were conducted by two officials from the Department of Industry and Commerce who were assisted by an economic adviser. Initially, there was a good deal of suspicion on both sides with civil servants complaining of arriving at an appointed time to find the relevant factory manager off playing golf while the employers

[26] Correspondence between the government departments previously referred to shows that the exchanges were sometimes barely civil with MacCarthy in Industry and Commerce concluding one memo to Whitaker as follows: 'I have assumed, I hope rightly, that your memorandum was intended to be provocative rather than doctrinaire' (Whitaker, 2006: 69).

[27] The unions protested at not being included in the process. This was an oversight and 'they proved to be the most constructive partners' Any tensions that arose were 'between the Department of Industry and Commerce on the one hand and the rest of us, with Finance, the CII and ICTU endeavouring as a troika to nudge that department into psychological acceptance of free trade' (FitzGerald, 1991: 59).

[28] The industries covered were: Cotton, Linen and Rayon; Footwear; Vehicle Assembly; Paper and Paperboard; Fertiliser; Communications; Shirts; Miscellaneous Clothing; Mantles and Gowns; Confectionery (incl. Chocolate Crumb); Iron and Steel; Knitwear; Chemical; Pottery; Electrical Equipment; Woolens; Printing; Women's Readymade Clothes; Men's Clothes; Furniture; Leather.

complained that the civil servants had no technical understanding of the business. This lack of technical advisers was to be the main criticism of the CIO. (Brock 1964, Murphy 2009).

The response rate to the questionnaires was 76 per cent overall (varying from 27 per cent to 100 per cent in some industries) but critically all the larger undertakings were surveyed and visited. Overall, the CIO found that labour relations were good; much plant and machinery needed updating and reinvestment; with the exception of Fertilisers and Leather, production was highly diversified and, as a result of all these factors, costs of production were usually relatively high in comparison with those of Britain and the EEC countries. The reports were happy to point the finger at protectionism which encouraged concentration on the home market.

> In the industries surveyed the most usual tariff rate is 75 % full and 50 % preferential (these figures relate to the situation before January 1963). In some industries the existence of minimum specific duties raises effective protection on some goods to well over 100% As a result of concentration on this captive home market, exports form a large part of production only for a few of the 22 industries—and generally only few firms in any industry are responsible for these exports (Brock, 1964: 179).

Critically, of the 22 industries surveyed, only 7 had exports greater than 20 per cent of gross output by value These were, in per cent terms: Confectionery (including Chocolate Crumb) 51.5; Leather slightly over 50; Gowns 31; Paper 25.4; Electrical Equipment 23.4; Shirts 23; Footwear 22.

In addition to the twenty two specific industry reports it also issued a number of interim reports on general findings and recommendations. An adaptation grants scheme was set up in 1962 and offered up to 25 per cent of the cost needed to modernise plant and buildings. ('To achieve quick results the scheme was to apply only up to March 1965, though it was subsequently extended to end-1967' (Kennedy, Giblin and McHugh, 1989: 68)). To concentrate minds 'the government announced unilateral tariff cuts in 1962, and insisted on implementing them in 1963 despite the suspension of the Irish application for entry into the EEC' (Lee, 1989:353).[29] Cuts in tariffs of 10 per cent were introduced in both 1963 and 1964 to pave the way for free trade (Kennedy and Dowling, 1975: 62).

[29] While there was widespread disappointment in government circles at interview both FitzGerald and Whitaker were strongly of the view that de Gaulle's veto of British entry to the EEC, which in effect scuppered the Irish application, did Ireland an enormous favour as it provided an opportunity to modernise and reposition industry.

It was also found that only four industries had development and adaptation plans well in hand and noted a 'lack of any sense of urgency on the part of most firms despite the fact that the time period between decision to invest, delivery of equipment and full utilisation of it is, in some cases, a long one' (CIO, 1964: 35). More tellingly was the attitude to exports and the relatively low number of industries meaningfully engaged in exporting. 'The five reasons given for this situation were: lack of interest, lack of knowledge, not enough advertising or good design, tariffs and other factors outside the control of Irish industry (e.g. transport costs) and finally, and most important, higher levels of costs' (CIO, 1964: 38). The CIO also recommended that grants available to firms coming into Ireland to set up should be available to native industry on the same basis and that there should be no distinction between 'developed' and 'undeveloped' parts of the state.[30]

The CIO reports contributed in large part to what Barry (2009: 111) refers to as 'the rupturing of the protectionist equilibrium'. They painted a fairly bleak picture of Irish industry's lack of preparedness for free trade in any of its guises, a management that was cosseted with the blanket of protectionism and largely devoid of ambition of development or export led growth. Lemass saw the reports as proving that 'the policy of protection has been clearly and officially shown in post-war circumstances to be defective in promoting or compelling the effort needed to ensure the continuing efficiency of industry' (Murphy, 2009: 201). Jacobsen's (1994: 77) summary of the CIO work gives a fair reflection of the overall commentary and reaction:

> The CIO reports assembled a daunting list of industrial shortcomings; small scale, high import-content, low proportion of exports, meagre marketing skills and contacts, low specialization and, put kindly, an anachronistic approach to management.

Garret FitzGerald (2009), while acknowledging the shortcomings, saw the CIO reports as offering a reasonably robust baseline study of Irish industry and that we 'now knew what needed to be done'. Even as the CIO reports were being compiled there was a perceptible improvement in industrial output and confidence about the future. FitzGerald (1968) is quite upbeat about the prospects that began to emerge in the early 1960s and that the public perception was that whereas there were individual inefficient firms nevertheless there was a viable industrial base capable of expansion.

[30] Whitaker had also suggested this in *Economic Development* but it was not included in the *PEE*, being too politically sensitive.

The CIO did not constitute systemic level change on the Bulmer and Burch Template as it was not statutorily established. But it was of enormous cultural significance at the systemic level where it touched on issues of national identity and the ability of the state to sustain a viable economy. On an organisational level, even though the Department of Industry and Commerce appeared to be the line Department, and its staff conducted most of the industry surveys, in reality it brought the Department of Finance very much centre stage. At the regulative level it addressed issues of strategic capacity and attempted to foster cooperation across sectors of industry. At the procedural level it attempted to streamline policy processes and put native industry on a similar footing as newly founded, foreign owned enterprises.

***Foreign Direct Investment***

The IDA was established under the Industrial Development Authority Act 1950 with a brief to initiate and develop new industries (banking, insurance and agriculture excluded) and to advise on the expansion and modernisation of existing industries. (It also had a role in investigating the revision of tariffs). Grant-aiding powers for new industries were delegated to *An Foras Tionscal* which was theoretically independent but in reality controlled by the Department of Industry and Commerce. Initially the Department of Finance feared the IDA would be controlled by 'a gang of crackpot socialist planners' (Garvin, 2004: 188) and, maintaining its cultural approach to expenditure, argued that 'in view of the present and prospective condition of the Irish exchequer it is merely common sense to refrain from taking on new commitments either of a capital or current nature' (Murphy, 2009: 50).

Changes in the taxation treatment of profits introduced in the Finance Act 1956 (and extended in the Finance Acts of 1957 and 1958) together with the Industrial Development (Encouragement of External Investment) Act 1958, which in effect repealed much of the Control of Manufactures Acts, and the Industrial Grants Act 1959 which gave grant-aiding power to the IDA and increased the maximum grant from £50,000 to £250,000, all contributed to a changed landscape for the attraction of foreign direct investment in Ireland.

A further inducement was the creation in 1959 of the Shannon Free Airport Development Company (SFADCO) in 1959, which covered the mid-west region. This was an example of institutional design where, as Pierson (2004) puts it, institutional designers may not act instrumentally – where actors are motivated more by what they deem appropriate than by

what would be effective. The creation of SFADCO was a bowing to political pressure and in reality only served to duplicate services already being provided by the IDA.

Foreign companies were attracted to Ireland for four main reasons: the availability of facilities and plant either already built by the IDA or of generous grants to set up totally new plants; the tax treatment of profits and the opportunities for the parent company, through the manipulation of transfer pricing, to maximise those profits; the availability of labour; accessibility to markets (which was greatly facilitated by subsequent membership of the EEC).[31] The industries attracted were all export-orientated with 75 per cent of gross output going to exports. American (25%), British (44%) and German (18%) companies formed the bulk of the 277 IDA companies (the balance were mainly European with a few Japanese) that had set up by 1970 with a total investment of £122m in fixed asset and working capital (McAleese, 1972: 75).[32] The industries were widely dispersed across the metal and engineering, textiles and clothing, food and milk products and the pharmaceutical industries, Failure rates were low at 5 per cent and about 50 per cent of failures were German controlled (*ibid*.: 80).

In trying to establish the full extent of the influence of foreign direct investment in Ireland 'data limitations' and 'it is estimated that' are expressions that are frequently met. An obvious source of information appeared to be the IDA annual reports. A search of all the university libraries failed to unearth any prior to 1965. A request to the IDA itself met with a categorical assurance that the organisation had only been set up in 1971 (!) and it had no reports prior to that date. The Industrial Grants Act of 1956 stipulated that an annual report of the IDA should be laid before the Oireachtas. The reports for 1959 – 1965 (obtained from the Dáil Library) comprised a single page document of income and expenditure signed by the chairman of the board and certified by the Comptroller and Auditor General. The reports gave no information on the names of the companies established, the sectors they operated in or the number of jobs created.

[31] Labour market advantage was somewhat negated by social factors. Many of the new industries were located in rural Ireland with an apparent plentiful supply of labour available for training. However, most of the males were involved in agriculture and at harvest or hay making time regularly took unscheduled time off to attend to these matters. Female participation was subject to high turnover due to the non-participation of married women.
[32] American companies accounted for 34 per cent of the investment in monetary terms, British 29 per cent and German 10 per cent.

All other sources (Lee, Coogan, Keogh, Garvin, Ferriter, Meenan, McAleese, Kennedy *et al*) are very clear on the influence of foreign direct investmentand the positive role of the IDA but none of them can give precise figures citing 'data limitations' and 'it is estimated'. Garvin's (2004: 189) comment encapsulates the mood: 'However, in general, Irish economic take-off in the 1960s was substantially accelerated by the efforts of the IDA and its ancillary organisations'.

On the Bulmer and Burch Template foreign direct investment registers at all four levels. At the systemic level there was the repeal of the Control of Manufactures Act and the various statutory changes around grant aid. Those changes in turn led to organisational level change with the Department of Finance taking a much more hands on approach and insisting on productive investment. At the regulative and procedural levels grant aid to industry was streamlined and processes simplified and increasingly removed the Department of Industry and Commerce from the equation with a concomitant increasing influence for the IDA.

Bulmer and Burch (2001: 77) posit that 'the cultural dimension concerns the norms and values that are prevalent within the institution and how these are inculcated... and this cultural dimension is present at all four levels'. This research argues that foreign direct investment effected enormous cultural change. The new multinational corporations introduced management practices that raised the standard of Irish management, brought new marketing skills, sent Irish workers overseas for training and re-skilling and generally broadened outlooks. In the process it smartened up native Irish industry. And even though these companies were largely free of corporate taxes because they paid good wages the exchequer benefitted greatly from increased payroll taxes.

***Institute for Industrial Research and Standards (IIRS)***

First established in 1946 the IIRS was reconstituted 1961 under the Industrial Research and Standards Act 1961 with a much broader remit that was to be supportive of industry and development. It was specifically charged to encourage scientific research, formulate specifications, disseminate technical literature and research to industry, test and analyse commodities, promote the utilisation of natural resources, and to assist in the development of exploitation of inventions. It was excluded from any area already assigned to *AFT*.

It is included here as another example of the steps put in place to help embed the ideas of free trade and foreign direct investment and registers on the Bulmer and Burch Template as evidencing change at the systemic, regulative and procedural levels.

***Economic Research Institute (ERI)***

The ERI was set up in 1960 with an emphasis on applying formal measurement techniques to the economy. It was funded and promoted by the Ford Foundation, which had also set up Britain's National Institute for Economic and Social Research.[33] It operated on the similar principles and pioneered the application of mathematical methods to policy-making. For its first five years it had no Irish staff because of a shortage of suitable candidates. This led to the internationalization of the body and also attracted a number of international economic conferences to Dublin (Kennedy 1993). Funding was taken over by the government in 1966 and the name was changed to the Economic and Social Research Institute (ESRI) but the research focus remained on the 'production of economic forecasts based on formalized macroeconomic models as well as qualitative microeconomic studies' (Brownlow, 2009: 16).

It is included here as an example of the changes taking place and the increasing emphasis on having good scientific information on which to base decisions. The ESRI played a hugely important role in Irish life as will be seen when reviewing the second critical juncture.

***Córas Tráchtála Teoranta (CTT)***

The Export Promotion Act 1959 created CTT (The Irish Export Board) and stated that 'It shall be the duty of the Board to promote, assist and develop exports in any manner which the Board considers necessary or desirable' (Acts 20/1959).[34] It met the needs of exporters in a number of ways:

- Provision of information on trade regulations and procedures in target countries.
- Market analysis.
- Introductions to key persons in the market place.
- Setting up of group marketing schemes (industry specific) through which exporters pool resources and share costs.
- Assistance with product development and design.

[33] The Ford Foundation contributed $280,000 to the foundation of the ERI (Whitaker, 1986).
[34] CTT had been in existence since 1952 but the Export Promotions Act 1959 put it on a statutory footing and broadened its remit.

- Participation at international trade fairs by national trade stands

(Dooney, 1988).

The reconstituted *CTT* brought a new energy to Irish industry through the identification of new markets and helping management to be more professional and efficient. In the five years following the publication of *Economic Development* Irish industry and exports experienced a dramatic increase. The value of net industrial output rose from £162m in 1959 to £273m in 1964 and the value of exports over the corresponding period was as follows (Meenan, 1970: 75):

**Table 5.1: Exports**

| | **Live Animals** | **Food, Drink & Tobacco** | **Raw Materials & Other Goods** |
|---|---|---|---|
| **1959** | £39.1m | £43.6m | £35.6m |
| **1964** | £66.7m | £72.8m | £66.9m |
| **% Increase** | 71% | 67% | 88% |

(Over the relevant period the CPI rose from 144 to 173, an increase of 20%).

As Table 5:1 shows the per cent increase in exports exceeded inflation by over 50 per cent. It is not being suggested that the above figures are solely attributable to *CTT* or indeed to the targets set in the *PEE*. Given that world trade conditions greatly improved at that time it is probable that Irish industry would have improved anyway. What is being suggested is that CTT was another manifestation of the actions taken by Lemass and Whitaker to implement change and make things happen.

On the Bulmer and Burch Template CTT involved systemic level change as it was statutorily established; organisational level change in becoming a new key player and in its interactions with other players; regulative level change in setting up industry specific group marketing schemes; procedural level change in the way business was handled and specific help with product development and design. It also effected cultural level change through exposure to foreign markets, the professionalisation of marketing and management, and the beginnings of a belief that Irish industry, so long cosseted by protectionism, could compete on the world stage.

**Transformation?**

The targets set in *Economic Development* and the *PEE* now seem modest. Nevertheless, there was a total increase in real GNP over the five year period of 23 per cent, as against the 11 per cent increase set out in the *PEE* (FitzGerald 1968: 45). One of the key changes targeted by Whitaker in *Economic Development*, and reiterated in the *PEE*, was a shift from social to productive investment. Table 5:2 shows that this happened:

**Table 5:2 Public Capital Programme (£m)**

| | ***Social*** | | ***Other*** | |
|---|---|---|---|---|
| | **Projected** | **Actual** | **Projected** | **Actual** |
| **1958** | 14.8 | 10.2 | 26.4 | 27.7 |
| **1959** | 15.2 | 11.6 | 26.5 | 32.5 |
| **1960** | 15.0 | 12.9 | 29.5 | 37.4 |
| **1961** | 14.0 | 14.2 | 31.8 | 41.4 |
| **1962** | 13.1 | 15.7 | 30.9 | 44.7 |
| **1963** | 12.5 | 18.9 | 32.9 | 51.7 |
| | **84.6** | **83.5** | **178.0** | **235.4** |

(Kennedy and Dowling 1975: 227)

Social refers to housing, sanitary services, education, health and certain other building work. Other is literally all the rest. (Kennedy and Dowling converted all figure to constant (1958) prices to aid comparison). Expenditure on social programmes was on target whereas productive investment was 32 per cent ahead of target.

What the two papers offered, for the first time, was a quality analysis of the economy and society. This was all the more remarkable as at the time there was a dearth of expertise right across the civil service with no statistician in any Department except the CSO (where there was only a handful) and no economist grade in the entire public service (FitzGerald, 1968: 36).[35] Many of the changes implemented post 1958, and referred to above, were about ensuring quality scientific and economic information on which future programmes could be based.

[35] Many of the public servants that were interviewed, both on and off the record, referred to an 'anti-intellectual bias' permeating the service right up to the 1960s and maybe even beyond that date.

When the *PEE* had run its course by 1963 had real change taken place in Ireland? Had the state and its institutions been transformed and if so could it be attributed to the power of ideas breaking the path dependant nature of Irish institutional life? Or would change have happened in any event because of outside factors? Most commentators agree that some degree of change was inevitable. What this thesis shows is that the adoption and implementation of the ideas of free trade and foreign direct investment did punctuate Irish institutional path dependency. The concentration on productive investment, the acceptance of foreign capital, the setting up of numerous state-sponsored bodies to side-step the inertia of the established government departments were the means employed. Lemass and Whitaker accepted the economic ideas that emanated from the economic theorists. Lemass ensured political acceptability and Whitaker ensured administrative acceptability and in doing so both had to overcome many institutional veto points. They also had to ensure major cultural change to delete protectionism as a background underlying assumption that was firmly embedded in the public sentiment and replace it with the ideas of free trade and foreign direct investment. The critical moment that existed after the publication of *Economic Development* and the *PEE*, and the coming to power of Lemass did transform into a critical juncture as described by Bulmer and Burch (2001:81):

> A 'critical moment' is when an opportunity arises for significant change. Such opportunities may not be realised and exploited but, if they are, the outcome is a 'critical juncture' at which there is a clear departure from previously established patterns. Critical junctures create branching points at which institutional development moves on to a new trajectory or pathway which is then followed incrementally until a new critical moment arises and (potentially) a new critical juncture follows and a new direction is taken

Using a combination of indicative planning and neocorporatism Lemass and Whitaker ensured systemic level change through the setting up and/or reconstitution of state-sponsored bodies; organisational level change beginning in the Department of Finance and that permeated the entire public service; and regulative and procedural level changes that effected business at every level. All these changes can be summarised on Bulmer and Burch's Template. (See Table 5:3 on the next page).

**Table 5.3: Bulmer and Burch Template**

| | Systemic | Organisat. | Regulative | Procedural |
|---|---|---|---|---|
| **Department of Finance** | ✓ | ✓ | ✓ | ✓ |
| **An Foras Talūntais** | ✓ | ✓ | ✓ | ✓ |
| **An Bord Bainne** | ✓ | ✓ | ✓ | ✓ |
| **Pigs & Bacon Commission** | ✓ | X | X | ✓ |
| **Comm. on Industrial Organisation** | | | ✓ | ✓ |
| **Foreign Direct Investment** | ✓ | ✓ | ✓ | ✓ |
| **Employer/Labour Conference** | | | | ✓ |
| **NIEC** | ✓ | ✓ | ✓ | ✓ |
| **IIRS** | ✓ | X | X | ✓ |
| **CTT** | ✓ | X | X | ✓ |
| **ERI** | X | X | X | ✓ |

What is evidenced by the above table is a clear departure from previously established patterns of institutional behaviour. The implementation of the ideas of free trade and foreign direct investment led to systemic, organisational, regulative and procedural levels and a clear critical juncture.

The research also shows that both men were extraordinarily energetic and committed to making change happen. Lemass never missed an opportunity to talk about the need for change and was not hidebound by precedent. He was a man in a hurry and impatient of anybody or anything that stood in the way of progress. He used state-sponsored bodies to overcome institutional veto points and to drive change. Whitaker was respected on all sides of the political divide and engendered great loyalty and commitment from the younger, eager for change, civil servants. As evidenced from his writing and the papers he presented at various conferences he too never missed an opportunity to drive home the necessity for change and to keep the concentration on productive investment.

Perhaps the most apt summary of the *PEE*, and by definition the 'ideas' on free trade, indicative planning and foreign direct investment, promulgated by Whitaker, adopted by Lemass and implemented by both of them is given by Jacobsen, another stern critic of the

'official mind': 'The program (sic) may have consisted of arithmetical incantations, but the psychological impact was indisputably exhilarating and influential' (1994: 79).

Hare (2009: 80) summarises the situation:

> The careful analysis helped to change the climate of opinion about where the economy was going and where it could go, helped to make a new and more dynamic direction seem believable, and by making it believable helped to make it happen. As ever, economic performance has a great deal to do with beliefs and expectations, and the confidence that these can engender both among politicians and among business leaders.

*Economic Development*, and the *PEE* did not get everything right and the biggest criticism is the over-reliance on agriculture. Nevertheless, they did offer a comprehensive exploration of developmental possibilities, tried to be specific and realistic in their goals while maintaining a flexible approach to changing economic conditions, and suggested foreign capital as a part of the solution. They challenged 'the official mind', exposed the myth of 'self-sufficiency' and the failure of protectionism, and punctuated institutional path dependency at a critical juncture. But the most unquantifiable, and paradoxically most important, effect was the confidence engendered. A political will, attitudinal and structural administrative changes, the establishment of key state-sponsored bodies all ensured that a critical juncture did occur. Some of the changes involved slow-moving outcomes (*AFT*, NIEC etc.) and the causal chains did not always follow a straight trajectory. But a 'new idea', that had gained viability on the economic, political and administrative axis (as per Hall's Framework), moved from being a foreground idea, promulgated by ideational actors as an elite prescription, to becoming an elite and background underlying assumption that became embedded in the public sentiment. This led to a clear critical juncture and in the process transformed Ireland.

# Chapter 6: Second Critical Juncture in the Transformation of Ireland

*The only new thing in the world is the history you don't know*
Harry S. Truman (1945)

By the mid 1980s Ireland was in a state of economic crisis and political stalemate and had reached a critical juncture. Many of its citizens were wondering what had gone wrong and why had the good times, that largely arose from the implementation of ideas at the first critical juncture, and experienced through most of the 1960s and 1970s, not lasted? Membership of the EEC since 1973 had also brought enormous economic and social change. Three general elections in less than 18 months in the early 1980s attested to a period of political instability and indeed a critical moment when an opportunity for major transformation presented itself. But the critical moment was not transformed into a critical juncture due to a lack of political will and the path dependency of the institutions of state. On the world stage the rise of monetarism - as an antidote to the perceived excesses of Keynesianism - and the 'rolling back of the state' became the new orthodoxy in the Anglo-Saxon world from the mid 1980s onwards. The main hypothesis of this thesis is that at critical junctures major change occurs and that that change is predicated on the implementation of new 'ideas' that punctuate institutional path dependency and propel the state down new developmental pathways. How those 'ideas' are formulated, gain credence and acceptance, and are eventually implemented as a solution to the perceived crisis is central to this thesis. The adoption in 1987 of the ideas of a low-tax economy and neocorporatism in Ireland facilitated key policy changes designed to address the public finances and reform the tax system. These in turn precipitated a chain of events that radically transformed the Irish state.

Looking back from this remove it is difficult to imagine how the bitter lessons of the 1950s seemed to have been forgotten within a generation. By the mid-1980s emigration was rampant, inflation was out of control, balance of payment difficulties were a constant and there was relative political instability. A new political party, the Progressive Democrats, had been launched and was to prove a catalyst for change. Debates on abortion and divorce dominated political discourse and proved a distraction from the real problems besetting the country. Again using a historical institutionalist framework this chapter will trace, through the institutions of the state, the symptoms of the failure in the 1980s , the causes of that failure,

the ideas that were proposed for a solution and how those ideas were formulated, disseminated, and eventually gained acceptance.

**Symptoms of Failure**

It was seen in Chapter 5 that following the First Critical Juncture the Irish economy at last began to perform and develop. Following the relative prosperity of the 1960s impending membership of the EEC – attained on 1 January 1973 - promised that the good times would continue.[1] As membership was backed by the main political parties, Fianna Fáil and Fine Gael, unsurprisingly the people voted in a referendum on 22 January 1972, by a majority of 83 per cent (on a voter turnout of 71 per cent), to accept the terms of the Treaty of Accession. Debates about independence, sovereignty and neutrality were all subjugated to immediate economic gain.

> Critics who held that accession would amount to the sale of the national birthright for a mess of common agricultural pottage, and that the jewel of Irish sovereignty was a pearl of too great a price to be bartered for the fleshpots of Brussels, were bluntly told that Ireland could not lose what it had not got. The White Paper... contained a blunt, honest and incisive description of the reality of foreign policy in Irish circumstances... that as a very small country independent but with little or no capacity to influence events abroad... Ireland enjoyed very little effective economic sovereignty (Lee, 1989: 463).

And membership was of enormous benefit. Between 1973 and 1983 financial inflows *per annum* from the EEC increased from £37.1m to £733.3m. Even with such an injection, 'valued at current market prices and exchange rates, GDP per head in 1981 was about the same proportion of the Community average (54 per cent) as it was in 1970' (McNamara, 1984: 224). This was partly attributable to a rise in population and the continuing underperformance of the Irish economy, particularly against other member countries of the EEC. But EEC aid may also have been a two-edged sword and contributed to a continuing of the redistributive mindset. This was particularly evident in relation to the Common Agricultural Policy (CAP) with concentration on the short-term benefits and little or no attention to long-term arrangements for less favoured areas of the economy.

Signs of stress had been showing from 1968 onwards resulting in cutbacks in public expenditure and in an effort to stimulate the economy a fateful decision was taken in the 1972

[1] A government White Paper on membership promised an increase of no less than 150 per cent in agricultural incomes by 1978 while doubts about the capacity of traditional industry to confront change were glossed over in the careful phraseology of the paper (Lee, 1989: 463).

budget. Minister for Finance Colley 'departed for the first time since the foundation of the state from the principle of balancing the current budget' (Lee: 1989: 465) and introduced deficit budgeting.[2] Colley was lambasted for his cavalier attitude and departure from economic orthodoxy in budgeting for a deficit of 1.3 per cent of GNP in the current year expenditure. In the event the deficit was 0.2 per cent which was less than actual deficit in 1968 and 1970 when a balanced budget had been planned. But a dangerous precedent had been set and subsequent Ministers for Finance were to use this mechanism much more flamboyantly with increasingly damaging results (Cromien 2009, Mac Sharry 2009). Deficit budgeting, which promised short-term gains, exhibited positive feedback and became path dependent.

By 1986 the economy was in terminal decline as is evidenced by the following figures:

- The National Debt increased from £8 billion in 1980 to £24 billion in 1986 and stood at 134 per cent of GDP (148 per cent of GNP).
- 25 per cent of current spending went on servicing the National Debt.
- £4 from every £5 raised in income tax was required to service interest payments on government borrowings.
- The current budget deficit rose from 6.1 per cent of GNP in 1980 to 8.4 in 1985.
- Real GDP rose by 1.8 per cent per annum over the period 1980-85 compared to a growth rate of 4.6 per cent over the period 1975-80.
- Interest rates, which reached a high of 17 per cent in 1981, were still at 10.5 per cent at the end of 1985.
- Personal tax levels were the second highest in the EEC. Tax deductions for a single person amounted to 24.6 per cent of income against the EEC average of 18.4 per cent.
- A marginal rate of tax (inclusive of levies and social welfare contributions) of 55.5 per cent applied to a single person earning two thirds of the average industrial wage. This increased to 65.5 per cent at the full industrial wage.
- The 1970s had seen a population increase with a net inflow of approximately 9,500 per annum. In the five years to April 1986 there was an estimated net emigration of

[2] Cromien (2009) spoke of 'Colley setting a dangerous precedent. One that it was all too easy to follow'.

75,000. The rate was accelerating and was estimated at 31,000 in the year to April 86 and exceeded the natural increase of 28,000.[3]

- The rate of unemployment increased from 7.3 per cent in 1980 to 17.3 per cent at the end of 1985 and was still rising (91,000 – 226,000).
- There was a 25 per cent reduction in the numbers employed in manufacturing over the period.
- The rate of inflation peaked at 20.4 per cent in 1981 and decreased to 5.4 per cent in 1985.
- The cost of social welfare provision increased from 29 per cent of GNP to 35.6 per cent also in the period 1980-85.
- In the period 1977-86 there were a total of 1398 strikes with a loss of 5,375,373 days.

(All of the above figures – NESC, 1986: 7-41)

None of the above figures can adequately capture the mood of despair that enveloped the country. Property prices were falling, dole queues were lengthening alarmingly, there were major factory closures of long established industries and the scourge of emigration had returned. It was the young and educated who were leaving and this more than anything else engendered a feeling of hopelessness. Many of these emigrants were the daughters and sons of parents who themselves had emigrated and returned to an Ireland of hope in the previous twenty years.

**Causes of Failure**

The growth in the Irish economy since 1958 could be directly attributed to the changes put in place to implement the ideas of free trade and foreign direct investment. Ironically, the seeds of the causes of failure were planted with the transformation that took place after the first critical juncture. As Girvin (1989: 202) puts it:

> If the crisis of the 1950s was essentially national and agricultural, the 1980s can be characterised as a crisis resulting from interdependency; in that participation in the world economy facilitates the transfer to each state of instabilities in the system.

Because Ireland had chosen to industrialise by the acceptance of foreign direct investment it was much more vulnerable to outside influences. The developed world experienced a major

[3] In a marked difference from the 1950s those emigrating were now well educated having benefitted from the introduction of free second level education in 1967.

recession in the late 1970s precipitated by two oil crises in 1973 and 1979 when the price of oil was increased ten-fold. As energy costs are inelastic there were major knock-on effects on all importers of oil particularly small open economies like Ireland. Governments the world over were determined not to return to the hyper-inflation of the early 1970s and the response was to introduce deflationary measures through major cut backs in public expenditure, which led in turn to major unemployment. Keynesianism was perceived as part of the problem and, as will be demonstrated later in this chapter, was jettisoned in favour of monetarism.

The effects in Ireland were deeper and longer lasting than all other members of the EEC for a variety of reasons beyond the country's control: the 'openess' of the Irish economy already referred to and, of course protectionism had already been tried and failed; the small size of the state; and geographical peripherality. But there were also a number of self inflicted reasons. Economic success, as had been demonstrated in the 1950s, has to be planned for but those lessons were quickly forgotten following the success of the 1960s and the benefits of EEC membership in the 1970s. Kennedy, Giblin and McHugh (1989) argue that probably more than most countries 'short-term considerations dominated, and even where longer-term strategies were put in place there was little attempt to form a perspective on their ultimate outcome' (p.260). This absence of a longer-term perspective was a factor in fostering the belief among both policy makers and the public at large that economic success could be taken for granted. An example of the lack of a long-term perspective was the unsustainable increase in the numbers employed in the public service: the number of civil servants increased from 38,200 in 1971 to 60,500 in 1981, an increase of 58 per cent (Ferriter, 2004: 670). In adjusting to the oil shocks and the world recession 'what was more pronounced in Ireland, than in most countries, however, was the slowness in recognising the new realities and adjusting to them, resulting among other things in the exceptionally large and unsustainable build-up of debt' (Kennedy, Giblin and McHugh, 1989: 262). Ireland tried, and failed, to spend its way out of recession.

It will be recalled that at the first critical juncture 'self-sufficiency', the 'official mind', the Catholic Church and political culture were identified as the 'Causes of Failure'. By the mid 1980s 'self-sufficieny' was relegated to a footnote in history but this thesis argues that the 'offical mind', the Catholic Church and political culture were still the 'Causes of Failure'.

**The Official Mind**

It was demonstrated at the first critical juncture that the appointment of Whitaker as Secretary of the Department of Finance broke the path dependency of that particular institution. Whitaker moved from Finance to the governorship of the Central Bank of Ireland in 1969 remaining there until his retirement in 1976. He was succeeded at both Finance and the Central Bank in turn by Murray, O Cofaigh and Doyle, all of whom had been integral to the compilation and implementation of *Economic Development*. From 1956 to 1987 each of these men in turn dominated Irish economic policy.[4] It is a very clear example of how after a critical juncture institutions revert to path dependency and positive feedback where the decision rules link future outcomes to the outcomes of preceding selections (Pierson, 2004) or, as described by March and Olsen (1984), a logic of appropriateness where institutional actions are tailored to comply with a culture and concept of identity. Bulmer and Burch had also described this phenomenon:

> Critical junctures create branching points at which institutional development moves on to a new trajectory or pathway which is then followed incrementally until a new critical moment arises and (potentially) a new critical juncture follows and a new direction is taken (2001: 81)

Murray, O Cofaigh and Doyle faced the difficulty of following in the footsteps of a man who had attained iconic status for the reforms he had implemented. The temptation to do as Whitaker had done proved irresistible – they, and the Department they led had become path dependent. It would require both imagination and bravery to dare to be different.

Furthermore, social and cultural change had outstripped political and administrative change. In a passage that could have been written thirty years previously by Professor Lynch, Garvin excoriated the official mind for its lack of 'ideas':

> This exhaustion of political ideas resembles the 1950s but has happened for different reasons. In the 1950s the failure of much of the original nationalist programme forced a rethink, whereas it is the success of the new departures of the 1950s that have led to the vacuum now; they were so successful that it seemed that they merely needed to be applied again and again indefinitely (1982: 38).

The heirs of Whitaker, and the institutions that evolved, had become path dependent and would require a critical juncture to project them down a new developmental pathway.

[4] Doyle became governor of the Central Bank of Ireland in 1987 (retiring in 1994) and was succeeded in the Department of Finance by Seán Cromien who played a major role in the transformation of Ireland.

But the political 'official mind' was also at fault. After sixteen years of unbroken rule from 1957 Fianna Fáil was defeated in the general election of 1973. It returned to office in 1977 on foot of a populist election manifesto that promised an increase in public spending and a reduction in taxes, both designed to reduce unemployment levels. This would necessitate increased borrowing but, it was argued, once full employment had been achieved engines could be reversed. 'The best that can be said for such a strategy at this time is that it was well intentioned. It ignored so many harsh realities that it was bound to run into problems' (Kennedy, Giblin and Mchugh, 1989: 77).

Reference has already been made to the introduction of deficit budgeting in 1972. This was a practice continued by various ministers of finance over the following years and reached 8.4 per cent of GNP by 1985. While this in itself was in breach of all the best of economic advice when allied to the level of national debt, which increased to 134 per cent of GDP by 1986, it was patently obvious that there were serious structural problems in the Irish economy.

> Politicians tend, worldwide to avoid structural reform until it is forced on them by economic stagnation, a collapse of their currency or some other costly economic and social disaster. Politicians tend to close their minds as long as they can to the need for structural reform, because they believe that decisive action must inevitably bring political calamity upon their government... they persuade themselves that action within a relatively short time of an election would give the advantage to their political opponents... When the economic situation is serious enough to arouse public concern, both parties may, in many cases, seek to evade the issue by offering electoral bribes to distract voters from the real problems (Douglas, 1990: 103).

The 'official mind' in its administrative and political manifestations had become 'locked in' as described by Thelen (1999). She further makes the point that rather than conceiving of institutions as holding together a particular pattern of politics that 'historical institutionalists are more likely to reverse the causal arrows and argue that institutions emerge from and are sustained by features of the broader political and social context' (1999: 384). The 'official mind' was reflective of and sustained by the political culture and this will be explored later in this chapter.

**The Catholic Church**

It was seen in Chapter 3 that the Catholic Church played an enormous part in all aspects of Irish life. It teachings and beliefs not only resided in the public sentiment as background underlying assumption but had also been incorporated in Irish institutional life though health, education and social policy. It was still an authoritarian Church that, as Seán O'Faoláin put it,

could only 'Rule by Command'.[5] However, from the 1960s onwards even the Church in Ireland was not impervious to the changes taking place in the wider world. Increasing secularisation, improving economic conditions, easier access to education, the Second Vatican Council with its emphasis on ecumenism, lay participation and freedom of conscience, all presented the Irish Church with enormous challenges.[6] The main challenge to the Church came from a newly emerging, well-educated middle-class – a stratum of society that expanded considerably numerically and in self-confidence. Liberalism, individualism and secularism came into conflict with the hitherto traditional norms. Writing in *Studies* in 1963, Fr. E. F. O'Doherty, Professor of Logic and Psychology in University College Dublin, warned his fellow clerics of clinging to a dying past and attempting, King Canute style, to hold back inevitable change.

> There is no way known to man whereby a culture can be preserved intact, while at the same time remaining a living thing... a culture is something lived, not pickled: and life means change... the transition from a horizontally unstratified society to a highly stratified one, from a lived Christianity to a post-Christian society... from acceptance of traditional values and beliefs to their total rejection...from subsistence farming to the affluent society, from a peasant-structured and institutionalized society to a middle class way of life, and all this in one or two generations (1963: 131)

A 1962 study (not published until 1976) by an American Jesuit, Fr. B. F. Biever, showed that almost 90 per cent of the population believed the Church was the greatest force for good in Ireland. If a clash arose between Church and State 87 per cent said they would back the state (1976: 306).[7] Biever's study clearly conveys the extent to which Catholic teaching permeated all aspects of Irish life and had become a background underlying assumption embedded in the public sentiment (Campbell, 2004).

But incipient change was also evident with those who had completed second level education much more likely to question clerical pronouncements and 83 per cent of same disagreeing with the above proposition. It was this emerging cohort that Biever correctly foresaw as presenting the greatest challenge (and indeed opportunity) for the institutional Church:

[5] In his 1947 book-length essay *The Irish* he foresaw that this mindset would eventually wreck the Church in Ireland and the Irish would become French style Catholics who availed of the ceremony and rituals of the Church only for births, deaths and marriages.

[6] Girvin (1986a: 65) posits that the Council broke the authoritarian mould of the Irish Church with many of its senior clerics finding it difficult to accept a laity that could speak for itself – thinking for itself was totally outside the bounds of possibility!

[7] Biever's study also showed (p. 311) that 96 per cent of people believed that the Church could not be compared to any other institution while 71 per cent believed that to follow Church teaching produced the best possible citizen (p. 314).

> ...the power struggle (if it can be glorified by such a title) in Irish Catholicism is not found between clergy and laity, but between clergy and laity against the intellectual new breed...[who] resent clerical dogmatism and authoritarian motivation... openly question undue church influence in areas of social concern... They speak and they write, but thus far their audience has been severely circumscribed to members of their own conviction; they have in effect been talking to themselves (1976: 520)

For a brief period following the Vatican Council the liberal wing of the Church, both lay and clerical, found itself with a voice for the first time in almost a century, but was fated to remain a minority as those who sought change met the obduracy of the institutional Church. Eventually many voted with their feet and left the ministry and the Church and, as O'Doherty predicted, Ireland began to see the emergence of a post-Christian society. Ireland became increasingly declericalised with an erosion of the 'Rule by Command' and an increasing defiance of the rules of behaviour prescribed by clerics for lay behaviour.

Concomitant with declericalisation the 1970s saw the emergence of new groupings of Catholic lay groups that in many ways bypassed the hierarchy. Their lay leaders 'were commonly more intransigent and uncompromising than the priests' (Garvin, 2004: 211) and with an ageing, and numerically declining, clergy those same lay leaders became more powerful and self-assertive.[8] Girvin (1986a) argues that these groupings, because they were popularly based enabled them to put pressure on politicians at local level; allowed the Church to claim that it had popular backing on contentious issues; let it appear that the Church itself was not involved in politics and at the same time allowing it to distance itself from the more contentious and strident lay organisations.

The visit of the pope to Ireland in 1979 and his rallying cry to the faithful to oppose the threats to the traditional Catholic way of life, and in particular the evils of abortion, contraception and divorce, found a willing audience. Contraception dominated the Catholic lay agenda for much of the previous twenty years and had proven highly divisive. The contraceptive pill, which became available from 1960 onwards, offered women an element of control over their reproductive cycles but Church influence, and not so subtle pressure on the medical profession, ensured that it did not become widely available in Ireland for some time.[9]

[8] It was said of de Valera that he was more Catholic than the Pope. The same epithet could be applied to the more strident and right wing lay leaders who came to prominence in the abortion and divorce debates.
[9] One of the fictions observed was that doctors prescribed the pill to help regulate menstrual cycles; if a natural extension of that was effective birth control then so be it. A 1969 Vatican ruling confirming the continuing ban on all forms of artificial birth control severely alienated many practicing Catholics.

Contraceptives were not available for sale and even after a 1973 Supreme Court ruling (the McGee case) that banning the sale of contraceptives was illegal, it was 1979 before Charles Haughey, as Minister for Health, introduced legislation which allowed married couples to buy contraceptives on production of a doctor's prescription.[10]

Shortly after the papal visit a number of lay groups associated to form the Pro-Life Amendment Campaign (PLAC). 'The object of the new group was to agitate for a referendum to amend the constitution to prohibit abortion under any circumstances' (Girvin, 1986a: 68). They had learned valuable lessons from the contraception debate and were determined not to be wrong-footed on the issues of abortion and divorce. Because abortion was not explicitly forbidden in the constitution PLAC feared that it could be introduced legislatively (highly unlikely as subsequent events would show) or more surreptitiously through judicial review. 'The emergence of a small but strident Women's Right to Choose Group in 1980, advocating abortion as a female right, supplied PLAC with useful ammunition' (Lee, 1989: 653). PLAC moved quickly and launched its campaign just before the 1981 general election. Just how successful they were can be seen from the following:

> In just over two weeks PLAC had achieved their main objective: parties representing over 90 per cent of *Dáil* members had acceded to their demands. There was an implied threat from PLAC that if the political parties did not promote an amendment, then a campaign would be mounted against these opponents... it does appear that none of the main parties had considered the consequences of their commitment... and that a mixture of piety and naivete as well as political calculation was involved (Girvin, 1986: 69).

With three elections taking place between June 1981 and November 1982 the abortion debate was very much centre stage. This resulted in the passing of a referendum to the constitution in 1983 which acknowledged the right to life of the unborn, with due regard to the equal right to life of the mother.[11] Many of the same protagonists joined the 'divorce debate' and the result was a 1986 referendum proposing divorce in certain limited circumstances was defeated. Both referenda proved to be enormously divisive and consumed huge amounts of political oxygen and were a distraction from the real problems besetting the country. In a time of profound change 'the church continued to provide psychic moorings for many who might

[10] This famously became known as an Irish solution to an Irish problem. An earlier Government attempt in 1974 to legislate for the sale of contraceptives to married couples only was defeated when the Taoiseach of the day, Liam Cosgrave, as did some others, voted against his own government in a free vote.

[11] In an ironic twist the 1983 referendum wording, which was largely dictated by Church interests, proved to be legally ambivalent and had the opposite effect to that intended. This resulted in another major abortion debate in the early 1990s and required three further referenda to rectify the 1983 referendum outcome.

otherwise have suffered a good deal more emotional disturbance in the face of incomprehensible change' (Lee, 1989: 655). More than anything else the debates around abortion and divorce demonstrated the continuing influence of the Catholic Church.[12] The *de jure* position of the Church may have changed but the *de facto* position had not. Catholic teaching remained as a background underlying assumption embedded in the public sentiment and constrained change.

**Political Culture**

At the first critical juncture reference was made to the unchanging nature of Irish Society and political culture. Reference was also made to Coakley's (2006: 37) definition of political culture as the 'fundamental, deeply held views on the state itself, on the rules of the political game and on the kind of principles that should underlie political decision making'. Agriculture had dominated the economy and Ireland, in the period under review, was predominantly an agrarian society. However, 1966 had been a watershed year when the urban population exceeded the rural population for the first time. Urbanisation, an indication of an industrial society, brings very different social relations. 'By contrast to agrarian society, where the existing order and the individual's role within it are accepted, in industrial society the typical individual has a capacity to envisage himself or herself occupying an unlimited range of roles' (Coakley, 2006: 40).[13] Ireland was being urbanised and this urbanisation gave rise to a certain liberal/conservative cleavage on social issues which was evident in the voting patterns in the referenda referred to above.

Change was also very evident on the education front. In 1958 there were 62,429 students attending secondary school and 7,649 at university. By 1987 these numbers were 341,681 and 33,896 respectively (CSO). In the university sector there was also the beginning of a shift to the social sciences. There had also been an explosion in other third level education and by 1987 there were in excess of 20,000 students attending other third level institutions.

Education brings social mobility and an increase in the middle-classes in particular. This in turn leads to a more questioning attitude and less deference to the powers that be. Frustration

[12] A 1972 referendum had removed the 'special position' of the Catholic Church and recognised other named religions.

[13] Coakley rhetorically asks the question (and does not answer it): would Ireland better be described as post-industrial? Given that the industrial revolution largely passed Ireland by a 'post-industrial society' is probably appropriate.

at the level of taxation, perceived to be borne inordinately by an urban middle-class, brought the people on to the streets to protest in numbers never before seen.[14] PAYE workers constituted two-thirds of the work force but paid 90 per cent of income tax. The effective rate of taxation had risen from the 12-14 per cent range throughout the 1950s and 1960s to 24.5 per cent by 1979 (Sweeney, 1984:27). The sense of injustice was exacerbated by the capitulation of the government on a proposal to impose a levy of two per cent on farmers – the majority of whom were totally excluded from the tax net. This further accentuated a growing urban/rural divide and a changing political culture. There was also political fallout. 'The first direct elections to the European Parliament in June of 1979 provided an opportunity for this disaffection to make itself felt and the Fianna Fáil vote slumped by 15 per cent, to just under 35 per cent of the votes cast' (Collins, 2001: 112). The government response was to set up a Commission on Taxation which will be dealt with later.

The role of the media was also changing from being, in many instances, subservient reporters of the news to a questioning attitude devoid of deference. The new media became part of the story and in effect broke the path dependency of the 'old' media. Conor Brady, editor of the Irish Times, had this to say about crossing that line between reporting and making the news.

> The proposition that such a line can exist at all is something of a *reductio ad absurdum*... the news media are not merely a mirror of events. They become, in effect part of the story... Editors and journalists are uncomfortable with the idea. They cherish myths about their detachment (2005: 119).

Two of the leading examples of this new breed of reporter were John Healy and Vincent Browne. Healy, through his Irish Times 'Backbencher' column, brought political commentary to a new level and 'abandoned the reverential, hushed tone in which heretofore journalists had referred to political figures and, in particular, members of the government' (Brady, 2005: 245). Browne, as editor of Magill and as editor (and for a period owner) of the Sunday Tribune brought investigative reporting to a new level.[15]

[14] In a protest organised by the Dublin Council of Trade Unions over 150,000 took to the streets of Dublin in 1979. The following year over 700,000 marched in 37 centres immediately prior to the budget (Sweeney, 1984: 28).

[15] Both men became inextricably linked with the political rise and fall of Charles J. Haughey. Healy became an apologist for Haughey seeing him as the only hope for the economic recovery of the country. Browne never missed an opportunity to question Haughey's unexplained wealth and his position was vindicated by history. Ironically, Browne and Haughey were reconciled shortly before the latter's death enabling Browne to offer a more balanced view of Haughey's contribution.

A media world dominated by men was turned on its head with the arrival of a new breed of female reporter such as Nell McCafferty and Mary Maher in the Irish Times and Mary Kenny at the Irish Press. Tim Pat Coogan, who was editor of the Irish Press described Kenny's arrival as being 'like a comet exuding in its wake a shower of flaming particles from burning bras' (2008: 145). Feminism had arrived on the Irish scene and its leading exponents were members of the fourth estate and used the media to challenge the patriarchal attitudes then embedded in the public sentiment as background underlying assumptions.

A change that was to have a significant impact on Irish institutional life, took place soon after Haughey became Taoiseach in 1979. As expected he closed down the Department of Economic Planning and Development and moved its senior officials into the Department of the Taoiseach.[16] This was just the beginning of the centralisation of power in that department. When Haughey left office in 1981 the department, which had formerly just consisted of a small secretariat that coordinated government business, had been trebled in size with 'divisions to handle foreign affairs, economic and social policy, cultural and legal affairs' (Collins, 2001: 137). Since the foundation of the state the Department of Finance had been *primus inter pares* of government departments. Its role was now being usurped and the centre of civil service power was beginning its move to the Department of the Taoiseach. This move was completed absolutely when Haughey returned to power in 1987 and Padraig O hUiginn was Secretary of the Department.

Another important milestone in a changing political culture was the foundation of the Progressive Democrats by Des O'Malley in December 1985 following his expulsion from the Fianna Fáil party.[17] Generally regarded as one of the most able politicians of his era he was highly principled, and as with many such people, did not suffer fools gladly and offered a somewhat prickly exterior.[18] At the party launch O'Malley spelled out the core philosophy of the party. 'It focused on the need for a peaceful approach to the problems in Northern Ireland,

[16] Professor Martin O'Donoghue, who had been Minister for Economic Planning and Development, was also dropped from the cabinet. A few days later he took delivery of a strange looking parcel from Haughey's official Garda driver. On opening same he found two dead ducks with a note from Haughey: 'shot on my estate this morning' (Collins, 2001; 134). O'Donoghue got the message.

[17] O'Malley had been appointed Minister of Justice following the Arms Crisis of 1970 which saw Haughey removed from office and facing criminal charges for his alleged part in the illegal importation of arms in connection with the Northern Ireland troubles. Thereafter the two men were implacable enemies and it is questionable if any single political party could have accommodated both of them.

[18] At the foundation of the party O'Malley's wife, Pat, warned Paul Mackay 'If you get involved with this man it is going to be a rough, rough ride. It is like becoming involved with Jesus Christ. Once you declare yourself for him you have to forget everything else and be with him. He is difficult' (Collins, 2005: 35).

the need for fundamental tax reform to favour enterprise and employment and the requirement for a clear distinction between Church and State' (Collins, 2005: 37). O'Malley, in a landmark speech to Dáil Ēireann on 20 February 1985 spelled out a clear vision of a pluralist Ireland that would be the mark of a true republic.[19] (For O'Malley the Irish version of republicanism had degenerated to pure Anglophopia and this was nowhere more evident than in Fianna Fáil attitudes). The proposals on tax reform would be paid for from cuts in public expenditure, abolition of subsidies, integration and/or abolition of a number of state agencies, abolition of ministerial pensions and the Seanad, and the sale of state assets. The belief that 'the tax-cuts could be self-financing through the boost they would provide to economic activity was widely regarded as pie in the sky' (Collins, 2005: 63). This 'idea' of the Progressive Democrats became not only accepted but a major cause of the transformation of Ireland at the second critical juncture.

Urbanisation, public disaffection with the tax regime evidenced in protest marches in 1979/80, the changing role of the media, the rise of feminism, concentration of power in the Department of the Taoiseach and the birth of the Progressive Democrats were all signs of a changing political culture that made change to Irish institutional life possible.

**The Role of Ideas**

In reviewing the role of ideas at the first critical juncture most of the leading lights of the time had gone the way of what Whitaker calls *slí na fírinne*. Searches were made of *Administration, Studies* and *JSSISI* which were, at that time, the main vehicles for the dissemination of ideas addressing Ireland's economic plight. A review was also carried out of the work of *Tuairim* and the influence of its members. The purpose of the reviews was to ascertain what ideas were promulgated and how the ideas of free trade and foreign direct investment came to be accepted and implemented. At the second critical juncture *Tuairim* had ceased to exist but the three journals referred to above were still going strong but, as will be demonstrated, their content and influence had changed largely due to the emergence of new institutions in the 1960s: the Economic and Social Research Institute (ESRI) and the National Economic and Social Council (NESC). Both of these institutions were to be highly influential and offered respected outlets for the dissemination of ideas. (Journals such as the Irish

[19] This speech has been widely hailed as one of the great Irish parliamentary speeches of modern times. The context was a debate on contraception. At interview O'Malley said that he had just 'a few notes on the back of a brown envelope, as I recall' but had thought a lot about what he wanted to say.

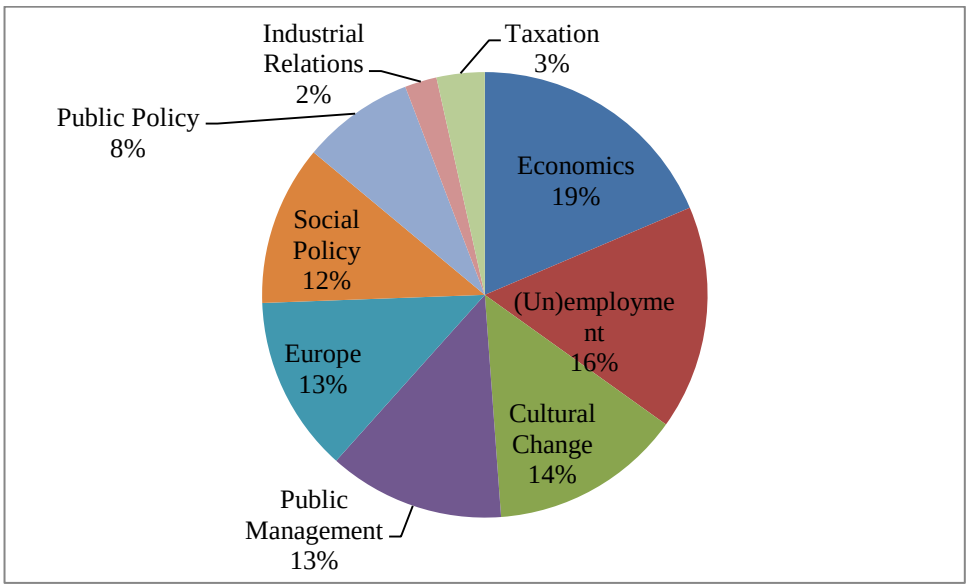
Banking Review and the Economic and Social Review mainly carried articles of a technical nature covering monetary and fiscal reporting and forecasting, econometrics, population changes and socio –demographic issues).

**What ideas became acceptable?**

***Administration***

In the period 1980-88 *Administration* carried a total of 87 articles that could be defined as addressing national issues. The following broad classifications apply:

**Table 6.1: Administration Articles**




Given the perilous state of the public finances it is not surprising that the economy should be the main focus of attention. Articles covered the various budgets, public expenditure and its efficacy, the growth in the public sector and industrial development. As unemployment was as high as 18.3 per cent in 1987 this subject drew a lot of attention with particular emphasis on the prevalence of youth unemployment. Industrial relations were seen as part of the (un)employment situation and also featured regularly.

Not unexpectedly the European Community also featured heavily with articles on regional devleopment, food aid, redistribution and social policies (together with the implications for

the Irish administrative system), and reform of the Community budget. Public management and public policy articles addressed issues ranging across the spectrum of the constitution, the civil service, state-sponsored bodies, the public interest, and the design of democracy.

The Commission on Taxation (this will be dealt with later) issued its first report in 1982 and there were two articles reacting to same. Dr. N Morris of the Institute for Fiscal Studies in London generally welcomed the report and went on to point out that the problems of the Irish tax system were similar to the British situation: tax avoidance was a major industry primarily because the tax base had never been adequately defined; 'reliefs and exemptions have been granted in a haphazard manner so that the distribution of the tax burden is seen as unfair' (1982: 8).[20] Brendan Dowling, then of J&E Goodbody, Government Stockbrokers, and formerly of the ESRI, was critical of the report because it allowed for piecemeal implementation with the government being tempted to cherry pick the pieces that increased revenue raising powers and he feared 'that the evolution of the tax system over the next five years will bear little resemblance to the proposals of the Commission and there will continue to be an ad hoc response to divergent pressures of interest groups and revenue shortages' (1982: 17). History was to prove him right.

Nicholas Mansergh, planning officer with Cork Corporation, in his paper 'The Taxation of Development Land: A Proposal' marked the tenth anniversary of the Kenny Report.[21] Mansergh (1982) came up with a novel scheme whereby once land was zoned for development tax would be immediately levied on same and the tax became more punitive the longer the land remained undeveloped. His proposal does not appear to have received any serious consideration.

The final article on taxation in *Administration* was 'A Radical Reform of Social Welfare and Income Tax Evaluated' by Patrick Honohan (1987), then lecturer in economics at University College Dublin, subsequently professor at Trinity College Dublin and now Governor of the

[20] That the similarities with Britain are so striking is another example of the continuing Treasury influence on the Department of Finance sixty years after independence – continuing path dependency.

[21] Called after the name of the chairman, more correctly it was the report of the Committee on the Price of Building Land. It proposed that land rezoned for development should be purchased by the state at a premium of 25 per cent over its agricultural value thereby controlling speculation in land. Lack of political will and dubious legal advice that its proposals were anti-constitutional meant it was never implemented. In the light of subsequent events this was a critical moment as its implementation would surely have drastically altered the economic history of Ireland.

Central Bank of Ireland. He was somewhat critical of both the Commission on Taxation and the Commission on Social Welfare reports and advocated an integrated system that involved the payment of a basic income to all. It would require a two-tier tax regime with three objectives: limiting the magnitude of redistribution to large families to an acceptable level; a low marginal tax rate on higher incomes; the payment of a basic income greater than the minimum social welfare rate. The scheme would have the advantages of eliminating poverty traps, be simple to administer, and universality in social benefits would be stigma free. There was also less likelihood of fraud and a likely reduction in misrepresentation. He included detailed costings on his proposals and concluded that 'the entire basic income idea stands or falls on one's view as to the adequacy of the payments that are possible' (1987: 81).

Acknowledging the pace of social and cultural change there was a realisation that administrative change had not kept pace and there are several articles on the changes necessary in both state-sponsored bodies and the civil service. Seán de Fréine, a principal officer in the Department of Public Service, contributed two articles entitled 'To Change the Organisation, Change the Culture'. Drawing extensively on the literature of management, organisational behaviour and sociology he defines culture and the drivers of change. By 1966 the population of Ireland had become largely urban - just 60 years previously two out of every three people were living in the countryside. Pointing out that 'urbanisation is a noted harbinger of change' (1984: 466), nevertheless, the Irish naively believed that the comparatively stable social conditions that prevailed heretofore were attributable to native virtue! To change organisational culture in the public service training would be the key 'beginning with some form of management development, leading to team development, to inter-team development and to strengthening superior-subordinate relationships, often through a form of management by objectives' (1985: 127). Change would also require new values such as emphasising prevention rather than correction – getting it right first time. All levels of the organisation must be attended to covering such diverse things as 'education, communications, structure, procedures, techniques, measurement of performance, staff appraisal.... To blend these together in an integrated and mutually supporting system is no easy task' (1985: 130). He entered the following timely, necessary and prescient caveat: doing it piecemeal was sure to lead to failure.

In 1982 Stephen Lalor, then a research fellow at Trinity College Dublin and subsequently a civil servant, wrote on corporatism in Ireland. He outlined the steps taken by Lemass

(previously covered in Chapter 4 of this thesis) to bring the unions and employers into the policy-making process and described it as societal corporatism. He was cognisant that the charge of being anti-democratic was always likely to be levied against corporatism but believed that this did not apply to the Irish situation.[22] Niamh Hardiman, then a post graduate student at Nuffield College Oxford took Lalor to task. Her main criticism was that what Ireland was experiencing was institutional tripartism rather than corporatism and backs up her claim with extensive citations. The existence of institutional tripartism structures 'however elaborate they may be, is not necessarily an indication that they are carrying out the significant political functions' (1984: 79). In this she misses the point that the institutions put in place did carry out significant political functions. She expected interest groups, if they are to be purely corporatist, to be interested only in ouputs, i.e. the policies they pursue to be only in the interests of the functional groups embraced in the system. Lalor described what was happening while Hardiman was stuck on theoretical definitions – another example of practice always predating theory. Somewhat presciently Lalor concluded his original article as follows: 'if in the future the emergence and strengthening of corporatist structures coincide with an increase in importance or utility of economic planning there will be circumstantial evidence that more than a contingent relationship exists' (1982: 95). Garvin (1982), in 'Change and the Political System', acknowledges that 'the nationalist social democracy of Lemass seems to be working rather creakily' (p. 37) but that to all intents and purposes corporatism was dead. In the event Garvin totally misread the situation and corporatism 'Irish-style' emerged as one of the main 'ideas' that led to the transformation of Ireland at the second critical juncture.

***Studies***

In reviewing the 'ideas' that were in circulation in the 1950s proposing economic and political salvation for Ireland the Jesuit publication *Studies* was a major player. It carried a total of 105 articles and book reviews on economic and political theory and practice. The most influential commentators all contributed: Professors Carter, Lynch, Ryan and Meenan; Whitaker and Fitzgerald.

[22] Whitaker (1977: 290) writing on planning in Ireland raised the concern 'that democratic principles are not necessarily fully consistent with consulting only the functional organisations' and that after formal consultations have taken place they should then 'be the subject of debate and approval by parliament'.

Reflective of the Jesuit charism of social justice articles in the 1980s predominantly relate to social issues: poverty in Ireland; homelessness; personal rights in industrial relations; crime and punishment; feminism; divisions in society; and challenges and opportunities facing rural Ireland. Northern Ireland also played an increasing role and, related to same, the meaning of being Irish and Irish identity. Ecumenism also featured strongly. The summer edition of 1985 was devoted to Economics and Ideology. The main articles were:

- 'The Role of the State in Economic Affairs' by Kieran Kennedy;[23]
- 'Economic Philosophy and Ideology in Ireland' by J.L. Pratschke;
- 'The Political Economy of Utopia' by D. McCulloch.

The above, together with articles on the prospects for the world economy in 1980, and foreign policy and neutrality in 1988, were the only contributions on politics and economics and are evidence of a distinct shift in editorial policy since the 1950s. It is likely also to be linked to the availability of other channels and may also be attributable to increased secularisation.

***The Journal of the Statistical and Social Inquiry Society of Ireland (JSSISI)***

As with *Studie*s the *JSSISI* review of articles shows a change of emphasis and range of contributors. Nevertheless, it reflected the concerns of the times. Reflecting the state of industrial unrest three of the seven papers presented in 1980 were on industrial relations. Ireland and the European Monetary System featured in 1981 as did the government White Paper on Education. Irish agriculture, farm income, EU membership and the Common Agricultural Policy were regular features between 1980 and 1988. Unsurprisingly, given its title the journal carried several articles by staff of the CSO on the collection of statistics and the methodology employed.

In a 1981 paper, 'Company Tax – effective rates on profits', J.C. Stewart described the difficulties that a combination of differing or controversial measures of profit and obscure reporting of tax paid made the calculation of tax rates on profits for the corporate sector a difficult if not arbitrary process. In the same year a paper by Rottman, D.B., Hannan, D.F. & Wiley, M.M. 'Social policy and income adequacy in the Republic of Ireland: the importance of social class and family cycle' focussed on the comparison between direct income and

[23] Kennedy was the Director of the ESRI and as will be seen later a highly influential commentator. An unexpected contribution of his to *Studies* was a book review on the Resurrection of Jesus by a Jewish writer.

disposable income and the effect of taxation policy on same. It also dealt with the apparent injustices inherent in the system.

By 1984 the issue of taxation reform was becoming increasingly topical. 'Some implications of tax reform' by Donal de Buitleir conceded that the Irish tax system was totally unsatisfactory, unfair and complicated, wasted resources on a grand scale and that reform was long overdue.[24] Paul Sweeney, economic advisor to ICTU delivered 'The PAYE sector's perspective of taxation and trade union demand for reform' in which he outlined the background to the PAYE protests of 1979 and demonstrated that since then, rather than improving, taxes had become more regressive. In the same vein, Donal C. Murphy of the CSO presented a paper 'The impact of state taxes and benefits on Irish household incomes' which drew on data from various household budget surveys and again highlighted some of the anomalies and inequalities inherent in the taxation system. The employers' perspective was given by E. McCarthy of the Federated Union of Employers. In his paper 'The inefficiency of the Irish tax system' he referred to the inbuilt inadequacies of the system and how they impacted employer/employee relationships and the development of pay policy.

On the 3 December 1987 the *SSISI* held a 'Symposium on the Privatisation of State Assets and State Commercial Companies' with three invited speakers: Sean Cromien, Secretary General of the Department of Finance; Peter Cassells, Assistant Secretary of the Irish Congress of Trade Unions; Moore McDowell, Department of Political Economy at University College Dublin.[25] Their papers were published in early 1988 in *JSSISI vol. XXV, part V*. Cromien offered an overview of privatisation taking place across the world and pointed out that privatisation was taking place on both sides of the ideological divide – Gorbachev's USSR and Reagan's USA with Thatcher's UK. He summarised the advantages/disadvantages of privatisation and the political philosophy underpinning both sides of the debate. Referring to state-sponsored bodies in Ireland he refers to Lemass' pragmatism and the thinking behind state involvement: 'It was never the expressed intention to supplant viable private sector activity by governmental agencies. There was no grand design for a socialised economy' (Cromien, 1988: 58). Without saying so explicitly he seems to agree with critics of the government's role that the lack of a strategic overview in setting up state-sponsored bodies

[24] De Buitleir served as Secretary of the Commission on Taxation.
[25] Both Cromien and Cassells were interviewed by the author in relation to their respective roles at the second critical juncture.

was a large part of the problem facing the country at that time.[26] By his estimates there were 20 or so bodies that between them employed 75,000 people and had assets in excess of £4 billion. While trying to remain as neutral and non-political as possible he offered the possibility of joint ventures between the state and the private sector citing the example of the fertiliser industry where the state owned Nitrigin Ēireann Teo had combined with Imperial Chemicals Incorporated in a joint venture.

Given his background it is not surprising that Cassells opposed privatisation. He questions the motivation of those proposing privatisation in no uncertain terms:

> In recent years, the lobby in favour of privatisation, or more specifically the handing over of something that belongs to the public (you and me) to a small number of private individuals, has been very vociferous, aggressive and blatant in their use of propaganda. In putting together this propaganda, they have been assisted by a number of economists who unlike eminent predecessors such as Paddy Lynch, T K Whitaker and James Meenan, appear to consider that facts and realities may be ignored or distorted and history rewritten to prove the case on behalf of their client (1988: 62).

He went on to point out that under the recently concluded Social Partnership agreement, The Programme for National Recovery, state-sponsored bodies would be actively encouraged and facilitated to develop and diversify their economic employment-creating activities, i.e. have an increased role.

McDowell sets out the theoretical and empirical considerations around privatisation. He argues that the debate is presented as an economic one when in reality it is a political one and a review of what happened in the UK shows that economic efficiency had been sacrificed to political goals. Thatcher's aims should be seen as

> ... a single part of a broader programme which includes lower taxes, increasing private provision and finance for health, old age and education. These deep changes require the creation of a stable coalition of interests committed to a non-collectivist political stance (1988: 72).

Much of the debate around privatisation was driven by the perceived inefficiency of the public service but McDowell's research did not support that view.

He offered an interesting comment on the 'official mind' and privatisation:

[26] It will be recalled that at the first critical juncture the establishment of state-sponsored bodies was one of the main vehicles for effecting change.

> In the UK, 'sponsor' departments of the civil service appear actively to have encouraged privatisation of state firms in their areas of responsibility. There is no evidence of any equivalent attitude in Irish civil service departments which give the strong impression of being more anxious to ensure collective "control" of economic and social activity than to ensure that it is motivated by efficiency in resource use and responsiveness to market pressures. Civil servants have more faith in their own ability to guide the economy than in that of market forces. There is, it seems, no social consensus that market forces should be permitted to guide resource allocation (McDowell, 1988:84).

The above *SSISI* symposium has been included because the privatisation of some state-sponsored bodies did become a reality.

***Economic and Social Research Institute (ESRI)***

Originally founded in 1960 as the Economic Research Institute the ESRI has grown to be an internationally renowned body producing high quality economic and social research. Its mission statement is 'To produce research that contributes to understanding economic and social change and that informs public policymaking and civil society in Ireland and throughout the European Union' (www.esri.ie). In the period 1980 – 88 it produced a total of 282 publications (includes Books, General Research Series, Memorandum Series, Forecasting Series and Working Papers).[27]

Since 1976 it has published a five year research plan setting out the main planned research for the period. It also, unusually for an Irish public body, benchmarks its output against the plan. In *The ESRI Research Plan 1981-85* the director, Kieran Kennedy, writes

> The aim of the institute is to provide knowledge that will be useful in improving economic and social conditions in Ireland'. In addition the research plan should identify the main issues 'relating to the choices facing Irish decision makers and establish research priorities consistent with the resources likely to be available to the institute' (Kennedy, 1981: 1).[28]

The areas to be covered were as diverse as Living Conditions, Economic Forecasting and Modelling, Prices and Incomes, Population and Labour Force. Reflecting the times a major concentration would be on Public Expenditure and Taxation with specific research on the following: the social insurance system; evaluation of major public expenditure programmes;

[27] In 1981 the council of the ESRI had 29 members. The president was Dr. T.K. Whitaker and the chairman was Professor Patrick Lynch. There were five clerics, three of whom held chairs in Irish Universities.

[28] Kennedy was a highly influential director and respected commentator. The ESRI publications list credits him with 36 publications. Strangely enough the book being cited is not one of them. A search of the library catalogue in UCC credits him with a further nine books, all of them on Irish economic matters.

the rise in public sector employment; analysis of efficiency and equity effects of the major taxes and transfers (such studies to be aligned with the work of the Commission on Taxation).

Given the 'social' in its title many of the publications are on social issues such as poverty and the social welfare system, long term unemployment and measures to counteract it, the criminal justice system, the education system and, particularly, early school leavers, social mobility, labour market policies and employment growth.

Economic analysis and forecasting, together with various sectoral analyses, make up a large part of the published work. A regular and highly important feature has been the *Quarterly Economic Commentary* which assesses the state of the nation's finances and the effects of government budgetary and economic policy. All the reports from 1980 – 88 were perused to ascertain what 'ideas' were emanating from that quarter.

Through 1980 and 1981 the unsustainable level of government borrowing was the main focus of attention together with the negative effects of taxation policy. The consumer price index (cpi) rose by 12 per cent between November 1979 and May 1980 and by 3.5 per cent for the quarter ended October 1981. The ESRI attributed these increases to indirect taxation and went on to spell out various options for widening the tax base. Throughout this period it was also pointed out that joining the European Monetary System (EMS) was not having the promised effects: 'Clearly the process of redirecting exports to markets other than the UK has not accelerated – if anything it has slowed down' (Bacon, *et al*, 1981: 53).

Again in 1982 'the balance of payments deficit is the principal constraint on action' (Bacon, *et al*, 1982a: 32) and unemployment was likely to continue rising. It goes on to make the telling point that 'In some respects the focus on the exchequer borrowing requirement obscures the fact that the problem is not the borrowing but the expenditure' (*ibid*: 33). In a neat demonstration of how little had been learned (or quickly forgotten!) since the publication of *Economic Development* in 1958 the ESRI repeatedly drew attention to non-productive expenditure. The December 1982 issue concluded with the following: 'Simply calling expenditure "Capital" is not sufficient reason for undertaking it' (Bacon, *et al*, 1982b: 52).

The 1983 reports addressed the continuing lack of competitiveness and the need for a developmental strategy. The Telesis Report and its recommendations also featured heavily. (This was a report commissioned by NESC and will be dealt with later).

By 1984 there were some signs of a recovery in the economy with a rise of 36 per cent in exports in the first half of the year. However this figure was attributable to a number of unusual factors: the sale of agricultural stock into EEC intervention and the export of alumina from one factory in Limerick (there had been a spike in world demand for the product). There was also substantial growth in electronic and chemical exports. The ESRI went on to point out that these industries had very little linkages to the rest of the economy, were not huge employers and were paying low, or no, corporation tax. Commenting on the growing debate around the perceived inefficiency of the public sector (a debate that was spilling over from the actions of Thatcher in 'rolling back the state') it referred to 'the simplistic nonsense' being espoused. It concluded: 'It is surely sufficient that teachers, nurses and tax inspectors should be required to face a differential fall in their living standards for the sake of their own and the country's long term future, without having also to suffer a denigration of their role in society' (Baker, *et al*, 1984: 24).

Increases in American interest rates in 1983 and 1984 added £700 million to the annual servicing of the national debt and this exposure to outside influences was a continuing theme in the 1985 quarterly reports. The July report commented on 'the perceived wisdom' that government was constrained by the inequity of failing to index social welfare benefits and the injustice of cutting familiar levels of socially provided services but failure to cut the deficit would mean that 'these perceived constraints may have to be revisited' (Baker, *et al*, 1985: 26).

1986 saw a collapse in the price of oil and a general uplift in world trade leading to increased optimism. This was likely to lead to modest improvement in Ireland but 'if this is to be the start of lasting recovery it must not be dissipated in euphoria leading to unrealistic pay settlements or a relaxation of fiscal discipline' (Baker, Scott and Hayes, 1986a: 29). Just a few months later 'the mood of optimism about the course of the economy, which was fairly widespread in the early months of 1986, has now largely dissipated' (Baker, Scott and Hayes, 1986b: 27). The fall in inflation was lower than expected; there was no great improvement in the public finances; weak sterling had eroded margins for exporters; the census showed that

population growth was significantly lower than anticipated and job losses higher. Even the bad weather was blamed for a lack of recovery in agriculture. Currency speculation around EMS led to interest rate rises but an 8 per cent devaluation of the *punt* helped counterbalance this. The same issue went on to warn of the need for 'extreme parsimony' in preparation of the estimates and concluded:

> At the risk of inducing terminal tedium in the reader it is necessary to state yet again that it remains imperative for the long-term health of the economy that substantial progress should be made as soon as possible towards reducing the current budget deficit in absolute as well as proportionate terms (Baker, Scott and Hayes,1986b: 30).

The ESRI summary of 1986 was that the cause of the malaise could not be blamed entirely on inadequate budgeting or imperfect modelling for the poor performance of the economy. Neither could international currency fluctuations nor indeed the weather be blamed and...

> ... purely domestic problems have been greatly exacerbated by the intransigence of interest groups, excessive concern for short term self interest, and a general unwillingness to lower unrealistic expectations. A principal task of the incoming government, whatever its political complexion, is to address these fundamental issues, and to attempt to create some unity of purpose (Baker, Scott and Hayes, 1986c: 28).

There was a change of government in March 1987. The April report stated that 'the major uncertainty is whether the key fiscal aims of restraining the growth in the public service pay bill can be achieved in practice' (Baker, Scott and Quinn, 1987: 5). Unemployment at the end of 1986 was 18.25 per cent against an OECD average of 8.5 percent. The budget deficit as a per cent of GNP was 8.5 per cent against an OECD average of 3.25 per cent. It went on to express the hope 'that the budget limits on expenditure will be adhered to, and that they will be accepted, however grudgingly, by the interest groups affected' (*ibid*: 24). By July the ESRI was beginning to believe that the budget targets could be met and even though corrective action taken was likely to have a deflationary effect of 2 per cent on GNP they expected that there would be a real increase of 1.75 per cent overall for the year. They also noted that some of the cuts were having an uneven effect. They finished 1987 on a positive note with the December report welcoming Social Partnership and the commitments on public pay. It also noted that the budget targets were likely to be met.

The overarching concern of all the quarterly commentaries is the necessity to address the public finances through a concentration on productive investment decisions, control of public sector pay, and addressing the inefficiencies and inequities in the taxation system.

***The Commission on Taxation***

In response to the general unrest on taxation generally outlined in the section on Political Culture the Commission on Taxation was set up Michael O'Kennedy, Minister for Finance in 1980. Its brief was 'to enquire generally into the present system of taxation and to recommend such changes as appear desirable and practicable so as to achieve an equitable incidence of taxation' (1982: 25). The Commission was chaired by Dr. Miriam Hederman-O'Brien who, by her own admission, knew nothing about tax (interview 2009) but believed this was a distinct advantage as she had no preconceived ideas.[29] The other members of the Commission were drawn from business, unions, farmer bodies, accountancy bodies and academia.[30] The secretariat was drawn from the Revenue Commissioners and Department of Finance. In addition to a forensic examination of the Irish system the Commission also examined the tax systems in Australia, Canada, France, Isle of Man, Luxembourg, Netherlands, New Zealand, Sweden and Great Britain.

The work of the Commission was underpinned by the following principles:

1. The direct tax base should be measured on a basis which measures the amount a person could spend in a particular period while maintaining intact the real value of their capital in terms of purchasing power.
2. Income from different sources should be taxed in the same way.
3. A husband and wife living together should be regarded as the basic unit for tax purposes.
4. The tax system should be neutral in respect to inflation.
5. The minimisation of waste requires that a tax system should not influence individual or business choices (predicated on the belief that individuals left to their own devices will spend their income wisely and firms will choose the most efficient means of production).

[29] Dr Hederman-O'Brien featured in an earlier chapter for her role in Tuairim. A practicing barrister, she continues to play an active part in Irish public life holding a myriad of directorships in private and public bodies, and has been active in Irish/European relations since she attended university in Rome in the late 1940s. She was Chancellor of the University of Limerick from 1998 – 2002. At interview she talked about meeting Tomás O Cofaigh, then secretary of the Department of Finance, pleading her ignorance on taxation and requesting the secondment of an enlightened and open-minded civil servant who would act as secretary to the Commission. The appointment of de Buitléir proved to be an inspired choice.

[30] Together with Hederman-O'Brien, Donal Nevin and Dan Murphy, representing ICTU, served on NESC (see next section). Professor Louden Ryan, who featured prominently in an earlier chapter, The First Critical Juncture in the Transformation of Ireland, was also a member.

6. It is generally preferable to make direct payments to those in need than through the tax system.
7. Taxes should not be earmarked for specific purposes.
8. Compulsory social insurance contributions should be more correctly regarded as a tax and should be evaluated by the same criteria.

The Commission sat from 1980 to 1985 and produced five reports:

*Direct Taxation, 1982,* called for a much clearer definition of the tax base and to include all assets and 'all accretions of economic power including capital gains, inheritances and other windfalls' (p. 30) no matter how acquired. It also had recommendations on the taxation of fringe benefits, borrowings and savings, the disproportionately favourable treatment of householders, capital gains and the exemption of a large proportion of farmers from the tax base.

*Direct Taxation – the Role of Incentives, 1984,* concluded that the existing high levels of taxation were a disincentive to productive effort; high taxation rates were exacerbated by the erosion of the tax base by a plethora of incentives; tax avoidance was widespread; the cost of incentives was being met by higher taxation on other activities. (It also recommended (p. 21) tax relief on stallion fees 'to ensure the continued development of the industry in Ireland').

*Indirect Taxation, 1984,* dealt with VAT and excise duties on alcohol, tobacco, transport and betting. It also recommended the abolition of stamp duty on property.

*Special Taxation, 1985*, recommended local government to have powers to raise local taxes, especially on property, punitive taxes for those causing environmental damage and royalties on mining and mineral development to have a progressive rate.

*Tax Administration, 1985*, acknowledged that 'the administration of taxation in Ireland had virtually broken down. Non-compliance is a major problem' (p. 21). It recommended self-assessment for all sources of personal and corporate income with the exception of wages and salaries, a more general system of deduction of tax at source on other types of income, an integrated collection and enforcement system including a penalty code.

All reports contain minority findings as many of the proposals were perceived by some members as impinging unduly on their interests/members. Dr Hederman-O'Brien believes that 'if we were to achieve unanimity we would be still there' (2009). She found the farmer

representatives the most difficult to keep onside, not surprising given the favourable tax treatment of farmers heretofore. Nevertheless, the reports proved to be very useful as they offered a menu of solutions/alterations many of which were taken up by NESC and the government and subsequently implemented.

***NESC***

The National Industrial Economic Council (NIEC) set up in 1963 (see Chapter 5) was reconstituted as the National Economic and Social Council (NESC) in 1973 with the following remit:

> The function of the Council is to analyse and report to the Taoiseach (Prime Minister) on strategic issues relating to the efficient development of the economy and the achievement of social justice and the development of a strategic framework for the conduct of relations and negotiation of agreements between the government and the social partners. The Council is chaired by the Secretary General of the Department of the Taoiseach and contains representatives of trade unions, employers, farmers' organisations, NGOs, key government departments and independent experts' (NESC 2009).

As noted above NESC is chaired by the Secretary of the Department of the Taoiseach and this may very well be one of the major reasons for its success.[31] It operates with a small full-time secretariat but can call on expertise from across the public service as required. It regularly commissions outside research and indeed the ESRI is one of the principal beneficiaries of such commissioning. The quality of its work has long been respected on all sides of the political divide and its figures are taken as being accurate and reliable. To date it has produced one hundred and twenty reports on all aspects of social and economic policy.

In 1980 NESC commissioned Telesis, an American management consultancy firm, to carry out a review of Ireland's industrial strategy with the objective of ensuring that 'the Irish government's industrial policy is appropriate to the creation of an internationally competitive industrial base in Ireland which will support increased employment and higher living standards' (NESC 1982: 10).[32] Central to the Telesis report was a refocusing on indigenous internationally trading companies and a reduction of support for new foreign firms. The report

[31] It will be recalled that the NIEC at its foundation was chaired by Whitaker in his capacity as Secretary in the Department of Finance. By the 1980s the locus of power had shifted considerably as detailed above under Political Culture when Haughey made substantial changes in 1979.

[32] Officially called 'A Review of Industrial Policy', it is more generally referred to as the Telesis Report.

also commented extensively on the electronics industry, then perceived as a success because it employed 30,000, but they, correctly, foresaw problems because 'the functions which would provide the basis for the development of higher value-added businesses are not located in Ireland' (1982: 7).

NESC considered the Telesis report together with report no. 56 'Industrial Policy and Development: A Survey of Literature from the Early 1970s to the Present' and no. 59 'The Importance of Infrastructure to Industrial Development in Ireland - Roads, Telecommunications and Water Supply' before issuing their own conclusions and recommendations.[33] Implicit in their report is the failure to develop indigenous industry and that the type of foreign industry attracted was bringing very little in the way of added value. The recommendations can be summarised as follows (NESC, 1982a):

- State assistance to be more finely tuned to help indigenous companies overcome the main barriers to entry to international markets;
- Policies on internationally trading indigenous companies to be complemented to ensure those firms have the scale, functions and financial capacity to compete abroad;
- Greater selectivity in assistance to foreign companies to ensure they locate key aspects of their businesses in Ireland;
- Similar recommendations to apply to the services sector;
- Regular assessment of the levels of incentives to foreign industry, with a view to reducing same and greater control of tax-based lending mechanisms;
- Better evaluation of the success of industrial policy;
- The importance of a positive environment to achieve industrial policy objectives.

In the period 1980-88 NESC produced a total of 41 reports (in the previous 28 years of its existence it had only produced 46 reports). Apart from the increased number there was also a greater professionalism and considerable step-up in the depth and breadth of analysis. The period under review contains reports across the entire social and economic spectrum: demographics, labour markets, the criminal justice system, social welfare, health, education,

[33] At interview Dr FitzGerald made the interesting observation that much of the malaise that permeated Irish industry in the 1980s was directly attributable to the effects of 'free trade' policies adopted in the 1960s in the move from 'protectionism'.

housing, tourism, transport etc. Its major contribution has been in the area of economic and social policy assessment and it has never been slow to point out the failings of the state.

Integral to *NESC* was bringing the social partners together and over time a certain level of respect began to build between them. As the various participants got to know one another a degree of mutual trust began to emerge. To the surprise of many they actually got to like one another! (Ahern, Cassells, Dunne and O hUiginn interviews). In November 1986 *NESC* produced *A Strategy for Development 1986-90* and this proved to be a seminal document that, in the opinion of the writer deserves equal status with *Economic Development*. It helped to ensure that the critical moment of that time became a critical juncture. It proposed a corporatist solution that will be dealt with in detail in the next chapter.

**Who were the ideational actors?**

At the first critical juncture it was seen that the writings of Professors Carter, Lynch and Ryan were highly influential, closely followed by FitzGerald and Whitaker and that their 'ideas' were widely disseminated across the then available media. By the second critical juncture there were many more channels available for the dissemination of ideas but there is a marked absence of dominant figures in ideational roles. Apart from Kieran Kennedy at the ESRI, Bridget Laffan writing on European affairs is the most cited author in all the articles reviewed. In the 1950s the 'idea' of free trade became a worldwide phenomenon and with the open nature of the economy Ireland could not remain immune to world influences. Even more so at the second critical juncture, because of the level of foreign direct investment that had taken place, outside influences became more significant. The new 'idea' for world economic revival was monetarism.

Monetarism is an economic doctrine that holds that changes in the supply of money causes change in general price levels. Allied to this is a belief in minimal intervention by the state in the economy which is best regulated by free market forces. Very much associated with the Chicago School of economists such as Milton Friedman, monetarism holds that control of inflation can only be achieved by restricting the growth in money supply. By the 1970s this argument began to gain acceptance as the emergence of high levels of inflation and unemployment discredited Keynesian demand-management policies which had become embedded in the public sentiment as background underlying assumptions. The emphasis was

shifting to concentration on the supply side. The rise of Thatcher in Britain, Reagan in America, Mulrooney in Canada, Keating in Australia and Lange in New Zealand greatly boosted the cause of monetarism with Thatcher, in particular, having a significant influence in Ireland.

Thatcher became Prime Minister of the Great Britain in 1979 and quickly earned the moniker of the Iron Lady because of her perceived inflexibility on policy matters. Her first term of office was dominated by three issues: monetary policy, public spending and trade union reform. She was the quintessential monetarist and the Conservative budget of 1980 spelled out the Medium Term Financial Strategy which was intended to set the monetary framework. 'The aim was to bring down inflation by decreasing monetary growth, while curbing borrowing to ensure that the pressure of disinflation did not fall solely on the private sector in the form of higher interest rates' (Thatcher, 1993: 96). Monetary policy had to be matched with fiscal policy which brought public expenditure under control. Her ideology may well have been more political than economic but she set about changing British society fundamentally.[34] By the end of her first term she boasted, not without justification, that 'like-minded ministers and I had largely converted the Cabinet, the Conservative Party and opinion in the worlds of finance, business and even the media to a more restrictive view of what the state's role in the economy should be' (1993: 688).

Her case was greatly helped by the behaviour of some of the trade union leaders, particularly in nationalized industries such as steel and coal. For Thatcher it was a fundamental question: who ran the country? She was in no doubt it should be the government. For her the unions had been 'exploited by the communists and militants who had risen to key positions within the trade union movement' (1993: 97). She had two simple solutions: break the power of the unions and privatise nationalised industries. She immediately set about changing the law on unfair dismissal and redundancy payments (deemed to be far too onerous on employers), secondary picketing, strike balloting and the 'closed shop' (which made union membership obligatory in certain industries). Allied to her fundamental abhorrence of socialism was that unions had in actual fact failed their members: 'The unions had priced many of their members out of jobs by demanding excessive wages for insufficient output, so making British goods

[34] One of her more controversial pronouncements, pounced on by the press, was that there was no such thing as society. In her memoirs she attempted to set the record straight: 'My meaning was... that society was not an abstraction, separate from the men and women who controlled it, but a living structure of individuals, families, neighbours and voluntary associations' (1993: 626).

uncompetitive' (1993: 272). She achieved all her aims on union reform and as will be seen when looking at the birth of Social Partnership in Ireland her actions had enormous influence on the attitudes of Irish unions.

The sale of nationalised industry had begun in 1979 with the part privatisation of British Petroleum (completed by 1987), British Aerospace, Cable & Wireless, National Freight Consortium, Jaguar, British Telecom and many more. Her second term of office saw a dramatic increase in the sale and scope of state assets 'the general emphasis switched from privatization of industries whose nationalization was justified only by socialist dogma, to that of public utilities where the arguments were more complex' (1993: 679). She saw privatisation as 'one of the central means of reversing the corrosive and corrupting influences of socialism' (1993: 676) and her efforts were admired and feared in equal measure. Her privatisation vision saw increased efficiency and the widest possible share ownership by the general public.

Rhodes (1994) coined the expression 'The hollowing out of the State' to describe Thatcher's legacy: 'Since 1979, over 50 per cent of the public sector, along with 650,000 employees, was transferred to the private sector' (p.139). Over the same period the number of civil servants fell by 24 per cent and there was a 38 per cent drop in the numbers employed in non-departmental bodies. Rhodes was one of the main writers of the 'state retreat' school that saw the 'rolling back' of the state. The 'state centric' scholars argue that in effect by divesting itself of non-core activities and putting a proper regulatory framework in place to monitor the privatised industries 'the core is now more substantial than ever before' (Holliday, 2000: 175). Sorensen argues that both points of view may be right and not mutually exclusive and that what is happening is 'state transformation'. Whichever view one takes the fact remains that Thatcher had enormous influence and her ideas on monetary policy, public expenditure and trade union reform spread across the Anglo-Saxon world.

Given the disparity in size and the history of the two countries the Irish political elite, while casting anxious, but sometimes admiring, glances across the Irish Sea, would rather take their role model from another quarter. New Zealand, as an island nation geographically removed from its markets, with an agricultural based economy and a similar population offered some ready solutions. So enamoured did the administrative elite become with the New Zealand reforms that a group of 11 senior civil servants, who completed an M.Sc. in Strategic Management in Trinity

College Dublin in 1994, visited New Zealand to see the reforms at first hand.[35] Their thesis was accepted by the government as the basis for 'The Strategic Management Initiative' which was to be the cornerstone for public sector reform. Mac Sharry (2009) spoke at interview about meeting Douglas and how much he was influenced by him. The New Zealand solution was

> ... Rogernomics, the eponymous neo-liberal economic strategy of Minister of Finance, Roger Douglas. It deregulated financial markets, floated the New Zealand dollar, abolished agricultural subsidies, and generally followed neo-classical or monetarist economic policies aimed at correcting a legacy of neo-Keynesian government failures' (Gregory, 2004: 154).

In the words of Douglas himself 'the government set aside traditional myths and went back to fundamentals' which required 'selling for commercial profit against competition on the world market' (1990: 105). To achieve that would require economy-wide reforms designed to make short-term adjustments for the sake of medium-term benefits and the following measures would be necessary:

- Firm anti-inflationary monetary policy;
- Deregulate the financial sector;
- Remove protectionism;
- More productive government spending and a consequent reduction of the cost burden placed on private-sector initiative;
- More transparency in government decisions;
- Removal of all subsidies so that all exporters (including farmers) were forced to live or die in the market place:
- Make labour market more responsive to market opportunity;
- Lower taxes across the board;
- Improve resource allocation by creating a level playing-field for everyone.

What was unusual was that Douglas persuaded Prime Minister Lange and his government to do it all with one big bang. Within three years agriculture, the country's biggest export industry was operating in the open market without government subsidy; import controls had been virtually abolished; the financial sector was totally deregulated; internal markets significantly deregulated with full deregulation of the telecom industry – the first country in the world to do so; monopoly rights of government departments in the provision of services

[35] The authors were Denis Byrne, John Dully, Donal Garvey, Walter Kirwan, Tom Mulherin, Gerry O'Hanlon. Seamus Rogers, Oliver Ryan, Catherine Treacy, Brendan Tuohy and Michael G, Tutty.

completely removed; the tax system totally overhauled and described by the OECD as the least distorted in the world; efficiency gains in the range 30-100 per cent achieved in state business enterprises; core public sector departments fully accountable on an outputs basis for the resources they use. The economic benefits were a reduction in the fiscal deficit of 9 per cent to a balanced budget with a small surplus; inflation reduced from 13 per cent to 4.4 per cent; overseas debt reduced from 41 per cent of GDP to 27 per cent; the economy growing at 2.5-3.0 per cent per annum (Douglas 1990, Gregory 2000, 2004).

A notable feature of the New Zealand reforms was the speed with which they were accomplished. Douglas (1990: 109) set out ten principles that underpinned the reforms:

1. Move quality people into strategic positions to implement quality decisions.
2. Implement reform in quantum leaps thereby preventing vested interests from mobilising opposition.
3. Speed is essential.
4. Keep the momentum going and never let it stop.
5. Credibility is crucial, hard to win, easily lost and can only be maintained by consistency and openness.
6. Let the dog see the rabbit – show people where you are leading them.
7. Do not sell the public short. The will respect politicians with vision and courage.
8. Do not blink. Get the decisions right and stick with them.
9. Opportunity, incentive and choice mobilise the energy of people in the attainment of successful change.
10. When in doubt, ask yourself: 'Why am I in politics?'

In answer to the question at 10 above Douglas was quite clear:

> Conventional politicians ignore structural reform because they think they are in power to please people, and pleasing people does not involve making them face up to hard questions. They use the latest polls to fine-tune their image and their policies, in order to achieve better results in the next poll... their aim is really to be in perpetual power. It becomes increasingly clear to people that their problems have not been solved, and the opportunities have been thrown away (1990: 135)

Against all the odds and the pain associated with the structural change that had been implemented the Labour government was returned to power in 1987 with an increased

majority on its 1984 landslide win thereby giving credibility to Douglas' actions and his belief that voters will accept short-term pain for long-term gain.[36]

**New Ideas' for the Transformation of Ireland**

Common to all the above ideational brokers was that in the world of the 1980s the Keynesian economic model was no longer working. Even though some may have been slow to admit it there was near unanimity that the Irish public finances were in a perilous and unsustainable position. The government of Garret FitzGerald (1982-87) continued Keynesian economic policies thereby exacerbating an already serious situation.[37] In all the sources reviewed addressing the public finances was the predominant theme. The dominant economic model emerging was monetarism which holds that controlling the supply of money is the key to economic success because change in the supply of money causes change in general price levels. It also holds that there should be minimum intervention by the state (a principal tenet of Keynesianism) and that the economy is best regulated by the free market. One of the main economic stimuli of monetarism is the reduction in the rate of taxation and as was seen in the review of the literature reform of the taxation system was a common thread proposed for the Irish context. The Progressive Democrats were quintessential monetarists and, as will be demonstrated, their economic policies were central to the 'new idea' that was adopted by the main political parties.

The other 'idea' to emerge was to locate a solution in a corporatist structure and how this evolved and was achieved will also be demonstrated in the next chapter. Monetarists believe in a minimal role for the state ('rolling back' or 'hollowing out' the state) whereas corporatists believe in the centrality of the state. Theoretically, at least, marrying both ideologies is an unlikely scenario.

These were the proposals of the ideational actors for the transformation of Ireland that had largely received economic acceptability. In framing their proposals they were well aware of the opposition that would be encountered from various institutions of state. As set out in

[36] After the 1987 general election vested interests began to organise in opposition to the pace of change and Prime Minister Lange, without consulting his cabinet or party announced a 'breather' in the reform process. This led to a showdown in cabinet with Lange trying to remove Douglas from the Finance portfolio in September 1988 but relenting in face of cabinet opposition. Douglas subsequently forced the issue by stating that he would not continue in Finance if Lange remained as Prime Minister and was removed from cabinet in January 1989. A party caucus engineered his return to Finance in August 1989 and the replacement of Lange by Geoffrey Palmer. Reforms resumed but public confidence had been eroded.

[37] Coming to the end of their term they tried to rein in public expenditure and were accused of being monetarists by Fianna Fáil.

Campbel's Typology of Ideas (2004: 94) they were proposing a major paradigm shift to replace the background underlying assumptions of Keynesianism embedded in the public sentiment with new foreground concepts and theories as elite prescriptions. This would enable political and administrative elites to frame those ideas as symbols and concepts that would enable decision makers to legitimize change to their constituents.

Ireland had arrived at a critical moment, what Burch, Hogwood and Bulmer call a perceived opportunity for significant change.

> At such critical moments formerly rigid institutional hierarchies become more malleable and the bias of an institution is subject to pressure... The opportunity may *not* be realised and exploited: it may effectively be missed. However if it is realised, the outcome is a 'critical juncture', incorporating a clear departure from clearly established patterns (2003: 7).

The critical moment did become a critical juncture when the 'ideas' of monetarism and neocorporatism, which had received economic acceptability, received administrative and political acceptability thereby conforming to Hall's Framework (1989: 371) for the adoption and implementation of a new transformative idea. Referring to the unfolding events in 1959 Professor Carter said of the Irish: 'You are not afraid of socialism; or (to be more accurate) you are very much afraid of being *called* socialists' (1959: 20). His words could usefully be adapted for 1986/7: the Irish were not afraid of monetarism or corporatism; they were afraid of being called monetarists or corporatists. Rather than use those particular monikers, the former because of its association with Thatcher and the latter because of its association with fascism, less emotionally charged terms found their way into everyday usage. Monetarism became 'tax reform' and corporatism assumed the mantle of 'social partnership'.

How these 'ideas' achieved political and administrative acceptability will be demonstrated in the next chapter.

# Chapter 7: Achieving Administrative and Political Acceptability at the Second Critical Juncture in the Transformation of Ireland

As at the first critical juncture administrative and political acceptability were inextricably linked and again highly dependent on two men. This time the roles of Lemass and Whitaker were played by Haughey and O hUiginn. The events that unfolded over the period 1986/87 are a neat encapsulation of cumulative causes having threshold effects (as described by Pierson) and needing to be understood in the context of their timing and sequencing i.e. situating events and moments in a temporal sequence can greatly increase the understanding of those events. The ideas of monetarism and corporatism achieved economic acceptability because they provided a credible solution for economic problems. Peters put it that 'ideas tend to provide a set of ready solutions for problems that arise within their domain' (2001: 66). O hUiginn certainly subscribed to this view. His role as Chairman of NESC came at a critical moment 'when a perceived opportunity arises for significant change. That is, an event takes place which raises a general expectation that significant change will follow' (Burch, Hogwood and Bulmer, 2003: 7). That event was the publication by NESC of *A Strategy for Development 1986-90*.

On return to power in 1987 Haughey had accepted the 'ideas' of monetarism and corporatism – or to use the acceptable name of both, tax reform and social partnership. He was heavily influenced by O hUiginn and their acceptance of the economic proposals was to prove crucial in gaining political and administrative acceptance and of the new 'ideas' and so complete the final strands identified by Hall for the viability and enactment of a new idea.

Using process tracing and interviews with many of the key actors this chapter will trace the steps that ensured the political and administrative acceptance of the ideas of tax reform and social partnership that contributed to the transformation of Ireland at the first critical juncture.

**Political Dimension**

Haughey had been sacked from cabinet in 1970 for his alleged part in an attempt to illegally import arms for the nationalist community in Northern Ireland during the troubles in that part of the island. Following his acquittal in the subsequent trial Haughey spent a number of years in the political wilderness. He was restored to the cabinet in 1977 and two years later avenged his humiliation when he successfully challenged for and won the leadership of his party and

became Taoiseach. In looking at political culture in the previous chapter it was also seen that Haughey trebled the size of the Department of the Taoiseach and effected systemic, organisational, regulative and procedural levels as described by Bulmer and Burch. In the process he centralised power in his own hands. This point was very forcibly made by O'Malley (2009), who was a member of the cabinet at the time. Referring to Haughey's style of leadership he said: 'Overnight the country changed. We went from cabinet government to presidentialism – a presidentialism that was in clear breach of the constitution'. Brian Farrell titled his book on the role of the Taoiseach *Chairman or Chief?*; Haughey had decided to be Chief. (This point will be reinforced in Chapter 8 when dealing with the negotiations with the Progressive Democrats to form a coalition government in 1989).

Haughey was known to have been very uneasy about the populist Fianna Fáil election manifesto of 1977 and as both an accountant and former Minister for Finance it was widely expected that he would tackle the mounting debt problem. On 9 January 1980 he went on television to address the nation. Beginning with a comment on the state of the nation he said 'the picture I have to paint is not, unfortunately, a very cheerful one... as a community we have been living beyond our means'. He went on to outline the parlous state of the public finances and the effects of the oil crisis on the balance of payments. 'We will have to cut down on Government spending. The Government is taking far too much in by way of taxes from individual members of the community'. In attempting to reduce expenditure to manageable proportions 'we will, of course, be paying particular attention to the needs of the poorer and weaker sections of the community and make sure they are looked after... but many things will have to be curtailed or postponed, until such time as we can get the financial situation right'. He went on to make a special plea for industrial peace believing it to be central to future prosperity and concluded his address with the following exhortation: 'Let us make it the year of industrial peace. If we do, I am certain the improvement in our affairs by the end of 1980 will have been dramatic' (Quoted in Mansergh, 1986: 323-6).

His address was widely praised as being realistic and timely. It was a critical moment which could be transformed into a critical juncture if action was taken. As Collins (2001: 139) put it 'The diagnosis was correct, but having identified the problem Haughey proceeded to implement a policy which was precisely the opposite'. A plan to introduce a tax on farmers was abandoned; between special awards and national pay agreements public sector pay rose by a staggering 34 per cent in 1980 alone; the exchequer borrowing requirement, targeted to be

reduced from £1,009 million to £896 million, increased to £1,217 million.[1] The end result was a further increase in borrowing and taxation. The above is included to set the context for what happened when Haughey returned to power in 1987 – another critical moment, but this time the opportunities were seized and a critical juncture arose through the adoption and implementation of new ideas which punctuated institutional path dependency and propelled the country down a new developmental pathway.

**Administrative Change**

To drive administrative change requires strong leaderhip, a role filled by Whitaker at the first critical juncture. This time the role fell to Pádraig O hUiginn in his role as Secretary General in the Department of the Taoiseach. A very able and politically astute civil servant he developed a strong bond with Haughey and their relationship was to prove critical.

O hUiginn joined the civil service in 1941 and served in the Departments of the Environment, Industry and Commerce, Lands, Economic Planning and Development. He also served overseas on secondment to the UN Economic Commission in Geneva as Economic Affairs Officer, UN Headquarters in New York as Officer-in-Charge of Housing, Planning and Building, EC Council of Ministers in Brussels as Director of Regional Policy. He holds an MSc in Economics and Social Planning and is a multi-linguist. On his return to Ireland he was appointed Assistant Secretary in the newly formed Department of Economic Planning and Development following the 1977 general election. When this Department was abolished by Haughey in 1979 O hUiginn moved to the Economic Planning Unit established in the Taoiseach's Department.[2] He was subsequently appointed Secretary General of that Department in 1982, a position he retained until his retirement in 1993 – a retirement that was postponed twice at the request of both Haughey and Reynolds as Taoiseach because of the perceived centrality and importance of his role – a role perceived by some as being as central as Whitaker's.

[1] An example of the profligacy was the approach to a teachers' pay award. A recommendation from a special arbitration board was rejected by the teacher unions. In response to teacher intransigence Haughey instructed John Wilson, Minister for Education, to concede an award *greater* than the original demand from the union. This both stunned the unions, who gladly accepted the award, and the arbitration board who resigned in protest.

[2] At that time there was widespread media coverage of refugees from South Vietnam in particular who escaped by boat, many of them drowning in the process and becoming known as 'the boat people'. This particular moniker was somewhat cruelly applied to the banished staff of the abolished department many of whom had difficulty in finding a new home in other Departments of Government having been tainted by the perceived failure of their own Department.

But O hUiginn was a much more divisive character and seems to have alienated quite a few of his civil service colleagues. It is hard to judge if this was just begrudgery at the new importance of the Department of the Taoiseach as in civil service politics any change of reporting arrangements or structures is perceived in zero sum terms: if one Department gained then clearly another Department must have lost. It would also appear that having spent time overseas O hUiginn had a great deal of exposure to new ideas and different ways of doing things. He was impatient of many of the practices and ways of doing business that had evolved and become path dependent. There may have been some acceptance by his colleagues that there might be a better way of doing things but they were loath to change the *status quo*. He refused to get bogged down in detail and was dogged in implementing new ideas – institutional veto points were there to be overcome. It is alleged of him that when he met with opposition he opined to his objecting colleague that the next phone call that would be made would be from Haughey.

(Above information, as indeed a lot of other background information, was obtained in interviews with various serving and retired officials who did not wish to be named. They included two former Departmental Secretary-Generals, one serving and two retired Principal Officers and two serving senior officials in the NTMA and CSO).

An earlier paper by O hUiginn, *The Way Forward*, had been enthusiastically embraced by Haughey and adopted by Fianna Fáil in their election manifesto of 1982.[3] When Fianna Fáil lost the election it was never likely that *The Way Forward* would be adopted by the incoming government of Garret FitzGerald.[4] It also somewhat politicised O hUiginn as he was seen as being close to Haughey and certainly when Haughey returned to power in 1987 O hUiginn played a much more central role than hitherto. In his memoirs FitzGerald expresses his disaffection with the structure of the Department of the Taoiseach with its government secretariat and economic planning unit: 'I was never happy with the resultant dual structure,

[3] The Way Forward looked at corrective measures being taken in Germany, Denmark, France, Belgium, Luxembourg, Netherlands, UK, Japan, Italy and USA. It spelt out the starkness of the situation facing Ireland and that 'timely and well considered action is needed to protect our economic welfare and security' (p. 7). Unemployment, tax inequity, current budget deficit and rising exchequer borrowings would all have to be addressed through the competitive production of goods and services and not 'by employment in the public services based on increased taxation and borrowing' (p. 16).

[4] Instead FitzGerald set up the National Planning Board under the chairmanship of Professor Louden Ryan. He wanted a board that operated independently of government. His criticism of *The Way Forward* was that it had been prepared within the government framework and 'bore all the marks of having been filtered through processes designed to ensure it said nothing that would be either politically embarrassing or contrary to Department of Finance orthodoxy' (FitzGerald, 1991: 450).

which seemed to me to be top heavy, although both parts of the department had some able staff' (1991: 366). FitzGerald only accords O hUiginn one mention merely naming him as Secretary General of his Department in succession to Noel Whelan. (I chose not to raise their relationship with either FitzGerald or O hUiginn at interview). In any event O hUiginn was increasingly marginalised under FitzGerald's premiership and had ample time on his hands to devote to his role as Chairman of NESC.[5] In a neat ironic twist the end result was the production of a document which was to prove seminal in the transformation of Ireland. It was also a good example of Pierson's (2004: 18) importance of timing and sequencing and 'how large consequences may result from relatively small or contingent events'.

**A Strategy for Devlopment 1986 – 1990**

In November 1986 NESC produced what proved to be a key report: *A Strategy for Devlopment 1986 – 1990*. Reflecting the level of research then available, and the improvements in data collection since the 1950s, in its scope and depth the level of analysis far exceeds *Economic Development*. The chief architect of the report was O hUiginn. Apart from his not inconsiderable skills O hUiginn was also able to call on the brightest and best across the civil service for support. Council members of NESC included five members each from the union, employers and farming associations, and seven nominations by the government (six senior civil servants and Dr Hederman-O'Brien who had chaired the Commission on Taxation).

The report runs to a total of 348 pages and following a brief overview of economic performance is broken into four sections:

*Review* –offers 85 pages of in-depth analysis of performance in the period 1980-85 across all sectors of the economy and the effects on (un)employment. Budgetary and fiscal policy is dissected and criticised as is the level of borrowing and the cost of same (in 1981 interest rates were at 17 per cent and only decreased to 10.5 per cent by 1985). Rising unemployment levels together with increased welfare provision meant that the cost to the exchequer increased from 29.8 per cent of GNP in 1980 to 35.6 per cent by 1985. The tax system is also extensively examined.[6] Personal tax rates at 24.6 per cent for a

[5] At interview O'Malley was quite scathing of Haughey's politicisation of senior civil servants. I also raised the situation with other civil servants who did not want to be named and they are the source for the comments above in relation to the amount of time O hUiginn was able to devote to his role in NESC.

[6] The Commission of Taxation reports had all been completed by the time the NESC report was issued and the Commission recommendations are duly noted. Dr Miriam Hederman-O'Brien, who chaired the Commission was also a council member of NESC.

single person against an EC average of 18.4 per cent. Only Denmark at 29.6 was higher.

*Outlook* – offers 45 pages on the prospects for economic growth 1986-90. Whereas inflation was at last coming under control unemployment was likely to remain stubbornly high and the economy remained extremely vulnerable to outside influences. Retrenchment in the USA saw capital investment by American companies in Ireland drop from a peak of £229m in 1981 to £123m in 1984. The analysis of the life-cycle trends in such companies from set-up to full production to decline is particularly informative and pointed to the necessity for a different strategy in attracting new industries. The forecast for economic growth for the period 1986-90 ranged from an 'Optimistic' 3.2 per cent per annum to a 'Pessimistic' 1.9 and over the same period numbers employed would at best increase by 16,000. The overall conclusion was that 'the continuation of existing policies offers little prospect of ameliorating the two most serious problems currently facing the Irish economy' [the public finances and unemployment] and 'the principal mechanism which is likely to at best contain the growth of unemployment, is emigration' (NESC 1986: 141). Their analysis painted 'a picture of the current state of the Irish economy which is almost unremittingly grim' (*ibid*: 145).

*Policies* – offers over 150 pages of a four pronged strategy to simultaneously address the twin problems of unemployment and the public finances. These are dealt with below.

*Conclusion* – draws the whole report together.

Any strategy for economic recovery would have to include three essential elements: an acceleration of output growth with a consequent employment growth; a realistic approach to the range of variables that impinge on the formulation of budgetary policy; to achieve both of above would require sacrifices shared equitably across society.

'Against the background of these three essential elements the Council has, in this report, put forward an overall strategy for economic and social development' (p. 306.). It contained four major pillars:

- An integrated macro-economic policy that addressed the imbalances in the public finances while at the same time promoting the development of the traded sector.
- Fundamental reform of the tax system that enhanced equity and efficiency of the present system.

- Creation of an improved business environment together with improved sectoral policies that directed state intervention to structural deficiencies in the productive base of the economy.
- Progressive removal of the major inequities in society.

(It is also worth noting that *A Strategy for Development 1986 – 1990* devoted a whole section to the role of women in Irish society and made a total of eighty recommendations on employment, education, health services, child care services, social welfare/social protection, rural women, women in the home, single parents, family law reform and women's status.)

Having acknowledged the scale of the problem and proffered solutions the Council was realistic. 'Remedial action is only possible in the medium term... The return of confidence ... is crucial ... [and achieved only] if markets and individuals believe in the overall strategy ... Another major requirement for a successful strategy is acceptability' (p. 321). This applies particularly to those who will have to make sacrifices and the burden of adjustment must 'not be borne by the less advantaged members of society' (*ibid*.). Having reached unanimous acceptance of the measures necessary to confront economic and social problems

> ... [the Council] is of the view there is a need to foster a greater degree of consensus in Irish society if these measures are to be implemented without giving rise to conflict. This consensus is necessary both on the national level and the level of the workplace. The Council intends to pursue this issue further, through examining the institutional arrangements for economic and social planning in a number of European countries and particularly at the mechanisms in place for the achievement of consensus (p. 321).

A critical factor was getting unanimous agreement from the group on the extent of the problems facing the country and this was to prove critical. Writing on the state of industrial relations at the time Roche (2009: 191) said:

> Governments had become prone to buying off pressure by offering inconsistent and ultimately unsustainable concessions to a range of different interest groups. Unions and employers had never arrived at anything resembling a common analysis of the roots of the mounting economic crisis. Both parties were unable or disinclined to deliver on their pledges in the areas of pay moderation or industrial peace.

Ray Mac Sharry, who became Minister of Finance in the 1987 government of C.J. Haughey, said of the NESC report:

> Its significance lay not just in its stark analysis of the economic problems facing the country, but in the fact that the NESC members were also ready to support the report's tough recommendations in tackling them... not only had [the members] diagnosed the problem, but prescribed the remedy. That was exceptional (2000: 44).

On the role of O hUiginn he said that 'a major part of his contribution lay in convincing the Taoiseach that the economic strategy proposed was the right one' (2000: 54). All sources consulted were unanimous that it could not have happened without O hUiginn. His conviction that the only future for the country 'lay in economic consensus' (interview with author) was the motivating factor that kept all parties at the table while he sought, and ultimately achieved, consensus. The 'ideas' contained in *A Strategy for Development 1986-90* ultimately gained economic, administrative and political acceptability and played a major part in the transformation of Ireland at the Second Critical Juncture.

With its analysis of economic and social conditions it formed the basis for the negotiation of the first social partnership agreement, The Programme for National Recovery, and became a template for subsequent three-yearly reports which in turn became the agreed basis for all subsequent social partnership agreements.

**Political Acceptability**

Pierson (2004) argues that timing and sequencing matter and there are strong theoretical grounds for believing that when things happen affects how things happen. (He offers the useful analogy of the good cook knowing that the order in which ingredients are added to the mix greatly affects the finished product). The events of 1986/7 offer a neat illustration of this point. *A Strategy for Development 1986-90* could have remained as merely 'interesting' and then gather dust on a shelf. However, within four months of its publication, Haughey was Taoiseach (on the casting vote of the *Ceann Comhairle* on 10 March 1987) and O hUiginn was secretary of his Department – and very much Haughey's right hand man.

Interviews were conducted with the following political actors to ascertain their influences and 'ideas' at the time. Haughey had died in 2006.

- Bertie Ahern – Taoiseach from 1997 – 2007, Minister for Finance 1991 - 94, Minister for Labour 1987 – 91.
- Alan Dukes – Minister for Finance 1982 – 86, also served as Minister for Justice and Minister for Agriculture, leader of Fine Gael and in turn leader of the opposition.
- Garret FitzGerald – Taoiseach 1981 and 1982 – 87, Minister for Foreign Affairs 1973 - 77, leading economic commentator from the 1950s onwards.

- Ray Mac Sharry – Minister for Finance 1982 and 1987 – 88, also served as Minister for Agriculture and as EU Commissioner for Agriculture.
- Des O'Malley – founder of the Progressive Democrats, former Minister for Justice and Minister for Industry and Commerce

On his first day as Taoiseach in March 1987 Haughey had lunch with Mac Sharry and O hUiginn where he spelt out the strategy for government. The primary goals were tackling the current budget deficit and implementing the NESC report. (Haughey, 2006; Mac Sharry, 2000 and 2009; O hUiginn, 2009).[7] O hUiginn assured the Taoiseach that he could deliver the main proposals in the NESC document and do so expeditiously. Haughey instructed him to proceed immediately and to report directly to himself and to also keep Mac Sharry in the loop. They also agreed that the forthcoming budget would have a lower budget deficit than that proposed by the outgoing government; to develop the traded sector, as suggested in the NESC report, by the creation the Irish Financial Services Centre (IFSC); introduce measures to restrict cross-border shopping – even though they knew that what they were proposing was in breach of EU law.[8] Given Haughey's prior record as Taoiseach there was considerable scepticism that he would deliver on his economic promises and his television address to the nation in January 1980 was regularly cited by his detractors.[9]

In the Haughey document that I received from O hUiginn, Haughey, referring to the time spent in opposition prior to 1987, claims (p. 10) 'the vital establishment of the National Treasury Management Agency (one of the most important steps taken) whose contribution in managing the National Debt was of crucial importance'. He was right in his assessment of the contribution but there had been no mention of such an agency at that time and it was not set up until 1990. Both Mac Sharry and Reynolds credit Michael Somers, who headed up the agency for twenty years, as the originator of the idea.[10]

Conor Brady, as editor of the Irish Times, was taken by John Healy for a private dinner at Haughey's house in early 1987. Haughey outlined his plans for economic recovery. He was

[7] Haughey (2006: 7) states: 'In discussions I had with Mr. O hUiginn before taking up office in 1987, I was assured by him that there was a full commitment by the social partners and that he was confident that a new National Plan could be negotiated based on that strategy'.
[8] Confirmed by Mac Sharry at interview. 'We knew that by the time they got around to doing anything about it that we would have saved a lot of money'. He also refers to it in *The Making of the Celtic Tiger* (p.96).
[9] The Fianna Fáil election slogan had been: Expenditure Cuts Hurt the Sick, the Poor and the Elderly.
[10] In correspondence I received from Mr. O hUiginn after our interview he claimed that the idea of the NTMA originated in the Department of the Taoiseach.

confident that the tide was already turning: interest rates were falling and would continue to fall; 'Mac Sharry will cut back a bit here and there' (Brady, 2005: 7); the IFSC and the Temple Bar areas would be developed and the beef industry reorganised – all of these would inspire confidence which, for Haughey was the most important ingredient of all.[11] There was no mention of social partnership as part of the grand plan.

The economic policy of Garret FitzGerald' government focussed on low wage levels and reducing unemployment (in which they failed). Haughey by contrast was prepared to gamble on low inflation and tax cuts to moderate pay cuts. FitzGerald got lost in the detail whereas Haughey looked at the bigger picture and had a better political understanding of the situation – confidence would be the key.[12]

**The Beginnings of Economic Reform**

The budget of 31 March 1987, just three weeks after the Fianna Fáil return to power, was delivered by Mac Sharry as Minister for Finance.[13] It was even more draconian than that proposed by the outgoing government. It proposed a 6.9 per cent current budget deficit (a full 0.5 per cent below the outgoing government's proposal); a two per cent pay increase due under an existing public sector agreement would be honoured but there would be no more 'special awards'; no filling of civil service vacancies without the express permission of the Minister; no filling of vacancies in the Health Boards. Probably the most galvanising feature of the budget was the announcement of an early retirement and voluntary severance package for public servants (subsequently availed of by 20,000).[14] The government had given a clear signal that it was serious about addressing the public finances and this was welcomed, particularly by employer groups.

[11] Reading Brady's account of the meeting there is no doubt that he too was sceptical of Haughey's ability to deliver economic recovery.

[12] In March 1987 Conor Brady was invited to lunch at the IDA headquarters. The lunch was memorable for two reasons: the IDA chiefs were very upbeat about the economic prospects believing that their work in America was about to deliver enormous investment (in this they were right); there was no alcohol served at lunch - a scandalous break with tradition! At the time Brady thought that the IDA people were deluded in their optimism as it flew in the face of all the perceived wisdom.

[13] He had also served in that capacity between March and December 1982.

[14] The irony of this was not lost on Mac Sharry who commented at interview: 'I had created most of that 20,000 back in the early eighties!'

Mac Sharry had accepted the Finance portfolio without preconditions but there was an implicit understanding that he would have authority to do what was necessary either in expenditure cuts or tax reforms and he would have the support of the Taoiseach.

> I recognized that we were at a major turning point in our economic history. I knew the day of fiscal reckoning had arrived. It was time to call a stop - and mean it. For tough and unpopular decisions could no longer be avoided (2000: 44).

In his budget speech he told the Dáil:

> The message I have to deliver is unpalatable but it is critical to the revival of our economic prospects. We cannot be content to announce our intention to curtail spending while at the same time deferring action. We have to act now. Some schemes must be terminated, others must be reduced in scope and all public services must become more cost-effective. I am only too well aware of the number of lobbies for increased spending and how vigorously they will contest any curtailment of State services. But the national interest must take precedence over sectoral concerns (Dáil Debates, 31 March 1987).

He shared Haughey's belief that the climate was right for the implementation of the NESC proposals. However the spending departments would also have to be reined in. This would require 'that we cut down to the bone – not just the fat' (2009). He quickly earned the soubriquet 'Mac the Knife' for his unflinching approach to the public finances. He set up a high-level review group of himself, Haughey, O hUiginn, Seán Cromien – Secretary General of the Department of Finance, Maurice Doyle – Governor of the Central Bank of Ireland and Seamus Paircéir – chairman of the Revenue Commissioners. They met regularly, often weekly, always with the following agenda:

- Control of Expenditure;
- Tax revenues on target and what tax changes might be implemented;
- Central Bank view on interest rates;
- Progress on social partnership.

(Mac Sharry, 2000, 2009; Cromien, 2009).

The formation of the review group was an example of procedural and regulative change as described by Bulmer and Burch and of the cumulative causes described by Pierson that lead to threshold effects that transform a critical moment into a critical juncture.

Reference was made in a previous chapter to the influence of Roger Douglas and the reforms he was implementing in New Zealand. At interview Mac Sharry was enthusiastic about the New Zealand influence and recounted meeting Douglas at an IMF conference in New York to

discuss the reforms with him. Given the apparent success of the New Zealand reforms they were much admired and copied, particularly in Anglo-Saxon countries and Ireland was no exception.[15] Mac Sharry was also influenced by what he saw in the American tax system and this will be explored further when dealing with the implementation of tax reform.

Dukes succeeded FitzGerald as leader of Fine Gael after the 1987 general election in which there was a 12 per cent drop in its share of the vote. Reflecting on the mood at the time, at interview he said 'in everyone's mind was what was happening in the UK with Thatcher and the rise of the Progressive Democrats at home and because of the budgetary cuts I introduced I was often called Thatcherite and it was not meant as a compliment'. Also, the Progressive Democrats had confounded all their critics and gained fourteen seats in the general election, with many of those seats gained at the expense of Fine Gael. After five acrimonious years in government with Labour, Fine Gael had fought the election on a manifesto of severe cuts in public spending, borrowing and wage rates.[16] As a new leader of his party Dukes found himself in a very difficult political position: Fianna Fáil was implementing the policies that he advocated so how could he credibly oppose them? To the consternation of many in his own party he decided that he would support the government as long as it adopted a responsible economic policy. He outlined his strategy on 2 September 1987 at a Chamber of Commerce meeting in Tallaght:

> ... If [the government] is going in the right direction, I do not believe it should be deviated from its course, or tripped up on macro-economic issues... It means that, if in 1988 the government introduces a budget which: opens the way to a reduction in taxes... brings about a significant reduction in the current budget deficit... holds out a strategy for real employment expansion... does not add to the burden of debt service costs, I will not oppose the general thrust of its policy... I will not play the political game which produces the sort of phoney economic analysis which has passed for opposition in the past... I will not pretend that economic reality has changed just because I now find myself in opposition. That is the way my party will conduct its business (Cited in *Great Irish Speeches* by Richard Aldous).

This was a very clear punctuating of institutional path dependency. At interview he informed me that he had only told his own front bench on that particular day what he had in mind. For a

[15] By the start of the twenty first century many of the New Zealand reforms had to be reversed. At a Commonwealth Business Forum on 10 May 2002 Deputy Prime Minister, Jim Anderton, in a wide ranging address (O'Toole, 2003: 138-142) outlined how the state has had to re-enter the telecom, banking, and utility industries. It has also had to re-nationalise the rail system and Air New Zealand. (See also Sweeney, 2004: 151-2).

[16] Commenting, at interview, on his time government with Labour, Dukes said: 'Labour's answer to everything was to raise taxes or find a new one. They would not countenance any cut in expenditure'.

while opinion polls showed him as the most popular politician in the country. In his own words: 'the people understood it; the politicians did not'. His party never forgave him and he was ousted in 1990 and the 'Tallaght Strategy' discontinued.[17]

Mac Sharry believes that Dukes 'deserves more credit than he has received for his courage' (2000: 78). O'Malley believes that his actions were prompted by fears of the Progressive Democrats (Interview with author). O Cofaigh, reflecting on the subsequent success of the Irish economy, said: 'It could not have happened without Dukes. His role was critical and patriotic' (Interview with author). No matter what his motivation, and his own view of his actions is the most widely accepted, what Dukes did was a clear breach with the path dependent nature of party politics.

Apart from the enormous cultural shift involved in Dukes' action the change that ensued was manifest at the systemic, organisational, regulative and procedural levels on the Bulmer and Burch template as the operation of the Dáil was transformed in its legislative ability, how it organised its affairs, its regulations and procedures as the government had the support of the main opposition party in implementing its economic policy.

**The Political Beginnings of Social Partnership**

It is difficult to know what Haughey's attitude really was to developing a corporatist structure even though his instructions to O hUiginn on delivering the NESC proposals were quite unambiguous. As Roche (2009: 193) puts it 'Enter Charles Haughey – whether at stage left or stage right remains a matter of contention'. Haughey recalls being at a European Summit in Brussels on 28/29 June 1982 and he was chatting with Chancellor Schmidt of Germany. Schmidt informed him that he would be spending the week-end with unions and employers hammering out an agreement on pay for the year ahead. 'I was immediately struck with this commonsense approach and began, in my mind, as I listened to Chancellor Schmidt, to develop and expand the concept' (Haughey, 2006: 6). At interview O hUiginn insisted that Haughey was committed to the idea of social partnership from this time but Ahern paints a somewhat different picture of Haughey's early stance.

[17] He professed to absolutely no regrets: 'I would do the exact same again'.

Ahern (2009a) recalls persuading Haughey (then in opposition) with some difficulty to meet with ICTU on a formal basis. As Lord Mayor of Dublin in 1985/6 Ahern set up a number of meetings in the Mansion House at which Bill Attley and John Carroll, both trade union leaders, met with Haughey and Ahern. Fianna Fáil set up a think-tank in 1985 of sympathetic trade unionists and brought in some outside help to formulate a framework. 'I remember we used to meet upstairs in Scruffy Murphy's. As Lord Mayor I was ex-officio a member of governing bodies such as UCD. I picked the brains of some of their people and of Brian Patterson of the IMI' (Ahern, 2009a). They looked at a number of European countries and the model they favoured and 'the one that was ultimately implemented was based 50/50 on the Finnish/Swedish models'. In the background was 'the theory that if we got private sector growth through deferred increases, then employment growth would follow'. Tax reform would have to be an integral part of the process.

As Minister for Labour from 1987 to 1991, and then as Minister for Finance, Ahern, more so than any other politician, is seen as integral to social partnership. He was not formally part of the negotiations of the first agreement, a point stressed by O hUiginn at interview, but the back- channels he had built with the unions and employers were critical.[18] At interview he gave a very useful insight into the entire public policy process: 'You've got to understand that in the entire policy area, and in particular social partnership, most of the stuff has to be pre-cooked. Going into the formal meetings things had to be already sorted'. He also confirmed that his officials in the Department of Labour advised him to have nothing to do with a national wage agreement as experience showed that the parties to previous agreements only played lip service to same. 'I decided to do it anyway because I believed I could get the unions on board'.

Whether or not Haughey was a late convert to the concept of social partnership is debatable. Nevertheless, in an address to a party meeting in Athlone on 17 October 1986, referring to comments made by the union leader Bill Attley, Haughey said 'that those countries that have been least damaged by the present recession and that have had the lowest increase in unemployment are small European countries... where there is continuous and close cooperation between the Government, the employers and the trade unions' (Quoted in

[18] Confirmed by both union and employer representatives at interview.

Mansergh, 1986: 1161). Roche offers the following summation of Haughey's attitude to social partnership, and the research undertaken for this thesis suggests that Roche is right:

> Rather than viewing Haughey as a fiscal conservative, or as a monetarist in corporate drag, wedded to little more than the rhetoric of social partnership, it appears more valid to view him as a political opportunist or political adventurer... And I wish to suggest that it was more as a political opportunist than as a monetarist or corporatist visionary that Haughey embraced social partnership in 1987 (Roche, 2009: 193).

FitzGerald's attitude to social partnership was sceptical and coloured by his belief that earlier 'national understandings', as they were then known, were inflationary post 1964 (Interview with author). This was confirmed by Dukes at interview: 'My suspicion is that the trade unions and employers felt that if they came to any kind of understanding it wouldn't last as the government wouldn't be around for long. We had arguably left it too late'. He also referred to tensions between Labour and the unions and the unions seemed to be more predisposed to Fianna Fáil. Unlike the situation in other countries links between unions and the Labour party were not close and sometimes even quite distant.[19]

For O'Malley 'the only value of social partnership was when we introduced tax reductions but of course it also bypassed the democratic process' (Interview with author). He was also critical of the role of the Commission on Taxation because 'it was composed of experts on taxation, not on tax policy and did not take a broad enough view of what taxation should be about'.

Mac Sharry was also integral to the process as tax reform was a prerequisite for social partnership. Known as 'Mac the Knife' for the swingeing cuts he introduced in his 1987 budget, he nevertheless held the respect of the unions because he always kept them in the loop (Hastings, Sheehan and Yates). Mac Sharry (2009) saw his role as 'paring expectations through Social Partnership'.

The economic stance taken by Haughey and Mac Sharry came as a surprise to many and in their actions they demonstrated a clear breach with the past. Dukes facilitated them in their endeavours and contributed in no small way. O'Malley believed that the actions of both Mac Sharry and Dukes were very much circumscribed by the presence of the Progressive

[19] At interview O hUiginn recalled a conversation with Bill Attley, then president of ICTU. Attley was apologising for non attendance at a meeting of NESC as he was meeting Dick Spring, Tánaiste and leader of the Labour party. It was their first time meeting in three and a half years. Cassells (2009) described ICTU's position as being pragmatic: 'We have a two and a half party system and in this situation Labour will always be marginal'.

Democrats and there can be no doubt that this was also part of the equation, as was the role of Thatcher in the United Kingdom and Douglas in New Zealand. Monetarism was alive and well and living in Ireland and the country was at a critical moment, 'when a perceived opportunity arises for significant change' (Burch, Hogwood and Bulmer, 2003: 7). Significant change was under way in 1987 and it is 'the accumulation of pervasive changes that accounts for the realisation of a critical moment as a critical juncture' (*ibid*: 14). Timing and sequencing, as described by Pierson, were also central. The finalisation of the first social partnership agreement in October of that year, together with administrative acceptance of the 'ideas' of monetarism and corporatism ensured the completion of the three strands of Hall's Framework (1989: 371). New ideas had gained viability and in the process punctuated institutional path dependency that led in turn to the transformation of Ireland at the second critical juncture.

**Programme for National Recovery – the first Social Partnership agreement**

O hUiginn wasted no time in entering into negotiations with the social partners and the contacts and understandings built up in the NESC process, together with the work completed by the Commission on Taxation were invaluable.

Phil Flynn of the Local Government and Public Services Union (LGPSU) invited Haughey to address the union conference dinner soon after the budget. It was the first time a Taoiseach ever did so and Haughey gave a bravura performance that inspired confidence (Hastings, Sheehan and Yates, 2007: 37). He advised that the government's proposals for recovery were based on the four principles underpinning the NESC report: fiscal policy, tax reform, social equity and development measures. The union movement generally was willing to pursue any avenue that would improve the lot of its members. It had engaged at national level over a number of years and even though there was a plethora of small unions (up to one hundred in all) since the early 1960s their umbrella body, the Irish Congress of Trade Unions (ICTU) played an increasingly important role.[20] Cassells (2009), former general secretary of ICTU, and lead union negotiator for five Social Partnership agreements commented as follows:

[20] ICTU was formed as an all-Ireland body in 1959 with the coming together of the Irish Trade Union Congress, founded in 1894, and the Conference of Irish Unions, founded in 1945. Ninety unions with over half a million members affiliated to ICTU and shortly after its foundation it was invited by Lemass, as Taoiseach, to discuss development and co-operation of the various economic actors (Murphy, 2009: 179). ICTU has an executive board drawn from the various unions and its own full-time executive under the direction of a general secretary.

'When we got to 1987 we had the irony of having negotiated pay increases of 77 per cent over the previous seven years yet our members were now seven per cent worse off. We also saw that the NUM would not engage with Thatcher and what was happening there and we could be part of the problem or part of the solution'.[21] Union membership was declining with the growth of foreign owned companies and a decline in private sector membership. 'We also had the rise of the Progressive Democrats and monetarism so our approach was in many ways pragmatic'. But there was also an ideological influence. 'Many of us had a Workers Union background that believed in getting the broader social issues on the table – people wanted to have a job, get a house and a future, educate their children. Take home pay was what mattered and the level of taxation. Integrate all of the above into the core business of unions – the social way'. The unions were anxious to influence events: 'Big strikes were out and were counterproductive. [With social partnership you had the possibility] of dipping into government policy – health, education, tax policy and trying to influence things. With three year agreements you could plan for real differences and employers could plan their wage bill for three years'. In ways the process was 'not immediately addressing issues but holding out hope. [Real] improvements would take years to work through'.

Getting the employers on board is attributed to a mixture of diplomacy and 'realism' applied by O hUiginn and Haughey. The various employers' groupings were reluctant to re-enter national pay bargaining because, from their perspective, local bargaining had worked very well.[22] John Dunne, former director-general of the Irish Business Employers Conference (IBEC), confirmed IBEC's fears that any national agreement would be a third tier because in addition to local bargaining there was also sectoral bargaining. Their 'key objective was damage limitation – could we live with it' (Interview with author). Within IBEC support for becoming involved was very cautious.[23] For a while they were fighting a rearguard action as

[21] Attley of SIPTU recalls that shortly after her election Thatcher met with the TUC and promptly read to them her election manifesto, refused to engage in any dialogue and never again formally met a union official (Hastings, Sheehan and Yates, 2007: 9).

[22] The main employers' representative body, IBEC, (Irish Business Employers Conference) was formed by a merger of the CII (Confederation of Irish Industry) and the FIE (Federation of Irish Employers). The FIE was a rebranding of the FUE (Federated Union of Employers) which had been formed in 1942 and was the dominant employers' body. As with ICTU, IBEC had a board representing the various industries, sectors, etc and a president who would serve for a short period. The main negotiations were carried out by the full-time staff under the control of the Director General. For the relevant period John Dunne was Director General of IBEC.

[23] Dunne recalled an earlier attempt at a national agreement in 1982. Haughey, as Taoiseach, was trying to get the executive of the then FIE to sign up. When they advised that they could not without first going back to their own board, which was meeting the following day, Haughey requested a right of audience at same. This caused difficulty for some members of the board and approval for Haughey's attendance was not unanimous. In the event the government fell soon after and it would be another five years before the birth of Social Partnership.

the Government and the public sector unions had reached broad agreement on a reduction in the working week from 40 to 37.5 hours per week. This was a bridge too far for the employers as, without substantial increases in productivity, it represented a 6.25 per cent increase in costs. In the event the agreement reached was for a 39 hour week (which still remains) and the unions did deliver substantial cost savings through changes in work practices. Dunne (2010): 'You would always pay a premium for peace and certainty and the multi-national companies loved it even though they remained at arm's length from the entire process. But through it, even though they were non-union employers, they were assured of certainty of delivery of raw materials, supplies etc from local firms'.

According to Dunne the employers were 'very cognizant of the situation across the water and no one wanted to go down that road'. Their recent experience in NESC had been very positive and they were also very impressed with the quality of trade union leadership.[24] Apart from the obvious headline advantages there was also substantial benefit from the level of trust built up between unions and employers. 'There were early warning systems, backchannels that helped one another out. No one could win, had to be seen not to win all the time. Integrity was so important as you're only as good as your integrity'. From his point of view it was a very worthwhile and rewarding exercise which was also enjoyable and formed some very long lasting friendships. 'There was a sense of fun and perspective and we were not trying to change the world'. (Ironically, they did change Ireland).

Cassells (2009) also acknowledged the role of NESC and the work that had gone on there. This contributed to widespread acceptance of the key analyses that had been completed by NESC staff. 'The key strategic issues were all agreed and also the [economic] outlook'. There was also a predisposition to consensus arising from a history of previous national understandings. Between NESC and the negotiations for social partnership mutual trust and understanding was built up (as well as some surprising friendships) through day to day contact. 'We were all obligated to work to solve problems that arose and that included government and IBEC. You had now a framework where problems could be dealt with as they arose and we often had to work beneath the radar'.

[24] Hastings, Sheehan and Yates (2007: 41) quote Dunne's comments on trade union leadership: 'The same people ... would have been CEOs of some of Ireland's biggest companies. That's a reality. They were substantial people. They showed and demonstrated very considerable leadership qualities'.

Agreement came quickly in the end and the first Social Partnership agreement, Programme for National Recovery, was formally launched in October 1987.[25] Having outlined the current economic situation and acknowledging the continuing importance of membership of the EU its main proposals were as follows:

*Macroeconomic Policies* – stabilising the debt/GNP ratio, reducing exchequer borrowing requirement to between five and seven per cent, firm adherence to exchange rate in the European Monetary System (EMS), pay increases not exceeding 2.5 per cent for each of the three years of the agreement, reduction in number of public servants. All of the above were designed to contribute to a lowering of inflation and interest rates.

*Tax Reform* – specific income tax reductions of £225 million and reductions in rates, tax deduction at source on professional fees paid by public bodies, farmers to be included on the same basis as other self-employed, amendments to corporation and capital taxation, measures to counteract tax evasion and to improve collection and enforcement (In effect implementation of some of the proposals from the Commission on Taxation).

*Greater Social Equity* – commitments on maintaining and improving social welfare benefits and the payment of PRSI by farmers, a major review of health policy, exempting the disadvantaged from cuts in the education budget, the introduction of a housing bill making special provisions for the homeless.

*Employment* – continuing to attract FDI, moves to address the high cost of liability insurance, State Sponsored Bodies to be more actively involved in development, radical reorganisation of the industrial promotion agencies, priority to the development of an indigenous food industry.

*Labour Legislation* – a complete review of legislation in relation to unfair dismissals, employment equality and worker participation.

*Review and Monitoring Committee* – the setting up of a Central Review Committee (under the chairmanship of O hUiginn) which would review and monitor progress in implementing the agreement.

[25] Hastings, Sheehan and Yates (2007) describe the scene. The Social Partners and the media are assembled in the conference room of the Burlington Hotel. There is a sound track of the 'Mise Ēire' theme music and Haughey, in the words of Bill Attley, arrived in like 'Julius F***ng Caesar', pressing the flesh, 'and I was sitting there watching all this and thinking this is like a f***ng play' (p. 41). It was to be the first of seven agreements over the next twenty years.

Delivering on lower taxation levels, while at the same time addressing the public finances, seemed, at best, utopian. The challenge was to find a solution that tackled the national debt while cutting public expenditure and boosting growth. The answer was provided by Jim O'Leary, an economist working with NESC, who came up with a formula that tackled the national debt by reducing the debt-GNP ratio (then running at over 140 per cent), i.e. if GNP could be increased without increasing debt the ratio would be automatically decreased.[26] All sides were able to buy into this because it meant that reducing expenditure, which the employers favoured and the unions did not, could be counterbalanced by a growth in GNP (Hastings, Sheehan and Yates 2007, Cassells 2009, Dunne 2010).

Seen as a win-win for all concerned, and there were undoubted benefits for government employers and unions, the big winners were the unions as their influence on public policy was greatly enhanced. It is a neat illustration of the asymmetrical nature of power that historical institutionalism sees as fundamental to understanding institutional change.

**Administrative Acceptability**

As has been demonstrated O hUiginn was central to both NESC and social partnership. The economic prescriptions of *A Strategy for Development 1986-90* achieved economic and political acceptability. Given the increasing role, conferred by Haughey and gladly accepted by O hUiginn, of the Secretary General of the Department of the Taoiseach administrative acceptability was always likely. He came to play an increasing prominent role in Irish public life. Pádraig White said of O hUiginn:

> He was the Taoiseach's right hand man and he had a reputation for getting things done. He was past master at crafting solutions, but perhaps most important, he spoke with the authority of the Taoiseach. Although listeners were often unsure whether his declarations were those of the Taoiseach or his own... O hUiginn's natural instincts were naturally developmental and entrepreneurial rather than restrictive and bureaucratic. To any assignment he brought high intelligence, humour and a mastery of language (Mac Sharry and White, 2000: 328)

Charlie McCreevy, who served as Minister for Finance, thought that 'O hUiginn is the smartest civil servant, the smartest person I ever met. If he didn't have a solution, then there "ain't no solution". His role was at least equal to [Ken] Whitaker if not greater' (Hastings et al 2007: 34). All parties and sources consulted about the NESC process and the origins of social

[26] Ironically O'Leary, now a lecturer at National University Ireland Maynooth and an economic commentator for the Irish Times, became a staunch critic of social partnership.

partnership are unanimous that without him there would not have been social partnership. He was the essential iron fist in a silk glove: his determination to succeed had a sufficient veneer of diplomacy and tact to keep all sides at the table.

At interview O hUiginn was very modest about his contribution and yet had a quiet pride in what had been achieved. For him its abiding legacy was that apart from bringing a degree of certainty to wages and industrial relations 'it made us competitive'. He also confirmed that the employers were the hardest group to get to the table and 'required some straight talking'. *The Programme for National Recovery* was the culmination of work that had begun for O hUiginn seven years earlier with his work on *The Way Forward* but it was only part of a much larger project to redefine the tax system and address the public finances.

The rise of O hUiginn is also interesting from a historical institutionalist perspective as it is a neat illustration of institutional change and the asymmetrical nature of power. Haughey's hands-on style of leadership meant that the nexus of power was shifting from the Department of Finance and O hUiginn was becoming the *de facto* head of the civil service. He in effect became an institutional veto point, as described by Bulmer and Burch, and increasingly central to the administrative functioning of the state. But change was also happening within the Department of Finance: Secretary General Maurice Doyle became Governor of the Central Bank of Ireland and was replaced in Finance by Seán Cromien. This was another illustration of the importance of timing and sequencing as the relationship between Cromien and Mac Sharry was harmonious and mutually respectful.[27]

Cromien entered the Department of Finance in 1952 having graduated from UCD with a first class honours degree in economics two years earlier. He rose through the ranks, being appointed Second Secretary in the budget division in 1977, and gaining the top post in 1987. He was described by a former colleague (who wished not to be named) as 'the civil servants civil servant' as he was totally non-political. On the instructions of Haughey an Expenditure Review Group was established in May 1987 – the group became known as An Bord Snip.[28] The Taoiseach informed his cabinet colleagues that 'any Minister who came to Cabinet with

[27] Confirmed by both at interview. Physically they were both tall, thin men and non-drinkers. Both wore pioneer pins and this was sometimes parodied in the press as an icon of the times as the cuts they introduced began to bite. The late Brian Lenihan said of the two of them: 'Both of you are mean-looking hoors' (Cromien, 2009a: 2)

[28] Given the supposed centrality of the Irish language in Irish public life a practice emerged of naming public bodies in Irish. An Bord is the Irish for The Board. Thus the colloquialism of calling the Expenditure Review Group An Bord Snip – The Board for Cuts!

proposals for increased expenditure should bring his seal of office with him and any Secretary who proposed increased expenditure would be sacked' (Cromien, 2009a: 1).

An Bord Snip was chaired by Cromien and had three other members – Kevin Murphy and Bob Curran from Finance and Colm McCarthy an economist with Davy Kellehr McCarthy, an economic consultancy firm.[29] They reviewed every item of expenditure for each department. The review confirmed what Cromien already suspected: 'Many of the schemes were more trouble than they were worth but no politician likes to cut existing schemes' (2009). Their deliberations were circulated to the relevant department and a meeting was then held with the Secretary General and his senior staff at which agreement was usually, but not always reached.[30] After these meetings Finance prepared a Memorandum for Government: Section I set out what was agreed between the relevant department and the review group; Section II was to list the proposals which Finance wanted but the other department would not agree to. Haughey had specifically instructed that explanations in the second section were not to include any political considerations of curtailing or dropping a scheme; the relevant minster would deal with that at cabinet. Heretofore, Memoranda to Government were normally submitted in the name of the relevant minister – Haughey instructed they were to be submitted in the name of the secretary of the Department of Finance. This is another example of breaking the path dependency of institutions and also of Haughey's determination.

Cromien (2009a) recounts an early cabinet meeting which became part of civil service folklore. The review group and an unnamed Secretary General had agreed cuts but the relevant minister attempted to overrule this and amend the list. 'What happened at the Government meeting, I gathered, was that Mr. Haughey savaged the Minister concerned for intervening in the process and threatened to take his seal of office from him'. Any doubts that may have lingered in the civil service about the seriousness of the reforms or temptation to 'play politics' with the process were quickly dispelled.

Organisational, regulative and procedural level change, as described by Bulmer and Burch, was underway and institutional veto points disappeared overnight. This time it truly was

[29] Colm McCarthy chaired the latest Expenditure Review Group, which, unsurprisingly, became known as An Bord Snip Nua – the New Board for Cuts. He consulted with Cromien during the process (Cromien, 2009).
[30] One of the most surprising features of my interview emerged as we talked about these meetings. I had assumed that in the closed world of the civil service all the senior people would have known each other. I said 'and of course you all knew one another well'. Mr. Cromien replied 'I knew very few of them as I had spent most of my time in the Budget Division and had had no dealings with them'

different. The 'ideas' of monetarism and corporatism had gained administrative acceptability and were being insinuated into the public policy process.

**Next Steps**

In 1987 the country was at, what historical institutionalists call, a critical moment 'when a perceived opportunity arises for significant change. That is an event takes place which raises a general expectation that change will follow' (Burch, Hogwood and Bulmer, 2003: 7) Even though new ideas were advanced by ideational actors such as the ESRI and NESC breaking the path dependent nature of Irish institutional life was constrained by cultural boundaries, logic of appropriateness, and background underlying assumptions. All of these were deeply ingrained in the public sentiment. What happened in Ireland in the period 1986/7 was a series of cumulative causes, what Burch, Hogwood and Bulmer called 'the accumulation of pervasive changes' (2003: 14) that effected dramatic change over time, albeit sometimes at a slow pace; processes sometimes had modest, incremental effects until they reached critical levels that triggered major change - threshold effects. All of the above neatly illustrated Pierson's view of the importance of timing and, sequencing. Sometimes, seemingly insignificant institutional change can lead to profound societal change. Pierson puts it as follows:

> Although analyses invoking the language of "critical junctures" sometimes focus on large-scale events, those qualities are neither necessary nor sufficient to generate path-dependent dynamics. In fact, the point in path-dependent analyses is that "causes" may often seem relatively small compared with their effects. What makes a particular juncture "critical" is that it triggers a process of positive feedback (2004: 51).

To distinguish between a critical moment and a critical juncture Bulmer and Burch (2001:81) offer the following:

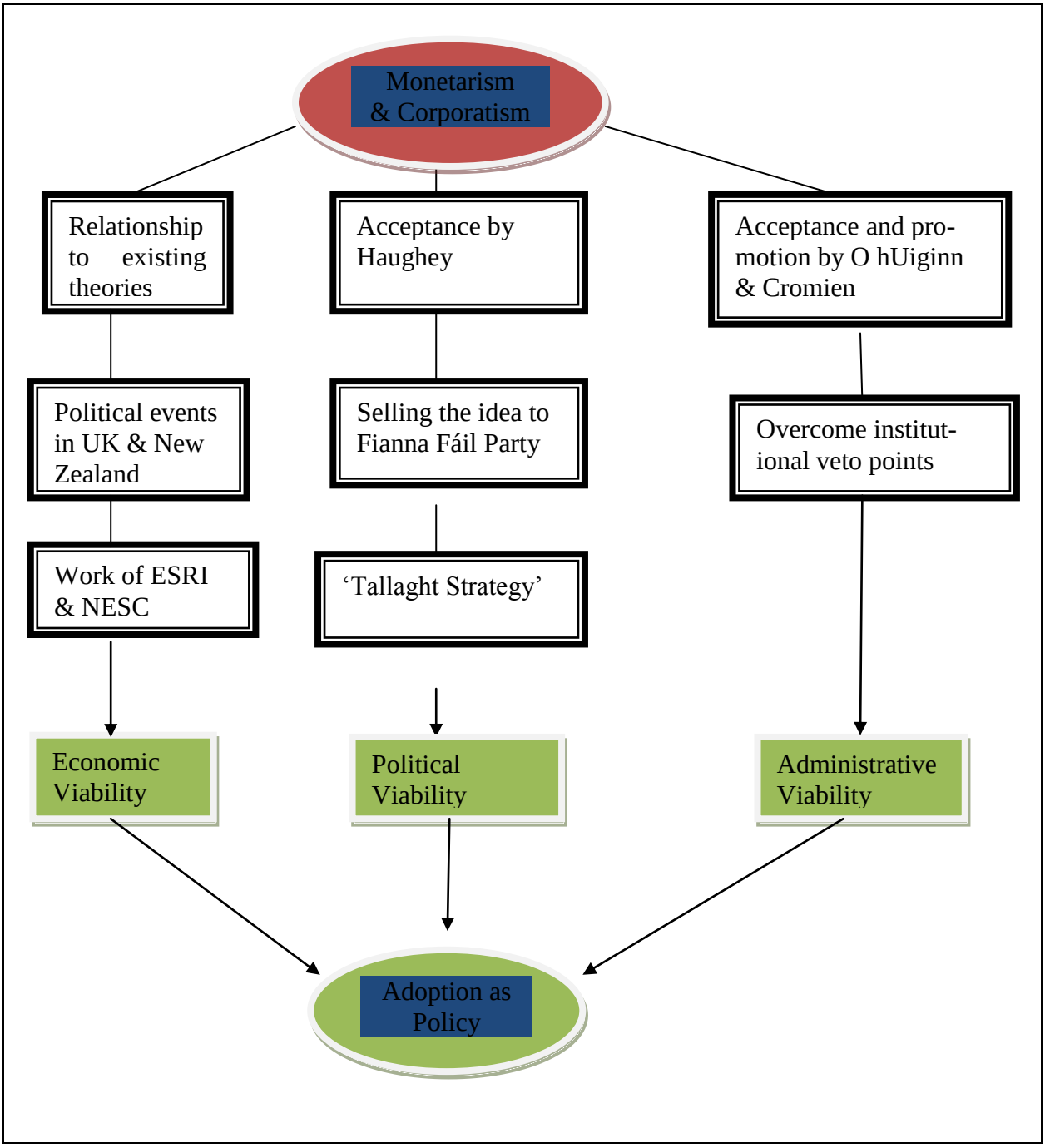
> A 'critical moment' is when an opportunity arises for significant change. Such opportunities may not be realised and exploited but, if they are, the outcome is a 'critical juncture' at which there is a clear departure from previously established patterns. Critical junctures create branching points at which institutional development moves on to a new trajectory or pathway which is then followed incrementally until a new critical moment arises and (potentially) a new critical juncture follows and a new direction is taken

This thesis contends that the causal chains linking ideational actors and administrative and political elites, precipitated a critical juncture when there was 'a clear departure from previously established patterns' (Burch, Hogwood and Bulmer, 2003: 7). The ideas of

monetarism and corporatism had achieved economic, political and administrative acceptability. But acceptance of ideas is not enough. To make things happen would require political and administrative will to implement those ideas. The next chapter will show that the critical moment became a critical juncture that led to the transformation of Ireland.

An adaptation of Hall's Framework (see Table 7.1 on page) shows a three legged model achieving equilibrium. On the economic front events in Britain and New Zealand together with the work of the ESRI and NESC ensured acceptability in that quarter. Administratively O hUiginn and Cromien overcame the various institutional veto points. On the political front Haughey ruled his party with an iron fist, Mac Sharry ensured delivery and the 'Tallaght Strategy' of Dukes facilitated them in gaining acceptability. As with a three-legged stool, equilibrium can be found on uneven ground, and the Irish political landscape was uneven ground and, as will be demonstrated in the next chapter, some of the causal chains had slow-moving outcomes and had to overcome many institutional veto points. The research also shows the importance of viewing events as a moving picture as advocated by historical institutionalists rather than taking a snapshot in time as favoured by rational choice theory.

**Table 7.1: Hall's Framework applied to Ireland**




(Adapted from Hall, 1989: 371)

# Chapter 8: Second Period of Change – Implementation of the 'ideas' of a low tax economy and social partnership

In the previous chapter it was shown that the 'ideas' that emerged and achieved economic, political and administrative acceptability were the unlikely bedfellows of monetarism and neocorporatism. Given the pejorative connotations of both terms the accepted euphemisms were tax reform and social partnership, both of which were to be delivered in the context of addressing the major imbalances in the public finances. Tax reform was an easy political sell as every tax payer wished to pay less tax. But reform would come at a price as paying less tax would mean cutting public expenditure and some of the cuts took effect before the tax reforms impacted on disposable incomes. Social partnership promised a framework in which it was theoretically possible to deliver tax reform while addressing the public finances. This chapter will use Bulmer and Burch's template to track the changes that then ensued at the systemic, organisational, regulative and procedural levels and prove that a critical juncture took place that punctuated institutional path dependency and led to the transformation of Ireland. In addition to the above four levels of change Bulmer and Burch argue there is an overarching cultural level which constrains change. To implement the ideas of tax reform and social partnership would require a change in political culture.

## Political Culture

Coakley posits that political culture does not arise by accident and 'The same kinds of structural forces help to shape it as influence political life more generally' (2006: 37). The main forces are socio-economic development – particularly industrialisation/urbanisation and its effects on social structure; cultural evolution – how and what values have become dominant and how those values are challenged; political experience – external influences and/or past experiences of domination or colonisation.

By the end of 1987 a significant shift in political culture was already under way – in effect a cultural evolution that challenged dominant values. The budget of March had clearly spelt out the steps that were necessary and were now being implemented with the support of Fine Gael and the 'Tallaght Strategy'. Fianna Fáil, which had campaigned on a slogan of 'Expenditure Cuts Hurt the Sick, the Poor and the Elderly' had a complete *volte face* and was implementing

the policies proposed by Fine Gael leaving Dukes with the unpalatable but necessary decision to support Haughey's government. This was a significant change in political culture and unprecedented in Irish political life as Haughey in opposition, especially from 1982-87, had deliberately misrepresented the economic situation and constantly hampered the government's attempts to convince the electorate of the necessity for cutbacks. 'He also offered open support to any and every interest group which engaged in confrontation with the government' (Collins, 2001: 171).[1]

Increasing secularisation and urbanisation; the rise of an enlarged, well-educated middle class; a changing role for the media, which increasingly became part of the story rather than just reporters of it; the rise of feminism – all of these were symptoms of socio-economic development that impacted on the political culture. Allied to these were the concentration of power in the Department of the Taoiseach and the birth of the Progressive Democrats as further signs of a changing political culture that made change to Irish institutional life possible.

Mair and Weeks, writing on the political party system in Ireland, identify three critical moments: 1927 Fianna Fáil abandoned its abstentionist policy and took its seats in the Dáil; 1948 the participation of the smaller parties with Fine Gael to form a coalition government meant the future key element of party competition would be Fianna Fáil against the rest; 1989 when Fianna Fáil decided to enter coalition with the Progressive Democrats.

> This new watershed was important in two ways. Competition no longer revolved around 'Fianna Fáil versus the rest'. From this point on, Fianna Fáil was to become 'just another party', bigger and more successful than its opponents, to be sure, but certainly no different from them in any other important sense. Second, by playing the coalition game Fianna Fáil opened up the possibility that it could now remain almost permanently in office. As the biggest single party and as the party which was perhaps closest to the centre of the political spectrum, it would probably always seem easier for Fianna Fáil to find a coalition partner than would be the case for most of the other parties (2006: 154).

[1] When confronted with his actions in implementing policies that he had previously opposed Haughey regularly repeated the mantra: it is the opposition's duty to oppose. He had opposed the setting up of the National Lottery and the Deposit Interest Retention Scheme (DIRT), both of which proved to be major successful revenue earners, and promised to reverse the decisions. He did not keep this promise. By then a backbencher Garret FitzGerald said: 'There seemed to be two Fianna Fáil parties, Fianna Fáil in opposition and Fianna Fáil in government, and any resemblance between them has become totally coincidental; in fact not only coincidental but unfindable at this stage' (Collins, 2001: 179).

Between March 1987 and June 1989 the Haughey government had, with the support of the 'Tallaght Strategy', confounded its critics, and indeed many members of the governing party, by introducing radical cuts in public expenditure. The current budget deficit, which stood at 7.9 per cent of GNP in 1986, was reduced to 1.2 per cent by 1988. The government won all the critical votes in the Dáil and seemed set to run its full term. Having delivered a significant turnaround in the public finances Mac Sharry had been rewarded with the agricultural portfolio in the EU and was replaced as Minister for Finance by Albert Reynolds on 24 November 1988. Mac Sharry's departure not only meant the loss of a very able minister but possibly the one person who could have stayed Haughey's hand as events began to unravel – another example of Pierson's timing and sequencing being important. The government lost a number of votes of a non-consequential nature when Fine Gael was embarrassed by Labour into voting against the government. In a fit of hubris on losing a vote on an allocation of £400,000 for haemophiliacs Haughey called a general election in the belief that Fianna Fáil would win a clear majority. The result was a disaster for Haughey as the party lost four seats and got only 44 per cent of the vote. [2] Fine Gael's paltry reward for the 'Tallaght Strategy' was an increase of four seats from 51 to 55 – a result which meant the end of Dukes' leadership some months later and the abandonment of the 'Tallaght Strategy'. The Dáil failed to elect a Taoiseach when it met on 29 June, 3 July and 6 July but there was a lot of behind the scenes manoeuvrings.

Even though the Progressive Democrats lost eight of their 14 seats the unthinkable happened when, after a period of high uncertainty and brinkmanship they formed a coalition with Fianna Fáil to form a new government on 12 July.[3] The Progressive Democrats got two cabinet posts and a junior ministry but their major achievement was in getting their policies accepted in the programme for government.[4] They were somewhat sceptical about social partnership but prepared to live with it as it delivered industrial peace. 'The Progressive Democrats were effectively allowed to write the joint programme for government and all the

[2] Their private opinion polls were showing that the party had the support of 51 per cent of the electorate.
[3] The story of the formation of the government is best told by Collins (2001, 2005). Haughey rode roughshod over his party, kept his chief negotiators Reynolds and Ahern in the dark, alienated most of his party for whom coalition was anathema and a coalition with the traitorous Progressive Democrats unspeakable. At the end of the negotiations Haughey rather smugly said to the Progressive Democrats' team: 'You know, nobody but myself could have done it' (Collins, 2005: 107).
[4] Control of public spending (already well under way), current budget deficit not to exceed 3 per cent of GNP, debt/GNP ratio not to exceed 120 per cent, the gradual introduction of just two rates of income tax with the lower rate at 25 per cent were the main financial targets. The sale of state assets was also broadly agreed but only with the consent of the social partners. On the North there was agreement on opening dialogue with the Unionists and also agreement on a number of worthy objectives in education, health and social welfare.

party's pet policies, particularly its tax-cutting agenda were included' (Collins, 2005: 107). At interview O'Malley confirmed that during the negotiations to form a government they soon realised that Haughey was determined to cling to power: 'Haughey wanted power at any price. He needed it for personal financial reasons. He had become and had to remain the alpha male of the pack. In retrospect we could have asked for more'.[5] It is to the credit of O'Malley and Haughey that they put their personal animosity to one side and worked well in cabinet.

The formation of the Fianna Fáil/Progressive Democrats government in 1989 ensured a significant shift in political culture as Fianna Fáil abandoned one of its core principles. As the Progressive Democrats were strong believers in monetarist policies and 'rolling back the state' it also further cemented the 'idea' of tax reform as a background underlying assumption that became embedded in the public sentiment. It also brought major change at organisational level on the Bulmer and Burch scale.

A further indication of a changing political culture occurred on 9 November 1990 when Mary Robinson was elected President. Her election was noteworthy on several fronts: she was the first woman to hold the post; all previous incumbents had been members of Fianna Fáil, she was a member of the Labour Party; in her campaign she appealed to *mná na hĒireann* (the women of Ireland) to come out and support her, and they did. Her election was an important milestone in Irish political life and a further example of punctuating institutional path dependency.

**Making Change Happen**

Having achieved economic, political and administrative viability, and the beginnings of a changing political culture, implementing the 'ideas' of tax reform and social partnership, both designed to restore order to the public finances and kick start the economy, would require political and administrative will. It would also require systemic, organisational, regulative and procedural level changes as outlined by Bulmer and Burch. The NESC report, *A Strategy for Development 1986-90*, was the broad framework to be followed. Following the 1987 election Haughey ruled over his cabinet with an iron fist and brooked no opposition to his policies.[6]

[5] At interview O'Malley also made the point that the minority Fianna Fáil government of 1987/89 was the last time that the country had single party government and that it was also the most corrupt in the history of the state.
[6] In the process he made many enemies within the cabinet. Following the 1989 general election, which most of his cabinet had opposed, and the subsequent humiliation of going into government with the Progressive Democrats, that tension became more pronounced. Asked by a backbench TD if the cabinet would go along with

He was ably assisted and supported by Mac Sharry who was probably the only minister who could be reasonably confident that he had the support of the Taoiseach. On the administrative front the relationship between Haughey and O hUiginn grew stronger by the day and as Haughey arrogated more and more power to himself and his Department, O hUiginn exercised enormous power across the entire public service and the hitherto path dependent operation of many institutions was broken. O hUiginn had the authority to challenge every department in the name of the Taoiseach. Long established reporting arrangements were discarded (e.g. Memos to cabinet in the name of the departmental secretary rather than that of the minister) leading to widespread procedural level change. There was a very perceptible transfer of power to the Department of the Taoiseach there was also organisational level change on the Bulmer and Burch template. How this was perceived in the Department of Finance is not known. At interview Cromien, who had succeeded as Secretary General in Finance in 1987, seemed quite happy with the arrangement. For him the critical issue was his relationship with Mac Sharry and the tackling of the public debt. He offered an interesting insight into the minister/secretary relationship: 'Contrary to the Yes Minister image as a civil servant you actually want an effective minister who could get things done, make things happen. Civil servants do not want a weak minister because he will be weak at cabinet and with pressure groups'. There was a high degree of mutual respect between himself and Mac Sharry that was very obvious at interviews with both of them. Haughey and O hUiginn, together with Mac Sharry and Cromien, were the people who ensured that the critical moment of 1987 was transformed into a critical juncture.

One of the main instruments used to effect change at the first critical juncture in 1958 was the establishment and/or reconstitution of a large number of state-sponsored bodies. This was not the route followed at the second critical juncture. The five years 1988-92 saw the establishment of just four state-sponsored bodies: The National Treasury Management Agency in 1990; An Bord Glas in 1990; the Competition Authority in 1991; the Environmental Protection Agency in 1992.[7] This was a clear break from the traditional way of

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the coalition Haughey replied: 'They are only a bunch of gobshites' (Collins, 2001: 198). In response to a query from a member of the Progressive Democrats' negotiating team about cabinet hostility to the deal Haughey said: 'It's alright. I just haven't told them yet' (Collins, 2005: 105). This dictatorial attitude and disdain for his cabinet led to his downfall in 1992.

[7] Legislation had been introduced in the 1986 Finance Act by Garret FitzGerald's government that enabled the establishment of the Customs House Docks Development Authority. The establishment of the International Financial Services Centre (IFSC) in 1987 was under the 1986 legislation and the Finance Act 1987, s. 30 (Relief in relation to income from certain trading operations to be carried on in the Customs House Docks Area) set out the tax breaks and incentives that would be available.

doing things. In 1987 *An Foras Forbartha* (the National Institute for Physical Planning and Construction Research) was abolished, 'a move that sent tremors of apprehension through the whole public service. Closing down parts of the public service, even a state research institute, was unheard of at that stage' (Mac Sharry and White, 2000: 72). *Bord na gCapall* (The Irish Horse Board) was abolished in 1989 and Foir Teoranta (literally Aid Limited) in 1990.[8] were also abolished. The Department of the Public Service was also closed down and its role returned to the Department of Finance where it has remained ever since.[9] At interview O hUiginn, while not philosophically opposed to state-sponsored bodies, was quite matter of fact about developments: 'We were trying to cut costs, not increase them. We saw tax incentives and reliefs as the most effective and efficient means of stimulating the economy'. How that tax reform was delivered is covered in the next section.

From interviews with other senior retired civil servants there was a sense that state-sponsored bodies had become over time too unresponsive to changing needs and incapable of delivering quick solutions. There was also a fairly early realisation that the cuts introduced in 1987/88, though required, were too blunt an instrument. The effects were disproportionately felt by some sectors of society. It was also realised that management information systems in the public service generally were inadequate and that better systems could have delivered the same general level of savings with less harmful effects. One of the unintended consequences of the cutbacks was that a group of senior civil servants, concerned about the quality of public service management, undertook an M.Sc programme in Trinity College Dublin and the ensuing thesis, *Strategic Management in the Irish Civil Service*, became the blueprint that was adopted by the government in 1994 as the Strategic Management Initiative for reform in the public service generally. (Previously referred to on p. 163).

**Tax Reform**

The first real attempts to stimulate the economy through tax incentives began in 1984 with the introduction of a number of reliefs under the Business Expansion Scheme. The first Urban Renewal Scheme, intended to stimulate the construction industry, came in 1986. But it was to

[8] An Foir Teoranta was literally a lender of last resort providing financial aid to distressed indigenous companies. It was particularly susceptible to political pressure.
[9] Haughey had abolished the Department of Economic Planning back in 1979.

be 1988 before widespread tax reform got underway.[10] In his budget speech of 31 March 1987 Mac Sharry outlined his thinking on tax reform.

> Personal taxation is at an all time high and is a serious deterrent to our development. There must be reform in order to remove barriers to economic activity and to make the system demonstrably fairer. There must also be radical improvements in tax collection. In the short-term it is not possible to reduce taxes. The Government will, however, give early consideration to major changes, as soon as the budgetary position allows. We have now reached a point of diminishing returns in relation to some taxes... [In relation to income tax] First of all I have to say that, because of the difficult budget situation, it is not possible on this occasion to provide for reductions in income tax. A choice has had to be made between reducing borrowing and reducing income tax and the more responsible course for all concerned at this time is to lower the borrowing figure (Dáil Debates 31/03/1987).

But he did offer some hope: 'It is the Government's intention, as soon as circumstances permit, to move to a stage where two-thirds of taxpayers will pay tax at the standard rate only' (*ibid*.).

**Income Tax**

The most obvious, and politically desirable, change was to come in the area of direct personal taxation.[11] Mac Sharry was as good as his word and his next budget began a series of personal tax cuts which were to become the norm for the next several years. In 1987/88 the rates of taxation for a single person were 35 per cent on the first £4,700 of taxable income, 48 per cent on the next £2,500 and 58 per cent on the balance. By 1992/93 the rates were 27 per cent on the first £7,425 of taxable income and 48 per cent on the balance. The net result for a single person with a taxable income of £10,000 was that tax paid reduced from £4,439 to £3,240.75 – a reduction of 27 per cent. Exemption limits were also increased over the period as were key allowances. The 'housekeeper allowance' was doubled and intended to facilitate the return of married women to the workplace. A child's income allowance was trebled and this was widely exploited as friends set up mutual covenanting arrangements. 'A' could covenant income up to the full allowance to 'B's' child and 'B' reciprocated the arrangement with 'A's' child. The reality was that no money changed hands but 'A' and 'B' were enabled to legally reduce their respective tax bills by the full amount of the allowances. Originally devised by

[10] Reference has already been made to the influence of the New Zealand reforms and the meeting between Mac Sharry and Douglas. Mac Sharry contemplated emulating Douglas' 'big bang' approach but deemed the public finances too precarious to do so and instead opted for an incremental approach.

[11] One of the frustrations articulated by Dukes at interview about his time as Minister for Finance was that the Labour party, who were in government with Fine Gael, would not countenance public expenditure cuts. 'Their answer to everything was to keep increasing taxes'.

the wealthy in society, who had access to the best tax advice, it quickly spread to all strata of society and was eventually withdrawn.

In the context of the times these tax changes were truly seismic as the population had become accustomed to annual tax increases. Here was systemic, regulative and procedural level change in action as described by Bulmer and Burch. Organisational change was also to follow. Table 8.1 on the following page gives a listing of the major personal tax changes.

**Table 8.1: Income Tax Allowances and Rates**

| | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93 |
|---|---|---|---|---|---|---|
| **Allowances*** | | | | | | |
| Personal | 2,000 | 2,050 | 2,050 | 2,050 | 2,100 | 2,100 |
| Child's Income | 720 | 720 | 720 | 720 | 2,100 | 2,100 |
| Housekeeper | 2,500 | 2,500 | 2,500 | 5,000 | 5,000 | 5,000 |
| **Exemption Limits** | | | | | | |
| Under 65 | 2,650 | 2,750 | 3,000 | 3,250 | 3,400 | 3,500 |
| 65-75 | 3,150 | 3,250 | 3,400 | 3,750 | 3,900 | 4,000 |
| Over 65 | 3,675 | 3,800 | 4,000 | 4,350 | 4,500 | 4,600 |
| **Rates of Tax**** | First 4,700 35% | First 5,700 35% | First 6,100 32% | First 6,500 30% | First 6,700 29% | First 7,425 27% |
| | Next 2,800 48% | Next 2,900 48% | Next 3,100 48% | Next 3,100 48% | Next 3,100 48% | Balance 48% |
| | Balance 58% | Balance 58% | Balance 56% | Balance 53% | Balance 53% | |

* All Allowances, Exemptions are for single people and are doubled for married couples
** Rates of Tax are common to single and married. The amounts shown are for single people and are doubled for married couples

(Adapted from *Butterworth Ireland Tax Guide*)

**Other Taxes**

Government needs a continuing and increasing stream of tax revenue. Total tax take increased from £10.1 billion in 1987 to £13.87 billion in 1992, an increase of 37 per cent. Over the same period the Consumer Price Index (CPI) rose by 15.7 per cent (Figures obtained from CSO website). The changes in the personal tax regime received most of the headlines but there was a more subtle and far-reaching change regime underway with a shift to indirect taxes.

- *Excise duties* on the 'old reliables' of tobacco, alcohol and petrol were increased in 1988, 1989, 1991 and 1992.
- *Value Added Tax* introduced on electricity bills at 5 per cent in 1988, increased to 10 per cent in 1989 and extended to telephone bills also. It was further extended to veterinary bills in 1991 and to commercially organised sporting and leisure activities in 1992.
- *Value Added Tax Rates* were amended as follows: standard rate of 25 per cent rate reduced to 23 percent in 1990 and to 21 per cent in 1991; the reduced rate of 12.5 per cent was increased to 16 per cent in 1992.
- *Corporation Tax* – standard rate of 50 per cent in 1988 reduced incrementally to 40 per cent by 1991. There were also extensive changes in reliefs and allowances over the period and the 10 per cent rate applicable to companies setting up in the IFSC was guaranteed out to 2005.
- *Capital Gains Tax* and *Capital Acquisitions Tax* – top rate of 60 per cent reduced to 40 per cent between 1990 and 1992.
- *Farmer Taxation* – various amendments made over the period to bring farmers into the tax net and ensure equal treatment with other taxpayers.
- *Sundry Tax Measures* – in addition to the foregoing there were a number of other significant changes: a withholding tax of 35% on professional fees paid by all public bodies; a requirement to hold a tax clearance certificate when tendering for public works; restrictions on duty-free allowances for cross-border shopping.

Many of the changes introduced in the period had been recommended in the various reports of the Commission on Taxation. All tax changes involved systemic level change as they required legislation. There were accompanying changes in the social welfare regime designed to remove disincentives to return to the workplace. High rates of marginal tax had made returning to paid employment, remunerated at a level not far below the average industrial

wage, not worthwhile and the result was a booming black economy. The changes introduced were largely successful in tackling the black economy.

**Self-Assessment**

A major *organisational level* change occurred with the introduction of self-assessment for the self-employed in 1988. The system heretofore was that the Revenue Commissioners assessed the level of tax due by the self-employed and sent out a demand for that amount and the tax-payer was then free to appeal the request. The appeals system was being used as a delaying mechanism to postpone payment. Under the new system the tax-payer assessed the amount due and paid that amount. There were strong incentives for honesty because very severe penalties applied if the final assessment by the Revenue Commissioners varied by more than a given per cent. Prior to 1987 only half of the self-employed made their returns on time. Following the changes introduced in the 1988 budget compliance greatly increased. The number of appeals dropped from 59,888 cases in 1986 to 1,181 in 1988 and the amount collected was £70 million ahead of projections (MacSharry: 93). At interview Mac Sharry recounted that on a trip to New York for an IMF meeting he had discussions with American Revenue officials. 'I discovered we had almost as many tax officials dealing with tax appeals as the Americans with over 250 million people and came home and just changed the system'.

In addition to being a major organisational level change as described by Bulmer and Burch the new self-assessment regime, with its carrot and stick approach, produced a marked change of attitude by the self-employed and 'went some way to assuring the hard-pressed PAYE taxpayer that serious attempts were being made to broaden the tax base' (Mac Sharry, 2000: 93).

**Tax Amnesty**

The Commission on Taxation final report, *Tax Administration, 1985*, acknowledged that 'the administration of taxation in Ireland has virtually broken down. Non-compliance is a major problem' (p. 21). The 1988 budget announced a major change with a Tax Incentive Scheme, in effect a tax amnesty, to allow those with 'tax issues' to bring their affairs up to date. Interest and penalties would be waived if errant tax-payers complied. The end result was a bonanza of almost £500 million for the Exchequer with £400 million being collected in the last week alone.

Mac Sharry, at interview and in *The Making of the Celtic Tiger*, cites his reasons for introducing the scheme: he knew from constituency clinics and talking to other TDs 'that many people wanted to come clean on their tax' and had the money set aside to do so but penalties and interest in many cases would double the amount due. His budget speech indicated an expected return of £30 million. At interview he informed me that the highest estimate of the Department of Finance was £50 million but that his own estimate was for ten times that amount. 'They persuaded me that I would be giving hostages to fortune if I ever mentioned that figure in public'. Institutional veto points (Bulmer and Burch, Pierson) in the Revenue Commissioners and the Department of Finance were overridden by Mac Sharry when he introduced the Tax Amnesty.

Whereas the £500 million was an enormous boost to the state's finances it made the £225 million in tax cuts promised in the Programme for National Recovery (*PNR)* seem paltry. There was widespread anger among the PAYE sector at the level of evasion that had gone undetected for years.[12] It seemed, as O'Toole (2003:110) put it, only the little people pay taxes. Ferriter (2004: 680), referring to these times says: 'One could be forgiven for wondering whether the Irish Revenue Commissioners actually existed'.

**Summary of Tax Reform**

A programme of radical tax reform had been instigated with the beginnings of a move from taxing production to taxing consumption.[13] This was further accelerated in the years following the period under review. Table 8:2 shows the main changes in tax receipts over the period.

**Table 8.2: Main Tax Receipts (£ billion)**

| | 1987 | 1992 | %Change |
|---|---|---|---|
| **Income Tax** | 3,452 | 4,335 | 26 |
| **Excise Duties** | 1,764 | 2,219 | 26 |
| **VAT** | 1,843 | 2,520 | 37 |
| **Corporation Tax** | 325 | 938 | 188 |
| **Capital Taxes** | 47 | 115 | 145 |

[12] After the introduction of self-assessment and the tax amnesty there was a sense among the political and administrative elite that the problem of tax evasion had been largely resolved. The reality was somewhat different as borne out by subsequent events such as another amnesty in 1993, the DIRT Inquiry, the Ansbacher accounts and a tax evasion scheme operated by National Irish Bank.

[13] Over time this change became more controversial as indirect taxes are much more regressive and take no account of ability to pay.

As has already been demonstrated there were substantial improvements in take home pay arising from the tax reforms introduced. The numbers at work rose by a modest 54,000 between 1987 and 1992 (Tansey, 1998: 37) and yet as seen in the table above there was a 26 per cent increase in income tax. This apparent anomaly is accounted for by the rapid growth in productivity and GNP over the period – rising from £18.96 billion in 1987 to £26.45 billion in 1992, an increase of 40 per cent.

Tax reform effected institutional change on all levels of Bulmer and Burch's Template:

- *Systemic* – all of the changes required legislative change;
- *Organisational* – self-assessment, in particular brought major organisational change within the Revenue Commissioners and all bodies dealing with taxation of the self-employed;
- *Regulative* and *Procedural* – all tax changes involve an element of regulative and procedural change but the changes in corporation tax, capital taxes and value added taxes involved serious change.

There was also a cultural shift in relation to taxation generally with much higher (but certainly not total) levels of compliance. The 'idea' of tax reform moved from an abstraction to a reality. Unlike the first critical juncture, where there was political and administrative resistance to free trade and foreign direct investment, acceptance of the 'idea' of tax reform is now portrayed as universal. Yes, everyone was theoretically in favour of reform, particularly if it meant they paid less tax, but it could only be delivered as part of a much wider programme that addressed the public finances, increased competitiveness, brought industrial peace and grew the national economy. Timing and sequencing, as described by Pierson, was everything.

Mac Sharry rightly gets the credit for initiating the changes but Reynolds, who presented the budget from 1989 to 1991 inclusive, probably made the most symbolic change in 1989 when the standard rate of tax was reduced from 35 per cent to 32 per cent. 'Overall I was pleased with the reaction to my first budget, but I also realized that it was just one small piece in the overall financial puzzle and a hard task lay ahead' (Reynolds, 2009: 126). The major challenge perceived by him was the lack of competition arising from a cost base that was too

high and made the country uncompetitive. He continued the work begun by Mac Sharry and when the Progressive Democrats entered coalition the process was further accelerated.[14]

## Irish Financial Services Centre (IFSC)

In his budget speech of 31 March 1987 Mac Sharry had this to say about financial services:

> The growth of the financial services sector internationally, stimulated in large measure by advances in technology, has been one of the more significant features of economic life in recent years. We must aim to share in the benefits to be derived from this growth. Modern communications mean that we are no longer isolated from the main financial markets and so now have the capacity to develop here a strong international financial services sector if we provide the right conditions and a favourable taxation climate. It is the Government's intention to provide incentives to promote this sector. There will be considerable benefits to the economy, in particular the creation of well paid and highly skilled jobs and increased demand for telecommunications and professional services. This development will generate further substantial investment opportunities that will attract capital from abroad and give a further welcome impetus to the economy (Dáil Debates 31 March 1987).

In assessing the role of the IFSC it is important to do so in the context of the times that it was created and to disregard the present banking crisis. All sources consulted attribute the original idea to Dermot Desmond of NCB Stockbrokers.[15] In 1985 he approached Ruairi Quinn, Minister for Labour, with the idea for an international financial services centre in Dublin. They agreed to jointly fund a feasibility study by PriceWaterhouse who concluded that it would never work. In 1986, Haughey, still in opposition, began asking 'various financial houses around Dublin to make presentations to him about the way forward from the seemingly terminal mess the public finances were in, and the high level of unemployment' (Buckley, 2006). Buckley, a former senior civil servant was managing director of NCB Stockbrokers and later chief executive of AIB, goes on to describe Dermot Desmond leading a group from the company into Leinster House to make a presentation to Haughey who advised them at the start of the meeting that he hoped they could come up with better ideas

[14] One of the more innovative proposals of Reynolds was to change the VAT regime on alcohol. There was widespread tax evasion in the pub industry where people leased premises and did not pay the VAT due on liquor sales. Reynolds proposed that VAT would be levied on the breweries and distilleries as product was released to the licensed trade. This would have made the collection of VAT extremely simple and guarantee compliance. The Revenue Commissioners opposed on the basis that there was a huge differential in prices across the country and the Exchequer would lose out on the VAT collected from the up-market, pricier establishments. The counter argument was that increased collection would more than compensate for that. The Revenue prevailed as an institutional veto point. The above is from a meeting held with Albert Reynolds when he was Minister for Finance in the early 1990s.

[15] The relationship between Haughey and Desmond was to be crucial. According to Reddan (2008) the pair first met at a business lunch in New York in 1986. Shane Ross, in *The Bankers* (2010) claims that he introduced them through a lunch set up jointly with P.J. Mara, later to be government press secretary under Haughey.

than ‘the same old dismal formula that the dogs in the street are barking at me, cut, cut, cut’ (*ibid*.). They gave him the dismal bit but included ten minutes at the end on the financial services centre and Haughey was immediately taken with the idea, asked for a fuller paper and included the concept in the 1987 election manifesto. This is another example of the importance of timing and sequencing described by Pierson.

The core proposal was to build a centre that would house financial services companies and offer the latest in communication technology. The Finance Act 1987 set out the broad taxation rules that would apply. Central to the concept was that it would be a reputable centre (not just a ‘brass-plate operation’) that ensured that companies operating within the centre were ring-fenced and double taxation did not apply. Deposit taking would not be allowed, ruling out the prospects of being used as an offshore banking haven. It would not be orientated to creating a tax haven. O hUiginn also succeeded in inserting a catch-all phrase into the legislation which allowed for the future inclusion of trading operations which were ancillary to those originally envisaged. This enabled a much swifter response to proposals for inclusion that might be outside the original specifications.

There was a great deal of scepticism around the original proposal and, as it gained credence, suspicion at EU level. In April 1987 Haughey appointed a high-powered committee drawn from the great and the good in the public service and the private sector with O hUiginn in the chair. The committee met faithfully at 8.30 every Monday morning and a full attendance was expected. Initial teething problems were overcome when Haughey advised them that their role was not to discuss the merits or otherwise of the scheme but to implement it (Reddan, 2008; Buckley, 2006: O hUiginn, 2009). The Department of Finance and the Revenue Commissioners for a while offered institutional veto points as described by Bulmer and Burch and Pierson but the message from Haughey, conveyed with conviction by O hUiginn ensured compliance.

Initially the IDA was charged with the marketing of the IFSC but soon discovered that marketing financial services was very different from marketing industry generally. Haughey and O hUiginn quickly moved to rectify the deficit by appointing the ‘Three Wise Men’ to head up the marketing effort. They were T O Cofaigh recently retired Governor of the Central Bank of Ireland, S. Páircéir, Chairman of the Revenue Commissioners and M. Horgan a Secretary in the Department of Finance. Together these three men toured the financial capitals

of the world selling the project and assuring its *bona fides*. At interview O Cofaigh offered a very useful insight into their efforts.

When he was Governor of the Central Bank of Ireland O Cofaigh, together with the Governors of the various European central banks attended a monthly meeting in Basle prior to the meeting of the Bank for International Settlements. This was also attended by representatives of most of the leading economies in the world. On the Monday night there was always a semi-formal dinner at one big table. On entering the dining room each person put their hand in a jar and pulled out a number which allocated a place at table. This prevented the formation of cliques and also ensured that people got to know one another. English, French and German were the norm and O Cofaigh was comfortable in all three. This, allied to a natural gregariousness meant that he developed good personal links with his counterparts across the world. He contacted them all in relation to the IFSC and they in turn arranged meetings with the 100 largest banks in the world, many of whom set up operations in the IFSC. In all the 'Three Wise Men' visited Germany, the Netherlands, France, Japan, Sweden, Finland, Switzerland, America, Canada, Britain and Australia.

The original vision for the IFSC had three main goals: to generate at least 7,500 jobs; to put Ireland on the global financial services map: to regenerate a derelict part of Dublin (Reddan, 2008: 237). Within a year 22 projects had been approved. The numbers employed grew from 32 in 1987 to 1,210 in 1992. It took until 1998/99 to reach the targeted 7,500 jobs and the numbers continued to grow to 25,058 by 2007 (*ibid*.: 205). As most of these were high paying jobs there was a substantial benefit to the state in income tax. The IFSC also became a significant contributor of corporation tax – growing from €98.5 million in 1992 to €891.5 million by 2005. By 2008 the Global Financial Centres Index ranked the IFSC 13$^{th}$ in the world (Reddan, 2008: 240). The docklands area was transformed beyond recognition with a myriad of new state of the art buildings. All the expectations for the IFSC had been exceeded. An enormous urban regeneration programme had been achieved without any direct investment or grant aid by the state. It is the most obvious example of how the path-dependent nature of institutional life was transformed by a changed approach. State-sponsored bodies and state investment in infrastructure were replaced by new thinking on tax reform and incentives. The reasons for its success are many and varied – the original vision of Desmond, the actions of Haughey and O hUiginn and those who helped them, the Three Wise Men, tax incentives, the availability of an educated workforce, the regulatory framework put in place.

And it was this very regulatory framework that became highly path dependent as its very success offered positive feedback. It became locked-in, as described by Thelen, as light-touch regulation and contributed enormously to the present banking crisis.

By any yardstick the IFSC was a success but it also offers a neat illustration of the necessity to look at long-term processes as advised by Pierson. The causal chains contributed to slow moving outcomes and it took almost ten years for the threshold effects to be felt. On the Bulmer and Burch Template it registers systemic, organisational, regulative and procedural level change. For those on the right of the political spectrum it epitomised all that was best about the new liberalism while those on the left saw it as pure naked capitalism and greed that enriched the few. While it certainly enriched some of its backers one of the most surprising findings from the research carried out was the level of *pro bono* work involved. Those who served on the original steering committee were not paid.[16] Some of the reports prepared by various professional bodies were given (and expected!) freely. It was a time for contributing to the national good.

**Social Partnership**

The other pillar for the deliverance of economic salvation was to be social partnership, specifically the Programme for National Recovery (PNR) launched in October 1987. It had the following main aims:

- *Macroeconomic Policies* – stabilising the debt/GNP ratio, reducing exchequer borrowing requirement to between 5 and 7 per cent, firm adherence to exchange rate in the European Monetary System (EMS), pay increases not exceeding 2.5 per cent for each of the three years of the agreement;
- *Tax Reform* – specific income tax reductions of £225 million and reductions in rates, tax deduction at source, improvements in tax administration and collection etc.:
- *Greater Social Equity* – commitments on maintaining and improving social welfare benefits and the payment of PRSI by farmers;
- *Employment* – continuing to attract foreign direct investment, priority to the development of an indigenous food industry;

[16] The 'Three Wise Men' who worked almost full time for eighteen months were paid £5,000 gross for their efforts.

- *Labour Legislation* – a complete review of legislation in relation to unfair dismissals and employment equality, worker participation etc.;
- *Review and Monitoring Committee* – the setting up of a Central Review Committee (under the chairmanship of O hUiginn) which would review and monitor progress in implementing the agreement.

In delivering his budget speech on 27 January 1988 Minister Mac Sharry made 10 direct references to the PNR and pointed out that it was 'the basis on which policies for the economy will be implemented over the next few years' (Dáil Debates 27 January 1988). In keeping with commitments under social partnership the following changes were made:

- Those on the lowest rates of social welfare received an increase of 11 per cent (the general rate of increase was three per cent;
- The social insurance scheme extended to the self-employed and farmers;
- The stimulation of the tourist industry through extension of the business expansion scheme;
- Increases in public sector pay in accordance with the agreement;
- Undertook to enter negotiations with the unions on the recommendations of The Review Body on Higher Remuneration in the Public Sector;
- A total tax passage which was treble that promised under the agreement for that year;
- Changes in tax self-assessment as described above.

(Extracted from Budget Speech in Dáil Debates 27 January 1988).

Commitments on labour legislation were delivered under the Workers Participation (State Enterprises) Act 1988, the Safety, Health and Welfare at Work Act 1989 and the Industrial Relation Act 1990.

The first social partnership agreement was so successful that all parties readily signed up for a second agreement, The Programme for Economic and Social Progress (PESP), finalised in January 1991. In the introduction Taoiseach Haughey said: 'In the PNR and this Programme for Economic and Social Progress we have fundamentally changed our approach to managing our affairs. Partnership between all the interests in our society is the way forward' (PESP, 1991:5). Various farming representative bodies were new partners to the process and

submissions from various voluntary bodies in the social/community sector were also accepted.[17]

PESP provided a strategic framework for the nineties with specific proposals for:

> macroeconomic stability policies - geared to low inflation, low interest rates and a reduction of the national debt; and a programme of fundamental structural reforms, especially a continuation of the radical tax reform begun under the PNR, a major assault on long-term unemployment and a restructuring of our social services, in particular social welfare, the health services, education and housing (P.8).

It proposed:

- A reduction of the Debt/GNP ratio to 100 per cent by 1993 and 75 per cent by 2000 (the 100 per cent target was achieved in 1992 and the 75 per cent by 1996);
- Pay increases of 4 per cent in 1991, 3 per cent in 1992 and 3.75 per cent in 1993:
- Special provision for lower paid workers;
- The Employer-Labour Conference to consider proposals for the implementation of a minimum wage and increased union recognition in the workplace;
- Recognising that tax savings of £800 million had been delivered under the PNR it promised further specific cuts (30 per cent rate to be reduced to 25 per cent by 1993).
- Continuing broadening of the tax base;
- Guaranteed inflation proofing of rates of social welfare payments;
- A range of improvements in education (including the introduction of a six year cycle at second level) and health services (including a charter on patient rights).

In delivering the Budget on 30 January 1991Albert Reynolds, Minister for Finance, commented:

> In the new Programme for Economic and Social Progress, what we have done is forge a powerful shield to protect us in the difficult days ahead. It is a comprehensive charter for our development over the next ten years. Its proposals on pay will help keep our costs in line. Its wider social and economic dimension will provide the means of growth and the basis for distributing the fruits of economic progress. The programme represents the first instalment of a ten year national enterprise. This longer-term partnership will enable substantial progress during the nineties towards fulfilling our main aspirations (Dáil Debates 30 January 1991)

[17] The original social partnership agreement contained 32 pages. Reflecting the broader interests involved PESP has a much broader social remit and contains 96 pages.

He made nine references to PESP and delivered on tax cuts, social welfare improvements, measures for dealing with long-term unemployment, and development of the agricultural and food sector.

All published sources on social partnership refer to the key role played by O hUiginn and the Central Review Committee (CRC) which he chaired.[18]

> The CRC monitored the agreements and dealt with difficulties as they arose. It was regarded as an important innovation in ensuring that commitments made in the agreements were tracked. But, in keeping with the nature of social partnership in Ireland, the CRC also had a strong degree of informality (Hastings, Sheehan and Yates, 2007:50)

And it was this very informal process that played the largest part in delivering industrial peace. All those interviewed who were involved in social partnership spoke of the importance of 'the back channels', the 'quiet phone call' and the trade-offs that went on behind the scenes with O hUiginn pulling the strings.

**Table 8.3: Industrial Peace**

| | **1969** | **1979** | **1989** |
|---|---|---|---|
| **Strikes** | 134 | 152 | 38 |
| **Days Lost** | 935,900 | 1,427,000 | 41,000 |

(Hasting, Sheehan and Yates, 2007: 70)

All those involved in the early social partnership agreements who were interviewed for this thesis were enthusiastic about its success.[19] From the mid 1990s, with increasing participation by what became known as the Social Pillar, criticism of the process began to build. A special edition of the *Community Development Journal* (Vol. 37, no.1, January 2002, Oxford University Press), while acknowledging progress on the reduction of absolute poverty, was universally critical of the process. From their perspective it accelerated inequality in Irish society and widened the gap between the rich and the poor. Kieran Allen subtitled his book on the Celtic Tiger 'the myth of social partnership in Ireland' and argues that it enabled increasing class polarisation at both a political and structural level.

[18] From 1994 onwards the CRC published a full formal annual review of the agreements.
[19] The only dissenting voice was O'Malley who highlighted the lack of democratic accountability.

Social partnership became both an enabler of change and the cause of change. The wage restraint and industrial peace accepted by the unions in exchange for substantial tax and social welfare reform were central to increased productivity and enhanced competitiveness. Historical institutionalists are concerned with the asymmetrical nature of power and social partnership facilitated a significant shift in how power was exercised in Ireland. The unions came very much centre stage and found themselves in a position to influence public policy as never before. On the Bulmer and Burch Template PNR and PESP register change at the organisational, regulative and procedural levels but not at the systemic level as there was no primary legislation involved. This may very well highlight a shortcoming in Bulmer and Burch's Template as the change that flowed from social partnership was much more seismic than many systemic level changes. In effect social partnership bypassed parliament. Its critics cite its democratic deficit while its proponents argue that trade unions are among the most democratic organisations in the country. In either event the nature of power was changed and the benefits that flowed from the process are evident. What also became evident over time, and after the period under review, was that the process exhibited positive feedback and became locked in and path dependent. As with state-sponsored bodies at the first critical juncture social partnership at the second critical juncture became initially the solution and later a large part of the problem.

**Transformation?**

It will be recalled that the NESC report, *A Strategy for Development 1986 -90,* was underpinned by four major principles which were also incorporated into the PNR and these were to be both the enablers and causes of change:

- An integrated macro-economic policy that addressed the imbalances in the public finances while at the same time promoting the development of the traded sector.
- Fundamental reform of the tax system that enhanced equity and efficiency of the present system.
- Creation of an improved business environment together with improved sectoral policies that directed state intervention to structural deficiencies in the productive base of the economy.
- Progressive removal of the major inequities in society.

At the first critical juncture a five year view was taken to assess the level of institutional change and the achievement of the targets. A similar approach is taken at the Second Critical Juncture.

The following tables show the major changes that occurred in the public finances:

**Table 8.4: GNP/ Government Debt Ratio**

| **Year** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992** |
|---|---|---|---|---|---|---|
| **GNP** | 18.96 | 19.99 | 21.93 | 23.85 | 25.08 | 26.45 |
| **Gov. Debt** | 23.69 | 24.61 | 24.83 | 25.08 | 25.38 | 26.34 |
| **GNP/Debt** | 125% | 123% | 113% | 105% | 101% | 99% |

(Source: Compiled from the *Statistical Abstract of Ireland 1993*)

This was the primary indicator that the public finances were under control as the ratio reduced from 125 per cent to 99 per cent over a period of five years through a combination of budget cuts, increased productivity and industrial peace all contributing to a major growth in GNP. More responsible budgetary policy was also evidenced in the change in short term borrowing requirements.

**Table 8.5: Changes in Borrowing Requirements**

| | **Current Budget Deficit (%GNP)** | **Total Exchequer Borrowing (%GNP)** | **Public Sector Borrowing (%GNP)** |
|---|---|---|---|
| **1987** | 6.2 | 9.4 | 10.8 |
| **1988*** | 1.6 | 3.1 | 3.7 |
| **1989** | 1.2 | 2.2 | 3.0 |
| **1990** | 0.6 | 1.9 | 2.4 |
| **1991** | 1.2 | 2.0 | 3.0 |
| **1992** | 1.7 | 2.7 | 3.4 |

*Tax Amnesty figures reflected here

(Source: Statistical Abstract of Ireland 1987: 285)

One of the most surprising aspects of the economic situation is, in spite of the transformation of the public finances, that the unemployment situation proved to be quite intractable. It offers a good example of Pierson's slow-moving outcomes, causal chains not running on a straight

trajectory, and processes having a negligible impact before achieving threshold effects. The numbers unemployed rose further to 220,100 in 1993 and then began a fairly dramatic annual decline.

**Table 8.6: Numbers at Work (in '000)**

| | **1987** | **1988** | **1989** | **1990** | **1991** | **1992** |
|---|---|---|---|---|---|---|
| **Employed** | 1,111 | 1,111 | 1,111 | 1,160 | 1,156 | 1,165 |
| **Unemployed** | 226 | 217 | 196.8 | 172.4 | 198.5 | 206.6 |

(Compiled from Tansey, 1998)

Perusal of various IDA Annual reports shows that of the 54,000 increase in the numbers at work 18,000 of the jobs were in foreign owned companies.

Five years after the adoption of the 'ideas' of a low tax economy and social partnership substantial transformative change had occurred and this thesis argues that transformation was largely attributable to the new 'ideas'. There were also other factors at play, not least the EU, with Ireland receiving large fund transfers under CAP, ESF and ERDF. The rise of monetarism in the Anglo-Saxon world impacted on the political and administrative elites and when Haughey moved to rein in public expenditure in 1987 he was supported by the 'Tallaght Strategy' of Fine Gael, and even though fearful of the rise of the Progressive Democrats, went into coalition with them in 1989. The 1987 Budget of Mac Sharry; the workings of An Bord Snip under Cromien; the centralisation of power in the Department of the Taoiseach, under the omnipotent O hUiginn; the introduction of social partnership all enabled economic deliverance – and all were predicated on adopting new ideas that punctuated institutional path dependency and enabled transformation.

Haughey and O hUiginn, in particular, ably abetted by Mac Sharry and Cromien, (and supported by Dukes and O'Malley), favoured monetarism and tax reform as a means of addressing the public finances. Social partnership was an acceptable price to pay to achieve their aims. These men made things happen. They accepted the economic ideas that emanated from the economic theorists. Haughey ensured political acceptability and O hUiginn ensured administrative acceptability and in doing so both had to overcome many institutional veto points. They also had to ensure major cultural change to delete the state-sponsored bodies solution as a background underlying assumption that was firmly embedded in the public sentiment and replace it with the 'ideas' of monetarism and neocorporatism. The critical

moment that existed after the publication of A Strategy for Economic Development 1986 -90 and the coming to power of Haughey did transform into a critical juncture as described by Bulmer and Burch (2001:81):

> A 'critical moment' is when an opportunity arises for significant change. Such opportunities may not be realised and exploited but, if they are, the outcome is a 'critical juncture' at which there is a clear departure from previously established patterns. Critical junctures create branching points at which institutional development moves on to a new trajectory or pathway which is then followed incrementally until a new critical moment arises and (potentially) a new critical juncture follows and a new direction is taken.

Using a combination of tax reform and social partnership Haughey and O hUiginn ensured systemic level change primarily through tax reform; organisational level change beginning in the Department of the Taoiseach that permeated the entire public service, and regulative and procedural level changes that effected business at every level. The changes can be clearly seen in the following table.

**Table 8.7 Bulmer and Burch Template of Institutional Change**

| | Systemic | Organisational | Regulative | Procedural |
|---|---|---|---|---|
| **Tallaght Strategy** | X | ✓ | X | ✓ |
| **FF/PD Coalition** | X | ✓ | X | ✓ |
| **Dept of Taoiseach** | X | ✓ | ✓ | ✓ |
| **An Bord Snip** | X | ✓ | ✓ | ✓ |
| **Tax Reform** | ✓ | ✓ | ✓ | ✓ |
| **Self-Assessment** | ✓ | ✓ | ✓ | ✓ |
| **Tax Amnesty** | ✓ | ✓ | ✓ | ✓ |
| **IFSC** | ✓ | ✓ | ✓ | ✓ |
| **PNR** | X | ✓ | ✓ | ✓ |
| **PESP** | X | ✓ | ✓ | ✓ |
| **CRC** | X | ✓ | X | ✓ |

What is evidenced by the above table is a clear departure from previously established patterns of institutional behaviour. What also becomes clear is that major change does not always require systemic level change as described by Bulmer and Burch. The 'Tallaght Strategy, Fianna Fáil entering coalition government, the enhanced role of the Department of the

Taoiseach, did not entail systemic level change nevertheless the change involved was seismic. The combination of all the changes listed above punctuated institutional path dependency. Political and administrative determination, attitudinal and structural changes, major tax reform, all ensured that a critical juncture did occur. Some of the changes involved slow-moving outcomes (unemployment) and the causal chains did not always follow a straight trajectory. But a 'new idea', that had gained viability on the economic, political and administrative axis (as per Hall's Framework), moved from being a foreground idea, promulgated by ideational actors as an elite prescription, to becoming an elite and background underlying assumption that became embedded in the public sentiment. This led to a clear critical juncture and in the process transformed Ireland.