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TRACING THE PATH TO 'TIGER HOOD': IRELAND'S MOVE FROM PROTECTIONISM TO OUTWARD-LOOKING ECONOMIC DEVELOPMENT

PAUL F. DONNELLY
College of Business
Dublin Institute of Technology
Aungier Street (3-062)
Dublin 2
Ireland
Email: paul.donnelly@dit.ie

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All constructive feedback is welcome.*

ABSTRACT

Up to very recently, Ireland was spoken of in very adulatory terms, to the point of being dubbed the 'Celtic Tiger.' Taking path dependence as lens, this paper looks at an early sequence of events that shaped the country's path to 'tiger hood', i.e., the policy shift from protectionism to outward-looking economic development. From relatively contingent and unpredictable beginnings has evolved an institutional matrix, with a clear focus on the global, that, *ex ante*, could not have been predicted when it was first established.

Keywords: 'Celtic Tiger'; economic development; free trade; history; Ireland; path dependence; process; protectionism.

TRACING THE PATH TO ‘TIGERHOOD’: IRELAND’S MOVE FROM PROTECTIONISM TO OUTWARD-LOOKING ECONOMIC DEVELOPMENT

Up to very recently, Ireland was spoken of in very adulatory terms, with the country deemed to have experienced an ‘economic miracle’ to the point of being dubbed the ‘Celtic Tiger’ (e.g., A.T. Kearney/Foreign Policy, 2002, 2003, 2004). As is to be expected, many reasons have been postulated for this success from the country’s education system and human capital, to European Union structural funding, to the country’s Industrial Development Authority, to fiscal and financial incentives, to foreign direct investment, to government industrial policy, etc. While it would be spurious to focus on any one reason, the absence of any of the above reasons, amongst others, would most likely have resulted in a different scenario to that being experienced today. Space does not permit an in-depth analysis of Ireland’s path to ‘tiger hood’; rather this paper looks at an early sequence of events that shaped the path to ‘tiger hood’, that is, the policy shift from protectionism to outward-looking economic development.

Taking path dependence as lens, the story that unfolds takes as its starting point Ireland’s turn to protectionism following the general election of 1932, charting the increasing investment by successive Governments in the machinery of protection. The story then moves on to tell of the gradual shift away from protection towards a policy of outward-looking economic development. Throughout the course of time, the story traces the growing commitment to outward-looking economic development in terms of political, institutional and monetary resources, with the policy in turn reinforcing that commitment through delivery on its objectives, largely in the shape of new job creation. Essentially, the story is illustrative of increasing returns reinforcing the chosen path of economic development.

THROUGH THE LENS OF PATH DEPENDENCE

Recognizing calls for more processual and historically informed theorizing, path dependence theory (Arthur, 1988, 1989, 1990, 1994; David, 1985, 1987, 1994, 1997, 1999, 2001) offers a way of articulating the institutional as an ongoing dynamic over more dominant ways of thinking and knowing that are more static. With an interest in how process, sequence

and temporality can be best incorporated into explanation, path dependence attempts to “strike a better balance between historically insensitive causal generalization and idiographic historicism” (Haydu, 1998: 367).

Viewed as an idea through which “history” is commonly made visible, path dependence refers to dynamic processes involving irreversibilities, which generate multiple possible outcomes depending on the particular sequence in which events unfold. The path dependence approach holds that a historical path of choices has the character of a branching process with a self-reinforcing dynamic in which positive feedback increases, while at the same time the costs of reversing previous decisions increase, and the scope for reversing them narrows sequentially, as the development proceeds. As noted by David (2001: 23), “the core content of the concept of path dependence as a dynamic property refers to the idea of history as an irreversible branching process.” Thus, preceding steps in a particular direction induce further movement in the same direction, thereby making the possibility of switching to some other previously credible alternative more difficult. “In an increasing returns process, the probability of further steps along the same path increases with each move down that path. This is because the *relative* benefits of the current activity compared with other possible options increase over time” (Pierson, 2000: 252, emphasis in original).

Those who are not familiar with the path dependence approach think that it is no more than recognition that “history matters”. However, the approach not only recognizes the impact of history, but also shows that a decision-making process can exhibit self-reinforcing dynamics, such that an evolution over time to the most efficient alternative does not necessarily occur. In general, path dependence refers to situations in which decision-making processes (partly) depend on prior choices and events. It recognizes that a decision is not made in some historical and institutional void just by looking at the characteristics and expected effects of the alternatives, but also by taking into account how much each alternative deviates from current institutional arrangements that have developed in time. An outcome thus depends on the contingent starting point and specific course of a historical decision-making process.

Institutional Path Dependence

From its roots in economics, path dependence has branched out to become a key concept in studying institutional evolution over the past decade (Crouch & Farrell, 2002). North (1990) proposed transforming the approach in such a way that it could be applied in an institutional context, noting that all the features identified in investigations of increasing returns in technology can equally apply to institutions, although with somewhat different characteristics, and that institutions are subject to considerable increasing returns. In situations of complex social interdependence, new institutions commonly require high fixed or start-up costs, and they entail significant learning effects, coordination effects, and adaptive expectations. By and large, established institutions engender powerful incentives that buttress their own stability (David, 1994).

North (1990) stresses that positive feedback applies not just to single institutions, but that institutional arrangements also produce corresponding organizational forms, which in turn may induce the development of new complementary institutions. Path-dependent processes will frequently be most marked not at the level of discrete organizations or institutions, but at a more macro level that comprises arrangements of corresponding organizations and institutions (Pierson & Skocpol, 2002).

For social scientists interested in paths of development, the key issue is often what North (1990: 95) calls “the interdependent web of an institutional matrix”, a matrix that “produces massive increasing returns”. As North (1990: 3) sees it, institutions, broadly defined as “the rules of the game in a society or, more formally, ... the humanly devised constraints that shape human interaction”, account for the anomaly of enduring difference in economic performance. Once in place, institutions are difficult to alter, and they have an enormous impact on the potential for producing sustained economic growth. Individuals and organizations become accustomed to existing institutions and when institutions do not encourage economic productivity, growth, if any, is unlikely.

Social scientists, therefore, generally invoke the notion of path dependence to support a few key claims (Pierson, 2004): specific patterns of timing and sequence matter; from initially similar conditions, a wide array of social outcomes are often possible; large consequences may

result from relatively small or contingent events; particular courses of action, once introduced, are almost impossible to reverse; and consequently, development is often punctuated by critical moments or junctures which shape the basic contours of social life. All of these features contrast sharply with more familiar modes of argument and explanation, which attribute large outcomes to large causes and emphasize the prevalence of unique, predictable outcomes, the irrelevance of timing and sequence, and the capacity of rational actors to design and implement optimal solutions (given their resources and constraints) to the problems that confront them.

Incorporating History and Process

In the opinion of Hirsch and Gillespie (2001: 87), “Path dependence deserves credit for bringing history back into analysis [...] stimulating economists and other social scientists to address the limitations of their largely ahistorical models.” It seeks to assess how process, sequence and temporality can be best incorporated into explanation, the focus of the researcher being on particular outcomes, temporal sequencing and the unfolding of processes over time.

Accounts of how and why events develop as they do necessitate a mode of causal logic that is grounded in time and in characteristically temporal processes (Abrams, 1982; Aminzade, 1992). As Mahoney (2000: 511) notes, path-dependent analyses have at least three defining characteristics: (1) they entail the study of causal processes that are very sensitive to events that occur early on in an overall historical sequence; (2) given the contingent character of these early historical events, they cannot be explained by reason of preceding events or initial conditions; and (3) when contingent historical events occur, path-dependent sequences are reflected in essentially deterministic causal patterns. Mahoney (2001:112) elaborates these characteristics into an analytic structure based on his view that path dependence refers “to a specific type of explanation that unfolds through a series of sequential stages,” as shown in Figure 1.

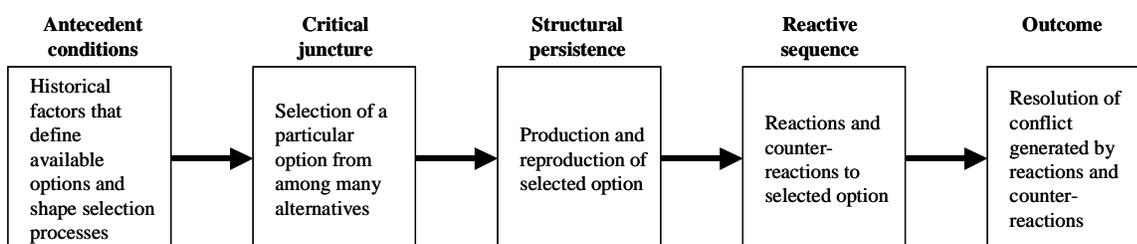


Figure 1 – Analytic structure of path-dependent explanation (adapted from Mahoney, 2001: 113).

In the course of pre-critical junctures, when antecedent conditions are at play, at least two alternatives are open for selection and potential processes influencing the choice made at the critical juncture become active. The choice is consequential because it leads to the creation of a pattern that endures over time, nudging history down tracks that then, through the stubborn persistence of subsequent continuities, become increasingly difficult to reverse. It is here that positive feedback processes become active, with fixed costs, learning effects, coordination effects and adaptive expectations (Arthur, 1994: 112), along with layering (Thelen, 2003), coming into play and contributing to structural persistence. Thus it is that, once a specific selection has been made, it becomes increasingly difficult with the passing of time to return to the initial critical juncture when at least two options were still available. In sequences with self-reinforcing properties, initial steps in a given direction produce further movement along the same path, such that over time it becomes difficult, if not impossible, to reverse direction.

The continued existence of an institution over time activates a sequence of causally linked events that, when activated, materialize separately from the institutional factors that originally produced it. In such reactive sequences, which comprise chains of events that are both temporally ordered and causally connected, the final event in the sequence is the outcome of interest. With each event within the chain a reaction to temporally antecedent events, and thus dependent on prior events, the overall chain of events can be viewed as a path culminating in the outcome. A reactive sequence is often set in motion by an initial challenge to the existing institution, with counter-reactions to this opposition then driving ensuing events in the sequence. Reactive sequences are normally marked by properties of reaction and counter-response as institutional patterns put in place during critical juncture periods are resisted or supported. Although such resistance may not lead to the transformation of these institutions, it can trigger an independent process that includes events leading to a result of interest. The tensions of a reactive sequence usually yield more stable final outcomes, which involve the development of new institutional patterns. While such outcomes suggest fairly stable equilibrium points, they will inevitably become displaced by new periods of discontinuity signaling the end of a particular critical juncture and possibly the start of a new one.

With the above framework in mind, I now turn to the story of Ireland's path to outward-looking economic development.

EMBEDDING PROTECTIONISM

Fianna Fáil¹ entered Government in 1932 on a platform of, amongst other things, self-sufficiency built on protectionism and import-substituting indigenous industrial development, and in a context of a world in depression, declining markets for agricultural produce abroad and high unemployment. Thus it was that both “ideology and contingency combined to transform a virtually free-trading economy into one bent on state supports and import-substitution” (Ó Gráda & O'Rourke, 1994: 13).

By the time it entered Government, Fianna Fáil had already invested quite considerable start-up costs in its policy of self-sufficiency, this investment representing a cost in terms of developing a coherent policy, mobilizing its political base and the electorate, and creating and building an identity as the political party embracing self-sufficiency as the means through which to develop a viable State. Having coordinated the interests of these various actors around its policy and won the election, party supporters and the electorate had expectations that, now in Government, Fianna Fáil would deliver.

The new Government set about putting in place an infrastructure in support of autarky. In addition to imposing duties on the import of goods to prevent dumping and protect indigenous industry, Fianna Fáil pursued enactment of the Control of Manufactures Acts, 1932 and 1934, to ensure majority Irish ownership and control of businesses operating in the country and to further ensure that firms which had formerly supplied Irish markets from other countries would not seek to bypass tariff barriers by producing in Ireland instead. The general policy in effect was to give preference to indigenous industry in the first instance, only granting licenses to foreign investors where indigenous industry could not meet demand or where patents or technical competence lay solely in foreign industries. In addition to the machinery of the Control of Manufactures Acts, Government passed a range of legislation to support and bolster the implementation of its

¹ Irish political party formed in 1926 with a republican ethos (translated from Irish as ‘soldiers of destiny’).

protectionist policy, which also entailed the establishment of supporting organizations, each new piece of legislation following and reinforcing the path set by Fianna Fáil on assuming power.

While this institutional web was being created and implemented, Hancock (1937, see Kennedy, Giblin & McHugh, 1988: 53) observed that the so-called 'Economic War' with Great Britain, begun in July 1932, allowed for pursuit of economic nationalism, for this 'war' stirred up nationalist fervor sufficient for the material frugality that protectionism entailed to be overlooked. Were it not for the atmosphere created by the 'war,' Hancock considers it doubtful that Fianna Fáil could have persisted with protectionism on the back of the employment-creating and nationalistic appeal of the policy alone.

From the perspective of path dependence, several factors contributed to protectionism's durability, not least of which was Fianna Fáil's unbroken electoral success over the course of 16 years that allowed for continual investment in, and reinforcement of, the protectionist machine. The fact that an array of interests, many of which were connected to the Fianna Fáil party in some way or other, developed in the 1930s whose fortunes were tied to the maintenance of the economic status quo was a further impediment to change and reinforcement of the protectionist path. As Daly (1984) points out, adaptive expectations were in play in terms of Irish industrialists seeing protectionism as the policy in which to invest. Having initiated the policy and having set about implementing it, both Government and industrialists were making commitments to the development of indigenous industry based on the expectation that protectionism would continue. For industrialists, such expectations entailed Government maintaining a stable environment to allow for sufficient return in exchange for investment in developing their industries and creating employment. For Government, such expectations entailed industrialists generating employment to allow for claims of policy success and continuing in power in exchange for investment in protectionism.

Further, building the protectionist machine saw what Thelen (2003) refers to as layering taking place, with legislation and supporting organizations being added to partially re-negotiate elements of the machine while at the same time strengthening it in the process. These various legislative moves also exhibit learning effects, as can be seen in the adaptations made to various pieces of legislation constituting the machine, examples being the already mentioned Control of

Manufactures Act 1932, which was made more robust by the Control of Manufactures Act 1934, and the Control of Prices Act 1932 which was superseded by the Control of Prices Act 1937.

The investment in these legislative and organizational assets, which were specific to protectionism, added to the resilience of the institution and deepened the equilibrium established by the turn to self-sufficiency.

Thus, from the start of Fianna Fáil's reign in 1932 there was built an interdependent institutional matrix in support of protectionism, resulting in quite substantial complementarities, with institutional arrangements mutually reinforcing each other. In essence, institutional arrangements constituted a stable equilibrium, its resilience being such that institutional continuity conditioned change and exhibited strong tendencies towards only incremental adjustment (Pierson, 2004).

Fianna Fáil lost power in the general election of 1948 and an unlikely coalition of parties and independents came together to form an Inter-Party Government (IPG). Despite the change in Government, the maintenance in all-important respects of the protectionist regime established under the auspices of Fianna Fáil was unaffected. It might have been expected that a Government where the largest party was Fine Gael, traditionally the party most identified with free trade, might have sought to dismantle the protectionist apparatus inherited from Fianna Fáil. However, no such move was undertaken, the hostility of other parties in the coalition to a return to a 1920s-style free trade regime being sufficient to stymie any putative moves in that direction. Further, fear that the employment created behind the tariff wall erected by Fianna Fáil would be destroyed by foreign competition was sufficient to defeat the opposing school of thought which stressed the benefits accruing from opening up Irish producers and markets to the economic boom then gathering pace in Europe. Thus, given both the short-term time horizon of political actors and the extensive commitments already made, the incentive was there for the IPG to stick with protectionism on the basis that change would have entailed bearing considerable switching costs in the short-term, necessitating the investment of considerable political capital on the part of the IPG, while the benefits would accrue in the long-term and possibly to a Government of another composition.

The general election of 1932, which brought Fianna Fáil to power, set the stage for the protectionist path that followed, with self-reinforcing mechanisms and processes ensuring the resilience and persistence of the protectionist institutional matrix over the course of almost three decades (see Figure 2 below). This is not to say that the institutional landscape was permanently frozen, for change continued, albeit such change was bounded. It was only over the course of the late 1940s and the 1950s that the decreasing returns to the protectionist path, when combined with the effects of population movement, began to erode the mechanisms of reproduction that generated its continuity.

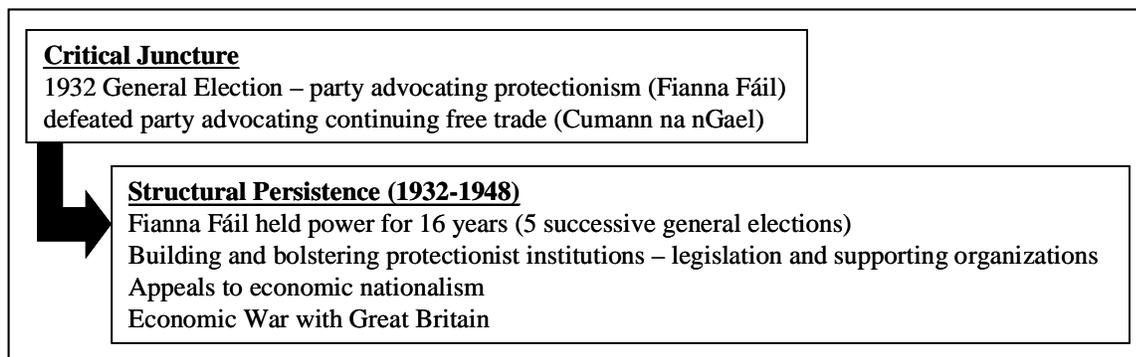


Figure 2 – Ireland's protectionist path.

Reactive Sequence – Challenges to Protectionism

Although committed to maintaining protectionism, successive governments throughout the 1950s faced concerns about its efficiency, in addition to facing concerns about how best to deal with increasing migration from the land, increasing unemployment, increasing emigration and a deteriorating balance of payments.

From one perspective, in dealing with prevailing environmental conditions, increasing returns to protectionism saw Government create new institutions to encourage indigenous industrial development – the Industrial Development Authority (IDA, 1949) and An Foras Tionscal (The Industry Board, 1952) represented two industrial development agencies that oversaw capital grant schemes introduced with the Undeveloped Areas Act, 1952, and the Industrial Grants Act, 1956. Each of these responses represented institutional layering, in the sense that the protectionist institutional matrix was left in place, and these layers, while an attempt to improve matters, represented learning effects and further investment, by way of adaptive expectations, in making protectionism work. However, by the 1950s these measures

were clearly not contributing sufficiently to economic development. Industry was stagnating and the opportunities for expanding employment through dependence on the home market had become limited.

While Ireland continued with its protectionist regime, other nation states were moving towards free trade. 1947 saw 23 countries sign the General Agreement on Tariffs and Trade (GATT), which came into force at the beginning of 1948, marking the start of efforts to bring about the liberalization of trade. Agreement on the second GATT round in 1949 saw participating countries exchange some 5,000 tariff concessions, with agreement on the third round in 1950 seeing a further 8,700 tariff concessions and a reduction of 25 per cent in tariff levels over those of 1948, and agreement on the fourth round in 1956 seeing further tariff reductions to the tune of \$2.5bn. In parallel, moves on the European stage brought about the creation of the European Coal and Steel Community in 1951 followed by the creation of the European Economic Community (EEC) in 1958.

Tentative moves were being made in Ireland, nonetheless, towards an outward-looking orientation, albeit not in any concerted or coordinated fashion at the outset and from within the definite confines of protectionism. While the first IPG made no moves to dismantle the protectionist regime it inherited, the policy of fostering more open trading conditions with Great Britain, which had been in train immediately prior to World War II, was renewed with the signing in 1948 of a new four-year trade agreement, itself representing a very incipient step in the direction of cultivating a more export-oriented economy. At the same time, and on the back of mounting trade deficits, balance of payments problems and a realization that the domestic market had reached saturation point, moves were made in the direction of encouraging the development of exports. A specialist organization, An Córas Tráchtála Teoranta (CTT, the Irish Trade Company, 1951), was subsequently created to encourage domestic industry to export.

While the Fianna Fáil government welcomed foreign investment as early as 1953 (Girvin, 1989: 181; PDDE, Vol.155, Col.65-66, 7-March-1956), it was not prepared to amend the Control of Manufactures Acts to make such investment easier (Girvin, 1989: 181). It was only with the return to power of the IPG that the reactive sequence gathered momentum. In various public statements in the early part of 1955, Minister for Industry and Commerce, William Norton,

signaled the growing need to attract both foreign direct investment and technical competence to facilitate industrial expansion (PDDE, Vol.149, Col.525, 23-March-1955). Over the course of the following year, Minister Norton reinforced the nascent policy of attracting foreign direct investment, noting that the country's "chronic economic problems" had defied solution over the course of 34 years of independence (PDDE, Vol.155, Cols.54-63, 7-March-1956). This being so, and despite continued appeals and offers of every possible assistance to Irish industrialists to establish new industries geared towards import-substitution and export, Norton considered it the Government's obligation to look to foreign capital and technical know-how to drive industrial and economic development (PDDE, Vol.155, Cols.54-63, 7-March-1956). Taoiseach² Costello reinforced the emerging policy in noting that conditions and circumstances had changed sufficiently to warrant a more "positive policy" towards foreign investment than contained in the Control of Manufactures Acts.

Initially, the IPG-created IDA favored protectionism to encourage indigenous industrial development. However, through experience on the ground, the Authority's view gradually changed to seeing export-led industrialization as the only way to develop the Irish economy and foreign investment as a source for such industrialization, resulting in its recommendation that the restrictions on foreign capital be eased (Walsh, 1983, cited in Girvin, 1989: 180-181). The Government, in extending the remit of the IDA, began to actively encourage foreign investment to fill gaps where indigenous industry had failed to seize opportunities, albeit with such investment still, officially, bound by the Control of Manufactures Acts, 1932 and 1934.

Subsequently, indications were given by Government that, in the interests of resolving the country's socio-economic problems, consideration would be given to making necessary modifications to facilitate foreign investment. Such indications grew ever stronger, such that legislation, introduced in July 1957 as the Control of Manufactures Bill and enacted in July 1958 as the Industrial Development (Encouragement of External Investment) Act, brought about an easing in the restrictions on foreign ownership of industry, clearly signaling the Government's intent to welcome foreign participation in support of driving export-oriented industrial development. Of interest is that this legislation was introduced and steered through the

² Irish word meaning 'chief' and used in place of 'Prime Minister.'

legislative process by then Minister for Industry and Commerce, Seán Lemass, one of the principle architects of the protectionist regime, who pointed out that industrial policy had moved from a focus on import-substitution and indigenous industry to encouraging exports and foreign investment, such that the Control of Manufactures Act had become “unsuitable” and, potentially, a “serious impediment” (PDDE, Vol.165, Col.533, 20-February-1958). Seeing justification for encouraging foreign direct investment to address a shortage of capital and inexperience in export markets and to urgently expand employment, so reducing unemployment and emigration, Lemass made clear that the legislation would unmistakably signal that foreign direct investment geared towards exports was welcome (PDDE, Vol.165, Col.534, 20-February-1958). Thus, reflective of learning effects, coordination effects and adaptive expectations, we see a growing shift in policy, itself requiring the investment of political capital in articulating, supporting and institutionalizing that shift.

Concurrent with these moves towards encouraging foreign investment, the Finance (Miscellaneous Provisions) Act, 1956, introduced Export Profits Tax Relief (EPTR), which started at a 50 per cent reduction in taxes on export profits for a period of five consecutive years in a bid to encourage Irish companies to either begin or increase exporting and to persuade foreign companies to use Ireland as an export base (PDDE, Vol.160, Col.1624, 28-November-1956). In relation to foreign investment, and indicative of the growing acceptance by Fianna Fáil of the need for foreign investment, Lemass (then in opposition), noted that sufficient was not being done to attract foreign direct investment:

It is quite clear that, if the Government is hoping through this measure to arouse significant foreign interest in Irish industrial possibilities, they are not going far enough. They have tried. ... I hope the Government has learned...that people will not come in here to invest substantial capital sums in industrial activities in this country merely because some Minister goes and asks them to do it. There has got to be, for business people, a solid, practical reason why they should come and we have not given that reason yet. Indeed, the proposals in this Bill, as I have said, give to possible new industrialists far less in the way of tax relief than they are already enjoying in the countries in which they are now operating. (PDDE, Vol.160, Cols.1628-1629, 28-November-1956).

In line with the above, and indicating learning effects, coordination effects and adaptive expectations, the Finance Act, 1958, increased the EPTR to 100 per cent and extended the relief

from five to ten years up to the year 1970. At a time when Ireland had few other advantages to attract foreign investment, EPTR sent two strong messages to international business: first, that Ireland was pro-enterprise through rewarding profit; and, second, that the country favored a long-term approach to investment, as signaled by the initial (5-year) and subsequently lengthened (10-year) tax horizon (MacSharry & White, 2000: 246-247).

Following North (1990: 98-99), therefore, the continuity of protectionism was not inevitable given that the mechanisms of reproduction were subsequently eroded over the course of the reactive sequence that paved the way for the emergence of a new equilibrium (see Figure 3 below). New conditions overwhelmed the specific mechanisms that previously reproduced the protectionist path, a period of relative openness emerging in parallel, to be followed, in turn, by a period of relative stability.

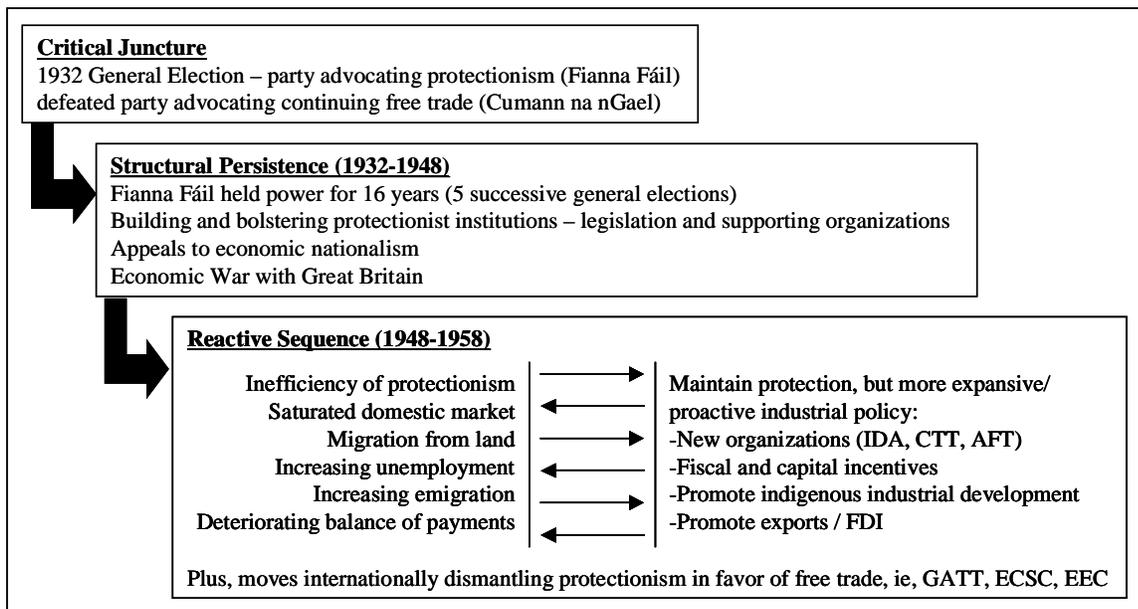


Figure 3 – Reaction and counter-reaction to Ireland’s protectionist path.

A critical feature of path dependent processes is the relative ‘openness’ or ‘permissiveness’ of early stages in a sequence compared with the relatively ‘closed’ or ‘coercive’ nature of later stages (Abbott, 1997; Mahoney, 2001). This can be seen in the sequence that emerged in reaction to protectionism. The problems facing the Government – in terms of persistent post-war balance of payments deficits, migration from the land, unemployment, emigration, decreasing standard of living – saw the emergence of new

organizations and the introduction of new mechanisms to encourage economic development. On the one hand, all of these responses represented institutional layering, in the sense that the protectionist institutional matrix was left in place, and these layers, while an attempt to improve matters, represented learning effects and further investment, by way of adaptive expectations, in making protectionism work.

TRANSITIONING TO OUTWARD-LOOKING ECONOMIC DEVELOPMENT

However, it can equally be argued that these institutional responses were plastic enough to fit with an outward-looking reactive sequence developing in parallel, a sequence driven by the need to deal with the problems then facing Government, not to mention a parallel sequence developing internationally which was witnessing increasing moves towards free trade and mobile investment capital. As such, the IDA, CTT and An Foras Tionscal, and the fiscal and financial incentives introduced through legislation, were all plastic enough to subsequently become part of the institutional matrix that emerged in support of the move toward an outward-looking economic development policy

As has already been seen, the rules of the game were changing through the 1950s. Government was becoming more frustrated with protectionism in the face of increasing inefficiencies. Despite efforts at actively encouraging industrial development and the development of exports, the inefficiencies of the protectionist path were proving immune to such incremental change.

Which Path to Economic Development? – Marking the Critical Juncture

It was only with the *First Programme* (the *Programme for Economic Expansion (PEE)*, 1958) that all of these moves were pulled together into a coherent policy of outward-looking economic development, underpinned by industrial development that embraced export-oriented, foreign direct investment. In marking a critical juncture, this program represented a significant, path-shifting investment on the part of Government in a highly visible policy that effectively sounded the death knell for protectionism.

The *First Programme* itself had its origins in the work of then Secretary of the Department of Finance, T.K. Whittaker, who commenced a review of the country's economic

development up to that point in March 1957. In the course of delivering his budget speech in the Dáil on May 8th, 1957, then Minister for Finance, Dr. Ryan, as if presaging what would emerge from Whittaker's work, noted:

It is clear that we have come to a critical stage in our economic affairs. The policies of the past, though successful in some directions, have not so far given us what we want. We are not satisfied with the rate at which living standards are being raised and productive and self-sustaining employment provided. Further progress on a worthwhile scale calls for a comprehensive review of our economic policy. The examination of our affairs, which we have been pursuing in connection with the European Free Trade Area proposals, will undoubtedly show up defects in our economy and should guide us in making the improvements so urgently needed. The direction and rate of our future advance will depend on the decisions we take now. There are no easy expedients by which our difficulties can be solved. (PDDE, Vol. 161, 8-May-1957, Col. 958).

Published in November 1958, and providing for the first time a comprehensive overview of the entire economy, Whittaker's *Economic Development* sought to indicate the key changes that would have to be made to the existing system, together with an admittedly provisional assessment both of the costs of such changes and of their intended benefits. As Whittaker saw it:

The policies, hitherto followed, though given a fair trial, have not resulted in a viable economy. ... [L]arge-scale emigration and unemployment still persist. The population is falling, the national income rising more slowly than the rest of Europe. A great and sustained effort to increase production, employment and living standards is necessary to avert economic decadence. ... It seems clear that, sooner or later, protection will have to go and the challenge of free trade accepted. There is really no other choice for a country wishing to keep pace materially with the rest of Europe. (1958: 2)

Building on *Economic Development*, the *First Programme* (PEE, 1958: 7) was "prepared in the conviction that the years ahead will be decisive for Ireland's economic future" and was cognizant that "[e]migration will not be checked nor will unemployment be permanently reduced until the rate of increase in national output is greatly accelerated."

A number of conditions influenced the industrial policy laid out in the *First Programme*, these being industry's very much below average contribution to national income compared to other OEEC (subsequently the Organisation for Economic Cooperation and development (OECD)) countries and the persistent high levels of emigration draining the population, leading to uncertainty in planning for the home market and to the loss of newly-acquired skills when

workers emigrated. Throughout, the thrust of policy revolved around the belief that private enterprise was the best means through which to pursue profitable manufacturing opportunities. Additionally, there was recognition that the only way forward was through further industrial expansion based largely on production for export markets. Thus, the Government's main objective in terms of industrial policy was to create the conditions necessary for private enterprise to drive industrial development. Having recognized that industrial expansion would largely depend on attracting or establishing new industries geared towards the export market, there was an equal realization that such a move would be required by the likely emergence of a European Free Trade Area (EFTA) in the near future. Any such move was seen as inevitably having significant repercussions for how industrial expansion could be stimulated into the future and industrial development efforts would have to be targeted at securing export-oriented projects that would perform well in open competition abroad. In light of the changing rules of the game being instituted internationally in the moves towards free trade, the *First Programme* clearly articulated that relying on a policy of protection would be unrealistic (PEE, 1958: 37-38).

The *First Programme* concluded that achieving success would require that the State provide adequate facilities to encourage industrial development, that policies hampering industrial development be overhauled, modified or abandoned, and that foreign investment in industry, either financial or technical, be welcomed (PEE, 1958: 35-36). Indeed, as already noted, enactment of the Industrial Development (Encouragement of External Investment) Act in July of 1958 signaled the Government's intent to welcome foreign participation in support of driving industrial development and represented a first step in overhauling the protection machinery enshrined in the Control of Manufactures Acts, 1932 to 1934. By way of reinforcing its stance in relation to industrial policy moving forward, the *First Programme* asserted that "[i]f the provisions of that Act prove inadequate, the Government will be prepared to consider further measures to facilitate foreign industrial investment in Ireland" (PEE, 1958: 37).

Thus, in terms of adaptive expectations, we see it explicitly expressed as part of Government policy that protection is increasingly untenable in a world that is sensed to be moving towards free trade and in opposition to an industrial development policy that both welcomes foreign participation and is export-oriented. This new approach to economic

development established the path to be followed and, it is in line with this critical juncture, that moves along the path of export-led industrialization and economic cooperation with Europe were subsequently made.

Reproducing the New Institution – Building Structural Persistence

Seeking to reinforce what was considered the success of the *First Programme*, the *Second Programme for Economic Expansion* (SPEE, 1963/64) and the *Third Programme for Economic and Social Development* (TPESD, 1969) both looked to industry as the engine of economic growth. Concurrent with these plans, the dynamic in Western Europe and North America, the areas with which Ireland had closest trading relations, was very much moving towards freer trade, such that the country engaged more actively with this process through participating in EFTA discussions (late 1950s), applying to join the EEC (1961, withdrawn 1963), concluding an Anglo-Irish Free Trade Agreement (1965) and joining GATT (1967).

Facing the challenges of, and prospering in, a more acutely competitive world required (a) continued adaptation of existing industry and (b) continued expansion of the industrial base through promotion to establish new Irish businesses and attract foreign companies. Both programs advocated increased resources for the IDA and An Foras Tionscal, along with continuing the policy of using financial and fiscal incentives. The *Second Programme* signaled repeal of the Control of Manufactures Acts, 1932 to 1934, on the grounds that foreign direct investment supplemented indigenous efforts to grow the economy and create jobs and obstacles to FDI only served to impede such efforts, while the *Third Programme* confirmed the overhaul of the industrial development institution itself through its concentration in a more autonomous and powerful IDA to better encourage industrial development..

Essentially, the move towards a more outward-looking economic development policy entailed considerable start-up costs, particularly political and particularly for Fianna Fáil. Representing a fundamental shift in policy, Fianna Fáil had to both divest itself of protectionism and embrace a more open policy that included accepting foreign investment as a vehicle through which to achieve both industrial and economic development. Further, it meant Government investing in promoting this highly visible policy change, investing in the creation of new meaning around the new policy and investing in its implementation. It meant considerable start-

up costs for the Civil Service in reorienting itself away from managing protectionism to putting in place new institutions to manage a more open economy, not to mention Whittaker's considerable investment in preparing the analysis underpinning the policy and his credibility and legitimacy as the head of the Department of Finance. It also meant investing in engagement with ongoing moves internationally towards freer trade and the changes such engagement would require, such as the development of complementary policies, the negotiation and signing of treaties, and the implementation of these treaties. Further, it meant investment in the development, promotion and implementation of successor economic development plans that built on, and so reinforced, the path established by the *First Programme*. Equally, these investments were not just monetary, but they were also in reorienting the collective mindset, disengaging it from the policy of the past and engaging it with the policy of the future.

From a policy learning perspective (Pierson, 1993), Ireland's story of economic development is illustrative of policy constituting "important rules of the game, influencing the allocation of economic and political resources, modifying the costs and benefits associated with alternative...strategies, and consequently altering ensuing" development (Pierson, 1993: 596). While Government shaped the outward-looking economic development policy instituted with the publication and implementation of the *Programme for Economic Development* (PEE, 1958-1963), following Pierson (1993), this policy can be seen to have subsequently produced politics, with the policy serving to shape politics. This being so, economic development policy can be seen to have produced resources and incentives (e.g., the IDA, the need to create jobs) for Government, with positive feedback (e.g., jobs created) influencing continued investment in the policy. Such policy feedback facilitated the expansion in scope and scale of economic development, with economic development policy shaping industrial development policy, which, in turn, shaped later developments and served to reinforce the path taken.

PATH DEPENDENCE PICTURE OF INSTITUTIONAL FORM(ING)

Thus, taking all of the above together, we see the critical junctures marking the turn to protectionism and then to outward-looking economic development and what emerges is a path

dependence picture of a protectionist path and a subsequent outward-looking path (see Figure 4 below).

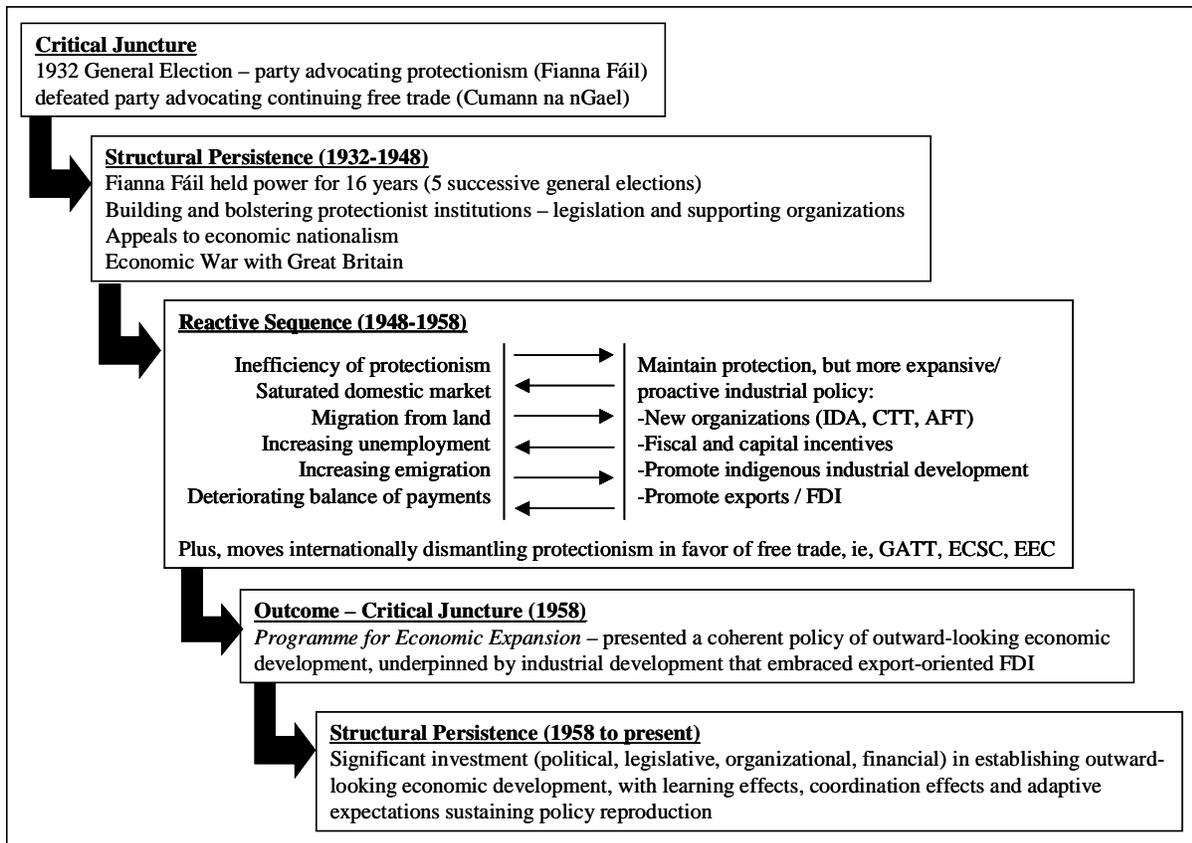


Figure 4 – Ireland’s path from protectionism to outward-looking economic development.

Post-critical junctures, positive feedback mechanisms come into play to produce and reproduce structural persistence. We see large set-up costs and ongoing investment, initially in protectionism and subsequently in a policy geared towards free trade, e.g., policy statements, policy documents, legislation, new institutions and organizations, ongoing commitment of resources (financial, political, legislative), etc. We see the knowledge gained in the operation of both policy regimes contributing to positive feedback in their continued use, such feedback incurring continued investment aimed at greater efficiency and effectiveness, for example, in the fine-tuning of legislation and the establishment of complementary organizations. Increased use of each policy regime encouraged investment in linked and complementary activities, in turn making each regime more attractive. And adaptive expectations drove continued investment in both policy regimes to reduce uncertainties, whereby the greater the expectation that policy

would continue in force the greater actions would be adapted to realize those expectations. The self-fulfilling character of expectations contributed to the policy winning broader acceptance and increased the dynamic of coordination effects.

However, we also see that paths have not continued indefinitely, as was the case with protectionism. A reactive sequence emerged in response to the growing disquiet with protectionism, which culminated in the outcome or critical juncture that saw an outward-looking economic development policy take its place.

In the final analysis, from relatively contingent and unpredictable beginnings has evolved a policy landscape that now looks outward, with a clear focus on the global. The forces of reactive sequences and those of structural persistence have contributed to producing and reproducing an institutional matrix that, *ex ante*, could not have been predicted when it was first established. In developing the path dependence argument, the claim is made that “previously viable options may be foreclosed in the aftermath of a sustained period of positive feedback, and cumulative commitments on the existing path will often make change difficult and will condition the form in which new branchings will occur” (Pierson, 2004: 52).

By way of postscript, having evolved to ‘tiger hood’ and the adulation that has brought with it, the current economic context raises the question as to (i) whether we are witnessing a reactive sequence and subsequent critical juncture that will end in a new institutional landscape and (ii) what that will mean for the (former?) ‘Celtic Tiger.’

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