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Tracing the Path to “Tiger Hood”: Ireland’s Move From Protectionism to Outward Looking Economic Development

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Until very recently, Ireland was spoken of in very adulatory terms, to the point of being dubbed the “Celtic Tiger.” However, the tiger is no more, having been consumed by a property-led boom, the collapse of which was compounded by the global financial crisis. Taking path dependence as lens, this article looks at an early sequence of events that shaped the country’s path to “tiger hood,” that is, the policy shift from protectionism to outward looking economic development. From relatively contingent and unpredictable beginnings evolved an institutional matrix, with a clear focus on the global, that, ex ante, could not have been predicted when it was first established. While the tiger is no more, the outward looking economic development path nonetheless remains in place, with the export sector proving to be one of the few bright lights in an otherwise bleak situation. *Organization Management Journal*, 9: 90–103, 2012. doi: 10.1080/15416518.2012.687989

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Until 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” (Sweeney, 1998, 1999, 2008). Indeed, Ireland was held up as the model of successful adaptation to economic globalization (Kirby, 2002; O’Toole, 2010) and the poster child for Europe’s transition economies (Cairncross & McDowell, 2008) and late-developing countries (Kirby, 2002). The scale of the country’s transformation from laggard to showcase is encapsulated in two cover stories by *The Economist*: the first, captioned “Poorest of the rich,” showed an image of a young girl with her child begging on a Dublin street (*The Economist*, 1988); the second, captioned “Celtic Tiger: Europe’s shining light,” had an image of Europe with Ireland wreathed in a halo (*The Economist*, 1997).

That was then. The country has gone from “Celtic Tiger” to Celtic “distress” (Kirby, 2002), “meltdown” (Ó Dálaigh, 2010), and “collapse” (Kirby, 2010), with Ó Dálaigh (2010) heralding

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September 30, 2008, the day the government guaranteed all bank debt, as the death knell of the tiger that once was. As an editorial in *The Irish Times* (2009) noted: “We have gone from the Celtic Tiger to an era of financial fear with the suddenness of a Titanic-style shipwreck.”

Ireland is now reeling from the calamitous effects of the worst economic downturn since the Great Depression. The country’s property-led boom consumed the tiger, a consequence, many would argue, of “crony capitalism” involving politicians, bankers, and property developers (e.g., Lee, 2009; Lynch, 2010; O’Toole, 2010; Soden, 2010), compounded by the global financial crisis. Of course, some were questioning the unsustainability of a boom built on property (e.g., Kelly, 2007; Lee, 2006, 2009), but such questioning was scoffed at by many who wanted the party to continue, with Taoiseach¹ Bertie Ahern famously calling on naysayers to “commit suicide” (Brennan & Guidera, 2007). Effectively shunned by financial markets, the country has had to turn to the European Union and International Monetary Fund for a bail-out to the tune of some €85 billion (Labanyi, 2010). Unemployment is at its highest level since the birth of the tiger, and mass emigration has returned, with a historically high 50,000 forecast to leave the country over each of the next two years (Barrett, Kearney, Conefrey & O’Sullivan, 2011).

This contemporary backdrop serves as my entry into Ireland’s path to “tiger hood.” As is to be expected, many reasons have been postulated for the success that Ireland experienced up to recent times, 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 (FDI), to government industrial policy, and so on. While it would be spurious to focus on any one reason, the absence of any of the preceding reasons, among others, would most likely have resulted in a scenario different from that which was experienced. Space does not permit an in-depth analysis of Ireland’s path to “tiger hood”; rather this article looks at an early sequence of events that shaped the path, 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 toward 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

Ever since the idea of path dependence entered the economics lexicon in the 1980s, most notably through the seminal economics studies of David (1985, 1987, 1997, 1999, 2001) and Arthur (1988, 1989, 1990, 1994), it has grown in prominence across a wide range of social science disciplines (Martin & Sunley, 2010), to include organization studies (e.g., Araujo & Rezende, 2003; Bruggeman, 2002; Donnelly, 2007; Greener, 2002; Noda & Collis, 2001; Schreyögg & Sydow, 2009, 2010; Sydow & Schreyögg, 2009; Sydow, Schreyögg, & Koch, 2005, 2009; van Driel & Devos, 2007; van Driel & Dolfsma, 2009). Schreyögg and Sydow (2010, p. 11) note the "remarkable growth" since 1996 in path dependence publications and citations, as evidenced by a search of the Social Sciences Citation Index. Others, such as Vergne and Durand (2010, pp. 736–737), observe that the number of articles published in seven of the leading organization studies journals directly referring to path dependence has increased from 6.15% of all articles over the period 1998–2002 to 10.5% between 2003 and 2007. Indeed, Martin and Sunley (2010) suggest the growth in the use of path dependence ideas can be read as a manifestation of the "historical turn" in the social sciences (Abbott, 2001; Howlett & Rayner, 2005; Mahoney & Rueschemeyer, 2003).

Recognizing calls for more processual and historically informed theorizing, path dependence theory 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, p. 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, p. 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, 2000a, p. 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 insight that "bygones are rarely bygones" (Teece, Pisano & Shuen, 1997, p. 522) is rather too vague and risks path dependence being seen as mere "past dependence" (Antonelli, 1997). Path dependence 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

North (1990) proposed transforming path dependence 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 startup 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, p. 95) calls "the interdependent web of an institutional matrix," a matrix

that “produces massive increasing returns.” As North (1990, p. 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.

Path Dependence Framework—Incorporating History and Process

In the opinion of Hirsch and Gillespie (2001, p. 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, with the focus of the researcher being on particular outcomes, temporal sequencing, and the unfolding of processes over time. Thus it is that social scientists 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 is 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 that shape the basic contours of social life.

Sydow et al. (2005, p. 8) note that classical path dependence is “essentially a dynamic theory with different stages.” They suggest that David’s and Arthur’s theoretical explanations imply a three-stage model of the historical development of an institution, organization, and so on. The first stage is characterized by a search process that is undirected, where choices are unconstrained and where decisions are contingent occurrences that prior events or initial conditions cannot explain. The selection of one alternative from among two or more represents a critical juncture and transition to the second stage, which is marked by self-reinforcing processes governed by increasing returns and the emergence of an increasingly irreversible path. The final stage, lock-in, occurs when the particular institution, organization, and so on is adopted, self-reinforcing processes continue its production, and viable alternatives are no longer possible. Martin and Sunley (2010) add a fourth stage to the basic model, noting that David posits the end of a path through the destabilizing effect of an external shock of some sort, opening up the possibility for a new path to emerge. David (1997) refers to this model of successive punctuated equilibria as “strong history.”

Of course, as with any theoretical lens, path dependence is not without its critics, both those who see value in the idea and those who do not, particularly as concerns the formal (Schwartz, 2004) or classical model and its application to institutions and organizations. A common criticism of path dependence work to date is that the concept is applied rather too loosely or that

its use is more metaphorical than theoretical, a criticism that goes hand-in-hand with calls for further refinement of the theory (Schreyögg & Sydow, 2009, 2010; Schwartz, 2004; Sydow et al., 2005, 2009). Thus, Sydow et al. (2005, p. 2) call for “building path-oriented . . . research on a rigorous path theory,” to which end they and others have been working to lend the theory greater rigor.

Critics also question the overly restrictive character of classical path dependence (Boas, 2007; Martin, 2010; Martin & Sunley, 2006, 2010; Schwartz, 2004; Sydow et al., 2005, 2009), its reification of paths, thus privileging stability over change (Boas, 2007; Greener, 2002; Schwartz, 2004; Sydow et al., 2005; Thelen, 2003, 2004), its assumptions of initial unconstrained choice and small event philosophy (Sydow et al., 2005, 2009), its emphasis on structure at the expense of agency, with structural determinism being particularly accentuated when dealing with lock-in (Greener, 2002; Martin, 2010; Martin & Sunley, 2006, 2010; Stack & Gartland, 2003, 2005; Sydow et al., 2005, 2009), and the recitation of technology exemplars that are overly simplistic (e.g., QWERTY) and thus have limited applicability to institutions and organizations, which are rather more complex (Boas, 2007).

Boas (2007) argues that the focus on technologies around which path dependence was first elaborated only serves to restrict the idea on the grounds that the examples are simple-standard models that tend toward equilibrium and lock-in. Thus, path dependence loses any evolutionary potential and lock-in can only be disturbed by an exogenous shock. Instead of relying on “simple-standard” technologies such as QWERTY to illustrate the dynamics of path dependence, Boas suggests that a “composite-standard” technology, such as the Internet, serves as a better model for path dependence. Such a model sees institutions at a macro level as nested hierarchies composed of micro-level institutions and thus akin to a technology such as the Internet (a composite standard comprising a number of simpler standards). Indeed, this fits with North (1990, p. 95) seeing institutions as matrices and interdependent webs. Thus, Boas (p. 45) asserts, “A QWERTY-inspired model of path dependence . . . is something of a logical mismatch” when talking of institutions.

The amendment offered by Boas (2007) chimes with the contributions of Sydow et al. (2009), Martin (2010), and Martin and Sunley (2006, 2010), for example, to recognize that institutions and organizations are social systems, not technologies. In this sense, institutions do not necessarily rigidify; rather, there is some scope for on path incremental change. It is here that Boas seeks to unify the mechanisms of increasing returns, layering, and conversion (Thelen, 2003, 2004), thus opening the way for a model of path dependence that leaves some scope for both continuity and change. Just as with the example of the Internet, the macro-level institution persists, but incremental change can happen at the micro level. This fits with Martin’s (2010) and Martin and Sunley’s (2006, 2010) view of an open, nonequilibrium model of path-dependent evolution—paths can

change endogenously through adaptation or mutation; rigidification, decline, and exogenous change are not the only outcome.

Taking these criticisms on board, Sydow et al. (2005, 2009), in remodeling classical path dependence theory, elaborate a less restrictive analytic structure to focus on the constitution of institutional and organizational paths. Martin (2010) and Martin and Sunley (2010) have sought to adapt the Sydow et al. (2005, 2009) model, positing the need for a more open notion of path dependence to allow for adaptation and mutation of paths that is more or less continuous. They argue that the nature of such adaptation and mutation is most likely path dependent, that paths need not ever converge on any kind of stable state, that such paths can decay over time by means of endogenous processes, and that new paths can develop out of existing ones. Thus, combining the thinking of both Sydow et al. (2005, 2009) and Martin and Sunley (2010), we arrive at the model in Figure 1.

In Phase I, what Sydow et al. (2005, 2009) refer to as the “preformation phase,” antecedent conditions, or historical factors, define available options and shape selection processes. In reformulating the classical model, Sydow et al. (2005, 2009) question the conception of the initial situation as unrestricted, wherein the search for alternatives begins from scratch and decisions are unconstrained. Arguing that this ignores that path development is embedded in history and that history matters, albeit history is not destiny either, they posit that the preformation phase “should build on a historically framed or imprinted contingency and, therefore, neither on the assumption of determinacy nor on that of completely unrestricted choice” (Sydow et al., 2009, p. 693). They also question the necessity to conceive of the impetus triggering path dependence as small and random events. When dealing with social

systems, such as organizations and institutions, they posit that path dependence may also be triggered by bigger events or by intentions. Reflecting antecedent conditions, then, at least two options are open for selection at the critical juncture, which represents the point when one option is chosen and the dynamics of self-reinforcing processes are set into motion.

The choice is consequential because it leads to Phase II, what Sydow et al. (2005, 2009) refer to as the “formation phase”: the creation of an evolving and narrowing path that, building into structural persistence, becomes increasingly difficult to reverse over time. It is here that positive feedback or increasing returns become active through self-reinforcing dynamics of setup or fixed costs (when high, there is a strong incentive to stay on path), learning effects (experience of an existing path leads to higher returns from continuing use), coordination effects (benefits of a given path increase as others adopt the same option), and adaptive expectations (self-fulfilling character of “picking the right horse”; Arthur, 1994, p. 112). 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. As noted by Arthur (1989, 1994), increasing returns to adoption are realized not at a single point of time, but rather dynamically, such that each step along a particular path produces consequences that increase the relative attractiveness of that path for the next round.

As effects begin to accumulate, they generate a powerful cycle of self-reinforcing activity, contributing to Phase III, what Sydow et al. (2005) refer to as “path dependence,” such that flexibility can become severely constrained and the path is fixed and takes on a quasi-deterministic character. Schreyögg and Sydow (2009, 2010) suggest that institutional and organizational paths, due to their social character, require a

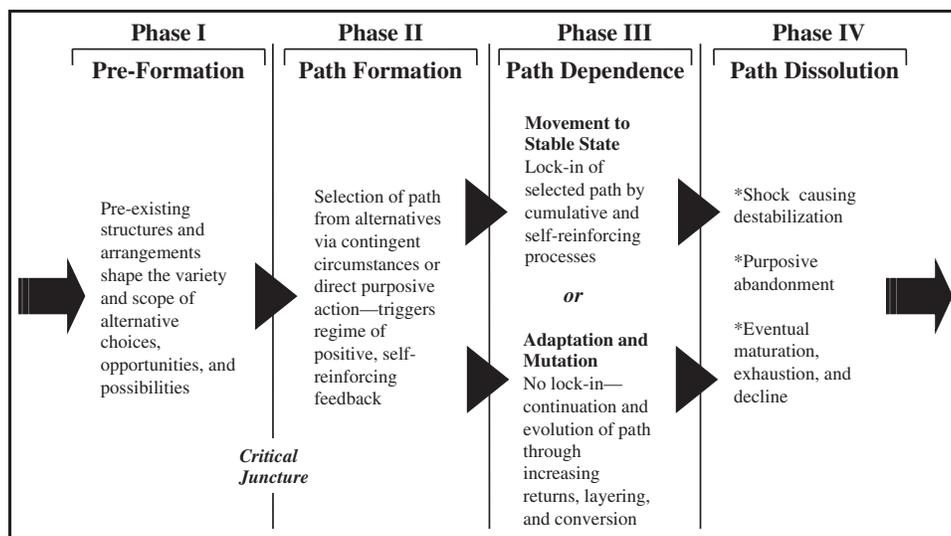


FIG. 1. Model of path formation, dependence, and dissolution (adapted from Martin, 2010; Martin & Sunley, 2006, 2010; Sydow, Schreyögg, & Koch, 2005, 2009).

modified conception of lock-in. Thus, instead of a fully determined lock-in, Schreyögg and Sydow (2009, p. 3) argue for conceiving of lock-in “as a matter of degree accounting for variance in the actual practicing of the path.”

Martin and Sunley (2010) also question the lock-in to a fixed outcome or state, arguing that this may be more the exception than the rule. As such, in addition to the possibility of convergence to a stable, self-reinforcing state, they posit an open, nonequilibrium interpretation of path dependence as a dynamic process that both constrains and enables. This links with Boas (2007), who seeks to unify the mechanisms of layering, conversion, and increasing returns. Rather than seeing increasing returns as implying resistance to change and, thus, stability (Schwartz, 2004), on the one hand, and layering and conversion accounting for change, on the other, Boas (p. 48) views the mechanisms as “akin to interconnected cogs in a machine of institutional evolution, working together in a complex fashion to constitute real-world processes of continuity and change.”

Turning to Phase IV, and what I am calling the path dissolution phase, the classical model only recognizes exogenous shocks as breaking paths. However, this overlooks the potential for reflexivity within social systems (Sydow et al., 2009) and the possibility for endogenous change through mutation and adaptation (Martin & Sunley, 2010). Thus, a reformulated model of path dependence recognizes the possibility of path dissolution not only through external shocks, but also through decline due to a destabilizing shock, purposive abandonment, or eventual maturation and exhaustion.

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

EMBEDDING PROTECTIONISM

Eight centuries of British involvement in the island of Ireland culminated in the War of Independence (1919–1921) and the signing of the Anglo-Irish Treaty (1921), which effectively created two jurisdictions—the Irish Free State and Northern Ireland. The first government of the new Irish Free State, which was effectively a self-governing dominion within the British Commonwealth, inherited an economy and a society where poverty and distress had been endemic for almost a century.

From Ireland’s² independence in 1922 to 1932, the Cumann na nGaedhael³ government’s economic policy was essentially *laissez-faire*, with the dominant agriculture sector singled out as the engine for growth. It also favored the continuation of free trade, a policy that had been imposed from London since the early 1800s and is credited, along with the restructuring of the agricultural sector since the famine, with having seriously undermined the country’s industrial development.

The Irish economy had become overly dependent on an agricultural sector that relied almost exclusively on the export of livestock to Great Britain as its principal source of income. So great was this dependence that, at the time of independence,

more than 50% of the population was directly employed in the sector, with much of the rest of the productive employment within the state dependent in some form or other on agriculture. To the degree that a manufacturing sector existed, it was both small in size and inefficient.

The Great Famine (1845–1849), which led to the deaths of hundreds of thousands and subsequently exacerbated the flow of emigration, saw the population of the island halve by the early 1900s and continued to leave an indelible mark on both society and the economy. However, even though emigration was of the order of 30,000 annually throughout the 1920s, the general premise underlying government policy was that, outside of a regulatory function and limited intervention in certain specific areas of the economy, such as creating a semistate company to build a countrywide electricity infrastructure, the responsibility for providing the growth necessary to remedy the chronic shortage of employment was primarily that of private enterprise.

With Irish economic growth sluggish in the 1920s and with emigration continuing at a high rate, tensions were rising by the late 1920s and early 1930s. Despite the hardship experienced by social groups in many areas of the country, exacerbated by the international economic slump ushered in by the Great Depression, the Cumann na nGaedhael government remained committed to its *laissez-faire* policy in economic and social matters and continued to resist calls for tariff protection in favor of continuing with free trade, a situation that contributed to the growing unpopularity of the policy and increased support for the idea of self-sufficiency.

Then 1926 saw the emergence of a new political party, Fianna Fáil,⁴ with an explicit policy of self-sufficiency, which favored development of indigenous industry by way of protection. While the Cumann na nGaedhael government eventually made some concession to increasing calls for tariff protection, the response was insufficient to quell discontent with its performance at a time when the Great Depression was denting the appeal of its policy. Thus, voters in the general election of 1932 were given a choice between the free trade option presented by Cumann na nGaedhael and the protectionist option presented by Fianna Fáil.

Fianna Fáil entered government in 1932 on a platform of, among 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, p. 13).

By the time it entered government, Fianna Fáil had already invested quite considerable startup costs in its policy of self-sufficiency, with 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 that 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, the government passed a range of legislation to support and bolster the implementation of its protectionist policy, which also entailed the establishment of supporting organizations, with 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, p. 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," and the synergy resulting from the interaction between autarky and economic nationalism, 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 further reinforcement of the protectionist path. As Daly (1981) 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 layering (Boas, 2007; Thelen, 2003, 2004) taking place, with legislation and supporting organizations being added to partially renegotiate 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 complementary legislation constituting the machine, with 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 path 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, the resilience of the protectionist composite was such that institutional continuity conditioned change and exhibited strong tendencies toward only incremental adjustment (Martin, 2010; 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 interparty 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,⁵ 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, with 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 often short-term focus of political actors on winning the next election (Pierson, 2000b, p. 479ff) 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.

Therefore, in dealing with prevailing environmental conditions, the IPG government created 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. Thus, despite adaptations, protectionism had reached its limits and was now exhibiting decreasing returns.

OUT WITH THE OLD, SHAPING THE NEW

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). 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 began to erode the mechanisms of reproduction that generated its continuity. 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 (Donnelly & Hogan, 2010).

While Ireland continued with its protectionist regime, other nation-states were moving toward free trade. The year 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% in tariff levels over those of 1948, and agreement on the fourth round in 1956 saw further tariff reductions to the tune of \$2.5 billion. In parallel, moves on the European stage brought about the creation of the European Coal and Steel Community (ECSC) in 1951, followed by the creation of the European Economic Community (EEC) in 1958.

Tentative moves were being made in Ireland, nonetheless, toward 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, p. 181; PDDE, vol. 155, col. 65–66, March 7, 1956), it was not prepared to amend the Control of Manufactures Acts to make such investment easier (Girvin, 1989, p. 181). It was only with the return to power of the IPG that attracting inward investment gathered momentum. In various public statements in the early part of 1955, the Minister for Industry and Commerce, William Norton, signaled the growing need to attract both FDI and technical competence to facilitate industrial expansion (PDDE, vol. 149, col. 525, March 23, 1955). Over the course of the following year, Minister Norton reinforced the nascent policy of attracting FDI, 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, March 7, 1956). This being so, and despite continued appeals and offers of every possible assistance to Irish industrialists to establish new industries geared toward import-substitution and export, Norton

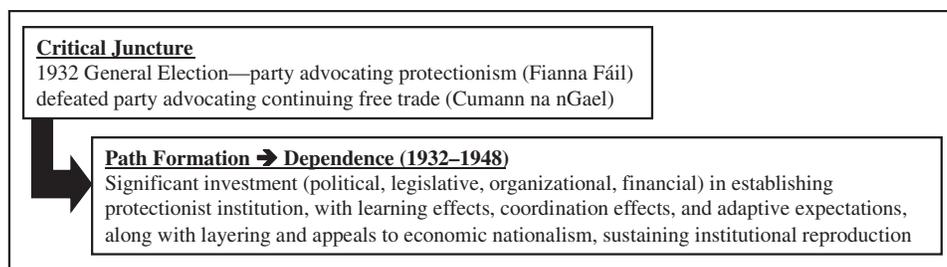


FIG. 2. Ireland's protectionist path.

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, March 7, 1956). Taoiseach Costello reinforced the emerging policy in noting that conditions and circumstances had changed sufficiently to warrant a more "positive policy" toward 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 IDA'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, pp. 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 the government that, in the interests of resolving the country's socioeconomic 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 legislative process by the 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, February 20, 1958). Seeing justification for encouraging FDI to address a shortage of capital and inexperience in export markets and to urgently expand employment, thus reducing unemployment and emigration, Lemass made clear that the legislation would unmistakably signal that FDI geared toward exports was welcome (PDDE, vol. 165, col. 534, February 20, 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. This deliberate shift in policy heralded a decline in protectionism, though not its extinction.

Concurrent with these moves toward encouraging foreign investment, the Finance (Miscellaneous Provisions) Act, 1956, introduced Export Profits Tax Relief (EPTR), which started at a 50% 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, November 28, 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 FDI:

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, November 28, 1956)

In line with the preceding, and indicating learning effects, coordination effects, and adaptive expectations, the Finance Act, 1958, increased the EPTR to 100% and extended the relief from 5 to 10 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, pp. 246–247).

Following North (1990, pp. 98–99), therefore, the continuity of protectionism was not inevitable, given that the mechanisms of reproduction were subsequently eroded in parallel with the emergence of an alternative (see Figure 3). New conditions overwhelmed the specific mechanisms that previously reproduced the protectionist path, with a period of relative "openness" or "permissiveness" (Abbott, 1997; Mahoney, 2001) emerging in parallel. This can be seen in the decline of protectionism and the emergence of an alternative. The problems facing the government—in terms of persistent postwar balance-of-payments deficits, migration from the land, unemployment, emigration, and 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 the outward looking

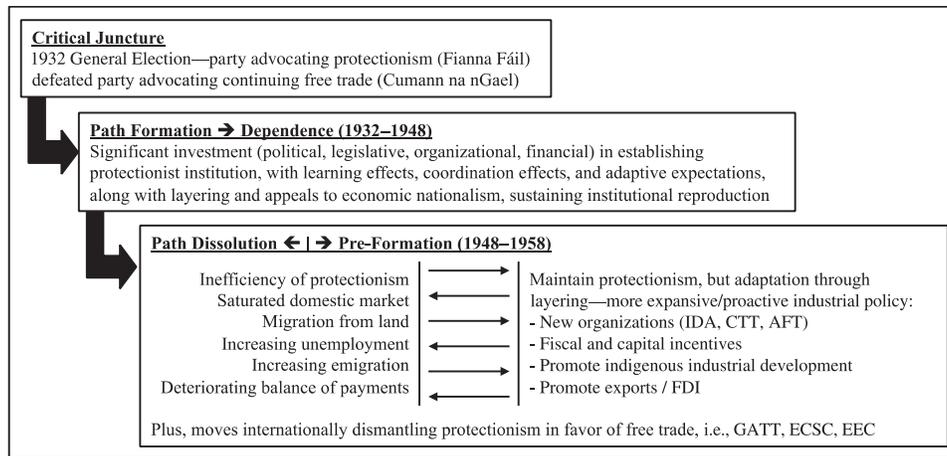


FIG. 3. In parallel: exhaustion of Ireland's protectionist path and shaping of an alternative.

alternative developing in parallel, an alternative driven by the need to deal with the problems then facing the government, not to mention developments internationally witnessing increasing moves toward 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. The 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, Department of Finance, 1958b) that all of these different moves were pulled together into a coherent policy of outward looking economic development, underpinned by industrial development that embraced export-oriented FDI. In marking a critical juncture (Donnelly & Hogan, 2010), 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 the 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 Dáil⁶ on May 8, 1957, the then Minister for Finance, Dr. James 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, col. 958, May 8, 1957)

Published in November 1958, and providing for the first time a comprehensive overview of the entire economy, Whittaker's *Economic Development* (Department of Finance, 1958a) 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. . . . Large-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. (Department of Finance, 1958a, p. 2)

Building on *Economic Development*, the First Programme (Department of Finance, 1958b, p. 7) was “prepared in the conviction that the years ahead will be decisive for Ireland's economic future” and was cognizant that “emigration 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, with these being industry's very

much below-average contribution to national income compared to other Organisation for European Economic Cooperation (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 toward 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 toward free trade, the First Programme clearly articulated that relying on a policy of protection would be unrealistic (Department of Finance, 1958b, pp. 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 (Department of Finance, 1958b, pp. 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 protectionist 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 “if the provisions of that Act prove inadequate, the Government will be prepared to consider further measures to facilitate foreign industrial investment in Ireland” (Department of Finance, 1958b, p. 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 toward 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—From Path Formation to Dependence

Seeking to reinforce what was considered the success of the First Programme, the Second Programme for Economic Expansion (Department of Finance, 1963, 1964) and the Third Programme for Economic and Social Development (Department of Finance, 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 toward 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, thus putting the final nail in the coffin of protectionism, on the grounds that FDI supplemented indigenous efforts to grow the economy and create jobs, and obstacles to FDI only served to impede such efforts. 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 toward a more outward looking economic development policy entailed considerable startup 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, this 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 startup 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 toward 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 mind set, 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, p. 596). While the government shaped the outward looking economic development policy instituted with the publication and implementation of the Programme for Economic Expansion (Department of Finance, 1958b), 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 the 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 preceding 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).

Post critical junctures, positive feedback mechanisms come into play to produce and reproduce structural persistence. We see large setup costs and ongoing investment, initially in protectionism and subsequently in a policy geared toward free trade, for example, policy statements, policy documents, legislation, new institutions and organizations, ongoing commitment of resources (financial, political, legislative), and so on. We see the knowledge gained in the operation of both policy regimes contributing to positive feedback in their continued use, with 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. Efforts to adapt the policy, in response to the growing disquiet with it, proved futile, such that the path was eventually and purposively terminated. As the protectionist institution was declining, an alternative institution was developing, with the critical juncture marking the deliberate displacement of protectionism in favor of outward looking economic development.

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. Path-building processes and mechanisms have contributed to producing and reproducing a relatively stable institutional matrix, marked by continuity and change, 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, p. 52).

By way of postscript, it should be noted that the mess in which Ireland currently finds itself cannot be attributed to the policy of outward looking economic development. Indeed, this policy continues to deliver, with the export sector proving to be one of the few bright lights in what is an otherwise bleak situation (*The Irish Times*, 2011). Rather, the demise of the "Celtic Tiger" has much to do with a misplaced hubris, as epitomized by a property bubble fed by government incentives, cheap credit, poor regulatory oversight, and irresponsible lending on the part of banks. Indeed, the effect of this property bubble had the potential to disastrously impact on Ireland's competitiveness internationally, as it was serving to inflate costs throughout the economy. In some respects, the bursting of the bubble, precipitated by the exogenous shock of the international financial crisis, has served to improve the country's international competitiveness through pressures to drive down costs. Thus, following the path dependence framework earlier described, we are witnessing the renewal or reassertion of the outward looking economic development path. Indeed, negotiations over the country's bailout saw a key element of that policy, namely, the country's low corporation tax rate, asserted as a nonnegotiable in the face of resistance from some EU member states (Walsh, 2010). However, the demise of the Celtic Tiger is a whole other story in the telling.

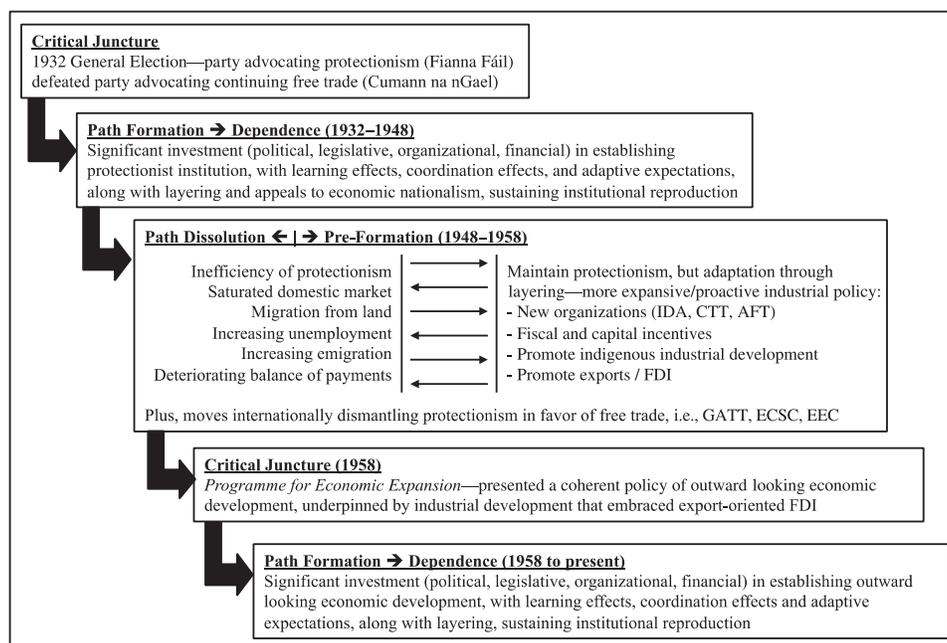


FIG. 4. Ireland's path from protectionism to outward looking economic development.

NOTES

1. *Taoiseach*: Irish word meaning “chief” and used in place of “Prime Minister.”

2. For ease of reference, in using Ireland throughout I am conflating the distinctions between what are three distinct political entities, albeit all covering 26 counties of the island of Ireland: (1) the Irish Free State or *Saorstát Éireann*, which came into being in 1922; (2) Ireland or *Éire*, which came into being in 1937; and (3) the Republic of Ireland or *Poblacht na hÉireann*, which came into being in 1949, although under the Constitution the State's official name is Ireland or *Éire*.

3. *Cumann na nGaedhael*: political party (translated from Irish as “society of the Gaels”) formed in 1923 from amongst members of the Dáil who were in favor of the Anglo-Irish Treaty (1921). The party was subsequently subsumed into Fine Gael in 1933.

4. *Fianna Fáil*: political party (translated from Irish as “soldiers of destiny”) formed in 1926 with a republican ethos.

5. *Fine Gael*: political party (translated from Irish as “family of the Irish”) formed in 1933 through the merger of Cumann na nGaedhael, the National Centre Party and the Army Comrades Association.

6. *Dáil* (or *Dáil Éireann*): the lower house of the Oireachtas (legislature).

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