

Politics and Economic Policymaking in Ireland

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October 2009

“Democratic national governments tend to be subject to such strong pressure from vested interests within their own territories that many of their decisions operate against the interests of society as a whole”.

Garret FitzGerald (2000, 117)

INTRODUCTION

Taoiseach Brian Cowen admitted, during a recent appearance on the Late Late Show, that certain policy errors that deepened the subsequent economic crisis could, with hindsight, be seen to have been made over the boom period. He asserted, however, that ‘all policy decisions were based on the best advice available at the time’.

This is a strange claim for a politician to make, in that it seems to deny a role for *politics* in political decision-making. All policy choices have distributional consequences, no matter how much Ireland’s political parties seek to sell themselves simply as better managers of the economy. The Taoiseach’s assertion can also be criticised for seeking to airbrush out of the picture the concerns that many expressed at the time these policy decisions were made.

A thorough study of the interplay between politics and economic policy would be more than a lifetime’s work. This chapter confines itself to analysis of a number of historical policy decisions that seem to offer illuminating insights. Some of the policy changes studied advanced the public interest. Amongst these were the opening up of the economy, the liberalisation of air access, deregulation of the taxi market and resolution of the fiscal crisis of the 1980s. Analysis of these episodes illustrates some of the processes by which policy errors can come to be rectified. Other episodes shed light on less benign aspects of the policy-making process. The chapter considers in this light some of the now widely acknowledged policy errors of the boom period: the pro-cyclical stance of fiscal policy, the failure to counteract the property-market bubble, and ‘decentralisation’ – the attempted dispersal across the country of a large number of government departments and state agencies. Concluding comments offer tentative suggestions on how decision-making processes might be reformed to secure more beneficial outcomes.

Politics and the Shift from Protectionism to Outward Orientation

The above quote from former Taoiseach Garret FitzGerald suggests that well-functioning societies must develop mechanisms that can provide political cover to help stave off detrimental interest-group pressures. The shift away from protectionism that began in the late 1950s provides several examples of where such cover can be found.

I am grateful to Karen White for research assistance on the air-access liberalisation process; to Stephen Weir, whose 2009 paper – which forms part of his PhD research – explores the history of taxi-market deregulation; and to Michael O’Regan, who alerted me to the Healy material on the “free education” scheme.

By that time it had become clear that the protectionist policies followed in Ireland since the early 1930s had run out of steam. 400,000 people emigrated over the course of the 1950s – the highest level since the 1880s – while the rest of Western Europe boomed on the back of post-war reconstruction (Ó Gráda, 2008). As always, however, there were vested interests with a stake in the existing policy regime.

Popular history ascribes the subsequent turnaround in policy, and in Ireland's economic fortunes, to T.K. Whitaker, the recently-appointed Secretary of the Department of Finance, whose galvanising report on *Economic Development* appeared in 1958, and to Seán Lemass, who implemented elements of this new thinking when he took over from de Valera as Taoiseach in 1959. Garret FitzGerald (1968) notes how Lemass used the publication of Whitaker's *Economic Development* alongside that of the government's *First Economic Programme* to provide political cover for the policy reversal. By doing so, he writes, 'the government made it clear that the Programme was not, and was not claimed to be, a policy prepared by the government party, but was a national programme, prepared by the head of the civil service' (p. 26). This allowed it to be seen as transcending party politics.

Lee (1989: 352) offers a complementary and amusing commentary. 'It may be surmised', he notes,

that Lemass had little ambition to inflict on his backbenchers, or on De Valera, the enlightenment that would be willingly proffered from the opposition benches about the manner in which Fianna Fáil had at last seen the light, and was now reneging on its earlier self. Nor would any astute politician wish to sacrifice the advantage accruing to his party from a 'plan' ostensibly based on the work of a non-party civil servant. The de-politicisation of 'planning' was too useful an asset to be wantonly surrendered to the capricious vagaries of Dáil debates.

Less frequently remarked upon by historians is the Export Profits Tax Relief (EPTR) scheme introduced in November 1956 by a short-lived non-Fianna Fáil government, only the second such administration to hold power since 1932. Its importance is more obvious to economists, as EPTR marks the genesis of Ireland's low corporation-tax strategy. The latter – in the words of Padraic White, former Managing Director of the IDA – 'remains to this day the unique and essential foundation stone of Ireland's foreign investment boom' (MacSharry and White, 2000, 250). Just how important this foreign investment has been to the Irish economy is worth recalling. Foreign multinationals account for one out of every two jobs in Irish manufacturing and one out of every five jobs in services – far higher proportions than recorded elsewhere in Europe or indeed in most of the world. The inflows of FDI associated with the Single European Market and the global high-tech boom of the 1990s were in turn one of the driving forces behind Ireland's 'Celtic Tiger' era.

The Dáil records of the mid-1950s reveal much discussion on both sides of the house of the need to stimulate exports, yet Fianna Fáil thinking remained sharply divided on the question of foreign capital. 'Since 1948', as Bew and Patterson (1982: 69) write, 'Lemass had been prepared to ruminate rather indecisively in public on the possible role of foreign capital in the Irish economy'. His trip to the US in the autumn of 1953 was partly aimed at attracting American investment, yet his Dáil speeches in the summer of 1955, while in opposition, criticised the then Tánaiste's efforts towards the same end. Lemass also criticised the government's acceptance of a proposal from an Anglo-American combine to erect an oil refinery in

Cork harbour, which represented the largest sum ever invested in a single private enterprise in the country (see e.g., Dáil Éireann, Vol. 152, Col. 1145, July 14, 1955).

The ambiguity of Lemass' position was motivated both by political oppositionism and by a desire to paper over the cracks between his growing acceptance of the need for – and Fianna Fáil's traditional hostility towards – foreign capital. As Bew and Patterson (1982: 70) point out, 'foreign capital was, for nationalist ideologues, a far more explosive issue than protection. After all, protection was only a means to an end – the building up of a native Irish industry'. While Lemass was prevaricating, De Valera was railing against handing over Irish resources to foreigners 'festooned with tax reliefs' (quoted by Bew and Patterson, 1982: 87).

EPTR, as first introduced 'in the bleak mid-winter' of the 1950s, allowed a 50 percent tax remission on profits earned from increased export sales. The policy was sold in public as a stimulus to exports rather than to foreign capital. Crucially, however, from the political point of view, EPTR's introduction by a non-Fianna Fáil government helped Fianna Fáil to finally ditch its ideological objections to foreign industry, which responded rapidly to the new tax reliefs. Upon returning to power, Fianna Fáil expanded the tax remission to 100 percent and eased the legal restrictions on foreign ownership that it had enacted in the 1930s. Fianna Fáil had also embraced, upon its return to office, the first coalition government's establishment of the Industrial Development Authority (IDA) in 1949, though it had rejected the move whilst in opposition. The senior Fianna Fáil figure, Kevin Boland, later wrote of his shock and bewilderment 'to find that the principle of Irish ownership of industry – which was central to the Republican policy as I had always understood it – was gone.' (quoted by Bew and Patterson, 1982: 121).

This episode serves to illustrate how occasional changes in government can facilitate the abandonment of growth-inhibiting ideologies, much as the Blair government in the UK benefited from many of the changes introduced by previous Conservative administrations – changes which it would not itself, for political reasons, have been able to make: 'Blair's generation of Labour politicians felt compelled to accept the Thatcherite settlement on the economy. He, in turn, forced the Tories to accept a new, more social democratic consensus that government had a responsibility to invest in public services and deliver social justice' (Rawnsley, 2007).

While EPTR did not directly threaten established (protectionist) interests, it led to a considerable strengthening of the export lobby. This increased the pressure for further liberalisation, of the type represented by the signing of the Anglo-Irish Free Trade Area Agreement in 1965 and European Economic Community (EEC) accession in 1973. Analysts refer to this process as one of 'cascading' or 'juggernaut' reforms (see e.g. Baldwin and Robert-Nicoud, 2007).

POLITICS AND THE 1966 ANNOUNCEMENT OF "FREE EDUCATION"

The 'juggernaut' reform process behind the economic liberalisation of the late 1950s and early 1960s also led to a sea change in educational policy (Barry, 2007). The UK's early industrialisation had ensured the evolution of a well-developed system to provide an intermediate layer of technicians. It was recognised that the Irish education system would need to provide this intermediate layer from scratch, if human resources were to be available to sustain the industrial expansion that liberalisation brought.

This recognition led to the commissioning of the hugely-influential 1965 report *Investment in Education*. The report's two central propositions were that a non-

meritocratic education system was wasteful of natural talent, and that investment in the education of that talent had contributed significantly to European postwar economic growth. *Investment in Education* generated newspaper headlines with its finding that over half of Irish children were leaving school at or before the age of thirteen. Garvin (2004) provides an account of the constellation of conservative forces that viewed this outcome as acceptable, and the policy-reform literature (see e.g. OECD, 2007) identifies the creation of a sense of crisis as a way of weakening such opposition. *Investment in Education* might be seen as an example of such a strategy being employed.

The report paved the way for the introduction, shortly afterwards, of ‘free’ (i.e. taxpayer-funded) second-level education and access to school transport networks. Though educational participation in Ireland had been expanding in previous decades, these reforms had a substantial impact on the participation rates of those from less well-off backgrounds (Denny and Harmon, 2000).

The reforms were announced by Donogh O’Malley in his first major speech as Minister for Education, on Saturday September 10, 1966. The announcement caused consternation in government as the proposals had not been approved by Cabinet. The choice of day and venue – a meeting of the National Union of Journalists – ensured that it received saturation coverage, and the enthusiasm of the public response forced the government’s hand. The Department of Finance was furious but any failure to sanction the policy, once announced, would have been politically disastrous.

Whether or not the Taoiseach Seán Lemass had prior knowledge of the announcement has been the subject of heated debate among historians. Lemass denied it, and issued a written rebuke to O’Malley on September 12 (Walsh, 2009: 191). Five members of the cabinet later told Brian Farrell however of their belief that Lemass had seen the text in advance (Farrell, 1991: 107).

The noted journalist John Healy, who was a close friend of O’Malley’s, published his recollections on the 20th anniversary of O’Malley’s death (Healy, 1988). He suggests that not only had Lemass seen the text in advance but had actually amended it. ‘On Thursday afternoon’, he writes, ‘(O’Malley) brought the script into the Taoiseach’s office... On page five of the script there was the crucial paragraph announcing the setting up of universal secondary education which would be subject to a means test. Lemass took his pen and drove it through the means test phrase, saying to O’Malley: “This is 1966, the anniversary of the Proclamation: it’s about time we started to treat all the children of the nation equally”.’ (Healy, March 1988: 49). If this account is correct, it provides a further – if underhand – example of how opposition to reform processes can be overcome.

POLITICS AND AIR-ACCESS LIBERALISATION

‘Regulatory capture’ occurs when a state agency charged with overseeing an industry in the public interest comes, over time, to view its goals as synonymous with those of the entities it regulates and begins to act in their commercial interests. The Beef Tribunal unearthed many instances of government departments supporting the commercial interests of the beef sector to the detriment of the public good (O’Toole, 1994). The failure of the Department of Education to investigate the abuses associated with the industrial schools system, as revealed in the Ryan Report of 2009, represents a similar process. It typically only comes to public attention when exposed to careful probing, by tribunals of inquiry for example, or, as in the case to be explored here, when draconian legislation is deemed necessary to protect the status quo.

Had the Air Transport Bill of June 1984 passed into legislation as planned, the future of air access, and of the Irish airline and tourism industries, would have been very different. The original anti-competitive Bill threatened travel agents offering airline tickets at prices below those approved by the Minister with loss of their licence, a fine of up to £100,000 and a prison term of up to two years. By the time the Bill was finally passed, its anti-competitive stance had been completely reversed and the Dublin-London route deregulated. Fares fell by more than 50 percent on the first day of deregulation in 1986, passenger numbers increased by 65 percent over the first full year, and Ryanair was on its way to becoming Europe's largest airline.

The attempt to have the draconian bill rushed through as emergency legislation followed the lifting by the Supreme Court of a temporary injunction restraining one particular company from selling unapproved fares. Without the Bill, according to the Fine Gael Minister of State, 'discounting and other malpractices (could emerge) on a scale that would undermine approved tariff structures and could have serious implications for airlines generally and for Aer Lingus in particular' (Dáil Éireann, Vol.352, Col.855, 27 June, 1984).

While strong party discipline typically ensures that government legislation is passed with little difficulty, a parliamentary revolt led by Deputy Desmond O'Malley delayed passage of the Bill and led ultimately to the U-turn. A former Fianna Fáil minister and future founder of the Progressive Democrats (PD), O'Malley had recently become an independent TD; his arguments in the Dáil succeeded in influencing both Fine Gael backbenchers and some members of the Fianna Fáil opposition.

O'Malley, in turn, was strongly influenced by the policy interventions of a group of economists led by Seán Barrett. He referred in the Dáil on June 27, 1984, to a newspaper interview that morning in which Barrett had argued that

new legislation is better introduced after calm consideration of all the diverse factors which make up the national interest: in aviation, international trade, tourism, regional development and employment. These factors are so diverse and complex that they cannot be dismissed by this hasty Bill. (Irish Independent, 1984)

A concurrent public statement issued by the group of ten academic and financial services economists led by Barrett argued that 'it would appear that the Government and Opposition care more about the interests of State monopolies than the public as a whole' Barrett (2009: 3). Echoing this, O'Malley asked if it is

in our national interest that this should be so or will we continue to make the mistake of equating Ireland's national interest with the health of Aer Lingus's balance sheet? ... Aer Lingus take the view that it is better to sell 100 seats at \$200 rather than 200 seats at \$100. The revenue would be exactly the same ... The national interest would be greatly helped by having an additional 100 people visit this country but Aer Lingus would prefer to fly the plane with 100 empty seats ... The truth is that Aer Lingus ... have followed policies which were ill-advised and damaging to our economy. If this Bill is passed, it copperfastens for all time those policies. That is a tragedy and a disgrace. (Dáil Éireann, Vol.352, Cols.871-2, June 27, 1984)

The Bill was warmly welcomed by some Fianna Fáil TDs, including Ray Burke, in whose constituency many Aer Lingus workers lived. The government began to give ground, however, as its own backbenchers began to swing behind O'Malley.

By February 1985, the Minister for Communications was recommending that the penalty of imprisonment be dropped and he announced his intention to amend the Bill so as to provide more open competition between travel agents and airlines (Irish Times, 1985a, b). The second stage of the Bill was delayed until May 1985, 11 months after its initial introduction. This exposed how exaggerated had been the fears expressed by the Minister as to the possible consequences for Irish aviation were the Bill not passed immediately.

By May 1985, O'Malley was able to refer to a recent paper, by Brussels' Competition Commissioner Peter Sutherland, which identified air transport as one of the worst 'black holes' in Europe in terms of absence of competition (Dáil Éireann, Vol. 358, Col. 1853, 22 May, 1985). This triggered a shift on the part of the Fine Gael Minister for Communications, Mr. Jim Mitchell, who stated that 'I am all for a very liberal air transport regime provided it is done together... Therefore the proposals of the Commission are welcome. The only way is to get progress throughout Europe together' (Dáil Éireann, Vol.358, Col.1857, 22 May, 1985).

The deregulation in Irish aviation came about when the Minister announced in December 1985 that

I have approved in principle a new air service from Dublin to Luton, return, costing £99. I have given Ryanair the go ahead and it will be announced by my Department later today. It will be welcomed by many people and is another indication of the policies consistently pursued by me since I became Minister for Transport and subsequently Minister for Communications (Dáil Éireann, Vol.362, Col.1052, 4 December, 1985).

Deputy O'Malley responded, in the Dáil, that 'it is contrary to the policies followed up to now but I congratulate the Minister' (Dáil Éireann, Vol.362, Col.1054, 4 December, 1985). In response to the government's claim that it had always been pro-competition, O'Malley noted that:

I have succeeded in having the Bill amended by the Minister 31 times. ... Some of the highly objectionable features and the ridiculous penal provisions in the Bill have been removed and if that is not a fundamental change I do not know what is. (Dáil Éireann, Vol.363, Cols. 2300 & 2307, 12 February, 1986)

This episode reveals several points of interest from a political economy perspective. First is the insidious nature of regulatory capture, which only becomes apparent when the system is thrown into crisis. This is amply illustrated by the fact that the relevant government department still supports the current virtual monopoly position of Dublin Bus, which is equivalent to that enjoyed by Aer Lingus at the time the anti-competitive bill was introduced. Second is the particular difficulty that arises when a public company is involved:

One is not allowed debate the merits or demerits of a more liberal or more restrictive air transport policy here, or more liberal access or restrictive access to the country. The whole thing is immediately painted in terms of whether one is for Aer Lingus or against them. (Deputy O'Malley, Dáil Éireann, Vol.357, Col.2256, 22 May, 1985)

Third is the opportunity that a 'crisis' can afford for reform-minded experts (in this case the group of economists) to have their case heard. It is easier in the absence of a crisis for the political and administrative system to ignore them. And fourth, as in the case discussed earlier, is the search for political cover as long-standing policies are reversed. In the present case this took two forms. The first was by reference to European Commission proposals, which were working in the same direction as the amendments proposed by O'Malley. The second was the attempt by politicians on all sides to claim that they had never been anti-competitive:

I am delighted to hear that there were many people in the House with whom some of these matters did not find favour, because we were led to believe I was the only one with whom they did not find favour... I have noticed in recent times that when one is victorious one suddenly acquires many allies which one might not have had in times of difficulty. (Desmond O'Malley, Dáil Éireann, Vol.363, Col.2306, 12 February, 1986)

POLITICS AND DEREGULATION OF THE TAXI MARKET

The 1978 moratorium on the issuing of new taxi licenses for Dublin attracted little attention during the recessionary decade of the 1980s, but excess demand for taxi services grew as economic recovery began. By 1991, existing taxi licences were changing hands for between IR£30,000 and IR£50,000 (Weir, 2009). An official Interdepartmental Committee Report on the taxi industry issued in 1992 recommended a 'strategy of gradual liberalisation', but the taxi lobby launched a major campaign of disruption, including a blockade of Roscrea, the hometown of the Minister for the Environment, Michael Smith TD. It would take another eight years for any substantial liberalisation to take effect.

Dublin County Council in 1995 approved a recommendation from its Taxi and Hackney Sub-Committee that 200 new licences should be issued, but this decision was rescinded following intensive lobbying and further blockades by taxi drivers. A similar recommendation in 1997 provoked a blockade of Dublin City on the day of the Presidential Election in October of that year.

PD leader, Mary Harney, who was in coalition government with Fianna Fáil at the time, promised in an interview with the *Sunday Business Post* in Christmas 1998 that this would be the 'last Christmas of taxi mayhem'. The Taoiseach's brother, Noel Ahern TD, responded that 'I must record my shock and horror at some of the headline-seeking comments of the Tánaiste!'. Fianna Fáil support for the taxi lobby centred around the fact that many taxi drivers gave freely of their services in bringing elderly and disabled supporters to the polls on election day (much as their support of publicans can be traced back to the latter's provision of free facilities for constituency-group meetings), and from the fact that one, at least, of their most vocal TDs on the issue came from a taxi-driving family.

The PDs, on the other hand, were influenced by their economically liberal ideology (as seen earlier in the case of Desmond O'Malley), by the fact that they

attracted the support of different sectional interests than Fianna Fáil, and by the fact that the PD Minister of State with responsibility for the taxi sector, Bobby Molloy, represented a non-Dublin constituency. The coalition's review of their Programme for Government in summer 1999 mandated Molloy to proceed with a proposal to increase the taxi fleet by 3,100, but the Fianna Fáil pro-taxi lobby was to be appeased by the allocation of 2,600 of the new licences to existing taxi plate holders.

The taxi drivers reacted once again with strikes, protests and blockades. In the midst of the protest, four hackney drivers sought a judicial review challenging the Minister's power to restrict the number of taxi licences. The High Court ruled in October 2000 that the Minister was acting *ultra vires* in this regard. The government considered appealing the ruling to the Supreme Court, but, on the advice of the Attorney General, Michael McDowell, that such an appeal would be likely to fail, the government proceeded to legislate for the new reality by totally revoking all numerical restrictions on the issuing of taxi licences. The High Court – which is of course more independent of interest groups – had achieved what government at all levels had failed to do, and the sector was deregulated.

POLITICS AND THE RESOLUTION OF THE FISCAL CRISIS OF THE 1980s

Organised interests are known to be most harmful when they are strong enough to cause major disruptions, but not sufficiently encompassing to bear a significant fraction of the societal costs associated with pressing their own claims (Olson, 1982). This closely describes the organisation of Irish and UK industrial relations in the 1960s and 1970s. In language reminiscent of Olson, Hardiman (1994:150) notes that over this period

no single bargaining group believed it had to pay any attention to the impact of its activities on the overall state of economic performance. Yet the cumulative consequences of everyone's bargaining practices were proving more and more harmful to overall economic performance.

Proponents of the model of social partnership that emerged in Ireland in the mid to late 1980s argue that participation in the process was sufficiently encompassing that the macroeconomic consequences of the pay deals reached would be taken into account. Whether or not one subscribes to this view of partnership (see Barry, 2009a, for references to the debate), it was critical along one dimension at least, in that it helped to provide political cover for the fiscal consolidation that was finally implemented in 1987.

Political wrangling had prevented earlier fiscal consolidation, as trenchant opposition criticism had encouraged the defection of government coalition partners or the withdrawal of support for minority governments over the earlier part of the 1980s. The newly developed social partnership process helped secure a way out of this prisoner's dilemma, as described by Ray MacSharry, the Finance Minister who implemented the fiscal cutbacks of the 1987-89 period:

The NESc [National Economic and Social Council – the social partnership secretariat] analysis of what was wrong and the prescription of what needed to be done was agreed by all the social partners – including employers, trade unions, farmers and others –

without dissent. ... It set debt stabilisation as a minimum objective of fiscal policy, while relying on public-spending cuts – not taxation – to achieve that adjustment. This was the most critical part of its overall strategy. The boldness of the NESC approach, the consensus of the social partners in backing it, and Fine Gael's generous promise of political support on fiscal policy all created a new opportunity to tackle, finally, the public finances. (MacSharry and White, 2000: 62)

The political cover provided by the Tallaght Strategy of then Fine Gael leader Alan Dukes was of course the other main factor in facilitating what all the previous governments of the decade had failed to achieve (MacSharry and White, 2000, Chapter 3). Unfortunately, this will prove difficult to replicate in the future, given that Dukes was deposed as leader of Fine Gael shortly afterwards and his stance – which many commentators have lauded as patriotic – has been ridiculed as politically disastrous by others (e.g., Finlay, 1998).

POLITICS AND POLICY ERRORS OVER THE BOOM PERIOD

This section discusses some of the policy errors that are now widely acknowledged to have been committed over the boom period. These include the long-standing pro-cyclical stance of Irish fiscal policy, the failure to counteract the property-price bubble, the lax regulation of the Irish financial system and the extent to which the Irish tax structure was allowed to become so vulnerable to an economic downturn.

Government stabilisation policy must *by definition* be counter-cyclical; that is, it must act to dampen, rather than accentuate, the business cycle. Lane (2003) shows, however, that Ireland stands out among Organisation for Economic Co-operation and Development (OECD) countries as exhibiting above-average pro-cyclicality. Nor is this just a recent phenomenon; pro-cyclicality had been identified in the Irish budget deficits of the 1960s and 1970s also (Lane, 1998). Charlie McCreevy, who was Finance Minister from 1997 to 2004, mocked economists' warnings of the dangers of this stance with his widely-publicised dictum: 'When I have money, I spend it; when I don't, I don't' (Economist Magazine, 2009).

Minister McCreevy's populist dismissal of the Economic and Financial Affairs Council's (ECOFIN) 2001 criticism of Ireland's fiscal over-stimulation represented a tragically missed opportunity to exploit external fiscal commitments as political cover to help overcome the political pressures to act in this way. The European Commission raised further concerns about the pro-cyclicality of policy in 2007. It is not insignificant that 2002 and 2007 were both election years in Ireland. However, instead of tightening fiscal policy, Minister McCreevy introduced further income tax reductions along with the profligate SSIA scheme in 2001. While such tax reductions may have helped to keep the lid on wage demands in the earlier years of social partnership, their impact increasingly registered as a stimulus to aggregate demand, as the responsiveness of labour supply decreased (Barry and Fitzgerald, 2001). The legacy of McCreevy's approach, which continued after his departure, was that the country found itself with no stabilising margin when the global recession struck in 2008. The country was then forced into destabilising fiscal contraction.

With monetary policy handed over to the European Central Bank (ECB) since Ireland's adoption of the euro, and with the historically low interest rates that ensued, it became even more important that fiscal policy be used to dampen the property bubble that ultimately burst in 2007. Lane (1998: 14) had warned that the fact that 'fiscal policy in Ireland has in general not behaved counter-cyclically ... imposes

costs on the Irish economy that are likely to become more severe in any future European monetary union' However, Irish fiscal policy continued to be pro-cyclical.. The construction sector became even more bloated by a series of property-related tax incentives, and it had grown to about twice the average size recorded in Europe and the US by the time the bubble burst.

Irish banks and Irish tax revenues had also been allowed to become dangerously exposed to the construction sector. When the bubble burst, revenue sources, such as stamp duty, capital gains and capital acquisitions tax, all but dried up, while the banking system, which had also become overexposed to the property sector, had to be bailed out by the taxpayer. As Honohan (2006) points out:

a financial system which reacts quickly to policy deviations can be a great discipline on governments that learn to anticipate these reactions and stay on the straight and narrow path... In moments of dangerous fiscal excess and competitiveness pressures, the financial system did in the past act as a watchdog. If, in the past, the watchdog was prone to bark too readily, thereby creating unnecessary currency crises, it is muzzled today, given EMU [Economic and Monetary Union] membership.

This suggests that careful financial regulation would have been even more important under EMU than it was beforehand. Instead, lax regulation allowed huge financial imbalances to emerge in the funding of the bubble (see Honohan, 2006, for details).

Is there a political-economy dimension to why the property boom was allowed to spiral so far out of control? To answer this, one must first ask who gained from the explosion in property prices. The answer is of course that it was principally property developers, even though many of them may have lost their fortunes in the subsequent meltdown. While house prices skyrocketed, the proportion of the price accounted for by the cost of the site rose from around 15 per cent – a level that is apparently normal by international standards – to between 40 and 50 percent (Casey, 2003). And property developers have long been major contributors to the Fianna Fáil party, as graphically illustrated by the preponderance of property development and construction company advertisers in the anniversary publication “Republican Days: 75 years of Fianna Fáil”. This situation can only be rectified by reform and rigorous policing of the laws governing political contributions.

Another policy error committed over the boom period – though not directly related to the subsequent economic crisis – was the so-called ‘decentralisation’ programme announced unexpectedly by the Minister for Finance, Charlie McCreevy, in his budget speech of December 2003. The plan envisaged that up to eight government departments and a number of state agencies, along with roughly one-third of all Dublin-based civil servants, would be relocated from Dublin. The initial timescale for the programme was to be the end of 2006. The process attracted huge resistance from those who were supposed to relocate, however, and appears to have been effectively terminated as a result of the 2008 OECD review of Irish public management. Given that the review actually said very little about the programme, this might be taken as another example of the search for political cover to facilitate a reversal of policy.

The decentralisation programme had all the characteristics of a political ‘stroke’ designed to garner electoral support in the regions. There was no

documentation to suggest that any research or analysis of international experience had been carried out. The locations chosen bore no relationship to the National Spatial Strategy which the government had launched a year earlier. The use of the term ‘decentralisation’ outraged those who had long argued for – and used the term to refer to – the transfer of responsibility to democratically elected lower levels of government. And particularly worrying to many analysts was the threat it represented to the efficiency of the policymaking system.

One of the champions of decentralisation, the then Minister for State at the Department of Finance, Tom Parlon, wrote that: ‘the advent of broadband, the internet and e-mail, instant messaging and other advanced communication technologies now means that for many business functions, location is irrelevant’ (*Irish Times*, 2005). Research shows, however, that this assuredly does not apply to strategy and policy development functions, where physical proximity remains crucial (Bannister and Connolly, 2009).

CONCLUSIONS

Even politicians who desire to act in the public interest are constrained by the need to retain the support of the electorate, which requires paying particular attention to varying combinations of sectional interests and swing voters. The interests of some of these sectional groups are aligned – occasionally and, for the most part, temporarily – with the broader public good, and social welfare is likely to be enhanced when the political voice of these groups is strengthened. The strengthening of the export lobby by the introduction of EPTR in 1956 increased the likelihood of ‘cascading reforms’ because their interests were aligned with further trade liberalisation, as represented by Ireland’s accession to the EEC in 1973. Astute reform-minded politicians know the importance of assembling a coalition whose interests are aligned with the reforms.

Of course the main political pressures for EEC entry in the period up to 1973 came from Irish agricultural interests. These interests became protectionist, and hostile to further global trade liberalisation, once EEC membership was achieved (Barry, 2009b). The process of cascading reforms has been stymied by the privileged position attained by Irish agricultural interests in the Irish-European Union policymaking nexus. Political scientists refer to such a privileged position as emerging from a ‘closed policy community’ in which other interests – frequently those of consumers – are excluded to yield a false appearance of consensus. Some ideas on how such closed policy communities can be cracked open are advanced below.

Garret FitzGerald has been quoted earlier in the chapter to the effect that strong vested interests frequently lead to decisions being taken which are against the interests of society as a whole. This problem can be reduced when ‘political cover’ is available to politicians who wish to move from growth-inhibiting to growth-enhancing policies. We saw that the overturning of protectionist policies was assisted by the political cover that Whitaker’s document provided in 1958, while occasional changes of government can help in overcoming growth-inhibiting ideologies, as seen in the case of the second inter-party government of the 1950s. Indeed, this is one of the economic benefits that democratic systems have to offer. More prosaically, of course, as seen in the case of the Air Transport Bill of 1984, politicians also seek to cover up policy U-turns by denying that any U-turns have been made!

McCreevy as Finance Minister failed to avail of the political cover that ECOFIN’s criticism of Ireland’s pro-cyclical fiscal stance offered, and this was one of the major policy errors of the boom period. Of course, political cover to shift from

growth-inhibiting to growth-enhancing policies is useful only if politicians choose to avail of it! We have identified, in the case of the Air Transport Bill, how important was the intervention of the group of reform-minded experts who became involved in the case, and how the lack of expert consultation was one of the factors behind the ‘decentralisation’ debacle. The Irish policymaking system is far too closed and insulated from critical debate to be able to produce consistently good decisions, and a further detrimental consequence of its closed and cartelised nature is the extent to which it facilitates regulatory capture.

How can we move from the present cartelised ‘marketplace for ideas’ – where good ideas have only restricted opportunities to challenge bad ones – to a more open and competitive one? A first step would be to introduce a clearer line of demarcation between where expert policy advice ends and political decisions begin. Its absence facilitates an evasion of responsibility on all sides. There is an analogy here with one of the principles identified as characterising good practice in the remit of Competition Authorities in Europe. As Laudati (1998: 405) notes,

some national authorities have adopted a two-step procedure, with assessment of cases on competition grounds done by the independent antitrust authority, and assessment on other grounds, such as social and industrial policy, done by a government ministry. *This has the advantage of shielding those responsible for competition assessment from political pressure and of exposing political decisions through increased transparency.* (emphasis added)

Valid criticisms, even from within the expert community, can be ignored when policy advice and decision making take place behind firmly closed doors. The ‘marketplace for public-policy ideas’ must become a more open and competitive one if policies are to be adequately scrutinised and decision-making improved.

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