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The vital role of ideas in industrial policy changes in Ireland during the 1980s

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ABSTRACT

Employing a discursive institutionalist approach in the form of the critical juncture theory (CJT), this paper examines the nature of the changes to Irish industrial policy in the mid 1980s, a time when the country went through one of its worst economic crises. Did these policy changes, ushered in by the Telesis Report of 1982, constitute a transformation in industrial policy, or a continuation of a previously established policy pathway, and if so why? To answer this question the paper explores the roles played by various change agents, and their ideas, in altering the industrial policy that had been established during the 1950s, when the country first opened up to foreign trade and investment. The findings ultimately help explain why Irish industrial policy did not undergo a radical transformation during the 1980s.

Keywords: Crisis; critical juncture; ideas; industrial; policy.

INTRODUCTION

In the current context of economic crisis we examine how earlier Irish governments, also confronted with challenging economic circumstances, sought to alter the country's industrial policy. During the second half of the 1970s the Irish economy performed relatively well, after weaker performance following the first oil shock. However, recovery proved transitory, as pro cyclical fiscal policies fed inflation. By the 1980s, the economy shrank, unemployment and emigration returned. This led to a questioning of industrial policy in place since the 1950s. What changes were made to this policy during the 1980s? And what lessons might this hold for contemporary policy makers? We use CJT to investigate these questions.

According to Hogan (2006) a critical juncture is a multi stage event. A crisis can create a situation where extant policies and associated ideas are called into question. Any subsequent displacement of the extant paradigm by a new set of ideas on how policy should operate can lead to radical policy change. Without ideational change, policy change will likely be only relatively minor. The hierarchy of goals underpinning a policy will remain unaltered. In lieu of alternatives, extant policy soldiers on. CJT seeks to pinpoint key ideas and actors involved in the process of policy change.

THE LITERATURE ON POLICY CHANGE

Fully comprehending policy change would require knowledge of the objectives of hundreds of actors from across a jurisdiction, involve highly technical issues and span many years (Sabatier, 2007). Such complexity means that policy change has been examined using a range of theoretical frameworks.

The incremental policy change literature recognizes the subtleties of gradual change during periods of stability and continuity during upheavals. Incremental policy change can be transformative over a long time (Thelen, 2004: 292).

The policy streams approach incorporates a role for policy entrepreneurs in policy change (Kingdon, 1995). When a window of opportunity forms, due to a shock, policy entrepreneurs attempt to gain government support for the solutions they put forward by linking problems, ideas and politics (Mintrom & Norman, 2009). There are a variety of solutions, in the form of ideas - as per the garbage can model (Cohen, March and Olsen, 1972).

Sabatier's (1988) and Jenkins-Smith's (1990) Advocacy Coalition framework (ACF), contributes to the policy process literature through taking:

Longer term time perspectives to understand policy change; a need for a more complex view of subsystems to include both researchers and intergovernmental relations; a need for more attention to the role of science and policy analysis in public policy; and a need for a more realistic model of the individual rooted more deeply in psychology rather than microeconomics. (Weible et al., 2011: 349)

An advocacy coalition consists of 'elected and agency officials, interest group leaders, and researchers who share a particular belief system' (Sabatier, 1988: 139), forming an alliance to obtain greater influence in the policy-making process (Nohrstedt & Weible, 2010: 16). This approach shows how groups can lead to the development of new ideas for policy change (Jones & Jenkins-Smith, 2009).

Similarly the Epistemic Communities Framework (ECF) focuses on networks with expertise, who share knowledge, as they seek policy change (Haas, 2004). According to ECF, a proliferation of new ideas on policy change may be triggered by uncertainty over a problem (Meijerink, 2005: 1063). Both ACF and ECF examine the role of networks, ideas, information and learning processes in policy change (Haas, 2004).

In contrast to the ACF and ECF, Baumgartner and Jones (1993) see policy change is characterized by periods of stability broken by instances of radical transformation – punctuated equilibrium. Policy stasis results from the inability of policy makers to manage more than a limited number of issues simultaneously, or from the capacity of supporters of extant policy to reduce the pressure for policy change (True et al. 2007). Significant policy changes may occur when opponents of extant policy create new perceptions of the issue at stake and gain support for their new ideas at a higher administrative level (Hogan and Feeney 2012). Once the new policy becomes accepted amongst policy entrepreneurs and the political elite a new policy monopoly, and stasis, is instituted (Meijerink 2005).

Hogan and Doyle (2007), building on ideas of punctuated equilibrium, claim that a critical juncture consists of a crisis, ideational change (extant ideational collapse, new ideational consolidation) and a radical policy change. They argue that outside influencers (public, media, NGOs etc), policy entrepreneurs (civil servants, technocrats, academics, economists, interest groups) and political entrepreneurs (elected politicians) act, in the words of Kleistra and Mayer (2001), as either carriers or barriers to policy change. Here ideas can be seen to be about what is, and what ought to be (Mehta. 2010). Discursive interaction (exchange of ideas) between these policy elites and the general public, moving in multiple

directions, generates the alternative ideas that lead to collective action (Schmidt, 2008); as well as constituting an effort on our part to ‘endogenize’ policy change (Schmidt, 2010) – making the exogenous shock less significant vis-à-vis ideational change. Should a broad consensus develop that the paradigm underpinning extant policy is inadequate then ideational collapse occurs. But, sometimes society, failing to reach consensus on a replacement idea, re-embraces the failing idea (Legro, 2000). The theory presents the notion that, even in the wake of a crisis, policy failure and ideational collapse, there is no guarantee new ideas will become policy. However, if the actors seeking policy change reach agreement on a replacement paradigm, and gain support at a high administrative level, significant policy change may follow. In this environment, political entrepreneurs can act as the bridge between coalitions advocating new policy ideas and the institutions implementing them (Donnelly and Hogan 2012).

CJT uses ideas in a form of “discursive institutionalism” to overcome the limitations in “traditional” new institutionalist approaches in explaining policy change – their static and overly determinist nature (Schmidt, 2008; 2010). In this instance, discursive institutions are not rule following structures of the older institutionalisms that serve as restraints on actors, but are internal to agents as constraining structures and enabling constructs of meaning (Schmidt, 2010).

CASE STUDY: TESTING FOR A CRITICAL JUNCTURE IN IRISH INDUSTRIAL POLICY IN THE 1980s

From the 1950s onwards, Irish industrial policy moved away from protectionism, seeking to attract foreign direct investment (FDI) as a stimulus for growth and skills transfer (Girvin, 1994: 125). This strategy was adopted in a climate of severe recession, emigration and a precipitously falling population. Thus, dire economic performance prompted a fundamental reappraisal of policy in the 1950s.

Throughout the 1980s Ireland again experienced severe difficulties. In an environment of economic stagnation, there was concern that emigration would again depopulate the country, denuding it of its educated young people (O’Rourke & Hogan, 2013). Thus, once more Irish society, and its policy makers, experienced great uncertainty. Would the the state continue to rely on FDI as its engine for growth or would there be a radical policy change once more?

THE CRITICAL JUNCTURE THEORY

Critical junctures result in the adoption of a particular arrangement from among alternatives. Thereafter, the pathway established funnels units in that direction (Mahoney 2003: 53). For some, a critical juncture constitutes an extended period of reorientation (Collier and Collier, 1991; Mahoney 2003), while for others, it is a brief period in which one direction, or another, is taken (Garrett and Lange, 1995; Hogan; 2006). Recently, Flockhart (2005) used critical junctures to explain the gap between Danish voters and their politician’s attitudes towards the European Union (EU), while Wolff (2012) examined the development of an EU counter-terrorism policy through critical junctures. However, the literature is inconsistent in how it differentiates critical junctures from other forms of policy change - such as incremental change. Hogan (2006) sought to resolve this by setting out a revised critical juncture theory and developing a framework capable of testing for critical junctures and producing consistent findings.

The literature on critical junctures often examines them from the perspective of crises, emphasizing the tensions that precede critical junctures, as per historical institutionalism.

However, according to Hogan and Doyle (2007), a critical juncture consists of discreet, but interconnected elements: crisis, ideational change and radical policy change – the ideational element moving the theory into the realm of discursive institutionalism. But, how ideas influence policy is complex, raising questions such as: Where do ideas come from? How do they relate to failing policies? And, why does the paradigm underlying a failing policy sometimes change, resulting in policy change, whereas at other times it remains unaltered? To understand the social world "necessitates a deep and systematic engagement with ideas, because without them, neither stability nor change in social systems can be fully understood" (Blyth, 2011: 84). Without discourse – understood as the exchange of ideas - it is difficult to explain how ideas transform from individual thoughts into collective actions (Schmidt, 2010). The theory's third stage tests policy change using Hall's (1993) three orders of policy change.

Testing each stage involves developing observable implications that can be evaluated individually. The framework (discussed below) has been applied to a variety of policy areas: change in macroeconomic policy, the rolling back of privatization policy and the study of policy change in nondemocratic states (see Hogan, 2006; Hogan and Doyle, 2007; Hogan and Cavatorta, 2013). This CJT helps provide insights into the key events, ideas and roles performed by various actors in the policy change process.

Testing for a Crisis

A crisis implies extant policies are failing to address a problem (Boin, Hart, Stern, & Sundelius, 2005) and as a result can unleash powerful forces for change that can have a long lasting impact (Haggard 2003). Economic crises are more common in modern democracies than wars or revolutions. Hogan and Doyle's (2007: 888) critical juncture theory, recognising that identifying a macro-economic crisis is difficult, involving subjective and objective deliberations, uses 12 encompassing observable implications that draw upon the currency crisis, recession and policy reform work of Garuba (2006), Kaminsky, Reinhart, and Végh (2003), Pei & Adesnik (2000:139) and Yu, Lai, & Wang, (2006: 439). These observables identify changes in nominal economic performance and perceptions of economic health (See Appendix A).

Testing for Ideational Change

Ideational change can result in a transformed policy environment, but understanding how ideas influence policy is something theorists have long grappled with. The failure of extant policies to resolve a crisis provides a window of opportunity for change agents to contest the viability of the underlying paradigm (Kingdon, 1995). These agents can gain power for their ideas by setting the agenda for reform in the policy sphere (Schmidt, 2010).

To address the question of why ideas underlying failing policies sometimes change, resulting in policy change, whereas at other times they remain unaltered, Donnelly and Hogan (2012), drawing on Legro (2000), argue that significant policy change depends upon a broad range of change agents (outside influencers and policy entrepreneurs) perceiving the extant paradigm as inadequate (collapse) and coalescing (consolidation) around a set of new ideas, championed by a political entrepreneur. As Blyth (2002: 37) argues, 'ideas facilitate the reduction of ... barriers by acting as coalition-building resources among agents who attempt to resolve the crisis.' Ideational change constitutes the intermediating factor between a crisis and policy change. We have seven observable implications for identifying extant ideational collapse and new ideational consolidation (See Appendix B).

However, 'even when ideational collapse occurs, failure to reach consensus on a replacement could still produce continuity, as society reflexively re-embraces the old

orthodoxy' (Legro, 2000: 424). This is because in addition to policy viability, policy ideas must have administrative and political viability (Hall, 1989).

Testing for Policy Change

The CJT's final stage employs Hall's (1993) concepts of first, second and their order change to develop observable implications to identify policy change (See Appendix C). The observables incorporate Hogan's (2006) notions of swift and enduring change. As we are dealing with a critical juncture (radical change), we assume this is not a long process; otherwise, it would constitute incremental change. In an environment full of competing policy entrepreneurs and ideas, such a policy change should survive a change of government (Hogan and Doyle 2007). This addresses the problem in policy dynamics of defining and operationalizing the scope and timing of policy change (Howlett, 2009). As Capano and Howlett (2009) argue, when a policy is regarded as fundamental it is usually based on a multi-year perspective. These observables enabled the differentiation of policy changes, ranging from minor adjustments to the setting of policy instruments, to paradigm changes in policy goals (Hall, 1993).

According to the theory, after a crisis, but in the absence of ideational change, policy change may be of the first or second order, but not the third (paradigm shift). The presence of ideational change will lead to third order policy change – which according to the framework constitutes a critical juncture.

Evaluation of the Findings

To evaluate the evidence for a crisis, extant ideational collapse, new ideational consolidation and the type of policy change, the finding for each observable implication was evaluated independently by each author and assigned a score according to whether it indicated strong (3), medium (2), weak (1) or no support (0). The stronger the inter-coder agreement indicated between the authors' findings, the greater the likelihood these are accurate. This approach allows for a more nuanced understanding of policy change. As interpretation plays a part in divining meaning from codes, the reporting of findings involves thick description of categories and contexts (Polgar & Thomas, 2008: 248). We found inter-coder agreement to be above 91 per cent; and Krippendorff's alphas above 0.8, which Krippendorff (2004: 241) deems reliable beyond chance (see Appendix).

IDENTIFICATION OF MACROECONOMIC CRISIS

The Irish economy in the 1980s

During the late 1970s the Irish economy performed relatively well, having recovered from the effects of the 1974 oil crisis. The high levels of inflation and unemployment, that peaked in the middle of the decade, had begun to fall, while growth returned (Leddin and Walsh, 1998: 26). We can see from Table 1 that real gross domestic product (GDP) increased by 4.5 percent on average between 1975 and 1979.

In 1977, a new Fianna Fáil government employed an expansionary fiscal policy at a time when the economy was growing at an unsustainable rate (OECD, 1982: 10). This fiscal injection, in pursuit of a "dash or growth" that economists warned was unsustainable, led to a deterioration in fiscal balances, with the public sector-borrowing requirement increasing from 13 percent of GNP in 1976 to 20 percent in 1981 (FitzGerald, 2000: 43). This period saw record deficits in the current external balance and the public sector accounts (OECD, 1983: 7). As we can see from Table 1, inflation peaked at 20.4 percent in 1981, while interest rates remained high.

Table 1 – Ireland’s Main Economic Indicators, 1972–1991

Year	Unemployment %	Inflation %	Interest %	Government Debt to GNP ratio	Growth Rates in Real GDP %	Economic Openness ¹
1974	5.4	17.0	12	55.39	4.2	94.37706
1975	7.3	20.9	10	58.05	2.0	86.44022
1976	9.0	18.0	14.8	62.5	2.1	94.96721
1977	8.8	13.6	6.8	61.4	6.9	102.0045
1978	8.1	7.6	11.9	63.5	6.7	103.7894
1979	7.1	13.2	16.5	70.65	2.4	109.601
1980	7.3	18.2	14.0	71.91	1.9	106.4831
1981	9.9	20.4	16.5	77.45	1.1	105.0999
1982	11.4	17.1	14.0	86.53	-0.7	97.81183
1983	13.6	10.5	12.3	97.60	-1.6	101.7349
1984	15.4	8.6	14	106.28	2.3	112.7388
1985	16.7	5.4	10.3	108.60	0.8	112.172
1986	17.1	3.8	13.3	123.26	-1.1	101.1026
1987	17.7	3.1	9.3	124.07	4.6	104.8707
1988	16.4	2.1	8.0	117.35	4.4	109.5299
1989	15.1	4.1	12.0	106.84	7.0	117.0717

Sources: European Commission (1997); Heston, Summers, and Aten (2002); Leddin and Walsh (1998); Mitchell (1992); United Nations (2013).

As the economy slowed, then began to shrink and unemployment and interest rates rose, emigration increased (OECD 1982: 10). More people were unemployed by June 1981 than at any time in the country’s history (*The Irish Times*, 1981a: 6). The balance of payments deficit was 13 percent of GNP (Central Bank of Ireland, 1982: 16). The government’s spending was so high that the total amount budgeted for 1981 had been consumed by midyear. Consequently, almost half of exchequer borrowing for 1981 went to financing the current budget deficit (Bacon *et al.*, 1986: 6), which stood at an unsustainable 7.3 percent of GNP (Leddin and O’Leary, 1995: 167).

The debt to GNP ratio was on an unbroken upward trajectory from 1977 to 1987, surpassing 100 percent by 1984. Between 1979 and 1986 the rate of increase of debt to GNP regularly exceeded 10 percent per annum. The fiscal deficit, intended in the late 1970s to be temporary, became impossible to eliminate. Imports and exports fluctuated wildly, reflected in figures for trade openness in Table 1. Only inflation improved after 1981. By 1986, the economy had been in continuous stagnation since 1980, contracting for the third time in five years (see Table 1). An *Irish Independent* poll found that a majority of citizens were skeptical of the politicians’ ability to run the country properly (O’Regan, 1981: 1).

The need to control public expenditure and prevent excessive reliance on foreign borrowing dictated the adoption of tighter fiscal policies. However, the catch-all nature of Irish political parties induced governments to buy off short-term pressure from interest groups through *ad hoc* policy concessions. This worked against the imposition of severe economic policies and the formulation of enduring agreements between the state and economic interest groups, like those in Continental neo-corporatism.

By the mid 1980s there was unanimity in the domestic and foreign media concerning the economy. Finlan (1987: 16) writing in *The Irish Times*, described the economy as being “on the ropes”. *The Economist* pointed out that by 1987 ‘the people of Ireland were deeply in debt to the outside world, three times as much per head as Mexico’ (*The Economist*, 1987: 53). *The Irish Times* (1987a: 10) noted that some economic commentators were advocating

¹ Measured by the trade to GDP ratio. This is acquired by adding the value of imports and exports and dividing by GDP.

debt repudiation due to the scale of indebtedness. Overall, the general consensus in the newspapers was one of stagnation and crisis.

Most economists were critical of economic policy and performance during the 1980s (Bradley and FitzGerald, 1989: iii). While initially boosting the economy, the government's debt-finance plan for rapid development between 1977 and 1980 was a disaster, due to the depression and debt-burden that followed (O'Rourke, 2010). Bacon et al. (1986: 1) observed that 'the first half of the decade of the 1980s, taken as a whole, was a period of appalling economic performance.' 'It is difficult to avoid the conclusion that Irish economic performance has been the least impressive in Western Europe, perhaps in all Europe' (Kennedy and Conniffe, 1986: 288). The Central Bank (1987: 7) foresaw no immediate prospects for an improvement in growth or employment. More worryingly, it argued that the situation did not permit for increases in welfare benefits to the disadvantaged. An increasing level of poverty was eroding the lives of a growing segment of society (O'Morain, 1987: 7). As the OECD (1987: 77) put it: 'by the mid-1980s a number of acute imbalances confronted the Irish economy.' These imbalances were also making the business community worried. The Small Firms Association noted steadily declining business confidence (*The Irish Times*, 1987b: 6). Leading businessman Tony O'Reilly warned of the dangers of International Monetary Fund (IMF) involvement in running the country if the crisis was not resolved (Keenan, 1987: 8).

After 1982 all the major parties agreed on the need to stabilise the debt/GNP ratio (Mjøset, 1992: 381). The state changed its overall policy from focusing on employment to balancing budgets, export growth, and international competitiveness. A member of Fine Gael, Alexis Fitzgerald, remarked that in just 4 years Fianna Fáil had doubled the national debt it had taken 57 years to accumulate (*The Irish Times*, 1981a: 6). Subsequently, Prime Minister Garrett FitzGerald acknowledged that the national debt and interest payments, rising faster than national income, constituted a vicious circle, each year consuming a larger share of taxation (*The Irish Times*, 1987c: 10). Opposition leader, Charles Haughey, remarked that 'the economy is at a total stand-still' (Cooney, 1987a: 9). Amongst the public consensus held that the country was in the midst of a serious financial crisis (Cooney, 1987b: 1). 'By 1987 the Irish economy was universally seen to have reached nadir' (*The Economist*, 1992: 6).

Table 2 – Identification of Macroeconomic Crisis in Ireland in the 1980s

Identification of Macroeconomic Crisis	Coder 1	Coder 2
O1. Stagnant or negative GDP growth	3	3
O2. Unemployment above 10 percent	3	3
O3. Inflation and interest rates above 10 percent	3	3
O4. National debt, as a percentage of GDP, increasing at more than 10 percent, annually	3	3
O5. The level of economic openness declining	3	2
O6. Public perceives economic crisis	2	2
O7. Media perceive economic crisis	3	3
O8. Economic/political commentators perceive economic crisis	3	3
O9. Central bank perceives economic crisis	3	3
O10. OECD perceives economic crisis	3	3
O11. Elected representatives perceive economic crisis	3	3
O12. Government pronouncements consistent with crisis management approach	3	3
	Strong	Strong

(3) strong support | (2) medium support | (1) weak support | (0) no support | (N/A) not available

From Table 2, we see that both authors felt the majority of observable implications support the argument that Ireland, during the 1980s, experienced an economic crisis. The next sections test for ideational change in industrial policy during this crisis and the nature of the policy change that followed.

IDENTIFICATION OF IDEATIONAL AND POLICY CHANGE

The Ideas Underlying Industrial Policy

The Ideas Underlying Industrial Policy

After opening its economy in the 1950s, Ireland sought to attract labour intensive industries based around technically mature products (Lee, 1992). In the context of the weakness of indigenous industry, this seemed a realistic alternative capable of delivering industrial development (Lee, 1992). By the beginning of the 1970s FDI accounted for the majority of new manufacturing jobs and exports. However, this approach led to the sidelining of indigenous industry in the policy process (Girvin 1989). It also failed to create high value jobs and the foreign companies were footloose (O'Malley, 1985). In response, the Industrial Development Authority (IDA) started to look at attracting more sophisticated overseas producers in pharmaceuticals and electronics (Wrigley, 1985). However, the economic problems of the 1970s led to a questioning of industrial policy by society, the media and policy entrepreneurs.

The Cooper-Whelan Report

The 1973 Cooper-Whelan report, co-authored by Noel Whelan, a civil servant, who later became Secretary of the Department of the Taoiseach, was sceptical of the long term benefits of FDI, as opposed to indigenous enterprise (Lee, 1992). This report questioned the weak links between FDI and indigenous industry. By 1979, it was clear that the success of the FDI sector was not finding its way into the rest of the economy (Lee, 1992).

This situation, impelled the National Economic and Social Council (NESC), then under Whelan's chairmanship, to commission an examination of Ireland's industrial programme (Brunt, 1988: 32). The objective was "to ensure that the Irish government's industrial policy is appropriate to the creation of an internationally competitive industrial base in Ireland which will support increased employment and higher living standards" (Telesis, 1982: 3). This examination encompassed a number of reports, the most important of which was Telesis's (1982) examination of industrial policy..

The Telesis Report

A Review of Industrial Policy, referred to as the Telesis Report, after praising the clarity and consistency of industrial policy, highlighted the problems of FDI, its impact on job creation and failure to create linkages with indigenous industry (Telesis, 1982). Pointing out that sustained economic development and a high incomes economy relies on native entrepreneurship, the report queried the policy emphasis on foreign investment (Lee, 1992, 531) and a culture of dependence on state aid (Sweeny, 1998: 103). It argued that the IDA had not been as successful in attracting FDI as it suggested (Telesis, 1982). Of jobs approved between 1972 and 1978 "only 20 percent were in place at the end of the period" (Coogan, 1987: 6). The report encouraged a shift "towards building strong indigenous companies in the export and sub-supply business sector" (Sweeny, 1998: 127) and that the proportion of funds given to domestic industries (one third of all funding available) be doubled by the end of the decade (Telesis, 1982). The Telesis report "sent shock waves through the policy

establishment" (Lee, 1992: 532). This questioning of industrial policy challenged its intellectual coherence.

Reaction to Telesis – Ideational Collapse

In light of the criticisms of the IDA in Telesis, it disputed the findings of the report (O’Brien, 1982: 1). The IDA had become “the centre of policy-making, a point strongly criticised by Telesis” (Sweeney, 1998: 127). “The development effort aimed towards new indigenous industry must be reorganised to emphasise the building of structurally strong Irish companies rather than strong agencies to assist weak companies” (Telesis, 1982: 33). Tánaiste, Dick Spring, admitted that Telesis pointed to failings in the overall industrial policy framework (Dáil Debates 342, cols. 861, 11 May 1983).

There was ideational collapse as Whelan, the NESC, Telesis and a host of economists, constituting policy entrepreneurs, critiqued the orthodoxy underlying extant industrial policy, while other changes agents in the media and trade unions supported the ideas proposed by Telesis. However, there was no clear political entrepreneur for these policy entrepreneurs to rally around. This was partly down to the fact that Ireland, at the time, experienced a period of weak and unstable governments as the economic crisis gripping the country deepened (*The Irish Times*, 1981b: 12).

Table 3 – Indication of Ideational Collapse

Indication of Extant Ideational Collapse	Coder 1	Coder2
O13. Media questioning efficacy of current model	2	3
O14. Opposition critiques current model and propose alternative ideas	1	1
O15. Policy entrepreneurs critique current model and propose alternatives	3	2
O16. Civil society organizations critique current model	3	2
O17. Widespread public dissatisfaction with current paradigm	2	1
O18. External/international organizations critique current model and actively disseminate alternatives	2	2
Extant Ideational Collapse	Strong	Medium

Changes in Industrial Policy

Political Instability – Policy Drift

Telesis found that extant industrial policy “did not go far enough in developing native skills in technology and marketing, the key elements of self-sustaining growth. The foundations of the industrial superstructure therefore lacked depth” (Kennedy, 1986: 49). The scale of the policy changes required by Telesis would take time to both implement and take effect (Kennedy, 1983: 34). The ESRI, predicting the economic crisis would worsen, insisted that the necessary policy changes could not be delayed (O’Brien, 1983: 12).

[However] the period from December 1979 to December 1982 was one of the most remarkable periods in modern Irish history. There were four changes of Taoiseach in that period, six Ministers for Finance, three changes of government and the Irish economy declined progressively to a level unprecedented for decades. (Browne, 1983: 5)

Apart from crisis-induced cutbacks, no coherent ideas/policies emerged, as the governments were of such unstable character. 'Not only economically, but also politically, instability peaked in 1981-1982' (Mjøset, 1992: 381).

By November 1982, when the majority Fine Gael-Labour Coalition came to power, with the national debt exceeding GNP and the current budget deficit out of control, a coherent set of corrective policies was essential. The state of the public finances restricted the government to austerity measures. However, the Coalition experienced difficulty in devising an effective strategy (O'Byrnes, 1986: 219). It is against this background that we examine the government's response to Telesis.

The Political Response to Telesis

For Snoddy (1982), Telesis marks the ending of the phase of reliance on FDI and the beginning on a new phase focused on indigenous industry. However, reality was more complex. The Minister for Industry, John Bruton, insisted that it was critical not to lose sight of the contribution of 800 foreign firms, employing 80,000 workers (Dáil Debates 342, col. 906, 11 May 1983). Although reports from the ESRI and NESC, acknowledged that the Irish economy was in crisis and that change was required, the official response to Telesis was slow in coming. the

The government official response in the form of a White Paper (Government of Ireland, 1984) came in the context of a severe economic crisis. For some the White Paper "represented a pivotal document in the re-evaluation of the philosophy and strategic thrust of industrial policy" (Boylan, 1996: 196). There were indeed "several changes in the content of industrial policy" in response to Telesis (Kennedy, 1995: 59). It was acknowledged that "Industrial policies which had clearly served Ireland well in the 1960s and 1970s are now having less success" (Government of Ireland, 1984: 3) and recognized that economic "flexibility, creativity and growth were all being thwarted by the dependence on foreign investment" (Munck, 1993: 158). Yet, in concert with Telesis (1982), the White Paper stated that there would be no radical change to incentives for FDI - "consistency and stability over many years of our policies for industrial development have been a major source of strength" (Government of Ireland, 1984: 7). There was a radical change in that employment creation was no longer the sole objective and attention should focus on the international competitiveness of the whole industrial sector (Brunt, 1988: 32). Wealth creation now took precedence over job creation, as this permitted the development of the capacity to create jobs. There was to be greater selectivity, the White Paper seeking to advance the process of "picking winners", with the aim of developing domestic companies with export potential (Jacobsen, 1994: 169), and a promotion of enterprise to strengthen indigenous (Carr, 2000). The report also saw a shift away from manufacturing towards services.

Alterations to Industrial Policy

Under the coalition government, incentives were to be more selectively deployed, while indigenous enterprises were given greater attention through the creation of a National Development Corporation (NDC). The objective was to foster an increase in the number of internationally traded companies, and to that end an export development scheme was set up. There was some change in relation to FDI, with more of a focus on foreign companies with R&D functions and the potential for linkages with domestic enterprises. The National Planning Board s pointed to a lack of a manpower policy and argued that the appropriate ministers, not the IDA, ought to direct policy (Jacobsen, 1994: 168).

1984 also saw the introduction of the Company Development Programme directed at indigenous companies and designed to assist planning (Bielenberg and Ryan, 2013: 29).

Policy change could be seen in the National Linkage Programme in 1985, to achieve a more integrated development pattern between indigenous and foreign enterprises (Brunt, 1988 p. 32). It would focus on upgrading local suppliers by improving their technical knowhow and be selective in concentrating on companies “which had the potential to succeed” (Murdoch, 1985: 14). These approaches sought to achieve the new objectives of industrial policy: a greater focus on indigenous enterprises; addressing weaknesses in management and marketing; achieving better value for money and creating better linkages with FDI enterprises (Kennedy, 1995). By 1985 the Irish Export Board (C oras Tr acht ala (CTT)) was seeking to address the information needs of exporters, as identified in the White Paper, through the production of booklets entitled Guides for Exporting. Nevertheless, the IDA continued to attract FDI, and in 1990, at unprecedented costs, secured a major investment from Intel (Bielenberg and Ryan, 2013: 29).

"The Telesis report led to some measure of industrial policy reform, though this was less interventionist than the report envisaged" (Bielenberg and Ryan, 2013: 29). Thus, industrial policy gradually responded to the critiques of Telesis (1982) and the NESC (1982), who criticized the failure of state support towards indigenous enterprises (O’Grada, 1997). However, as Hall (1989: 11) points out, states tend to be predisposed towards those policies with which they already have some favourable experience. Thus, to regard the policy changes arising from Telesis, and the subsequent White Paper, as a break with extant industrial policy would be incorrect. Rather, they constituted a form of, what Streeck and Thelen (2005) refer to as, policy layering. These moves represent learning effects, an effort to make extant policy work. Despite Telesis, grants to indigenous firms increased by only 3 percent between 1985 and 1989 (O’Hearn, 2001: 105). Industrial policy was adjusted in 1984, not transformed, due to a reluctance to break with past successes in attracting FDI.

The Nature of the Policy Change

Although the ideas underlying extant industrial policy might have collapsed in the wake of the economic crisis, and provided a window of opportunity for radical policy change, this did not occur. Whelan, the NESC and Telesis, along with many other economists and commentators, acting as policy entrepreneurs, proposed alternative ideas to those underlying industrial policy. However, in the absence of these change agents clustering around a political entrepreneur to champion their alternative paradigm in the policy-making environment, new ideational consolidation could not occur. Despite the growing recognition that industrial policy was failing to produce the desired results, the Irish political establishment was reluctant to abandon a policy prescription that had, at least during the 1960s and early 1970s, ended a century of depopulation and stagnation. No political entrepreneur emerged during this period of ideational contestation. Politicians only seemed interested in variations on the existing paradigm. In these circumstances, the ideas underpinning extant industrial industrial policy endured. The collective mindset failed to disengage from a reliance on FDI and shift the focus of industrial policy to indigenous enterprise.

Table 4 – Indication of: (i) New Ideational Consolidation; (ii) Level of Policy Change

Indication of New Ideational Consolidation		
O19. Clear set of alternative ideas	3	3
O20. Political entrepreneur injecting new ideas into policy arena	0	0
O21. Political entrepreneur combines interests to produce consensus around a replacement paradigm	0	0
New Ideational Consolidation	No	No

Indication of Level of Policy Change		
O22. Policy instrument settings changed	3	3
O23. Instruments of policy changed	1	2
O24. Goals behind policy changed	0	0
Critical Juncture in Policy	No	No

(3) strong support | (2) medium support | (1) weak support | (0) no support | (N/A) not available

In Table 3, we see that during the 1980s the ideas underpinning industrial policy's focus on FDI had collapsed. However, in the absence of a political entrepreneur willing to champion alternative ideas, change agents failed to consolidate around a replacement orthodoxy. The observables indicate there was no critical juncture in industrial policy in 1984, the policy change being of the first order (Hall, 1993). We have an economic crisis, ideational collapse, no new ideational consolidation and minor policy change.

Addendum: The Culliton Report 1991

“The attempt to follow these new directions of policy scarcely had time to prove themselves before a new review of industrial policy was initiated in June 1991” (Kennedy, 1995: 60). The Industrial Policy Review Group's focus, set out in the Culliton Report (named after its chairman) was again on the indigenous sector (O’Grada, 1997: 119). The report called for a reduction in grants and improving competitiveness more generally, rather than picking winners (Newman, 2011, 241).

The central message was that the policy for industrial development goes beyond industrial policy as traditionally conceived (Kennedy, 1995). It advocated the breakup of the IDA. The result was "the creation of three agencies, with IDA-Ireland specialising in promoting foreign investment, Enterprise Ireland focusing on assisting indigenous enterprise, and ForFás concentrating on policy advice" (White, 2001: p. 223).

The continued overdependence on foreign capital was a major concern, with this report advocating the development of linkages between domestic and foreign firms (O’Hearn 2001: 105). This report's findings were similar to Telesis, despite the intervening decade.

Conclusion

According to theory, a critical juncture consists of crisis, ideational change and radical policy change, with ideational change linking crisis and policy change. Following a crisis, policy failure and extant ideational collapse, significant policy change depends upon actors, led by a political entrepreneur, reaching consensus upon, and consolidating around, new ideas. It is in the discursive interactions between the various actors that ideas are generated along with the potential for radical policy change. As such, a discursive institutionalist approach is capable of overcoming new institutionalism’s inability to explain change.

Employing a range of observable implications, we did not find a critical juncture in industrial policy. Although the economy was in crisis, and undermining confidence in prevailing industrial orthodoxy, neither of the main political parties was willing to challenge the status quo. While ideational collapse occurred and alternatives were put forward, a political entrepreneur willing to champion a new set of ideas on industrial policy failed to emerge –extant orthodoxy endured.

In Ireland, since the 1950s, an outward orientated economic policy has remained unaltered, due to recognition that a large number of jobs and a high percentage of FDI, depend upon membership of the European Union (EU). The economic crisis of the 1980s did not provoke a rethink of this overarching economic vision . However, policy entrepreneurs questioned the focus of industrial policy. There was growing skepticism of the long term

benefits for the economy of a reliance on FDI and in particular its weak links with indigenous industry. Following Telesis, industrial policy was changed to attract more sophisticated foreign companies that would base R&D functions in Ireland and thereby create higher value jobs; and to provide greater supports to indigenous industries which had previously been sidelined.

Now, 30 years after the events discussed, Ireland has become a modern knowledge based economy focusing on services and high-tech industries - many of which are foreign multinationals. The intervening years have witnessed fiscal austerity, followed by the Celtic Tiger and then more austerity following the banking collapse (O'Rourke & Hogan, 2014). . The economy has also gone through widespread deregulation and privatization, all of which impacted upon industrial policy, but without shifting its underlying paradigm. Thus, the attraction of FDI is still crucial. Negotiations over the country's recent IMF-EU bail-out saw a key element of industrial policy, the 12.5 percent corporation tax rate, asserted as non-negotiable in the face of Franco-German pressure. Foreign companies significant presence can also be seen in the difference between Ireland's GNP and GDP figures. GNP, as a percentage of GDP, has ranged from a high of 85.6 percent in the third quarter of 2007, to a low of 79 percent in the first quarter of 2012 (CSO, 2013).

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Appendix A

- O1.** Stagnant or negative GDP growth (Pei & Adesnik, 2000).
- O2.** Unemployment above 10 percent (Pei & Adesnik, 2000).
- O3.** Inflation and interest rates above 10 percent (Pei & Adesnik, 2000).
- O4.** National debt, as a percentage of GNP, exceeds 100 percent and is increasing at more than 10 percent, annually.
- O5.** The level of economic openness declining.
- O6.** Public perceives an economic crisis.
- O7.** National/international media perceive an economic crisis.
- O8.** Economic/political commentators perceive an economic crisis.
- O9.** Central bank perceives an economic crisis.
- O10.** Organisation for Economic Cooperation and Development (OECD) perceives an economic crisis.
- O11.** Elected representatives perceive an economic crisis.
- O12.** Government pronouncements on economy consistent with a crisis management approach.

Appendix B

Indication of Extant Ideational Collapse

- O13.** Media question efficacy of the current model and/or specific policy areas.
- O14.** Opposition parties critique the current model and propose alternative ideas – at election time their platform will be built around these alternatives.

- O15.** Civil servants, technocrats, academics, economists (policy entrepreneurs) critique the current model and propose alternatives.
- O16.** Civil society organizations, e.g., labor unions, employer organizations, consumer groups (policy entrepreneurs), critique the current model, reflecting Hall's (1993) coalition-centered approach.
- O17.** Widespread public dissatisfaction with the current paradigm, observable through opinion polls, protests, etc.
- O18.** External/international organizations (policy entrepreneurs) critique the current model and/or actively disseminate alternative ideas.

Indication of New Ideational Consolidation

- O19.** A clear set of alternative ideas, developed by policy entrepreneurs.
- O20.** A political entrepreneur injecting new ideas into the policy arena.
- O21.** The political entrepreneur combines interests, including policy entrepreneurs, to produce consensus around a replacement paradigm.

Appendix C

Indication of Level of Policy Change

- O22.** Policy instrument settings changed (swiftly and for longer than one government's term of office)
- O23.** The instruments of policy changed (swiftly and for longer than one government's term of office)
- O24.** The goals behind policy changed (swiftly and for longer than one government's term of office)