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Civil service post-war policy debates, Department of Finance orthodoxy and the contours of the modern Irish economy

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Abstract

Many share Michael Mulreany's interest in the processes associated with the outward reorientation of the Irish economy from the mid-to-late 1950s through to European Economic Community accession in 1973. The Irish case is unusual by international standards in the importance accorded to the policy advice that emanated from within the civil service. While much of the historical focus has been on the Whitaker report of 1958, the contribution of which is celebrated in the 2009 work edited by Mulreany, the Department of Finance did not win all of the crucial debates on outward reorientation in which it was engaged. In particular, it had opposed the introduction in 1956 of export profits tax relief, the origin of the low corporation tax regime that remains in place to this day. This paper revisits the policy positions of the Departments of Finance and Industry and Commerce over the post-war decades and traces the foreign direct investment intensity of the modern Irish economy to the outcome of these debates.

Keywords: civil service, corporation tax regime, foreign direct investment, Irish economy, post-war policy.

Introduction

Already by the time of Ireland's accession to the European Economic Community (EEC), the share of foreign-owned enterprises in Irish manufacturing employment was high by international standards. Many of the foreign-owned companies of the time dated from the protectionist era. Enterprises such as Clarks Shoes, Rowntree–Mackintosh, tobacco manufacturer Players–Wills and up to several hundred others had established local operations to cater to the protected domestic market. Most of these 'tariff jumping' firms had exited by the mid-1980s. A significant number of the foreign multinational corporations in place at EEC accession were of a different, more recent variety. While the former were predominantly British, export-oriented firms from a broader range of countries had begun to arrive with the introduction of the financial and tax-incentive packages of the mid-to-late 1950s.

Several of the export-oriented firms that were in operation in 1973 remain in place to the present day. German crane manufacturer Liebherr opened in Killarney, Co. Kerry, in 1958, United States (US) medical devices company Becton Dickinson opened plants in Drogheda, Co. Louth, and Dun Laoghaire, Co. Dublin, in 1963 and 1970 respectively, and US pharma producer Pfizer established its base at Ringaskiddy, Co. Cork, in 1972. For these, as for most of the other foreign multinationals of the present era, Ireland serves as an export platform from which to service continental Europe and other neighbouring markets.

There were few internationally tradeable services sectors in the early 1970s. This changed dramatically with the emergence of modern telecommunications systems. Among Irish-based foreign affiliates, there are as many now employed in export services as in manufacturing. In terms of foreign-enterprise employment across the entire business economy, Ireland's share is currently almost twice the twenty-seven-country European Union average (Eurostat, 2024). By 2024, the country was reported to be the most significant export platform in the world for US-owned affiliates (Hamilton & Quinlan, 2024, p. vi).

These are the 'contours of the modern Irish economy' to which the title of the paper refers. Their origins can be traced to the civil-service policy debates of the post-war decades. Though the contribution of the Department of Finance under T. K. Whitaker has been the focus of particular historical attention (see e.g. Mulreany, 2009), the industrial grants and export profits tax relief (EPTR) introduced in 1956 had been promoted not by the Department of Finance but by the Department of Industry and Commerce. EPTR represents the origin of the low corporation tax regime that Padraic White, former Managing Director of the Industrial Development Authority (IDA), characterises as 'the unique and essential foundation stone of Ireland's foreign investment boom' (Mac Sharry et al., 2000, p. 250). The adoption of these measures initiated the strategy of 'industrialisation by invitation' that remains a cornerstone of contemporary Irish policy.

It was up to government of course to choose from the range of policy options available. The parallel processes taking place at the political level are touched upon briefly towards the end of the paper. The paper's main focus is on the bureaucratic background to how Ireland stumbled upon the keys to its later economic success.[1]

The paper is organised as follows. The next section presents an overview of the origins of the Irish civil service and of the different policy perspectives of the Departments of Finance and Industry and Commerce. The following sections discuss in turn the 'critical policy juncture' of the mid-1950s, the decade-long debate over how the balance of payments constraint of the era could be relaxed, and how EPTR was presented and received in 1956. The paper closes with some concluding comments.

The civil service, Department of Finance orthodoxy and the 'clash of ideas'

A well-functioning bureaucracy is of importance not just to state administration and delivery of public services. It is also likely to prove a fertile source of innovative public policy initiatives. Evans and Rauch (1999) show that bureaucracies that conform to certain best-practice principles significantly enhance a country's prospects for economic growth even when initial levels of income per capita and human capital are controlled for. Such bureaucracies are characterised by meritocratic recruitment and predictable and rewarding career ladders. Sociologist Seán Ó Riain (2004) has evaluated the Irish civil service and the country's industrial development agencies on the fourteen-point scale developed by Evans and Rauch. Ireland's score of

[1] The expansion in educational attainment is another key feature of the Irish story. Barry (2023, pp. 159–60) traces the overhaul of the education system from the 1960s to the change in mindset associated with outward reorientation.

12.5 at the time the evaluation was conducted compared favourably to the highest scoring of the thirty-five late-industrialising nations to which the original analysis was confined – Singapore at 13.5, Republic of Korea at 13, and Taiwan at 12.

The ethos of the Irish bureaucracy owes much to the Civil Service (Regulation) Act of 1924 by which, as Martin Maguire (2013, p. 228) comments, the Free State Government managed to avoid 'the evil of cronyism that has infected many decolonised States'. The birth of the new Irish civil service had been mired in controversy. Nationalists had been bitterly hostile to the 'Dublin Castle' bureaucracy that had administered the country in conjunction with Whitehall under British rule. The split over the terms of the Treaty resulted in the underground administration established during the War of Independence being 'assimilated into the old Castle administration rather than the other way round' (Maguire, 2013, p. 138). With the passage of the 1924 Act, all new civil servants would be recruited by open competitive examinations.

The large-scale transfer of officials from the previous administration would leave a legacy of mistrust of the new civil service. Though particularly prevalent on the anti-Treaty side, this was evident across all political parties. Suspicions pertained particularly to the Department of Finance and its two most senior figures, Joseph Brennan and J. J. McElligott. Claims by Seán MacEntee (a future Fianna Fáil Minister for Finance) that they were 'unalterably and fanatically attached to the English interest' were definitively without foundation (MacEntee quote cited in Maguire, 2013, p. 207). Brennan had served in a variety of administrative positions since 1912 but, as he would reveal for the first time more than fifty years later, had provided detailed financial advice to Collins and the Treaty negotiating team on strict condition of anonymity and at great personal risk. McElligott too had served in the Crown service but had been dismissed and jailed for his participation in the 1916 Rising. He was recruited by Brennan from London where he had risen to become Managing Editor of the British financial weekly the *Statist*.

Suspicions of Brennan and McElligott reflected a mix of frustration at the British Treasury system in which they had been schooled and which was adopted at their behest, and at their adherence to the tenets of 'Treasury orthodoxy' on broad economic policy. Many commentators have suggested that for a state with a per-capita income only around half that of the United Kingdom (UK) a different bureaucratic structure and policy approach would have been appropriate. This view is disputed by Seán Cromien, who served as Secretary of the Department of Finance in the 1980s and 1990s. Cromien asserted that it 'was very important' that:

> the new state should proceed prudently in its budgetary and financial affairs. The fact that it soon established a reputation for being a well-run country where British and other businessmen and investors could do business was largely the result of the policy advice of Brennan and his colleague and successor as secretary of the Department of Finance, J. J. McElligott. […] [This served as] a useful corrective to the unreasonable expectations of the young and inexperienced politicians who took office in 1922 and those who succeeded them in 1932. (Cromien, 2009).

The Treasury system accorded the Department of Finance a central role in controlling the expenditure of other government departments. As Whitaker would explain to a sceptical audience of senior officials of these other government departments in 1953, the Department of Finance position 'must inevitably be conditioned not only by the merits of the proposals themselves – not always as apparent to others as to the sponsors – but also by their implications, in conjunction with everything else, for the national finances and the national economy' (cited in Barry, 2023, p. 70).

What more precisely though does 'Treasury orthodoxy' entail? The question has been the subject of much recent attention in the wake of the chaos that followed its rejection by the short-lived Liz Truss administration in the UK in 2022. The government's unfunded 'growth policy' announcements led to turmoil on the capital markets, a sharp increase in interest rates and a run on the currency. The Chancellor and Prime Minister were forced to resign shortly afterwards.[2]

The key elements of Treasury orthodoxy have been identified in a series of contributions by former Permanent Secretary Nicholas Macpherson. As summarised by Wilkes et al. (2024), these include a commitment to spending control, keeping inflation at bay, supporting markets and enhancing the supply side of the economy. Though the Treasury position evolved to embrace a more Keynesian perspective

[2] The socialist policies of the first François Mitterand presidency in France in the early 1980s had provoked a similar market reaction and had also been rapidly reversed (Sachs & Wyplosz, 1986).

over the post-war decades the supply side has always been regarded as key to long-term growth.[3] On taxation, the Treasury approach favours a broad base combined with low rates – 'though this is honoured as much in the breach as the observance' (Macpherson, 2022a).

Of particular relevance for present purposes is the strength and enduring nature of the Treasury's commitment to free trade. The Treasury 'has always supported trade liberalisation' (Macpherson, 2022b). This significant element of the prevailing orthodoxy is apparent too in the stance of the Department of Finance from the establishment of the state through to Whitaker and beyond. Whitaker was not the radical voice he is sometimes assumed to have been.

Daly (2011) describes the Department of Finance of the 1920s and 1930s as 'relentlessly free-trade'. It strongly supported the conclusions of the Fiscal Inquiry Committee of 1923 which advised against the erection of protectionist barriers. Whitaker's views on free trade are equally clear. In an address to the Statistical and Social Inquiry Society in 1956, two years prior to the publication of *Economic development*, he outlined the supply side alternatives to protection by which he believed industrial development could be best advanced. In its advocacy of education and training, adequate provision of utilities, low taxation, tackling restrictive work practices and aligning pay with productivity, it bore a striking resemblance to a memorandum that McElligott had submitted to Cumann na nGaedheal Minister for Finance Ernest Blythe more than three decades earlier. 'The best help the state can give manufacturers', McElligott had written, 'is to help in reducing costs. […] The largest element in costs is wages and wages depend largely on the cost of living, which is always high in protected countries'. He explicitly advocated seeking to reduce the cost of transport and power – 'as to which some schemes are in contemplation' (National Archives of Ireland, 1923).

The traditional understanding of the duty of civil servants was to 'think all round a subject and give ministers their unbiased opinions […] and then, when policy has been decided upon, to carry out that policy to the best of their ability, regardless of their own personal views' (Fanning, 1978, p. 255; see also the 1987 Whitaker interview cited in Barry, 2013). Though the issue of free trade versus protection

[3] Countercyclical aggregate demand management was in any event of less relevance in the Irish case. For an economy of Ireland's size, as Whitaker argued consistently throughout the decades, much of the potential stimulus effect would be lost through increased imports (Barry, 2023, p. 153; Ó Gráda, 2011).

surfaced less frequently in civil-service correspondence from the 1930s through to the mid-to-late 1950s, the department clearly remained of the same mind throughout (see e.g. Fanning, 1978, p. 423). Governorship of the Central Bank provided former Department of Finance officials with the opportunity to express their personal views more freely (Casey, 2022, pp. 112, 160). McElligott was 'much the most fervent free-trader' in the public service policy debates of the years following his move from Merrion Street in 1953 (Fanning, 1978, p. 607).

The Department of Finance does not, and cannot of course, expect to win every policy battle in which it is engaged. As the UK literature recognises, there are limits to the range of issues to which the core Treasury principles apply.

> Government is about balancing competing interests, with the trade-offs settled through the process of interdepartmental argument, collective agreement, prime ministerial direction, bargaining or any number of other informal mechanisms […] The Treasury is meant to fight its corner for public finance and growth, just as [other departments are] meant to fight for the environment [and] national security. (Wilkes et al., 2024, p. 19).

This alludes to the importance of the 'clash of ideas' which will be discussed further later. Whitaker would point out in 2005 that the Department of Finance approach forced others 'to punch hard to get their point across', to which Garret FitzGerald responded: 'It is a very important role and it's not always as negative as it seems' (cited in Barry, 2023, p. 70).

The Free State Department of Industry and Commerce had inherited a more interventionist economic policy approach. Among the entities from which it was formed under the Ministers and Secretaries Act of 1924 were the Board of Trade and the Labour Ministry, bodies which in the British system had had a tradition of challenging Treasury orthodoxy (Lowe, 1978). While they had been weakened relative to the Treasury by the quality of the ministers and senior officials assigned to them (Lowe, 1974), the new department in Ireland was headed by individuals of acknowledged talent. Its first Secretary, Gordon Campbell, would later become Governor of the Bank of Ireland. John Leydon, his successor, headed the department from 1932 until his retirement in 1955, from which point he would serve as unofficial advisor to Seán Lemass. Fanning (1978, p. 258) describes him as having been ‘one of the most able and outspoken officials in Finance’ prior to his move to the Department of Industry and Commerce. The longest-serving minister was of course Lemass. Non-Fianna Fáil ministers with a record of significant achievements over the period of interest included Patrick McGilligan (1924–32) and William Norton (1954–7). Particularly perhaps over the post-war years – and enhanced by the intensified electoral competition of the era – the different policy positions espoused by the Departments of Finance and Industry and Commerce made a major contribution to the ‘clash of ideas’ which is indispensable to progress in policy formulation – as in so many other areas (Barry, 2013).

Protectionism and the veto power of protectionist-era industry

The new Irish state was born in the midst of the severe economic downturn of the early 1920s. One of the arguments underlying the Fiscal Inquiry Committee’s anti-protectionist conclusions was that the policy, once adopted, would be very difficult to reverse once conditions returned to normal. McElligott expanded on this point in the 1923 memo to Blythe referred to earlier:

> One of its greatest disadvantages to my mind is that to revert to Free Trade from a protectionist regime is almost an economic impossibility: the reason being that protection tends to force trade and commerce into unnatural or uneconomic channels and the industry thereby created requires artificial conditions in which to prosper. (National Archives of Ireland, 1923).

The memorandum, with its implicit allusion to the interest-group politics of trade policy, would prove to be remarkably prescient.

Trade barriers were raised significantly following Fianna Fáil’s election victory in 1932. Though the entire world turned protectionist with the onset of the Great Depression, there was a difference in logic between the import-substituting industrialisation (ISI) of the less advanced primary-producing economies of Latin America and the European periphery and the ‘defensive’ industrial protection of the more advanced industrial economies. For the latter, the coordinated easing of trade restrictions in the post-war period under the aegis of the Organisation for European Economic Cooperation (OEEC), one of the bodies established under the terms of the Marshall Plan, would make liberalisation easier. For the less advanced economies, trade liberalisation would threaten the range of entirely new industries that had come into being under the ISI strategy.

By 1948, Ireland had experienced a dramatic increase in factory employment. As measured by the Census of Industrial Production, manufacturing job numbers increased at more than twice the UK rate between 1932 and 1948, though productivity developments were much less impressive and would store up problems for the future.

Unless successful in nurturing 'infant industries' to international competitiveness, an import-substituting strategy sooner or later runs into balance-of-payments problems. The 1938 Banking Commission had concluded from its discussions with Leydon that there were 'scant prospects of paying for imports by the export of the products of the new industries' (cited in Barry, 2023, p. 98). By the 1950s at the latest, Ireland's ISI project had reached the limits of its effectiveness (Ó Gráda, 1994, p. 400; FitzGerald, 1962, p. 341). In Eoin O'Malley's words, the deterioration in the balance-of-payments position since the end of the Second World War:

> arose partly from the near exhaustion of the 'easy' stage of import-substituting industrialisation, which meant that there was relatively little further replacement of imports by new domestic production. At the same time, imports of goods which had not been replaced by domestic production, including many capital goods and material inputs, had to continue to grow as long as the economy was growing. (O'Malley, 1989, p. 65).

The 'easy' first stage relates to the replacement of imported consumer goods by domestically produced foodstuffs, textiles, clothing, and footwear. The second stage requires replacing imported intermediate inputs, capital goods and consumer durables. These require complex clusters of specialized industries and production on a scale unsuited to smaller, less advanced economies. As early as 1950, the Department of Industry and Commerce had recognised that Irish Steel would be unable to compete with overseas mills whose weekly output exceeded the Irish company's entire annual production (Barry, 2023, p. 130). Ireland's chemicals and metals and engineering industries were particularly underdeveloped.

The pan-European dollar shortages of the immediate post-war period added further to these difficulties. The share of imports coming from the US had doubled to 22 per cent between 1938 and 1947. The limiting of sterling convertibility in August 1947 meant that payments for items such as wheat, maize, motor-vehicle parts and tobacco – which largely came from the US dollar area – could no longer be made through sterling.

The short-run response to a balance-of-payments crisis typically entails fiscal austerity. Two particularly harsh budgetary episodes in the early and mid-1950s contributed to the dismal economic performance of the era. Ireland's growth record in 1950–8 was the worst in Western Europe and the emigration-fuelled decline in population over these years was nearly twice as great as over the entire preceding period since independence. Relaxation of the balance-of-payments constraint over the longer term required a renewed focus on exports.[4] The Department of Finance believed that trade liberalisation would create an autonomous export dynamic by forcing Irish industry to restructure. The Department of Industry and Commerce feared that the consequences for the industries established under protectionism would be catastrophic.

The free-trade debate resurfaced in Ireland at this time not solely because of the poor economic performance of the period but because discussions on the establishment of a Western European free-trade area had begun. The OEEC-led negotiations began in earnest in 1956 and broke down at the end of 1958 (Maher, 1986, p. 54), from which point Western Europe would divide into two rival trading blocs: the six-country EEC and what would become in 1960 the seven-country European Free Trade Association (EFTA). The formation of EFTA would erode the value of Ireland's preferential industrial access to the UK market no matter what course of action Ireland chose to pursue. Whether to seek to join the new body or not was debated within the civil service over a four-month period from October 1959.[5]

The Department of Industry and Commerce had earlier suggested that up to two-thirds of the roughly 150,000 manufacturing jobs of the time would be lost were Ireland to sign up to the proposed pan-European free-trade area.[6] It could see no value in seeking to join EFTA, reasoning that since the UK comprised over 50 per cent of the EFTA economy and since Ireland already had almost complete duty-free access to the UK market, there would be little prospect of gains to offset the influx of goods from the entire EFTA area that would

[4] The volume of exports had fallen substantially since the late 1920s and would be reached again and exceeded only from 1960 (Government of Ireland, 1974–5, p. 147).

[5] The correspondence that formed the text of the debates was assembled and published by Whitaker (2006).

[6] This section of the paper draws extensively on Barry (2009).

ensue. Whitaker on the other hand believed that Irish industries would be further disadvantaged if it failed to join, as other European countries achieved cost savings through tariff reductions and greater specialisation. The Department of Finance memorandum of 14 December 1959 entitled 'Reasons for reducing protection' concluded with the statement that 'a progressive lowering of tariffs is necessary for our economic progress, whatever may be happening in the outside world' (cited in Whitaker, 2006).

The financial and tax incentives for exports that the Department of Industry and Commerce had lobbied for – and which had been introduced in 1956 and expanded thereafter – offered the possibility of creating new jobs without threatening existing industry. The victory of the department and its allies in the policy battles of the years preceding *Economic development* (Department of Finance, 1958) initiated the strategy of 'industrialisation by invitation'.

Department of Finance versus Department of Industry and Commerce on export profits tax relief

The proposal for EPTR first surfaced in a 1945 Foreign Trade (Development) Bill prepared by the Department of Industry and Commerce.[7] It was suggested that exporters to countries other than Great Britain could apply to the minister for exemption from corporation profits tax subject to certain conditions pertaining to quality and presentation.

The Department of Finance described the proposals as 'objectionable in principle'. While accepting the view that financial assistance from public funds might be necessary to stimulate exports, 'this assistance should take the form either of a direct subsidy which can be effectively measured or of loans and grants analogous to those in operation in Northern Ireland' (cited in Barry, 2011). The Department of Industry and Commerce proposal was subsequently withdrawn.

In September 1949, the recently established IDA submitted an interim report to the Minister for Industry and Commerce. Noting that it had been in discussions with various parties, including OEEC officials, Irish–American businessmen and a US agency with connections to leading American industrialists, it surmised that financial inducements were needed 'to attract products to the export

[7] This section of the paper is based primarily on Barry (2011).

pool'. These inducements could take the form of 'tax remission on profits of export trade, a bonus on currencies arising from exports, or a guarantee against the risk of defaulting debtors' (ibid.). IDA representations to the interdepartmental Foreign Trade Committee met with a hostile response from the Department of Finance, which pointed out that the committee 'could only speak on matters covered by its departmental members' and could not, in the absence of representatives of the Revenue Commissioners, deal with questions of taxation (op. cit.).

Following the limiting of sterling convertibility in 1947, the sterling devaluation of September 1949 and the imminent termination of Marshall Aid flows, the first Inter-Party government established a Dollar Exports Advisory Committee in 1950. The committee's second report recommended the granting of a tax concession on all profits deriving from dollar-earning exports. The Department of Finance response noted the similarity between this proposal and the earlier one from the Department of Industry and Commerce and stated that 'the objections put forward on the previous occasion still hold good'. The response of the Revenue Commissioners was if anything even more critical. It argued that the proposal would violate the basic principles of income taxation, would represent a subsidy the costs of which would be hidden, would open the door to other demands for special treatment, would be 'more or less in the nature of a gift' for existing exporting concerns, and might run the risk of a countervailing US duty. It also pointed out that a similar proposal had been rejected recently by the UK Government (cited in Barry, 2011).

In a major policy speech delivered in October 1956, Taoiseach John A. Costello overruled the Department of Finance and the Revenue Commissioners and announced the introduction of EPTR. A background document contained in Costello's private papers notes that:

> Once you reject the principle of the Revenue Commissioners that no distinction should be made in the value of any income from the national point of view I think the government has great scope for differential taxes calculated to encourage the earning of particular kinds of incomes and discourage the earning of other kinds. It is obvious that the man whose energy is employed in getting foreign markets for our goods is in fact doing a service to the economy and should not be taxed at the same rate as the man who employs his energies in persuading Irish people to buy

> a greater quantity of imports from abroad. (University College Dublin Archives, 1956).

Costello's October speech stated that:

> the expansion of exports generally is so necessary, not merely to raise the levels of home employment and income, but also to lessen the immediate difficulties of our balance of payments, that the government has decided to stimulate such expansion by a special tax incentive. This incentive will operate for a period of 5 years... It will take the form of a remission of 50 per cent income tax on profits of a manufacturing industry derived from increased exports over a datum year and used for the expansion of the industry. (Cited in Barry, 2011).

The speech also announced that the industrial grants scheme that had formerly been restricted to the 'undeveloped areas' of the western periphery was to be extended nationwide. By convention, these grants too were 'only to be given to new firms which would not compete in the home market with existing firms' (Brock, 1968, p. 160).

The Department of Finance remained hostile to the measures. Whitaker wrote to Gerard Sweetman, the Minister for Finance, that EPTR would further postpone the day 'when we can bring farming profits within the income tax net' and argued that 'it is production which should be aided rather than exports'. Sweetman adhered strongly to the position of his departmental officials and expressed disappointment at Costello's endorsement of EPTR. Following the speech, he wrote to a cabinet colleague that it had left him 'with a sense of disappointment':

> The Taoiseach's speech, with its great variety of new bodies, with its promises of large grants, striking reliefs from taxation and further assistance […] foreshadows further expansion of the already inflated administrative machinery of the state and new large outlays from public funds and losses of revenue through widespread tax concessions […] The Taoiseach's speech will moreover be read by departments as giving them the green light to go ahead with expansionist programmes and will seriously embarrass the Minister for Finance in his efforts at retrenchment. (UCDA, 1956).

The victory of the Department of Industry and Commerce in these policy debates has been argued to have played a part in Whitaker's decision to begin work on *Economic development*. Fanning (1978, p. 509) reports that Whitaker was urging his assistant secretaries in 1957 that the department 'should do some independent thinking and not simply wait for Industry and Commerce or the IDA to produce ideas'. Lee (1989, p. 343) refers to the possibility that Lemass, having clashed repeatedly with the Department of Finance during his long tenure as Minister for Industry and Commerce, might, upon becoming Taoiseach, make other departments central to the formulation of economic policy. The production of *Economic development* and the positive reception that it received secured the primacy of the department into the future.

Export profits tax relief and 'new' foreign direct investment

Though Taoiseach John A. Costello's 1956 speech announcing the introduction of EPTR avoided linking the tax concession with attracting inward foreign direct investment, this was arguably done to avoid political controversy. Foreign ownership remained a divisive issue within Fianna Fáil, and the Control of Manufactures Acts of the early 1930s, which were designed to concentrate control of newly established firms in the hands of Irish citizens, remained on the statute books. Background notes to Costello's speech speculated however that 'many English manufacturing concerns would find it worth their while to open export businesses to benefit from the favourable tax rate' (University College Dublin Archives, 1956). Garret FitzGerald (1959) noted too that the relief was likely to be of greater significance to foreign investors.

The first explicit mention of seeking to attract export-oriented foreign investment had come in an exchange of memoranda between the Departments of Finance and Industry and Commerce in 1950. Noting the predominance of agricultural products in existing exports to North America, the Department of Finance had concluded that 'this suggests that it is in this field rather than amongst our newer, protected industries that one should look for dollar export potentialities'. The rejoinder from the Department of Industry and Commerce remarked that 'it is possible that the granting of the [proposed tax] concession may induce foreign enterprise to establish in this country industries capable of exporting goods to the dollar area' (Barry & Ó Fathartaigh, 2015).

The IDA upon its establishment in 1949 had been tasked with the review of tariff policy and the initiation of proposals for the creation and development of new industries. There was no mention of the possibility of attracting export-oriented foreign direct investment in its first interim report of September 1949. Over the following years however, according to its first Chairman J. P. Beddy, it had come to recognise that 'the quickest and most advantageous course was to interest foreign industrialists in the establishment of manufacturing units in Ireland' (Beddy, 1962). It had been bolstered in its belief in the value of tax concessions by the experience of Puerto Rico, to which attention had been drawn in a Marshall Aid-funded report by a New York consultancy company in 1952. The report, *An appraisal of Ireland's industrial potentials* (IBEC Technical Services Corporation, 1952) – known vernacularly, after its lead author, as the 'Stacy May' report – noted how Puerto Rico, an external territory of the US with free access to the US market, had achieved substantial success over the previous decade by configuring its tax system to attract light manufacturing enterprises from the American mainland. Puerto Rico's favourable tax concessions would appear prominently in the 1956 IDA report on its recent visit to the US, which noted that many US firms had enquired whether any such concessions were available in Ireland (Barry & Ó Fathartaigh, 2015).

The 50 per cent tax concession introduced in 1956 had been expanded to 100 per cent in 1958 and the period of the exemption extended from five years to ten. This had been done at the instigation of an influential academic commentator, Professor Charles Carter of Queen's University Belfast. Carter had suggested in 1957 that the best way to get 'good management, technical knowledge and capital all at once is from subsidiaries of large foreign companies; and it would be worth very large inducements indeed, including complete exemption from taxes for a period, to get more of them'. Whitaker, unsurprisingly, disagreed (Barry, 2023, p. 140). Though he favoured inward investment and removing the restrictions on foreign ownership, the introduction of EPTR is merely recorded without comment in *Economic development* (Appendix 2, Section 7). Only in 1960 did the Department of Finance explicitly accept that 'tax concessions must continue to play a vital role in our industrial promotion campaign'. Revenue continued to withhold its support (Barry, 2023, p. 151).

Conclusion

Much of the historical focus on the processes associated with the outward reorientation of the economy in the post-war period has been on the Whitaker report of 1958. The Department of Finance had remained sceptical of the merits of protectionism throughout the decades. Whitaker's pro-free-trade stance was one of the enduring tenets of Department of Finance orthodoxy.

Trade liberalisation resurfaced as a matter of public and internal civil-service debate at a critical policy juncture in the 1950s. The weakness of the balance-of-payments position was a major determinant of the dismal economic performance of the era. Additionally, free-trade negotiations were in process at the European level. The Department of Industry and Commerce feared that significant liberalisation would lead to a catastrophic loss of employment in protectionist-era industries. It advocated instead for the introduction of financial and tax incentives for export-oriented industries. Though opposed by the Department of Finance, these were duly introduced in 1956. This initiated the strategy of 'industrialisation by invitation' that remains a significant component of Irish policy to this day.

Trade liberalisation – under the Anglo–Irish Free Trade Area Agreement of the 1960s and in association with EEC membership from 1973 – would indeed lead to the demise of most protectionist-era Irish industries. This was something that neither Whitaker nor Garret FitzGerald appears to have envisaged. The latter's surprisingly optimistic reading of the Committee on Industrial Organisation reports of the early 1960s, for example, led him to conclude that there was a 'viable industrial base, with individual inefficient firms, rather than a series of industries incapable of withstanding competition'. With the possible exception of vehicle assembly work, he believed, 'the industrial activities started in Ireland since 1932 were likely, in one form or another, to survive free trade' (FitzGerald, 1968, pp. 64–5).

The Department of Industry and Commerce, having resisted liberalisation in the 1950s and early 1960s, threw its weight behind EEC membership when it became convinced that this was vital to the further development of the economy (Boylan, 2009). The 'industrialisation by invitation' strategy would of course achieve much more advantageous outcomes with freer access to external markets, and particularly with the completion of the European Union single market in the early 1990s.

This paper has documented the bureaucratic background to the genesis of Ireland's low corporation tax regime. There was a parallel process taking place at the political level (Barry & O'Mahony, 2017; Barry, 2023). The period 1948–57 was an era of intensified electoral competition. Fianna Fáil had been in power from 1932 to 1948 and would return to power for a further unbroken sixteen-year period from 1957. Each of the four general elections between 1948 and 1957, by contrast, would initiate a change of government. Seán Lemass would later admit that 'it was not until our second period in opposition that we really got down to [...] preparing our minds for a comprehensive approach' to the post-war economic problems of the country (cited in Barry, 2023, p. 121). Competition in the political sphere – as in the case of the 'clash of ideas' within the bureaucracy – facilitated progress in policy formulation. Aided and guided by advice from within the civil and broader public service, policy-makers of all political parties inched each other towards the new export-oriented foreign direct investment strategy and the outward reorientation of the economy after decades of protectionism.

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