

Tom Garvin, Mancur Olson and Irish Economic Growth

John Considine* and Robert Butler*

* *Department of Economics, University College Cork, Cork, Republic of Ireland.*

Tel: 00 353 21 490 2574

Email: r.butler@ucc.ie

Abstract:

In *Preventing the Future: Why Ireland was so poor for so long?* Tom Garvin attempts to explain the development of the independent Irish state from an economic, political and cultural perspective. The starting point of Garvin's argument is the theory developed by Mancur Olson. Unfortunately, Garvin overlooks the later works of Olson and in doing so fails to realise that the conclusions he reaches regarding Irish economic growth are in fact Olsonian in nature. He is not the only one to make this mistake as both O'Grada and O'Rourke (1996) and Honohan and Walsh (2002) do the same. Only Kennedy (2001) correctly interprets Irish economic growth within the complete Olsonian framework.

1. Introduction

The first systematic attempt to explain 20th century Irish economic growth using the theoretical framework provided by Mancur Olson is presented in Tom Garvin's book *Preventing the Future: Why was Ireland so poor for so long?* Unfortunately, the book has not got the credit it deserves and some aspects of the criticism of the book are misplaced, e.g. Honohan (2004). It is unfortunate because of the high level of intellectual interest in both the Irish experience and the work of Mancur Olson on economic growth¹, and because Olson called for the type of research undertaken by Garvin². It is our argument that the both Garvin (2004) and the criticism of that work would benefit from a fuller understanding of the work of Mancur Olson.

Preventing the Future (hereafter PTF) is more supportive of the work of Mancur Olson than the author realises. The limitations of the Olsonian framework identified by Tom Garvin are more apparent than real. If PTF had used the full array of Olson's work its explanations would show the appropriateness of Olson's work in Garvin's application. Moreover, Garvin could have pre-empted one justified criticism of PTF – a criticism that claims that PTF does not deal with the Celtic Tiger years. A more

¹ Olson's work is enjoying an unusual renaissance in that it is being rediscovered in both popular economics books such as Tim Harford's *The Undercover Economist* and is being introduced to recent additions of graduate books in macroeconomics such as David Romer's 2006 edition of *Advanced Macroeconomics*.

² In one of his last contributions, Olson (1998: 242) said "the data for Ireland for the last few years show ... that Ireland is catching up ... it is too early to pass judgement, and it would, in addition, require a lot of detailed research ... [b]ut this would be a most important line of research."

comprehensive understanding of Olson would have allowed Garvin to locate Olsonian Celtic Tiger explanations like Kennedy (2000/1) within his systematic treatment of Irish economic growth. Ironically, an excellent account of the Celtic Tiger years by one of Garvin's critics displays the exact same limited understanding of Olson (Honohan and Walsh, 2002). When using a more comprehensive Olsonian framework the more prominent criticism of Garvin's use of Olson disappears.

The next section very briefly presents Garvin's account of Olson's work and its application to Ireland. Section 3 presents a more comprehensive survey of Olson's work highlighting the aspects that might have changed Garvin's account. Section 4 then presents other Olsonian explanations and criticisms.

2. Preventing the Future and its Olsonian Perspective

In *PTF* Garvin finds that one of the major contributing factors behind Ireland staying so poor for so long was due to the indecisiveness of the government and policymakers to modernise the country. The lack of modernisation was due to both cultural and structural motivations. A cultural distrust of scientific discovery and innovation coupled with a rural, static and ethical outlook on life, as well as structures that facilitated the establishment of special interest groups in political, economic and social circles guaranteeing that the status quo remained.

The passage of time had allowed for vested interests to develop. The Irish Free State government inherited the administrative structure that the British had left behind. Garvin (2004:186) comments that the country the Irish government took control of had:

“Demarcation lines in industry, an increasingly archaic and clericalised educational system, a deep divide between classes in society and a Victorian central and local government system scarcely changed since 1900, despite some streamlining, were predicted on the assumption that the Irish society was static and unchanging”.

More destructive again was the role of the Catholic Church. Garvin concludes almost immediately in *PTF* that the Church, in partnership with the British government, had inherited control of the education system, the provision of health services and command of civic life. With this inherited power the Church attempted to enchain the intellectual and emotional life of the state. This in affect made the Church operate like a “second government” and according to Garvin the influence it had went as far as effectively vetoing policy proposals announced by the government. Garvin goes on to say that the citizens of Ireland viewed the government as having little control of the country, instead believing that the country was run by the Catholic Church, businessmen with influence and other figures in the public arena.

Garvin (2004:286) describes the 1950s as the decade when the incompatibility of the interest of the Church and the state became vaguely apparent to ordinary citizens and political leaders. In particular, the 1951 Mother and Child plan was an extraordinary Church versus State clash that changed many people's perspective of the role which the Church played in Irish society. While the Mother and Child affair failed to erode the power base of the Church or improve economic development, it did act as a catalyst in changing public opinion. Critically after 1951 ordinary people were beginning to regard the Church as acting on the ‘unpopular’ side of society.

However, it was only after another crisis, the 1955-6 macroeconomic shock, that policymakers and influential personalities were in agreement that policy changes were needed to improve the nation's economic performance. Garvin (2004: 108) says that the "crisis of the mid-1950s certainly shook up an apparently pathologically *immobiliste* political system" and it demonstrated that protectionism "just didn't work, and everybody knew it after the crash of 1956" (Garvin, 2004:145). As Garvin (2004:114) puts it, everyone knew "[s]omething would have to be done". And, just as 30 years later, the collective understanding was captured in the symbolic significance of a magazine cover. In 1988 it was the cover story on the front of *The Economist* magazine while in 1957 a cover on *Dublin Opinion* had similar symbolic significance.³ The result was a reorientation of economic policy away from protectionism and towards free-trade and competition.

PTF states that two significant 'departures' occurred at this time. The first was the attraction of foreign investment which began to flow into the country from the United States, Britain and continental Europe (Garvin, 2004:199). This was helped no end by the establishment of the Industrial Development Authority (IDA) in 1951, and its subsequent expansion and improvements under Sean Lemass in the late 1950s (Garvin, 2004: 173). The second 'departure' was the expansion of secondary and technical education pioneered by the Vocational Education Committee (VEC), with the support of the Department of Education (Garvin, 2004:173). A revolutionary document was published at this time entitled *Investment in Education* and effectively changed the composition of Irish education. Emphasis was taken away from traditional subjects such as Latin & Greek and towards a more technical branch of learning. This innovative step was taken by the government as they had slowly learned from past mistakes, and were now seeking to atone for these errors. This lack of emphasis on education prior to this was supported by the fact that Irish emigrants to the UK were seen to be of a very low educational standard. (Garvin, 2004:193).

To provide a theoretical foundation for his findings in PTF Garvin appeals to the work of Mancur Olson. He says a "useful starting point in examining the causes of stagnation in Irish society is provided by the work of Mancur Olson, the American economist cum political scientist, using his 1982 book, *The Rise and Decline of Nations* and his earlier, seminal, *The Logic of Collective Action*" (Garvin, 2004:10). There are three important points to note about Garvin's statement. First, he uses Olson's work only as a starting point. Second, he refers only to the "stagnation" in Irish society. Third, it is only Olson's early works that are cited. As a result Garvin went on to find that Olson's framework had a crucial limitation when it came to explaining the turnaround in Irish economic growth during the 1950s. That limitation was that it did not account for the role of ideas. Garvin stated this view clearly when he said, that "[t]he Irish experience also warns political scientists, particularly those trained in the American behavioural or rational choice traditions, never to play down or ignore the semi-independent role of ideas in political action" (Garvin 2004:231). Unfortunately, Garvin's focus on Olson's early work meant that he missed Olson's later conversion to the importance of ideas and its role in a more encompassing Olsonian framework.

³ *The Economist* cover story pictured a young child begging under a title 'Poorest of the Rich'. *Dublin Opinion* represented Ireland as a young female urging a fortune-teller to confirm or deny the popular perception that she had no future.

The next second provides an account of Olson's work focusing on his later work that drew attention to the role of ideas. In doing, so it will highlight the similarities and differences with Garvin (2004).

3. Olson's Logic and Dynamics of Collective Action

Excellent summary accounts of the life and work of Mancur Olson can be found in the range of contributions that followed his death (Alt, 1999; Dixit, 1999; McLean, 2000; Oates, Oppenheimer and Schelling, 2000). All accounts agree that Olson's research career was built around one big idea that was presented in *The Logic of Collective Action* (hereafter LCA) - a publication that came from his Ph.D. dissertation. All accounts also suggest, as Oates, Oppenheimer and Schelling (2000) puts it, that there were three phases to Olson's research career. The first phase revolved around LCA. The second phase came with *The Rise and Decline of Nations* (hereafter RADON). The third truncated phase involved his work on institutions and economic performance. All three accounts agree that Olson was convinced about the importance of systematic thinking and optimistic about the difference it could make to the human condition. It would, therefore, seem obvious that Olson would search for an antidote to the disease of institutional sclerosis he identified in RADON. Olson is best remembered for his diagnosis of the disease rather than his discovery of an antidote – Garvin and his critics seem to be among those who only identify Olson with his earlier work. It seems that the antidote aspect of Olson's work has not got the recognition it deserves. Others have recognised the importance of economic understanding and Olson's contribution to such understanding without, it seems, recognising the importance Olson latterly put on such understanding.⁴ In this context it is not surprising that Garvin (2004) and his critics missed this important aspect of Olson's work.

What follows in the remainder of this section is an account of how Olson's search for, and discovery of, an antidote to institutional sclerosis was a natural progression of his previous work. We are fully aware that the dominant strand of Olson's later work was his examination of what Heckelman and Coates (2003) call market augmenting government.⁵ However, it is the lesser-known side of Olson's work we will focus on. While doing so we briefly highlight the (in)consistency with Garvin (2004).

The Free Rider Germ in Collective Action

In *LCA* Olson demonstrated that collective action that would benefit a group as a whole will not always be undertaken by the individuals in that group. Using the economic tenets of methodological individualism and rational behaviour, Olson demonstrated that rational behaviour on the part of individuals might produce what could be termed an irrational outcome for society. The collective action of concern to Olson was one where the benefits of collective action decreased with the number in the group and the costs of collective action increased with the number in the group.

⁴ When explaining some counter examples to RADON, McLean (1999:659) suggests that the institutional sclerosis explanation might not hold because "it may be that politicians read Olson and acted decisively to overcome sclerosis".

⁵ The reference list for the essays in Heckelman and Coates (2003), essays in honour of Mancur Olson, does not include one of Olson (1989, 1990, and 1996b) despite including 25 works by Olson.

Because it was not possible to exclude individuals from the benefits of the collective good then the rational individual behaviour is to free ride on the efforts of other. Successful groups need to be small enough so that strategic interaction between individuals could sustain the group, or alternatively, a group needed selective incentives that increased the benefit to members while also possibly excluding non-members. Garvin (2004) presents a similar account and what he terms the “free-rider syndrome” plays a large part in his analysis (Garvin 2004: 12-18, 82-84).

Olson’s analysis in LCA did not mean that the free rider issue in collective action was necessarily a problem for society. He was interested in explaining the logic. He wanted to know what explained collective action. As Schelling put it “Olson was not pro-union or antiunion, just interested in why unions had a hard time organising” (Oates, Oppenheimer and Schelling, 2000:799). At this stage Olson was less concerned with the consequences of the collective action. That was to change with his next major contribution.

The Dynamic Implications of Collective Action

A crucial difference between LCA and RADON is that in LCA Olson was concerned with the implications of group size in terms of actual numbers, whereas in RADON his attention turned to the size of the group relative to society as a whole. For Olson the size of the group relative to society as a whole determined the manner in which that group would behave. The reciprocal rule applies here.⁶ A decision making group that fully encompassed all of society would select the optimal amount of public goods and would tax accordingly. There would be no rent-seeking redistribution. By contrast, a decision making group that comprised, say, 1% of society would only invest in public goods that generated a 100 fold increase in society’s product and would impose distribution taxes that maximised their tax take. Garvin (2004) seems to have missed this progression in Olson’s thought when he says that it follows from the LCA that “the larger the group, the more, proportionately and *ceteris paribus*, the free-rider effect will operate” (Garvin 2004:12).⁷

While there are clearly incentives for groups of rent-seekers to form in their efforts to redistribute income, rent-seeking group activity must be subject to the same logic Olson applied to all groups in LCA. Its members also have the incentive to free ride. Here Olson argues that the passage of time in stable societies allow these rent-seeking groups to form, and once formed they are likely to seek the continuance of the status-quo and oppose innovations that might undermine their privileged position.

Great Britain became the exemplar of RADON. RADON examined the economic performance of all the developed democracies since 1945. Although Olson ignored “societies of the soviet type” and “unstable societies” he did present some historical natural experiments to support his contentions.⁸ However, the most memorable

⁶ This reasoning is implicit in Olson (1982). An explicit form of this reasoning is better presented in Olson (1993).

⁷ It is possible that Garvin’s interpretation of Olson could be linked to his concern with the tyranny of the majority he expresses in places, e.g. Garvin (2004:62 and 86).

⁸ He later used the natural experiment approach to examine the performance of soviet type economies during and after the fall of communism. In ‘*Big Bills on the Sidewalk*’ (1996a) he examined the comparative performance of East and West Germany, North and South Korea, and compared mainland China with Hong Kong and Taiwan. In *Power and Prosperity* (2000) he examined the rise and decline of soviet type economies.

contrast in *RADON* was between the performance of Britain and the defeated Axis powers. As the birthplace of parliamentary democracy and the industrial revolution, Britain was the first to experience modern economic growth. Its subsequent economic slowdown during the 20th century provided Olson with his best example of collective action by special interest groups hindering economic progress. The stability of Britain provided a more fertile environment for collective action with the result that Britain's 20th century performance lagged behind that of much of the other western world countries. The manner in which Britain's growth performance was described resulted in the term institutional sclerosis being coined to describe the erosion of institutions by narrow special interests.

It was only in the latter half of *RADON* that Olson felt secure enough in his ability to maintain the engagement of his reader to highlight the unsavoury implications of his argument. He noted that the greatest growth had occurred in areas that had "experienced political upheaval as well as jurisdictional integration" (Olson, 1982: 128). Acknowledging that his theory did "shift the balance marginally in the revolutionary direction ... [he said] it was similar to saying that an advantage of a dangerous sport like hang gliding is that it reduces the probability that one will die of a lingering painful disease like cancer" (Olson, 1982:140-1). As a result, the only palatable possibility of counteracting institutional sclerosis was via jurisdictional integration. Jurisdictional integration resulted in freer movement of factors of production and a change in the political decision makers. A larger polity was a better one because it was more difficult for interest groups to form. Unfortunately, Garvin (2004) does not realise Olson made this point. Garvin believes in the importance of size but feels the need to appeal to James Madison for intellectual authority because he says "Olson does not explicitly make the size argument" (Garvin 2004:15).

It is important to note that at this stage, Olson considered the possibility of economic understanding as a means of countering institutional sclerosis. However, he acknowledged that the "limited impact of economic education in the past, even on matters where there has been professional consensus, suggests that the coalitions will often be successful" (Olson, 1982:237). Yet, it is clear that Olson had not given up on economic understanding making a difference. The optimist in him shines through in the last paragraph of *RADON*.

"May we not reasonably expect, if special interests are (as I have claimed) harmful to economic growth, full employment, coherent government, equal opportunity, and social mobility, that students of the matter will become increasingly aware of this as time goes on? And that the awareness will eventually spread to larger and larger proportions of the populations? And that this wider awareness will greatly limit the losses from special interests? That is what I expect, at least when I am searching for a happy ending." (Olson, 1982:237).

Because Garvin (2004) directly refers to only LCA and *RADON* he misses Olson's subsequent identification of the importance of ideas. It is to Garvin's credit that he seems to independently identify this weakness in Olson's earlier work. If Garvin was aware of Olson subsequent search for an antidote to institutional sclerosis he might have presented the relationship between the theoretical framework and the Irish experience as more consistent.

The Search for an Antidote

When Olson began to consider the role of ideas in economic performance he suggested that, “[r]eaders who have a faint knowledge of my prior writings will probably be astonished that I should have this hunch” (Olson, 1989:23).⁹ Yet, as the last paragraph from RADON, quoted above, shows, the subject of his 1989 piece *How ideas affect societies: Is Britain the Wave of the Future?* should not have been that surprising. What people might have found surprising was that Olson could consider the importance of economic understanding given his findings in RADON. If Olson wanted to consider the importance of economic ideas then he first had to address why Great Britain suffered so badly from institutional sclerosis despite the “historically large British role in economic thought” (Olson, 1989:26). Olson’s conclusions were that the familiar ideologies placed too much emphasis on the role and size of the state in economic activity rather than on collusion and cartelisation among private interests. Therefore, while British policy makers did have a high level of economic ideas available to them, the focus of these ideas was not such as to address the problems of institutional sclerosis. Thus, Olson concluded that there is no inconsistency between his findings in RADON and his hunch that the antidote for institutional sclerosis is better economic understanding. The next step was to discover the circumstances under which ideas did matter, or as Olson put it, “search for openings through which ideas can change the choices of societies” (Olson, 1989: 43).

The historical evidence provided by Olson suggested that ideas played a larger role where there were no vested interests (Frontier settlements) or where the vested interests were weak (Russia in 1917 and the English monarchy).¹⁰ However, Olson believed that vested interests could still be defeated even where they were strong. He argued that the smaller the vested interest then the greater the welfare loss. But, the smaller the vested interest then the easier it is to overcome once the problem of rational ignorance can be surmounted.

It is important to note that for Mancur Olson (the economist), ignorance can be rational. It is only rational for the individual to accumulate information up to the point where the benefits of that information are greater than the costs. Therefore, once the cost of an additional piece of information is greater than the benefits from that piece of information it is rational not to become informed. Readers of Garvin (2004) should note that Garvin (the political scientist) does not use the oxymoron “rational ignorance” but classifies such behaviour as “saving on rationality” (Garvin 2004:12), “non-rational” (Garvin 2004:13) and “rational or (irrational) action” (Garvin 2004:17).

Olson’s hope was that individuals with an occupational interest in public affairs would aid this process by reducing the cost of accumulating information for the citizens. Ultimately, he believed that the passage of time would reveal if institutional sclerosis would continue to dominate economic understanding and he believed that Britain could easily be the first country to solve the problem. Garvin (2004) provides

⁹ Douglas C. North (1981:57-8) claimed that Olson’s explanation of group behaviour downplayed the role of ideas. He noted that the remorseless logic of Olson’s free-rider could not explain many more positive outcomes, e.g. the willingness to vote or to engage in voluntary social activity. For North, these outcomes could only be explained if allowances were made for the role of ideology.

¹⁰ Garvin (2004) correctly identifies post-independence Ireland as not belonging to either category.

another useful case study in the battle between rational ignorance and economic understanding.

There are two important similarities between *How ideas affect societies* and Olson's subsequent examination of Sweden in *How Bright are the Northern Lights* (1990) (hereafter HBNL). First, Olson again highlights the focus of economic thought on, what he called, explicit income redistribution, rather than the implicit income redistribution that occurs through the actions of cartels and collusive groups. Second, he also appeals to the importance of economists because of their occupational interest in public affairs.

For Olson, Sweden was different from the countries examined in RADON in that it was a small nation. It was also different because on the surface it appeared to contradict Olson's contention that countries with greater redistribution performed poorly. Up to that point in time, Sweden combined high levels of income redistribution with relatively strong growth rates. In HBNL Olson argued that high levels of welfare did indeed slowdown the Swedish economy but that these growth-hindering effects of explicit welfare redistribution were offset by the fact that Sweden had lower than average welfare losses due to implicit welfare redistribution. Olson argued that implicit redistribution welfare losses are greater because there is greater rational ignorance associated with it than explicit redistribution. Explicit redistribution "is easier to identify than a change in prices or wages that arise because of protection, regulation, or cartelization" (Olson, 1990:61).

He suggested that the primary reason that Sweden did not have high levels of implicit distribution was because it was a small economy heavily dependent on international trade. It meant that it was harder for firms to generate welfare losses by collective action and it was harder for rent-seekers to obtain special-interest legislation.

"Since there is no world government, we can be certain that no government will be using its coercive power to enforce a world wide cartel agreement or responding to any lobbying for world wide special interest legislation." (Olson, 1990:65)

In HBNL Olson argued that Sweden did better than might be expected for a country with such large levels of explicit income redistribution because it was a small open economy with a reliance on free trade. He pointed out that although Sweden had a brief flirtation with protectionism its 19th century trading history with free-trade Great Britain provided an ideology that was strong enough to withstand this brief flirtation. The description could equally be applied to Ireland - although Olson mistakenly suggested the opposite.

Crucially, Olson also identified the importance of economic understanding in limiting the welfare losses from implicit redistribution. This he attributed to the high percentage of economists in the population.¹¹ It would seem that Olson was becoming increasingly convinced about the role of economic understanding as a possible antidote to institutional sclerosis.

¹¹ McLean (1999:666) says that the cynics might have seen this as no more than a bid for the Nobel Prize.

Hard Lessons and Economic Understanding as the Antidote

Between 1990 and 1996b the evolution of Olson's thought continued. In 'Big Bills Left on the Sidewalk', Olson returned to some of the examples cited in *The Rise and Decline of Nations*. Comparing the post-WWII experiences of East Germany with West Germany, of North Korea and South Korea, and of China and Hong Kong, Olson argued that the dramatic divergence in economic performance had to be the result of political organisation. The implications to be drawn from these three natural experiments were the same as they were in 1982 – collective action hindered economic growth. However, others developments since 1982 gave Olson more cause for optimism. In addition to the collapse of communism, it seems that developments in Britain play a large role in Olson's thinking. Olson (1996b) focused on the changes in Trade Union power across Europe. The collapse in the power of the Trade Unions in the face of the Thatcher onslaught seems to have convinced Olson that even in situations where special-interest groups have succeeded in exercising considerable power, change is possible.

Olson now had his cure for the sclerosis of collective action. He had baulked at the implied revolutionary cure from *RADON* and, at that time, he had little optimism about the prospects of economic education. In *HBNL* he suggested the possibility that Sweden's economic performance was better than might have been expected because of the relatively large numbers of economists in the population. By 1996b he was confident enough that recent economic history had provided support for the importance of ideas – a more palatable alternative to violent revolution. Economic education would work as an antidote to institutional sclerosis but only for those countries that had suffered most and in a previous age might have chosen the revolutionary solution.¹²

“It is possible that the countries that suffered the most (or suffered in the least opaque ways) from special-interest cartelization and lobbying would be more susceptible to analyses of the problem, and come to have a bit more of an appreciation of it, than societies that had suffered less (or in ways that were harder to understand)” (Olson, 1996b: 80).

To summarise, the emphasis in *LCA* and in *RADON* was on the institutional sclerosis caused by the collective action of small groups. At the end of the latter book, Olson seemed to be searching for a more optimistic conclusion to his logic. Then, possibly prompted by events in Britain in the 1980s and in Eastern Europe in 1989, he identified a role for ideas and economic understanding in response to social shocks.¹³

Garvin (2004) seem to independently arrive at a similar conclusion about the limitations of Olson's work as captured in *LCA* and *RADON*. Garvin (2004) was not alone in identifying this weakness in Olson's early work as a framework for understanding the Irish experience. For example, O'Grada and O'Rourke (1996) make a similar criticism. And, Honohan (2004) criticises Garvin (2004) for not

¹² There are similarities with Weingast (2005) explanation of how crises can solve the citizens' coordination problem in disciplining rulers.

¹³ It is useful to compare this rational directed change towards a core-encompassing interest with the role for luck played in the transition to a more-encompassing interest in Olson (1993). There, Olson argued that the move from autocracy to democracy was an “improbable transition” because of the logic of collective action and it was only where (lucky) circumstances resulted in a balancing of power did democracy emerge.

addressing the criticisms of Olson's framework outlined by O'Grada and O'Rourke (1996). Had all concerned examined Olson's later work they would have found a more comprehensive framework that could accommodate their analysis. Moreover, if Garvin (2004) had used the more comprehensive framework he could have pre-empted these criticisms and extended his work to provide a fuller account of the Celtic Tiger period. We now turn to examine there other Olsonian explanations of Irish economic growth.

4. Other Olsonian Explanations of Irish Economic Growth

Before turning to Olsonian explanation of Irish economic performance it is interesting to first examine how Olson himself interpreted the Irish situation. There was no reference to Ireland in RADON but eight years later in HBNL, Olson explained Sweden's economic performance and compared it with that of Ireland, Great Britain and Argentina. Both at the time and in HBNL, Ireland does poorly in the comparison. As Olson puts it "[w]hy, for example, is per capita income in Sweden about double the level in Ireland? In the countries to which both the Irish and Swedes have emigrated, their incomes are similar, but there is no question that the Swedish economy is vastly more productive than the Irish" (Olson, 1990:3). Later he again placed the Irish performance in context and suggested that it provided an even better example than Great Britain for the consequences of institutional sclerosis.

"One of the smaller developed democracies, Ireland, has suffered from an even poorer [than Great Britain] economic performance, but Ireland has also never had its coalitions destroyed by upheaval and ... it accumulated distributional coalitions at an extremely rapid rate during the long period when it had extremely high protection of manufacturers" (Olson, 1990:64)

Olson returned to the Irish case in his 'Big Bills on the Sidewalk' paper in 1996b. There he claimed that the Irish experience with massive outward migration during the nineteenth century was not accompanied by the expected increase in productivity. Guinnane (1998) commented on Olson's finding saying that Irish wages had actually increased between the middle of the 19th century and the beginning of World War I. In reply, Olson conceded the point for the period 1850-1914 but claimed that his analysis was for the century and a half from 1821 to 1986. Moreover, he argued that Guinnane's analysis raised the question as to why this convergence did not continue. Olson repeated his claims about the period from 1932 where Ireland experienced "extraordinarily high protectionism ... with anti-competitive corporate-syndicalist policies that facilitated cartelization of firms and further unionisation of the work force" (Olson, 1998:242). Olson noted the then recent change in Irish economic performance and expressed the hope that researchers would give it the attention it deserved. Olson himself came to recognise the importance of economic understanding based on hard lessons but never got around to recognising the role they played in Irish economic history.¹⁴

Writing at about the same time, O'Grada and O'Rourke (1996) found what they termed as only modest support for Olson's model when examining the Irish economic growth between 1945 and 1988. But, the Olson model they found only modest support for was the one based on LCA and RADON and it did not include the role for

¹⁴ Olson was always willing to concede that country specific detail was need when applying his framework to specific episodes in history. A prime example of this is Olson (1997).

economic understanding identified by Olson in his later work. In the following quotation from O’Grada and O’Rourke they actually identify the importance of economic understanding in the policy changes that resulted in less protection in Ireland during the 1950s.

“If the maintenance of protection was due to a powerful Olsonian coalition, one might have expected to see fierce resistance to the liberalization that did eventually occur. Yet, when the inability of the strategy of import substitution to sustain growth and employment became clear in the 1950s, the resistance offered by Olson-type lobbies was surprisingly weak. This supports the interpretation of the delayed liberalisation put forward in the previous section: **policy-makers had simply been slow to learn that protection was mistaken.** In support of the Olson model, however, it could be argued that the scheme of adaptation grants to threatened firms instituted in 1962 and continued until 1967 was part of the price paid for the support or acquiescence of business and trade unions” (O’Grada and O’Rourke, 1996:414, emphasis added)

O’Grada and O’Rourke’s appeal to economic understanding that followed a crisis is exactly what Garvin (2004) identified. In reviewing Garvin (2004), Honohan (2004:354) is critical of Garvin’s failure to comment on the “unenthusiastic assessment by O’Grada and O’Rourke (1996) of the Olson model for Ireland in mid-Century, or Olson’s own (1998) defence of its applicability to Ireland”. We argue that the problem with Garvin (2004), O’Grada and O’Rourke (1996) and Honohan (2004) is their selective choice of Olson’s work. All correctly identify the problems with the applicability of Olson’s early work to Irish economic growth but none recognise that the Olson model they were using was outdated.

Honohan (2004) also criticised PTF for its failure to account for the Celtic Tiger period. This criticism is justified. Yet, there are Olsonian explanations of the Celtic Tiger period. Most accounts of the Celtic Tiger period are not explicitly presented as Olsonian even though they would neatly fit into the more comprehensive Olsonian framework. One of these accounts briefly appeals to Olsonian explanations but in doing so appeals to Olson’s earlier works and misinterprets that work (Honohan and Walsh, 2002). Only one work appeals to Olsonian social learning (Kennedy, 2000/1) but it is possible that this was overlooked because it did not fit the preconceived notion of what the Olsonian framework comprised. It is to these explanations of the Celtic Tiger period that we examine next.

A thumbnail sketch of Irish economic performance for the last two decades of the 20th century runs as follows: Ireland experienced economic stagnation in the early-to-mid 1980s; there was a recovery in the late 1980s; a brief slowdown in the early 1990s followed by the extraordinary growth rates that resulted in Ireland being labelled the Celtic Tiger. A well-cited example, designed to convey this turnaround, is a comparison of cover pages of *The Economist* magazine. Ireland went from “The Poorest of the Rich” in January 1988 to “Europe’s Shining Light” in May 1997.¹⁵ This thumbnail sketch is designed only to highlight some key features of that performance. In particular it is designed to highlight the turnaround that occurred in the 1980s prior to the Celtic Tiger years. Comprehensive accounts of this period can

¹⁵ A decade after the beginning of the Celtic Tiger, *The Economist*, listed among its multi-causal explanations the role good fortune – the 2004 survey of Ireland was titled “The Luck of the Irish”.

be found elsewhere¹⁶ but it would be fair to say that all accounts attach tremendous significance to the events of the 1980s to explaining subsequent economic performance.¹⁷ There is also an appeal to Olsonian explanations as the following two sizable quotes illustrate.

“[T]he importance of the social partnership from 1986 on cannot be dismissed. The partnership agreements did reflect a determination to set aside, for the time being, social class antagonism in favour of a joint effort to remove the barriers to employment growth. But at the same time, the key precondition for the adoption of these agreements was the widespread recognition that the crisis in the public finances must be resolved and that the key to unemployment reduction could not be found in fiscal expansion. This did require dismantling of encrusted attitudes and behaviour on the shop floor, and it likely also benefited from an erosion of wider institutional sclerosis [a footnote at this point referred to Olson (1998)]” Honohan and Walsh (2002:52).

“Although many of my economic colleagues are sceptical of the part played in this by the successive national partnership agreements, I believe that it is unlikely that such a prolonged shift to profits would have been tolerated without the partnership mechanisms. Whether it will be possible to sustain partnership much longer is of course a different matter. Indeed I do not think we understand fully why it has been sustained so long. One might speculate that the savage job losses of the first half of the 1980s so burned itself in the minds of the trade unions and the general public, that they were willing to accept prolonged pay restraint once it was seen to be translating into more jobs – an example, perhaps, of Olsonian social learning leading to regime change in response to a social shock (Olson, 1996b)” (Kennedy 2000/1:135)

It is worth noting that the Honohan and Walsh quote, despite its reference to a later Olson work, has a greater flavour of Olson’s earlier work about it and, in particular, the references to institutional sclerosis. The appeal to the erosion of institutional sclerosis is probably too tame. Vested interests don’t just fade away – in fact Olson suggests the opposite. That said it seems clear that what Honohan and Walsh have in mind is closer to Olsonian antidote for institutional sclerosis. By contrast, Kennedy directly appeals to Olson’s antidote in his explanation. Moreover, Kennedy’s suggestion that the lessons of the early 1980s might diminish is truly Olsonian.

One interesting feature of an Olsonian framework is that it captures the competing hypothesis concerning the recent growth performance of the Irish economy.¹⁸ One hypothesis suggests that the Tiger period represented delayed catch-up or convergence that occurred once the obstacles to growth were removed. The other hypothesis is the regional boom hypothesis. The relative merits of each are not of critical importance to this paper when viewing the Irish growth experience through Olsonian lenses. Rather, the extended Olsonian framework can capture both

¹⁶ Excellent accounts of the Celtic Tiger period and its potential causes can be found in Honohan and Walsh (2002), Barry (2004), Walsh (2000) and Kennedy (2000/1).

¹⁷ Considine and Butler (2006) provide more detail on these accounts and explain how they suggest that Ireland might be the new Olsonian exemplar.

¹⁸ See Barry (2004) for a more detailed discussion of the competing hypothesis and the leading exponents of each.

explanations. Olson's earlier work has greater parallels with the delayed convergence hypothesis, whereas his later emphasis on understanding and ideas does not view convergence as a given but rather focuses on the appropriateness of policies. For Olson, convergence is not automatic and there is no guarantee that a country will catch up on the leaders. The escape from institutional sclerosis and bad economic ideology is not automatic but requires a combination of both hard lessons and lucky circumstances.¹⁹ Most commentators would agree that Ireland benefited from both in its transition from the crises of the 1950s and 1980s.

Just as in the 1950s it seems that some form of Olsonian learning occurred in Ireland during the 1980s. Government and unions realised the damage being done to all by the policies of the day. The more encompassing behaviour exhibited in wage negotiations were matched in parliament. It seemed the hard lessons of the early 1980s had generated much economic understanding. These lessons bore substantial fruit during the next two decades. These are explanations that could be easily accommodated in an Olsonian framework and Garvin (2004).

5. Conclusion

The development of the Irish economy during the 20th century can be seen to follow Olsonian logic. It is ironic that Garvin's *PTF* is a far better explanation of this logic than the author himself realises. A fuller understanding of Mancur Olson's later works should have resulted in Garvin explaining Irish economic growth using the complete list of Olson's works. What is also ironic is that critics of Garvin's *PTF* exhibit the same limitations when it comes to applying the Olsonian frameworks to Ireland. Both O'Grada and O'Rourke and Honohan and Walsh only found limited evidence of Olson's economic growth theory. Both sets of authors appeal to Olson's earlier idea of the disease of institutional sclerosis and fail to consider the role of economic understanding in overcoming the disease. Garvin does recognize its role but fails to realise Olson had come to this conclusion also. It is only Kennedy who fully applies Olson's later idea of an 'antidote' to institutional sclerosis through hard economic lessons and in doing so proves that Ireland can be considered the new Olsonian exemplar.

¹⁹ Cooter (2002) explains the critical importance of luck in the process.

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