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Tiger Growth: Tourism's Roaring Trade 1987–2007

Introduction

A second shift in Irish industrial development occurred in the mid- to late 1980s in response to the economic crisis within which Ireland was suffering recession, huge emigration, and unemployment difficulties, ultimately to 20 per cent. As jobs were being lost in agriculture and manufacturing, these sectors were not able to ameliorate the problems (Williams & Shaw, 1998: 225). This developmental shift would eventually lead to the Celtic Tiger economic growth so well-documented in the literature, when GDP growth between 1995 and 2000 averaged 9 per cent and unemployment dropped to 4 per cent (Clancy, 2009: 58). However, the contribution that tourism made to that growth is almost entirely neglected, the assumption being that tourism was a following rather than a leading sector in the growth. This chapter documents the fact that much of the initiative that led to tourism growth predates the Celtic Tiger period and also that tourism made a unique and invaluable contribution to growth by generating jobs when most other sectors initially provided only jobless growth. By the mid-1980s, tourism, as a highly labour-intensive industry with potential to gain foreign earnings, was finally accepted by key players as offering an obvious strategy for economic growth and job creation. Although this potential had been recognised before in the context of the Marshall Plan what was different this time was that there was a fundamental change in both the private sector's and the state's approach to the tourism industry.

The private sector acted initially to consolidate its organisational structures and successfully interlocked with state agencies around an agreed development remit. Private sector interests in tourism further initiated a shift in the policy paradigm that underpinned the sector

and moved the industry to a more commercially driven basis. The state responded to these initiatives by changing the power arrangements that supported the sector and by centralising the role played by both the state and the private sector in policy creation and implementation. Thus, both the private sector and state regimes concerned with tourism development finally addressed the task of creating an interlocking regime to implement an appropriate development strategy resulting in a boom in growth whereby visitor numbers to Ireland grew to a peak of 7.7 million in 2007, revenues grew to €6.45 billion, and crucially, the industry employed 322,000 people[1] (Fáilte Ireland, 2007). Irish tourism grew well ahead of global trends, increasing by an average of 7 per cent each year compared with a corresponding world figure of 4.3 per cent. Tourism had become arguably the most economically successful sector of Irish-owned enterprise since the foundation of the state.

Explaining success: New regime organisations

A key claim made in this analysis is that, from the mid-1980s, the commercial class involved with the tourism industry acted to create an efficient organisational infrastructure that finally interlocked effectively with state agencies across an agreed and ultimately successful development strategy. More specifically, private sector interests involved with the tourism industry consolidated at an organisational level through both the IHF and ITIC. Subsequently these organisations interacted with state agents, in particular the Department of An Taoiseach and Bord Fáilte, to bring about significant developmental change within the tourism sector in the 1990s. The genesis of change began within the private sector in the late 1970s. As Jim Flannery, a former chief executive of the IHF comments on change within the organisation

> My job was to turn the Federation around and to address the real issues for the industry. One of the big issues at that time was that the hotel section was in lots of difficulties. The VAT rate was very high; it was 23 per cent and 25 per cent. There were a lot of arrears in VAT and financial problems. Hotels didn't have much business and the question was 'did we have too many rooms or too few tourists?' Our attitude was we had too few tourists. (Flannery, author interview, May 2006)

As well as the IHF becoming more proactive, by the early 1980s a general sense of the need for sectoral change was also in evidence within the

National Tourism Council. Eileen O'Mara Walsh, the president of the Council at the time, explains the process underpinning the dissolution of the Council and its replacement with ITIC in 1984.

> I developed a paper and I called it *One Voice for Tourism* and really what it was saying was that the tourist industry was not being taken seriously. It appeared it would not be taken seriously until it developed credibility and spoke as a single voice and was capable of presenting well-developed cases for its interests . . . so I presented it first to the Irish Hotels Federation, I knew that no such association could possibly be taken seriously unless the Irish Hotels Federation were involved and they were. The private sector also was hugely important as well as the state companies. I knew a few of the senior people in the state companies at that time. So I approached David Kennedy who was Chief Executive of Aer Lingus and I think Martin Dooley who was in Aer Rianta. Anyway I got a couple of people on board. There was a new man in Bord Fáilte whose name was Michael McNulty . . . and he liked the idea. So a couple of fairly important people came on board to support it. (O'Mara Walsh, author interview, June 2006)

From its inception, ITIC aimed to consolidate and unite the private sector. As Brendan Leahy, former chief executive of ITIC, notes regarding the orientation of the organisation,

> They got together and deliberately kept the focus on national policy rather than trade difficulties . . . it was terribly important for tourism to bring in the transport people, the airlines, the car ferries . . . We would talk to their council and keep it very macro . . . The leading people in industry have that kind of ethos built into them that if you come together to form a strong group you can influence policy. (Leahy, author interview, July 2006)

Although the industry became increasingly united through its representative groups, the IHF and ITIC, initial attempts to interlock with the state agency Bord Fáilte around a common development agenda were not successful. O'Mara Walsh notes that ITIC met with some resistance from Bord Fáilte,

> You had Bord Fáilte [who] would have seen themselves as representing the industry but it was a state agency . . . and to a degree also at the

time it was fairly autocratic...They saw themselves as the patrons, the Godfathers but in fact we had the support from their new Chief Executive. But when the Chairman of the Board got to hear about it he didn't like it and they tried to pull out. He had to back track. After that they did give it support but they didn't give it the financial support. (O'Mara Walsh, author interview, June 2006)

O'Mara Walsh comments on the contribution of ITIC in the early to mid-1980s 'We did understand the importance of lobbying and the secret of lobbying successfully, as we discovered, was not just going in to see a Minister but to have done your research, have cases made backed up by economic data and present a strong case' (O'Mara Walsh, author interview, June 2006). Leahy argues that ITIC's contribution at an organisational level was significant

What I felt was that we developed, if you like, supervision – we need an industry that speaks with a single voice so that if there are any statements being issued on tourism and dealings with government it goes through one body...the only hope that you have of holding people together on a single voice on policies is to keep at a strategic level.... The second theme we had was that a policy must be industry led, in other words if a policy emerged and we weren't consulted we would say 'sorry the industry isn't part of this'. We would distance ourselves or threaten to distance ourselves. The third one...was that the industry should participate in national structures. That's terribly important. (Leahy, author interview, July 2006)

Thus, by the late 1980s, the private sector interests involved with the tourism industry had successfully consolidated at an organisational level through both the IHF and ITIC. Their next remit would be to interact effectively with state organs to bring about developmental change.

Industry and state interactions for development

By 1986, the IHF was adequately consolidated as an organisation to turn its attention to the fundamental underlying problem for the sector – inadequate growth. As Flannery notes, there wasn't enough growth to sustain the hotel sector and there was no strategy in existence to alter that problem. The IHF subsequently commissioned a study on the feasibility of doubling Ireland's tourism numbers over a period of 5 years, exploring what would be required by way of investment in marketing

and changes in structures to have the market yield such growth, as well as estimating returns on the necessary investment in tourism compared to a similar return in the construction sector or the manufacturing industry. The resultant report *Tourism Working for Ireland: A Plan for Growth* claimed that the market could yield a doubling of growth and that the financial return on the jobs creation would be much greater than a similar investment in agriculture or in manufacturing (Stokes et al., 1986). A second government report *Improving the Performance of Irish Tourism,* commissioned in the same year by the Department of Tourism and Transport, concurred that tourism had underperformed and that greater policy coordination as well as a stronger departmental role was required to ensure that tourism achieved its potential for growth (Department of Tourism and Transport, 1987).

With a well-consolidated private sector organisational infrastructure, and a clear sense of a possible development strategy to be pursued, Flannery explains how the IHF created an interlock with the state to promote the tourism development agenda. When the 1987 general election was called, the IHF approached all of the main political party leaders with their report. The only positive reaction came from the leader of the Fianna Fáil party, Charles Haughey, who requested that the IHF allow him to make tourism a plank in the party's election manifesto. The IHF agreed and Fianna Fáil duly included tourism development in their campaign (Flannery, author interview, May 2006). Once Fianna Fáil were elected, John Wilson was appointed minister for Tourism and was instructed by the Taoiseach to implement the IHF plan for growth (Flannery, author interview, May 2006). These events resulted in the publication of *Putting Growth Back into Tourism,* where the new Fianna Fáil government outlined their policy paradigm on tourism development. Generating tourism growth was to become a top national priority and was expected to 'produce early and substantial benefits' (Fianna Fáil, 1987: 3). The report directly refers to the IHF's research 'A recent independent study on Irish tourism concluded that it is feasible to double our earnings within 6/7 years, if an intensive growth plan is put into action at once' (Fianna Fáil, 1987: 3). The government admitted, 'We have been neglecting the development of this vital resource. At a time when world tourism has been growing, our market share has slipped' (Fianna Fáil, 1987: 3). But Fianna Fáil were confident about the measures they proposed to implement 'We have dissipated our efforts in inefficient and overlapping administration; we have tolerated inadequate access to the country for our visitors; we have neglected to invest for future growth. Fianna Fáil will restore a clear sense of direction to

the tourism industry. We will put it back firmly on the road to growth'
(Fianna Fáil, 1987: 3).

In achieving this aim Fianna Fáil profited from its new relationship
with the IHF. The organisational interlock between the state and the
private sector increasingly benefited both parties; this more egalitar-
ian interaction replaced the previous benefactor dynamic which had
characterised the state's relationship with industry since its foundation.
Flannery notes that the IHF proceeded to very actively promote the
government's tourism agenda at a grass-roots level.

> We took that plan, that report as well, and we went round the coun-
> try with it. We had regional meetings to which we invited County
> Councillors, County Managers, Chambers of Commerce, the lot.
> I remember very well at one of the meetings a County Manager said
> 'why was this kept secret until now, why did nobody ever tell us
> before?' (Flannery, author interview, May 2006)

The first occasion on which the state officially incorporated the private
sector in its planning agenda and included recommendations made by
industry associations was in *The National Development Plan 1988–1992*.
ITIC had proposed in its report *Improving the Performance of Irish Tourism*
(1987) that

> The Department of Tourism and Transport should assume responsi-
> bility for the development of national tourism policy. We believe that
> this should be the primary function of the department . . . . It is of crit-
> ical importance that the Department is provided with the resources to
> assume this function . . . We recommend that the Department should
> set targets for tourism revenues and these should be the criteria for
> evaluating tourism policy. (Price Waterhouse, 1987: 23)

This objective was subsequently implemented by the state. However, the
apparent interlock achieved by the state and private sector was not ini-
tially heralded enthusiastically by all coalitions involved in the tourism
sector.

The centralisation of government in tourism development

The restructuring of the commercial tourism organisations quickly drew
attention to inadequacies and tensions in the state tourism organi-
sational structures, to which the government responded rapidly and

significantly. By the middle of the 1990s, an increasingly uneasy relationship was emerging amongst the state's tourism bodies. In effect, central government consolidated its role as the generator of tourism policy and extended the level of involvement of the private sector, namely the ITIC and the IHF, to a partnership status. Concurrently, Bord Fáilte was increasingly relegated to the role of coordinator for all regional and local bodies. On the subject of Bord Fáilte's status, as early as 1985, *The White Paper on Tourism Policy* generated some debate regarding the role of Bord Fáilte in the coordination of regional and local involvement in tourism. 'While the RTOs have played a useful role in developing tourist facilities at a regional level the extent of local financial support for their operations has been disappointing' (Stationery Office, 1985: 61). The government consequently announced that the RTOs were to be restructured to achieve cost-efficiencies. In the main the restructuring involved not only the centralisation of the RTO's administrative services but also the decentralisation of Bord Fáilte functions to the RTOs to reduce the national board's workload and costs. More importantly, Bord Fáilte's Scheme of Assistance was revised to represent a reduced proportion of RTO spending, with the intention that it would force increased local and industry-based financial participation in tourism development through increased RTO membership fees across a broader range of business participants. The Tourist Information offices were 'encouraged to become more involved in revenue earning activities' (Stationery Office, 1985: 62). In effect the RTOs were to be increasingly thrown back on their own resources to fund tourism development at local level. Meanwhile, central government took increasing control of tourism policy and devolved fewer resources and powers to the national tourism organisation while simultaneously integrating the private sector in a policy development remit.

As the government removed any development capacities from the regional organisations and centralised the tourism development remit within the government department, Bord Fáilte's status became increasingly ambiguous. In the *National Development Plan for Ireland 1989–1993*, as part of its overall plan to achieve economic and social cohesion, the government selected tourism as an Irish industry that could compete effectively in international markets. Consequently, the government drew up and agreed with the European Commission a very significant and full cost strategy for the development of tourism, which resulted in the *Operational Programme for Tourism 1989–1993*. The programme noted that 'There is a widely based consensus amongst tourism agencies and the industry that the existing product is too weak to generate

the scale of growth envisaged in Government targets' (Stationery Office, 1989: 26). Thus 'the extra resources for tourism being provided by the increase in structural funds will enable Irish tourism to proceed towards developing its full potential at a much faster pace' (Stationery Office, 1989: 27). Simultaneously, the Operational Programme recognised that important developments were taking place in international tourism such as 'increasing segmentation of tourist markets as consumer requirements become more sophisticated' (1989: 32). However, Irish tourism's responses to these trends occurred with little input from Bord Fáilte or the RTOs but with much involvement from the EU and central government. The government used the Operational Programme to define the state tourism organisations' functions and to centralise the state's development agenda around heritage and activity tourism. The early 1990s were to see tourism organisations increasingly reorganised around this agenda.

In October 1992, the Tourism Task Force, composed entirely of industry representatives, focused on a rearrangement of the tourism organisations. The Task Force considered that there should be a 'new drive to package special interest holidays in Ireland on a consistent and comprehensive basis' but interestingly the Task Force explicitly linked this development objective to the organisational structures of the tourism industry and proposed that the 'industry organise itself to select, develop and market products' (Stationery Office, 1992: 27). As part of the proposed reorganisation it was considered that Bord Fáilte should be 'strengthened to include nominated representatives of the industry' and that a new Tourism Council be established with 'nominated representatives of organised interests in the industry and of Government Departments and Agencies' (Stationery Office, 1992: ii). While their recommendations regarding Bord Fáilte were not immediately implemented, nonetheless the Task Force's recommendation to establish a new National Tourism Council was implemented in 1993 and constituted a new layer of coordination for tourism organisations, which served to formally include the commercial sector in policy negotiations and thus allowed the private sector to act in a briefing capacity to the Minister.

This tendency to sideline Bord Fáilte in favour of the private sector was further underscored in 1993 when a public–private body, the Overseas Tourism Marketing Initiative (OTMI) was established. Within this initiative, public and private sectors contributed matching funding for tourism marketing purposes and received twice their investment from the EU. The existence of the OTMI further underscored to Bord Fáilte

the important role taken by the private sector in tourism development. The relegation of Bord Fáilte was further emphasised in 1994 when government, and not the state agency, set the industry growth targets in the *Second Operational Programme for Tourism 1994–1999*. The second OP proposed to achieve foreign earnings of £2,250 million, create 35,000 jobs, extend the tourism season, and improve the quality of service through training (Stationery Office, 1994: 5). In light of these growth targets a further organisational review was conducted in 1995 by international consultants for strategy, innovation, and technology Arthur D. Little who were explicitly asked to examine the suitability of Bord Fáilte's structures in terms of responding to the government targets. The report noted that Bord Fáilte had too broad a remit and needed to refocus on some core functions, such as marketing and promotion. Thus Bord Fáilte, which had been exclusively charged with tourism development in the 1960s and 1970s, was demoted to a more loosely defined role of 'helping the industry develop' by the mid-1990s. This constituted a rebalancing of Bord Fáilte's previous dominance and an assertion of the private sector's role in tourism development. On the occasions of the First and Second Operational Programmes for tourism, government reviews of the tourism organisations accompanied the statement of new targets for the sectors. The organisational structures of the industry were altered by government on both occasions on the basis that they would facilitate more efficient responses to state policy. Policy was increasingly centrally directed by government and generally incorporated consultation with the private sector, which was explicitly linked to driving efforts at product innovation in activity holidays and heritage tourism. From this departure point the commercial sector was depicted as a central player in the tourism industry.

The Minister's introduction to the *Tourism Development Strategy 2000–06* outlined government understanding of the semi-state agency's involvement with the industry. It noted that the Department had led the policy agenda, with Bord Fáilte acting as 'the principal state agency involved with the private sector and the voluntary and local government sector in implementing projects under that Programme' (Bord Fáilte, 2000: 3). In its capacity as an implementation body, Bord Fáilte's development strategy for 2000–2006 was to provide 'a valuable strategic reference point for both public and private investment'; it was to identify and categorise the country's tourism zones and facilitate the development of new growth poles (Bord Fáilte, 2000: 3). Increasingly, tourism development was understood by government to be driven by a 'results-oriented partnership of public and private interests' (Bord Fáilte,

2000: 2). However this public–private partnership did not operate generally across all interested parties, but instead functioned as a very specific organisational interlock between the government, or the Department of Tourism, and An Taoiseach on the one hand, and ITIC and the IHF on the other hand.

Thus, at exactly the point that central government was consolidating its role as the driver of tourism policy and extending the level of involvement of the private sector, namely the ITIC and the IHF, to a partnership status, Bord Fáilte was increasingly relegated to acting as a coordinator for all regional and local bodies. Moreover, regional and local structures were used merely to implement plans and objectives formulated by the state and the private sector. Bord Fáilte's role in tourism in general became increasingly defined but more limited in the early years of the 2000s. In 2002, as part of the Northern Ireland Peace Agreements, elements of Bord Fáilte and the Northern Ireland Tourist Board were merged to establish Tourism Ireland Ltd., which took over from Bord Fáilte responsibility for Tourism Brand Ireland and the marketing of the island of Ireland overseas, a portfolio worth €30 million in 2000. The establishment of Tourism Ireland created tension and uncertainty for Bord Fáilte; this was only partially resolved in 2003 with the establishment of Fáilte Ireland. In the interim, December 2002 saw the Minister for Arts, Sport and Tourism, John O'Donoghue, appoint the Tourism Policy Review Group. The purpose of the group was to address the government's ongoing concern with the Irish tourism product. The review group was to concern itself with 'identifying the key elements of a strategy, both industry-led and Government-led, for the further sustainable development of tourism in Ireland, in the light of the assessment of the performance and economic impact of the sector over the past ten years' (Government Press Release, 2002). Clancy comments 'The appointment of the group marks something of a departure. Rather than relying on outside consultants to review the sector and make policy recommendations, the minister appointed a public-private sector panel that included tourism sector officials as well as businesspeople from outside sectors' (2009: 75).

As part of the Tourism Policy Review Group's general evaluation of the future direction of tourism following the launch of Tourism Ireland, and because of setbacks in arrival numbers due to foot and mouth disease and the terrorist attacks on 9/11, the government began to question the effectiveness of the structures underpinning tourism development. In 2001, Minister for Tourism Dr Jim McDaid approached Bord Fáilte and CERT about the possible amalgamation of the organisations,

which both accepted as viable.[2] McDaid noted 'one agency, capable of delivering more integrated, streamlined programs and services, might provide the best delivery model for supporting the future development of the industry in line with Government objectives' (Dáil Debate, 14 November 2001). Subsequently, in May 2003, the *Tourism Traffic Act 2003* established Fáilte Ireland as the national tourism development authority, which combined the remaining functions of Bord Fáilte and those of CERT. However, instead of taking on all of Bord Fáilte's responsibilities directly, the new, less powerful agency was instead to be limited to providing support services for the industry across a number of areas such as research, recruitment, education, and professional development. In the marketing area, Fáilte Ireland was to promote only domestic tourism and was to cooperate or work in association with Tourism Ireland Ltd., on specific niche product offerings in the international market. Moreover, Fáilte Ireland now had a significant private sector presence on its board. In addition, there was significant lack of clarity about the division of labour between Tourism Ireland and Fáilte Ireland as well as some tension as the former took almost half of the staff of the latter agency. This tension would come increasingly to the fore as tourism's fortunes weakened towards the end of the decade.

By 2003, the only body directly concerned with tourism policy was the government, with the Minister directly advised by private sector organisations, mainly the IHF and the ITIC. The state became increasingly interlocked with the tourism industry at an organisational level during the late 1980s and early 1990s by weakening the hegemony of Bord Fáilte and by facilitating the private sector in accessing the policy-making process, which fell exclusively under the government's remit. Thus, the state's development model for tourism found a ready indigenous supportive constituency in the form of the IHF and the ITIC, a space which allowed the development model to become increasingly institutionalised in the 1990s. The Tourism Policy Review Group's report, *New Horizons for Irish Tourism*, constituted the first comprehensive review of the tourism industry since the NESC report in 1980. As well as establishing policies to guide the industry for the following decade, including the doubling of revenues and a target of 10 million tourists by 2012, the report also set out strategies for the implementation of policy. Moreover, the report noted that the untested but common consensus was that 'the ultimate determinant of success in Irish tourism will continue to be an energetic, innovative and profitable private sector' (Stationery Office, 2003: 71). Thus the government's role was to be 'supportive of business investment in tourism and provide economic and

regulatory certainty in an increasingly volatile and demanding internationally competitive environment' (Stationery Office, 2003: 71). The final significant organisational change occurred in 2006 with the merger of the Regional Tourism Organisations with Fáilte Ireland, a measure directed at centralising the work of the RTOs under the coordination of a single national authority. The government acted as it had done within industrial policy to define the character of Irish industry that it wished to support, but the state did this mainly by direct intervention through organisational interlocks with the tourism industry rather than through localised interventions as it had done in manufacturing industry. Thus, in summary, an effective organisational interlock was created in the late 1980s between government Departments of Tourism and An Taoiseach on the one hand and the ITIC and the IHF on the other hand. As the private sector strengthened its organisational framework and created an effective interlock at this level with state agencies, over a similar timeframe the state responded to these regime changes by shifting the power arrangements that surrounded the sector.

New industry–state power alliances

Interactions between the private sector and state agencies were initiated in the late 1970s when Jim Flannery, an employee of Bord Fáilte, was headhunted as a new chief executive of the IHF by Michael McCarthy, MD of the Jury's Group.[3] Flannery's transfer to the IHF brought with it a very broad perspective on the tourism industry, and a thorough understanding of how the public sector operated in relation to tourism development. Furthermore, Flannery had been recruited with the explicit aim of transforming the private sector approach to the industry as well as repairing the somewhat fraught relations that existed between the IHF and Bord Fáilte. The new point of contact created by Flannery's transfer from Bord Fáilte to the IHF and his positive attitude towards the state agency were further underpinned by increased, albeit informal, contact between ITIC and Bord Fáilte. The informal network of contacts between the IHF, ITIC, and Bord Fáilte was given official and formal status in 1987, when the Taoiseach Charles Haughey issued an instruction that state agencies and private sector agencies focus on the development of the tourism sector. This edict signalled the beginnings of a fundamental shift in organisational structures but also in the power arrangements that surrounded the sector. The power shift manifested itself in a change in the relationship between the tourism sector and the state agency Bord Fáilte. While Bord Fáilte engaged with the private sector at an informal level, through ITIC, and even went so far

as to have an official consultation with the tourism industry to discuss the first quarter of the growth targets issued in 1987, in many respects Haughey forced Bord Fáilte to fundamentally change its relationship with industry. He acted to increasingly include the private sector in the policy-formulation process while Bord Fáilte was sidelined within the policy-making structures in the tourism industry.

As private sector organisations became increasingly central in policy creation and implementation, the relationship that existed between the state agency Bord Fáilte and private sector interests involved in tourism shifted fundamentally. McNulty recounts the consequences of the IHF's report on Bord Fáilte,

> When the government looked as we had been asking them to do, at the potential of tourism to employ people…Government started to ask how the tourist industry would be improved…we all agreed, including the Tourist Board, to adopt this [IHF] strategy…The person who drove us, from our point of view, was the Taoiseach, Charlie Haughey. (McNulty, author interview, June 2006)

As McNulty recounts, the final outcome was that

> The deals were done in the office by Haughey and it was agreed. The target was given in a Charlie Haughey way. He looked at me straight in the eye and said he wanted it doubled in five and tripled in ten…But I said 'We can't do without the government changing its attitude towards the industry'. So he said 'Ok I'll give you two weeks to come back to me with your list [of measures required in order to achieve this growth]'. So we went off and came back two weeks later with a list of three things that we asked the government to do. He agreed to them straight away…The first was more money to Bord Fáilte to market because we did need more marketing money. The second thing was more money for development and for the tourism industry to be included in every development enablement that was being provided for any other sector…And the third one then was to sort out the air problem. So he agreed straight away. Within five minutes he agreed the fares Aer Lingus would charge and issued the necessary letter right there and then at the meeting, his secretary issued the letter. We left the building with an agreement on marketing money, agreement to the menu [of incentives] and an air agreement…The transition was more revolution than evolution which was good because that's what was needed at the time. (McNulty, author interview, June 2006)

Within the IHF report, the measures necessary to implement the targets were supplied, and corresponded to the measures requested by Bord Fáilte. However, Haughey chose not to make Bord Fáilte redundant in the execution of these measures but rather to include them in the implementation of the new development targets. Thus, Haughey effectively appeared to follow the IHF report recommendation to 'develop a coordinated plan in conjunction with the State interests involved in tourism'. However, in reality, the outcome of his approach meant in effect that Haughey managed to maintain the appearance of an organisational *status quo* within the tourism sector while simultaneously facilitating a very fundamental shift in the power-base of various tourism organisations, most notably the IHF and ITIC who became increasingly central to government policy generation and implementation projects, while Bord Fáilte was effectively demoted from its role as the state agency responsible for policy generation (Stokes et al., 1986: 53). In the end, neither Bord Fáilte's nor Aer Lingus' subsequent objections were adequate to counteract the power of the Taoiseach's office. By the late 1980s, the IHF and the ITIC had, relative to Bord Fáilte, superior access to and impact on the new government agenda for tourism development, as well as significant political authority underpinning their regime.

The change in the nature of state–sectoral power relationships was further underpinned by the industry connection to the Department of Tourism in March 1987 'to ensure a new co-ordinated strategy to develop the tourist industry' (Stationery Office, 1987: 24). O'Mara Walsh notes 'It was seen as a breakthrough…we had a direct line to the Department at that stage and put in a lot of strategic stuff, which was taken up in the first Operational Programme' (O'Mara Walsh, author interview, June 2006). Moreover, tourism was included more centrally in government planning, in particular in the *Programme for National Recovery* (PNR) in 1987, and the Programme for Economic and Social Progress (PESP) in 1990. In the context of the PNR, the stated objective was to 'set about creating an environment which would encourage investment in tourism' and the target for tourism was to 'create an extra 25,000 jobs and to attract an additional £500 million of foreign tourist revenue' (Stationery Office, 1987: 24). To achieve this, the PNR recognised the

> Need to double over five years the number of foreign visitors through radical changes in airline policies. We will need to become more inward-tourist oriented by lower access fares…by better

marketing . . . and by the aggressive promotion of the incentives for investment in the tourist industry including business tourism under the Business Expansion Scheme. (Stationery Office, 1987: 24)

As implements to achieve these objectives the plan provided for tax incentives, grants, and EU supports and 'led to an increase in tourism investment from £25 million in 1987 to £200 million in 1992 . . .' (Zuelow, 2009: 89).

Tourism's increased status within the power structures of the state was further underscored when the *Programme for Economic and Social Progress* in 1990 re-established tourism 'as a major axis for economic development' and set targets for growth for 1991–1993 at an increase in visitor numbers from 1.4 million to 4.5 million, with an increase in revenue of £250 million and the creation of 15,000 jobs (Stationery Office, 1990: 48). The PESP noted that fundamental to achieving the strategy would be 'Full implementation by the end of 1993 of the *Operational Programme for Tourism*' (Stationery Office, 1990: 49). The advent of EU funding for tourism development would prove to have a profound influence both on the development of the sector and on the political coalition underpinning the sector's rapid growth. 'By 1993 some £770 million had been pumped into the industry over five years, £380 million of which came from the state purse; this was more than had been invested during the previous twenty years combined. Spending did not slow thereafter and a further £770 million was spent between 1994 and 1999' (Zuelow, 2009: 89).

The advent of European Regional Development Fund (ERDF) investment was a 'key element because without that we would never have been able to get the product right. Government could have given us more money for marketing and so forth but that would not have built the foundation for the industry properly. So the EU Funds were critically important' (McNulty, author interview, June 2006). However, the administrative structures required by the funds also played a role in consolidating new state–sector power arrangements for tourism. Leahy explains that, as part of the structural funds, a consultant committee from the industry was established which monitored the distribution of the funds from tourism under the aegis of the Department and the EU. This meant that ITIC influenced how the structural funds were to be applied to tourism. The EU would evaluate progress relative to growth, quality, and regional distribution targets after 18 months, which served to ensure that the funds were directed for the benefit of the industry. Moreover Leahy notes 'The whole ERDF Social Fund for Tourism was

a tremendous success because it leveraged an enormous investment on the private sector side' (Leahy, author interview, July 2006). Commenting on the impact of the funding structures on the power arrangements and relations between state agencies and the private sector, Leahy notes

> To be fair, the Department were quite receptive after a while. But I think the Tourist Board saw the emergence of ITIC as an erosion of their influence both with the Department and within industry and certainly watched what ITIC were doing very carefully...certainly there would have been tensions there...They were losing their status as a planning body. (Leahy, author interview, July 2006)

From Bord Fáilte's perspective the ERDF committees were challenging as partnerships. As McNulty, Chairman of Bord Fáilte, comments 'you do have to establish that level of trust because the private sector sometimes do not trust the government sector and vice versa. They see things from different perspectives so it takes, in my view, years to get that aligned so that there is a reasonable view by both sides...' (McNulty, author interview, June 2006). The cooperation generated by the ERDF structures signalled a new departure in state agency and industry power relations, which could increasingly be characterised as strong interlocks and engagements between the government departments, state agencies, and private sector organisations. For the IHF

> The coming of the *Operational Programme for Tourism*...was when we broke down this barrier of 'them and us'...and we're still very much involved in lobbying issues; we have various policy inputs into things like National Development Plans; we would be strongly represented on the boards of Tourism Ireland and Fáilte Ireland. We would have ongoing dialogue with the Department. (Power, author interview, September 2006)

For Bord Fáilte, the success of the project also generated a change in agency–industry relations

> Once we achieved success in terms of getting 15 per cent growth for the first two years the industry then really became much more engaged because now they could see the confidence and trust in the whole process and leadership and in their own ability which was growing all the time. So by the time we got to the third year...the numbers of people we had going abroad with us to help us market,

the numbers of hoteliers we had spending money on marketing, the number of innovative things they were doing, the amount of them going on the internet and the web and so forth was growing all the time, and we were helping them at all those stages to get on to there because no matter how good you are as a tourist board, you can never equal the capacity of the industry so you have to get the industry working with you. (McNulty, author interview, June 2006)

Thus from the mid-1980s the private sector involved in the tourism industry strengthened its organisational framework and created an effective interlock with state agencies, which was further underpinned when the state activated regime changes by shifting the power arrangements that surrounded the sector.

A new vision: Policy and policy paradigms

From the departure point of the late 1980s onwards, government assumed responsibility for tourism policy and thus policy came to reflect the government's preoccupations with job creation and revenue generation. The government acted very directly to develop tourism policy by setting targets, defining the character of the industry, and allocating substantial EU funding for tourism projects. In its ideological approach to tourism development and in the implementation of its policy directives the government was fully supported by the private sector, which was increasingly centralised in the policy generation and implementation processes. This shared policy paradigm and policy development remit thus further served to strengthen the interlock between state and commercial class components of the tourism sector, and resulted in the generation and implementation of a very dynamic development strategy for the tourism sector, which endured into the early years of the 2000s.

One of the most significant publications for the tourism industry in the 1980s was the National Economic and Social Council's *Report on Tourism Policy*. The report noted that even allowing for political and economic difficulties, Ireland was not winning its optimum share of tourism business. This failure to fulfil potential was linked to a number of fundamental problems with the national tourism development strategy. At the crux of the criticism was an issue with conflict within the stated objectives for development, which had 'given rise to a vagueness or uncertainty' as to where priorities lay. Moreover, the confused roles of the various agencies involved with tourism created further problems (NESC, 1980: 96). The report noted that, in the absence of a clearly

stated national policy, Bord Fáilte had merely pursued the course it considered best, and implemented this course through its planning documents (NESC, 1980: 96). Thus, the NESC Report highlighted the basic weakness at the heart of the tourism industry as a problem of agency and structure, and linked this flaw to the need for a clearly stated policy for the industry. Moreover, the agency proposed that such policy should not be issued by Bord Fáilte, as had been the case to that point; instead the NESC Report proposed that 'Tourism policy needs to be explicitly defined and to be settled by Government, rather than by Bord Fáilte alone ...' (NESC, 1980: 22). Subsequently, the *White Paper on Tourism* (1985) issued, for the first time ever, a clear statement of government thinking on the tourism industry and broad objectives were set by the government, rather than by Bord Fáilte, for the tourism sector. The White Paper did much to make explicit the preceding general failure on the part of the state to articulate the policy paradigm within which the government had acted with regard to tourism. The paper noted the need to address that failure and commented that 'there must be a concerted and positive policy encompassing all involved in tourism' and moreover admitted that 'There had never previously been a comprehensive Government statement on tourism policy' (White Paper, 1985: 5). The government thus took on board the recommendations made in the NESC Report, and stated in the *White Paper* (1985) that their primary interest in tourism was in its potential to create jobs and revenue.

In October 1986, the IHF-commissioned report *Tourism Working for Ireland: A Plan for Growth* concurred with the *White Paper* in its recommendation that 'the Department of Tourism and Transport should assume responsibility for the development of national tourism policy' (Stokes et al., 1986: 23) and that 'the Department should set targets for tourism revenues and these should be the criteria for evaluating tourism policy' (Stokes et al., 1986: 23). On the basis of these recommendations the government assumed the policy design role and reflected its ideological preoccupation with job creation and revenue when it set targets of doubling revenue and visitor numbers within 5 years for the tourism sector in the *National Development Plan 1988–1992*. These targets were set with very little consultation with Bord Fáilte, a fact that demonstrates the extent to which the government had taken complete control of the generation of tourism policy by the late 1980s. The government's new role in issuing tourism policy became increasingly active through its involvement with the *Operational Programme for Tourism 1989–1993*.

> The Department of Tourism, Transport and Communications performed a central role in the design and development of the programme in consultation with the delivery agencies (Bord Fáilte, Shannon Development and the Office of Public Works) and the industry. This gave the relevant government department a central role in policy formulation rather than abdicating this to the agencies as had been the de facto situation before then. (Deegan & Dineen, 1997: 222)

Much as was the case with its intervention in policy formulation, the state was willing to assume a particular paradigm or ideological stance regarding tourism and acted very directly to define the character of Irish tourism and to selectively allocate funding to particular product innovations, most notably the area of heritage tourism. Most of this public funding was linked to European Community funds. European Regional Development Funding was established as the central instrument of European regional development in 1975 and reformed under the *Single European Act* in 1987.

> The reform is based on certain principles such as the concentration on priority objectives, the doubling of resources by 1993, a decentralised programme approach instead of a project based approach, partnership between the Commission and national, regional and local authorities, greater co-ordination between all instruments and improved and simplified management, assessment and monitoring rules. (Deegan & Dineen, 1997: 163)

Under the new structures, Community Support Frameworks were designed for member states with defined objectives for action contained in operational programmes, and tourism was one of the sectors explicitly named as eligible for funding. In the period 1989–1993, IR£450 million was invested in tourist facilities, training, and marketing. The majority of this investment, IR £380 million, was supported through the Operational Programme for Tourism. 'Of the IR £380 million invested, approximately 53% was funded by the EU, 30% by the private sector and the remaining 17% by the Irish Exchequer' (Deegan & Dineen, 1997: 164). The main focus of the plan was on product development, investment in training, and market expansion; 'the breakdown of expenditure across the three areas was 73% for product development, 12% for marketing and 14% for training' (Deegan & Dineen, 1997: 222).

With regard to the funding allocated for product development, an element of selectivity entered the allocation of this very substantial funding when the state allottated 37 per cent of Operational Programme funds to museums, historic centres, and to restoration projects. Thus the state acted to develop the tourism product by using public funding to develop heritage tourism, which became one of the main product assets of Irish tourism.[4] The government stance on tourism as expounded in the second *Operational Programme for Tourism 1994–1999* maintained this funding practice. The new Programme emphasised the need to

> Increase marketing spend to promote facilities developed under the first programme and 'urgent need to improve facilities at major National Cultural Institutions, the requirement to preserve fish stocks and angling facilities to help ameliorate seasonality, the need to develop a major conference centre' and finally stresses the continuing need to upgrade training for the tourism sector. (Deegan & Dineen, 1997: 170)

The government acted again to direct significant levels of public funding towards development of the tourism product. ERDF funding for tourism was to be 354 million ECUs and in total EU contributions to the tourism programme were at 57 per cent of the fund, the private sector contributed 30 per cent and direct contributions from the national exchequer were at 13 per cent (Deegan & Dineen, 1997: 170). Figures of this magnitude demonstrate that the state was finally committed to providing some of the financial resources for the industry, and the proportion of the grants allocated to product development demonstrate that, much as was the case with its intervention in policy formulation, the state was willing to act very directly to define the Irish tourism product, most notably with regard to heritage tourism. Moreover, the private sector was willing to interlock with the state within this new policy paradigm of developing heritage tourism. Support from the commercial sector for the state's paradigm of development is in evidence from the early 1990s onwards. Previously, tourism policy documents issued by Bord Fáilte had evidenced decades of funding shortages for tourism due to the lack of investment interest on the part of the private sector. For instance, the government's first Business Expansion Scheme for tourism, introduced in the late 1980s, which attempted to encourage investment in the tourism product through tax relief, saw a pace of investment that was not as rapid as the government expected. A Tansey–Webster report

on tourism estimated that total investment in tourism under the Business Expansion Scheme from 1986 to 1989 was £42 million, of which £8.4 million was grant aid from state agencies (Barrett, 1997: 43). However, from the departure point of the Structural Funds in the late 1980s, which coincided with a new state-led interest in the development of the tourism industry, there is evidence of a shift in investment interest on the part of the private sector. Thus a new grouping of tourism investors focused on the industry from the late 1980s.

The Operational Programme 1989–1993 resulted in a total investment of £770 million, with £205 million of this total investment received from public subsidy, the International Fund for Ireland or EU programmes (Barrett, 1997: 43). Although this link between state funding and private sector investment would eventually be questioned by NESC in its 1993 *Operational Programme Evaluation Report* which referred to the need for a broader perspective on tourism development, and questioned the subventions to the private sector, specifically where facilities were oversupplied and the main beneficiaries were locals rather than tourists, the availability of EU funding did attract a new class of investor to the tourism business (Barrett, 1997: 43).

The activity of these new investors is also evidenced by the substantial interest paid by the banks and financial institutions in tourism investments. Barrett notes

> AIB operates a £100 million programme for the hotel and guesthouse sector in conjunction with the Irish Hotels Federation and Ernst & Young. The Bank of Ireland operates a similar scheme in conjunction with the Irish Tourist Board and other banks such as Ulster and National Irish as well as the state-owned ICC Bank, are also involved in tourism investment schemes. The four main banks lent £52 million to the tourism sector in 1994/95 and the ICC Bank had loans of £25 million to the sector. (1997: 43)

Thus, the crisis of the mid-1980s, which shifted the government's paradigm or ideological approach to the tourism sector, coupled with the availability of EU funding for tourism development, did generate a significant shift in the ideological approach to tourism on the part of the commercial classes, which resulted in a very substantial level of interest in tourism investment from a cohort of business people and entrepreneurs, who invested heavily in the tourism industry. Niall Gibbons, chief executive of Tourism Ireland, sums up the factors that led to tourism's growth during the Celtic Tiger period.

> Early in the 1990s there was substantial investment through the EU, the development of Tourism Brand Ireland, which brought a more strategic focus to the marketing side, there was a greater political awareness of the impact that tourism can have, particularly what it does around the periphery, and a very strong industry that drove changes, not just on the spending side but on the tax side, fiscal incentives led to development that led to demand. (Gibbons, author interview, December 2010)

Thus in summary, until the mid-1980s neither the state nor the private sector had clearly stated their ideological approach to tourism development, nor had either party issued any statement of policy for the sector. In the *National Development Plan 1989–1993* the policy remit was removed from Bord Fáilte and the government instead issued a policy directive to double revenue and visitor numbers, a policy target which not only concurred with the private sector's position on the industry but one which had in fact been generated by the IHF. Throughout the 1980s and early 1990s, the government increasingly acted to implement its vision of Irish tourism, ERDF was used to develop heritage tourism, and the private sector supported the state both at an ideological and at a practical investment level in this enterprise. Thus, the state used both its policy-generation capacities and the instrument of funding to implement its policy paradigm, a vision for Irish tourism that was heavily interlocked with the private sector's ambitions for growth in Irish tourism.

Conclusion

In the analysis outlined above it has been argued that conceptualisation of development strategy change in terms of the creation of interlocking regimes, as explained in Chapter 4, allows for a fuller explanation of how the state interacted with tourism industry interests across four specific regime dimensions to generate change and unprecedented levels of growth within the sector. This paradigm argues that both the state and political coalitions active within a development area can be understood as regimes, comprising four dimensions (Wilson, 2000): a power arrangement, a policy paradigm, organisations, and a policy that is to be pursued. The central thesis expounded is that success or failure in implementing any development model is determined by the interlock achieved between a private sector coalition and a state institutional regime. Interlock is achieved when state and private sector regimes

interact strategically through all or some of the dimensions of power arrangements, policy paradigms, organisations, or policy strategy. The analysis outlined in the preceding chapter has proposed that, from the mid-1980s, Irish tourism achieved an accelerated rate of development and growth because of the successful interlock of state and private sector coalitions. Throughout the late 1980s and into the early 1990s, the private sector interests involved in the tourism industry underwent radical organisational transformation and initiated exchanges with state agencies, in particular with the Department of An Taoiseach, which successfully created an interlock with the state at an organisational level around a shared development remit. As well as achieving organisational interlock with the private sector tourism regime, the state further underpinned shifts in the tourism development strategy by altering the power arrangements that operated within the sector. The government increasingly included the private sector in decision-making processes, in a consultative capacity. Thus, the state and private sector created an effective interlock of regimes at the organisational level and through the dimension of power arrangements. Within the policy paradigm and policy-generation dimensions of both regimes, interactions between the private sector and state agencies involved with tourism development were initiated through the transfers of personnel from Bord Fáilte to the IHF and by an informal network of contacts between the IHF, ITIC, and Bord Fáilte. These interactions were further encouraged by the Taoiseach who issued an instruction in 1987 that state agencies and private sector agencies focus on the development of the tourism sector. This dynamic of informal contacts, which began in the late 1970s and early 1980s, had by the late 1980s transformed into a strong interlock across the power arrangements of the tourism sector between the state and industry. The private sector was formally included in an advisory and briefing capacity in the generation of state policy on tourism, which was increasingly formulated by central government rather than by state agencies, which came to act exclusively as implementation bodies. This shared policy paradigm and policy development remit further served to strengthen the interlock between state and commercial class components of the tourism sector, and resulted in the generation and implementation of a dynamic development strategy for the tourism sector, which endured into the early years of the 2000s.

By 2003, as the publication of the Tourism Policy Review Group report entitled *New Horizons for Irish Tourism, An Agenda for Action* (Department of Arts, Sport and Tourism, 2003) states, tourism in Ireland was generating €4 billion in annual foreign revenue earnings, 4.4 per cent of GNP,

and supported 140,000 Irish jobs. However, the report noted that 'after a prolonged period of uninterrupted growth, tourism has stalled over the past two years. As of Autumn 2003 it is recovering slowly from the post-2000 global economic downturn, terrorism, the war in Iraq and the impact of the SARS virus' (Stationery Office, 2003: viii). Perhaps because of these declines, the report of the Tourism Policy Review Group admitted that the policies of the 1990s that had delivered strong performance were deemed insufficient for the future development of the industry and urgent and fundamental changes in the policies and actions of both the Government and the tourism industry were deemed necessary for further growth. Within this context, *New Horizons* noted the contributions made to the industry not only by the Government Department, State Tourism Agencies, and regional organisational structures, but also by 'a number of evolving partnership arrangements between the State Tourism Agencies and private sector representatives of the industry' (Stationery Office, 2003: viii). These fundamental components of the industry were issued with a revised strategy for tourism, which was to cover the period spanning 2003–2012. The attendant targets set for the industry comprised a phenomenal doubling of overseas visitor spend upto €6 billion and an associated increase in visitor numbers from just under 6 million to 10 million (Stationery Office, 2003: xiii). The Policy Review Group outlined the new strategy for achieving these ends, and noted that the main driver of the industry since the 1980s was deemed to have been 'private sector enterprise involving thousands of mainly small business entities' (Stationery Office, 2003: 71).

The policy review group noted 'The ultimate determinant of success in Irish tourism will continue to be an energetic, innovative and profitable private sector' (Stationery Office, 2003: 71). Consequently, government policy interdepartmentally, not just within the Department of Arts, Sport and Tourism, was to be 'supportive of business investment in tourism and provide economic and regulatory certainty in an increasingly volatile and demanding internationally competitive environment' (Stationery Office, 2003: 71). Government policy was to focus particularly on promoting competition within tourism-related industry with inputs on issues such as regulation, taxation, inflation, insurance, and infrastructure that should be designed to further the endeavour of the tourism sector. Thus government policy in general was to be shaped by the tourism industry's requirements, which were in turn to be 'driven' by the private sector. The three fundamental principles that were to guide the implementation of all future tourism strategies underpinned this public–private partnership structure. Tourism 'must

primarily be driven by private sector enterprise, innovation and invest-ment with sensible and appropriate Government support' (Stationery Office, 2003: 83). The role of policy was to 'put and maintain in place a consistent framework of well-chosen actions, across all rele-vant areas of Government activity, within which enterprise, innovation and investment in the tourism industry flourishes' (Stationery Office, 2003: 83). The government's role in the tourism industry was to be secondary or 'complementary' to that of the private sector 'in sup-porting the enhancement of business capability and capacity within a tourism industry that is largely owner-operated' thus 'direct public sec-tor intervention in the tourism sector should be confined to those areas of clear market failure' (Stationery Office, 2003: 83). This strategy saw tourism achieve peak figures for visitor numbers and revenue in 2007 of 7.7 million tourists and revenues of €6.45 billion. By the middle of 2008, this growth scenario for tourism collapsed abruptly as a result of international and domestic economic recession and crisis and internal tensions and problems with the interlock of state and business regimes, as will be described in detail in Chapter 7.