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Governing the Economy

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Introduction

Explanation for Ireland's impressive economic performance in the 1990s, continuing though at a lower level into the 2000s, has often been presented as if it were mainly a matter of sorting out the technical economic issues. The outcomes of rebalancing the public finances, or freeing economic incentives through tax liberalization, or ensuring appropriate tax incentives to attract mobile inward capital investment, have attracted most attention; so also have 'lucky' factors such as the availability of a ready supply of skilled labour at reasonable costs (Barry 1999; Nolan et al. 2000). Indeed, given these conditions, some observers have held that there is nothing particularly unusual in the Irish experience, and that getting the economic fundamentals right was bound to produce just the sort of 'catch-up' growth we have actually seen (Honohan and Walsh 2002).

But the political alignments that make such policy decisions possible can tend to be overlooked. What governments actually do requires us to think about the issues that arise at the margins of political and economic analysis, for policy making is rarely a matter of simply identifying the most technically appropriate solutions and implementing them. The steps involved include the process of choosing which among an array of policies to adopt, assessing how this interacts with policy commitments in other areas, and building enough agreement with those involved in their implementation to ensure that they will work as intended. Policy making involves interplay between the political authorities – government, public administration – and various organized interests, the outcome of which is uncertain. Political scientists have noted that the institutional framework – the legal structures and established policy routines – create their own incentives for the way in which actors seek to advance their interests and the way in which they relate to one another (March and

Olsen 1984; Hall and Taylor 1996). But the way relationships between state officials and economic actors take shape may vary across policy sectors, for ‘states are not unitary or monolithic structure. They are organizational complexes whose “parts” represent different ages, functions, and orientations’ (Weiss 1998, p.15). We cannot generalize about what the state can do overall, but about the competences of different parts of the state’s activities. How the governance mechanisms work in each policy area is a matter that must be empirically investigated. And whether or not the parts work effectively together is not guaranteed in advance.

A comparative framework can guide our discussion. In many respects Ireland in the 1990s has been a model of economic liberalism, where market-conforming policies in the areas such as taxation, labour market, and regulatory policy, have been in evidence. A consistent industrial policy stance facilitated strong FDI-led growth and an associated modernization of the rest of the economic structure and upgrading of the employment structure (O’Connell 2000; O’Connell and Russell 2007; Barry et al. 1999). But in some respects its economic governance arrangements – the ways in which these policies have been arrived at – have been quite unusual. The activist role of industrial policy is one such example; so too is the significant role that social partnership came to play not only in pay determination, but also in the distinctive position it occupies in relation to labour market policy and social welfare issues. This makes Ireland’s mode of economic governance particularly interesting, and the puzzles of how new solutions were found to new adaptive challenges, and what the costs and benefits have been, merit some attention.

Economic governance is understood here to mean the way in which political officials (government ministers, the civil service, and the state agencies) engage with

organized interests (chiefly the trade union and employers' representative organizations). We need to understand how the actors relate to one another in a particular institutional context that shapes the way they interact, and a particular framework of policy inherited from the past that constrains the options available to them in their current choices. And finally, it may well be relevant to know something about the way they saw the world, the values and priorities they held, the political discourse that captured their outlook. Our concern, therefore, is with institutions, actors, and ideas (or as some have termed it, polity, policy and politics – the framework of interactions, the dynamics of engagement between actors, and the undetermined outcome of their mutual engagements that are shaped by the ideas or discourse that is most meaningful to them (Treib et al. 2005; Blyth 1997; Schmidt 2000; Schmidt 2002).

Institutional clusters and elective affinities

The scope of what is encompassed by economic activity is in principle broad. Virtually every aspect of public policy has an economic dimension: education policy, for example, is crucial to shaping the supply of appropriate skills and knowledge in the labour force; transport and communications infrastructure are vital to economic efficiency; even cultural policy may be said to have an economic dimension insofar as cultural outputs may be seen as traded and exported goods.

We can outline three broad policy areas, apart from core macroeconomic policy making, which are vital for the overall profile of economic performance. The first is the politics of production, in particular industrial policy. The second is the wage-setting aspects of industrial relations. The third might be identified as the politics of distribution: income maintenance and welfare services. Within each of the areas, we

might find variations in the way policy making is organized, depending on the degree of political centralization of power over an issue area, and the capacity of organized interests to coordinate and act collectively in their interactions with government.

Yet none of these is hermetically sealed from the others; and we have seen important changes in policy-making happening both within each of these and across them, linking them in new ways. There are constraints on what can be done in one policy area, as this will have spillover effects on other areas. These have been analysed in terms of institutional complementarities. In explaining differences in the way production processes are organized across countries, it has been noted that the feedback effect from good performance in one policy area makes it more likely that a complementary policy choice will be made in a related policy area (Soskice 1999). These reinforcing dynamics help explain why, for example, German capitalism has been resistant to dismantling its long-term funding relationships between banks and firms, and why employers remain broadly committed to industry-level pay bargaining and the distinctive vocational training system (Thelen 2000).

A similar point can be made more generally about links across policy sectors. As Ebbinghaus notes, policy choices across distinct issues such as industrial policy, pay bargaining and industrial relations, and welfare state provision, are likely to display ‘elective affinities’ – incentives and constraints mean that measures put in place in one policy arena will tend to complement those that are important in others (Ebbinghaus 1998). Actors have interests that span policy sectors. But there is no guarantee that outcomes will be complementary – some policy choices, perhaps made under pressure from strong organized interests, may well be highly dysfunctional for other aspects of economic performance. Neither is there any single recipe for getting

policy coordination functioning well. Hence the interest in examining how key economic actors relate to one another not only within but also across policy areas, which may have different institutional settings.

Ireland offers an interesting and instructive case-study in comparative context. In principle, Ireland might belong to two ‘families’ of countries in Europe. One of these is the other ‘small open economies’, with a bias toward consensus-oriented decision-making. The other is the ‘liberal market economies’, with a bias toward market-led and market-conforming policy choices.

Ireland can usefully be compared with Europe’s small open economies, sharing many adaptive pressures in common with, for example, Denmark or Sweden or Switzerland. Small open economies, it is argued, experience a strong incentive to organize domestically in response to international economic fluctuations. They ‘complemented their pursuit of liberalism in the international economy with a strategy of domestic compensation’ (Katzenstein 1985, p.47). They found ways of inserting themselves effectively into international trade with a successful industrial policy. Meanwhile, domestic producers and consumers were likely to find that greater exposure to the world economy entailed new kinds of economic vulnerability. So states are subject to electoral demands for new domestic interventions, both to assist indigenous industry and to support living standards through transfer payments. These pressures are likely to come most strongly from those at greatest risk of having their livelihood disrupted by trade in the context of growing economic openness – in the Irish case, particularly important after 1973 and membership of what was then the European Economic Community.

But there is a second perspective on Irish political economy. Much of the comparative discussion of small open economies tends to focus on the Scandinavian countries, or the small Alpine states of Switzerland and Austria, or the Low Countries of the Netherlands, Belgium and Luxembourg. These countries share something else in common with one another, that is, the structure of their business organization and its linkages to the state. They are highly ‘coordinated market economies’ (Hall and Soskice 2001), alongside bigger countries such as Germany and France. Coordinated market economies feature strong, long-term linkages between financial and industrial capital, which in turn tend to have close links with the top state policy-makers. They also tend to have highly institutionalised industrial relations systems characterized by strong, coordinated employer and union organizations.

Rather less attention has been paid to the economic adjustment problems that might face a small, open economy that falls into the cluster of ‘liberal market economies’. Liberal market economies are chiefly the English-speaking countries, which shared a tradition of common law and a commitment to market liberalism. These economies have typically relied more strongly on financial markets to fund industrial investment, and never had the strong, long-term linkages between financial and industrial capital characteristic of the more coordinated economies. Their models of wage bargaining tended to feature a more fragmented pattern and more market-conforming outcomes than among coordinated countries. And their welfare provisions tend to be less generous, more geared toward safety-net provision. Ireland, with its institutional and policy legacies derived from the British model, falls into this cluster in many respects.

But industrial policy, industrial relations and its related issues, and welfare state policy, do not exist in an institutional vacuum: the overall framework is the authoritative decision-making by government. States have a vital role to play in mediating the effects of changes in the international economy (Evans 1995; Schmidt 1995). Even if there are many constraints on their options, there is still considerable latitude in the choices states make in the combination of policies promoting equity and efficiency (Ganghof 2000; Garrett 2000; Hall 1999; Pontusson 2005). The threat of capital disinvestment has not foreclosed the possibility of policy choice. Indeed, evidence shows that investors care less about the volume of spending than about the size of the debt required to fund it, and are prepared to accommodate to a variety of party possibilities in government (Mosley 2003; Swank 2002). There is no evidence of a convergence of states' adaptive responses around the liberal, market-led model. There is still considerable variation in the patterns countries display in their policy choices.

The Irish experience is of particular interest in these debates. Whether we look at industrial policy, at pay determination and industrial relations, or at welfare state policies, policy choices do not fit easily into either of the two clusters outlined above. The institutional and legal structure of Irish business is based on the liberal model: ownership structures, industrial funding, and market flotation, are very similar to those seen in Britain and the USA. The industrial relations system is voluntarist in style, consistent with its inheritance from the British system, and not highly embedded in legally binding rights and duties as is the case in Continental European systems. The welfare state developed from its origins in British social protection schemes, and shares many affinities with it in its core reliance on means-tested and targeted programmes.

However, patterns of Irish economic governance have departed from the British model in some respects. We find that the directions taken often correspond to the kind of adjustment said to be typical of small open economies. Ireland's institutional and policy inheritance, the way different policy sectors were organized administratively, the structure and preferences of the main economic actors, and the nature of the linkages between organized interests and government, place it as an interesting variant on the liberal market type (Hardiman 2002b, 2005).

The issue, then, is how new economic challenges are met in a country which is small and open, but which has many features of a liberal market economy. Ireland is a critical case study with which to explore this question. How do actors and institutions respond to new situations, and with what sorts of consequences for distributive outcomes and opportunities for the members of that society?

Continuity and change: adjustment under pressure

The broad contours of Ireland's recent economic history are relatively uncontentious and are often seen in three phases. From the late 1950s until the early 1970s, the move away from protectionism saw the first sustained growth spell for several decades. This took place against the backdrop of conservative fiscal policy and a monetary policy that was constrained by the maintenance until 1979 of parity with sterling of the Irish pound (Kennedy et al. 1988). A second phase of recurrent crises and crisis management begins with the international oil crisis in 1973, which coincided with Ireland's accession to EEC membership. Increased exposure to the international economy proved devastating for many indigenous firms, but also saw a heightened inflow of foreign investment. Fiscal mistakes in the late 1970s intensified the effects of the subsequent international downturn – a more active fiscal policy had resulted in

strong pro-cyclical impulses that proved difficult to curb (Honohan 1999). Attempts at fiscal stabilization during the 1980s were bedevilled by internal coalition tensions and constrained by recessionary conditions; high unemployment, steady emigration, and persistently high public debt created a sense of mounting crisis.

The late 1980s mark the start of a third phase. The eventual establishment of a party political consensus over macroeconomic priorities made it possible to curb spending and achieve fiscal stabilization. ‘Jobless growth’ seemed to be the country’s fate for several years more. The latter half of the 1990s, though, were years of economic boom, with very rapid growth translating for the first time into virtually full employment, despite a rapid expansion of the labour force. Economic performance in the 2000s proved bumpier following the end of the US-led boom. By this time, the tools of macroeconomic management had become more tightly constrained: membership of the Euro currency zone reduced whatever scope had previously existed for selective exchange rate changes, or interest rate adjustments, to manage domestic performance. The burden of adjustment was thrown more forcefully onto fiscal policy on the one hand, and domestic cost management on the other. Ireland had by this point attained the unexpected status of being among the wealthiest of the OECD member countries (FitzGerald 2000; Nolan and Maitre 2007). It had yet to deal with serious recession in the new policy environment.

These are the broad outlines of the story. Within these broad parameters we see parallel adjustments taking place in discrete policy sectors. But the scope and reach of the state proved to be different in each. The manner in which policy change occurred

was subject to rather different imperatives in industrial policy, pay policy and industrial relations, and welfare state development. In each of these cases we can see that growing economic openness and social vulnerability created pressures for policy adjustments. But not only do we see changes in policy content within established routines of doing things, we also see some changes taking place in governance mechanisms themselves. What shifts in policy clusters underlay these developments?

Industrial development

The move from protectionism toward free trade involved adoption of an increasingly active industrial policy. In the 1950s, about half Ireland's workforce was engaged in relatively low-yielding agricultural activities. By the 2000s agriculture employed fewer than 8% of the workforce, internationally traded services were booming, and foreign-owned firms accounted for about three-quarters of the value of all exports. There is an element of luck in this: a low corporation tax regime and a consistent policy stance on foreign direct investment were in place for several decades before they yielded the transformative changes of the 1990s. Nevertheless, the modern Industrial Development Authority (IDA) has been identified as the key activist institution in making these industrial policy priorities effective, with a great deal of operational autonomy from the civil service proper. Ó Riain has gone so far as to identify Ireland's activist industrial policy mix with the 'developmental' states of East Asia – though in this case, prioritising market incentives and working through looser networks rather than depending on dirigiste or protectionist state agencies (Ó Riain 2004).

There was nothing obvious about this though. The first steps toward raising the growth potential of the Irish economy, as protective tariffs were dismantled, were intended to be taken by increasing agricultural production and exports. The IDA, first established in 1949, initially functioned very much on the margins of domestic industrial activity. State sponsorship of industrial development continued to predominate in official thinking, principally due to the leading position occupied by Seán Lemass, who held key ministerial roles overseeing industrial development in the 1930s and 1940s, as well as the role of Taoiseach in the early 1960s (Daly 1992). Protected domestic industry was recognized to be vulnerable; the turn toward free trade was accompanied by a range of initiatives to assist indigenous industry. In classic ‘small open economy’ mode, new bodies were set up to help firms, most of which were quite small-scale, to become more cost-effective, to acquire marketing skills, to engage more actively in exporting – principally, at this time, to the British market. And new consultative and advisory bodies were established to engage employers and unions in improved exchanges of information, the better to foster a climate of effective industrial adaptation. Some tax incentives already existed to encourage manufacturing exports. In time, these became the central element of the policy of attracting new inward investment, but they were not initially conceived for this purpose.

However, neither state commercial bodies nor the existing industrial sector proved equal to the task of driving the expansion of indigenous industry. The parallel initiatives to encourage the domestic private sector producers to rationalize and become more export-oriented proved rather disappointing – inputs of information or marketing skills alone did not prove sufficient to upgrade domestic production and innovation systems (Mjøset 1992). It was this recognition that occasioned the major

reorganization of the IDA in 1969, through which it acquired much greater operational autonomy and began to focus more deliberately on seeking foreign sources of industrial investment capital. This gave industrial policy a head-start in taking advantage of EEC membership from 1973. The consequences were double-edged: much of indigenous industry was still poorly adapted to compete effectively. The newly developing modern, competitive, export-oriented sector was almost entirely made up of foreign-owned, especially US firms that were keen to gain a foothold in European markets, attracted by tax incentives and a relatively low cost base, and interested in working in an English-language environment.

Ó Riain notes that major reviews of the functioning of the IDA, resulting in changes to its structure and functioning, were precipitated by the need to find convincing domestic policy responses to shifts in the international economic environment (Ó Riain 2004, pp. 178-187). By the early 1980s, the problems of indigenous industry were very much to the fore. The 1982 Telesis report, commissioned by the tripartite NESC, indirectly led to the structural differentiation of the IDA into agencies with separate responsibilities for foreign and domestic sectors. The 1992 report of the Culliton Review Body, emerging from social partnership processes, opened up a much wider agenda of policy changes needed to support industrial development. Effective use of the EU Structural Funds required reorganization of state supports for domestic industry. It was also recognized that increasing the inflow and embeddedness of foreign investment would require attention to energy pricing, infrastructural investment, and other related policies. The Culliton Report produced another round of organizational change including the creation of separate new agencies to support the needs of domestic industry and to attract new foreign investment, plus the further rationalization and reorganization of bodies concerned

with labour market policies, training needs, and especially with the promotion of science and technology policy.

The process of state withdrawal from support for inefficient enterprises continued in parallel with these changes, driven in part by EU limits to state subsidies and requirements to liberalize competition. However, industrial policy did not rely solely on increasing economic incentives through liberating market processes; rather, it was actively managed by state agencies. The IDA built up extensive networking capabilities which not only responded to but strategically targeted potential investors in key growth sectors (MacSharry and White 2000, pp. 198-308). It was important in the upgrading of the third-level education sector, particularly the investments made in the 1980s and 1990s in science and technology training (White 2001). Its role in mediating the relationship between the international realm and the domestic economy has been seen as a classic form of ‘developmental network state’. As Ó Riain and others have noted, the IDA was remarkably free of political scandal. Some of the strongest sectors of domestic activity tended to have close personal financial links with political parties which could at times shade into clientelism and even corruption. These often included non-traded activities such as planning and construction, and the domestic banking sector, but extended into exporting sectors such as meat processing (Ó Riain 2004, pp. 178-80). Industrial policy relating to the foreign-owned sector, in contrast, was not subject to scandals of this sort.

While the industrial agencies overseeing state agencies have a lot of autonomy, they function within the context of government policy and are ultimately responsible to the relevant Minister. Nevertheless, we can see that the membership of boards of the various agencies is heavily drawn from the business sector and hardly at all from the

trade unions or the voluntary sector (Ó Riain 2004, pp.151-2). This gives the IDA a particularly close relationship with transnational companies – to the extent even of organizing them to exert influence over government decision-making (*ibid.*, p.155).

Pay and work

Wage-setting and industrial relations in Ireland have been governed by a much more direct interplay of government intervention and market allocation mechanisms than we have seen in the case in industrial policy. The fragmented trade union movement, the low level of industrial development, the small scale of indigenous industry during the 1960s would suggest that market mechanisms would prevail in wage-setting. However, against this one might posit two other sorts of pressures. The first is the logic of coordination facing the small open economy, which is a price-taker on world markets, and in which unemployment functions as a discipline on failure to achieve cost-based adjustments, at any rate in the absence of exchange rate flexibility. This would suggest that there might be an incentive, particularly for trade unions, to attempt some restructuring or at least coordination of bargaining activity (Olson 1971; Calmfors and Driffill 1988; Crouch 2000). The second is the institutional and policy inheritance of protectionism itself. This gave government – especially, as we have seen, Seán Lemass in his various ministerial and prime ministerial roles – a strong role in trying to shape domestic actors' responses to the development initiatives. The long dominance of Fianna Fáil in power gave it some advantage here. So too did its more general successes in creating and recreating durable cross-class coalitions of support throughout changes in policy orientation, grounded in a broad nationalist ideology (Bew et al. 1989).

Both factors played some role in shifts in the politics of pay determination, but their relative weight shifted over time: our explanation of social partnership since 1987 needs to be given its proper context. Under protectionism, government had sought several times to bring about a rationalization of trade union structures. The 1941 Trade Union Act had tried to reduce the number of unions recognized for pay bargaining purposes. This would also have given an advantage to Irish-based unions over those with head offices in Britain; indeed, the trade union movement split largely along these lines from the mid-1940s until 1959. The attempt to hasten organizational change failed due to constitutional protections for the right to organize. In its wake, the Industrial Relations Act 1946 set up a new set of institutions around a voluntarist Labour Court with joint union and employer participation. The original intention was that this would not only facilitate dispute resolution but also that it would play a strong role in setting the terms of pay bargaining. Although unions were fragmented and decentralized, wage leadership by key groups, especially craft workers, set the norm for successive informally legitimated wage rounds through the 1950s and 1960s at approximately two-year intervals. The Labour Court played some role in setting the terms for some of these, particularly the 1964 wage round. But by the late 1960s, the limits of informal arrangements were very clear. A wave of strikes, secondary actions, and what appeared to be the total collapse of wage norms, created conditions of crisis.

The changes that took place in pay bargaining were driven in part by the trade union leadership itself, as key union leaders within the Irish Congress of Trade Unions sought to strengthen procedural norms governing disputes and picketing. And leaders of the largest unions were also behind the move toward regularizing wage rounds in a series of formal National Wage Agreements, which persisted throughout the 1970s.

These were also Irish-based unions that were more sympathetic to working with government and were less strongly wedded to traditions of workplace militancy favoured by British-based unions. But there was a large element of sanction involved too – the ‘shadow of the state’, as Sharpf has termed it, which need not be actively implemented to achieve the desired effect (Scharpf 2000). New legislation governing industrial relations was introduced in 1969, and the first pay agreement in 1970 was concluded in the context of government proposals to introduce a statutory pay deal for the public service.

This series of pay agreements depended on voluntary compliance and recourse to the monitoring institutions, which included a new set of employer-labour organizations as well as a new role for the statutory labour relations machinery. But within the new framework, the powerful impetus toward local fragmented bargaining persisted. In the context of mounting fiscal crisis in the early 1980s, the employers finally put an end to the process.

In these circumstances, one of the possibilities for government might be to conclude that pay coordination had failed, and that market-driven adjustment was the logical alternative. In a system featuring strong union organization but little centralization or coordination, the options for improving aggregate outcomes might be to drive the level of bargaining down to workplace level, to oblige bargaining outcomes to respond directly to firm-level conditions. This was, in effect, the strategy adopted by the British Conservative government at this time. The coalition government of Fine Gael and Labour refused to attempt a centralized pay deal, seeing little or no scope in the context of mounting fiscal crisis. But there was no constituency for trying deliberately to weaken the unions either. Yet while trade union membership suffered

badly with rising unemployment, the impetus of wage-rounds continued to be felt, driven in part at this stage by the deals the government continued to make within the public sector.

The negotiation of a new pay agreement in 1987 marks the start of the new phase of tripartism, of a growing network of social partnership arrangements through which a succession of pay deals was concluded. The agreements were far more extensive in scope than their predecessors in the 1970s; the linkages between pay, tax cuts, and other policy commitments was more overt. Why did this come about, and what is its significance for economic governance?

A major review of trade union strategic orientation must certainly be a big part of the explanation. During the 1970s, pay bargaining had moved away from pure market-driven trends and had achieved some degree of coordination, but this remained subject to the fissiparous tendencies of a diverse union movement. Moreover, they organized and negotiated in very diverse circumstances, with the emergence of a 'two-tier' economic structure that increasingly contrasted a modern, high-tech sector with traditional, labour-intensive, indigenous industry. Wage leadership in the 1970s was concentrated in the former sector, which contributed further to the problems of adjustment to new competitiveness conditions. During the 1980s, key union leaders recognized that a decisive shift was required if unions were not to go the way of their British counterparts at this time. The tripartite context of the National Economic and Social Council (NESC) facilitated the move to link pay trends, inflation, unemployment, and debt stabilization in an agreed policy framework. Employers, initially sceptical, grew warmer toward the pay agreements as their effectiveness was proved in practice. The network of consultation involved by social partnership

broadened to include community and voluntary sector interests as well as union, employer, farmer and other business interests.

Social partnership, though, owes its origins to a political initiative on the part of the incoming Fianna Fáil government in 1987. Committed to a strong fiscal stabilization package that included radical cuts in social spending, it offered a tax-cutting counterpart to boost take-home employee pay. While this may seem paradoxical, the restructuring of the tax system was long overdue, and employee income had long borne a disproportionate burden. Social partnership was thus conceived as part of a crisis-management strategy. But during the 1990s, it proved sufficiently flexible to secure agreements in the face of changing economic conditions, weathering even the stresses caused by very rapid growth in the years coming up to 2000.

While economists' opinions vary, many hold that social partnership played an important role in economic stabilization and in managing the potentially inflationary or conflictual aspects of growth during the 1990s and into the 2000s. Former Minister for Finance Ray MacSharry and Pádraic White, former chief executive of the Industrial Development Authority, argued that 'the twin pillars of economic success since the mid-1980s were fiscal stability and social partnership' (MacSharry and White 2000, p.369). Others have commented that the tax reform strategy undertaken since the late 1980s, to broaden the tax base and reduce employee tax liabilities, could not have been undertaken without the implied restraint on inflationary pressures provided by the partnership agreements (Hardiman 2002a). Growth thus translated more readily into employment creation in the latter half of the 1990s. Along with the

Netherlands, Denmark, and Norway, Ireland's performance far outstripped that of the more deregulated labour markets of the UK, New Zealand, and Australia (Schwartz 1994, 2000b, 2000a; Auer 2000). The OECD commented on Ireland's 'peerless performance' that made it 'a world leader in a number of aspects of economic performance' (OECD 1999).

The negotiated governance of pay continued to be managed through voluntarist agreements. The network of institutional supports was now stronger and more firmly embedded than previously. Moreover, the complex network of working groups and special initiatives that grew out of partnership processes meant that an ever-broader range of issues came under the ambit of partnership. Labour market issues had long been central. These were defined increasingly widely to include aspects of child care provision, education and housing issues, and many others.

In effect, social partnership grew beyond labour market issues to become a new form of network governance, offering privileged access not only to the organized economic interests but also to broader voluntary sector organizations. Rhodes argued about British network governance that wrote that 'Networks are not accountable to the state: they are self-organizing' (Rhodes 2000, p.61). But the negotiating and policy networks connected to social partnership were rather different. Social partnership in Ireland depends on political sponsorship; the Department of the Taoiseach is the institutional locus for coordinating initiatives to renew it, at approximately three-year intervals. There is little indication that scope would exist for the kind of autonomous bipartite employer-labour agreements evident elsewhere, at national level in the Netherlands, or industry agreements in Sweden or indeed Germany (Traxler 2000). The key actors in supporting Irish social partnership are indigenous manufacturing

and the public sector. Union organization is low, and often unrecognised, in the large and growing foreign high-tech manufacturing sector, and in the high-value traded services sector that has grown up around the tax and other incentives provided to the Irish Financial Services Centre (IFSC) in Dublin. These sectors broadly followed the centrally negotiated pay norms, but retained the right to adjust their own wage rates more flexibly, especially through the use of bonuses and fringe benefits.

The Irish economy therefore had many of the features of market-related flexible cost adjustment, combined with coordinated management of costs in the most politically sensitive sectors such as the public service. But this in effect increases the lobbying power of insider interests – and in any system where public service workers bulk large in wage agreements, their interests may well diverge from those of the cost-sensitive traded sectors (Garrett and Way 1999) Indeed, by the mid-2000s, concerns were widely expressed at the loss of competitiveness, rising cost base, and inflation levels above the EU average (OECD 2007).

Social partnership may be seen as a new mode of economic governance, but one which remained bounded by discretionary government decision-making. Social partnership was valued mainly by its contribution to improved economic performance, or ‘output legitimacy’. Nevertheless, it also became a core part of the broader consultative apparatus of policy making. The processes fell outside the framework of representative government, and the degree to which they could speak for the whole of their constituency remained contested. After all, the unions heavily over-represented public sector employment, and had a much slighter presence in the high-tech sector in which trade union organization was not permitted. Nevertheless, the right to have a voice had become more broadly accepted. Social partnership had

acquired a much stronger ‘input legitimacy’ than before. Government accepted this on the grounds, as a senior civil servant close to the partnership process noted,

Social partnership is about the alignment of agendas. It is not about bargaining, but about figuring what policy choices are available. If anything, it is a privileged relationship with government for the social partners. The wider policy agenda is driven by what government wants to achieve, tempered by an understanding of what is feasible; it thus provides an important opportunity for a wide range of interests to influence government thinking. (Hardiman 2006).

Social partnership has created a nexus of consultative and participatory relationships with government which embed organized interests in the political process more firmly than the model of liberal market economies might suggest, and more centrally than is apparent in Britain, for example. The significance of these policy channels waxes and wanes. Where policy alternatives are clear – on taxation, for example – government discretion ultimately prevails. But social partnership has come to structure the public space more extensively than could have been anticipated when attempts at formal pay agreements first started in 1970.

Welfare provisions

Welfare state provision developed rapidly in Ireland from the early 1970s on, starting from a relatively low base in comparative European terms. While much of the growth in spending at this time was driven by cyclical factors – especially the rise in unemployment – broadened entitlements and new programme entitlements also played an important part. The structure of the welfare state is complex, due to its dual inheritance from British social legislation in the early 20th century, and the important role of church organizations in providing services which came increasingly to be funded by the state, though without altering structures of ownership and management, especially in health care and education. And while a significant Catholic social

services sector would not be uncommon in continental Europe, its scale in Ireland, and the funding arrangements which make it both the public as well as the religious option, makes it quite distinctive if not indeed unique.

The result is that the Irish welfare state proves difficult to classify in comparative terms. It shares with the liberal or Anglo-American model of welfare state a reliance on minimal provision and means-testing, and a relative low level of service provision (Esping-Andersen 1990). But some indicators point in other directions, such as the floor-raising uprating of means-tested benefits in response to long-term unemployment in the early 1990s, or the strong familial emphasis in the structure of tax liabilities and welfare payments (Cousins 1997).

Identifying the incidence of poverty is contentious and depends heavily on definitions and measurements, though material wellbeing has varied greatly with phases in economic performance. If the most restrictive and least contentious definitions of poverty concern ‘acute deprivation’, that is, material or lifestyle deprivations combined with income poverty, then the trend shows a distinct improvement and fell from almost 15 per cent in 1994 to under 5 per cent in 2001 (Nolan et al. 2002; Whelan et al. 2007). And while relative income inequality had certainly increased during the growth years, this was due in large measure to market factors to do with the changing profile of the labour force and the composition of employment, rather than changes in the profile of welfare provision itself (Nolan and Maitre 2007).

Income supports and welfare issues have become more central to social partnership policy discussions. But priority-setting and decision-making remain firmly under government control. Yet at the same time, and despite considerable growth in public

spending, government's direct control over the modes of service delivery continued to be more attenuated in Ireland than in many other systems. Problems of capacity and responsiveness therefore led to a growth in reliance on privately funded services.

The Irish trade union movement was able to achieve greater coordination in interest representation in the face of economic crisis, and to forge a new consensus around the negotiation of national-level framework pay agreements. But this did not necessarily extend to a strong commitment to the 'social wage' whereby improvements in social services or welfare provision would be seen as directly offsetting pay claims. Rather, the pay-tax agenda was pursued as the core part of each pay agreement throughout the period of social partnership. The networks of social partnership working groups allowed union movement and the voluntary sector organizations voice on a range of welfare issues. But these transferred only intermittently into the core policy processes of public administration, and the issues taken up were dictated more by government electoral priorities than by the social partnership process itself.

The party political system is not usually thought to reflect class differences well, yet both the major parties and any potential coalition groupings have an incentive to maximize their support among the broadest support base possible. This has been seen as leading to a 'politics of the median voter', rather than facilitating strong support for an egalitarian or redistributive or universalist set of preferences (Hardiman 1998). The linkages between government and service delivery tend to favour the segmentation of interests through the intermeshing of public and private provisions. The presence of organized interests in the network of social partnership arrangements means that there is a strong political and institutional resistance to the possibility of welfare state retrenchment. But interest fragmentation means that there is little opposition to the

complex mix of public and private welfare services, notwithstanding problems of equitable access.

While the interplay of public and private is far from unusual in welfare state organization, it is more extensive in Ireland than in many countries. Not only do religious organizations have a significant role in delivering publicly funded services, especially in healthcare and education, but cross-subsidies between public and private are often opaque and underestimated (Nolan and Wiley 2000). This means that private funding (or private insurance) allows enhanced provision or faster access, in what has been termed a ‘pay-related welfare state’ (O Riain and O’Connell 2000): those who can afford to pay can benefit from enhanced services that are, in effect, subsidized by the public system.

Funding arrangements in many areas continue to be fragmented as a direct result of the institutional interpenetration of public and private provision. For example, successive governments in the 20th century accepted that religious organizations were the proper managers and controllers of the greater part of the education system (Garvin 2004; O’Connor 1986) The biggest change in the funding relationships in education came in the late 1960s, with the introduction of free second-level education and improved transport facilities. But this did not introduce a ‘state’ sector in Irish education. And the merger between former vocation or technical schools with religiously-run secondary schools, in the community and comprehensive sector, which became more common from the 1970s on, did not result in a new public education sector, but rather introduced a new type of hybrid management system between public and private interests (O Buachalla 1988). The sharp decline in religious staff, the drop in church attendances during the 1990s, and the growing

diversity of the Irish population put growing pressure on the system of strong reliance on denominational ownership and control of educational facilities. Some changes in the structure of Boards of Management during the 1990s increased public participation and accountability, but the governance of education continue to be structured along the historically established and largely denominationally owned and managed lines. Among the legacies of this was a ‘private’ fee-paying sector in which fees functioned as a top-up on public funding; but also a pattern of per capita public spending per pupil, at both primary and secondary levels, considerably below OECD averages.

The governance of health care involved a similarly complex mix of provision through public funding, some publicly owned hospitals, and networks of private service providers. The 19th century two-tier dispensary system remained in place much longer in Ireland than in Britain and was only finally abolished in 1970. The income thresholds for full free medical entitlements (through medical card entitlement) remained very low; despite some limited universal entitlements for some categories. Self-employed professionals in health care continued to have a prominent place in the overall pattern of provision that was not fundamentally challenged by the expansion of entitlements. The pivotal role of hospital consultants, brought into question from time to time, was never fundamentally challenged. Their continued prominence in the system gave them an important veto player role in any future planning of acute services (Barrington 2003; Immergut 1992). Primary care expansion came about through contracting with self-employed GPs through per-capita payments to treat medical card holders, resulting in a fragmentation of primary care.

The strong inheritance of the intermingling of public and private, as noted above, creates a bias or barrier against consideration of universal provision or prioritising egalitarian priorities in welfare provision. As a senior civil servant commented,

In Ireland, the middle classes are expected to look after themselves. For a long time they were excluded from Social Insurance schemes; they are encouraged to take out private health insurance, pensions and so on. (Hardiman 2006).

And yet the extent to which public funding subsidizes private provision is often overlooked. The increase in public spending and the expansion of entitlements overlaid many of the institutional patterns laid down in an earlier age.

Conclusion

The coordination of policy commitments across the principal domains of economic management was does not necessarily produce functional outcomes. Each of the policy domains relating to overall economic performance is subject to a different structure of institutionalized policy making and implementation.

In a broader context, though, policy adaptation across different domains in Ireland can be understood as a response to two different imperatives, not necessarily complementary to one another, but where the scope for adaptation is strongly institutionally bounded. On the one hand, Ireland's growth strategy from the late 1950s on was based on facilitating inward investment through a low corporation tax regime, and the maintenance of relatively low levels of labour force regulation. This strengthened a variant of liberal market economy institutions and practices. New industrial investment was energetically courted by an activist state agency, and as a host FDI country, complementary public investments were made, especially in the expansion of third-level education. But the profile of educational training and the

supply of labour were weakly coordinated with industry or employer preferences, relying rather on market signals to induce appropriate responses.

On the other hand, industrial relations policy circled repeatedly round attempts to achieve better coordination among bargaining groups, the better to improve aggregate performance in growth, inflation, strikes, and job creation. These initiatives were more akin to the adjustment strategies of other small open economies with strong interest representation than to the politics of liberal economies relying on market disciplines to bring union demands into line. Social partnership institutions set up a panoply of extra-parliamentary influences that came to be an effective vehicle for putting a very wide range of concerns onto the political agenda. Government may or may not take these up, and insisted on its democratic mandate to put electoral accountability above interest group demands. But the privileged access afforded to the broad array of organized interests provided a strong and flexible mode of raising and keeping issues on the political agenda. And for trade union members, the trade-off in social partnership processes was more strongly based on the individualistic logic of tax cuts than on a solidaristic commitment to improving the social wage.

But the different logics at work in governing the economy need not lead to optimal or even complementary outcomes. Wage-setting policy has been based strongly on the public sector and the better-organized manufacturing sector; foreign-owned high-tech firms followed suit during the 1990s once their own circumstances warranted it; and most of the sizeable private services sector, increasing sections of which are now internationally traded, is not covered by pay deals at all. But the strong political commitment to wage coordination may be vulnerable to the preferences of labour market insiders and especially to the pressure that can be exerted by public sector

employees. Public sector pay is not clearly benchmarked against market-based comparators. Not only does this drive up the cost of providing public services, it risks pushing up the cost base of production and a deterioration in competitiveness, both of which would be inimical to overall growth priorities.

But while a political commitment to social partnership is somewhat at odds with the underlying structural features of a liberal market economy, the scope of pay coordination deals is constrained by precisely these deep institutional features of the economy. Employers have resisted both broadening and deepening the reach of partnership processes. They have accepted the introduction of a minimum wage, for example, and have supported institutionalized processes over union recognition. But they have opposed union proposals to strengthen union recognition rights, for example, or a stronger workplace presence in works councils. And despite the range of topics under discussion in partnership structures, unions have found it impossible to make welfare state or income maintenance issues central to the pay deals themselves.

The kind of response a country will adopt to changes in the international economic context will be shaped by the interplay of domestic institutions and the organized interests working through them. Institutional innovation will be disciplined and constrained by market pressures. Contrary to the common wisdom that ‘you can’t buck the markets’, it is entirely possible to do so, up to a point; but whether it is done wisely or not can take some time to find out.

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