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Economic Crisis and Public Sector Reform:

Lessons from Ireland

Niamh Hardiman

UCD School of Politics and International Relations
Niamh.Hardiman@ucd.ie

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Abstract

Reception and implementation of public sector reform ideas varies across countries. Westminster-type systems (Britain, New Zealand, Australia, and Canada) adopted New Public Management ideas most enthusiastically. Ireland was slower to do so. Continental European countries were the least enthusiastic. This gives us some insight into the political and organizational conditions that underpin adoption of NPM, and of post-NPM, which now coincides with international economic difficulties. The Irish experience provides a useful prism for analysing the issues involved in seeking to alter the 'public service bargain' under conditions of economic crisis. Membership of the Euro provides protection against currency collapse, but also entails severe cost adjustment measures without the cushion of devaluation. The reassertion of central management of budget allocations involves making stark choices between the numbers employed, the volume of services delivered, and the rate of remuneration of employees. The options facing government depend not only on the scale of fiscal problems, but also on the manner in which the crisis is politically managed and the legitimating strategies available.

1. Introduction

The challenge of how best to achieve public sector efficiency is a recurring theme in the political discourse of democratic societies, and all the more so when the public finances are under pressure and budgetary restraint assumes a higher priority. Ireland is currently experiencing a more severe economic downturn than many of the advanced industrial societies in response to the global financial crisis. This has implications for its public sector reform ambitions, since achieving increased efficiencies and greater effectiveness is particularly difficult in an environment of severe fiscal restraint.

Section 2 of this paper outlines the political economy context that has made the role of the state problematic in contemporary political economies, throwing up new challenges of effectiveness and efficiency for public sector organization. Section 3 outlines variations in the extent to which public sector reform ideas have taken hold, and situates Ireland's experiences comparatively. The next section outlines the particular forms that public sector reform has taken in Ireland, and shows that this was more symbolic than substantive. The fifth section looks in more detail at the current challenges facing the new phase of public sector reform during an economic downturn. A brief conclusion summarizes the argument.

2. The political economy context of public sector reform

Public sector reform has been on the agenda of the advanced industrial societies since the 1970s, which was a watershed period in global political economy. Countries' initial responses to the 1970s oil-price crisis were varied, with different priorities accorded to state interventions to sustain employment levels (Glyn, Hughes, Lipietz and Singh 1992; Scharpf 1991). But as inflationary trends proved difficult to contain, and states incurred ever-greater fiscal deficits in response to higher welfare needs as well as industrial supports, the sustainability of the dominant post-war Keynesian paradigm came increasingly into question. During the 1980s, monetarist ideas gained the status of a new economic orthodoxy, aided in part by the OECD. This had implications for domestic economic management priorities, arguing for a strengthening of the play of market forces and a reduction of an activist state role. This led to a shift in priorities across many areas of policy: a preference for privatization over nationalization of productive assets and utilities, prioritization of inflation control through monetary rather than fiscal means, reduction of fiscal deficits through spending cuts rather than tax increases, and a redesign of tax instruments in favour of neutrality rather than progressivity.

The market-conforming policy shift also had implications for global political economy: market forces were to be given freer rein not only within national economies but also trans-nationally, resulting in a tilt toward relaxation of controls over capital mobility, and renewed commitment to trade liberalization – the start of the modern phase of globalization (Deeg and O'Sullivan 2009; Eichengreen 2006; Gilpin 2001).

Yet even as the global context of macroeconomic management changed inexorably, national variations persisted in the combinations of economic policies they adopted, and in the profile of economic performance they displayed as a consequence. All countries have to adjust to the reality of international capital mobility and the immense power and speed of money markets. The degree to which this constrains government options on taxation and spending is a subject of much active debate. The constraints are real, and the parameters within which governments can choose effective policy combinations has shifted (Busemeyer 2009). Yet it is by now well established that the forces of globalization do not have uniform effects on national political economies.

Three broad clusters of types of political economy are commonly identified. The ‘liberal market economies’ (LME), comprising the USA and Canada, Australia and New Zealand, Britain, and Ireland, feature production systems that are organized to be adaptable to short-term shifts in market signals. The ‘coordinated’ or ‘social market economies’ (CME or SME), including Germany, Austria and Switzerland, the Netherlands and Belgium, and the Nordic countries, tend to be less flexibly responsive in the short term, but to have powerful capacities for long-term performance maximization. A third cluster of countries, the ‘mixed market economies’ (MME), including France, Italy, and Japan, permit a significantly greater direct role for the state in managing and even owning productive facilities (Hall 2007; Hall and Soskice 2001; Molina and Rhodes 2007).

Contrary to neo-liberal ideology though, it has become clear that there is no single best recipe for generating successful economic performance. There is no ineluctable ‘race to the bottom’ to dismantle social protection (Ferrera, Hemerijck and Rhodes 2004; Sapir 2006). Business interests no not have a single simple set of preferences about the optimal economic environment in which to invest, although they are less forgiving about the debt implications of high spending levels in developing countries than in developed economies (Mosley 2003; 2005). Country profiles continue to vary significantly: notwithstanding recent blurring around the edges, production systems continue to be organized in systematically different ways, giving rise to different patterns in the preferences of both business and employees for welfare protection (Hall 2007). Globalization is a real economic fact, but as Dani Rodrik has argued, among others, there are 'many recipes' (Rodrik 2007) for adjusting to its realities. As Figure 1 below illustrates, the LMEs did not systematically out-perform the social market economies between the 1980s and 2000s: growth performance varies depending on the period one looks at. As might be expected, the liberal market economies tend to both lose and create jobs more quickly; and social market economies, while more intensively involved in exporting, did rather better overall on measures of income equality.

Figure 1. Selected indicators of economic performance by variety of capitalism

While scholars debate the terms in which systematic patterns of economic organization and welfare provision should best be analysed, there is no disagreement that there is a great deal of variation in, for example, the way state and market relate to one another, the way firms organize, the legal framework governing shareholder interests, the regulatory environment, and the extent and penetration of welfare supports into the labour market and the household (Crouch, Streeck, Boyer, Amable, Hall and Jackson 2005; Esping-Andersen, Gallie, Hemerijck and Myles 2002).

These variations in the systematic ways in which states structure and regulate markets are reflected in other ways of classifying the rich democratic countries. For example, the distinction between liberal market economies and the rest mirrors the distinction between common-law countries and administrative law countries (which may in turn be sub-divided into, for example, Napoleonic, Germanic, and Nordic variants). The organizational apparatus of the state functions very differently in each case. The state is not a uniform structure with uniform features. As Peter Evans notes, 'states are not generic. They vary dramatically in their internal structures and relations to society. Different kinds of state structures create different capacities for state action' (Evans 1995, p.11). The institutionalized ways in which state structures are embedded in the economy, and the nature of the linkages that states have with organized interests, give them very different opportunities for consulting, for processing societal demands and preferences, for implementing policy. Patterns of governance are sometimes characterized as based on a combination of hierarchical decision-making, facilitation of market signals, and consultation with networks of organized interests (Kjaer 2004; Kooiman 2003). But government is not analytically distinct from governance. The 'shadow of hierarchy' is the precondition and the guarantor of all modes of governance (Goetz 2008; Héritier and Lehmkuhl 2008; Scharpf 1997). A moment's reflection reveals that each of these modes of governance in fact depends on the support available to democratically elected politicians from the public bureaucracy.

Public service employment may feature systematic differences in patterns of recruitment, career mobility, and connections with democratically elected and accountable political representatives (Newton and van Deth 2005, pp.120-121).

For example, permanent appointment to the public administration is typical in many countries including Britain, France, and Germany. But political appointment on a temporary basis of the top cadre of administrators is the norm in the USA, where about 3,000 people are appointed to top Washington positions with each change of administration. France and Germany also feature a stratum of appointments that are made on political grounds to support incoming ministers, whose term of appointment lapses with that government. Yet the practice of having an intermediate '*cabinet*' on the public payroll, but outside the terms of standard career employment in the public bureaucracy and outside normal ministry structures, is becoming more common.

Similarly, civil servants in some systems are expected to be generalists, able to turn their abilities to any task: this is the case in Britain and Ireland, also in Italy, Spain and Portugal. But prior attainment and updating of technocratic skills, especially legal skills, are prioritized in France, Germany, the Netherlands, and the Nordic countries. Recruitment is drawn from elite structures in many countries, most strikingly in France and Japan, but is more open elsewhere. Even if political neutrality is assumed, Knill distinguishes between 'instrumental' bureaucracies on the Whitehall model that service the government of the day, with 'autonomous' bureaucracies characteristic of continental European legal traditions in which the civil service is expected to aggregate and protect public interest considerations (Knill 1999). Yet in many countries, the tension between bureaucracy and democratically elected representation is growing. It seems that career civil servants experience difficulty striking a balance between independence, subordination to political leadership, and personal career development.

And finally, the problems of managing politicization of the senior bureaucracy take a different form again in post-communist countries that have not had strong traditions of impartiality in state administration, nor have they had and ethos of either instrumental or autonomous policy-making in the public service (Goetz 2001; Goetz and Margetts 1999).

As Hood and Lodge point out, the dimensions of variation are more complex than conventional distinctions typically capture. The 'public sector bargain' may be struck very differently across countries, when we consider the range of issues that are in contention such as prior training required for appointment to and promotion within the senior civil service, the terms of remuneration, the degree of political partisanship permitted or expected, and the responsibilities associated with these positions. And it is a 'bargain' that is not struck unilaterally by one side or the other, but that emerges through complex historical trajectories of negotiation and compromise between politicians and senior bureaucrats (Hood and Lodge 2006, 3-22). Although they distinguish between what they call reward, competency, and loyalty bargains, Hood and Lodge note that individual countries increasingly have a mix of types of public service bargain across different areas of the public administration – top and medium levels of the core bureaucracy, regulators, Central Bank, and so on (Hood and Lodge 2006 139-149), which makes it more difficult to generalize about a single dominant approach in any one country.

The most basic aspect of state capacity is the scale of employment in the public sector – and there is still considerable variation in the size of the state measured in this way, as Figures 2a and 2b below show.

Figure 2a. Employment in general government as a percentage of the labour force (1995 and 2005)

Figure 2b. Employment in general government and public corporations as a percentage of the labour force (1995 and 2005)

In 2005, Norway and Sweden had the largest proportion of employment in general government, with traditionally 'small states' such as Switzerland and Japan toward the other end of the scale. But these figures do not tell the whole story about the size of the public sector in general, as many aspects of welfare services, for example, are organized through local government. Even confining our attention to national-level employment, adding in employment in state corporations changes the picture somewhat, and brings the size of state employment in France up considerably, along with the Czech and Slovak republics with their large communist-era state legacies.

All of this means that bureaucratic structures and public sector employment more generally have to be understood as part of the overall governance system of a society. Bureaucratic organization itself is not merely an instrument, but is an institutional structure that is embedded in a network of legal, organizational and normative practices that vary cross-nationally. It implies, drawing on Weber's classic definition,

> a larger organizational and normative structure where government is founded on authority, that is, the belief in a legitimate, rational-legal political order and the right of the state to define and enforce the legal order.... between citizens and elected representatives, between democratic

legislation and administration, within administration, and between administration and citizens as subjects (as well as authors) of law (Olsen 2005, pp.2-3).

3. The differential reception of New Public Management reforms

New Public Management (NPM) has often been seen as the counterpart in public sector reform to neo-liberal economic thought. Concerns with reducing the size of government and expanding the scope of market disciplines had implications for many aspects of public sector organization. NPM has no consistent doctrinal core and there is no consensus on a definitive checklist of indicators about what matters most. However, public sector activities had developed many commonalities during the 20th century, which now came increasingly into question.

Profiles of NPM

Two aspects of the public sector might initially be distinguished: the extent of direct ownership of public assets, and the degree to which private sector management principles might be brought to bear on the organization and activities of the public sector.

Privatization is defined as any shift in the dilution of state ownership of resources, including the commercial disposition of a portion of the shares that fall far short of full disposal of these assets into private ownership. Another aspect of change in the engagement of the state in the productive resources of the economy is the growth of public-private partnerships – where infrastructural investments might once have been resourced from and controlled by the public purse, private sector investments deriving an income stream over time became more common. Shifts in the public composition of economic activity took place in many OECD member states during the 1980s and 1990s, impelled in part by the EU's interest in increasing competition and extending public sector tenders as part of the process of completing the internal market from 1992 on, and further fuelled by the (frequently controversial) rapid transformation of the economies of the former communist bloc (Aslund 2007; Schneider and Häge 2008; Wright 1994). But though this tailed off during the 1990s, privatization took off again during the 2000s, particularly in the larger European states where state ownership had persisted more stubbornly for longer (Schmidt 2008).

Privatization and public-private partnerships, frequently in areas of activity that were not subject to market competition in any realistic sense, gave rise to a renewed need to ensure that vital areas of economic activity were managed in ways consistent with public interest considerations. Hence the increased scope of markets goes hand in hand with the growth in number of regulatory agencies and the expansion of their reach (Levi-Faur 2005).

Along with the growing emphasis on promoting private sector ownership went a heightened regard for what were taken to be the dominant organizational aspects and values governing private sector management. Yet these also needed to be responsive to public needs, for which elected politicians ultimately were going to be held accountable. The objectives were to make the public sector

> lean and competitive while, at the same time, trying to make public administration more responsive to citizens' needs by offering value for money, choice flexibility and transparency (Groot and Budding 2008).

This uneasy conjuncture of objectives created tensions between political responsibility for the quality of government, and the organizational autonomy taken to be a prerequisite for achieving efficiency (Aucoin 1990). Most western countries adopted NPM in some variant or other; the ideas were pervasive and persuasive. But the terms in which these tensions were resolved showed considerable variation. The countries that were among the first movers in introducing and implementing NPM were Britain, New Zealand, and Canada, all of them liberal market economies. But the diffusion of these ideas was not confined to LMEs: the Netherlands and Denmark were also early adopters of these ideas. Germany was considerably more cautious, and France was a notably late adopter (Pollitt and Bouckaert 2004). The degree to which NPM reforms were adopted and implemented was therefore not directly related to the underlying political economy or to perceived functional adaptive requirements. Comparative studies have revealed that it owed a great deal to two factors: partisan politics, where governments of the right and 'third-way' social democratic parties were more likely to be sympathetic to market priorities; and the political leadership generated by government itself, since reform initiatives led and managed from within the civil service itself – as in France, and in Ireland – was notably more limited in scope and ambition (Binderkrantz and Christensen 2009; Hardiman and MacCarthaigh 2010, forthcoming-b; Schwartz 2003).

Three facets of public sector reorganization can be identified, across which we can identify considerable variations in the extent of adoption of NPM-inspired reforms:

- Delegation. This transforms the career profile of civil servants – the recruitment, career progression pathways, and remuneration packages of the public sector compared with the private sector.

- Decentralization. This entails the organizational differentiation of the civil service into functionally specialized agencies, with the objective of ‘letting the managers manage’.

- Devolution of financial and other controls. Public sector managers acquire control over decentralized budgets, disciplined by performance targets, with the objective of ‘making the managers manage’.

The career profiles of civil servants display considerable variation. The OECD identifies two dimensions along which civil servants’ careers may be organized. Appointment and career progression may be based on a relatively closed system whereby promotion is based on lifelong career commitment to the public service; or it may be organized around open competition to all posts including from outside sources. France, Japan – and Ireland – display the most strongly career-based structures. Britain, Australia and New Zealand, and also the Nordic countries, show the strongest commitment to open position-based recruitment. The degree of delegation in human resource management to line managers is strongly correlated with the degree of position-based recruitment, as Figure 3 below shows. (This does not of course say anything about the how well staff are managed, only about the autonomy and flexibility of line managers in identifying staffing needs, recruiting, and managing people).

Figure 3. Relationship between type of recruitment system and delegation of HRM in central government

The delegation of managerial autonomy is frequently associated with the creation of new specialized agencies, and the corresponding reduction in numbers of core civil service. Britain proceeded most energetically with this reorganization of the core civil service, as did New Zealand (Christensen and Laegreid 2006).

Associated with increased managerial autonomy, we find growing reliance on decentralized budgets that involve variations in remuneration packages, in the form of performance-related pay, bonuses, and other mechanisms designed to keep the focus on attaining the specified performance targets.

Figure 4. Extent of the use of performance assessments in human resource decisions in central government

Figure 4 shows that formal performance assessment plays the most important role in reward decisions in the Nordic countries and in Britain, Australia, New Zealand; least in Iceland, Belgium, Hungary, the Netherlands, Italy, and (once again proving itself to be an outlier) in Ireland.

Reforming the reforms: post-New Public Management

There is therefore no single blueprint for identifying NPM, rather a range of measures that might be adopted to greater or lesser degrees. The OECD member states display a considerable range of experience with adoption of NPM ideas. Yet NPM has not proven to be the cure-all for managing the public sector. For each of the dimensions along which market-inspired change has been implemented, there are corresponding problems that have arisen which are not capable of being managed through market mechanisms (Hood and Peters 2004). Figure 5 summarizes the tensions that arise between NPM reforms and the democratic political process

Figure 5. Tensions between NPM reform and democratic processes

Each of the three dimensions of NPM generates a corresponding problem for democratic politics.

- Delegation vs accountability.

The delegation of responsibility down a chain of authority within the public sector throws up new problems of who is to be held accountable when things go wrong (Morten and Jarle 2009). In the private sector, line managers who do not have permanent employment status can be disciplined and ultimately dismissed. But public sector accountability ranges into areas in which there is no private sector equivalent. The state may delegate responsibility for managing prisons, for example. But depriving citizens of their liberty cannot be done without the authority of the state itself backing it (Bovens 2007; Hood, James, Peters and Scott 2005). Voters are very likely to continue to want to hold elected politicians responsible and accountable for management of prisons, or health services, or major infrastructural utilities on which large numbers of people depend.

NPM has not proven to be a panacea for generating efficiencies. The quality of service is often problematic. But more fundamentally, core values are put under strain. Are voters primarily customers and consumers of services, or are they citizens with rights and entitlements to public goods? This tension is not easily resolvable. During the 2000s, the pressure in many countries tended to push toward restoring mechanisms to ensure greater democratic accountability.

- Decentralization vs coordination

The specialization of function reflected in the process of agency creation gave rise to unanticipated problems of policy fragmentation (Christensen, Lie and Laegreid 2007). As in the first wave of NPM reforms, Britain has been to the fore in the new revisionist wave, with 'Whole of Government' reforms and aimed at reintegrating functions that had become excessively dispersed and improving policy coordination, and the ‘Better Regulation’ initiatives aimed at coordinating the variety of regulatory activities that has grown up (OECD 2005, p.4). Other countries undertook similar initiatives: for example, the reversal of agencification in the Netherlands was deemed necessary to improve the policy capacity of ministerial departments.

- Devolution of financial autonomy vs budgetary controls

The delegation and decentralization of managerial autonomy tended to be accompanied by financial decentralization and budgets that were focused on target attainment. But two unexpected problems emerged: quality of performance, and budgetary disciplines.

Budgetary sanctions proved in many cases to provide a disappointing control mechanism over performance (van Dooren, Bouckaert and Halligan 2010, forthcoming). Paradoxical outcomes began to proliferate, especially in British public policy, where performance targets were extensively adopted, whereby public service providers performed strongly to target, but with poorer than expected outcomes for the quality of service delivery overall. Examples of perverse initiatives began to gain publicity, especially in education and in healthcare delivery.

But the principal incentive for seeking to re-establish central control over budgetary allocations was fiscal. Comparative studies have demonstrated that ‘centralization of budgeting procedures restrains public debt’ (Hallerberg, Strauch and von Hagen 2007, p. 338). For Eurozone member states, the rules of the European Stability and Growth Pact provided framework requirements for multi-annual budgeting, spending, deficit, debt, and repayment schedules. The penalties for breach of the ESG rules have proven to be considerably less onerous than some had predicted, and less directly disciplinary in their effects than, for example, those which the Bundesbank had implemented in the pre-Euro German economy (which also had knock-on effects for neighbouring currencies pegged to the DeutchMark) (Blavoukos and Pagoulatos 2008; Hallerberg and Bridwell 2008; Hallerberg, Strauch and von Hagen 2009). Nevertheless, during the 2000s some countries in the Eurozone found themselves at the unpleasant receiving end of criticism from the European Central Bank for letting inflation run too high, for breaching fiscal deficit limits, or for exceeding target total debt levels. Ireland was one of these; so was Portugal, as was Greece. The single European currency meant that member states had no resource to monetary policy or exchange rates to control inflation or restore competitiveness. This placed a disproportionate burden on national-level fiscal disciplines as the main plank for securing the multilateral viability of the single currency. In addition, of course, domestic cost containment (especially wage and price levels) became very much more important as the principal mechanism whereby members states could maintain competitiveness, adjust to asymmetrical price shocks, and avoid open unemployment.

But until the financial crisis of the late 2000s, countries' capacities to enforce internal deflation were not seriously tested. The crisis contributed to greatly increased public intervention in western economies in the form of massive state supports to the banking sector. Temporary fiscal stimulus in the form of increased spending and tax cuts, in Britain for example, also worsened the fiscal deficit. The associated recessionary conditions drove up unemployment and therefore increased welfare spending. But the impact of the crisis turned out to be very much more severe in those countries that had not already been managing a tight fiscal policy, or that had permitted an asset bubble to emerge, or that had permitted cost competitiveness to deteriorate. Spain, Greece, and Ireland were among those least well cushioned and therefore most severely hit.

4. The profile of public sector reform in Ireland

From the preceding section we can see that NPM ideas were implemented in highly variable ways across countries, and that Ireland is something of an outlier. It is a liberal market economy that shares a common legal and institutional inheritance with other English-speaking countries. One might have expected that it would have been among the earlier and more enthusiastic adopters of NPM ideas. Instead, it behaves more like the more statist France and the Mediterranean countries on most indicators.

In formal terms, Ireland does indeed appear to have adopted several of the tenets of NPM up to the 2000s, and to be concerned to address some of the core issues arising from the post-NPM movement in the recent past. Substantively, however, these many of these features are less than persuasive. This is apparent when we consider in turn each of the structural features of public sector reform outlined above: privatization, agencification, and public sector career profile.

- Privatization, liberalization, and the rise of the regulatory state

State enterprise was a major plank of independent Ireland's bid for autonomous economic development between the 1920s and the 1960s, and it was a relatively late starter in the late-20th century move to privatize state companies (Hardiman and Scott 2009). But during the 1990s it ranked as 8th most active among OECD countries; it was also among the most enthusiastic adopters of the model of Public-Private Partnerships (Deloitte 2006; Palcic and Reeves 2004/5). This was accomplished without any great political conflict: employees in state enterprises were also shareholders, and were well remunerated for the change in ownership. And yet, alongside the trend toward divesting the state of ownership of utilities and productive enterprises, new bodies were being created, so that Ireland actually has more national-level public enterprises (without even counting the banks that have recently been nationalized or received major state supports) than at any time in the past, as Figure 6 shows.

Figure 6. Commercial state enterprises

In the late 2000s, Ireland fell in line with the international move toward 'better regulation', with a dedicated website and annual forum devoted to this 'important part of the Government's drive for greater economic competitiveness and modernisation of the Public Service' (http://www.betterregulation.ie/eng). As Figure 7 below shows, there was a marked increase in the rate of creation of regulatory bodies after 1990, the great majority of which were statutory (though some private delegated regulatory powers also exist).

Figure 7. The legal form of regulatory agencies in Ireland

By the late 2000s, Ireland had the largest number of regulatory bodies of any of the states included in a cross-national database of regulatory agencies (Levi-Faur 2006; Scott 2008).

- Agencification without decentralization

In fact, Ireland has seen a strong trend toward creation of new agencies of all sorts over time, as Figure 8 shows.

Figure 8. Agencies in Ireland: new and cumulative

The functions served by these agencies are revealing. The growth of regulatory agencies has already been noted; there was some increase in bodies of an advisory nature; but the strongest growth is seen in the area of service delivery, as Figure 9 below shows.

Figure 9. Functions of agencies in Ireland

Yet this was not accompanied by any corresponding decline in employment or scope of activity of core ministerial departments, nor of any build-up of core policy capacity to counter-balance agencies as delivery systems. Rather, as the OECD noted in a major review of the Irish public service in 2008, what seems to have happened is a largely ad hoc tendency to create a new agency to serve each new need as it arises, in a manner that enabled policy makers to circumvent limits on public sector recruitment and budget allocation (OECD 2008, pp.298-9). So the agencification of the Irish public service was driven by motives that reflected, if anything, the very opposite of efficiency-seeking budget-limiting rational management priorities. Ireland currently experiences similar problems of poor policy coordination and fragmentation of responsibilities as other countries that had been more consistent adopters of the NPM agenda, but for rather different reasons (Hardiman and MacCarthaigh 2010, forthcoming-b forthcoming).

- Civil service careers profiles

We have already noted in Figure 4 that Ireland's civil service remained largely untouched by the logic of NPM reward systems. Career advancement was opened out, but only within the civil service itself. Little or no discretion over human resource management was devolved from the centre. During the 2000s, sizeable pay bonuses were made available for higher civil servants, linked to performance assessment. But these were not conditional on any specific performance targets, and were not strongly conditional. Virtually all eligible candidates received them. Furthermore, the basic pay rates themselves underwent rapid upscaling, as the Review Body on Higher Remuneration in the Public Sector explicitly adopted private sector comparators for senior public service positions. This was in line with the NPM argument that senior management responsibilities in public and private sectors should attract comparable rewards. But in the absence of the other disciplines and demands on the senior civil service, significantly raising the pay ceiling significantly raised the public pay bill without necessarily ensuring commensurate efficiencies. Meanwhile, the numbers employed at senior levels in the civil service increased far more rapidly than in all other grades (Hardiman and MacCarthaigh 2010, forthcoming-a forthcoming)

Explaining the trajectory of public sector reform in Ireland

Ireland has had recurrent phases of interest in public sector reform: in the late 1960s, in the early 1990s, and again in the current period (Devlin Report 1970; McKevitt 1995; OECD 2008). As we have noted, the institutional inheritance meant that Ireland experienced many of the same impulses to seek public sector reform as did other English-speaking countries with Whitehall-type bureaucracies and Westminster-type parliamentary systems: to seek greater efficiencies in public spending, to promote initiative-taking by public employees, to improve the quality of services. Ireland, Canada, New Zealand, and Australia, like Britain, had relatively well-qualified public service employees, relatively uncorrupt public administrations, and a strong persistence of the political neutrality of the civil service. Yet Ireland proved very much the laggard in this group.

The main phase of public sector reform, which began in the early 1990s under the inspiration of NPM ideas and the example of reform in Australia and New Zealand, was initially termed the Strategic Management Initiative, and was at first an initiative on the part of a group of senior civil servants. Later taken under the wing of the Department of the Taoiseach, it was rebranded as the 'public service modernization programme'. This became an instrument for government to engage with EU initiatives in areas such as regulatory impact assessment, e-government, and so on. The fact that it was a bottom-up initiative, emanating from senior civil servants themselves rather than originating in a government manifesto, is no necessary reason for it to be ineffective. But New Zealand and Canada started their public sector reforms earlier, progressed faster with them, and refashioned structures and practices more extensively than Ireland did.

Comparative analysis suggests that three principal factors can be identified which help explain contrasting outcomes:

- Implementation of financial disciplines
- Capacity for policy coordination
- Government drivers

Ultimately all three factors can be summarized under the single heading 'the shadow of hierarchy', that is, a strong commitment by government to achieve a clear and consistent set of policy objectives, with a strategy to which all government members are committed for achieving them.

Financial disciplines

Budget-setting remained highly centralized in the Irish case, including rates of pay, as noted above; and unlike other countries that implemented NPM, pay was not closely tied to changes in work practices (Roche 1998). Budget allocations were not made conditional on structural change, and the 'modernization agenda' had no specific content. Remuneration rates were set by the national-level pay determination mechanisms, dominated by the national social partnership framework deals between 1987 and 2009 (of which more below).

A major review of the structure of public sector pay was undertaken under the terms of the pay agreement entitled *Programme for Prosperity and Fairness* (2000-2002). This was intended to take care of anomalies between public and private sector pay rates, as public pay was believed at the time to have fallen behind the private sector during the boom. It was also intended to deal comprehensively with the persistent tendency toward self-sustaining leapfrogging pay claims based on relativity and differentials within the public sector itself. The ensuing Public Service Benchmarking Body, which reported in June 2002, was criticized at the time for recommending significant pay increases for most public employees, but without making explicit what the bases for its recommendations were. The suspicion was that it was primarily a means of settling pay grievances in the public sector, rather than a mechanism for calibrating public and private sector pay. Pay awards in the public sector continued on an upward trend during the 2000s. By the late 2000s, evidence was accumulating that public sector pay rates were not outstripping the private sector. Yet there was no mechanism for downward revision of relative costs (Boyle 2008; FitzGerald 2002; Kelly, McGuinness and O'Connell 2009).

Benchmarking, in addition to the subsequent pay deals for all that were negotiated in 2003 and 2006, was meant to provide for ongoing flexibility in work practices without further financial recompense. This was explicitly built into the agreement titled *Toward 2016* (2006). However, the details of what, how, and on what terms flexibility and rationalization were to be implemented were never spelled out for either the core civil service, or for public service workers in areas such as health, education, police, prison officers, and so on. This failure of public sector management to drive change contrasts with developments over this time in the private sector, where rationalization of work practices was extensive. Furthermore, while performance-based bonuses were indeed introduced for senior civil servants and public sector employees, these were not seriously conditional, and became an expected part of everyone's remuneration package (Hardiman and MacCarthaigh 2010, forthcoming-b).[1]

Capacity for policy coordination

Devolution of autonomy within the civil service and creation of autonomous functioning by public agencies implies a capacity to set targets about objectives and outcomes. In Ireland, control over policy implementation continued to flow from the top, with very little commitment to real functional devolution. This did little to expand the capacity of the system to cope with new challenges. As

[1] Abolition of bonus payments was recommended by the Review Body on higher-paid public employees, in September 2009. Yet senior civil servants argued that bonuses should be treated as part of core pay for the purpose of calculating pay cuts imposed in January 2010 (see below p. 28) – underscoring the fact that they were not regarded as seriously conditional at all.

noted above, the creation of new agencies was often the response to new problems: this would enable new staff to be recruited, with specific objectives. Agency proliferation reflected the weakness of the core civil service rather than its strength.

Furthermore, while staff mobility across departments and more open competition for promotion within the civil service was encouraged by the modernization programme, this had a paradoxical outcome. In a system based on generalist principles of recruitment, where learning on the job is so important, promotions across departments tend to result in the dispersal rather than intensification of specific policy expertise. The growth of government reliance on externally sourced expertise in the form of consultancy reports suggests that the performance standards of the core civil service were lower than required.

The extent of engagement between the public service and what we might term civil society organizations varies considerably. The social partnership processes expanded to include wide-ranging consultative and policy advisory committees, and included representatives from the trade union movement, employers' associations, and a variety of community and voluntary sector organizations, along with representation from the main economic and social departments of the civil service itself. These working groups developed policy proposals on many issues arising from employment relations and working conditions; as participants have noted, almost everything touches upon labour market concerns in some way. But these reports made relatively little impact on the standard working practices of the civil service departments themselves (Hardiman 2006).

Government drivers

The key to public sector modernization ultimately lies in the strength and coherence of government's commitment to ensuring it happens. This is the key area of weakness in the Irish case. In Britain or New Zealand, where two-party government competition sharpened policy options, market-conforming priorities, once adopted, could be drive through by a strong coordinating state. In New Zealand, it has been noted that ideas about managerialist reforms in the public service began within the senior civil service itself, initiated by Chicago-school economists in the Ministry for Finance, during the 1980s. But these gained no traction until a reasonably sympathetic government was elected which took on these ideas and was prepared to implement them (Boston, Martin, Pallot and Walsh 1996).

In Ireland, public sector reform ideas drew some inspiration from the New Zealand experiment. But the senior civil servants themselves did not go so far as to advocate disruption of some of the key elements of the Irish ‘public service bargain’ which accorded many privileges to its senior cadres. And with no left-right divide, ideological choices in party political debate tend to be blurred, in the interests of vote maximization. No Irish prime minister resembled Margaret Thatcher in Britain, or David Lange in New Zealand, or Brian Mulroney in Canada, who were animated by reforming zeal and willing to do battle with vested interests to achieve market-conforming reforms. The dominant policy-making style in Ireland has a bias toward consultation, toward seeking compromise, or at least toward brokering a deal that will avert open conflict.

This is especially evident in labour market management. The adversarial conflict in a voluntarist industrial relations system had proven damaging not only to business competitiveness but also to trade union and employee interests during the 1960s and again during the 1980s. Social partnership provided a structure to manage pay determination, defuse industrial conflict, and take soundings about policy preferences from various organized interests (Hardiman 2006; Roche 2009). It has been argued that the quality of decision-making depends not only on the capacity of government and its public administration to consult and engage with organized interests, but also on its capacity to aggregate and prioritize those inputs in the light of broader public interest concerns (Evans 1995; Pierre and Peters 2005; Weiss 1998). But the risk is that the policy process will become colonized by sectional interests – not least those of senior civil servants themselves. Much depends therefore on the government’s commitment to setting clear priorities, and the willingness and capacity of individual ministers to drive these through. In the Irish case, these considerations tend not to assume a high priority.

In summary therefore, the public sector modernization project in Ireland was widely supported in principle from the early to mid 1990s on. But its implementation was limited on all the conventional measures. It was stronger on symbolic areas such as customer service statements than on real substantive change. As a result, the OECD 2008 report was able to recommend a whole range of public sector reforms which in theory had been under way for quite some time. Government renewed its commitment to public sector reform, now renamed the ‘Transforming Public Services’ Programme, with a dedicated website at www.onegov.ie. But public sector reform now has to be undertaken in conditions of economic crisis. This adds considerably to the problems government faces.

5. Public sector reform in economic crisis

The scale of the fiscal problems Ireland now faces are considerable. The origins of the current crisis are complex: the international financial crisis brought into the open the extent of domestic fiscal mismanagement during the 2000s. Since the introduction of the Euro and the influx of cheap credit it facilitated, which coincided with the peak of the growth boom, management of Irish domestic finances has been problematic. Fiscal policy has tended to be pro-cyclical, a recurrent weakness in the budget process (Hallerberg et al. 2007; Lane 2003; 2009). Furthermore, a property boom was permitted to flourish. As a result, revenue came to rely disproportionately on construction-related items, even as the income tax base was diminished as part of the social partnership pay deals (Schwartz and Seabrooke 2008). The collapse of the property bubble resulted in a collapse in revenue, worsened by the sudden sharp rise in unemployment from 4% in 2007 to 12.5% in 2009. In addition to increased demand on welfare services, public spending on commitments entered into in more buoyant times continued to increase. The fiscal gap opened wide, and the public debt projections had to be scaled up considerably, as Figures 11 and 11 below show.

Figure 10. Government balance forecasts, % GDP

Figure 11. Government debt forecasts, % GDP

Ireland thus has a particularly severe fiscal deficit problem, second only to that of Greece within the Eurozone. The scale of Ireland’s borrowing requirements means that the accumulated debt is mounting rapidly also, with further implications for the cost of debt servicing.

Managing the rate of pay-related cost increases in the economy is therefore a vital aspect of fiscal policy. Ireland evolved a distinctive system of pay bargaining to deal with this – less strongly institutionalized than in many continental European countries that have strong labour law, but considerably more coordinated than in most other liberal market economies (Avdagic, Rhodes and Visser 2005). Between 1987 and December 2009, seven framework social partnership agreements were negotiated, each of about three years’ duration (O'Donnell 2008). Negotiated against the backdrop of a strategy report by the tripartite consultative National Economic and Social Council, these agreements initially forged a new understanding among labour market actors about the role of pay determination in macroeconomic stabilization. Then during the 1990s, they provided a vital support to the government policy objective of securing eligibility for membership of the Euro. They provided the framework for tax reforms that lifted the burden of personal taxation from employees while widening the tax base, and for linking this with moderation in pay rates. Over time, the agreements dealt not only with pay rates and the mechanisms for dealing with disagreements or disputes over industrial relations issues. They also came to include many issues about labour market legislation, unemployment and work activation, and the social economy. The consultation processes of social partnership were broadened in 1996 to include a wide range of organized interest groups with broad social policy interests.

The role of social partnership pay deals changed over time though, and during the boom years of the late 1990s and early 2000s, tensions between union and employer preferences became acute. New deals were eventually agreed. But the macroeconomic context of high inflation and high growth, within a fixed exchange rate and monetary policy regime, put unprecedented pressure on the wage-setting system. The net outcome has been a rapid rise in nominal pay rates, and a marked loss in international cost competitiveness, as Figure 12 below shows.

Figure 12. EU monetary and competitiveness conditions

This diagram also shows that the credibility of the government response to the international money markets is in question. The gap that emerged between German base rates and the Irish and Greek terms of borrowing widened dramatically during 2008. This implied a downgrading of creditworthiness by the credit rating agencies and therefore a higher price for government borrowing. Ireland, like Greece, is in severe breach of the terms of the EU Stability and Growth Pact. It negotiated a scaled phase of fiscal recovery with the European Central Bank, and Irish performance is due to be back within ECB parameters by 2014.[2] This implies a stringent process of budget management and deficit reduction over a number of years, not just on a once-off basis. The government took the view that front-loading spending cuts would be beneficial in tackling the problems; but further cuts are in store over coming years too.

The decision to seek €4bn in spending cuts, €1.4bn of which was to come from public sector pay, was the context within which the whole process of social partnership came unstuck in December 2009. The existing pay agreement, entitled *Toward 2016*, negotiated in 2006 with rolling renewal dates, had been negotiated before the scale of the economic crisis had become apparent. This came increasingly under strain as employers' and unions' expectations diverged. But it was government that precipitated its collapse (as we shall see below). The government was not satisfied with the

[2] Details are available here: http://ec.europa.eu/economy_finance/articles/euro/article15859_en.htm

terms the unions were prepared to agree to achieve cost savings for Budget 2010, so it proceeded to cut pay and welfare unilaterally. Against this backdrop, the private sector employers formally rescinded their participation in the pay agreement in January 2010.

The Irish government took a series of dramatic budget measures during 2009, culminating in the budget in December 2009 that made severe cuts in current spending. The expectation is that this will break the perceived link between Ireland and Greece, and put some distance between Ireland's capacity to mange fiscal crisis and that of the other peripheral Eurozone members Portugal, Italy, Spain, Greece or PIGS as they have come to be termed.

The challenge of securing a credible budgetary strategy therefore hinges the capacity of the government to take tough decisions, and their ability to make them stick in the teeth of potential unrest, resistance, opposition. This in turn raises questions about the mechanisms available for securing consent through negotiation – 'networks' – or through unilateral imposition – 'hierarchy'. Irish governments face two areas of difficulty as they seek to tackle the issue of public sector reform under conditions of economic crisis:

- Changing the public service bargain on pay and terms of remuneration; also on rationalization of work practices, staff redeployment, and attaining efficiencies
- Political legitimation of change

The central challenge therefore is how to manage these reform imperatives within an institutional framework that is itself undergoing profound change.

The challenge to the public service bargain: remuneration and rationalization

The principal challenge to reconfiguring the public service 'bargain' in Ireland arises from the fact that the institutional context within which negotiations have taken place for over 20 years to date – social partnership – has now broken down under pressure of fiscal crisis. The government has made spending cuts the principal plank of its fiscal stabilization measures (rather than tax increases, at a time when the revenue base is shrinking and unemployment is rising rapidly). This is addressed in two ways: through seeking to reduce numbers in employment (by imposing a complete embargo on recruitment, and by incentivizing retirement), and by straightforward cuts to nominal pay rates and to social welfare payments – a strategy never before attempted.

Government commissioned a review of spending commitments, published in July 2009, entitled *Report of the Special Group on Public Service Numbers and Expenditure Programmes*.[3] (This quickly gained the nickname 'An Bord Snip Nua', or 'The New Cuts Board', as a similar scoping report had been chaired by the same individual, economist Colm McCarthy, in 1987). This report, based on submissions by government departments and agencies as well as the board members' own analyses, made numerous recommendations, including proposing that many agencies should be shut down or merged back into core departments. Budget 2009 announced rationalization of 41 agencies – some closures, some mergers – resulting in 14 fewer bodies than before.[4]

At the same time as achieving spending cuts, government seeks to make public sector reform a top priority. Indeed, rationalization of work practices is a necessary corollary of the freeze in recruitment, as redeployment of staff and flexibility in work responsibilities to take up the extra workload would be essential to maintain existing levels of activity and service delivery. But it is a commonplace of structural change in organizations that money is the grease that facilitates change: people expect financial rewards for cooperating with major changes.

The cuts in public spending unrolled steadily between late 2008 and 2010. In October 2008, the government introduced an emergency budget, which included plans to means-test medical card entitlements for 70+. Despite promise to retain entitlements to free care for 95% of over-70s, 15,000 older people took to the streets, resulting in a partial climb-down by government. In the same budget, new levies, tiered by income at 1%, 2% and 3%, were imposed on all employees.

In February 2009, another measure was announced, which was intended to be the main plank of the government's recovery plan for the year, involving a direct income levy on all public servants. This was announced as a 'pension levy' to help fund the preferential pension rates available to the public sector. But it was not hypothecated to fund the pension reserve; it was a relatively simple means of raising an anticipated €1.4bn. It was set at a rate of 3% for those earning €15,000, rising to 9.6% for those earning €300,000. A fortnight later, 100,000 people marched in protest through Dublin. 2,000 police (gárdaí) also took part in a separate protest (they are not permitted to engage in industrial action).

[3] Details and links are at http://www.finance.gov.ie/viewdoc.asp?DocID=5861.

[4] See also http://www.budget.gov.ie/Budgets/2009/Documents/AnnexDRationalisationOfStateAgencies.pdf

A second emergency budget was announced in April 2009 which increased the levies on all incomes, doubling the rates announced in October 2008 to 2%, 4%, 6%. This also imposed increases in charge for most potential users of hospital Accident and Emergency facilities (those who are not entitled to means-tested medical cards), and on in-patient daily hospital charges.

The budget for 2010, announced in December 2009, imposed the most extensive spending cuts to date – and for the first time introduced direct cuts in nominal pay rates and social welfare transfers. To some extent the effects of reduced pay are offset by deflation, especially in food costs, softening the impact on real disposable income to some degree; and some commentators noted that social welfare payments had risen more rapidly in the Republic than in Britain and Northern Ireland during the boom years, with potentially damaging implications for labour market incentives. However, the cuts affected all categories of welfare recipients and were not specifically targeted at improving work activation.[5] The profile of public sector pay cuts introduced in December 2009 is summarized in Figure 13 below.

Figure 13. Details of pay cuts in the public sector, December 2009

Legitimation problems

The Irish government has taken a serious of tough decisions affecting budget provisions and public service pay and conditions since 2008. The political challenge remains to carry them through. Two aspects of this may be considered: the electoral constraints, and the opposition that may arise from public sector employees themselves.

Electorally, the Irish government currently has historically low levels of approval ratings. Indeed, across Europe, it appears that Irish people trust their government less than in any other country except Lithuania, Bulgaria, Hungary, and Latvia, as Figure 14 below shows.

Figure 14. Public trust in national governments in Europe, September 2009

This is not wholly attributable to anger over the suddenness of the crisis and the unpalatable remedies the government is proposing; it also exposes simmering dissatisfaction for other reasons which high growth had for a time obscured (Hardiman 2009). Yet the government is not in imminent

[5] Details are at http://www.welfare.ie/en/topics/budget/bud10/Pages/Bud10Index.aspx

danger of collapse. The coalition partners recognize that they would suffer calamitous defeat if they were to call an election, and so they have made a virtue of their tough stance and deep unpopularity. There is a widespread view that the manner in which the budget cuts were implemented was unfair, especially in requiring cuts of even the most vulnerable amongst welfare recipients. A majority expects even worse measures to come. To this extent, the government has succeeded in conveying the scale of the crisis facing the Irish economy and in creating assent to the diagnosis, if not consent to the remedies.[6] But unlike in Greece, there has been no immediate politicization of budget decisions along left-right partisan lines. The opposition parties, while seeking to make political gains from the government's unpopularity, have not sought to mobilize popular dissatisfaction through street protests. Nor has there been any spontaneous eruption of public disorder. The public sector unions held another one-day strike and street protest in November 2009. They are preparing industrial action in 2010. But this is more likely to take the form of non-cooperation and work-to-rule measures than in all-out strike action. The conventional political system has been able to contain the deep levels of public discontent to date. But the way forward for public sector reform is unclear.

The unilateral government reduction of public sector pay is the single most contentious issue; this is where the potential for conflict is greatest. Two issues have stirred up anger: the distributive impact of pay cuts, and the relationship between cost-cutting and reform-oriented changes in work practices.

- The distributive impact of pay cuts

Two dimensions of contention about the impact of cost-based pay adjustments in the public sector have emerged. The first concerns the comparability between the public and private sectors. The second concerns the impact of cuts on high-paid and low-paid public service employees.

The government undertook cut public sector pay to reduce the cost of the public sector. It justified this with reference what it now claimed was the unsustainability of the pay increases awarded over the preceding years, and divergences from private sector pay trends under conditions of recession. The unions were holding to the view that public sector nominal pay could only be adjusted upward, never downward. Real cost adjustments are managed in a range of ways in the private sector. Nominal pay cuts rarely if ever feature. Private sector employers may seek flexibility in total remuneration (cutting bonuses), in time worked (short hours for reduced pay), in work flexibility

[6] See for example the results of the MRBI opinion poll in 'Majority fear for economic future', *Irish Times*, 23 January 2010. http://www.irishtimes.com/newspaper/breaking/2010/0123/breaking20.html

(redeployment or work intensification or productivity increases), or in numbers employed (unemployment). There is disagreement about what was actually going on in the private sector, but all these adaptations are clearly happening. Government insisted that the public sector had to follow suit.

The social partnership institutions were reactivated to find a negotiated response. In talks between government and the trade union movement in November 2009, very close to the budget deadline, a package deal came close to being agreed that would deliver cost control through a whole range of changes to work practices spread over one year but without any cuts to basic pay.[7] At the last minute, government withdrew its consent, and instead resorted to the immediate device of visible cost savings through pay cuts.

Union hostility to cuts in pay rates is all the more acute because of the perceived inequities in the way they were implemented. Pay scales were deliberately lengthened during the 1990s and 2000s with a view to making the rates of remuneration of top civil servants comparable with those of private sector managers – although, as we have seen, without requiring the performance or financial responsibilities associated with managing a major enterprise. Cuts in pay rates were initially intended to be imposed on a tapered way on all. But intensive lobbying by senior civil servants resulted in late concessions to those on the highest rates of pay, ensuring generous treatment of performance-related elements of their pay package.[8] Moreover, retired public sector employees, whose pensions were pegged to the upward-adjusted scales, were not affected by the cuts at all. The pay rates of senior civil and public employees had risen sharply over the previous ten years, in line with recommendations of the Review Body on Higher Remuneration in the Public Sector: in September 2009, this body recommended cuts of up to €45,000 per annum in the pay of Department Secretaries General (Review Body on Higher Remuneration in the Public Sector 2009, pp. 5, 33, 37). For a great many public employees, sums like these represents their total annual salary.[9] But in the event, the cuts imposed on higher civil servants were closer to 3% than to the 12% originally projected. This

[7] Irish Congress of Trade Unions, 'There Is A Better, Fairer Way', at http://www.ictu.ie

[8] 'Controversial reduction in top staff pay cuts, flat payments also cut for all: the actual salary cut is 3% rather than 11.8%'. *Industrial Relations News*, 6 January 2010, at www.irn.ie. See also Karl Whelan, 'No explanation for senior civil servant U-turn', 24.1.2010, at www.irisheconomy.ie

[9] See for example 'CPSU leader questions top civil servants, social partnership era', *Industrial Relations News* 3, 20 January 2010.

feeds resentment by the large numbers of lower-paid public servants, who have their own separate union representation.[10]

The collapse of the November talks meant that reform of work practices was still not addressed. Among the proposals they had been considering were reforms such as:

- Paying overtime at flat rates rather than time-and-a-half;
- Introducing an 8am-8pm core day during which no overtime payments would apply;
- Introduction of unpaid leave, perhaps as much as 12 days per year;
- The possibility of staff working a small number of additional hours per week;
- The elimination of privilege days at Christmas and Easter.[11]

When government rejected the deal and imposed the pay cuts instead, unions expressed themselves doubly outraged. Their proposals to conserve pay rates was rejected; and they also claimed that government had thrown away the best chance it had ever had to achieve real reform to public sector work practices. This is notwithstanding the fact that previous social partnership pay deals had committed unions to embrace 'normal ongoing change' in work practices as part of the package of pay increases. Government and civil service management had not pushed for serious far-reaching changes at those earlier stages, and with the collapse of social partnership, the unions were digging in. The 'public service bargain' in Ireland was now in trouble, but public service reform seemed further away than ever.

As of January 2010, therefore, there is no longer any social partnership agreement in place. At the time of writing, it is not at all clear what the future of public sector reform – or of industrial relations in general – will be in Ireland outside the framework of social partnership. The public sector is highly unionized. Total trade union membership accounted for some 31% of the workforce in 2007 (down from a high of 62% in the 1980s). The public sector is highly unionized though, at about 80% (Central Statistics Office 2008). Within the trade union movement, about half of total membership consists of public sector employees.

The trade unions, for the first time in over 20 years, have no direct access to government. Some of the mechanisms that had evolved for averting industrial disputes no longer exist (for example, the

[10] At first, it seemed likely that a split would emerge between the core civil service, working regular office hours, and public employees in areas such as health care, education, police, prison officers and so on, who were disproportionately affected by the cuts to allowances, bonuses, and non-standard elements of pay. But these have all now made common cause in their opposition to pay cuts and their hostility to their distributive impact.

[11] 'Public section unions agree payroll costs must be cut next year', *Irish Times*, 25 November 2009.

high level trouble-shooting tripartite National Implementation Body). The voluntarist dispute-resolving body, the Labour Relations Commission, has indicated that it will step in to seek to resolve emergent disputes, rather than letting a free-for-all develop. But this is an employer-labour forum with no government involvement as such. It may well assume a role in disputes involving groups such as air traffic controllers or nurses. But neither the airport authorities nor the Health Services Executive has the ultimate settlement powers of an employer: that role belongs to government.

Trade union leaders warn that government has abandoned the best opportunity ever available to make progress on public sector modernization; but they insist on a reversal of the pay cuts as a condition for withdrawing their threats of industrial action and entering renewed negotiations.[12] 'There is seething anger among the unions, that much is clear', but it is not clear quite how far they may be likely to take the threat of industrial action.[13] Government ministers express positive views about future negotiations, but insist that tough additional cost savings have to be found in 2011 and that further pay cuts cannot be ruled out – indeed, that unless rationalization starts to happen, further cuts will be imposed anyway. The prospects for public sector reform are in the balance.

6. Conclusion

Public sector reform has been a recurring concern in recent decades in Ireland as in other countries. We have noted that the scope and nature of reforms adopted depend on many prior conditions, not least the structural features of the public bureaucracy itself. More than that though, even within roughly comparable kinds of bureaucracy, such as those found in Westminster-type systems with a Whitehall-type civil service, we have seen that New Public Management was adopted to different degrees, and with different consequences. In Ireland, public sector reform objectives were adopted in principle from the early 1990s on. Pay scales were recalibrated and career profiles reorganized. But in key areas such as structural reorganization, delegation of powers, and budgetary autonomy, Ireland actually changed very little.

We noted that there are two principal explanations for the appearance of reform without the substance. Firstly, senior public sector administrators did not provide effective leadership: they did

[12] 'IMPACT spells out "action" plans at national and sector levels'; and 'Industrial threat must be stepped up, but deal possible – O'Connor'; *Industrial Relations News* 3, 20 January 2010.

[13] Carl O'Brien, 'Searching for answers in the wake of collapsed partnership', *Irish Times*, 25 January 2010.

not set out measurable performance targets, or insist on ongoing work flexibility as they might have under the social partnership agreements. Secondly, government acquiesced in the appearance of reform, and did not drive the process with hard budget disciplines, real decentralization of spending, or related delegation of management powers. Accountability for public sector reform remained largely symbolic, and performance-related pay bonuses for senior administrators were paid routinely. During the good times, during the years of steady growth when real reform might have been facilitated by a buoyant economy, the situation was permitted to drift.

The extremity of economic crisis in 2008 and 2009 has galvanized government into taking decisive and very unpalatable action to rectify the public finances. The fiscal deficit requires strenuous efforts to cut costs, to be complemented in due course by a change in tax profile, in line with the report of the Commission on Taxation 2009 (Commission on Taxation Report 2009). But Ireland also has to undertake an internal devaluation, to bring the cost base of the economy back into competitive alignment with other Eurozone member states. This imposes very tough conditions on all employees. It is most transparent in the case of public sector employees, whose pay is set through political rather than market processes.

Public sector reform is most easily achieved when it can be softened by financial incentives. The Irish government is in the unfortunate position of recognizing that large opportunities for rationalization of structures and reorganization of work practices are available, but it must try to secure these while also cutting public sector pay. Just as government has discovered the urgency of doing this, and has acquired the capacity for decisive action, the conditions for achieving negotiated outcome have worsened. It may be that adversity forces new opportunities and that the public service bargain may be remade on new terms. Quite what these will be remains to be seen.

Figure 1. Selected indicators of economic performance by variety of capitalism

	(1) Gini coefficients for disposable household income	(2) GDP/capita in US$ (at PPPs), 2002	(3) real GDP/capita growth 1960-80	(4) real GDP/capita growth 1980-2000	(5) exports in percent of GDP, 2000	(6) average unemployment rates, 2000-03	(7) employment growth, 1990-2002
SMEs	.257	28,883	3.1	1.9	48.2	5.5	.5
Austria	.266	28,872	3.7	2.0	50.1	4.0	.9
Belgium	.250	27,716	3.6	2.0	86.3	7.3	.5
Denmark	.236	29,328	2.7	1.7	43.8	4.8	.2
Finland	.247	26,478	3.7	2.4	42.9	9.3	-.4
Germany	.264	25,917	3.1	1.6	33.7	8.4	-.2
Netherlands	.248	29,009	2.9	1.9	67.2	3.0	2.0
Norway	.251	35,482	3.7	2.5	46.6	3.9	1.1
Sweden	.252	27,209	2.7	1.6	47.2	5.3	-.5
Switzerland	.307	29,940	2.1	1.0	46.4	3.2	.7
LMEs	.330	29,483	2.5	2.3	40.0	5.6	1.7
Australia	.311	28,068	2.5	1.9	22.9	6.4	1.5
Canada	.302	30,303	3.2	1.5	45.9	7.3	1.4
Ireland	.325	32,646	3.5	4.7	94.9	4.3	3.5
New Zealand		21,783	1.4	1.3	24.6	5.3	2.0
United Kingdom	.345	27,976	2.0	2.0	28.1	5.1	.5
United States	.368	36,121	2.1	2.1	11.2	5.1	1.2
France	.288	27,217	3.5	1.6	28.7	9.0	.6
Italy	.333	25,568	4.0	1.8	28.4	9.4	.6
Japan		26,954	6.0	2.3	10.5	5.1	.3

Source: Five-year moving-wall averages calculated from OECD data. (Pontusson 2005), Table 1.1.

Figure 2a. Employment in general government as a percentage of the labour force (1995 and 2005)

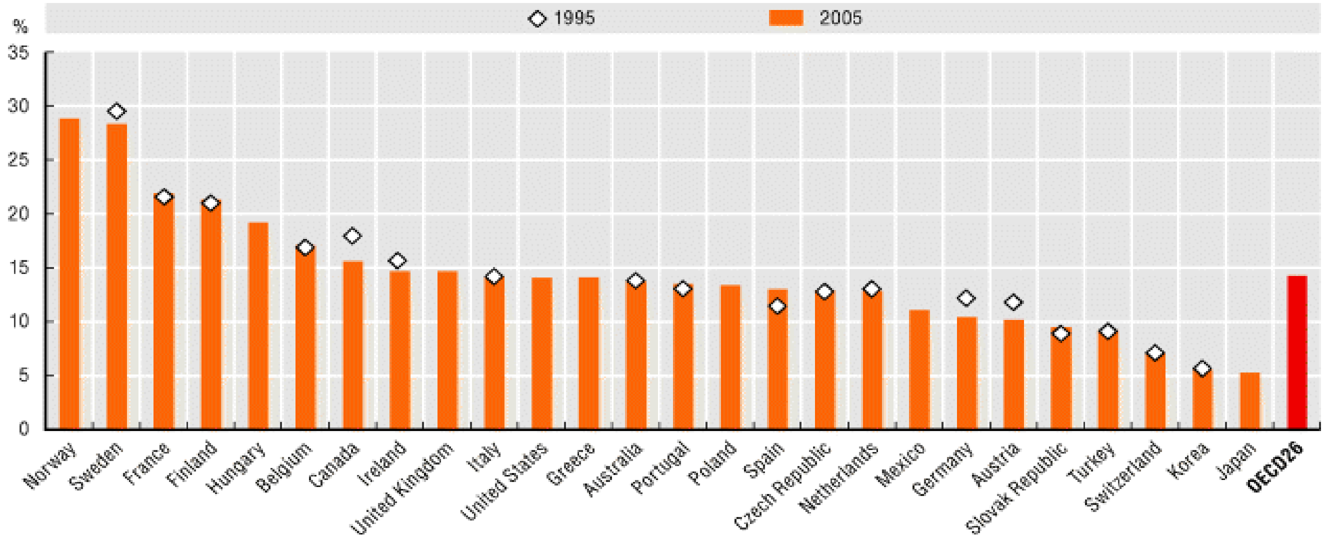
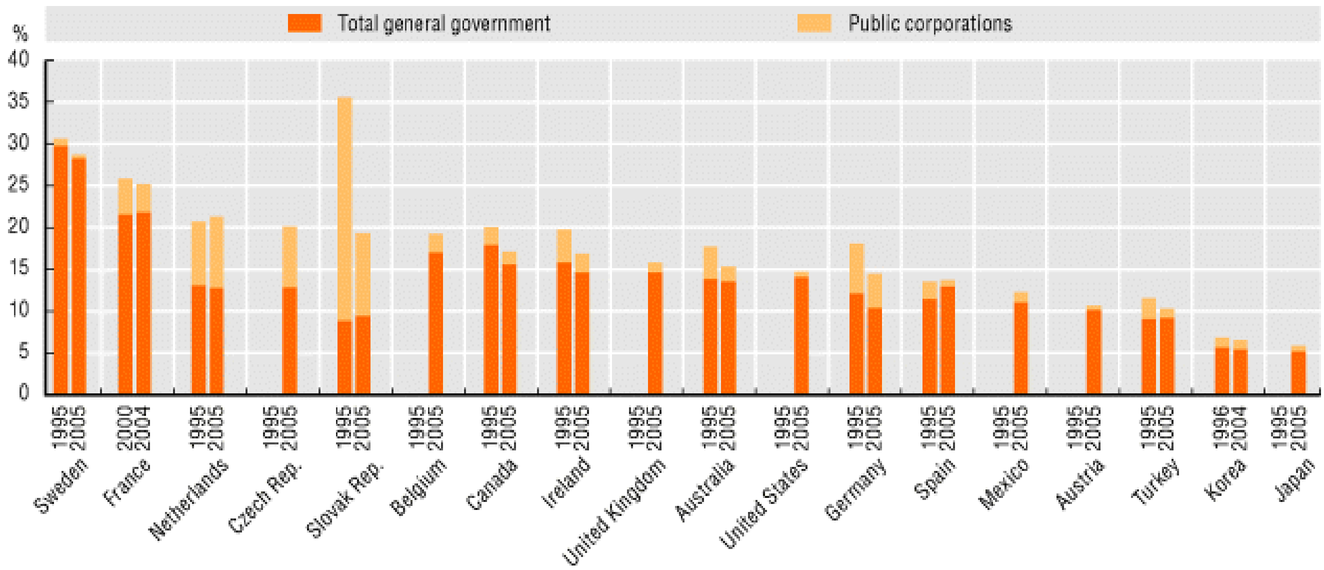
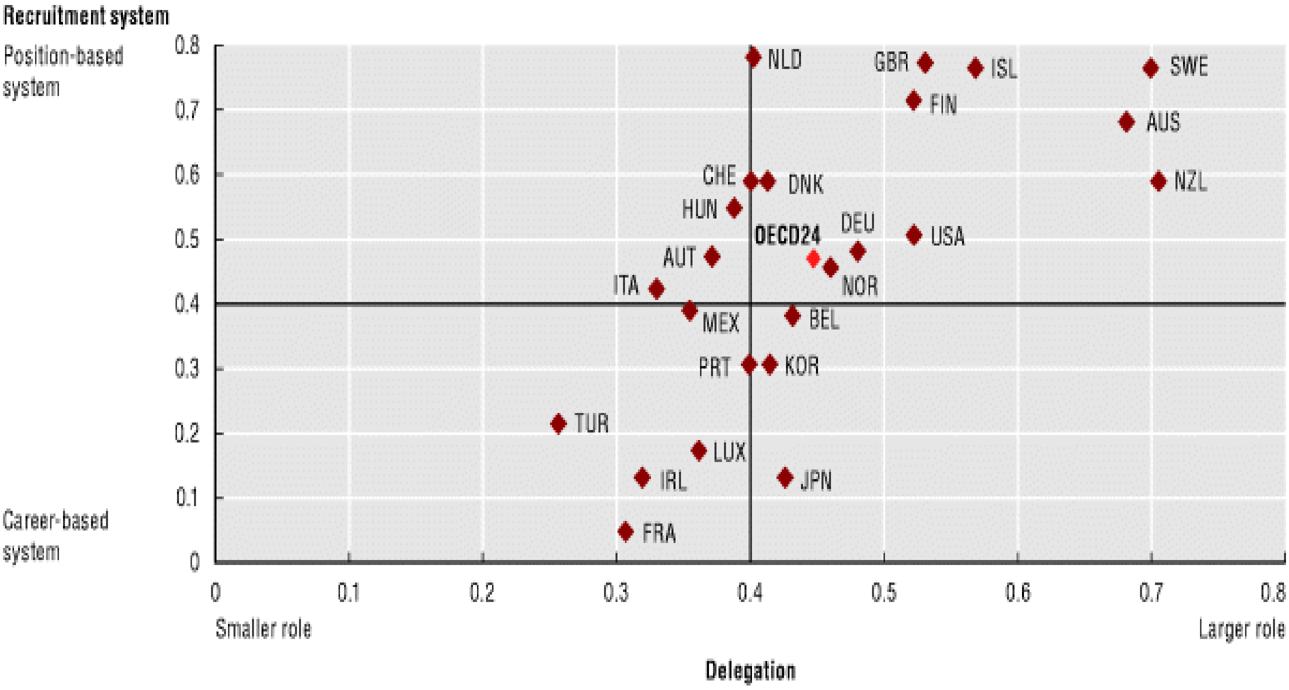


Figure 2b. Employment in general government and public corporations as a percentage of the labour force (1995 and 2005)



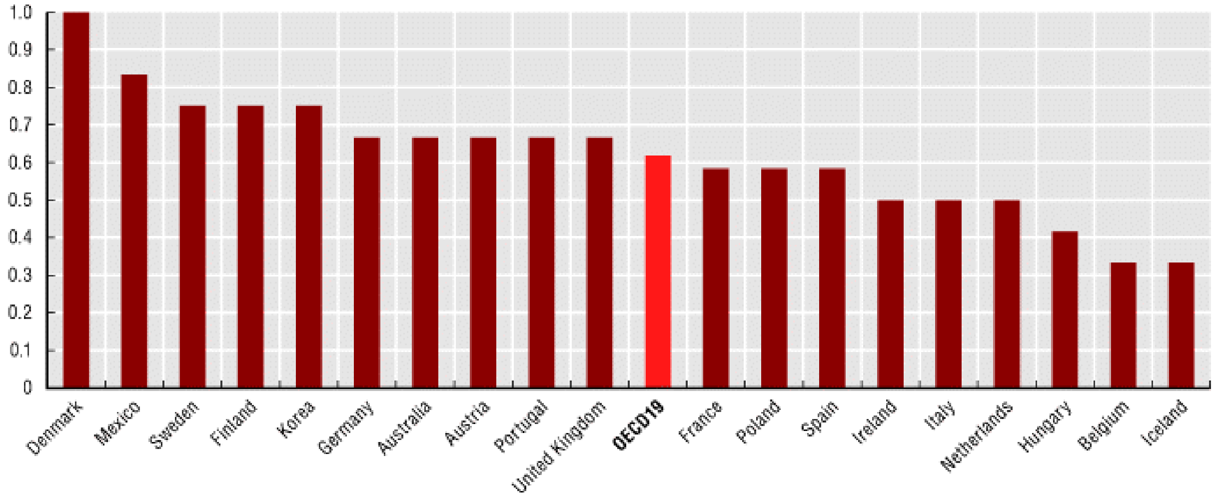
Source: OECD Government At A Glance 2009 online.
http://www.oecdilibrary.org/oecd/sites/9789264075061-en/05/01/g09-02.html
Accessed 11.1.10

Figure 3. Relationship between type of recruitment system and delegation in HRM in central government (2005)



Source: OECD Government At A Glance 2009. Central Government Recruitment Systems. http://www.oecdilibrary.org/oecd/sites/9789264075061-en/06/02/g14-02.html

Figure 4. Extent of the use of performance assessments in human resource decisions in central government (2005)



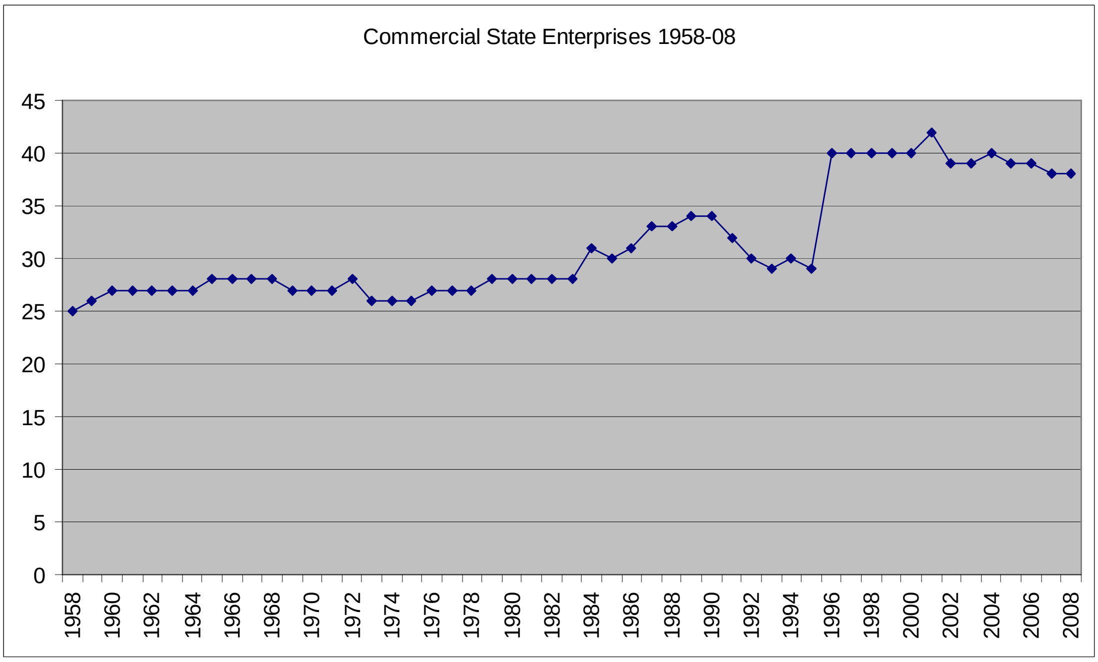
Source: OECD Government At A Glance, 2009. Staff performance management
http://www.oecdilibrary.org/oecd/sites/9789264075061-en/06/03/g15-01.html

Figure 5. Tensions between NPM reform and democratic processes

NPM Reform	**Problems**
Delegation	Accountability
Decentralization	Coordination
Financial autonomy	Budgetary controls

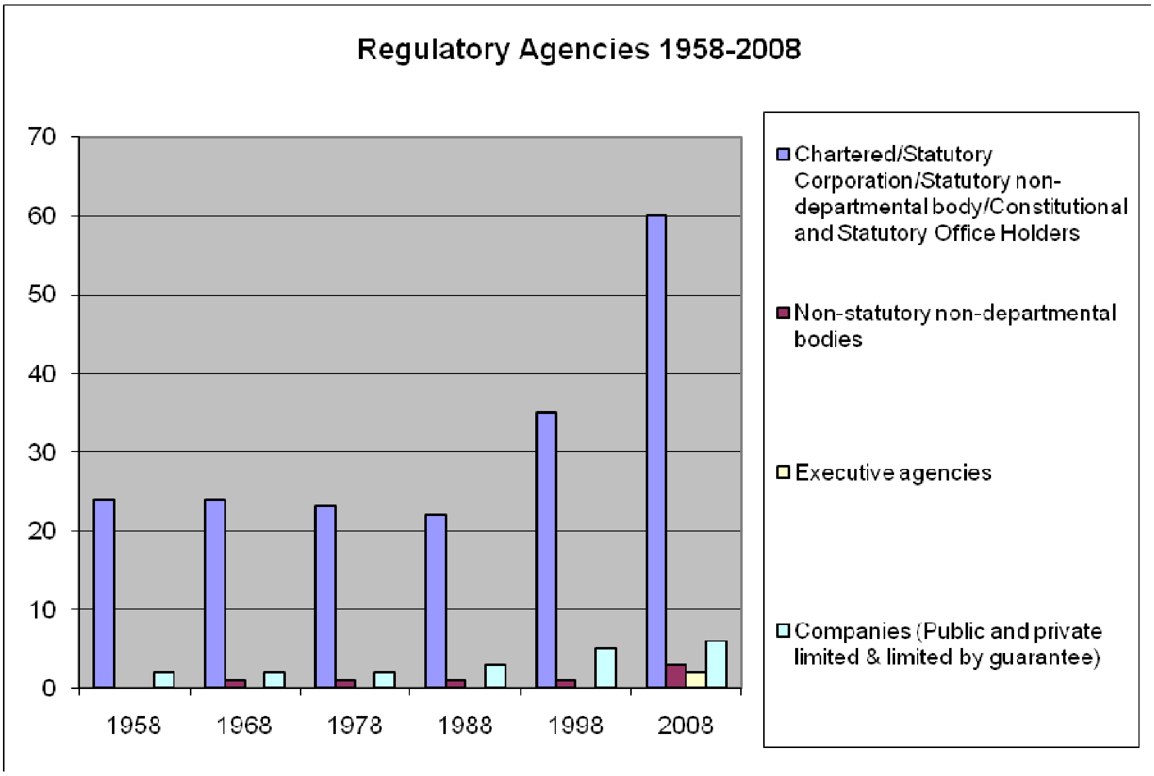
Source: (Aucoin 1990)

Figure 6. Commercial state enterprises in Ireland



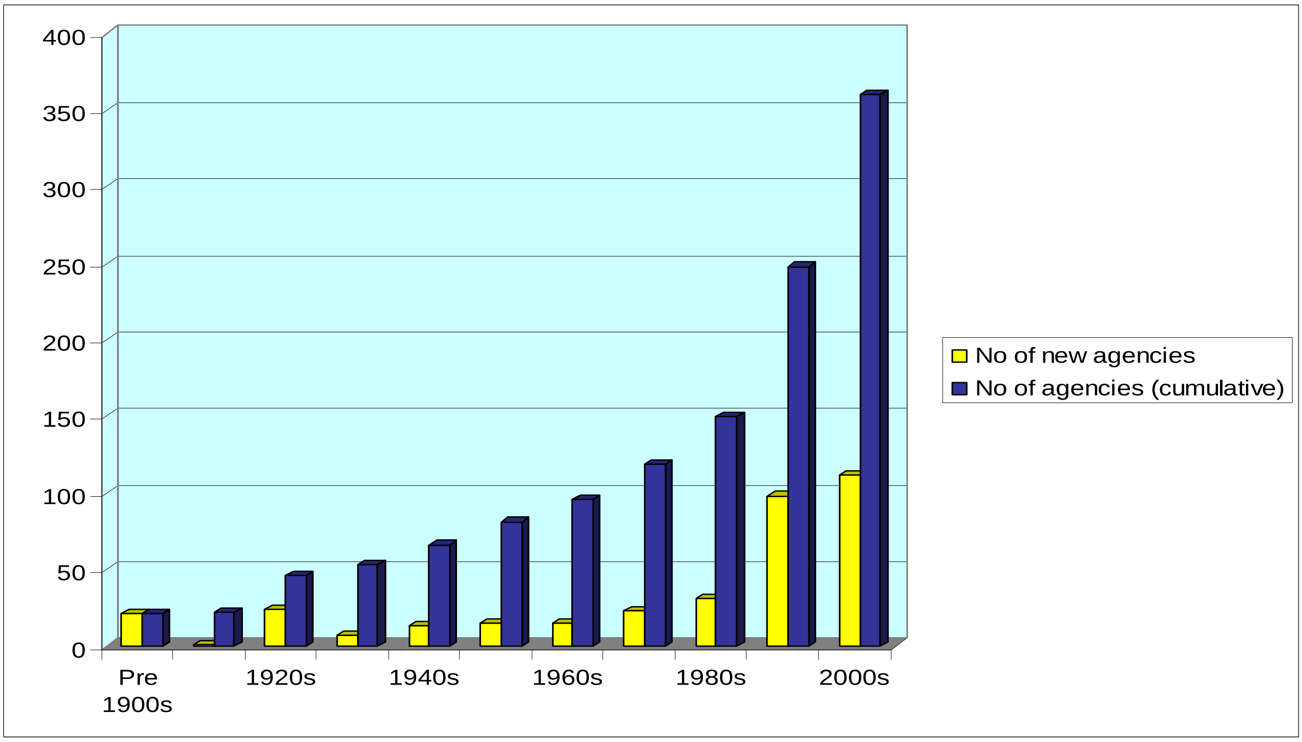
Source: (MacCarthaigh 2009)

Figure 7. Legal forms of regulatory agencies in Ireland



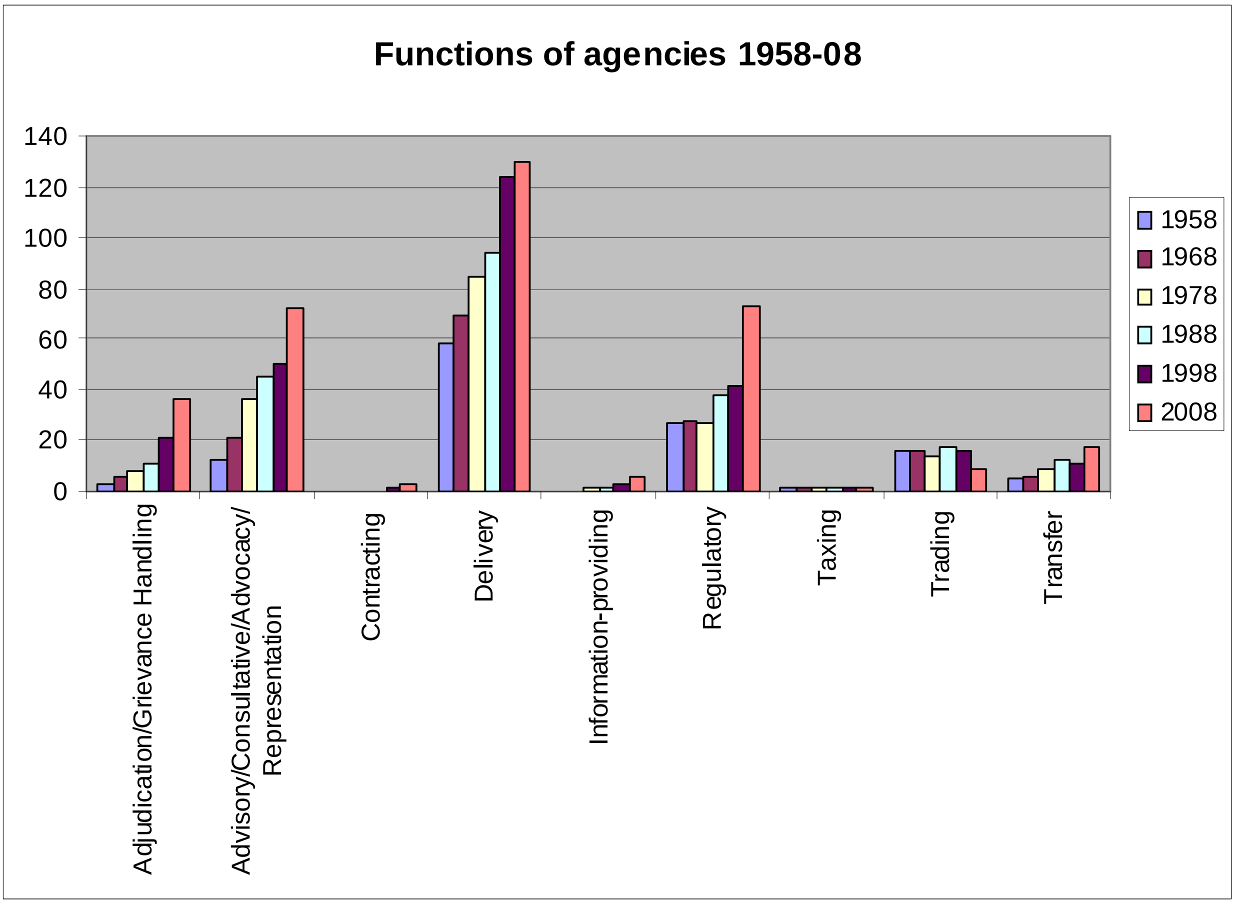
Source: Mapping the Irish State database

Figure 8. Agencies in Ireland: new and cumulative



Source: Mapping the Irish State database

Figure 9. Functions of agencies in Ireland



Source: Mapping the Irish State database

Figure 10. General government balance – budget deficits, % GDP

	2006	2007	2008	2009	2010	2011
Euro area	-0.6	-2	-6.4	-6.9	-6.5	-1.1
France	-2.3	-2.7	-3.4	-8.3	-8.2	-7.7
Germany	1.6	0.2	0	-3.4	-5	-4.6
Ireland	3	0.3	-7.2	-12.5	-14.7	-14.7
Italy	-3.3	-1.5	-2.7	-5.3	-5.3	-5.1
Spain	2	1.9	-4.1	-11.2	-10.1	-9.3
Portugal	-3.9	-2.6	-2.7	-8	-8	-8.7
Greece	-2.9	-3.7	-7.7	-12.7	-12.2	-12.8
UK	-2.7	-2.7	-5	-12.1	-12.9	-11.1
USA	-2	-2.7	-6.4	-11.3	-13	-13.1
Japan	-1.6	-2.5	-3.8	-8	-8.9	-9.1
Estonia	-2.3	2.6	-2.7	-3	-3.2	-3
Latvia	-0.5	-0.3	-4.1	-9	-12.3	-12.2
Lithuania	-0.4	-1	-3.2	-9.8	-9.2	-9.7

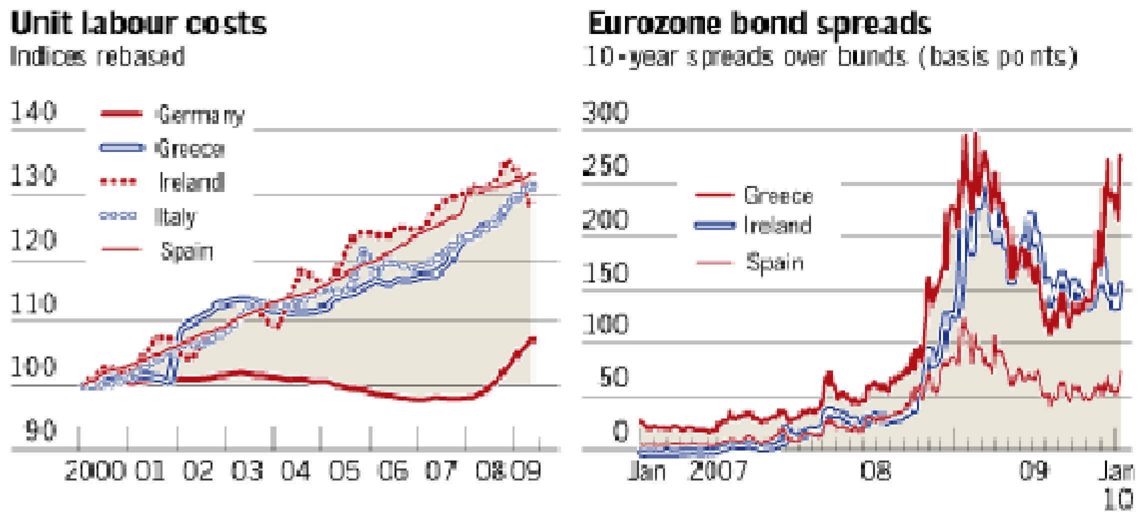
Source: (European Commission 2009)

Figure 11. General government debt, % GDP

	2006	2007	2008	2009	2010	2011
Euro area	68.3	66	69.3	78.2	84	88.2
France	63.7	63.8	67.4	76.1	82.5	87.6
Germany	67.6	65	65.9	73.1	76.7	79.7
Ireland	25	25.1	44.1	65.8	82.9	96.2
Italy	106.5	103.5	105.8	114.6	116.7	117.8
Spain	39.6	36.1	39.7	54.3	66.3	74
Portugal	64.7	63.6	66.3	77.4	84.6	91.1
Greece	97.1	95.6	99.2	112.6	124.9	135.4
UK	43.2	44.2	52	68.6	80.3	88.2
USA	61.2	62.2	70.7	82.7	93.9	105.3
Japan	191.3	187.7	173.1	189.8	197.6	206
Estonia	4.5	3.8	4.6	7.4	10.9	13.2
Latvia	10.7	9	19.5	33.2	48.6	60.4
Lithuania	18	16.9	15.6	29.9	40.7	49.3

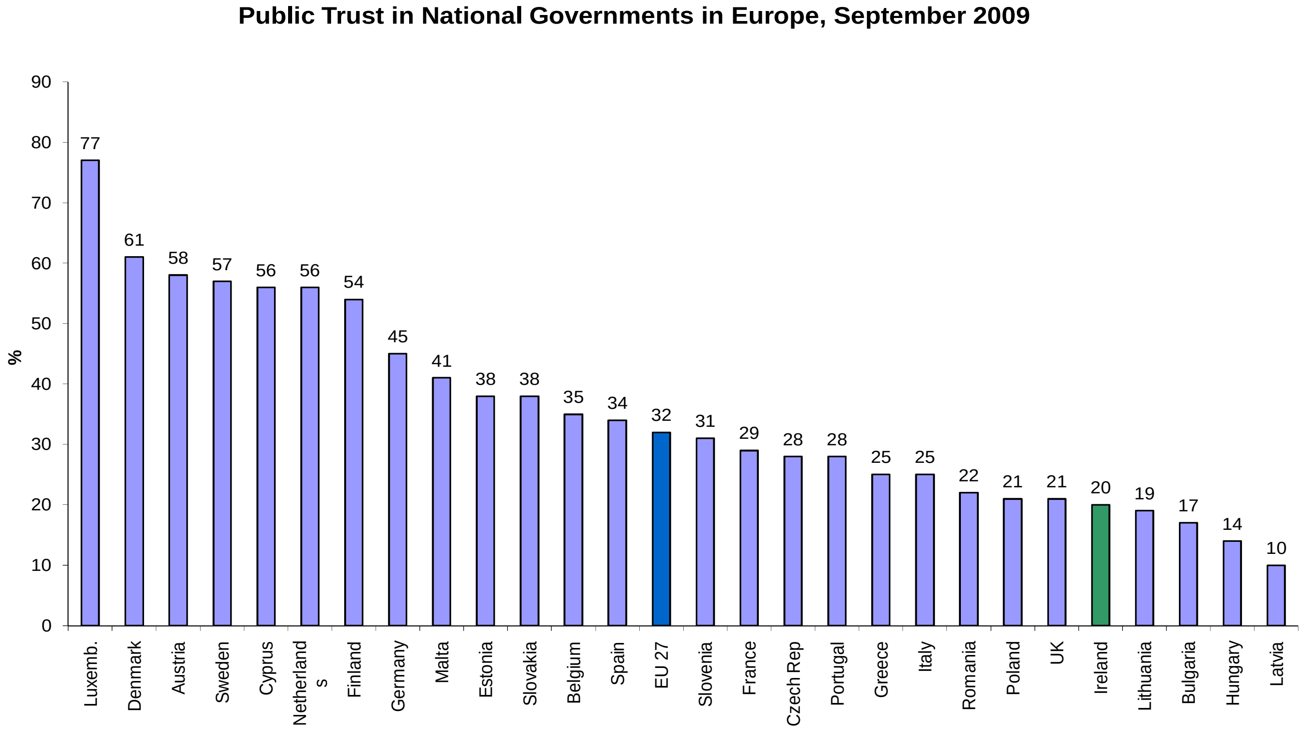
Source: (European Commission 2009)

Figure 12. EU monetary and competitiveness conditions



Source: Martin Wolf, 'The Greek tragedy deserves a global audience', *Financial Times*, 19 January 2010.

Figure 13. Public trust in national governments in Europe, September 2009



Source: Eurobarometer 71, September 2009.
http://ec.europa.eu/public_opinion/archives/eb/eb71/eb71_en.htm

Figure 14. Details of pay cuts in the public sector, December 2009

Application of pay adjustments in accordance with the Financial Emergency Measures in the Public Interest (No. 2) Act, 2009

In accordance with the Act, reductions in basic salary will be applied with effect from 1 January 2010 as follows:

- 5% on the first €30,000 of salary;
- 7.5% on the next €40,000 of salary;
- 10% on the next €55,000 of salary.

These produce overall reductions in salaries ranging from 5% to 8% in the case of salaries up to €125,000.

In the case of salaries of more than €125,000 p.a, the following reductions should be applied:

- Salaries of less than €165,000: 8% reduction on all salary;
- Salaries of €165,000 or more, but less than €200,000: 12% reduction on all salary;
- Salaries of €200,000 or more: 15% reduction on all salary.

http://www.finance.gov.ie/documents/circulars/circular2009/circ282009.pdf

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