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How governments retrench in crisis: the case of Ireland

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How Governments Retrench In Crisis:
The Case of Ireland

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Abstract

The Irish experience of fiscal retrenchment under crisis conditions poses new questions of governance, the evolving answers to which are likely to involve importance changes in the state's organizational profile and in its policy competences. The government is required to formulate and implement extremely tough choices, particularly since Ireland entered an EU-IMF loan programme in November 2010. Yet government does retain some policy discretion in the priorities it adopts in the composition of budget adjustment and in the distributive impact of cuts. This paper sets out to explore where the adjustments have been made through examination both of the composition of budgets and of the organizational configuration of state institutions, and it analyses how these outcomes can be accounted for. The paper draws upon a new official database setting out a detailed compositional analysis of Irish public spending between 2008 and 2012, and upon the Irish State Administration Database (http://isad.ie) through which the organizational aspects of the state's policy capacity can be analysed.

Keywords: Ireland, Retrenchment, Public Administration, fiscal politics, economic crisis

JEL Classification: E62, H40, H61, H83

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Introduction

The size and shape of the modern state have come forcefully into question as a result of the global financial crisis. The countries in EU-IMF loan programmes, that is, Ireland, Portugal, Greece and most recently Cyprus have no option but to adopt a vigorous programme of fiscal retrenchment – they are obliged to meet specific targets in their deficit-to-GDP ratio. But within these tough constraints, governments have some discretion over how and where they make the changes, over which combinations of spending cuts and tax increases are implemented, and where the impact of the savings or revenues will fall. The consequences of fiscal adjustments on the scale required raises questions about challenge citizens' expectations of the responsibilities of the state and the proper scope of politics. The nature of the 'fiscal contract' itself comes into question (Levi, 1988). If citizens consent to pay tax in exchange for the expectation that the state will deliver a set of services, this understanding may be eroded by the need to raise taxes ever more heavily even as spending commitments are curtailed. The politics of consent and contestation may change its shape and form as a result. The state's willingness and capacity to commit to entire sectors of policy may even come into question, as the very organizational infrastructure and resources underpinning its earlier commitments are shrunk back. The implications of this for our understanding of 'politics in hard times' as well as of how states 'shrink' in response to fiscal retrenchment is significant, and provides an opportunity to revisit some of the perceived wisdoms and solutions inherited from the crises of the 1980s.

This paper is concerned with how governments respond to crisis, with a focus on a number of broad policy options that must be addressed when seeking to reduce the cost of the state. The Irish state stood out among its European counterparts in adopting fiscal consolidation priorities close to the outset of the crisis that broke in 2008: a reflection of the consistent pro-cyclical stance that has resulted in regular boom-bust cycles. Under extreme pressure from the financial markets (which resulted in growing difficulties in the state's capacity to roll over its borrowing), and exacerbated by an adjustment strategy within the Eurozone that prioritized fiscal retrenchment above recovery, Ireland was required to enter an EC-ECB-IMF loan programme in November 2010. This has constrained the scale and framework of the state's fiscal and structural adjustment, though there is scope for domestic discretion on how some items are balanced. In this paper, we first profile the state's efforts to reduce the scale of its activities. We then outline the mix of spending cuts and tax increases adopted, and the composition and significance of changes on both these dimensions. The following section traces the changes that have taken place in the structure and organization of the bureaucracy: the structure of state institutions tells us something important about the capacity and competences of the state. The final section seeks to explain the profile of governments' choices in terms of the way the politics of contestation plays out within a specific institutional and ideological context.

Crisis and cutbacks

The impact of the global financial crisis in Ireland has been particularly severe. Between 2008 and 2011 real GDP declined by 5.4 per cent. GNP fell even more precipitously, and because so much of Ireland's measured GDP depends on the foreign-owned high-exporting sector, with high rates of profit repatriation, the gap between GDP and GNP is unusually large in Ireland (Central Statistics Office, 2012). Real domestic demand displayed a cumulative fall of 26% between the end of 2007 and the end of 2011 (NERI, 2012b p.4). Employment rates fell ten percentage points in the same period. From a situation of full employment for much of the 2000s, unemployment rose from 4.5% in 2007 to almost 15% in 2012, before reducing to just under 14% by early 2013.

The decision to provide a blanket guarantee to all bank liabilities in September 2008 greatly worsened the developing fiscal crisis. The cost of bank bailouts, including to non-systemic and non-functioning banks, amounts to some 40% of GDP. An IMF report in June 2012 reports that:

> Iceland and Ireland… feature among the ten costliest banking crises in terms of overall increase in public debt, with public debt in both cases increasing by more than 70 percent of GDP within four years. In terms of output losses, the ongoing crises in Ireland and Latvia are among the ten costliest banking crises since the 1970s, with output losses exceeding 100 percent in both cases. Ireland holds the undesirable position of being the only country currently undergoing a banking crisis that features among the top-ten of costliest banking crises along all three dimensions, making it the costliest banking crisis in advanced economies since at least the Great Depression. And the crisis in Ireland is still ongoing (Laeven & Valencia, 2012 pp. 20-21).

Ireland's general public debt at the start of 2008 was 27.5%. By the end of 2012 it stood at almost 118%. Having run little or no deficit during the 2000s, the general government deficit rose to 7.3% in 2008 and 14% in 2009. The cost of bank recapitalization resulted in a deficit of 31.2% being recorded in 2010; in 2011 the deficit was 13.1%, which fell to 8% in 2012. Ireland was obliged to enter an IMF-EU-ECB loan programme in November 2010. This structures the terms of economic adjustment up to the end of 2013.

We are particularly interested in the extent to which the fiscal adjustment strategies may generate a shift or tilt in policy programmes that may change the future direction of path-dependent policy change. Moments of crisis may therefore represent critical junctures in policy orientation. Alternatively, the changes wrought through budget adjustment may not have any consistent direction or even coherent profile, and it may take some time to discern whether there is any far-reaching implication for the nature of the programme or for the state's capacity to intervene in discrete policy areas. This work is therefore, of its nature, exploratory. But by seeking to place budgetary changes and decisions about the organizational reconfiguration of the state into a broader context of debate about state capacity, we may improve our ability to discern emergent trends and patterns.

The policy options supported by the EU-IMF-ECB Troika for Eurozone countries that are committed to loan programmes are strongly shaped by the conventional wisdom distilled from earlier periods of fiscal consolidation. During the 1990s, many countries undertook fiscal consolidation measures, partly in response to the Maastricht convergence criteria set out in 1992 as a prerequisite for eligibility for Euro membership, and partly in response to the prior accumulation of public debt or other crisis experiences. Alesina and Perotti, key figures in the fiscal consolidation literature, argued that of the 66 cases they considered of large consolidations within the OECD between 1960 and 1992, the successful ones were those that relied mainly on cuts in expenditure (Alesina & Perotti, 1995; Perotti, 1998). Specifically, they noted the importance of deep cuts in transfers and in the government wage bill. They advance two theories to explain successful outcomes: large spending cuts can start a virtuous cycle that makes the economy more competitive; and since these strategies may be politically contentious, only strong governments are willing and able to initiate them, and strong governments are also more likely to be successful in their efforts.

Two different models of consolidation have also been distinguished: one in which a relatively big fiscal correction is implemented in a short period of time, dubbed 'cold shower' consolidation, as compared to 'more gradual episodes of adjustment' (Larch & Turrini, 2008 p.3). The lessons drawn from the earlier phase of fiscal consolidation have been distilled into a small number of propositions that have guided the official EU policy response to the global financial crisis since 2008. This 'orthodox' view is widely held by EU and ECB officials (Dellepiane, 2012). Among its principal tenets we may identify the following features (Pisani-Ferry, 2007):

- Fiscal consolidation should start early and be imposed quickly in a front-loaded strategy to restore market confidence in governments' ability to manage their public finances: governments must implement fiscal shock (or 'cold shower' as noted above) treatment.
- Expenditure cuts are more likely to succeed than tax increases in producing lasting adjustments.
- Strong political commitment to the strategy is important to ensure its credibility.

In the same vein, Posner and Blöndal note that international organizations tend to insist upon the need to 'establish a credible deficit reduction plan', with 'large, multiyear adjustments' that are 'biased toward spending cuts rather than revenue enhancements'. They also note the strong supporting role of fiscal rules, independent fiscal councils, and more inclusive budgetary processes (Posner & Blöndal, 2012, pp. 14-16).

However, the plausibility of these lessons and their applicability to the current economic crisis has been challenged on both theoretical and empirical grounds, and Perotti himself has thrown the inferences drawn from his earlier work into question (Dellepiane & Hardiman, 2011; Perotti, 2011). Firstly, contemporary Eurozone fiscal retrenchment must now be undertaken without the capacity to engage in devaluation. But currency devaluation turned out to be a vital element in earlier successful experiences of fiscal adjustment, as a means both of regaining growth-oriented competitiveness and of spreading the distributive costs of budget restriction. Internal disinflation is politically more difficult and inequalities in the distribution of pain are more visible in the current period. Secondly, single-country fiscal consolidations are more feasible when there is growth in the international economy to facilitate the return to growth, but within the Eurozone, there is little or no source of growth-inducing aggregate demand. Thirdly, austerity measures are currently implemented at the same time as private sector deleveraging and against a backdrop of a very weak financial sector, which risks intensifying the contractionary effects of fiscal adjustment. And fourthly, while GDP continues to shrink, countries may expend enormous effort in cutting spending and raising taxes without achieving much sustained improvement in their deficit. Nevertheless, the politics of austerity has been the dominant strategy advocated within the Eurozone (Schäuble, 2011). Therefore we need to focus on the politics of fiscal effort rather than on the aggregate outcome if we are to understand what governments are trying to do (Dellepiane & Hardiman, 2012a; Leigh, 2010; Mulas-Granados, 2010).

Explaining responses to crisis

It may well be that moments of economic crisis may provide governments with both the incentive and the opportunity to drive through policy changes that bring about a shift both in the scope and coverage of spending programmes and in the responsibility of the state for certain kinds of outcomes. Politicians are often exhorted to 'never to waste a good crisis'. Economic crisis may present an opportunity to face down existing veto players, change policy discourse and achieve policy reforms that politicians had previously sought but could not achieve. Programmes may be weakened by fiscal means, through change in the levels at which payments are made or to the conditions under which people become entitled to them, or by changes to the way they are funded. Or state institutions could be reorganized through a withdrawal of direct public responsibility for certain policy areas. This may come about through a variety of means. They could include, for example, privatization of utilities and resources, or deregulation of activities so that performance standards are more exposed to market disciplines. The fiscal base of policy programmes could be altered by re-orienting tax policy design, and tilting the future pathway of policy evolution (Hacker & Pierson, 2010; Pierson, 1994). A more gradual erosion of policy programmes over time may also be set in motion by changing programme eligibility, or by incentivizing people to opt for private sector rather than public welfare state solutions (Hacker, 2006; Mahoney & Thelen, 2010).

However, governments may find it difficult to implement fiscal retrenchment, to withdraw from its current range of policy commitments, or to alter the nature of service provision currently in place. There are three reasons why governments may encounter political difficulties.

- The first is ideological and electoral. If a government disappoints significant sections of its support base or appears to compromise core values, it may lose electoral support. The need to maintain core constituencies of support may limit government's freedom of manoeuvre. From the existing literature, we would expect to find that governments with significant left participation would seek to maintain spending provisions for the least advantaged; that it would be highly sensitive to equity issues; and that it would have a preference for revenue-raising adjustment over cuts to expenditure (Boix, 2003; Mulas-Granados, 2010). Unpopular policies may need to be adopted in extremis (Kitschelt, 2001), including reductions in public service numbers. But governing parties' choices still matter.
- The second has to do with the role of key veto players. The politics of fiscal retrenchment, and especially of cuts to welfare spending, is not a mirror-image of the politics of expansion (Pierson,

1996). If groups that are likely to be disadvantaged by spending cuts or tax increases form a visible group, and are capable of organizing, they may be able to engage in collective action or otherwise to resist unpalatable measures (Mahoney & Thelen, 2010). Institutional access may also be a factor in advantaging specific groups (for example, if trade unions have established patterns of access to government ministers). If such groups are dispersed and inchoate, and find it difficult to organize, the capacity to oppose or resist will be much lower. As Pierson notes, many of the most vulnerable categories of welfare recipients fall into this category. But it should also be recognized that there may be a hidden dimension of power and influence, a 'third dimension of power' involving 'quiet' influence (Culpepper, 2010; Lukes, 2004), such as that which business interests or certain professional groups are frequently seen to possess. Not only do they have privileged access to decision-makers, but their priorities may even be built into the prevailing policy assumptions about what is politically and economically feasibly (such as, for example, the need to maintain low corporation tax rates).

- The third has to do with institutional inertia. A number of studies have indicated that it is easier to expand the range of state organizational capacity, and to generate new institutional apparatuses to give this effect, than to reverse the trend. A range of explanations has been adduced for this. Some attribute expansionary preferences to professional civil servants, and the career-centred wish by senior staff to accrue resources in the form of budgets and staffing (Niskanen, 1971). Others point to the dissemination of trends or fads in public sector organization (Dunleavy, 1989; Pollitt, Bathgate, Caulfield, & Smullen, 2001; Pollitt, Talbot, Caulfield, & Smullen, 2004). Key actors in the organizations themselves are often therefore resistant to intentional re-design; the organizations become the site of other kinds of struggles to define both the form and the content of the policy being delivered.

We are interested in focusing on the principal strategies states might undertake not only to bring about a lower fiscal deficit, but also to rationalize and downsize the public sector. What interests us most, as noted above, is the politics of fiscal effort and state design. This implies two broad questions. The first concerns who is to be most affected by the fiscal measures and what the distributive impact is to be. The second concerns the impact of organizational change on state capacity and the scope of the state's policy commitments. We then go on to consider how best to explain actual patterns of choice in the light of the explanatory variables outlined here.

Budgets in the balance

Between July 2008 and end 2012, Ireland had nine episodes of fiscal adjustment. By 2014, it is anticipated that the total adjustment will have amounted to almost €30bn, through a combination of spending cuts and increased taxation. The profile of Irish fiscal adjustment between 2008 and 2012 is summarized in Figure 1 below.

Figure 1. Composition of Irish fiscal adjustment strategy, 2008-2012

Intervention	**Key budgetary measures**	**Size of fiscal effort**
July 2008: Expenditure adjustments	Efficiency cuts	€1bn
October 2008: Budget 2009	Income levy; spending cuts, including welfare	€2bn
February 2009: Expenditure Adjustments	Cuts to public sector pay as 'pension levy'; public sector pay increase stopped	€2.1bn (€1bn in 2010)
April 2009: Supplementary Budget	Tax increases esp. levy; €1.2bn current , €600m capital	€3.5bn Total €5.3bn €1.8bn
December 2009: Budget 2010	Spending cuts on all welfare, public sector pay and numbers, and capital cuts totaling €4.1bn; tax increases €0.1bn	€4.2bn
December 2010: Budget 2011	Current cuts €2.1bn, capital cuts €1.9bn, other €0.7bn; tax increases €1.4bn [National Recovery Plan 2011-2014 projects €10bn cuts, €5bn tax]	€6.1bn
December 2011: Budget 2012	Current cuts €1.4bn, capital cuts €0.8bn, Tax increases €1.1bn	€3.3bn
December 2012: Budget 2013	Current and capital cuts €2.3bn, Tax increases €1.2bn	€3.5bn
Adjustment 2008-2012 Projected overall adjustment 2008-2014	 65% Expenditure 35% Revenue	€27.5bn €29.6bn

Source: (Department of Finance, 2011; European Commission, 2010), Budget documents 2009, 2010, 2010, 2011, 2012.

The overall government deficit, which was -7.3% GDP in 2008 and-14% in 2009, was reduced somewhat to -13.1% in 2011 and -7.6% in 2012. Ireland is committed to getting the deficit to under 3% by 2015 (European Commission, 2012a p.27). This is in the context of a fall in GDP of some 18% between 2007 and 2010 (Central Statistics Office, 2012).

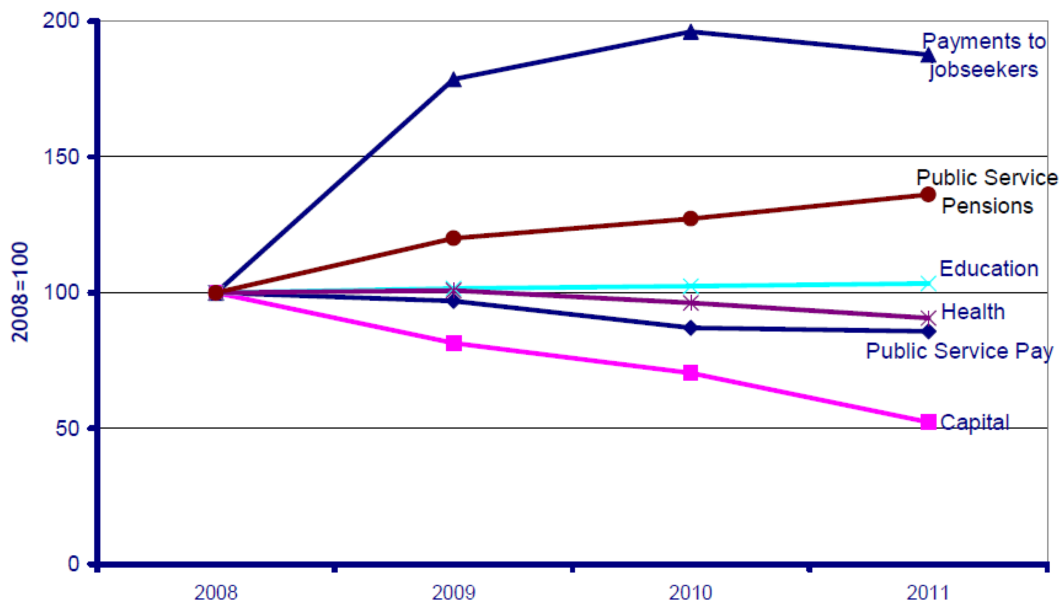
Total government expenditure escalated rapidly from 42.8% GDP in 2008 to 66.1% in 2009. This was back down to 42.1% in 2012. But percentages can be misleading when both numerator and denominator are fluctuating and the bank recapitalization figures skew somewhat the 2010 figures. Total government expenditure rose from €77.1bn to €78.4bn between 2008 and 2009. By 2011 it stood at €76.4bn, and the aim was to bring it down to just over €70bn by 2012. Meanwhile, revenues had plummeted from €63.9bn in 2008 to €55.9bn in 2009 as a consequences of the precipitous collapse of the property bubble, on which the tax system had come to rely inordinately, and on account of the sudden slowdown in economic activity that followed the crisis. This figure rose somewhat to €57bn in 2012, though projections would have it at €63.1bn by 2015.

The overall fiscal adjustment, in an economy with a GDP of €163,595bn in 2012 (but GNP of closer to €130bn), was estimated at almost €21bn between 2008 and 2011, a considerable fiscal effort. How was this achieved? Where did the spending cuts fall? What extra taxes were raised? And what did it mean for the configuration of the state's activities?

The first observation to make about the scale of austerity measures is that they have not necessarily entailed the withdrawal of money from the economy on the scale implied by the total headline figure here. That is not to say that the effects of austerity have not been real and palpable. But just as was the case with Thatcher's attempts to downsize the British state, which did not result in any significant aggregate reduction in public expenditure, one of the principal outcomes of the retrenchment measures in Ireland has been to prevent public spending from continuing on the upward trajectory on which it was headed during the 2000s. It has been estimated that if no action had been undertaken, the deficit in 2011 would have been 20% of GDP, and Ireland would have been heading for a debt to GDP ratio of 180% GDP by 2014 or 2015 (Coffey, 2011). Much of the adjustment has taken the form of preventing expenditures that would otherwise have been incurred. Some 40% of this comes from cancellation of planned capital and infrastructural projects. Coffey estimates that between 2008 and 2011, 'almost €9bn of current expenditure cuts have been announced, but gross voted current expenditure is only €0.5bn lower than it was four years ago'. On the other hand, government was running to stand still on the revenue side, in the context of declining and depressed economic activity. Coffey notes that almost €8bn of revenue-raising measures were introduced over the period, but that revenue was actually €7.4bn less than it had been four years previously.

Thus we have a seemingly paradoxical situation in which large spending cuts are announced, but the net effect is quite marginal; and significant tax increases are announced and implemented, but the total revenues still fall far short of spending commitments. This arises because a static or declining economy depresses economic activity and dampens revenue flows; the amounts likely to be raised by particular measures have often been over-estimated; and with unemployment peaking at almost 15% in 2012, the demands on welfare spending push up this category of public expenditure (Figure 2), increasing the adjustment that needs to be effected in other policy areas. As Figure 2 below identifies, reducing public service numbers by means of early retirements may reduce the payroll bill but increases the cost of servicing pensions. Meanwhile, a higher borrowing requirement also entails higher debt servicing costs.

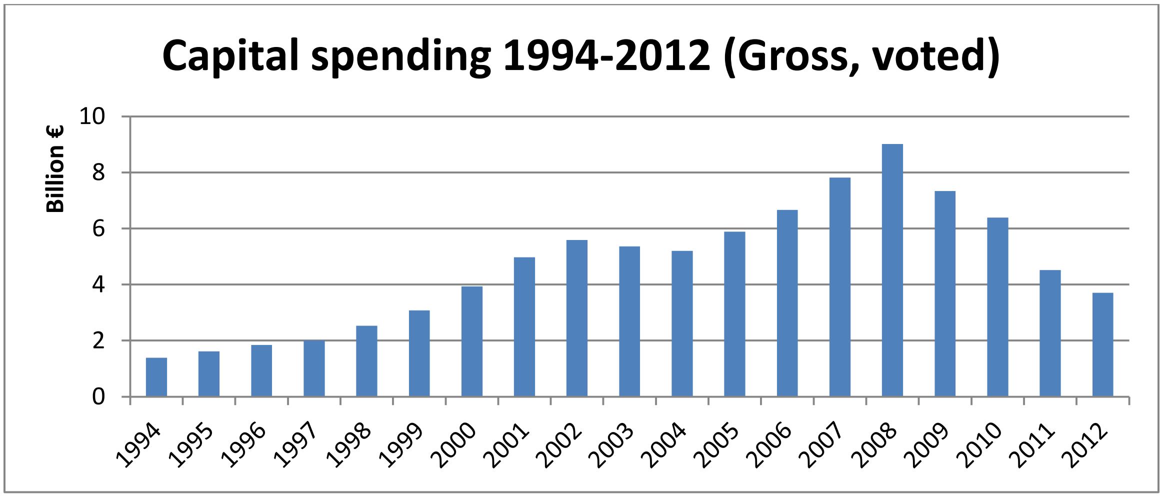
Figure 2: Public Expenditure Components 2008-11



Source: (Department of Public Expenditure and Reform, 2011c, p.9).

In the late 1980s, an earlier phase of fiscal retrenchment imposed a significant number of capital cuts which had a lasting effect on the provision of social infrastructure (and particularly in health and education), and which inhibited public infrastructure development. Improved levels of capital investment during the 1990s had been facilitated by considerable EU structural fund programmes, though these transfers were replaced in the early 2000s by domestically generated revenues and projects funded by public-private partnerships. In the face of the current crisis, a commitment to retain productive capacity has been consistently made. However as Figure 3 below shows, investment in capital projects was more than halved over the 2008-2012 period, returning to a level not seen since 1999. An Economic and Fiscal Outlook produced as part of the Budget process for 2012 noted that government investment would fall from 3.7 per cent of GDP in 2010 to just 1.4 per cent of GDP in 2015 (Department of Public Expenditure and Reform, 2011a, Table 11). The decrease in capital spending far outstripped the equivalent drop for current expenditure.

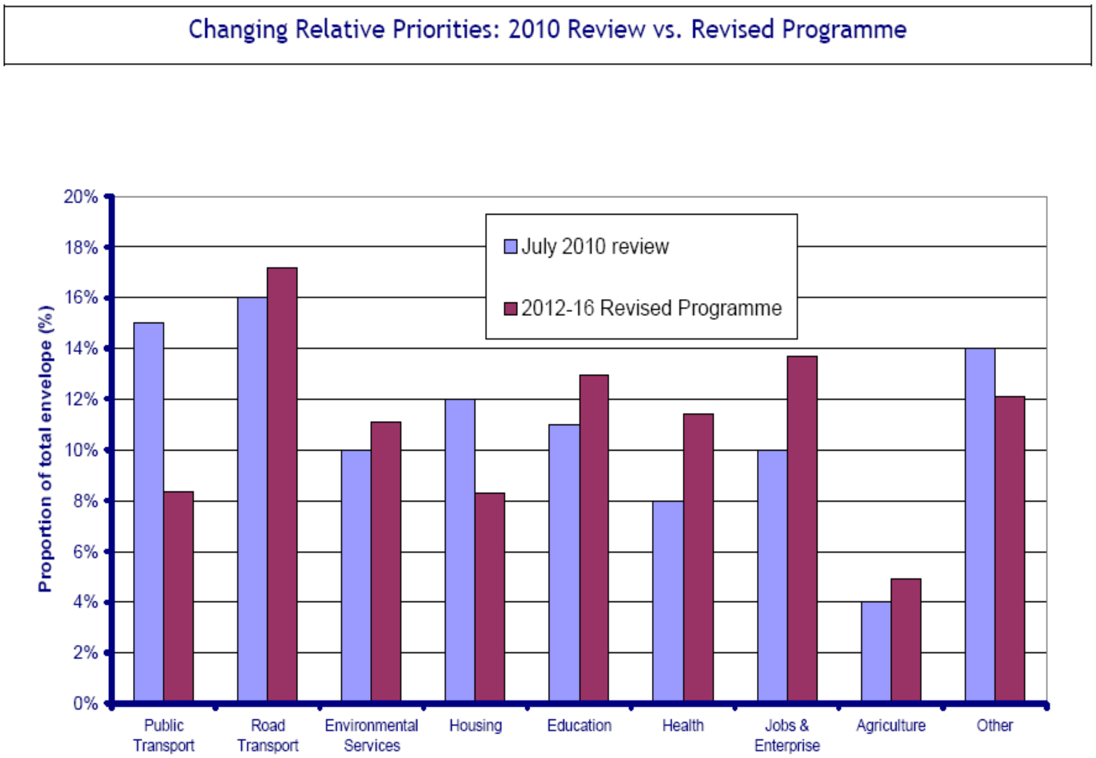
Figure 3. Capital Spending 1994-2012



Source:(Department of Public Expenditure and Reform, 2013) http://databank.per.gov.ie/

An official review of the government's capital expenditure priorities for 2012-16, undertaken in 2011, resulted in a switch in emphasis away from public transport and housing, and towards schools and health infrastructure (Department of Public Expenditure and Reform, 2011b). This shift was brought about as a result of new demographic data trends, as well as by commitments on the part of the new administration to promoting projects that would support 'jobs and enterprise', which included grants administered by agencies involved in enterprise development, public construction projects, and labour market measures.

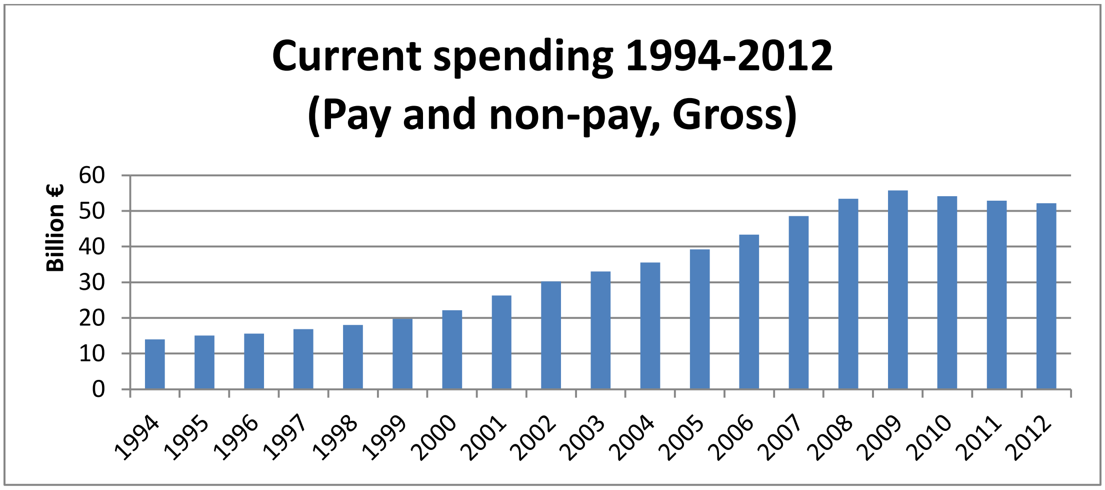
Figure 4. Revised Capital Programme Composition, 2010-2011



Source: (Department of Public Expenditure and Reform, 2011b)

The decline in capital spending is in contrast with current expenditure, which remained disproportionately high, as Figure 5 demonstrates. A large portion of the current spending bill is accounted for by the public service wage bill, with a quarter of the overall budget going to the health sector and almost a third being spent on social welfare.

Figure 5. Current Government Spending, 1994-2012



Source: (Department of Public Expenditure and Reform, 2013)http://databank.per.gov.ie/

The composition of current spending cuts: public sector pay

This prompts our next question, which is to ask how the profile of public spending has changed, since even though the total volume of spending has changed relatively little, considerable effort has been put into cutting into what would otherwise have been a dynamic upward trajectory in spending commitments.

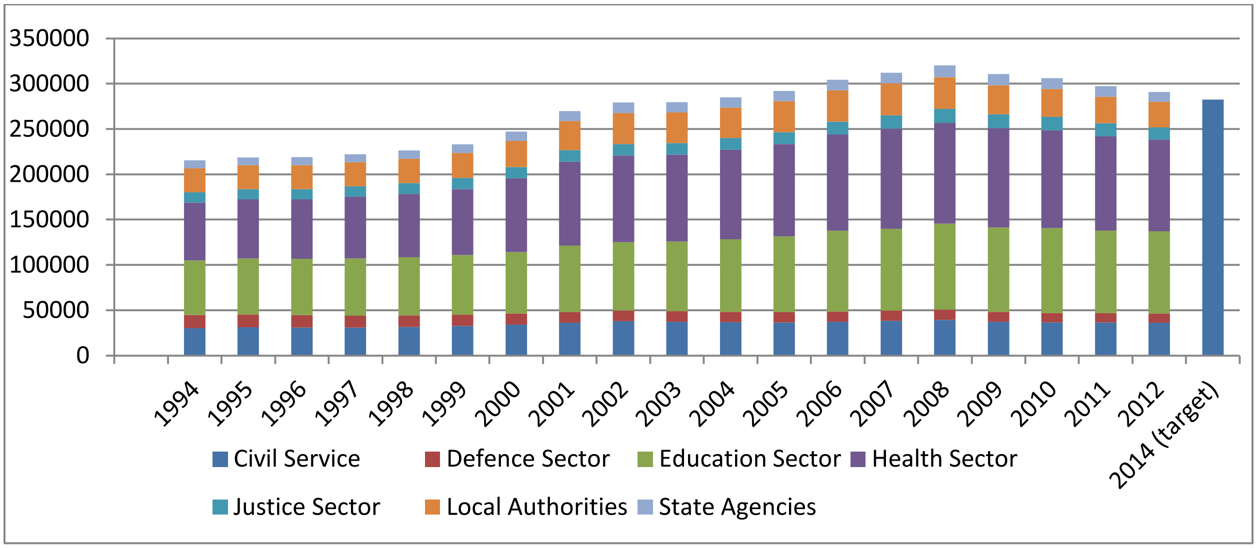
The first question to ask is what has happened to public sector pay, given that by 2012, almost one-third of current expenditure in the public service was accounted for by pay. Pay scales had improved considerably during the 2000s due to a series of 'benchmarking' reviews that linked public sector salary scales to those of a selection of private sector professions. Attempts to establish comparability proved notoriously contentious. But between 2003 and 2006 alone, the relative gap (or pay premium) between public and private sector workers almost doubled from 14 to 26 per cent (Kelly, McGuinness, & O'Connell, 2009).

Following the onset of the crisis in late 2008, public sector pay increases scheduled for payment in 2009 under the terms of the National Wage Agreement, 'Towards 2016', were not paid. A 'pension levy' was introduced for all existing public servants, justified on the premium attached to public service pensions which were not affected by fluctuations in world markets. In the Budget for 2010, public sector pay was directly cut (for the first time since 1933) on a tiered basis. But following resistance to this at the more senior levels of the core civil service, the government agreed to reduce the impact of the cuts on them by privileging the treatment of performance-related pay. Adjustments to future but not current pension provisions were introduced, which included a change in the calculation of retirement benefits so that amounts received would be based on 'career average' earnings rather than final salary, and an increase in the minimum pensionable age for new entrants from 65 to 66. The EU-IMF progress report of March 2012 reported that as a result of these measures, the gross rates of public service pay were reduced by about 14% cumulatively over 2009 and 2010, with the Exchequer pay bill reduced by 17.7% in nominal terms between 2009 and 2012. However, the pensions bill had increased by 67% over the 2007-12 period (Department of Public Expenditure and Reform 2012, p.3), offsetting much of these payroll savings.

All public employees' pay had been cut directly. But in December 2010, the government concluded an agreement with the trade union movement, the 'Croke Park Agreement', which guaranteed that public sector employees would not suffer any further direct cuts to their pay, in exchange for enhanced cooperation with ongoing structural change and work flexibility (Stafford, 2010). The argument was that cost-saving efficiencies could be met through the deal, but little solid evidence for this claim was put forward. An immediate implication of the agreement was that expenditure savings in the public sector would be enforced through control over the numbers employed rather than through pay rates. By late 2012 however it became clear that further reductions in pay rates were necessary to achieve 2015 pay and pension targets, and agreement was reached in May 2013 between government and the larger trade unions for a further (and supposedly final) tiered pay and pension reduction.

A review commissioned by the government in 2009 on '*Public Service Numbers and Expenditure Programmes'* had recommended reductions in the order of 17,300 personnel or approximately 5% of the public service (Report of the Special Group on Public Service Numbers and Expenditure Programmes, 2009a, 2009b). The 2010 Croke Park Agreement meant that government was committed to securing shrinkage in numbers through further voluntary retirement schemes, in addition to early-retirement and career break incentives introduced earlier in the crisis. Changes to the terms of pension entitlements encouraged some 9000 public servants to depart by the end of February 2012, with the government indicating that it would recruit some 3000 replacement personnel to the service. An overall reduction of some 25000 personnel (albeit on pre-crisis 2008 figures) by 2014 had been agreed with the EU-ECB-IMF in November 2010 as part of Ireland's bailout deal. Figure 6 presents the figures on public service numbers since 1994 by major sector, peaking in 2008 and declining thereafter.

Figure 6. Public sector employment, 1994-2012 (with 2014 target agreed with Troika).



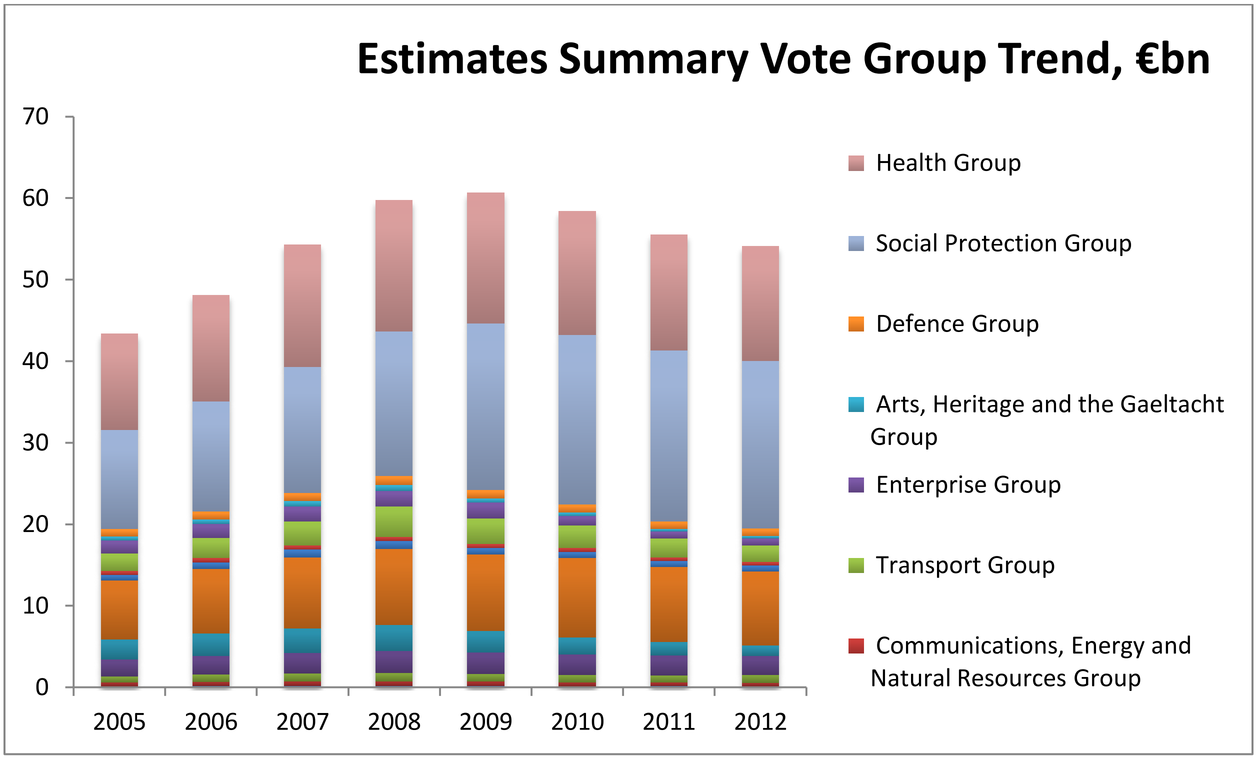
Source: (Department of Public Expenditure and Reform, 2013) http://databank.per.gov.ie/

Sectoral impact of spending cuts

Within the public service, cuts in spending and personnel were not imposed equally on all aspects of government activities. We might usefully distinguish between so-called ‘cheese-parer’ spending cuts, involving across-the-board imposition of cuts of the same percentage, regardless of programme; and the ‘cake-slicer’ approach which would impose heavier cuts selectively, targeting specific programmes, perhaps even abolishing them entirely. The public sector recruitment embargo across all sectors, regardless of its impact on service delivery, is in principle a ‘cheese-parer’ approach, though vulnerable to differential levels of interest or willingness to take advantage of incentive schemes. A blanket recruitment embargo is likely to be more sustainable because it trumps selective lobbying. But the impact, if sustained, is likely to be controversial, as high-demand and personnel-intensive services (eg hospital midwifery, child protection and social work services) become increasingly stretched, while routine administrative positions suffer far less hardship.

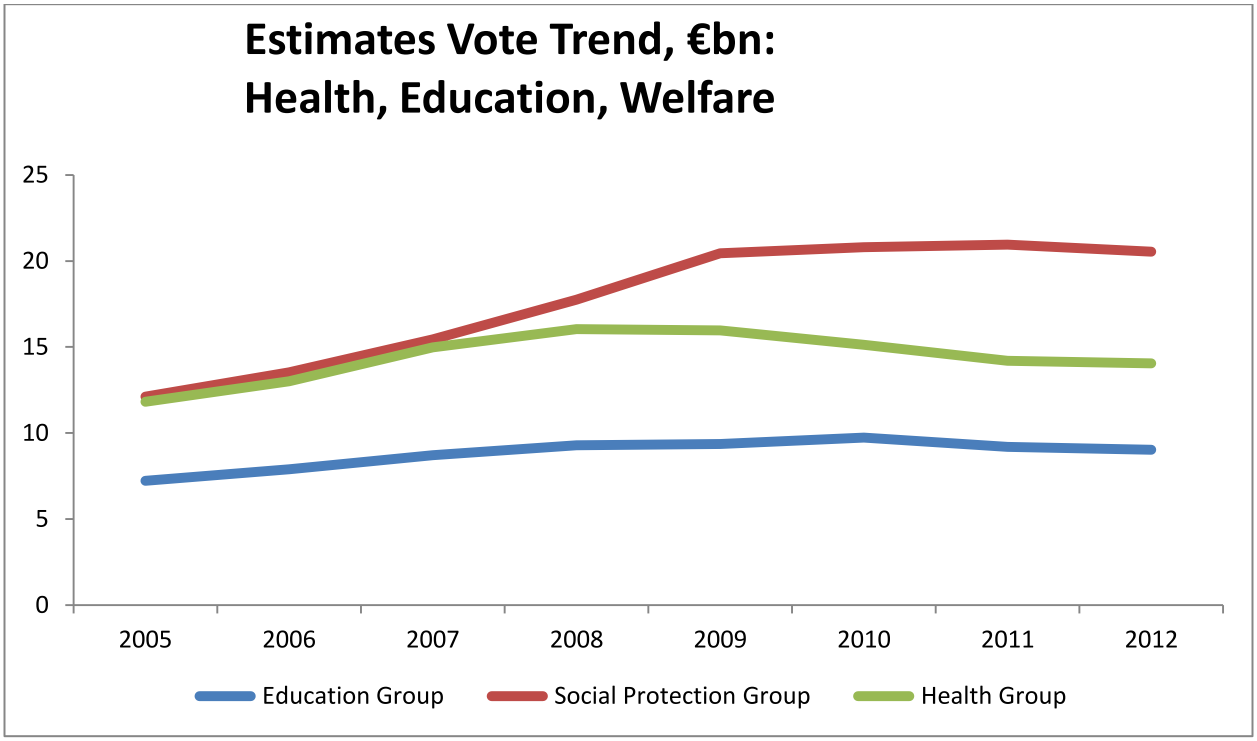
The budget allocations by sector show a highly differentiated impact across areas of activity. Figure 7 shows the total composition of spending, and reveals marked overall decline after 2008. But Figure 8 shows that health services suffered a real drop, while spending on social protection programmes increased sharply between 2007 and 2009, as a result of the increasing reliance on welfare measures due to rising unemployment. And yet we can see that welfare spending stabilized, albeit at a much higher level, from 2009 on.

Figure 7. Total budget spending commitments by policy area, 2005-2012



Source: (Department of Public Expenditure and Reform, 2013) http://databank.per.gov.ie/

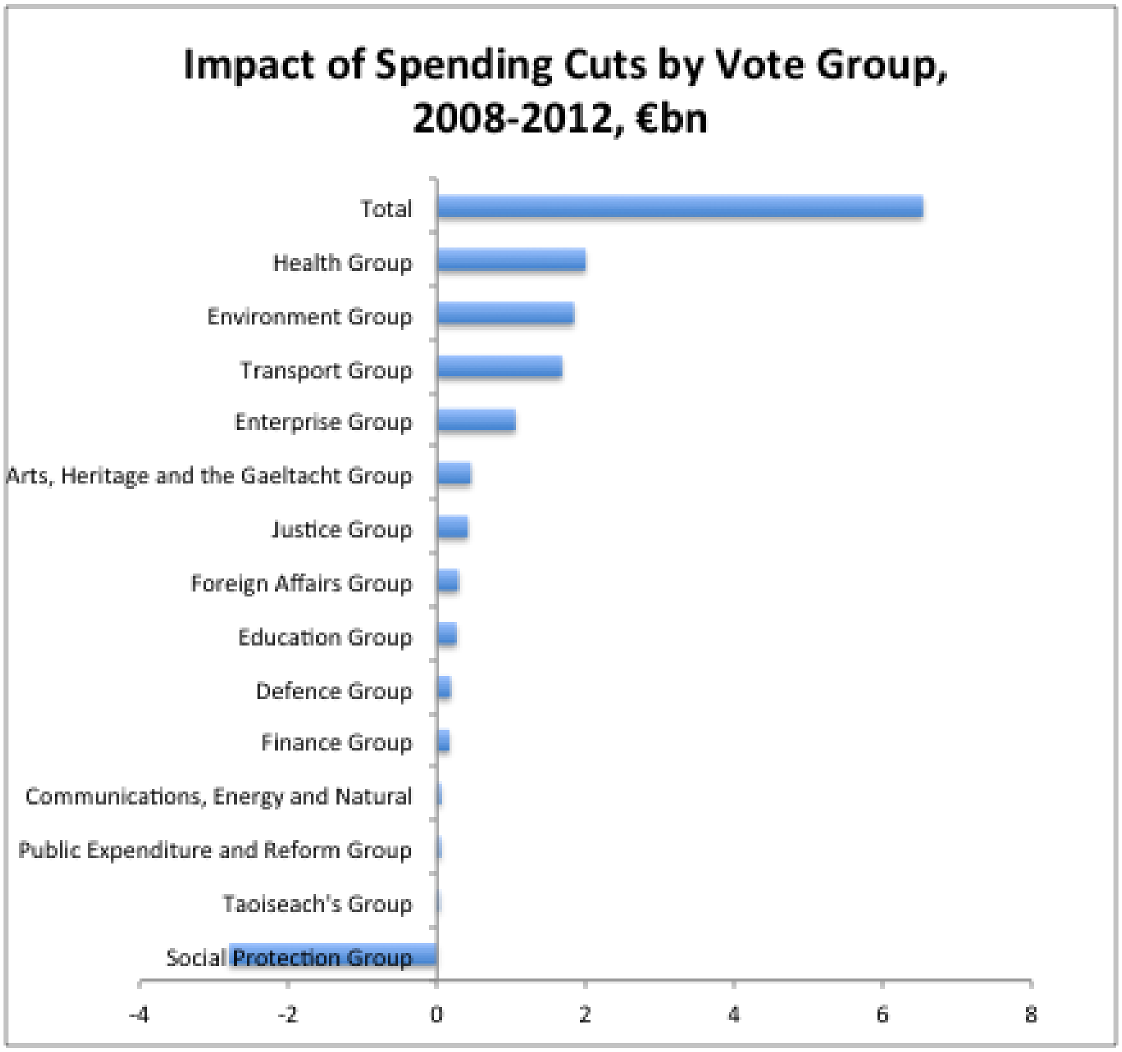
Figure 8. Budget spending commitments on health, education, and welfare, 2005-2012



Source: (Department of Public Expenditure and Reform, 2013) http://databank.per.gov.ie/

Because health services are large and very expensive, the total volume of cuts in this sector outweighs all other spending cuts, as Figure 9 shows. Other sizeable areas in which deep cuts were made include environment, transport, and enterprise (mostly capital cuts arising from cancellation of planned projects).

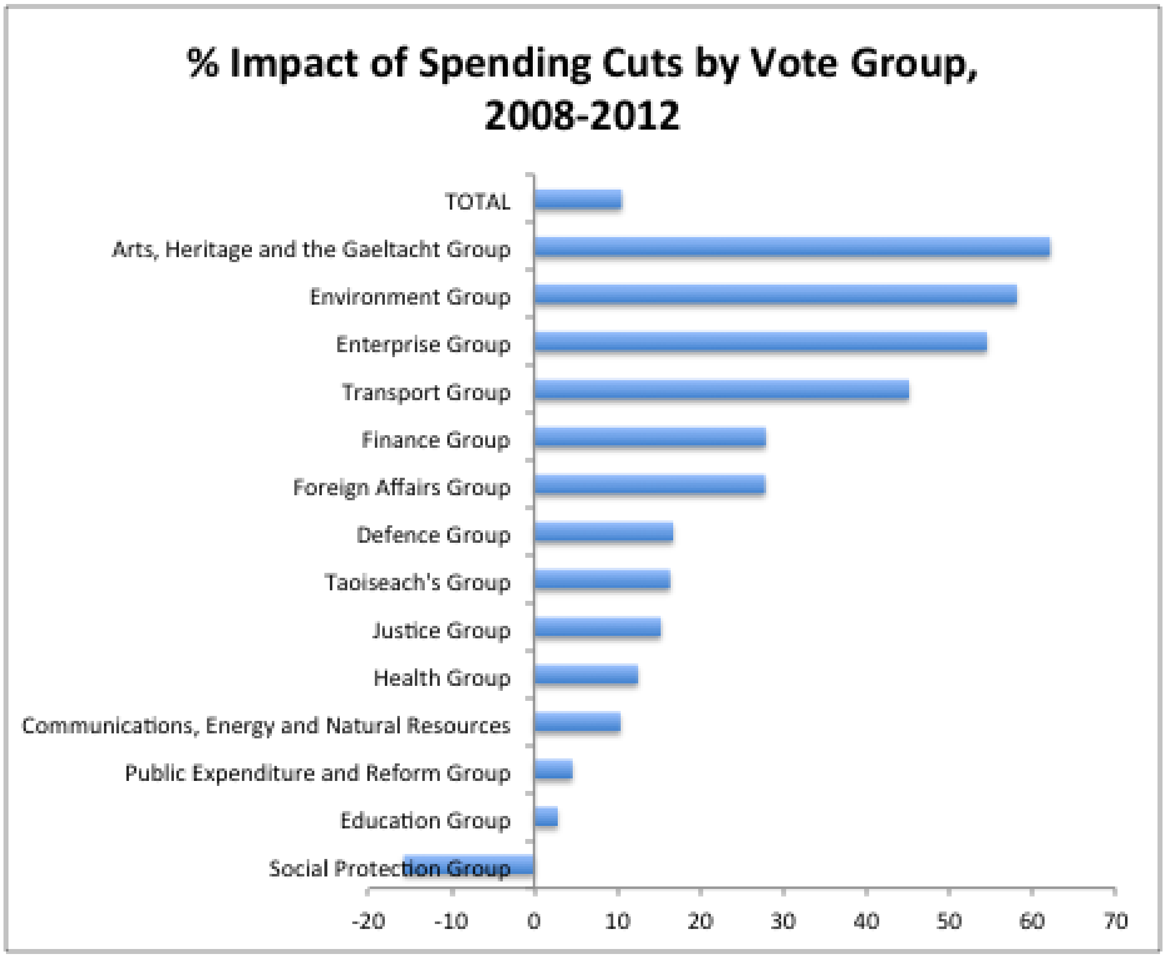
Figure 9. Impact of spending cuts by policy area, €bn, 2008-2012



Source:(Department of Public Expenditure and Reform, 2013) http://databank.per.gov.ie/

But the largest proportional cuts were effected in the policy areas covered by the Department of Arts, Heritage, and the Gaeltacht, as Figure 10 shows, including a range of cultural and arts activities. The arts, it seems, are a luxury in a crisis. But in addition, this government department channels a lot of support for community initiatives, including many support services which might otherwise be included as elements of welfare services, as we shall see below.

Figure 10. Impact of spending cuts by policy area, %, 2008-2012



Source: (Department of Public Expenditure and Reform, 2013) http://databank.per.gov.ie/

Welfare spending

Figures 9 and 10 indicate that social protection expenditure, alone among programme areas, increased between 2008 and 2012. But Figure 8 also showed that spending in this area flattened out after 2009. Recipients of almost all categories of welfare benefits suffered direct cuts to their entitlements, along with public sector employees, during 2009. In addition, changes were made to eligibility criteria and the type of assistance claimants can call upon. For example, changes to the qualifying conditions to be met in order to receive a Medical Card reduced the number of people entitled to free public medical care. And a more general and fundamental change, away from means-tested welfare rates (including disability allowances, single parent family payments and carer's allowance) and toward a Single Working Age Assistance Payment, has been presented as a shift from a 'passive' to 'active' welfare protection, in which all beneficiaries would be categories as being available for work. When considered alongside the protection of public sector employees' pay and benefit levels after 2010, this leads us to consider both the politics of the imposition of fiscal adjustment, and the distributive impact of spending cuts. We will return to these issues later on.

Welfare services and non-governmental organizations

A wide range of social services in Ireland are delivered through the charitable, voluntary and community NGO sector. A report conducted by the Irish Congress of Trade Unions found that austerity measures had fallen disproportionately on the social and community sector (Harvey, 2012 p.18). Detailing the reductions in transfers from the state by sector, the lack of coherence in policy decisions is noted in the selective, 'cake slicing' approach to cuts.

Figure 11. Cuts to voluntary and community organizations 2008-2012

Heading	%
Government spending	-2.8%
Voluntary and community sector funding	
Health	-4.5 < -29%
Voluntary social housing	-55%
Development	-29%*
Supports voluntary & community	-48%*
LCDP	-35%
Drugs initiative	-29%
Family Support Agency	-17%
RAPID	-67%*
CLAR	-98%*
Community and social inclusion:	-72%*
Community voluntary fora	-58%*
Development aid	-28%*
Youth organisations	-2%*
Youth projects	-18%*
Sports grants	-18%*
Sports Council	-52%*
Arts Council	-20%*
Probation services	-36%
Office Minister for Integration	-63%
Disability projects	-100%
COSC violence against women	-23%
Funding women's organisations	-40%

** 2008-2011 only, 2012 figures not yet available.*

Source: (Harvey, 2012)

As part of the contraction in state support for the community sector, this study found that the process of rationalizing state agencies had concentrated disproportionally on the welfare support sector, resulting in a greater reduction in the number of agencies concerned primarily with 'social policy' issues than in other policy areas. Figure 12 shows that the actual personnel and budgetary savings are relatively small, given that many of these agencies were small and had principally advisory functions (Harvey, 2012 p.20). But the impact on service delivery of cuts both to the agencies directly funded by the state, and to the voluntary organizations providing services under contract, can be considerable.

Figure 12. State agencies in social policy field disbanded or scheduled

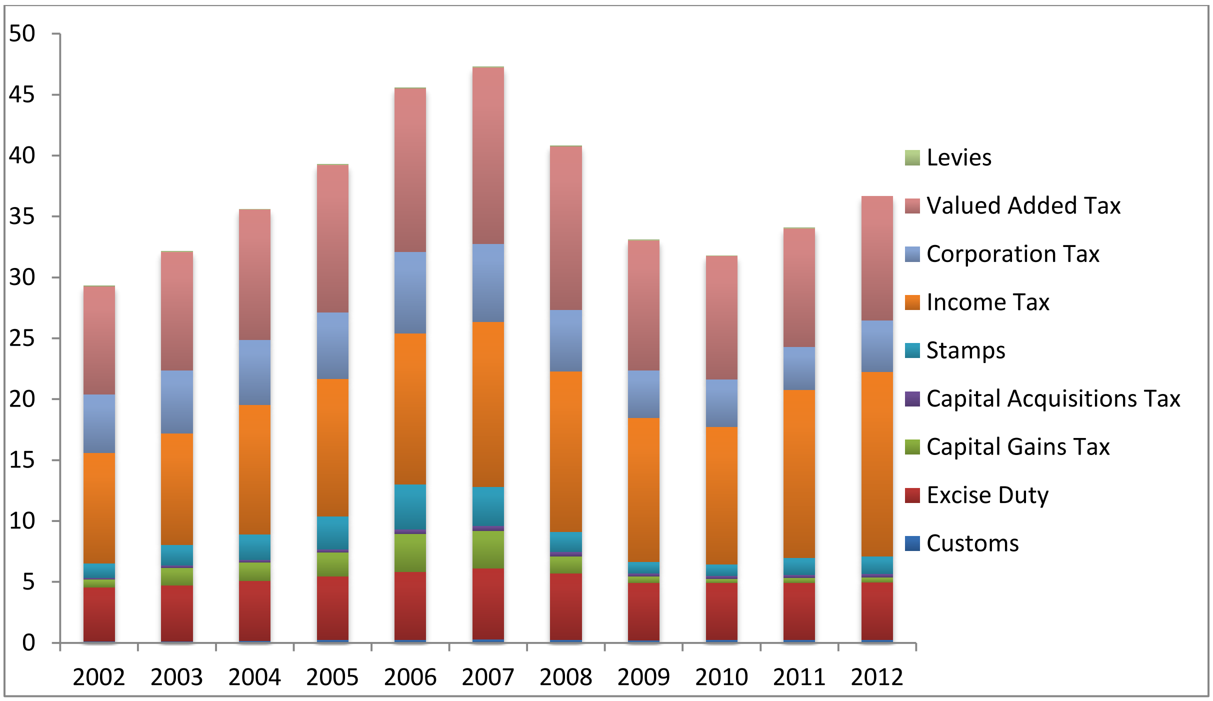
Agency	Saving	Staff reductions FTE*
National Crime Council	€394,000	N/A
National Consultative Committee Racism & Interculturalism	€628,000	N/A
Education Disadvantage Committee	€100,000	N/A
Centre for Early Childhood Development & Education	€830,000	6
National Council on Ageing and Older People	€1.26m	10
Women's Health Council	€155,000	2
Combat Poverty Agency	€2.7m	11.4
Children Acts Advisory Board	-	-
Crisis Pregnancy Agency	-	-
Affordable Homes Partnership	-	-
Centre for Housing Research	-	-
Homeless Agency	-	-
National Economic and Social Forum	-	-
Office for Active Citizenship	-	-
Library Council		14.9
Comhar	€390,000	-
	€6.457m	44.3

Source: (Harvey, 2012)

Revenue measures

Prior to the onset of the crisis in 2008, Ireland did not have a problematic fiscal deficit, and indeed often ran a fiscal surplus during the 2000s. However, beneath the surface, the sustainability of the revenue base was become more questionable. There were two principal reasons for this. Firstly, the income tax base was steadily eroded. From 1987 onwards, a series of social partnership agreements between government, employers and unions, had been negotiated. It has been argued that these agreements paved the way for the phase of rapid growth from 1994 to 2008 (Barry, 2009; MacSharry & White, 2000). They were premised on a distinctive kind of deal, which traded reductions in tax liabilities for industrial peace (Hardiman, 2006; Regan, 2012). Buoyant revenues permitted governments to continue with this strategy more aggressively during the 2000s. As a result, when the crisis hit, some 50% of employees were outside the tax net. The second reason why the Irish revenue system had become precarious was because of its growing reliance on taxes flowing from property-related transactions (Dellepiane & Hardiman, 2012b). The tax system had become heavily dependent on the necessarily transient construction bubble. Figure 13 shows the severe slump in total revenues and the rise and fall of property-related taxes.

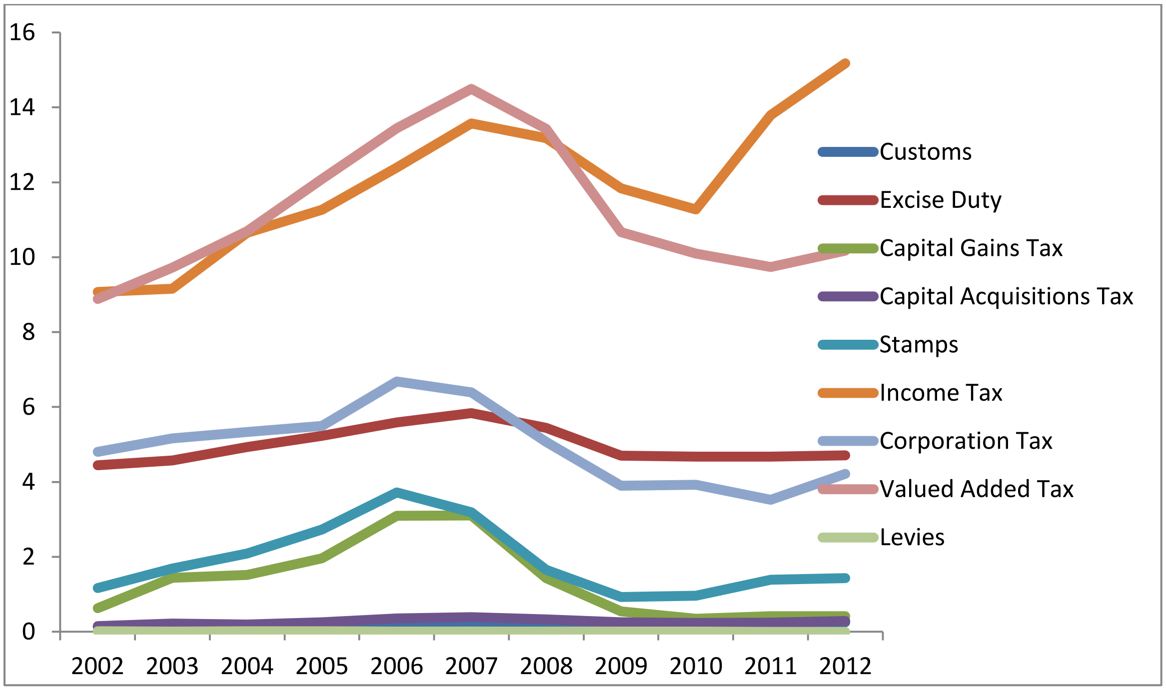
Figure 13. Tax composition by year, 2002-2012 (actual outturn, €bn)



Source: (Department of Finance, 2012), http://databank.finance.gov.ie/

Looking at Figure 14, we can see more clearly that the problems in the revenue system preceded the crisis. The revenue from capital gains tax and stamp duty peaked in 2006, and already by 2007, income tax and Value Added Tax were displaying a downturn in total yield.

Figure 14. Composition of tax revenues, 2002-2012 (€bn)



(Department of Finance, 2012)

The onset of recessionary conditions and the rapid increase in unemployment, first in construction and then extending more widely, had a disastrous effect on revenue flows. Raising taxes in the middle of a recession is difficult. Payroll taxes need to be handled with care to avoid disincentivizing employment, while indirect taxes have a distinctly regressive effect. Such was the scale of the state's need for revenue increases that a whole series of revenue-increasing measures were adopted, extending across most areas of activity. This included introducing new taxes on activities and resources that, while routinely taxed elsewhere, had been outside the revenue system in Ireland before the crisis, such as waste collection, property, water consumption, and so on. Introducing them is politically difficult. Earlier attempts to reintroduce a residential property tax during the 1990s (household rates were abolished in 1978) were withdrawn in the face of electoral resistance (Rafter, 2000). These particular new taxes were highly visible, and required a greater degree of taxpayer compliance than revenue instruments such as income tax or VAT. Since the charges were flat-rated, though at relatively low levels, they had a regressive impact. They provided a rallying-point for smaller left-wing and independent radical organizers. Although protest against the taxes had relatively little impact on the design, implementation, or imposition of these policy measures, the areas in which tax protests had been most active were also areas in which radical candidates performed particularly well electorally in the general election of February 2011.

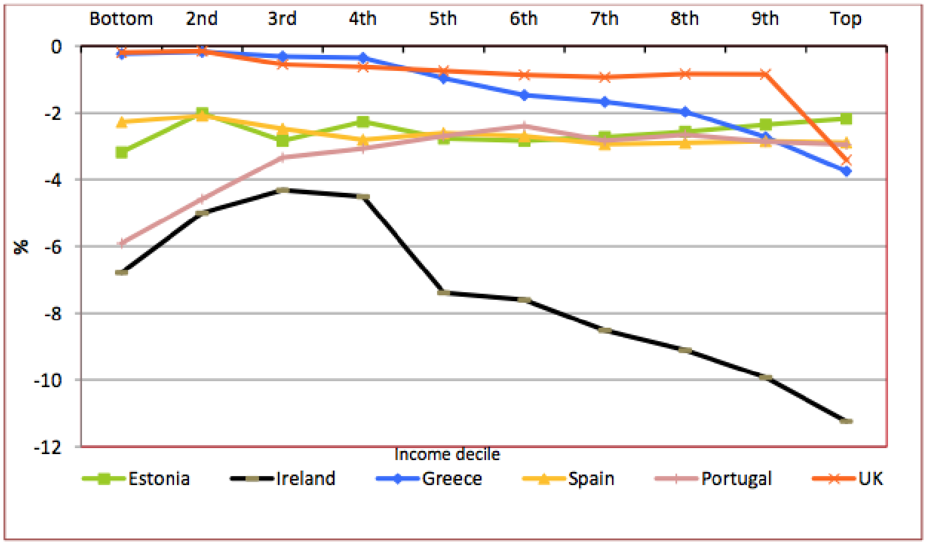
Distributive impact of responses to crisis

Ireland's fiscal effort since 2008, and especially since it entered the EU-ECB-IMF loan programme in December 2010, has involved cuts to expenditure amounting to about twice the amounts raised by increases in revenues (see Figure 1). This two-to-one ratio is very consistent with the current international orthodox view (Dellepiane & Hardiman, 2012c). We have noted that Irish public policy had stabilized at a low-tax, low-welfare services provision equilibrium in the years prior to the crisis, and that many aspects of Irish welfare services are channeled through the voluntary and community sector and delivered under contract. We have also noted that major weaknesses in this model were already apparent before the crisis broke: an over-reliance on revenues from construction, a weakening of revenues from income, and a comparatively weak reliance on direct taxes for services, left the revenue system vulnerable in the event of any downturn, let alone a crisis of the proportions we have seen in recent years. And we have noted that alongside the cuts to income tax liabilities, the Irish state was incurring a rapidly increasing set of ongoing public spending commitments, both capital and current.

But who then has paid the price for fiscal adjustments? How have the policies from 2008 to 2012 affected distributive outcomes in Irish society, and can we discern any systematic changes in the shape and profile of policy commitments?

One indication of the impact of budget changes is the disposable income available to households, that is, to consider the net effects of changes in income tax, public sector pay, and welfare entitlements. Using this measure, Ireland's fiscal adjustment has had a rather surprisingly progressive profile, as the summary table produced by the EU and the Economic and Social Research Institute (ESRI) suggests (Callan, Keane, Savage, & Walsh, 2012 p.53; European Commission, 2012b p.17) in Figure 15 below.

Figure 15. Percentage change in household disposable income due to austerity measures in six EU countries, by income decile, 2009-2012.



Source: (Callan et al., 2012 p.53)

This indicates that the impact of austerity measures on household disposable income was more severe in Ireland than elsewhere, and that the impact on the lowest income deciles was between four and eight per cent, and the impact on the top deciles between ten and twelve per cent.

That said, the same ESRI report also notes that Budget 2012 (in December 2011) had some particularly regressive effects, because it relied so heavily on increases in or introduction of indirect taxes. When we take a more nuanced view and consider the impact of budget decisions over four years on different kinds of households, a more differentiated picture emerges. Older people fared less badly overall than other kinds of households. Those dependent on welfare, and households with children, suffered particularly badly, since the effect of cuts in Child Benefit was particularly marked. Single unemployed people aged under 25 experienced cuts of between 25 and 50 per cent to their Jobseeker's Assistance payments. Lone parent families, who suffered an aggregate 6 per cent loss, includes both those in employment and those dependent on welfare, and they suffered different levels of cuts depending on their circumstances. Budget 2013 delivered in late 2012 deepened the effects for particular social groups including those in receipt of welfare allowances. As a result of these measures, in the context of continuing recession and high rates of unemployment, the proportion of the population deemed to be suffering 'deprivation' almost doubled from 11.8% in 2007 to 22.5% in 2010 (NERI, 2012a p.75).

Data on household disposable income do not capture cuts in spending on welfare services. As yet, there is relatively little systematic evidence in Ireland about the impact of such cuts on users. There is much reporting of particular groups' efforts to resist the imposition of cuts in the policy areas that matte most to them. However, these groups tend to be organized primarily around highly specific kinds of provisions, and can find it difficult to mobilize and to give expression to their concerns; and they may well find it particularly difficult to mitigate or reverse the impact of policy on their area of concern. Such groups include, for example – and apart from the obvious cases of longer waiting lists for medical care and surgical procedures – the withdrawal of support teachers for children with special needs; lengthened wait-times for assessment for a wide range of publicly provided therapeutic services; contraction of community care services for older people; withdrawal of funding for respite care for families of someone with a disability. Thus across the board 'cheese-parer' cuts to services can have a disproportionate effect on some social groups, more akin to the 'cake-slice' or targeted approach.

Organizational reconfiguration and state capacity

Organizational change affecting the manner of public governance may mean several things. It may be driven by efficiency considerations, for just as the ideas behind New Public Management spread internationally during the 1980s and 1990s, so ideas associated with 'post New Public Management' have been diffused during the 2000s. A renewed concern for 'joined-up government' (Bouckaert, Peters, & Verhoest, 2010) has led in a number of countries to a drive to reduce the number of agencies and to rationalize and recentralize policy-making and policy implementation capacity. This is no direct reversal of New Public Management, and the result is likely to involve a palimpsest of organizational inheritances, in which some functions and activities are decentralized and others centrally managed (Christensen & Laegreid, 2007).

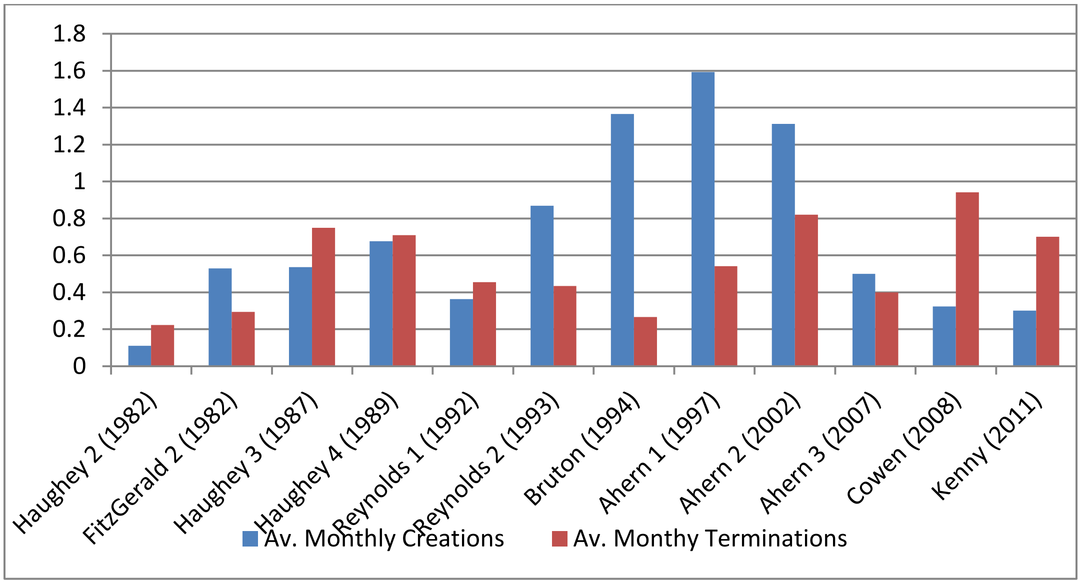
Following the election of a new coalition government of Fine Gael and Labour in February 2011, and in line with the coalition parties' manifesto pledges to engage in sweeping administrative and political reforms, a new Ministry, the Department of Public Expenditure and Reform, was created. This new Department broke the duopoly at the heart of Irish government in which decision-making power was shared, and contested, between the Finance and Prime Minister's (Taoiseach's) Departments (Hardiman, Regan, & Shayne, 2012; MacCarthaigh, 2005; O'Malley & MacCarthaigh, 2012). Assuming functions from these two Departments, the new Department combined revenue expenditure functions with public service management, reform and industrial relations issues. The Department of Finance was left to focus on budgetary and macroeconomic issues.

The manifestation of the political commitment to reform in the new Ministry was driven not only by the need for fiscal discipline as demanded under the EU-ECB-IMF programme, but also by the desire for more centralized control of the bureaucracy and more standardized governance and accountability arrangements across the public service. Apart from budgetary cuts and the expectation of achieving more with less, the search for greater efficiency has involved (in the words of one senior official) 'clearing the administrative landscape', that is, a reduction in the number of public service organizations. An ad hoc proposed rationalization of the state agency population through mergers, absorptions into parent departments, and straightforward closures, was initially announced in late 2008 as the financial crisis began to take shape but more recent proposals have adopted a more systematic approach, albeit with varying degrees of implementation success.

The first round of proposed rationalizations quickly ran into resistance from staff, management and stakeholders, and encountered unforeseen legal, human resources, industrial relations and infrastructure issues. The new coalition government elected in 2011, comprised of two parties committed to extensive administrative consolidation (in order to meet the targets agreed with the IMF, EU and ECB in late 2010) announced its intention to 'make substantial cuts to the number of State bodies and companies' (Department of the Taoiseach, 2011 p.28). It also sought to simplify the governance structures for agencies, including the abolition of agency boards where possible in order to provide for clearer lines of responsibility

During the fiscal crisis of the mid-1980s, there had been an increase in the number of agency rationalizations. As Figure 16 identifies, this continued into the 1990s, but the aggregate number of agencies increased sharply arising from intensive and unregulated agencification between the early 1990s and mid-2000s. By the end of the 2000s, and with government actively seeking to reduce agency numbers, there was again an increase in rationalizations, though some new agencies continue to be created.

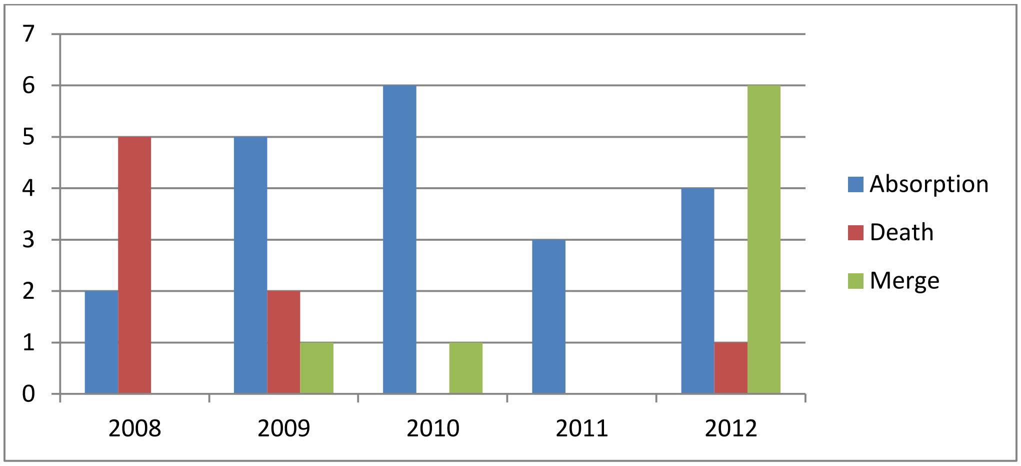
Figure 16. Average number of agency creations and terminations by government, 1982-2012



Source: (Hardiman, MacCarthaigh, & Scott, 2013), www.isad.ie

Disaggregating the data for 2008-2012 further, and considering three methods through which agency rationalizations are pursued – *death* (closure, non-transfer of function), *absorption* (of the functions of one organization by another) and *mergers* (of two or more organizations to create a new entity) – we find in Figure 17 some variation in the pattern from 2008. After an initial bout of agency deaths, mainly involving small and principally advisory bodies, the focus switched towards the absorption of agencies into parent departments or other agencies. Starting in 2012, however, we see a sharp increase in the number of agency mergers, which result in the creation of new state agencies.

Figure 17. Form of agency rationalization, 2008-2012



Source: (Hardiman et al., 2013), www.isad.ie, (Department of Public Expenditure and Reform, 2012).

Thus as of end 2012 those administrative rationalizations involving state agencies that had occurred were more likely to have involved reorganization of agency activities into state structures than any 'bonfire of the quangos'. A report on progress in the programme published by DPER in late 2012 reported that only a third of the agencies proposed for abolition by end-2012 would in fact be gone by then, underlining the complexity of the process. However, while progress at the national level has been slow, the reduction of agency numbers at the sub-national level has been quite dramatic. From a peak of almost 250 such bodies operating alongside elected local authorities in 2007, by mid-2012 plans were underway or had been achieved to reduce the number to less than 150 (MacCarthaigh, 2012). Alongside this consolidation, the number of local authorities is also declining through mergers between councils.

As noted above, considerable emphasis in the wider rationalization process has been placed on reassessment of the formal agency-department framework; the allocation of policy responsibilities is considered a secondary matter. Also running alongside the agency rationalization process is the creation of numerous 'shared service' initiatives, designed to integrate routine corporate tasks (such as payroll, ICT and HR functions). Emphasis on achieving greater efficiencies via shared services is common to reform programmes in other states, and as well as pursuing more integration of 'back office' tasks, the crisis has presented an opportunity to reduce barriers to mobility across the public service. The ability to transfer staff between public service organizations ameliorated the effects of the incentivized retirement schemes to some degree by allowing for non-voluntary movement of staff. Initiatives to link financial allocations to performance outcomes were also set in motion, with detailed targets being specified in the annual expenditure plans of government. The extent to which this performance data is being effectively used by those with capacity to shape future allocations, and particularly parliamentary committees, has yet to proven.

The politics of shrinking the state

We now return to our three questions about how best to explain the profile of fiscal and organizational responses to crisis. We find that there is no simple way in which political variables can be drawn on to explain policy choice. We have seen that Ireland's fiscal adjustment involved a heavier reliance on spending cuts than tax increases, and that the change of government in February 2011, constrained by the terms of the IMF-EU-ECB Memorandum of Understanding, did not fundamentally alter this. We have seen that the impact of spending cuts fell heavily on capital spending; but that within the category of current spending, welfare transfer payments saw no aggregate retrenchment but continued to rise. But in the context of greatly expanded demands upon the system, levels of entitlement were curtailed, and total spending rates levelled off. New tax increases were particularly directed toward income tax, principally by reducing exemptions and allowances; these measures were designed to broaden the income tax base, which had been greatly narrowed during the 2000s. A new Universal Social Charge consolidated a number of non-tax insurance payments and levies, but on a less progressive basis than income tax. New direct taxes were introduced, on houses, on waste disposal, and (eventually) on water, each of which is regressive in effect; but these represent previously untapped sources of revenue. But some other tax categories saw little or no change: corporation tax, for example, was unchanged, and there were no new attempts to introduce taxes on wealth.

Firstly, taking up the point that left-right ideological preferences and considerations of electoral support may have an important bearing on policy choices, the implication of partisanship for implementation of policy options may not be obvious. On the one hand, we might expect that left partisanship would be associated with protecting welfare spending. Yet if the crisis is severe enough, such a government might be able to lean upon its supporters, at least for a time, to gain support for unpalatable policy decisions if they are deemed unavoidable (Posner & Blöndal, 2012 p.27). Presumably, successful results will improve the standing of those implementing the cuts and present a virtuous circle in which the legitimacy of retrenchment is justified by the outcomes. However, the electoral costs to governments implementing tough budgetary choices appear to be considerable (Mulas-Granados, 2004). And all the more so, we might infer, when there is no realistic prospect of an end to the politics of austerity.

In the Irish case, the party system has a strong bias toward the right and centre-right, and support for any left parties is much lower than the European average (Benoit & Laver, 2005; Mair & Marsh, 2004). A relatively narrow ideological spectrum facilitated a considerable degree of cross-party agreement among the largest government-forming parties about the dimensions of response to crisis. However, this has not been uncontroversial. The dominant conservative but cross-class Fianna Fáil party which had been in power since 1997, and which both introduced the bank guarantee scheme in 2008 and negotiated the EU-ECB-IMF bail-out agreement in November 2010, suffered an unprecedented electoral collapse in the general election of February 2011. The government formed at that date, holding the largest parliamentary majority in the State's history (68% of seats), was made up of the conservative Fine Gael Party and the smaller left Labour Party. The election also returned a number of anti-bail-out candidates and independent representatives mostly from small socialist or other left-wing groupings. As noted earlier, they did particularly well in working-class urban areas, in which mobilization against new direct taxes and charges gave these candidates profile and publicity. In particular, Sinn Féin did well in these areas. Ideologically fluid and keen to move into the mainstream of politics in the Republic of Ireland, Sinn Féin took up the anti-austerity cause with vigour, aiming to secure the working-class element of the Fianna Fáil vote, even at the possible expense of limiting any further gains among the middle class sector of that party's support.

The profile of state retrenchment does not change significantly from one government to another, despite the participation of the Labour Party after February 2011, although the Fine Gael-Labour government included a modest job-stimulus package into their Programme for Government. Otherwise, this government's scope for manoeuvre was narrow in view of the loan programme commitments. The Minister for Social Protection, Joan Burton, who came from the Labour Party, took responsibility for making and implementing the cuts in both cash transfers and in many welfare service provisions (though many social services are also delivered through other Departments in Ireland, especially the Department of Health (Wren, 2003)) while the Department led by her party colleague Brendan Howlin was charged with reducing the public sector pay bill, a key constituency for that party. The Labour Party, in accepting the imperative of compliance with the terms of the loan agreement, clearly saw little scope for remodeling other features of the deal. Many economists made the argument that welfare cuts were essential because entitlements had grown too high too fast during the 2000s, as part of the populist commitments of Fianna Fáil. Relative to welfare rates prevailing in Britain and Northern Ireland, Irish welfare payment rates had become quite generous in most categories. In general, the Labour Party assented to these assessments. Labour was also concerned to be seen as fiscally responsible, and to attract and retain a middle-class (and often public-sector) support base. The leader of the Labour Party and Tánaiste (Deputy Prime Minister), Éamon Gilmore, expressed pride in his party's capacity to 'police' the terms of the loan agreement. Thus the Irish party system shows some signs of potential reconfiguration, for the first time in two generations, in the wake of the implosion of Fianna Fáil, and as a result of the difficult polarizing politics of austerity.

Turning to our second consideration, the role of veto groups in shaping the profile of policy adaptation, we find a number of instances in which policy decisions were indeed responsive to the articulation of interests by special interests. The most striking of these concerns public sector pay, under the terms of the Croke Park Agreement noted earlier, and particularly the generous treatment of public sector pensions entitlements. Although the social partnership process, which had been a core element of public policy since 1987, collapsed at the threshold of Budget 2011 (in December 2010), the practice of attending to trade union interests was well established. Government Departments were believed to be divided in their views about how best to manage public sector employee grievances. The Department of Finance rejected the terms of the emergent pay deal, but the Department of the Taoiseach was still highly involved with consultative processes alongside the Department of Public Expenditure and Reform. A revised agreement published in early 2013 was initially rejected by unions but government agreed to amendments rather than imposing pay cuts, for fear of widespread public sector strikes that Ireland had managed to avoid during the crisis.

Other interests fared less well. A surprisingly strong mobilization of people aged over 70 staged a public demonstration in 2008 in protest at withdrawal of some medical entitlements, and forced a government climb-down. But this category of welfare beneficiaries is not well organized and has fragmented organizational vehicles of collective action, and government was able to regroup to reimpose the cuts in a later round, without either generating the same level of resistance or feeling obliged to succumb to the dissatisfaction that was indeed expressed. The same may be said for other welfare dependents, including young unemployed people, lone parents, parents of children with disabilities, and so on.

The interests that benefit most from ta decisions may not always be visible, and tax expenditures can be particularly difficult to assess clearly. The independent think-tank TASC has repeatedly urged government to concentrate on reducing the still-extensive tax breaks instead of cutting welfare entitlements (TASC, 2009, 2010a, 2010b). It must be recognized though that while many of the tax expenditures are beneficial to business interests, many of them have specific policy objectives, and abolishing them would have complex distributive effects (Commission on Taxation, 2009).

External as well as domestic commentators have from time to time raised the question of Ireland's low corporation tax rate as an area in which additional revenues could be levied; the point has also been made that a different mix between incentivizing foreign direct investment and supporting domestic enterprise would be made possible if these issues were opened up (Breznitz, 2012; Ó Riain, 2009). Closing tax loopholes has been a real if slow-moving feature of public policy, and the tax breaks available to the construction sector were arguably reined in too slowly (Commission on Taxation, 2009; McDonald & Sheridan, 2009). But cross-party agreement remains firm that the low corporation tax rate is 'non-negotiable', as it continues to be a central plank of industrial development strategy (Hardiman, 2009; Hardiman & MacCarthaigh, 2010).

Finally, considering the institutional reconfiguration of the Irish state in response to crisis, what is most striking is how slowly and marginally changes have occurred. Achieving greater efficiency in the Irish public sector had been a cornerstone of the New Public Management-styled Strategic Management Initiative (SMI), launched in 1994. Despite the numerous reform programmes that were initiated under the SMI, weak evaluation of their outcomes and steady increases in the cost of running the public service combined to provide little evidence for a leaner administrative system. As the SMI-based reforms were being pursued, a simultaneous explosion in the number of stand-alone bodies or state agencies occurred, with little direct link between their use and the reform agenda (Hardiman & MacCarthaigh, 2011). By the time of an OECD review of the Irish public service published in 2008, the bureaucracy was characterized by fragmentation and weak coordination. The OECD reviewed called for a 'performance culture' to be introduced in the Irish public service, and as part of this for greater evaluation or outcomes and use of resources (OECD, 2008).

In the face of the financial and economic crises, these reforms were stalled, and while it remains the case that evidence of greater efficiency is hard to verify, the Fine Gael-Labour coalition government has sought to initiate a greater evaluation and performance focus. These included introduction of performance information in the annual estimates of expenditure, and the creation of a new Government Economic and Evaluation Service. The extent to which a performance culture can be said to have taken root in the years since the onset of crisis remains unclear, though the concentration of effort to more closely align spending with outcomes has never been as closely pursued.

But organizational reconfiguration has not been very extensive, and this reflects the difficulty both of changing what the state does as well as how the state does things. The policy scope of state activities has not changed fundamentally. Privatizations have been quite limited. Some agency reorganization has taken place, but on quite a modest scale. Savings from organizational change are likely to have been quite small. To date, the politics of inertia appears to have prevailed in organizational change.

Conclusion

The Irish state is under considerable pressure to reduce its budget deficit and to restore stability to the public finances. The timetable for achieving a deficit at or below 3% of GDP, in line with the Eurozone's Stability and Growth Pact requirements, is built into the 2010-13 loan programme provided by the EU-ECB-IMF. The scale of fiscal adjustment required (compounded as it is by the large bank rescue commitments which the Irish state undertook in 2008, before the full scale of liabilities had become clear) is difficult while recessionary conditions continue, and when there is no option of gaining any growth-promoting competitive advantage through devaluation of the currency. Problems on this scale present new political challenges for governments. They are required to engage in some combination of increasing taxation and reducing public expenditure, in ways that disrupt established expectations about the 'fiscal contract' whereby additional taxation yields more or improved services. Furthermore, for Ireland, as for the other countries in loan programmes, intensive and continuous external monitoring accompanies the implementation of tough budgets.

This situation raises new challenges for our understanding of the politics of fiscal adjustment. Governments have some discretion over the composition of adjustment (that is, the mix between spending cuts and tax increases), and over the choice of programmes and instruments on both the expenditure and revenue sides. Furthermore, choices over where cuts are imposed, or new revenues raised, may result in more fundamental changes to the capacity of the state to maintain its commitment to particular policy areas. This may arise either as a consequence of deliberate policy choice, where government may decide to withdraw from service delivery or from continued programme support in a specific area, or it may result from a shift in the balance of incentives for people affected such that policy change results in increased reliance on market or other non-public forms of provision.

The politics of undertaking fiscal adjustment may therefore be contentious. We have noted that three factors may shape the extent and nature of contestation of policy decisions, in ways that may help us understand the profile of actual policy choice. We have anticipated that party political and partisan considerations might play a role in shaping government choices; that the capacity for resistance on the part of client groups affected by policy change may shape the decisions made and the way they are implemented; and that changes in the organizational configuration of state policy commitments, affecting the scale and scope of state activities, may prove difficult to drive through in a short period.

We have noted that all three expectations are borne out, but in sometimes unexpected ways. The Irish party system had historically displayed relatively weak left-right partisanship. We have noted some change in policy emphasis with the advent of the Labour Party to power in coalition with Fine Gael in February 2011. But this was in the context of deeper continuities in the strategy of fiscal adjustment, assent to which had become a badge of political responsibility, reflected in the large parliamentary majority secured by this government. However, the electoral landscape seemed to be entering a period of transition, the implications of which were still unclear. While the political marketplace seemed ripe for a new party emerge, none did, and during 2012 and 2013 the party most associated with the economic and financial collapse, Fianna Fáil, began to see its support rise in successive polls. A range of parties with an 'anti-austerity' stance, though still gaining a relatively small vote share, began to gather support. As yet, they have had relatively little direct influence over the choice and implementation of measures on either revenue or expenditure issues.

We noted that the capacity of organized groups to resist the implementation of spending cuts varies widely. Groups most severely affected by cuts to transfer payments or curtailment of welfare services prove, on the whole, to be too inchoate and dispersed, and too difficult to mobilize, to influence policy decisions to any significant degree. The most salient category that offered resistance to cuts and gained advantages as a consequence was public sector employees. After an early round of direct pay levies and direct pay cuts, an agreement was reached that no further pay cuts would be implemented, under certain conditions, until the end of 2013. This meant that public sector spending cuts were undertaken in other ways, mostly through control over numbers in employment; the public sector unions were less exercised by this than by the conditions of employment for current members. This deal was eventually re-negotiated in 2013 to include pay cuts, albeit with a view to the reinstatement of lost earnings at a future date. Meanwhile, the full impact of spending cuts on welfare services were felt not only through cuts to rates of payment and conditionality of benefits, but also through often far-reaching reductions in government commitment to non-governmental organizations through which a range of services are delivered under contract in Ireland.

Finally, we noted that the scope of government activity has not changed significantly, nor indeed has the organizational structure through which government activities are undertaken. The terms of the government's agreement with the public sector unions (negotiated by Fianna Fáil in December 2010 and maintained by the Fine Gael-Labour coalition after February 2011) implied a good deal of scope for organizational restructuring and rationalization, including abolition of state agencies, with potential implications for reduction in or even withdrawal from particular policy areas and activities. To date, the scale of organizational change has been relatively small. The agencies that have suffered outright abolition have been concentrated in areas engaged in advisory and consultative activities – with possible implications for the quality of the linkages between civil society and the policy-makers in the public bureaucracy.

The scale of the state retrenchment process in Ireland since 2008 presented here is unprecedented. Whether and to what degree this proves to be a watershed period for the nature and capacity of the Irish state remains to be seen.

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