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## Which Path? Domestic Adaptation to Economic Internationalization in Ireland

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# **Which Path? Domestic Adaptation to Economic Internationalization in Ireland**

## ***Abstract***

The growing integration of international markets raises the question of how, and to what extent, domestic political processes within states continue to matter. The thesis that markets force a 'race to the bottom' and the destruction of the welfare state has been discredited; there is continuing scope for diversity. Two patterns have commonly been identified. Continental European countries cluster together around politically coordinated adjustment strategies, while the liberal, Anglo-American countries adopt ever more market-driven responses. The new EU member states in central Europe and the Balkans have been expected to join the latter category. However, a third overlooked possibility exists – that market-oriented adjustment might continue to be strongly politically mediated, in line with expectations about the incentives facing small open economies, even in liberal economies. The excellent economic performance of the Irish, Dutch and Danish economies during the 1990s belies the suggestion that neo-liberal policies produce the best outcomes. Yet Ireland is very different from these two, as it is a 'liberal market economy', while they are 'coordinated' or 'social market economies'. This paper examines the role of institutions and actors in adjustment to economic internationalization in Ireland. The argument is that path-dependent development does not preclude institutional innovation; but that there are limits to the politics of redistribution and collective consumption within a liberal economy.

**Keywords:** Globalization, Economic Openness, Competitive Corporatism, EU, Liberal Market Economies, Ireland

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<b><u>WHICH PATH? DOMESTIC ADAPTATION TO ECONOMIC</u></b>	
<b><u>INTERNATIONALIZATION IN IRELAND .....</u></b>	<b>1</b>
NIAMH HARDIMAN .....	<b>ERROR! BOOKMARK NOT DEFINED .</b>
<b>ABSTRACT.....</b>	<b>1</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>2</b>
<b>INTRODUCTION .....</b>	<b>4</b>
<b>THE TREND TOWARD INTERNATIONAL ECONOMIC INTEGRATION.....</b>	<b>5</b>
<b>WHAT MIGHT WE EXPECT TO FOLLOW ? .....</b>	<b>8</b>
ESTIMATING THE PARAMETERS OF GOVERNMENT SPENDING: PRELIMINARY INDICATIONS...	11
<b>BRINGING POLITICS BACK IN .....</b>	<b>12</b>
WHICH INSTITUTIONS MATTER?.....	12
1. Institutions of decision-making .....	15
2. The structure of political cleavages and party competition .....	16
3. The structure of the economy.....	16
4. The representation of economic interests .....	17
<b>INSTITUTIONAL UNDERPINNINGS OF THE IRISH POLITICAL ECONOMY.....</b>	<b>18</b>
1. Political institutions of decision-making. ....	18
2. The cleavage system and political representation. ....	19
3. The structure of the economy.....	20
4. The representation of economic interests .....	22
<b>PHASES OF ADAPTATION.....</b>	<b>24</b>
THE FIRST PHASE OF OPENNESS, 1973-1987.....	24
Adjusting to intensified competition .....	24
Patterns in domestic compensation.....	27
THE SECOND PHASE OF OPENNESS, 1987-2004 .....	29
Adjusting to changes in exposure to the international market .....	30
Social partnership and wage-setting .....	32
Trends in domestic compensation and social policy reform .....	36
<b>CONCLUSION: INSTITUTIONS, ACTORS, PATH DEPENDENCE AND PREFERENCE SHIFTS ...</b>	<b>39</b>
<b>REFERENCES .....</b>	<b>63</b>

## ***Introduction***

The growing trend toward international economic integration creates new adaptive challenges for the political and economic institutions of nation-states. Variations in domestic institutions have a significant effect on shaping the responses to changing external conditions. Small open economies are, as ever, especially vulnerable to shifts in global economic tides.

The Irish experience is particularly interesting in this context. In the first half of the 1980s, its economic performance was little short of disastrous, mired in depression, with a debt-GNP ratio of 124 per cent and unemployment coming close to 20 per cent. Yet in the second half of the 1990s, the OECD commented on its 'peerless performance', that made it 'a world leader in a number of aspects of economic performance' (OECD 1999).

Much of the discussion of how small open economies respond to integration into the international economy has tended to focus on countries that can be understood as 'coordinated market economies' (Hall and Soskice 2001a). Continental European and Scandinavian countries have featured strongly in these discussions, as have the small 'Alpine' states of Austria and Switzerland. The classic analyses include Katzenstein's work (Katzenstein 1984; Katzenstein 1985), Cameron's comparative discussions (Cameron 1978; Cameron 1982), and Kurzer's sectorally differentiated comparisons (Kurzer 1988; Kurzer 1991a; Kurzer 1991b).

Rather less attention has been paid to countries that are small and open, but whose institutional configurations would place them among 'liberal market economies'. Ireland's experiences might perhaps be considered alongside those of the other smaller 'Anglo-Saxon' countries, that is, Australia and New Zealand. But Ireland's membership of the EU represents another crucial feature of the economic forces to which it is exposed. It is interesting therefore to consider the Irish case not only in relation to other smaller EU countries such as the Netherlands or Denmark, and non-EU European countries such as Switzerland or Norway, all of which may be thought of as 'coordinated market economies', but also in relation to the smaller accession member states of the EU whose economic institutions may well more closely approximate to the 'liberal' model.<sup>1</sup>

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<sup>1</sup> The new member states of the EU as of May 2004 (and their populations) are Cyprus (na), Czech Republic (10m), Estonia (1.4m), Hungary (10m), Latvia (2.4m), Lithuania (3.7m), Malta (na), Poland (38.6m), Slovak Republic (5.4m), Slovenia (2.0m). Other small OECD member-states with populations of between 1m and 20m are Austria (8.1m), Belgium (10.3m), Switzerland (7.2m), Denmark (5.3m),

However, a distinguishing feature of the Irish case is that, as we shall see, its political economy did not feature recourse to neo-liberalism to effect an adjustment strategy to economic problems. Yet employment creation in Ireland in the latter half of the 1990s, along with the Netherlands, Denmark, and Norway, far outstripped that of the more deregulated labour markets of the UK, New Zealand, and Australia (Auer 2000; Schwartz 1994; Schwartz 2000a; Schwartz 2000b). Since 1987 a process of social partnership has been consistently maintained, and this has included all the major political parties in parliament in various party government or coalition combinations. This makes the Irish case quite unlike the Antipodean countries, and in this way at least, more like the continental European countries that have developed social pacts or competitive corporatism during the 1990s (Rhodes 2001; Traxler 2004).

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

### ***The trend toward international economic integration***

It is widely recognized that the scope for domestic political choice in many areas of economic and social policy has become more constrained since the 1980s as a consequence of growing trade and financial openness. Market pressures play a larger role in shaping the politics of competitiveness and productivity. This has resulted in a trend toward the withdrawal of the state's direct engagement in productive processes and the rise of new regulatory practices. Adjustment to new market conditions has resulted in changes to wage bargaining behaviour and industrial relations practices in many countries (Crouch 2000b; Traxler 1995; Traxler 2000). Tax policy options have narrowed, and new adaptive pressures have been felt in mature welfare states (Huber and Stephens 1998; Pierson 2001; Steinmo 2002).

But the hypothesis that increasing integration into the international economy would force states into a cost-cutting 'race to the bottom', driven by the imperatives of mobile capital –

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Finland (5.2m), Ireland (3.8m), Netherlands (15.9m), Norway (4.5m), Sweden (8.9m); also Australia (19.2m), New Zealand (3.8m). Data for 2000 from *Penn World Table*, [http://pwt.econ.upenn.edu/php\\_site/pwt\\_index.php](http://pwt.econ.upenn.edu/php_site/pwt_index.php)

the so-called 'hyper-globalist' position – has been revealed in successive studies as something of a straw man. It is now generally accepted that states still have a vital role to play in mediating the effects of changes in the international economy (Evans 1995; Schmidt 1995)(Evans, Schmidt in Dedalus). There is still considerable latitude in the choices states make in the combination of policies promoting equity and efficiency (Garrett 2000; Scharpf and Schmidt 2000a). The threat of capital disinvestment has not foreclosed the possibility of policy choice. Indeed, evidence shows that investors care less about the volume of spending than about the size of the debt required to fund it, and are prepared to accommodate to a variety of party possibilities in government (Mosley 2003; Swank 2002). There is no evidence of a convergence of states' adaptive responses around the liberal, market-led model. There is still considerable variation in the patterns countries display in their policy choices (Kitschelt et al. 1999a).

Thus much of the most stimulating work currently under way concerns not whether but how states vary in their responses to the challenges of globalization, and in particular, the systematic ways in which political and societal institutions mediate the adaptive responses of states.

The Irish experience is of particular interest in these debates. Protectionism lasted longer there than in other OECD member countries. The move toward trade liberalization can be dated to a change in policy orientation from about 1960 and the reduction of tariff controls with Britain, then almost its sole trading partner, a few years later (O Grada 1997). The most significant change came in 1973 when Ireland, along with Britain, joined what was then the EEC. This greatly boosted the industrial development strategy based on encouraging inward foreign direct investment. The flow of investment from non-EU as well as EU firms, especially American, seeking to trade within the EU bloc, picked up noticeably in the second half of the 1970s. Ireland subsequently participated in the full implementation of the Single European Market from 1992, and qualified for adoption of the Euro from 1999. The fiscal and monetary disciplines required by this process contributed to Ireland's success in attracting a disproportionate share of inward investment from footloose American capital during the 1990s (Barry 1999). The surge in foreign direct investment was in turn a significant factor in the genesis of the boom conditions that prevailed from 1994 to 2000, the 'Celtic Tiger' phase (FitzGerald 2000; Honohan and Walsh 2002). In the early 2000s, Ireland was ranked by the AT Kearney / *Foreign Affairs* index as the 'most globalized' in the world, using a range of

measures; the economic integration measure was particularly salient in the Irish case, as Fig 1 below shows.

Fig.1. Globalization Index.

Looking at the significance of foreign direct investment in the domestic economy reveals that Ireland is among the most open economies in the OECD. Figure 2 shows that, Ireland stands out in a ranking of aggregate of FDI inflows and outflows in 2002. Inward flows of FDI are much larger than outward flows in the Irish economy; during the 1990, they were much larger in relative terms than in other countries too, as Fig 3 shows.

Fig. 2. Economic Openness Index, %GDP, 2002.

Fig. 3. FDI Inflows in OECD Countries, %GDP, 1980s and 1990s.

Perhaps the most commonly used index of international economic integration is that of trade openness, or imports plus exports expressed as a proportion of GNP. (The volume of foreign inward investment and associated profit repatriation in the Irish economy has resulted in a divergence over time between GNP and GDP, as Fig.4 shows, making the former in general a more reliable guide to aggregate growth (OECD 2003).

Fig. 4. Trends in GNP and GDP in Ireland.

In comparative terms, using the index of trade openness, Ireland in 2003 was among the most open economies in the OECD area, as Fig. 5 shows. Belgium's ranking is somewhat distorted by its peculiar status as the headquarters of the EU and a number of other international bodies. Ireland is more open than the countries conventionally discussed as 'small open economies' such as the Scandinavian countries, the Netherlands, and Austria and Switzerland. It appears, on these data, to be somewhat more similar to the smaller accession countries of the EU such as Hungary, Czech Republic, and the Slovak Republic, which have been actively promoting FDI from Germany, the Netherlands, and the USA, since the early 1990s.

Fig. 5. Trade Openness in OECD Countries, 2004.

The time-series data for the Irish economic openness index, shown in Fig. 6, reveals a



growing trend toward openness. The trend indicates a sharp upward turn in openness associated with EEC membership in 1973.

Fig. 6. Irish Trade Openness, 1960-2002.

This is confirmed by differencing the trend, shown in Fig. 7, revealing a clear shift in heteroskedasticity from this date, but a less clear change in trending associated with the Single Market after 1992. Iterative modeling confirms a structural break in the series at 1973, but no further breaks thereafter.<sup>2</sup>

Fig. 7. First Difference of Irish Economic Openness Index.

### ***What might we expect to follow?***

There is now a body of literature that would lead us to expect that increasing economic openness, especially in small economies, would be associated with particular kinds of responses in domestic policy choice. Indeed, the debate can be traced back to Polanyi's work on the disorganizing consequences of trade liberalization during the 19<sup>th</sup> century (Polanyi 1944). He argued that while free trade can generate large increases in aggregate wealth, the political project of setting it up causes potentially enormous dislocations to existing social relations. Older forms of income maintenance and social security are disrupted, and new groups are exposed to market hazards. This can generate violent political reaction, and Polanyi interpreted the rise of antidemocratic and protectionist forces in the interwar period as developing from (though of course not entirely caused by) these conditions.

An alternative path of development would be to balance the project of trade openness with alternative forms of compensation for those disadvantaged by the broadening reach of the market. Hence Polanyi thought that in democratic countries in which the losers from this path of development were able to exercise political voice, the demand for the development of some form of welfare state provision would be unavoidable. Free trade and social protection could proceed stably in tandem (Polanyi 1944). This line of reasoning was developed in the work

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<sup>2</sup> ARIMA modeling of the whole series shows that both an autoregressive and a moving average term are totally insignificant, with p values of .98 and .93 respectively; the residuals of the integrative term as a result of first differencing prove well behaved. Iterative analysis of the data is also based on ARIMA modeling.

of JG Ruggie (Ruggie 1983)p. 393), and the term ‘embedded liberalism’ came to summarize the postwar consensus in the developed countries which combined commitment to the international market economy with retaining domestic policy sovereignty over monetary, fiscal and industrial policy.

Small countries, however, came to be seen as having rather less scope for autonomy than countries with larger and relatively more closed economies. Hence Cameron’s (1978) influential argument that economic openness gave rise to larger government in small open economies because the political incentives were greater to compensate those most exposed to trade hazards. More recently, Rodrik has argued that there is an enduring and statistically significant correlation between the degree of economic openness and the size of government (Rodrik 1998). Thus the same associations are still found, a quarter-century after the end of the ‘postwar settlement’, the collapse of the Bretton Woods fixed exchange-rate regime in 1972, the economic crises sparked by oil-price rises of the 1970s, the progressive cross-national removal of capital controls during the 1980s, and the move toward the politics of international liberalism. Small states, it seems, have bigger governments.

But what drives this association? In Cameron’s path analysis, the causal logic ran from trade exposure through industrial concentration, labour organization, and support for left-wing parties, to expansion of the public economy. The dynamics underlying this association were explored more fully in Katzenstein’s classic study of small states in open markets (1985). He argued that small countries share an incentive to produce an organized and labour-inclusive domestic response to fluctuations in external trading conditions. Small states ‘complemented their pursuit of liberalism in the international economy with a strategy of domestic compensation’ (1985, p.47). A functional imperative, of course, does not imply any particular actual outcome. Countries can make policy decisions and get it wrong, resulting in sub-optimal performance; and the menu of options at any one time is not limitless. The kind of decisions taken depends on domestic political institutions, and may include different combinations of industrial investment policies, corporatist wage bargaining arrangements, social transfers and welfare state expansion. The outcome could lean toward ‘social democratic’, market-replacing, services-rich, collective provision, or toward ‘liberal’, means-tested schemes that maximize individual initiative (Katzenstein 1985). The labour-dominant response characteristic of Swedish Social Democracy is not necessarily the only pattern in evidence. Switzerland, for example, Katzenstein argued, with its federal structure and strong

tradition of political liberalism, had a labour-inclusive policy bias, but a smaller government than the Scandinavian countries or Austria.

Rodrik suggests that a good measure of the size of government is the final consumption expenditure of central government. In 2003, on this measure, Ireland's government share of GDP was very much at the low end of the international scale, as Fig. 8 below shows.

Fig. 8. Government Consumption Expenditure as % GDP, 2003.

This is not a new feature either, as the trend for the period 1960-2003 shown in Fig. 9 indicates. All the countries depicted here experienced a rising share of government consumption until the early 1980s, at which time it levels off. Denmark and Sweden led the field, with the Netherlands not far behind. Ireland is toward the lower end of the distribution, comparable for much of the time-series with New Zealand. However, from the early 1990s, the Irish trend dips again, approaching the small government share of the Swiss federal government. Although it rises somewhat again in the early 2000s, Ireland's government consumption share does not suggest 'big government' (even allowing for the relatively small age-dependency ratio and consequently lower share of pensions in transfer payments).

Fig. 9. Government Consumption Expenditure as % GDP, Selected Countries, 1960-2003.

However, this trend line should not be taken to indicate a politics of retrenchment. Government current expenditure is one key component of total government consumption, and captures many of the key variables associated with the welfare state including the administration costs of the public bureaucracy and social services, and transfer payments. As Figure 10 shows, government spending shows a steady upward trajectory, with a sharply upward turn in the trend in the early 1970s that mirrors the trend of trade openness in 1973.

Fig. 10. Irish Government Current Expenditure, Current Market Prices, €bn.

As Fig. 4 showed, both GNP and GDP rose sharply during the 1990s. The increased volume of spending did not keep pace with economic growth on either of these measures, as Fig. 11 shows. The trend of government current spending as a proportion of either GNP or GDP shows a gentle upward slope until sometime around 1973, then a sharp spike that peaks at the end of the 1970s, followed by a bulge that lasted until the latter half of the 1980s. From then

on, the share of government spending goes down, masking the increase in both nominal and real terms.

Fig. 11. Irish Government Current Expenditure as % of GNP and GDP, 1960-2000

### **Estimating the parameters of government spending: preliminary indications**

The expectation is that economic openness will be strongly associated with larger government. But we can expect that variations in domestic institutional structure will modify the strength of this association.

The predicted association between openness and government spending is tested against the Irish experience between 1973 and 2000, using current government expenditure as our measure of government size, and trade openness in terms of GNP as our measure of economic openness. To what degree is the volume of government spending explained by the degree of openness in the economy?

A preliminary regression exercise to understand whether there is any significant relationship between economic openness and government size suggests that, in the Irish case, this relationship is quite weak.

Several factors have to be controlled for. It might be expected that the amount of current government spending will vary depending on the rate of growth of the economy, and that spending might mainly depend on the resources available; hence GNP itself must be controlled for. Similarly, the volume of spending might be particularly sensitive to fluctuations in transfer payment entitlements – more spending might indicate poor economic performance, as more is spent on income maintenance. The largest variable component of transfer spending in the Irish case is unemployment benefit; this must be taken into account. Unemployment was a persistent and chronic problem in the Irish economy until the latter half of the 1990s. It stayed stubbornly at 16 or 17 per cent for much of the 1980s (when we see current spending peak), in spite of heavy emigration during that period, and did not fall below 10 per cent until 1998.

Interest repayments on the national debt account for a proportion of current government

spending. Variation on this item has been considerable – 124 per cent of GNP in 1987, but 34 per cent in 2000 – so this too must be controlled for. Finally, in line with Cameron’s expectation, government partisanship might make a difference: governments with left-party participation might push up government spending more than those without. A preliminary dummy variable tests the significance of governments with and without the participation of parties of the left.

The initial regression analysis suggests that economic openness (the index of trade openness) is not significant in explaining current government expenditure. The size of GNP plays the biggest explanatory role; this seems to be most significant at a lag of up to three periods, suggesting that it takes time for increased resources to be absorbed into current spending. The current rate of unemployment is also significant, indicating the importance of the automatic stabilizer effect. Political partisanship does not show any significance, although this might have been expected given the weakness of the left-right divide in Irish politics. But even at a three-period lag, economic openness does not demonstrate any significance. These initial regressions are prey to the problems of autocorrelation present in time-series analysis. A more precise estimation of regression parameters requires a cointegration analysis, which is the next step yet to be undertaken in the analysis.

What these early measurements suggest, however, is that economic openness itself plays an almost insignificant role in explaining variations in the size of government in the Irish case. Perhaps it is the case that in the Irish experience, even more than Garrett has argued to be the case for other economies, ‘domestic institutional variables continue to play a powerful role’ in shaping the manner in which countries adjust to greater market integration (Garrett 1998c). p. 81,

### ***Bringing politics back in***

Vulnerability to fluctuations in the external economic environment does very little to explain variations in the volume of government spending in the Irish case. We will have to look for an explanation of the association between external constraints and domestic policy choices in terms of domestic political processes.

### **Which institutions matter?**

The connecting story between economic openness and government spending is of course

mediated through a political process in all societies. Moreover, economic openness has grown among all OECD countries since the 1980s, so that previously rather sheltered larger economies are now more exposed to internationalizing pressures on policy. But there is no convergence around dismantling the role of the state in favour of pure market processes on the one hand, but neither is there any convergence around a resurgence of the politics of 'domestic compensation'.

Domestic variables intervene in explaining how external pressures are translated into domestic responses. Policy change is not driven in any direct way by the external environment. The structure of the economy, the nature of the political institutions, the existing traditional preferences of political actors, all play a part in explaining how problems are perceived, priorities established, and policy choices made and implemented. What we are depicting as the external environment – the degree of exposure to and integration into the international economy – can be understood as a constraint on what it is possible to do. But it is not in fact experienced as outside the domestic political process: as Kapstein notes, 'our way of conceptualizing economic globalization is in need of fundamental reexamination. The world economy does not operate somewhere offshore, but instead functions within the political framework provided by national states' (Kapstein 1994). Kitschelt et al have argued that national political institutions are not merely a 'dependent variable', forced to change by outside pressures. They should rather be seen as 'a critical component of the environment in which actors shape their strategies of adaptation' (Kitschelt et al. 1999a).

What is involved here is the interplay between constraint and choice. Political actors encounter objectively constraining economic conditions, in relation to which policy choices must be made. In turn, the array of options is limited by a given institutional inheritance, an established set of policy commitments, and a set of mutual expectations on the part of the main political actors. Past choices condition present preferences, as analysts of path-dependency have argued. But policy innovation is also possible, sometimes breaking sharply with previous ways of doing things. And institutions themselves are at times subject to change ((Crouch 2001) p.108-116.

Garrett and Lange (Garrett and Lange 1995) argued that there is no grand theory that establishes which institutions matter, no parsimonious explanation of the degree to which governments will choose to pursue a path of 'domestic compensation', or to press for a path

of maximizing the play of market forces in a liberal or laissez-faire policy stance. However, there is some convergence of opinion around the issue of which institutions might make various kinds of differences, based on the logic of how political responses to new economic challenges become organized and articulated. Our concern here is not with explaining variation across countries, but with locating one country's experiences in a comparative framework, and identifying how change has taken place over time in the politics of economic management and social provision.

This kind of analysis draws together literatures that have tended to develop relatively independently of one another. Institutions that have long been held to affect economic performance may interact with the structures of social compensation and welfare state provision in unexpected ways. On the one hand, a focus on systems of economic interest representation has been concerned with patterns of pluralism or corporatism, centralization or decentralization of wage-setting patterns (Traxler, Blaschke, and Kittel 2001). On the other hand, there is an extensive literature on patterns of welfare state provision, looking at variations not only in volume of public spending but in the structure of transfer entitlements and the patterns of service provision (Esping-Andersen 1990). In both cases, the nature of the government decision-making process and the profile of partisanship in the party system has been important in explaining variations. Increasingly, though, there has been an interest in the ways in which policy in these two areas tends to co-vary and interact (Crouch 2001; Crouch and Streeck 1997; Ebbinghaus 1998; Ebbinghaus and Manow 2001a; Esping-Andersen 1999; Rhodes 1998). Welfare provisions may affect incentives to participate in the labour market, for example among older workers, married women, or people classified as disabled (Esping-Andersen 1999; Visser and Hemerijck 1997). The tax regime and labour market policy may shape the overall package of income maintenance and protection of living standards (Boix 1998; Bonoli 2003). The fiscal and monetary regime may shape the terms of pay bargaining (Franzese and Hall 2000). The structure of the welfare state itself may shape the way associations become organized and the priorities they adopt (Ebbinghaus and Manow 2001b; Korpi and Palme 1998a; Rothstein and Steinmo 2002).

Thus there is a growing body of literature in which the interactions between parties, economic interest representation, and the nature of the welfare state have been explored in detail, and changes in the inter-relationships over time examined (Hall and Soskice 2001b; Kitschelt et al. 1999b; Scharpf and Schmidt 2000b; Scharpf and Schmidt 2000c; Visser and Hemerijck

1997). This study aims to contribute to that literature with an examination of the distinctive features of the Irish experience.

We are interested in the possibility not only of using comparative information on institutional variables to fix Ireland's comparative situation at a single point in time, but also in the possibility of change over time in the features exhibited on these dimensions. As Swank has noted (p.7), 'political institutions foster distinct clusters of norms, values and subsequent behaviour that fundamentally structure the policy process and make particular policy outcomes much more likely than others' (Swank 2002) .

Among the dimensions of institutional organization that have attracted most attention in the comparative literature are the following four:

1. political institutions of decision-making
2. the structure of political cleavages and political representation
3. the structure of the economy
4. the representation of economic interests

The principal features of these dimensions is summarized as follows:

#### *1. Institutions of decision-making*

This refers to the degree of centralization of political authority, as indicated by whether government is unitary or federal, and whether the system of economic policy-making is centralized or shared, for example, with an independent Central Bank (Garrett 1998a; Hall 1986; Swank 2002; Weiss 1998; Weiss 2003). It may also be appropriate to consider here whether the electoral system is majoritarian or PR-based, as this has a bearing on the probability of single-party versus coalition government, which in turn may have implications for the degree to which it is possible to centralize decision-making. More centralized decision-making systems can take more far-reaching decisions; but by the same token, they will be held more directly accountable electorally for those choices (Pierson 1994).



Institutional features might be expected to be resistant to change and to change relatively little over time; though this must not exclude the possibility of either rapid, sudden change (in monetary regime, for example, as with EMS or EMU; or even in the constitutional structure itself, as in France in 1958).

## *2. The structure of political cleavages and party competition*

This identifies the pattern of support for political parties and the scope for mobilization of interests around different sectors of the electorate. Where leftist parties are strong, a distinctive kind of Social Democratic politics has been possible (Esping- Andersen 1987; Korpi 1981). Strong Christian Democracy has been associated with a different kind of cluster of policies relating to economic management and welfare state provision (Huber, Ragin, and Stephens 1993; van Kersbergen 1995). The presence of significant secular parties of the right, primarily in the English-speaking countries, has been associated since the 1980s with the possibility of pursuing a distinctive neo-liberal economic policy agenda (Rhodes 2000; Schwartz 2000b). Boix has also identified systematic differences in supply-side policy which are rooted in differences in the party composition of government. One variant, involving state-led investments and higher taxes, tends to be preferred by social democratic parties, while market-led capital formation with lower taxes is a common conservative preference; but many variations are also possible, especially given the constraints facing parties of the left since the 1980s (Boix 1998).

The extent of change in cleavage patterns is contested; some see new configurations emerging (Ingelhart 1990), while others stress underlying continuities (Bartolini and Mair 1990); support for governments might fluctuate quite widely in either case.

## *3. The structure of the economy*

This identifies the type of institutions of capitalism within which productive activity takes place. A number of attempts have been made to capture the range of differences in how economies work (Albert 1993; Shonfield 1969). The most recent and already highly influential of these is the work on 'varieties of capitalism' (Hall and Soskice 2001a; Soskice 1990; Soskice 1999). The authors identify five dimensions of variation: the nature of industrial relations institutions (which we are identifying as a dimension of separate interest, below); the organization of vocational training and education; corporate governance and access to finance through financial institutions or the stock market; inter-firm relations on

standard-setting, technology transfers, R&D collaboration and other matters; and the extent of intra-firm engagement with employees on information sharing, production systems, etc. They argue that countries tend toward one of two clusters of institutional patterns: coordinated market economies (CMEs) and liberal market economies (LME). Among the former are most continental European and Scandinavian economies, and Japan, although a 'Mediterranean' group is less easy to classify, including France, Italy, Spain, Portugal, Greece, and Turkey. The LME category encompass the US and Canada, Australia and New Zealand, Britain, and Ireland (Hall and Soskice 2001a). These institutional clusters have implications for the way in which actors perceive their interests and become organized, and for the policy priorities they pursue in areas of economic management and social protection.

#### *4. The representation of economic interests*

This refers to the role of economic interests in wage-setting, and the linkages between pay bargaining processes and the political arena. Power-resources theorists and analysts of the models of corporatism identified a close connection between the degree of authoritative and organizational centralization of the trade union movement, left-government strength, and the size and generosity of the welfare state. They identified a corresponding association between union weakness and disorganization, policy leadership by parties of the right, and poorer opportunities for collective consumption through the welfare state (Bradley et al. 2003; Korpi 1981).

A variety of hypotheses about economic performance has followed from these associations. Among them is Calmfors and Driffill's hump-shaped relationship whereby either centralized or decentralized wage-setting (indicated by the structure of the trade union movement) can optimize performance on measures of unemployment and inflation, but countries located at mid-point fare worst (Calmfors and Driffill 1988). While some authors have found the original analysis highly sensitive to variations in the time-series analyses, Garrett has argued that there is still a congruence between leftist parties, corporatist wage-setting, and generous welfare states, on the one hand, and liberal parties, market-led wage-setting, and minimal welfare provision, on the other hand; and that either of these two clusters of organizational variables can produce coherent economic performance outcomes (Garrett 1998b).

However, much current research complicates the plot by probing the dynamics of change within societies, especially those that do not fit neatly at either of the opposite extremes.

Hence we see analyses of ‘organized decentralization’ to sectoral or even firm-level in countries in which bargaining previously took place at higher levels of aggregation, for example in Germany, Sweden, Denmark (Traxler 1995). And we see studies of new forms of re-centralization of wage-setting through ‘social pacts’ or ‘competitive corporatism’, for example in Ireland, the Netherlands, Spain, and Italy (Regini 2000; Rhodes 2001).

Taking account of all four aspects of institutional variation outlined above, what we are concerned to explain is the policy choices made across a range of areas in economic management and social protection – and the ways in which these may interact – in the Irish experience.

### ***Institutional underpinnings of the Irish political economy***

The institutional features identified as central to shaping the policy process take a distinctive form in the Irish polity, which complicates its unambiguous location among the LMEs.

#### *1. Political institutions of decision-making.*

The Irish political system is generally held to be unusually centralized on the territorial dimension, with very weak institutions of devolved or local government. Requirements of parliamentary accountability impose relatively slight obligations on government to attend to opposition views (Lane and Ersson 1999; MacCarthaigh 2004)

There has been little need for a functional sharing of power on economic matters across institutions; the role of the Irish Central Bank in setting monetary or exchange rate policy was weak because until 1979, the Irish pound was at parity with sterling, and from 1999 it was locked into the Euro. Between those dates monetary policy was managed with reference to the EMS and then the Maastricht convergence criteria, which limited central bank autonomy.

Industrial policy, housed in special agencies, has developed under the wing of one of the economic ministries. It has relied heavily on tax incentives and other market-based attractions, and on a policy of promoting foreign direct investment. Tax policy was one of the critical areas for Irish governments in which a right to national autonomy within the EU was particularly valued. Industry- and investment-friendly policies, which subject to change over time, have featured strong continuities in basic approach across successive administrations

((MacSharry and White 2000; O Riain 2000).

Taxing and spending powers have been firmly located within the cabinet and thus within government departments, with a critical role often being played by the Department of Finance as the gatekeeper of policy. But the delivery of social services, particularly in health and education, is complicated by the prominent role played by the churches, especially the Catholic Church, which had already assumed its pivotal role in ownership and management of schools and hospitals prior to the establishment of the independent state in 1922 (Barrington 1987; Curry 1998; O Buachalla 1988; Whyte 1980).

## *2. The cleavage system and political representation.*

Unusually in western Europe, Ireland does not readily fit onto the map of cleavage structures involving a class-based dimension of left and right, and a cross-cutting religious-secular dimension, as identified by Lipset and Rokkan (Lipset and Rokkan 1967). The parties of the left are particularly weak in Ireland. In contrast with most other countries except Switzerland, support for the Irish left averaged some 12 per cent between 1960 and 2000 (Mair 1992).

The two largest parties, Fianna Fáil and Fine Gael, owe their origins to nationalist mobilization associated with the foundation and stabilization of independence during the 1920s (Kissane 2002; Sinnott 1995). Fianna Fáil has been particularly successful in maintaining a fairly evenly spread cross-class basis of support, and in reinventing the basis of that alliance in shifting economic conditions (Bew, Hazelkorn, and Patterson 1989; Coakley and Gallagher 1999; Daly 1992; Dunphy 1995). The dominant position of Fianna Fáil proved difficult to dislodge for any extensive period, and the logic of coalition often resulted in somewhat uneasy alliances for the other parties (Gallagher 1982; McCullagh 1998).

But this situation has been in flux from 1987, as Fianna Fáil proved incapable of securing a single-party majority government (Collins 2000). Coalition politics weakened the cabinet dominance outlined above. This, combined with use of a form of PR, led Lane and Ersson to locate Ireland rather closer to the continental European type of party system (Lane and Ersson, 1999). This may be misleading as an instrument for understanding policy analysis, as it has commonly been noted that the electoral incentives for politicians are highly locally-based, a 'politics of the parish pump' (Carty 1981). The parties appear to function more effectively as aggregators of preferences than, for example, the pre-reform Japanese or Italian

patronage models (Mair 1987), but they are also more open than most European parties to what may be termed populist preferences. Cross-class electoral coalition-building has long been familiar in the Catholic and mixed-denominational countries of continental Europe, and increasingly necessary in the more 'open' electoral markets in all advanced democracies. But in the Irish case, the imperative to build these up has not been shaped by the ideological terms of debate about the market and competitiveness, the welfare state and social solidarity which, however residually, still shape the politics of many continental states. Economic policy preferences and distributive outcomes are thus less easily predicted in the Irish case on the basis of government party composition.

### *3. The structure of the economy*

If a style of capitalism is to be identified primarily by what happens at firm level, the Irish economy is easily enough classified as akin to the Anglo-American type, and therefore as a liberal market economy rather than a coordinated market economy. The linkages between industrial and financial capital are much weaker than in most continental or northern European countries, and stock market flotation the standard path for expansion beyond a certain size. Employer coordination over shared productive and training interests is found to a minimal extent.

If these are constant features of the organization of production, they should not blind us to the extraordinary transformation in the composition of the economy over time. In the phase between the move from protectionism in 1960 and entry to the EEC in 1973, about one-quarter of the workforce was engaged in agriculture. Industry was largely confined to Dublin and the larger towns. Production was mainly concentrated in the light industrial and consumer-oriented sectors such as food processing, textiles and clothing, and furniture; these had developed as export-substitution activities behind tariff barriers (Kennedy, Giblin, and McHugh 1988). Exports accounted for a very low proportion of output, and almost all went to Britain. Difficulties to do with the scale of the domestic market, capital availability, and technological knowledge hindered the development of an industrial sector with significant growth potential (O'Malley 1989). There was a strong 'statist' presence in the economy with sizeable state-owned commercial enterprises not only in transport and utilities, but also in food processing, steel, fertilizer, and other sectors. Like many other indigenous activities that had been sheltered from competition between 1932 and the 1960s, efficiency and responsiveness to market stimuli were not well-developed features of these enterprises

(Guiomard 1995).

By the early 2000s, Ireland had become one of the leading locations in Europe for a range of high-tech products, concentrated particularly in information and communications technology (ICT), medical devices, and pharmaceuticals and chemicals. The foreign-owned sector accounted for a disproportionate part of this, and all the top ten US firms in ICT and pharmaceuticals had bases in Ireland by this time (MacSharry and White 2000). In the manufacturing sector, about half of all employment, almost four-fifths of all output, and some ninety per cent of all exports came from foreign-owned firms. Employment in services was growing rapidly, including internationally traded services. Ireland was acknowledged as one of the most profitable European locations in which US firms did business. The state had by now divested itself of many of its commercial enterprises, and those that remained were under intensified pressure to perform to market-set standards.

Nothing fundamental had changed in the type of capitalism in operation; but everything had changed in its composition, capital intensity, demand for high-level educational and skills attainments, employment generating potential, and other measures of performance success. The critical shift occurred with entry to the EEC in 1973, which inserted Ireland with its population base of about 3.5 million into a wider market of some 350 million. This gave a fillip to FDI-led growth. But as we shall see, the trajectory of growth was far from smooth or unidirectional.

Industrial development policy was not based on a strong state capacity for directing investments or nurturing a strong export-oriented productive sector, as has been argued for France, or Asian countries. Neither was it left purely to market signals though; the state agencies developed particular skills in targeting, networking, and enticing key foreign investors, and facilitating their smooth bedding-in. This role has been termed 'glocal' as it mediates between global and local levels (O Riain 2000; O Riain 2004). But in liberal market economies, industrial development is frequently an area in which a good deal of state-led involvement is in fact found in any case. Whether it involves investment in research and development and technology parks, fiscal incentives, or even direct state aid (where permitted – EU competition policy makes it more difficult), industry policy in the other liberal market economies has often involved an active engagement between state agencies and the private

sector among the LMEs (Hollingsworth and Boyer 1997).

#### *4. The representation of economic interests*

The Irish industrial relations system owes its principal organizational features to its origins as an offshoot of the British system, with its proliferation of unions, and its combination of craft, industry, and general bases of organization. The legal structure which regulates it is similarly based on principles of voluntarism and pluralist representation (Roche 1997). But interpretations of the 1937 Constitution resulted in some divergence from the British model, particularly in protecting individuals' rights of association. During the 1940s, Fianna Fáil initiated efforts to rationalize trade union structures and draw the unions into responsibility for industrial performance in early corporatist-style initiatives. But constitutional considerations limited the scope for such radical institutional design. The machinery of dispute regulation established in 1946 consequently had a limited legal mandate. But it had an active watching brief over issues of wage formation and pattern-bargaining (MacCarthy 1977).

The origins of union organization in the pre-independence period also accounts for the fact that the trade union movement continues to be formally organized on an all-Ireland basis, spanning two political jurisdictions. But the largest single union (formerly named the Irish Transport and General Workers' Union, ITGWU, currently Services, Industrial, Professional, Technical Union, SIPTU) has always been a general union with membership in all sectors of employment, which originated in opposition to unions whose Irish branches answered to British head-offices. The British-Irish division within the trade union movement had resulted in a split into two separate federations in 1945. But since 1959 the Irish Congress of Trade Unions (ICTU) has been the sole and unified federation. Organizational rationalization on a voluntary basis developed rapidly under its auspices from the 1970s on. But in 2004, although SIPTU constituted about 40 per cent of affiliates, there were still 57 unions affiliated to ICTU. Trade unions organized approximately half of all employees, but with widely varying density rates, much higher in the public than the private sector, and within the private sector, much higher in manufacturing than in services.

Employer organization has similarly seen a coordination of function and rationalization of organizations over time. The Federated Union of Employers (FUE) had long been the umbrella body for many sectoral groups and associations, and had a particular concern for industrial relations and pay bargaining issues. In 1993 the separate organizations representing

managerial and employer interests combined in the Irish Business and Employers' Confederation (IBEC). The original membership of the employers' confederation was concentrated among Irish companies, but a growing proportion of the now numerous foreign-owned firms in the Irish economy are also members or affiliates.

Thus the Irish industrial relations system in its formal profile is pluralist and voluntarist. But the structural similarities to the British system belie the divergences in the political context that developed over time. A political interest recurs, particularly within Fianna Fáil, in fostering cooperative relationships with the trade unions. That said, nothing precluded legislation to control union activities, particularly in the terms and conditions of undertaking industrial action. And the trade union movement has always evinced a wide diversity of internal opinion about the relative merits of workplace bargaining as against a more coordinated and centralized approach.

The Irish industrial relations system can be positioned around the mid-point of the various measures of centralization and authoritative coordination, such as that of Calmfors and Driffill: the workforce has been quite strongly organized, but the trade union movement is fragmented and pluralistic, with little authoritative centralization of decision-making. Political and economic actors therefore faced the strategic challenge identified by Crouch (Crouch 2000a). This suggested that, in a situation where middling-level coordination produces sub-optimal economic performance, there is a constant temptation for actors in the system to seek to press for bargaining to be conducted in a manner closer to achieving their preferred outcomes. The neo-liberal solution would be to seek to disrupt the unions' capacity for coordinated action and to disaggregate the conduct of pay bargaining. Employers may not always prefer this solution – they have not in Germany, for example (Thelen 2000). But they may support it if they cannot achieve predictability and cost competitiveness by other means. An alternative would be to seek to push for a neo-corporatist approach in which both unions and employers act with a greater degree of coordination, and pay bargaining is conducted at higher levels of aggregation. 'Encompassing' trade unions might push in this direction, overcoming the Olsonian collective action problems; but commentators have also pointed out that the critical mass for adopting this preference might be reached at considerably lower levels of union membership – if the export-price-sensitive sector takes a leading role, and especially if monetary policy is known to be non-accommodating (Traxler 2004, pp. 591-2).



The strategic preferences of unions and employers can make quite a difference here, and these may change over time. A good deal also depends on the preference ordering of the party or parties in power. What we see in the Irish case, it will emerge, is limited and pragmatic political support for market-based solutions, and a stronger political preference for promoting and securing a consensus-oriented, neo-corporatist approach to the representation of economic interests.

### ***Phases of adaptation***

In comparative structural terms, we have located the Irish case among the liberal market economies, and with a 'Westminster'-style political system. But the composition of government has become less clearly majoritarian and more coalition-based since the late 1980s, and the representation of economic interests, while retaining its pluralist and voluntarist framework, has moved toward a more corporatist model in the same time-period.

We are concerned with the implications of these institutional variables for adjustment to economic liberalization, and any corresponding innovations made regarding social compensation or social protection. It seems reasonable therefore to divide the discussion into two time-periods encompassing different patterns of response to the challenges of economic openness:

1. The first phase runs from EEC entry in 1973 until 1987. It takes in two sub-periods, the first running until 1981, and the second taking in the phase of severe economic difficulties between 1981 and 1987.
2. The second phase begins with the change of government and negotiation of the first social partnership agreement in 1987 and continues to the present. This too can be sub-divided into the period of recovery from crisis between 1987 and 1994, and the 'Celtic Tiger' phase of very rapid growth and job creation between 1994 and 2001, with slower yet still strong growth levels thereafter.

### **The first phase of openness, 1973-1987**

#### *Adjusting to intensified competition*

Accession to the EEC had contradictory consequences for the composition of the Irish

economy. On the one hand, foreign investment was arriving, attracted by access to the wider European market, the still relatively low cost base, and in the case of US companies, an English-speaking workforce. These newer companies, while locating mainly process and assembly activities in Ireland, were in high-tech industrial sectors such as electronics and light engineering in which Irish firms were not strongly represented, and tended to be capital- rather than labour-intensive activities. On the other hand, indigenous firms were mainly concentrated in the traditional, labour-intensive sectors. These suffered intense competitive pressures with the dismantling of trade barriers within the EEC, resulting in extensive job losses. Export destinations began to diversify as the more modern firms oriented themselves toward the wider European market; though a proportion of the growing volume of exports to the US did not consist of finished goods, but was in fact made up of transfers within a geographically dispersed production process. The second half of the 1970s thus saw a two-tier economic structure begin to emerge.

Prior to 1973, the Irish economy had many of the features of an agricultural region within the broader British economy. But from this point on, Ireland begins to resemble the classic model of the small open economy, a price-taker rather than a price-setter on international markets, in which employment levels are strongly determined by costs in the exposed sector. But the learning process for actors in the Irish economy was complicated by several external factors that changed round the same time. The oil-price crisis injected a similar inflationary shock into the Irish economy as elsewhere. High inflation rates in Britain were 'imported' through the fixed exchange rate against sterling which lasted until 1979. The options available to government to ensure competitiveness were limited – it could not devalue unilaterally. Yet British devaluation intensified inflationary pressures.

The onus of adjustment was thrown onto the wage-setting process. When Ireland joined the EEC in 1970, a new mechanism of wage determination had already been in place for some three years. The centralized National Wage Agreements were initially of about two years' duration, though some were annual deals in the face of uncertainty about inflation. Until 1977, they were purely bilateral deals between employers and unions. But the process was shaped and guided by government, and began under the 'shadow of hierarchy', in the form of a threat of legislation for an incomes policy, in 1970.

It was during the 1970s also that governments began to experiment with a more active

approach to fiscal policy, which had hitherto been managed conservatively. The oil-price crisis led a coalition government of Fine Gael and Labour (1973-77) to increase the current account deficit and to raise borrowing, as was happening simultaneously in other countries, in a context of rising unemployment. This government was already engaged in a painful stabilization when it lost power in 1977. At this point, it is now generally agreed, the incoming majority Fianna Fáil government made a series of drastic errors that were to set the scene for the following decade of dismal economic performance (Honohan 1999; O Grada 1997). What might originally have been taken as a set of rather extravagant election promises was played out as a strategy of fiscal expansion which increased public spending, mainly current spending, in order to boost growth and speed up job creation. This was based on a misdiagnosis of the constraints on a small open economy. There is virtually no multiplier effect from increased public spending; fiscal laxity was followed almost immediately by a surge in imports, worsening the balance of payments situation. Moreover, the fiscal boost intensified the effects of an international economic upswing then under way. Predictably, both inflation and unemployment rose, and Ireland faced both cyclical downturn and the second oil price crisis with severe fiscal imbalances already in place.

Meanwhile, the role of incomes policy in managing costs and competitiveness was coming under closer scrutiny on all sides. For the trade union leadership, protecting living standards against inflation became more urgent. While the agreements established a floor and a ceiling for pay increases, promoting a certain degree of wage compression, there was also scope for firm-level or workplace-level bargaining. Wage trends tended to be set by the more profitable foreign-owned exporting sector, in an Irish version of the 'Dutch disease' (Barry and Hannan 1995). Moreover, strong public sector unions pushed up pay in the sheltered sector too, through the linkages of relativities and differentials that pervaded the Irish wage structure in both public and private sectors.

The relationship between wages, costs, inflation, and unemployment was highly contested; in a very similar context around this time, the British Social Contract collapsed. In the pay agreement of 1978, and again in what were termed 'National Understandings' in 1979 and 1980, the Fianna Fáil government sought to introduce fiscal compensations for wage restraint. But not only were some tax concessions delivered prior to the pay deals, the spending commitments were already in place as part of an electoral strategy. The leadership of the trade union movement was not committed to engaging in any strategy of 'political exchange', but

neither did the government require this of it. Dissatisfaction in the trade union movement with the constraints of the agreements was mounting. But it was the employers who withdrew first from the process, in protest at the widespread extent of wage drift through two-tier bargaining at both national and local level.

This phase of managing Ireland's increased exposure to international economic fluctuations thus ended in a failure of the corporatist-style process in 1981. The following six years would be dominated by a strategy of fiscal adjustment that dispensed with any attempt to secure economy-wide negotiated agreement from unions and employers. As Fig. 12 shows, the debt to GNP ratio escalated during these years, partly due to the scale of debt denominated in foreign currencies, and adverse movements in exchange rates.

Fig. 12. Ratio of Debt to GNP

Several years in which no government could secure a working majority further delayed adoption of an effective response to the mounting crisis. The formation of a Fine Gael - Labour coalition government in 1983 marks the start of a concerted stabilization strategy. Market disciplines were expected to control wage rates, and unemployment rose sharply, as Fig. 13 shows.

Fig. 13. Inflation and Unemployment

And yet this could not be termed a strategy of neoliberalism. Governments continued to negotiate pay deals with the public sector. Recognizing that spending cuts would have a procyclical deflationary effect, the government relied on a tax-based adjustment strategy – although the inequities of the tax system and its disproportionate reliance on employee incomes had already been a major source of grievance during the 1970s (Hardiman 2002a).

#### *Patterns in domestic compensation*

It is not easy to establish any straightforward link between increased social protection or social compensation for increased market exposure during this first wave of Ireland's integration into the international economy. Some of the most significant social reforms, instituting equality for women in pay rates and employment conditions, were mandated by the EEC itself. Many of the new welfare measures of the early 1970s, for lone parents, or

prisoners' dependents, for example, were viewed as overdue or catch-up reforms for those unable to participate in the labour force.

In comparative terms, relative income poverty rates in Ireland in 1988, at 17 per cent, were considerably worse than those for Denmark (8.8) or the Netherlands (7.1), but about the same as other poorer European countries such as Greece (17.3) and Portugal (17.2), and a little better than the UK (19) (Layte, Nolan, and Whelan 2000), p.169.

The volume of transfer spending certainly rose during the 1970s and 1980s. But this was driven by the emergence of a massive problem of unemployment, and an array of active as well as passive labour market schemes. Real average incomes rose between 1973 and 1980, but fell over the following seven years. The proportion of households suffering relative income poverty – falling below, say, half average household income – actually fell slightly, from 19 per cent to 17 per cent, between 1973 and 1987. But this masks the fact that the real incomes of the least well off actually fell during the time of greatest economic hardship during the 1980s. During these years, not surprisingly, the greatest risk of poverty was found among households with children that were headed by an unemployed, lone or disabled parent. As unemployment deepened, more people ran out of their insurance entitlements and had to fall back on more targeted, means-tested assistance schemes. Yet the ever more steeply raked tax regime, combined with the complexity of child-dependent entitlements, also meant that more people found themselves stuck in poverty traps, or unemployment traps, with no viable bridge out of welfare dependency into paid work. Households consisting of old people were also especially at risk – public pensions have not been well funded, yet the private market in pensions was not well developed.

The profile of the Irish welfare state, as set out by Esping-Andersen, is ambiguous (Esping-Andersen 1990). If 'decommodification' is the principal criterion, Ireland falls in some respects into the liberal regime in which market hazards are only partially covered, but in others it comes closer to the corporatist model in which family status affects entitlements and in which family considerations underpin differentiation between men and women. The private market for health and education interacts with the public in Ireland as it does in the Netherlands, Germany, and other countries in which the Catholic Church has an established presence in these fields. But the result in the Irish case is that a two-tier provision in health care and education was never effectively challenged. Private provision receives public

support through direct supports and fiscal advantages. Access to private facilities is available to those willing and able to pay a top-up fee. Public provision is correspondingly relatively under-resourced. In health care, this two-tier system was actively supported by medical professionals, as the system provides incentives and rewards to them for combining public appointments with private practice. The result has been termed a ‘pay-related welfare state’ (Korpi and Palme 2003; O’Connell and Rottman 1992): that is, a tax-subsidized system in which private payment secures preferential access and quality of treatment.

Another approach to comparative classification of welfare states would be to take the structure of policies affecting income adequacy as the basic criterion (Korpi 2003; Korpi and Palme 1998b). In this perspective, Ireland more clearly resembles other ‘basic security’ welfare regimes, with the main emphasis on targeted benefits rather than universal entitlements. Others in this category include the UK, the USA, Switzerland, the Netherlands, Denmark, New Zealand, and Canada. Yet this clearly takes in quite a range of performance in protection against poverty.

These institutional arrangements underpinning welfare provision stayed largely in place throughout the period we are interested in, 1973 to the present. Most of the trade leadership during the 1970s and into the 1980s saw little or no connection between wage formation processes and welfare expansion. Few had any sophisticated analysis of how the economy worked, and those who did nevertheless believed that the notion of the ‘social wage’, or even of a wage-tax trade-off, would be completely unacceptable to their membership. Their activities on behalf of social reform were confined to more conventional methods of lobbying and making representations at budget time. It was not until the crisis period of the mid-1980s that a serious re-evaluation of the connections between policy areas began to be undertaken.

## **The second phase of openness, 1987-2004**

The first phase of this discussion traced a story about economic performance that started well and ended badly. The trend in the second phase, in contrast, broadly involves recovery from crisis, followed by a phase of extremely good economic performance on the conventional measures. As noted earlier, we do not see any increase in the intensity of trade openness; but openness as indicated by the extent of foreign direct investment, especially inward-bound, shows a sharp increase during this period.

### *Adjusting to changes in exposure to the international market*

Ireland's engagement with the international economy is once again, as in the earlier phase, the chief driver of economic growth. Anticipating the completion of the Europe-wide market in 1992, and with a long boom in ICT just beginning, US corporate investment in Europe increased rapidly from the late 1980s. Ireland benefited disproportionately from this newly available FDI. With only 1 per cent of total EU population, Ireland attracted over one in ten of all foreign-owned greenfield manufacturing projects coming into Europe during the 1990s, most of it American. One attraction was certainly the ongoing commitment to a low corporate tax rate, further cemented by EU approval for a single low rate of 12.5 percent to take effect from 2000 (Gunnigle and McGuire 2001). The quality of the domestic manufacturing and services base had greatly improved since the 1970s; and intensive and targeted investment of public funds in education and training had provided the basis for a much upgraded employment structure (Barry, Bradley, and O'Malley 1999; O'Connell 2000). A further supply of highly qualified labour was available, not only among women and the unemployed, but also from inward migration, much of it made up of Irish people living abroad. 'Annual flows of foreign direct investment into Ireland increased from an annual average of around \$140m in the 1980s to \$790m in the first half of the 1990s and \$2700m in the second half of the decade' (Department of Enterprise 2003). Moreover, linkages with domestic firms were better this time round. From 1994 on, the fruits of intensified investment began to be seen in rising rates of growth in both GNP and GDP, expanding numbers in employment, and plummeting unemployment. Transfer payments from the EU had also played some part, especially in the modernization of physical infrastructure, but on average they have been estimated as contributing one-half of one per cent to GDP growth during the 1990s (Barry, Bradley, and Hannan 1999).

Fig. 14. Government Current Spending, Constant 1990 Prices

The only period during which real government spending actually fell was 1986-1989, as Fig. 14 shows – after the election of the minority Fianna Fáil government that committed itself to the labour-inclusive strategy of social partnership. Some real cuts had been made by the Fine Gael-Labour government as part of their crisis management strategy – and vociferously criticized by Fianna Fáil in opposition. But a more overt and deliberate set of cuts was in fact implemented by that party when it formed a minority government in 1987. Spending on transfer payments, social services, and health services were particularly targeted – affecting

the least well off most severely. This unilateral welfare rollback, however, was depicted as a necessary corrective to the continuing debt crisis. While it proved electorally costly to Fianna Fáil in 1989 – precipitating this party’s first experience of forming a coalition government – it did not undermine the negotiation of what has been the most striking institutional innovation of this phase of Ireland’s political economy.

The principal domestic policy innovation bearing upon economic stabilization and growth promotion is the process termed social partnership, dating from 1987. The social partnership agreements are centrally negotiated framework pay and tax agreements, worked out between government and the peak associations of employers and unions, each lasting about three years. Six such deals have been negotiated to date since 1987 (Hardiman 2002b; O'Donnell 1998; Roche 2003). Since 1997, voluntary sector representatives also participate, and the agenda has expanded to take in social policy issues. The pay element of the social partnership agreements, while centrally negotiated, is implemented through decentralized channels, mainly at plant or enterprise level. Public sector pay settlements are applied nationally.

Agreement on the analysis underlying social partnership was worked out in the depths of the economic crisis, during 1986 and 1987, through the networks of the tripartite National Economic and Social Council (NESC). The crisis was so profound, the prospects for the national economy so bleak, that a radical reappraisal of the situation was called for – somewhat like the Dutch Wassenaar agreement a few years previously (Visser and Hemerijck 1997). The NESC report published in 1986 (NESC 1986) identified debt, inflation, and competitiveness as the central challenges for the economy. However, in contrast with the Dutch experience, it was not until Fianna Fáil took power again in 1987 that this agreed analysis was translated into an incomes policy. The launch of social partnership did not take place under government duress – it was not ‘under the shadow of hierarchy’. But it was driven by government, which got a ready hearing from a trade union leadership that was desperate to escape the economic and political marginalization of the previous few years. Employers joined in with rather more caution.

The viability of the first agreement, in 1987, the ‘Programme for National Recovery’, was uncertain at first, as it involved a pay deal pitched at less than the expected rate of inflation, offset by a tax cut. But this, aided by the effects of a currency devaluation in 1986, and at a time of international economic upturn, improved economic performance (Barry 1991). This



powerfully reinforced the ‘politics of the virtuous circle’. Social partnership weathered further challenges of currency crisis and devaluation in 1992. It started out as an instrument of crisis stabilization, then became not only a mechanism for managing conformity with the Maastricht convergence criteria for EMU, between 1992 and 1999, but also a method of managing smooth adjust to the rapid growth that got underway from 1994 on.

### *Social partnership and wage-setting*

How important is social partnership in wage-setting? Apart from Ireland, countries such as Spain, Italy, Greece, Finland, and Denmark saw a revival of interest in political mediation to deal with the challenges of growth, rising real incomes, and tax reform, particularly in the context of impending membership of the Euro (Regini 2000; Rhodes 1998). But in Britain, for example, and in New Zealand and Australia, market forces dealt with labour pressures (Rhodes 2000; Schwartz 2000b). Perhaps Ireland belongs to the second rather the first group, and social partnership should be seen primarily as window-dressing to purely market-driven adjustments?

Some economists have indeed taken the view that social partnership merely masked the effects of market disciplines and that the labour market in Ireland was essentially self-regulating. Insofar as growth did *not* result in a wages explosion during the 1990s, they argue, this is largely attributable to plentiful labour supply from women, returning skilled migrants, and newly qualified young people, as well as from the pool of unemployed. Wage competition provides a sufficient explanation for the fact that wage growth trailed profits growth. Social partnership, in this view, may at most play a role in legitimating the outcomes that markets are producing anyway (FitzGerald 1999; Walsh 1999). The wage-tax deals in the social partnership agreements, in this view, can be seen as forming part of an overall and overdue strategy of tax reform; tax cuts feature mainly as an electoral programme of successive governments rather than as core elements of a quid-pro-quo in pay policy.

At a minimum, it must be acknowledged that social partnership played an important role in transforming the level of industrial conflict that had previously characterized Irish industrial relations, as Fig. 15 shows.

Fig. 15. Trends in Industrial Disputes

The cuts in personal income tax rates were significant. Yet this did not feed into an inflationary trend, until the late 1990s at any rate. Even if the conditionality between tax cuts and social partnership was not very tightly established – and tax cuts exceeded those to which governments were committed under social partnership deals – governments were undoubtedly mindful of the fiscal stability established by the social partnership agreements.

During the 1990s, buoyant growth permitted government to make quite sizeable tax cuts as part of the overall package without compromising its rising revenue intake. Between 1987 and 2001, real take-home employee pay rose by between 55 and 60 per cent (NESC 2003), in marked contrast to the fall in real disposable income recorded during the period of ‘free-for-all’ collective bargaining between 1981 and 1987. The declining trend in the rate of tax paid by single earners – traditionally the most heavily taxed – is shown in Fig. 16.

Fig 16. Trends in Tax Rates on Employees

However, something more substantial seems to have been going on. Assessment of trends in earnings is complicated by the rapid shifts in the composition of the workforce during the 1990s. But in dramatic contrast with the 1970s – and even the period between 1981 and 1987 – wage drift between 1987 and the late 1990s has been estimated at only about 1 per cent annually in manufacturing as a whole (Baccaro and Simoni 2002). This would seem to suggest that the terms of the pay deals were being actively observed.

The impact of social partnership, and the exchange of tax cuts for wage restraint, has remained resistant to definitive econometric modeling; but an authoritative overview by Honohan and Walsh concluded that the evidence is, at the very least, consistent with the claim that social partnership did in fact moderate the rate of increase of employee incomes (Honohan and Walsh 2002; O Grada 2002).

How then did it do so? The trade union movement was no more centralized, and no stronger organizationally, than it had been during the 1970s, when the formal appearance of centralized pay agreements was belied by the proliferation of wage drift. Although membership did not decline, rising employment resulted in trade union density falling from about 55 per cent during the 1980s to 48 per cent during the 1990s (NESC 2003). While the public sector remains well organized, employees in growth sectors such as private sector

services and small firms are particularly hard to organize. Moreover, whole sectors of the workforce remain resistant to unionization. About 85 per cent of US companies established in Ireland since the mid-1980s do not recognize trade unions (Gunnigle and McGuire 2001; Gunnigle, McMahon, and Fitzgerald 1999).

However, the 1990s saw a change in the pattern of wage leadership set by the high-tech, mainly foreign firms, that had prevailed during the 1970s. Sectoral wage trends indicate that despite the higher profitability in the high-tech sector in the 1990s, wage trends in both high-tech and traditional sectors stayed quite close to output trends in the domestic sector. This trend line in fact is also very close to the pay terms of the social partnership agreements.

In the light of this evidence, it is surely advisable at least to examine the actors' own assessment of what was going on in social partnership. In fact, the principal leaders of the Irish Congress of Trade Unions (ICTU) had undergone a radical shift in perspective and a painful reconfiguration of their strategic preferences during the terrible years of recession during the 1980s (Baccaro and Simoni 2002; Hardiman 2000a). At that time, the tripartite deliberative process identified the debt/GNP ratio as the top priority in economic management – and wages as a key element of the competitiveness requirements to generate the growth required to address this issue. Arising from this, during the 1990s, they held that it would be preferable to facilitate employment growth than to seek to capture all the benefits of growth in the form of rewards for those already at work. In a weakly centralized trade union movement, the experience of rising real disposable income also undoubtedly reinforced the 'virtuous circle' of commitment to social partnership among the union membership.

Furthermore, the Irish trade union movement enjoyed a greater degree of assured political access than its counterparts elsewhere in the English-speaking world. The Irish party system features a weak left-right divide and the Labour Party is the smallest in western Europe (Mair 1992). But the two largest parties draw on a cross-class support base and tend toward 'catchall' policy preferences. In general, there is little to be gained for any party in adopting an exclusionary, anti-union stance à la Thatcher. All the major political parties have had a share of power since 1987, and all have presided over the negotiation of a new social partnership agreement.

But how and why did the wage trends of the domestic sector translate over into the

multinational, high-profit sector, most of which did not recognize unions, when the traditional pressures had run in the opposite direction? The role of employers is undoubtedly central here, although relatively little is known about their wage-setting priorities. Virtually all the multinational companies were members of the Irish Business and Employers' Confederation (IBEC). IBEC's commitment to social partnership could not be made binding on its members. But like ICTU, the extensive consultative process they engaged in prior to each agreement meant that the agreements they struck carried widespread legitimacy for members, and employer coordination was estimated to have been more effective during the 1990s than previously (NESC 2003). And on balance, productivity increases meant that unit labour costs dipped further below manufacturing earnings, as Fig 17 shows, permitting an increase in the profit share.

Fig 17. Manufacturing Earnings and Unit Labour Costs

While labour costs were not as vital to many foreign employers as to domestic employers – the supply and quality of labour mattered most – foreign employers were far from indifferent to the matter. It would appear that employers in non-union employments were happy to adopt the terms of the social partnership deals, and to use additional financial reward systems such as bonuses and profit sharing to achieve the flexibility they also wanted in labour supply (Gunnigle and McGuire 2001).

It seems plausible, therefore, to argue that the institutional features of social partnership made it possible to find a 'win-win' formula that stabilized wage trends between 1987 and the late 1990s. The contingency of the arrangements became clearer as the labour market tightened thereafter. Indeed, wage drift had already appeared earlier in some sectors in which skilled labour was particularly scarce – in the software industry, for example, pay increases were estimated to be running at between 10 and 15 per cent per annum in the late 1990s (O'Riain 2000). Public sector militancy also accelerated in the late 1990s, especially among health and education employees.

Traxler has argued that it is less important to know the level at which wage bargaining formally occurs than to know whether there are effective mechanisms at higher levels of aggregation for shaping what happens at workplace level. The ICTU lacks mechanisms of discipline of this sort, for example, control over strike funds, or over extending legal

protections to strikes. However, the social partnership deals enjoy the moral authority of democratic ratification and legitimation; they form the basis of decisions by the institutions of dispute resolution such as the Labour Relations Commission and the Labour Court. Thus Traxler classes the Irish wage setting system from 1987 to the present among countries in which both structures and functions of corporatism were quite effectively supported by state inputs (Traxler 2004), p.576.

A capacity for cost-based flexibility becomes more rather than less important for small, open economies within the Eurozone, if growth and employment are to be sustained. Ireland's relative costs and therefore export capability benefited from the weakness of the Euro against sterling and the dollar. However, GNP growth running at up to 10 per cent per annum in the late 1990s, and public spending at twice that rate, contributed to the terms of the then current pay agreement being extensively breached. A fiscal cutback in 2001 and 2002, including higher indirect taxes, further fuelled inflation, as Figure 13 showed. The cost base of the Irish economy was now quite high, especially in view of a supplementary 'benchmarking' public sector pay commitment in 2003. Prospects for a sixth pay agreement was in some doubt. The slowdown in the international economy since 2001 cooled off some wage pressures. In spring 2003 employers and unions signed up for a further pay deal – albeit with a shorter time duration than before. The institutions of social partnership have displayed considerable robustness to date – but their capacity for serious cost-containment is rather less evident.

#### *Trends in domestic compensation and social policy reform*

What outcomes do we find in Ireland in income distribution and redistribution, and government input into social services, to offset the hazards of exposure to the market? To what extent was there any specific politics of 'domestic compensation' at work, and how was it mediated by political and social institutions?

We would not necessarily expect that increased openness would automatically lead to a compression in market-based income distribution. In some countries this did indeed happen, most notably in Sweden between the 1960s and 1980s, due to the particular strategies of 'solidaristic' wage bargaining and forced industrial restructuring supported by Social Democratic governments at this time. But even with strong Social Democracy, this was not a uniform trend, as the Austrian example of ongoing market inequalities demonstrates

(Pontusson 1996).

Looking at income distribution, Fig 18 shows that income inequality as measured by the ratio of the income of the top quintile to that of the bottom quintile is quite pronounced in Ireland – less marked than in the countries of the southern EU periphery such as Spain, Portugal and Greece, but much more so than other small EU member-states, and more so too than in the considerably poorer accession states of central Europe and the Baltics.

Fig 18. Income Inequality, 2001.

In fact, market-based income inequality increased in Ireland during the 1990s: the top portion of the income distribution scale pulled away from the median, especially between 1987 and 1994. But this is mainly attributable to the shift in the composition of employment, and to growth in the returns to education (Barrett, Callan, and Nolan 1999).

Among the most important changes affecting distributive outcomes since 1987 has been the significant increase in employment – that is, a market-based process. Work activation measures played a significant role in facilitating the transition from unemployment or non-participation in the workforce (Callan and Keeney 2002). An analysis of the consultation process about labour market policy required by the EU Employment Strategy concluded that while the institutional framework is relatively informal, it is robust and inclusive, and overlaps extensively with the social partnership framework (Murphy 2002). The same may be said of the National Anti-Poverty Strategy, which is part of a UN-wide monitoring process.

Disposable income after taxes and social transfers have been taken into account may reveal more about the political priorities at work. Fig 19 shows comparative data on the proportion of persons in various societies at risk of poverty, defined as falling below 60 per cent of the median income.

Fig 19. Relative Income Poverty, 2001

This figure also suggests that poverty and inequality in Ireland are more pronounced than the European average. Those at the bottom of the income distribution are disproportionately composed of people dependent on social welfare benefits. The regressive impact of tax cuts

played some part in increasing these income dispersion effects (Hardiman 2000b).

However, in a context in which the median itself is rising rapidly, these measures may be misleading. As Layte et al have shown, taking the 60 per cent median threshold in 1994 and indexing it against the consumer price index to capture changes in purchasing power would result in the proportion falling below that line falling from 16 per cent in 1994 to 2 per cent in 2001 (Layte, Nolan, and Whelan 2004; Nolan et al. 2002).

When relative income poverty is taken together with a deprivation index to capture the lifestyle aspects of poverty and its severity, the proportion of households falling below the 60 per cent threshold and experiencing deprivation falls from a steady 15 or 16 per cent in 1987 and 1994, to under 10 per cent in 2001 and about 6 per cent in 2002, although specific categories of welfare recipients benefited very differently from this overall decline (Nolan et al. 2002). While more people suffered relative income poverty, the poor did not become poorer; they became better off too, though more slowly.

When considering welfare ‘effort’, rapid growth in national income complicates matters. General government spending – 36 per cent of GNP and 30 per cent of GDP in 2001 – is below both the EU average of 45 per cent and the OECD average of 37 per cent. As Fig 14 showed, public spending rose steadily in real terms, especially toward the end of the decade – just not as rapidly as the overall economic growth trend (O Riain and O’Connell 2000; OECD 2003).

The Irish experience of social partnership has been identified with the trend toward ‘competitive corporatism’ in European countries, combining a ‘search for elaborate equity-based compromises and trade-offs’ with ‘new market-conforming policy mixes’ (Rhodes 2001). An array of social policy issues began to be included on the social partnership agenda, and many working groups established to examine them. They spread right across governments’ electoral agenda as well as the social partnership process. It is evident that years of under-investment in economic and social infrastructure and in social and health services had left a big deficit to make good, intensified by rapid employment and population growth. Many issues centring on the quality of services began to bubble up as sources of public grievance, such as waiting lists for hospital procedures, queues at hospital Accident and Emergency admission points, low-standard school accommodation, literacy levels

especially in schools in areas of social deprivation, services for disabled people, support for carers of people with a disability, access to affordable housing, among others.

In conclusion, the verdict on social equity performance is mixed. A key feature of the social allocation of resources during the 1990s must surely be that, for a short while, Irish people could have it all – rising living standards, and tax cuts, and growing public spending on social services. On balance, the public preference – certainly the preferences of every government that held power during the 1990s (and every major party has held a share of power during that time) – appeared to be biased toward the liberal and individualist pole of tax-cutting over building up collective consumption (Hardiman 2002c). As Ireland moved further towards the low-tax, low-services end of the scale, public expectations of high-quality services became increasingly vocal. Yet survey evidence suggested that popular opinion showed little appetite for the higher tax levels required to meet these standards (Hardiman, McCashin, and Payne 2004)(also, eg, ‘Poll shows public back spending cuts over more taxes’, Irish Times-MRBI poll, *Irish Times*, 29 September 2003, p.1).

### ***Conclusion: Institutions, actors, path dependence and preference shifts***

The trajectory of development that countries follow over time is generally conceptualized by political scientists as arising from the interaction of opposing influences. On the one hand, there are strong continuities in the structural and institutional context within which policies are made, and change often happens quite slowly. Outcomes of current choices can be seen as path-dependent: the consequences of past decisions constrain and shape the realistic options and payoffs available in the present. On the one hand, models of rational choice and strategic action stress the under-determination of outcomes by past events and the open-endedness of choices faced by political actors. They act within constraints, it is true, but they might even choose to change some of those constraints.

We have documented the openness of the Irish economy over two time-periods. These have provided the context for our discussion of continuities and changes in the policy responses to openness, examining how markets have been managed and how social policy has responded.

We have identified a fundamental continuity in the ‘variety of capitalism’ that places Ireland clearly in the ‘liberal’ category. Many changes have been made to the details of industrial



policy, but there was no significant deviation from commitment to a low corporate tax regime and encouragement of foreign direct investment. Over time, further changes were brought in that reduced the direct role of the state in commercial or productive enterprise and cut back the remaining elements of protectionism and statism in the productive sector. Further employment-friendly changes to the tax and social insurance regime were enacted from 1987 on.

But we also documented a stark discontinuity in the mode of representation of economic interests, with important consequences for the overall management of the economy. A range of authors including Hall and Soskice, Kitschelt et al, and others, have argued that there is an asymmetry in the way coordinated market economies and liberal market economies adapt to new situations. CMEs may or may not deregulate, but LMEs respond most effectively in a deregulated fashion to new market challenges, because systems of non-market coordination cannot easily be built up (Hall and Soskice, 2001, p.38). This means that adaptation to change in the international economy in the 1980s and 1990s in liberal market economies would be expected to bring about a degree of convergence in the way these economies are run.

But the Irish experience suggests that another possibility exists. In the first phase we analysed, we see adaptation to new market conditions taking place within institutional arrangements that were designed to meet the domestic problems of the 1960s. Under the pressure of changing market conditions, the experiment in wage coordination fell apart at the end of the 1970s. Mismanagement of fiscal policy resulted in damaging pro-cyclical policy in the latter part of the 1970s, intensifying an upturn. This left little scope for governments up to 1987 to do other than seek to rebalance the public finances, even at the expense of reinforcing an economic downturn.

In the second phase, we see the construction and stabilization of ‘competitive corporatism’. Behind this we find a strategic re-evaluation on the part of the trade union movement about its approach to economic performance and political deliberation. Intervention by a Fianna Fáil government turned this strategic shift into a government-backed pay policy based on a pay-tax trade-off. Employers, initially cautious, participated in the process. Tripartite commitment to the Maastricht conditions for qualification for the Euro further strengthened the social partnership process, enabling it to weather currency and interest-rate crisis in the early 1990s. Social partnership adapted further in the context of the phase of very rapid growth between

1994 and 2001, during which time three different coalition governments, of all political hues, held power. This second phase represents a sharp break from the immediately preceding phase during which there had been no political intervention in economy-wide wage-setting, and market disciplines were expected to discipline costs and inflation.

The divergence between the Irish and British political economies is stark. During the 1970s, both countries had faced problems that were in some respects similar – a challenge to modernize their industry, to integrate the wage formation process into the requirements of competitiveness, and to respond to the rapidly changing context of EEC membership. When an incomes policy failed in Britain, a change of government in 1979 brought a radically contrasting set of government priorities into power. Under Margaret Thatcher, Britain led the world in the roll-back of union power and the commitment to market-oriented adjustment in which monetary policy led the way. The return to power of the Labour Party in 1997, while introducing different fiscal priorities, did not reverse the fragmentation that had occurred in the pay-setting processes.

The Irish experience bears some similarities with the British at this point in that the early 1980s saw a phase in which there seemed to be little scope for constructing a politically-mediated pay policy. But the contrasts can be drawn more strongly even at that point, for there was no systematic effort to weaken organized labour, and no ideologically-driven commitment to broaden the scope of market forces. The coalition of Fine Gael and Labour was often internally divided about taxing and spending decisions, but the context was one of extreme fiscal difficulty rather than neo-liberalism. A fall-off in the extremity of the crisis, coinciding with a change of government in 1987, opened the way for a deliberate policy of labour-inclusion. The learning process that had been taking place within tripartite structures laid the foundation for a new direction in economic management.

The contrast between the Irish experience and that of the post-communist states that joined the EU in 2004 is also marked – yet may be instructive. In the latter countries, the challenge of constructing market economies leaves many employers hostile to labour organization. For employees, the need to establish genuinely representative and democratically responsive organizations created a marked discontinuity with communist-era unions. Industrial relations are frequently highly conflictual across these countries, and the right to organize and to be recognized by employers not always well established. (See, for example, reports from the

International Confederation of Free Trade Unions ([www.icftu.org](http://www.icftu.org)), which monitors trade union and workers' rights). However, if effective employee representation is achieved, these economies may face the strategic challenge identified by Colin Crouch (2000a), and outlined above at pp. 24-5. If unions are both well-organized but poorly coordinated, the economic performance outcomes may be far from optimal. Employers and unions (and the state) may face new choices between market-led solutions and more coordinated and possibly politically mediated solutions.

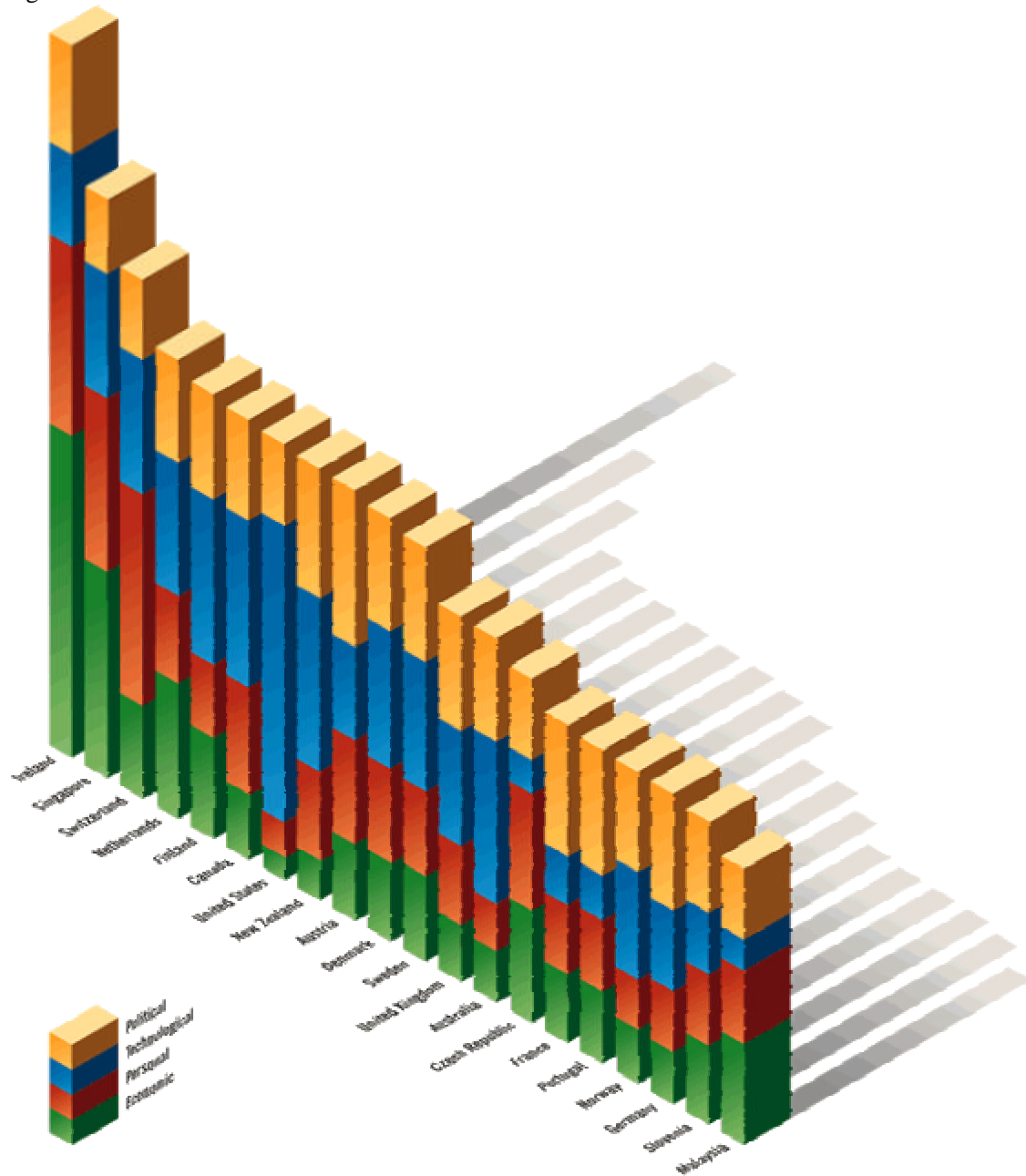
The Irish experience may be likened in some respects to that of the Netherlands and Denmark, who also had to devise a new mix of market-oriented competitiveness and sustainable welfare provision during the 1980s and 1990s. If anything, Ireland was even more spectacularly successful than these other two well-known cases on measures of employment creation and GNP growth. However, unlike the two continental European countries (each an exemplar of, respectively, a Christian Democrat and a Social Democrat led approach to welfare state building), social compensation in Ireland lagged a long way behind. A long legacy of under-investment in social services mean that many aspects of the quality of life are much poorer in Ireland.

At the heart of the Irish social partnership process is the pay-tax trade-off, facilitating real pay increases through the employer-labour pay deal, supplemented by additional real increases in disposable income from government tax cuts. Buoyant revenues made this formula viable even as Ireland approached the lower realms of tax revenue among OECD countries. This approach to economic adjustment in an open economy seeks to be compliant with the efficiency constraints set by the market while achieving some degree of social equity. But how equity is conceived remains somewhat fluid. We have noted some shifts in expectations concerning social services and collective consumption. But at the same time we note a marked reluctance on the part of the principal political parties to build a political programme that would include an explicit commitment to increasing taxation. Some electoral challenge to the mainstream parties' support base has been felt from Sinn Féin, a radical nationalist party seeking to position itself in democratic politics (in the wake of the Northern Ireland peace process, especially since 1998) on the political left among working-class urban constituencies. This threat is felt most sharply by Fianna Fáil; but Fianna Fáil is also committed to maintaining a very broad coalition of support across all economic and social interests. Not only were there few political incentives for governments to seek to address

these deficits systematically, but the Irish public can be said to nourish a generalized suspicion of government's ability to respond effectively to big infrastructural challenges at all.

Ireland differs from other LMEs in the recurrent commitment to a labour-inclusive political stance. This was made to work successfully in the period from 1987. But it is nested within a development strategy that requires constant adaptation to new investment opportunities, therefore a keen sense of what markets can bear. Thus far, the market has delivered prosperity beyond anything conceivable previously, and there has been relatively little political demand for market-alleviating social protection. Indeed, in a very rapidly changing social structure, our understanding of how opportunities are structured has itself been thrown into question – it would appear that social fluidity, that is, social mobility net of changes in the number of jobs, has actually increased during the 1990s (Whelan and Layte 2004; Whelan, Layte, and Maitre 2002). The market was seen to deliver the goods. Even the position of most of those outside the market, or on its margins, improved in absolute terms and in terms of opportunities for intergenerational mobility. But whether this may give rise to a new politics based on attending to relative inequalities remains to be seen.

Fig 1. Globalization Index



**Economic Integration:** trade, foreign direct investment, portfolio capital flows, and investment income

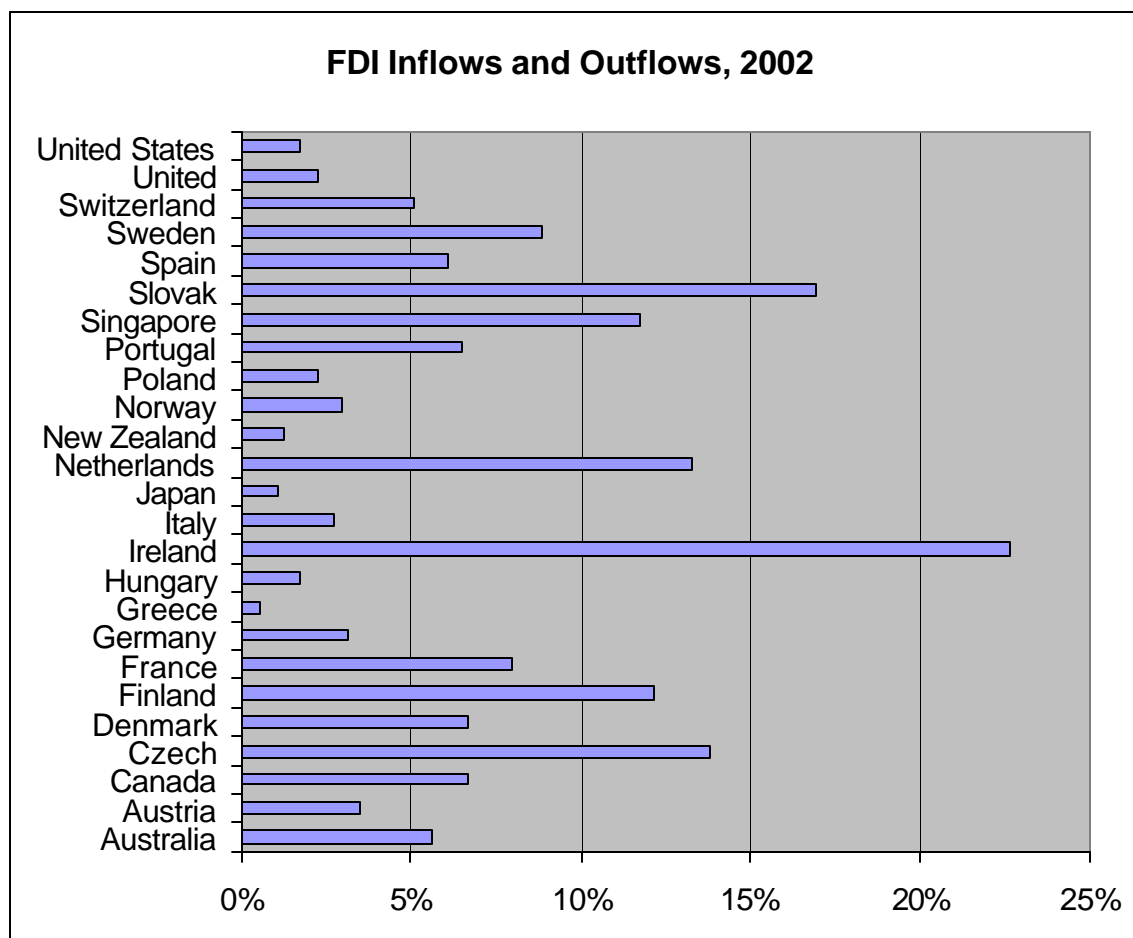
**Technological Connectivity:** Internet users, Internet hosts, & secure servers

**Personal Contact:** international travel & tourism, telephone traffic, remittances & personal transfers

**Political Engagement:** memberships in international organizations, personnel & financial contributions to U.N. Security Council missions, international treaties ratified, governmental transfers

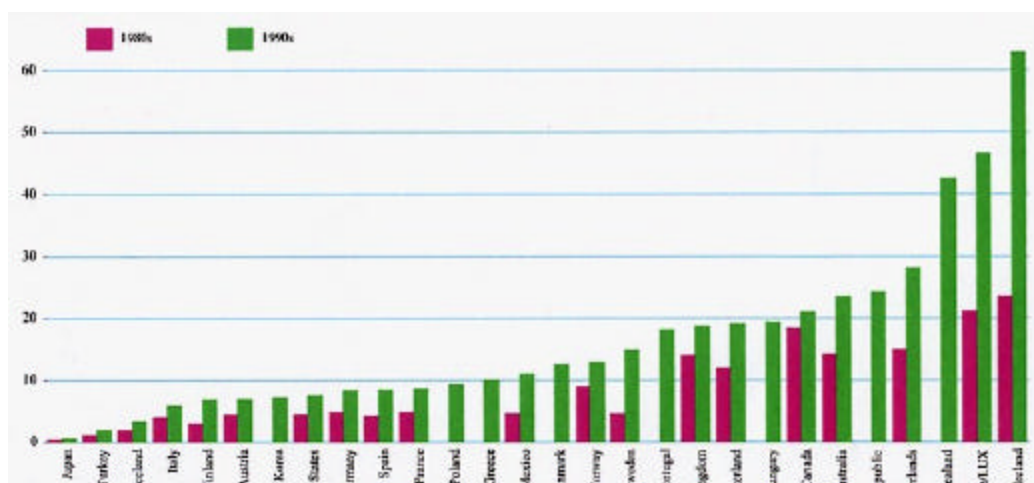
Source: [http://www.foreignpolicy.com/story/cms.php?story\\_id=2493&page=7](http://www.foreignpolicy.com/story/cms.php?story_id=2493&page=7)

Fig. 2. Economic Openness: FDI Inflows and Outflows as % GDP, 2002



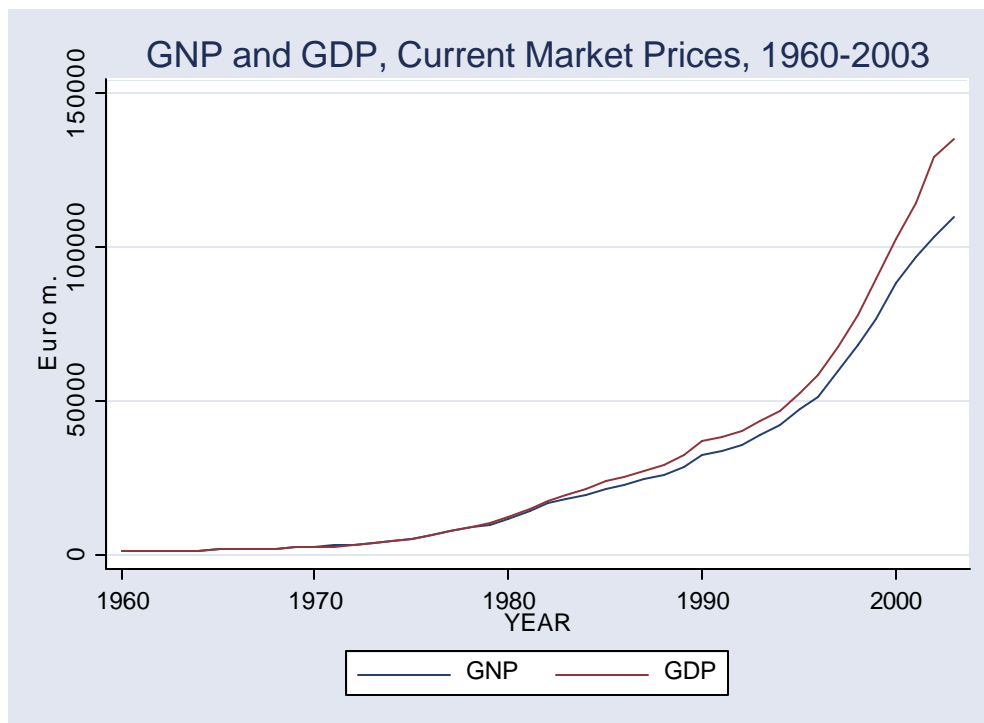
Source: ESRI Databank, <http://www.esri.ie>

Fig. 3. FDI Inflows in OECD countries, 1980s and 1990s, %GDP.



Source: 'Trends in Foreign Investment in OECD Countries', Ch. VI, OECD *Economic Outlook* 73, 2003, pp.157-165, Fig. VI.3, p.160.

Fig. 4. Trends in GNP and GDP in Ireland.

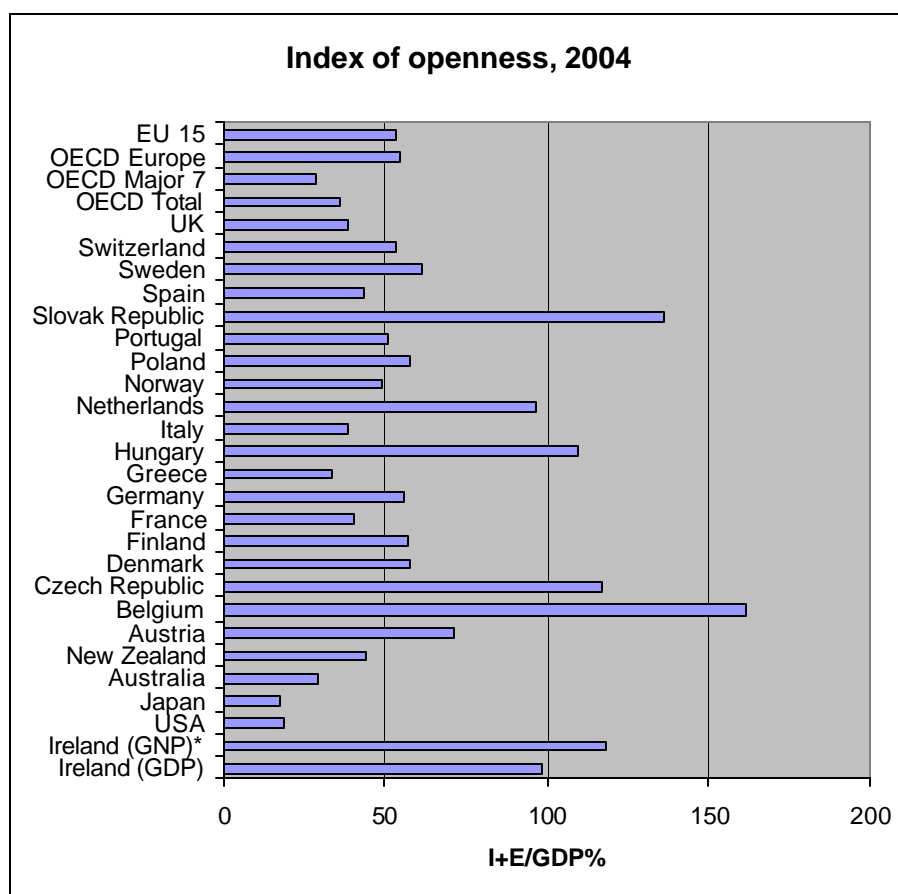


Source: Irish Central Statistics Office, <http://www.cso.ie>  
and Economic and Social Research Institute (ESRI) Databank, <http://www.esri.ie>

GDP is the higher trend-line.



Fig. 5. Trade Openness in OECD Countries, 2004



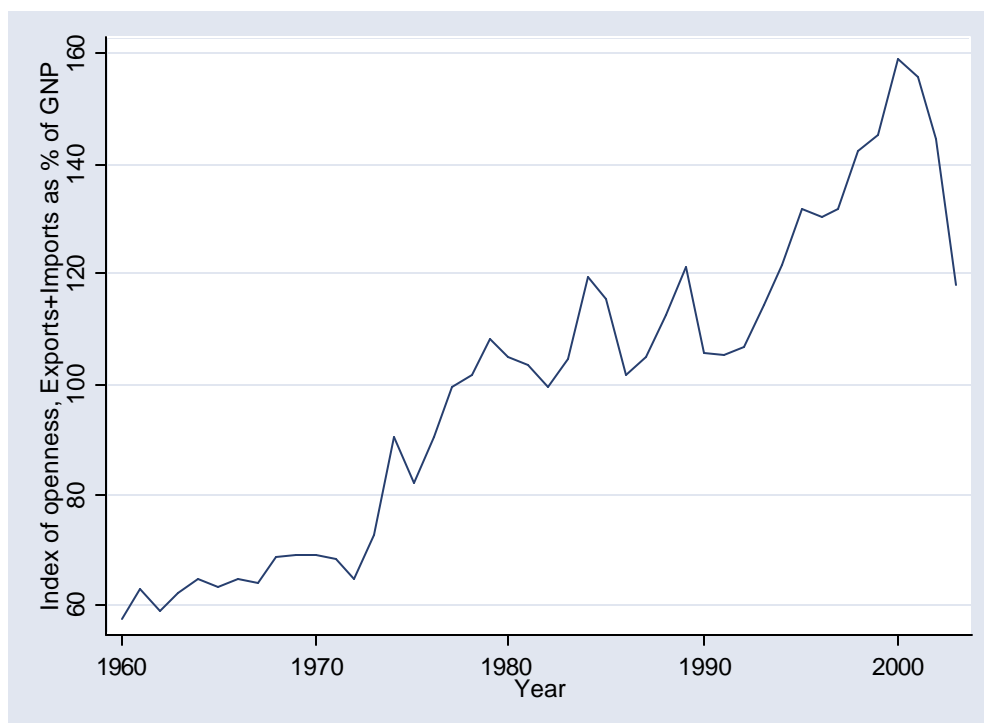
Source: OECD *Main Economic Indicators*, July 2004.

[http://www.oecd.org/document/61/0,2340,en\\_2649\\_201185\\_2483901\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/61/0,2340,en_2649_201185_2483901_1_1_1_1,00.html)

\* Irish Central Statistics Office, <http://www.cso.ie>

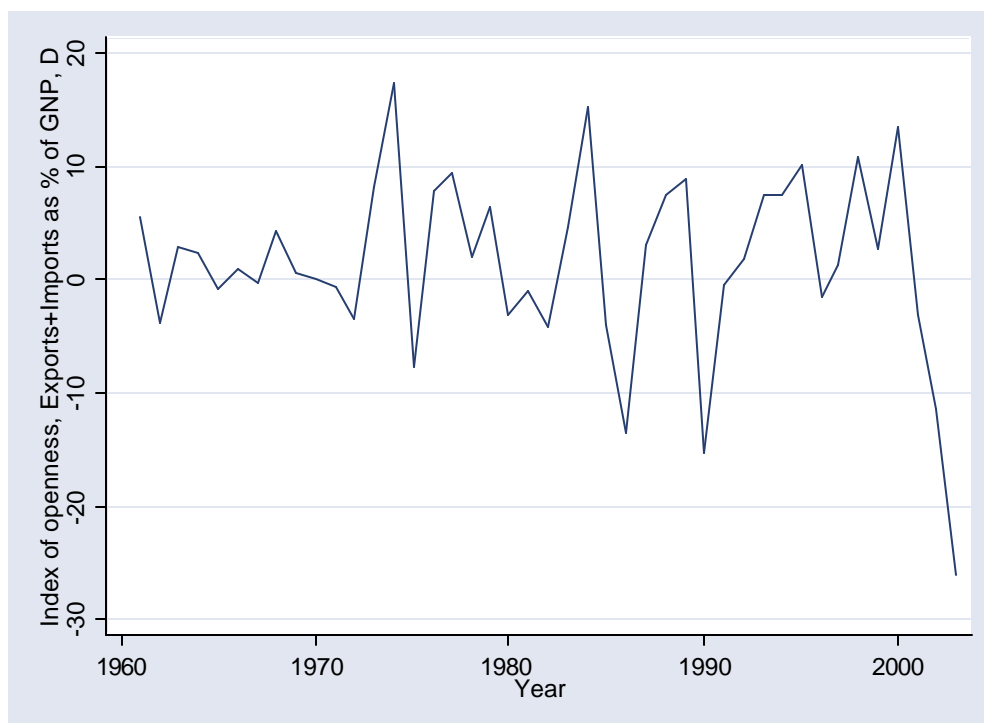
Note: 'Openness' is an index of trade openness, calculated as (value of imports + value of exports) expressed as a percentage of GDP; the GNP statistic is also presented for Ireland.

Fig. 6. Irish Trade Openness, 1960-2002.



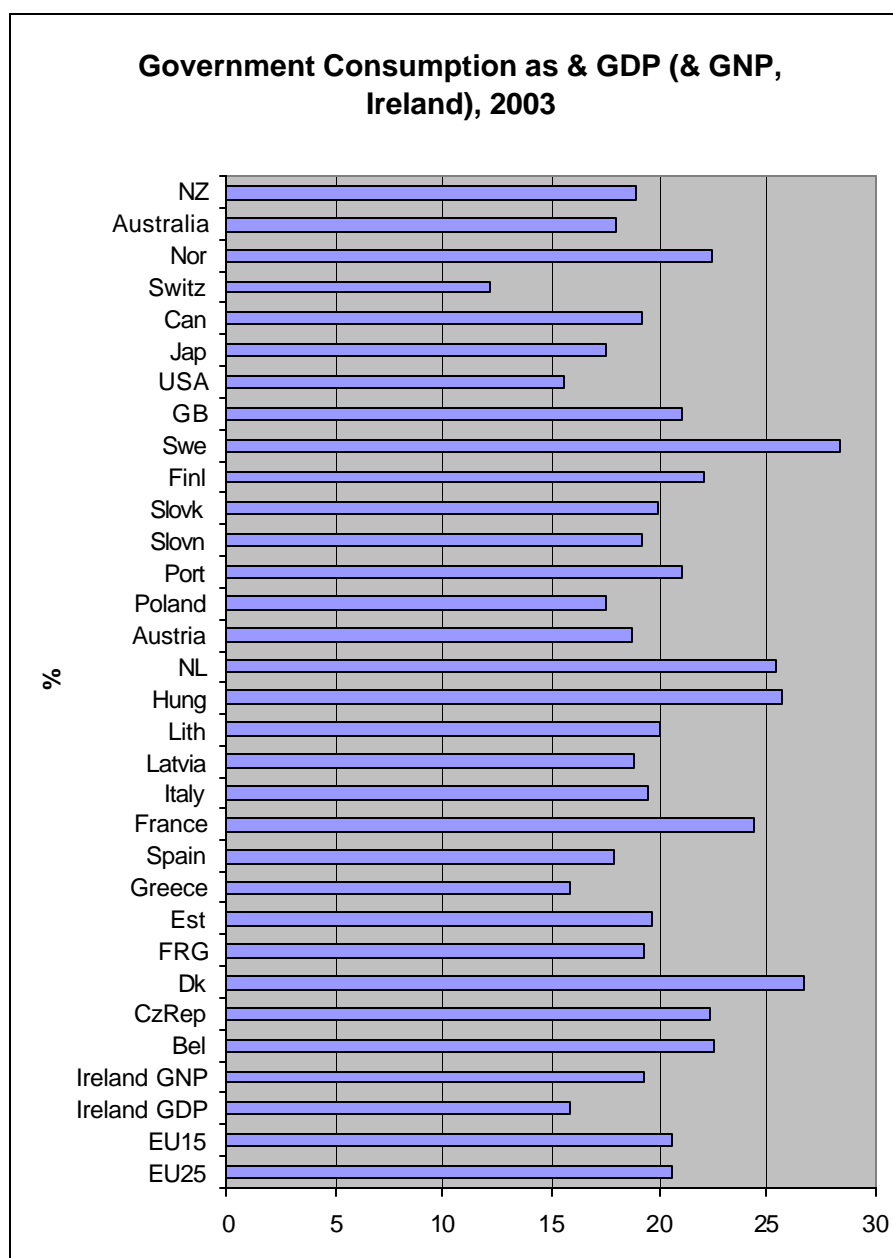
Source: CSO and ESRI Databank

Fig. 7. First Difference of Irish Economic Openness Index.



Source: CSO and ESRI Databank

Fig. 8. Government Consumption Expenditure as % of GDP, 2003.



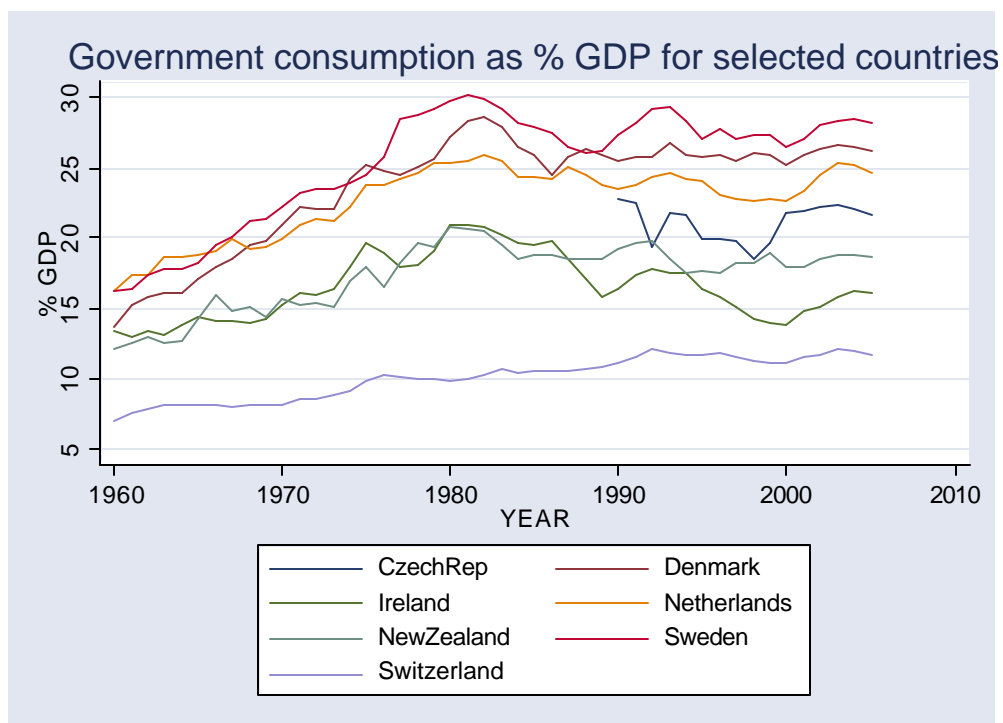
Source: Calculated from EU AMECO database.

[http://europa.eu.int/comm/economy\\_finance/indicators/annual\\_macro\\_economic\\_database/ameco\\_contents.htm](http://europa.eu.int/comm/economy_finance/indicators/annual_macro_economic_database/ameco_contents.htm)

Item 2 (Consumption), variable UCTG, 'Total final consumption expenditure of central government'; and item 7 (Domestic Product and Income), variable 'GDP'. Both series in ECU/Euro.

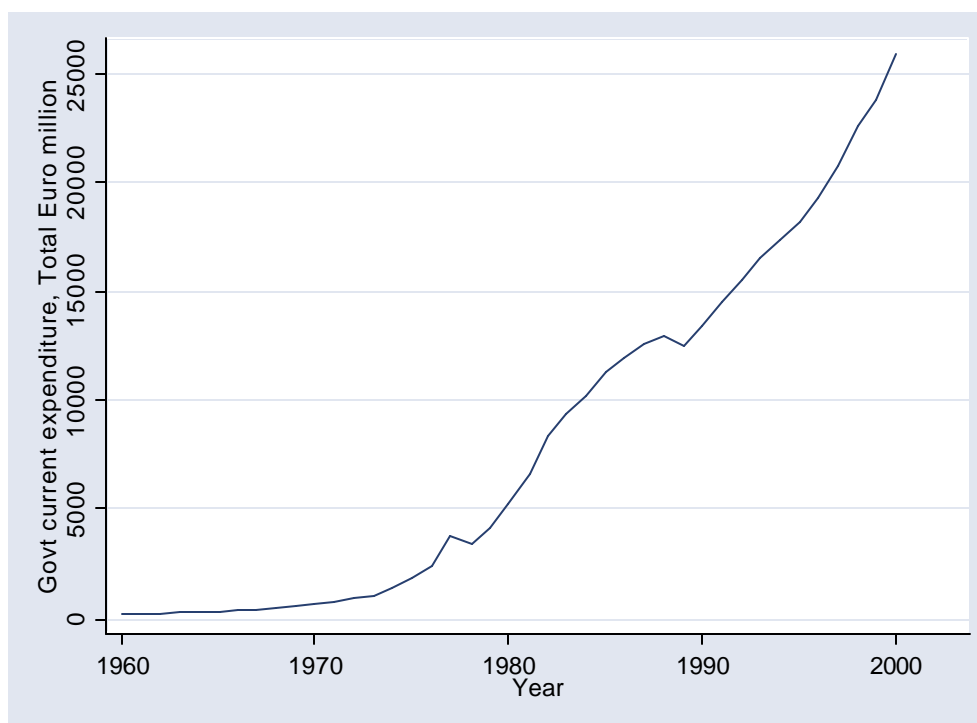
GNP for Ireland 2003: Department of Finance estimate, Economic and Budgetary Statistics 2004, Table 12.

Fig. 9. Government Consumption Expenditure as % GDP, Selected Countries, 1960-2003.



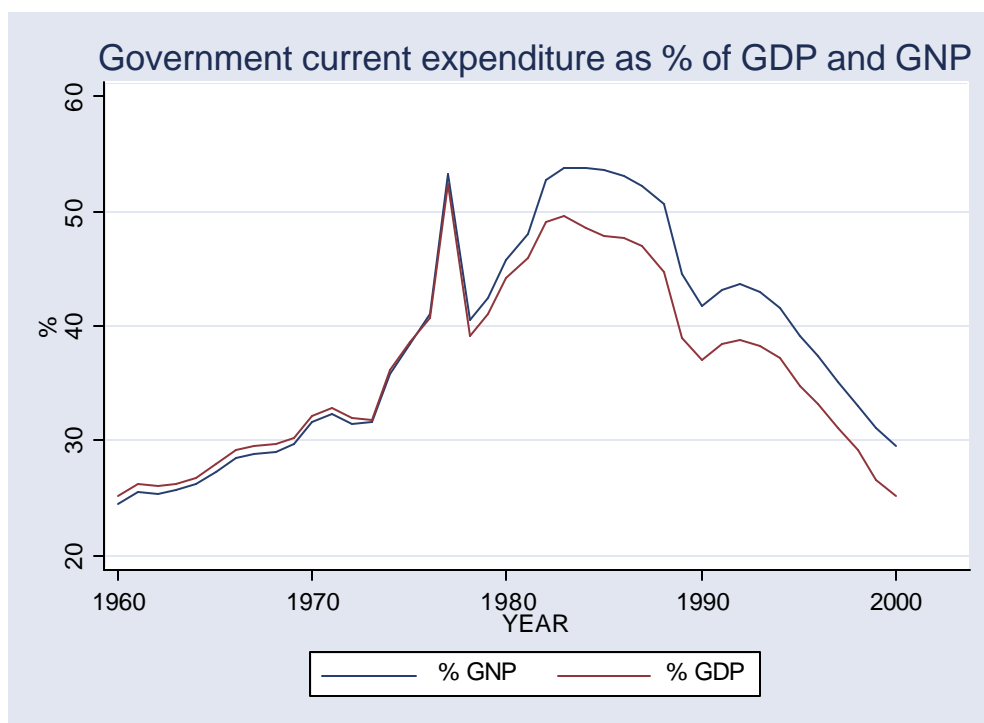
Source: as for Fig. 8.

Fig. 10. Irish Government Current Expenditure, Current Market Prices, €m.



Source: ESRI Databank

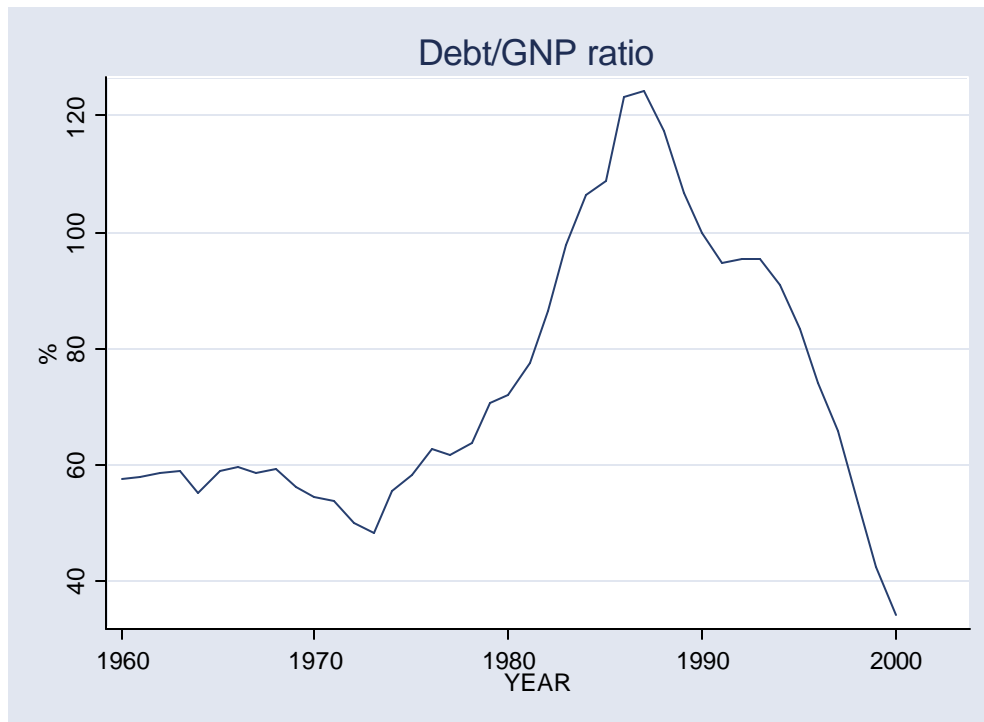
Fig. 11. Irish Government Current Expenditure a % of GNP and GDP



Source: ESRI Databank

Note: % GNP is the lower line

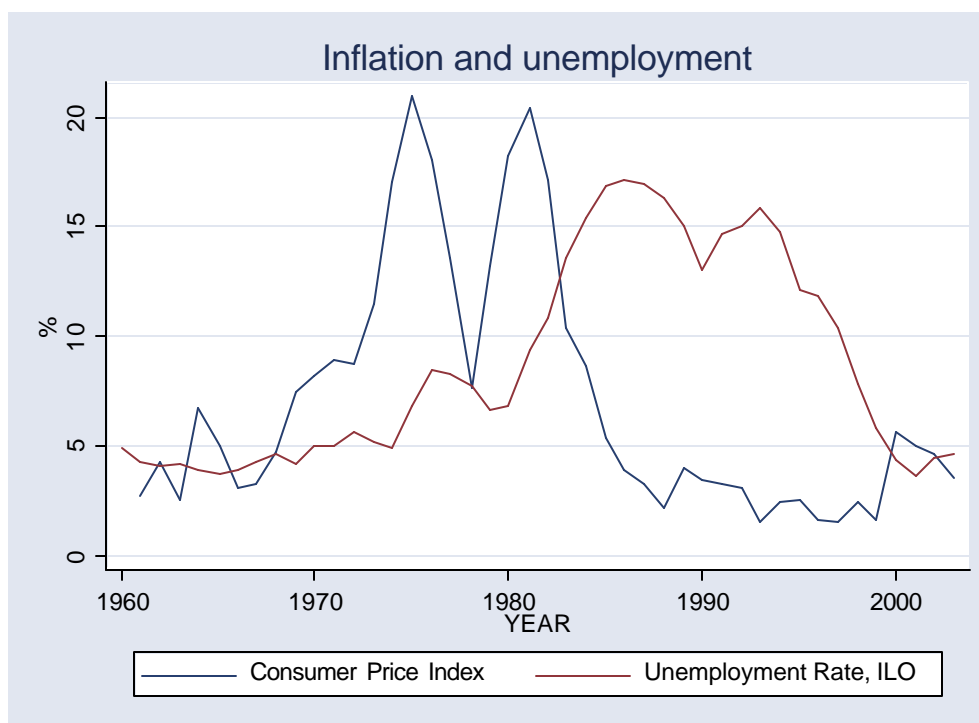
Fig. 12. Ratio of Debt to GNP



Source: ESRI Databank



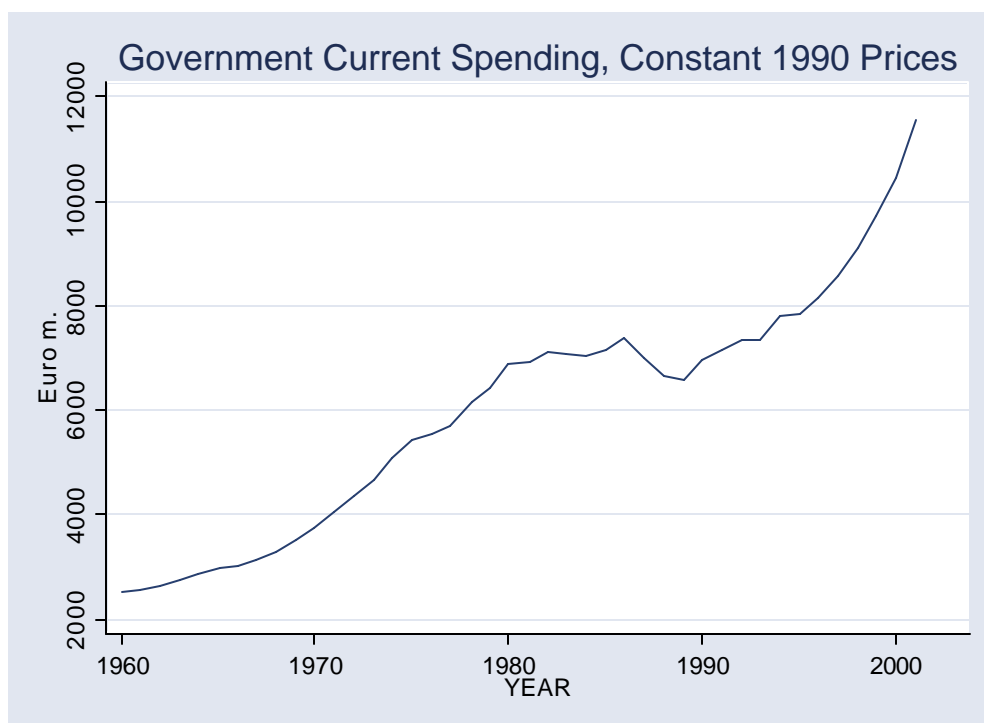
Fig. 13. Inflation and Unemployment



Source: Department of Finance *Budgetary and Economic Statistics*, 2004.

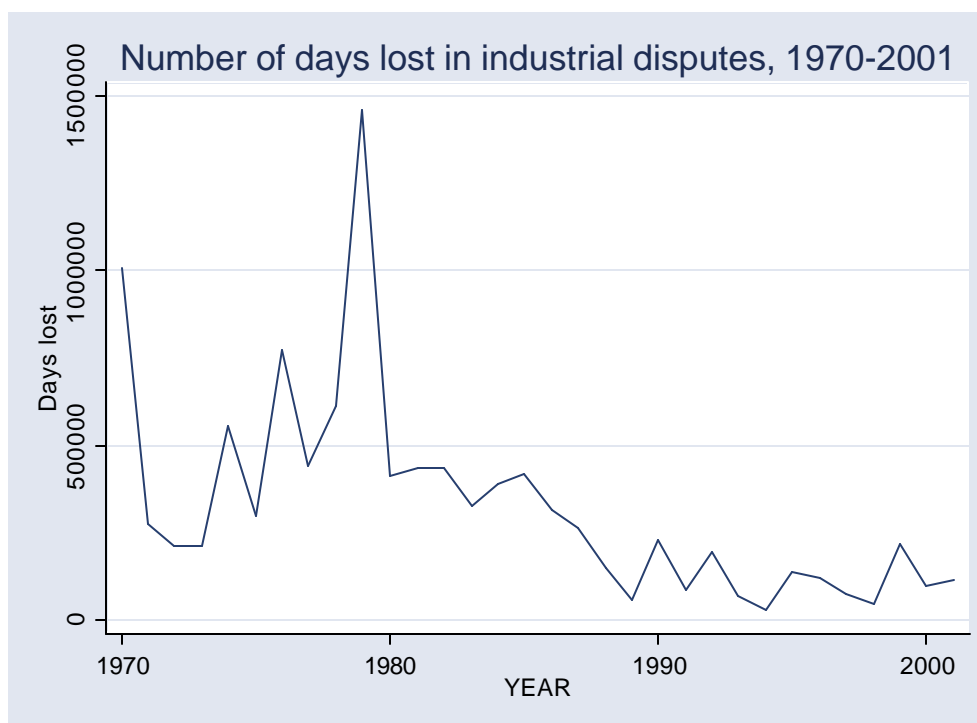
[http://www.finance.gov.ie/documents/publications/other/bes\\_04.pdf](http://www.finance.gov.ie/documents/publications/other/bes_04.pdf)

Fig. 14. Government Current Spending, Constant 1990 Prices



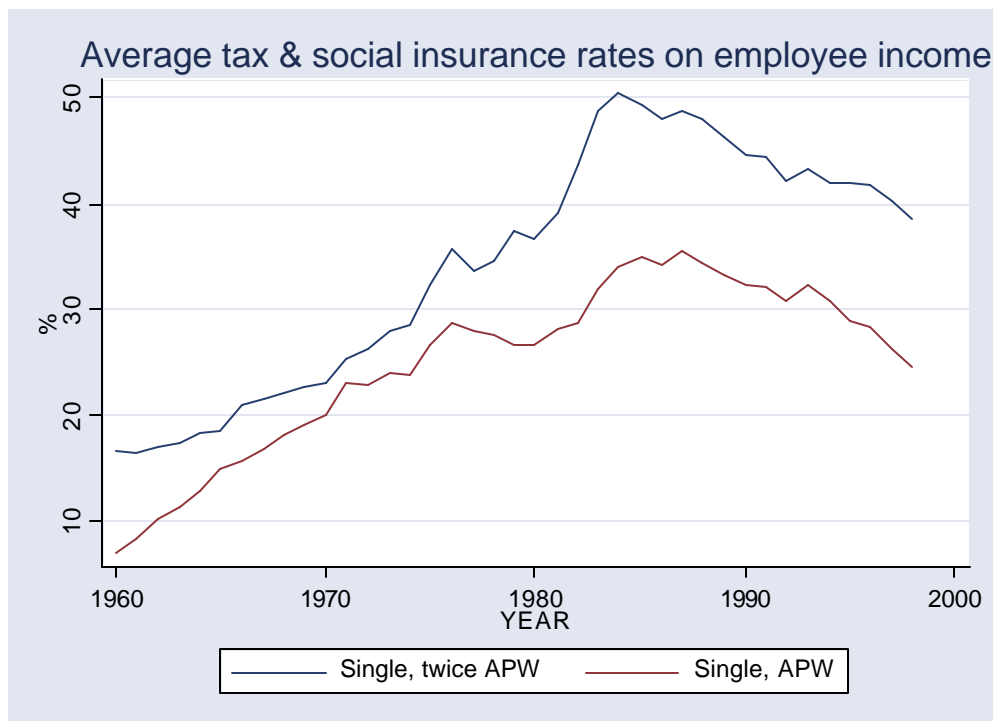
Source: ESRI Databank.

Fig. 15. Days Lost in Strikes



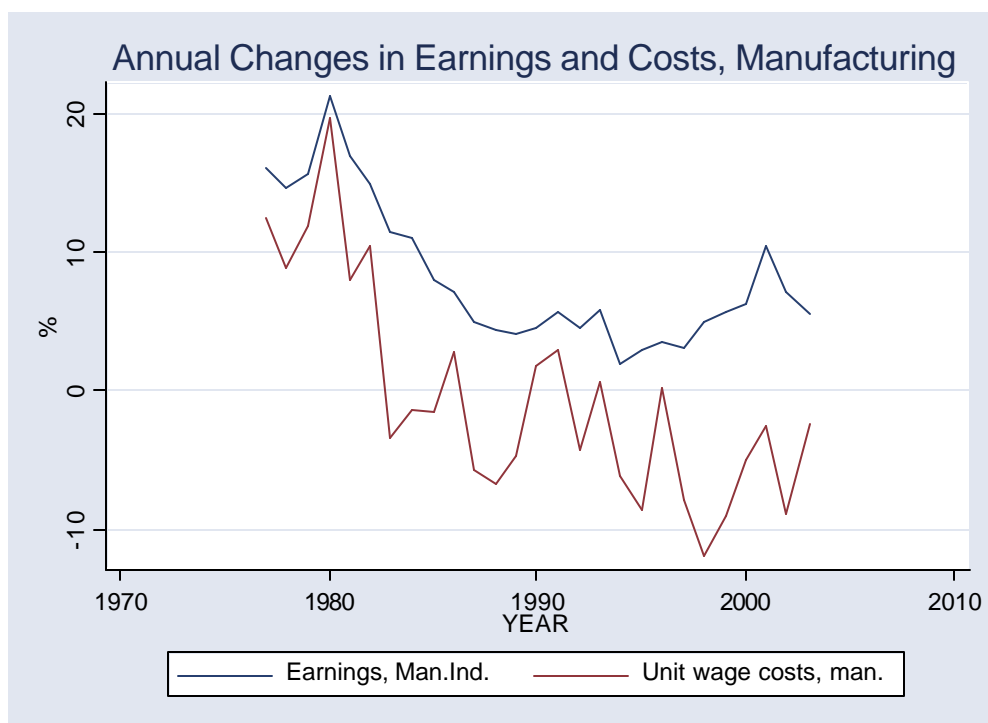
Source: Central Statistics Office, [www.cso.ie](http://www.cso.ie)

Fig. 16. Average Tax and Social Insurance Deductions on Employee Income, at Average Production Worker (APW) and Twice APW Earnings, for Single Earners



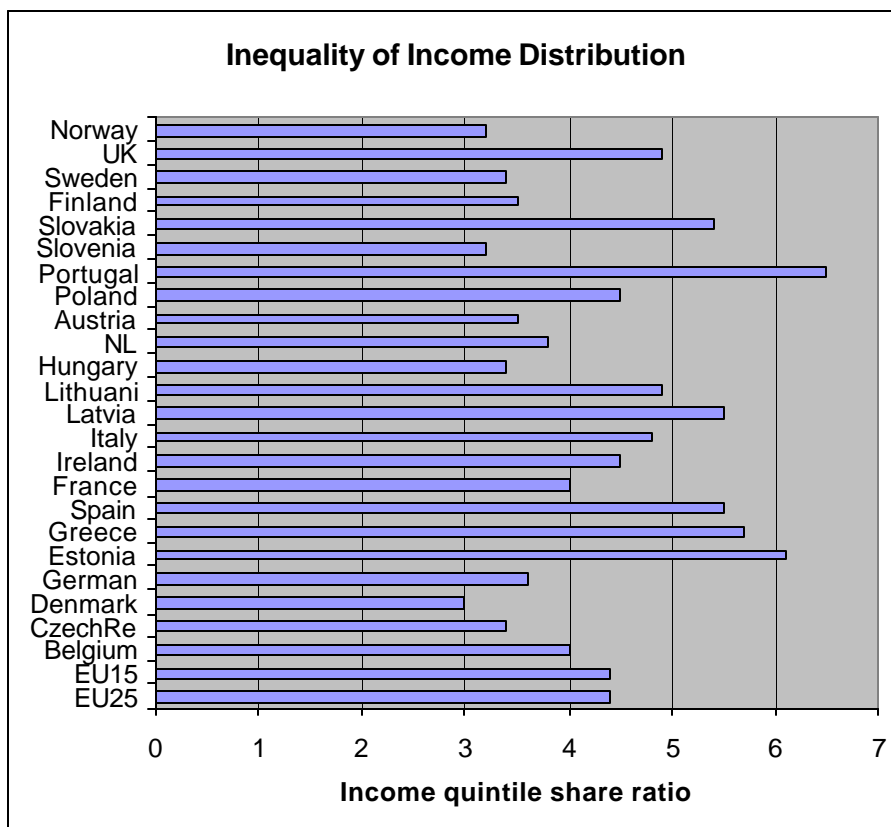
Source: Calculated from Central Statistics Office and Revenue Commissioners' data. (Hardiman 2002a)

Fig. 17. Trends in Manufacturing Earnings and Unit Wage Costs



Source: ESRI Databank

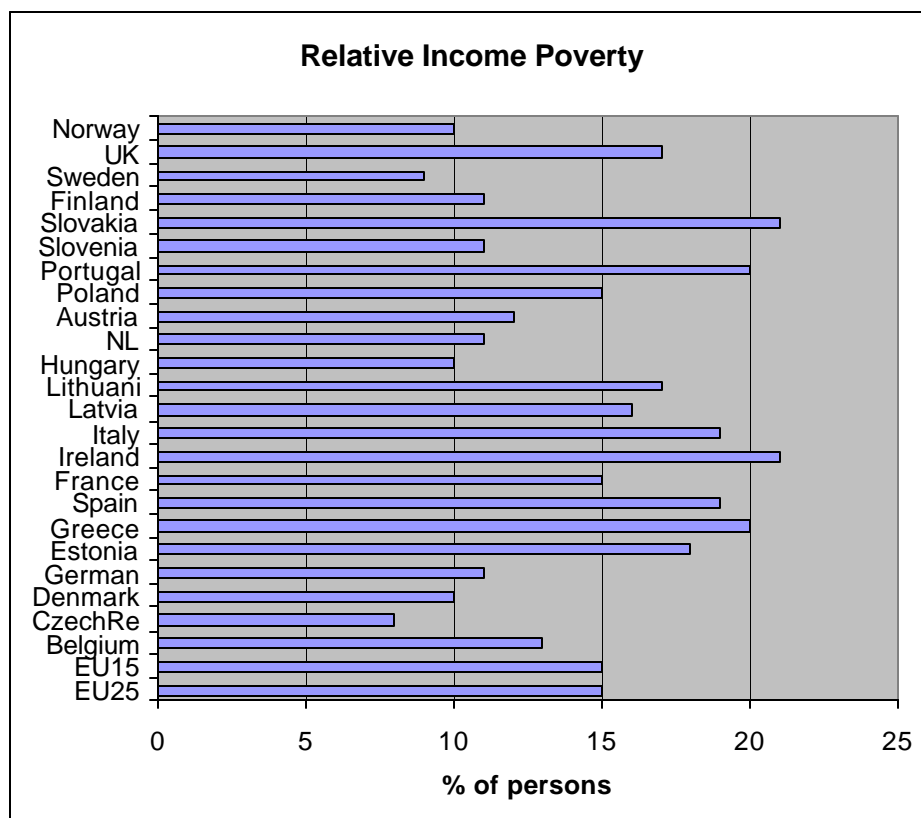
Fig 18. Inequality of Income Distribution, 2001.



Source: Eurostat Structural Indicators, Social Cohesion, Inequality of Income Distribution: the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile); equivalised disposable income

Note: EU totals are Eurostat estimates; Latvia 2002; Slovakia 2003.

Fig. 19. Relative Income Poverty, 2001.



Note: Share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers).

EU15 and EU25 totals are Eurostat estimates; Latvia 2002, Slovakia 2003.

Source: Eurostat Structural Indicators, Social Cohesion, At-risk-of-poverty-rate.

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