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## **Ireland as a ‘competition state’**

**Peadar Kirby and Mary Murphy**

Ireland’s economic boom from 1994 to 2000 (from which the term ‘Celtic Tiger’ was coined) has generated an extensive academic literature debating its causes, impacts and consequences. While an initial reading emphasised that economic transformation had been achieved through market liberalisation (Barry, 1999; Sweeney, 1999; Clinch, Convery and Walsh, 2002), this was soon contested by a literature that focused more on the crucial role played by the state. Scholars at the influential Economic and Social Research Institute (ESRI) argued that ‘there was a great deal more to Ireland’s success than liberalization of markets. The state has been deeply implicated in the entire process, managing both economic development and the welfare state’ (Nolan, O’Connell and Whelan, 2000: 3). They conclude that ‘it is not a simple story of globalization, forced withdrawal of the state and the promotion of neo-liberalism’ (ibid.: 1). Ó Riain (2000, 2004) applied to the Irish state the concept of ‘embedded autonomy’ taken from Evans (1995) and he characterised it as a ‘flexible developmental state’ in contrast to the bureaucratic developmental states of East Asia, arguing that this constitutes a new model of state-led development that is more responsive to the demands and pressures of globalisation. His later work slightly amended the concept to that of a Developmental Network State (DNS) as ‘network centrality is critical to this new state – isolation from the local or the global renders it ineffective’ (2004: 4). While contested by O’Hearn (2000) and Kirby (2002), the concept of the developmental state was adopted by the National Economic and Social Council (NESC) in its 2003 tri-annual statement of the state’s economic and social strategy and used as the basis for proposing a Developmental Welfare State (DWS) for Ireland (NESC, 2003: 29-33; 2005a, 2005b).

In critiquing the adequacy of the concept of the developmental state for the Irish case, Kirby (2002, 2005) argued that the concept of competition state describes more accurately the nature and operation of the Irish state in the era of the Celtic Tiger since it prioritises goals of economic competitiveness over those of social cohesion and welfare. Following Kirby, Dukelow also adopts the concept of competition state for the Irish case as ‘the state has taken a selective interventionist role in the manner of a competition state to re-orient social security policy to enhance economic competitiveness by tackling unemployment, yet leaving levels of income inequality and poverty remain relatively high’ (2004: 27). Boyle, though seemingly unaware that the concept had already been introduced into debates on the Irish state, baldly states: ‘Contemporary Ireland is an exemplar of the competition state, where social policy is subordinated to the needs of the economy’ (2005: 16). Meanwhile, the competition state concept was itself criticised by Ó Riain since it ‘unnecessarily narrows our understanding of the institutions underpinning economic growth’ and obscures ‘the existence of a political space for struggles within

and through existing institutions over how development could and should be structured' (2004: 18).

Understanding the institutional underpinnings of the Celtic Tiger, therefore, has given rise to two competing conceptions of the state. Is the contemporary Irish state a new type of developmental state thereby holding lessons of successful development for many other states, or is it a competition state, an exemplar of how globalisation resituates the state so that it prioritises the needs of global capital over those of its own citizens? The purpose of this paper is to take this debate further. The paper begins by elaborating further what is meant by the competition state, broadening the treatment beyond the Irish case and linking it to the political economy of development under the conditions of today's globalisation. The paper then tests the concept of the competition state empirically through examining the changing nature of Ireland's social security regime and analysing the features and actors of the Irish state that help account for the particular outcomes observed. The paper concludes by summarising the argument, emphasising the role of state agency in the changes identified and raising a key question about the future direction of the Irish state.

The approach taken in this paper seeks to overcome a number of limitations of the competition state concept and, more generally, of political economy approaches to theorising the state, as identified by Phillips (2005). She identifies economism (namely a concentration on state economic policy and strategies) and a functionalist bias (namely understanding the form of state as an outcome of its adaptation to the challenges of economic globalisation) as characterising these approaches. This bias, according to Phillips, results in a 'generalized failure to consider or advance clear understandings of the processes by which outcomes are produced' (2005: 103) so that politics, in the sense of 'variation, contingency and specificity in the institutional structures of states, the nature of state strategies and the types of state-society linkages that prevail in *particular* political economies' is largely missing (ibid: 110; emphasis in original). In choosing to focus on an aspect of the state's social policy rather than on its economic strategies and in seeking to explain in quite some detail what accounts for the outcomes observed, it is intended that this paper break new ground in political economy analyses of how the state is adapting to the pressures of globalisation.

### **Globalisation and the competition state**

Whereas the developmental state concept emerged from analysing the ways in which certain developing states (in East Asia and in Latin America) succeeded in building a modern and competitive industrial economy, the competition state concept emerged from analysing the ways in which developed industrial states were restructuring themselves in response to the constraints and opportunities opened up by neoliberal globalisation in the 1990s. Already, even before a new international context shaped by globalisation had emerged, the national compact between capital and labour that characterised such states (the Keynesian welfare state or KWS as it was often called) was under pressure from internal factors. Recession in the 1970s focused attention on the expense of maintaining generous welfare states and analysts began to see them as putting a fetter on economic success due both to their high cost and to their rigidities (protection for labour, high

taxes, lack of incentives). While these pressures originally derived from within, by the 1980s and 1990s pressures deriving from outside were also being recognised, such as those of international competitiveness, the mobility of capital worldwide and intensified international trade (Pierson, 2004:100-102). A central cause has been the impact of new information and communications technologies (ICTs) which have made possible both the more intense and immediate global interconnectedness that drives finance, production and trade and also new forms of corporate organisation that have come to dominate more and more key production chains worldwide, thereby strengthening the power of global market forces as against that of national state authorities. As Ruggie has recognised, the globalisation of financial markets and production chains challenged the premises on which the grand bargain between capital and labour rested since that bargain presupposed a world in which the state could effectively mediate external impacts through such tools as tariffs and exchange rates (Ruggie, 2003: 94). In this situation, welfare states have not collapsed in the way that communist and developing states did but they are under pressure to reduce costs and erode the level and extent of protection they previously provided (Mishra, 1999; Scharpf, 2000). This global context, therefore, has created new pressures to which all states have to respond. It is out of analysing the ways in which states are responding that the concept of the competition state emerged.

Various attempts have been made to characterise the new regime that is emerging as a successor to the Keynesian welfare state. Jessop sees this 'new state form' as a Schumpeterian workfare state (SWS) which seeks 'to strengthen as far as possible the structural competitiveness of the national economy by intervening on the supply-side; and to subordinate social policy to the needs of labour market flexibility and/or to the constraints of international competition' (Jessop, 1994: 24). In his work, Cerny describes the emergence of a 'competition state' out of the tensions between the demands of economic globalisation and the embedded state/society practices that characterised the national welfare state as the priorities of policy move away from the general maximisation of public welfare (full employment, redistributive transfer payments and social service provision) to the promotion of enterprise, innovation and profitability in both private and public sectors. These reactions, however, follow no set pattern or master plan: 'The emerging embedded neoliberal consensus is therefore not simply a developing "from outside" or "from above"; it is also a political construction promoted by political entrepreneurs who must design projects, convince others, build coalitions and ultimately win some sort of political legitimacy "from inside" and "from below"' (Cerny, Menz and Soederberg, 2005: 19). Tracing this process as they see it happening in western European states and the European Union itself, in North America and New Zealand, in Latin America and in eastern European countries, they identify a process that is 'almost without exception elite-driven .... based on sustained support from converted academics, policy advisers and consultants both within and outside the public sector, government officials, and firms and other economic actors, especially representatives of employers and business organisations, and, especially consumers and many taxpayers (ibid.: 22-23). What can be observed, therefore, 'is not so much the continuity or maintenance of older "varieties of capitalism", but rather the emergence of *varieties of neoliberalism* – of diversity within convergence, of the forging of different "roads to globalization". ... States are increasingly becoming "competition states"' (ibid.: 21, 22; emphasis in

original). This belies any easy claim that the state is retreating or that its role is marginalised in the political economy of today's globalised world order. Rather, what is happening is the redefinition of its core activities as it adapts to the new global environment in which it operates. This helps make sense of what otherwise may seem a contradiction between the state's ever weakening ability to secure the welfare of its citizens while on the other hand it becomes ever more intrusive in the life of the national economy such as, for example, through a myriad of new regulatory agencies. As Cerny et al. point out: 'Deregulation was never really deregulation; it increasingly became the replacement of outcome-orientated and discretionary interventionism with new market friendly regulations – a form of *pro-market re-regulation*. Indeed, in many cases the new regulations were more complex and onerous than the old type. A well known example is that of insider trading regulation in financial markets, almost unknown (except in the US) before the 1980s' (ibid.: 17-18; emphasis in original).

Following Cerny, therefore, the emerging model can be characterised as one in which state actors, both politicians and bureaucrats, react to the pressures of the global market by 'promoting the competitive advantages of particular production and service sectors in a more open and integrated world economy' (Cerny, 2000a: 22). In this situation, state actions 'are often designed to enforce global market rational economic and political behaviour on rigid and inflexible private sector actors as well as on state actors and agencies. The institutions and practices of the state itself are increasingly marketized or "commodified", and the state becomes the spearhead of structural transformation to market norms both at home and abroad'. As a result, 'the actual *amount* or weight of government imbrication in social life can increase ... at the same time the power of the state to control specific activities and market outcomes continues to diminish' undermining the 'overall strategic and developmental capacity' of state agencies (ibid.: 30-34; emphasis in original). Indeed, this situation results in 'the splintering of the state itself' as 'state actors themselves, once said to be "captured" by large, well-organized domestic constituencies, are increasingly captured instead by transnationally-linked sectors which set state agencies against each other as in the desire to "level the playing field" for their domestic clients in the wider world' (Cerny, 2002: 11). Many domestically oriented interest and pressure groups are increasingly marginalised in the formulation of policy while transnationally linked groups not only gain influence but also can play state actors off against one another. Cerny concludes: 'The crucial point ... is that those tasks, roles and activities [of states] will not just be different, but will lose much of the overarching, macro-political character traditionally ascribed to the effective state, the good state or the just state' (2000a: 23).

More fully and adequately than does any other characterisation of the state, the 'competition state' best interprets the changing nature of governance in the Irish case. Four ways in which it does this can be identified:

- 1) It accounts for the fact that, far from retreating and weakening under the impact of globalisation, the Irish state has become much more active and extensive. As Taylor recognises, 'Irish political institutions have altered radically in response to the pressures of competing in the global economy' and 'this has involved a fundamental shift in the nature of governance, since economic management has

- not been left solely to the market or to the state' (Taylor, 2005: 5). This contrasts therefore with the account offered both by neo-classical economists (Barry, 1999; Walsh, 1996) and by radical critics (O'Hearn, 1998; Allen, 2000) who give the key role to the free market in accounting for Ireland's economic success, though both groups evaluate it very differently.
- 2) In contrast to the concept of the 'developmental state', it accounts for the profound ambiguities that characterise the state's relationship to society as its capacity to win high levels of foreign direct investment in key targeted sectors contrasts with its low social spending. As the NESC put it, commenting on data that show a clear positive correlation between levels of social spending and economic performance across the EU 15: 'Ireland, however, is the country whose relative wealth is the least guide to the relative level of its social spending' (NESC, 2005a: 108).
  - 3) While such ambiguities have to be seen by developmental state theorists as contradictions – state capacity in one sector contrasts with the lack of capacity in another – for the competition state theorist the contrast between economic success and social failure derives from the central logic that informs state actions – the imposition of competitive pressures on the economy and on society. In writing about Irish welfare reform, Taylor identifies that 'its principal motivation has rested firmly upon enhancing the flexibility of the labour market' rather than upon extending social rights (Taylor, 2005: 94).
  - 4) While there may be a central logic of economic competitiveness informing state actions, this logic also results in the fragmentation of state actions ('the splintering of the state itself' as described by Cerny) as the state gives power and resources to different agencies to achieve key elements of public policy with little coordination between them. The effectiveness of the Industrial Development Agency (IDA) in winning foreign direct investment has received extensive attention in this regard (see Mac Sharry and White, 2000); yet Boyle draws attention to the role of FÁS, the state's labour market agency, which offered the possibility of addressing a myriad of problems cheaply and effectively, increasingly by-passing other government departments and agencies in doing so. Reflecting the 'pragmatic-populist streak in Irish politics' this has tended to deal with symptoms while neglecting the deeper roots of problems, offering 'cheap, flexible solutions that avoided long-term commitments' (Boyle, 2005: 113-14).

In these ways, the competition state concept is the most adequate to characterise the contemporary Irish state. However, Ó Riain has raised three criticisms of the concept that deserve attention. He writes that it extends 'important observations about the specific features of many contemporary capitalist states into too general an argument regarding a new mode of capitalist regulation'. In doing this, it 'does not capture the empirical complexity of uneven development in contemporary capitalism and unnecessarily narrows our understanding of the institutions underpinning economic growth' (Ó Riain, 2004: 18). This criticism rests on a claim central to developmental state theorists, namely that 'some economies have been able to move up the hierarchy of the international division of labour and increase national income levels' (ibid.: 21) which is Ó Riain's primary definition of development. He claims that the concept of the developmental state

better captures this potential of the state whereas the concept of the competition state neglects such potential. Of all his criticisms, this is the most important and central one. To some extent, the difference between both concepts in this regard rests on different understandings of what constitutes development. For Ó Riain treats social development as being analytically distinct from economic development; his claim for Ireland being a developmental state rests entirely on the role it has played in transforming the nature of the economy. Competition state theorists also acknowledge that neoliberal public policies, as Cerny et al. put it, ‘do not merely constrain but also bring opportunities. Contemporary politics entails both a process of choosing between different versions of neoliberalism and the attempt to innovate creatively *within* the new neoliberal playing field’ (2005: 20; emphasis in original). This seems a far more accurate way of characterising the Irish state’s success in a small number of productive sectors of the economy than does Ó Riain’s rather more sweeping generalisation of this as developmental success. Indeed, the very weakness of the developmental state concept is that it is far too blunt an instrument to capture the ambiguous nature of what the state is able to achieve in the conditions of neo-liberal globalisation.

Ó Riain’s second criticism is that the competition state concept fails to recognise ‘the internally contradictory nature of “market liberalism” itself’. ‘Far from being smoothly integrated with market competitiveness, the institutions supporting capitalist development need to be protected from excessive marketization of the institutions of the economy, particularly the growing financialization of its firms and institutions’ (Ó Riain, 2004: 18). This is a rather more puzzling criticism as it makes an abstract point that in no way contradicts any aspect of the competition state concept. One can fully agree with Ó Riain’s claim here while holding that the intense competitive conditions of today’s neoliberal capitalism are eroding the ability of public institutions to play the essential role he posits. If there were disagreement on this point, it would be on the empirical issue of whether this is happening rather than on any theoretical difference between proponents of the competition and developmental state. The third criticism raised by Ó Riain is that the competition state concept obscures ‘the existence of a political space for struggles within and through existing institutions over how development could and should be structured’ and it ignores ‘the many political possibilities that the institutions of economic development present for future transformation’ (2004: 18). What here distinguishes proponents of each of the concepts is the potential for transformation that exists. For, as made clear above, competition state theorists also recognise that politics matters and that it results in different outcomes in different states – ‘different versions of neoliberalism’. Ó Riain goes further in claiming that spaces exist for going beyond neoliberalism to social democracy and his book ends by outlining what this might entail (ibid.: 237-42). Here again what is at issue is more empirical than theoretical: Cerny et al. (2005) outline at some length the erosion of the basis for a social democratic alternative as it is happening in practice in many parts of the world whereas Ó Riain’s account is limited to a purely theoretical outline of what such an alternative might look like while neglecting entirely the political or social bases for its emergence. On the contrary, he acknowledges that the developmental state ‘will face an increasingly contentious politics of national inequality because unequal integration into the globalization project undermines solidaristic national social contracts’ (2004: 38); however, he fails to address how it



might overcome these to build a more social democratic alternative. In this situation, therefore, the onus rests on those who claim that such a possibility exists to show *in practice* how it might emerge or how it is emerging. Failure to do this undermines this criticism of the competition state.

### **Recommodification ‘Irish-style’**

A major weakness of competition state theory is that it has been developed largely in the abstract, with little empirical application or testing. Since the competition state prioritises economic competitiveness over social cohesion and welfare through subordinating the latter to the logic of the former, it follows that empirical examination of how Ireland’s social security regime has changed over the past two decades offers evidence to test the applicability of the competition state to Ireland. This is the purpose of this section. Four indicators of social security recommodification are examined in turn – regulation, retrenchment, residualisation, and activation/conditionality. These competition state indicators are developed based on the work of Cerny and Jessop and reflect how, in the competition state model, the role of the state and governance shift, while fiscal policy becomes more neo-liberal, resulting in greater vulnerability and inequality and a tendency to rely more on the market to provide public and private goods. The indicators are also applicable to other areas of policy like health, housing or education. Testing each indicator highlights where Irish social security policy is consistent with or deviates from movement towards a competition state. However, competition state theory also stresses political agency and the role played by domestic institutions and practices, national and international interest groups and the evolving relationship between the public and private in determining policy choices (Cerny et al., 2005: 19-20). Hence, we analyse how these factors manifest themselves in the Irish case, helping account for the distinctive outcomes observed. We end by highlighting a fundamental challenge facing those who seek more egalitarian outcomes even within the confines of the Irish competition state.

The social security characteristics of a competition state can be described as follows: domestic social security policy is subordinated to the economic needs of international competitiveness. Low levels of taxation and wage moderation limit the state’s capacity to fund social security more generously and create pressure for public-sector spending cuts. Public goods, especially those related to social justice and redistribution, are increasingly privatised or subject to profit criteria. Their distribution becomes more consumer driven and less based on rights derived from citizenship. Increased women’s labour market participation impacts on the capacity of families to provide welfare and results in the greater reliance on market-based provision of both child and elder care. Fiscal pressures cause shifts to more targeted means-tested social protection. Reliance on targeted and ungenerous transfer payments increases the depth of poverty and widens income inequalities. There are new forms of inequality where those with weak capacity to participate in the labour market suffer most in the ‘pauperization of segments of society’ (Cerny et al., 2005: 29). The welfare system becomes more active, productivist and oriented to employment. Public investment focuses on enhancing labour supply through learning and training. Rights become conditionally linked to the obligation to participate in the labour market. Supportive carrots and punitive sanctions both encourage and compel labour market participation. (Cerny et al., 2005: 18). The recommodification of

social security occurs as ‘redistributive’ welfare is transformed into ‘productivist’ workfare policy. We have developed the following typology to summarise this recommodification:<sup>1</sup>

- **Regulation:** The function of the state changes. New public management regulatory frameworks enable governments ‘to steer but not row’ (Cerny et al., 2005: 17). New forms of governance lead to the delegation of policy to new actors at national and other levels. This empowers business and professional technical elites. Privatisation of provision occurs either directly or by organising public service delivery around commercial or market consumer principles.
- **Retrenchment:** The prioritisation of international competitiveness results in a ‘low tax, low inflation’ fiscal policy as expressed and supervised in the EU’s Growth and Stability Pact. Fiscal pressures lead countries to resort to short-term cost cutting and long-term cost containment and cost avoidance.
- **Residualisation:** In order to decrease welfare recipients’ dependence on the state, employment is prioritised as a route out of poverty at the expense of redistributive and egalitarian objectives. The focus on maintaining low welfare rates to promote work incentives has inequalitarian implications for those who cannot exercise employment routes out of poverty. Non-labour market participants including the elderly, people with disabilities and those involved in ‘caring’ duties at home are more vulnerable in the increasing relative gulf between the rich and poor.
- **Activation/conditionality:** Passive income maintenance shifts to active spending on training and education. Welfare is reinvented into ‘workfare’ where income support is more conditional and linked to obligations to participate in the labour market. Positive encouragement coexists with punitive sanctions. Increased labour market participation of women weakens family capacity resulting in the greater commodification of caring functions.

How each of these four indicators applies to the Irish case is now reviewed. The review shows that Irish social security trends have moved in a direction consistent with the competition state indicators. However, this has happened in a distinctive way and it is highlighted throughout how particular policies were mediated through Irish political institutions, ideology and culture. The end result is a particular ‘Irish style’ recommodification.

### *Regulation*

Competition state theory stresses the transformation of the role of the state and changes in the nature of governance. Here we examine trends in regulation, shifts in power to international capital and business, an emerging international policy community, privatisation and new public management, as they have occurred in Ireland’s social security policy community.

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<sup>1</sup> The authors developed these indicators. The retrenchment and activation/conditionality indicators are central to competition state theory but also used by other political economists (Pierson, 2001). The residualisation indicator and regulation indicator are more specific to competition state theory.

A regulatory state 'should provide a working framework of rules and performance indicators or targets for market actors to follow' (Cerny et al., 2005: 17). Historically Ireland has been a mixed economy welfare state but social security has been an almost exclusive statutory responsibility. Over the last two decades the state has made some attempts to divest itself of social security responsibility and so follow a more regulatory path. It promoted the social inclusion role of the non-profit private sector. The Programme for Economic and Social Progress (Government of Ireland, 1990) initiated the first local Area-Based Partnerships to which the state delegates employment support functions including the Local Employment Service. A 1999 White Paper sought to define and regulate the relationship between the state and the community and voluntary sector, the state has since signalled a shift to service contracts requiring a new model for third-sector organisations. NESC (2005a: 206-7) proposes a further shift in governance and reinvention of the role of the state away from provision of services to 'a regulator of rights and standards and enabler of local activist networks'. A further but failed example of the state's attempt to divest itself of its traditional social protection role was when a proposal to transfer disability protection to employers was blocked by the veto power of employers in both 1988 and 1992. This contrasts with the British experience where the state was able to transfer this function to private business. Irish government is more vulnerable to veto players blocking policy and less able to divest social protection functions.

The political process of globalisation changes the nature and role of the state and policy contestation. Patterns of governance change, the state plays a more regulatory role and power shifts to business and capital. Regular delegation of policy to committees avoids communicative public discourse and minimises public debate about values. Changes tend to be uncontroversial and mediated, potentially conflictual policies like abolition of pay-related benefit and taxation of benefits are negotiated in a consensus framework. Roles are blurred, social partners chair key state boards, key policy-making functions are delegated to private consultancies and agencies, and there are public/private partnerships in social services. When consensus is not reached policy tends to be paralysed, childcare policy being an obvious example.

Employers and business are major veto players blocking restructuring of disability benefits and paid parental leave payments and asserting the needs of international competitiveness in a political advocacy coalition with two key Departments (Finance, and Enterprise, Trade and Employment). International companies impact on social protection by providing private packages that reinforce second-tier market-led social security provision; these structurally impact on social protection by changing the context and choices around work-related social provision. A further example of international organisations becoming more pivotal is the EU procurement process which obliges tendering, to private and public bodies, of delivery services previously monopolised by statutory bodies (for example An Post's social security delivery contracts).

There is more overlap between domestic and international policy coalitions, particularly in the EU Open Method of Co-ordination across employment policy, social inclusion and

pensions policy but also in more regular public discourse with the OECD. The shift from the redistributive adequacy agenda of the 1986 Commission on Social Welfare to a more productivist policy<sup>2</sup> reflected the agenda of the international policy community as expressed in the OECD Jobs Study (1995) (concerned with work incentives) and the European Employment Strategy (1997) (concerned with activation). In this merged public/private and national/international space we see the emergence in Ireland of a professional technical elite whose members engage in coordinative discourse at one remove from the political realm.

Changing governance means more than a simple delegation of tasks, as renegotiation of the relationship between the private and public spheres involves a shift in power. The clearest example is perhaps the government invitation to the private pension industry to chair the National Pensions Board. It is no coincidence to see private, business-led style of governance result in promoting the commodification or privatisation of pensions. Strongly advocated by the international financial services sector, the Pensions (Amendment) Act 2002 introduced second-tier private Pension Savings Retirement Accounts. This policy was chosen in spite of opposition from civil servant advisors (disempowered by new forms of governance?). International and national private-sector pressures allied to sectors of the state drove the logic behind these moves. The international context was the World Bank's promotion of a privatisation agenda in pension policy.

Consumerism, choice and new public management discourse are evident in the Public Services Management Act (1997) and initiatives like 'customer service plans', 'customer service targets', and 'service delivery models'. A process of 'expenditure reviews' emphasising value for money has had some impact on policy development; however there is considerable resistance to new public management practices and institutional change in the Irish public service (NESC, 2002). The capacity of a strong centralised bureaucracy to resist change is reinforced by the strength of public sector trade unions to veto change. This power has been reinforced through the lack of transparency in how pay increases were decided upon as part of the public sector benchmarking process. We can conclude that there is strong evidence of the state engaging in a new public management ethos of customer-focused delivery but it remains to be seen whether such engagement has fundamentally transformed staff and claimant experience of social security delivery.

### *Retrenchment*

As mentioned earlier, in a competition state we expect a low-tax development model to necessitate budgetary constraint and cost containment measures. In the Irish context two factors are worth highlighting. One factor is path dependency. Irish social security policy is characterised by a liberal residual welfare state with a high degree of reliance on means-tested payments with little room to reduce already ungenerous payments. The second factor is Ireland's exceptional economic performance. Given Ireland's high economic growth rates and limited pressures from an ageing population from the mid 1990s to the mid 2000s, Ireland not only suffered less fiscal pressure than did other OECD countries but had budget surpluses and the capacity to expand social security rates

and coverage. That such expansion did not happen is as much part of the story as what actually happened. The Irish story is one of arrested development where government abstained from using the fruits of economic growth to expand and improve social protection to the degree that might have been anticipated in a period of economic growth (Alber and Standing, 2000: 99). It is necessary, therefore, to review retrenchment experience not only from the perspective of short-term cost cutting but also longer-term cost containment and cost avoidance.

Allan and Scruggs (2004) and Korpi and Palme (2003: 441) provide evidence of Irish cost cutting. Ireland ranks alongside Britain, New Zealand, Denmark, Canada, the Netherlands and the US, as countries that experienced major retrenchment. The social protection value of social insurance payments reduced between 1980 and 2000 through the abolition of Pay-Related Benefit, the taxation of benefits and restrictions on eligibility. There has been less retrenchment of social assistance payments but considerable cuts in the safety net Supplementary Welfare Allowance scheme. Other cuts such as the 1994 child-income support reforms which froze the monetary value of means-tested child-dependant allowances, reflect policy restructuring motivated by work incentives rather than fiscal pressures.<sup>3</sup> Two sets of social security cuts, the 1992 'Dirty Dozen' and the 2003 'Savage Sixteen', were short-term responses to periods of tight fiscal austerity (the 1992 EMU preparations and the post 9/11 recession in 2002-03). Both sets of cuts happened when inexperienced first time Ministers were unable to resist strong pressure from Department of Finance officials to cut social security budgets. These cuts are exceptions that prove the rule. Politicians at all cost seek to avoid blame associated with direct social security cuts which, more than any other kind of public spending cuts, are transparent to claimants. Experienced Ministers, especially those in electoral systems based on proportional representation, know it is politically expedient to avoid directly cutting social security (Pierson, 1998).

Less obvious long-term cost-containment policies have had a more serious impact on Irish society. The Department of Finance, with its concern for controlling expenditure, dominates the setting of social security rates. Proposals in 1998 for a pensions adequacy benchmark and in 2001 for an adequacy benchmark for the lowest social assistance payments<sup>4</sup> were rejected by an advocacy coalition of the Department of Finance, employers' representatives and the Department of Enterprise and Employment. They were motivated by a combination of future cost containment, maintenance of work incentives and ensuring a level of flexibility considered essential to adapt to the global economy. More puzzling in the Irish case is the failure in the early 1990s to index earned income disregards.<sup>5</sup> Freezing income disregards makes work incentive policy less effective and is inconsistent with a productivist-focused competition state. Such deviation

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<sup>3</sup> NESO (2005a: 52) outlines the distributional outcome of this child income support reform. The value of child income support for higher income groups receiving only universal child benefit payments increased by 173% over the 1994-2004 period while low income families relying on the combined child-dependant allowances and child benefit experienced only a 52% increase over the same period.

<sup>4</sup> National Irish Pensions Initiative and PPF Benchmarking and Indexation Working Group 2001 majority recommendations

<sup>5</sup> Earned income disregards allow claimants to disregard a certain amount of earnings from social assistance means tests and are therefore considered an important welfare-to-work incentive.

might be explained by a cost-fixated Department of Finance dominating annual budget negotiations.

As well as cost containment there has also been significant ‘cost avoidance’ or resistance to accommodate new social risks through the social security system. The significant structural increases in labour market participation of women happened without substantial social security restructuring to enable such participation or to respond to emerging social care needs. Irish social security remains a strong male breadwinner regime with structural barriers to women registering as unemployed or accessing labour-market supports. Reliance on market-led responses to childcare (Government of Ireland, 2000a) means that childcare subsidies, maternity leave and paid parental leave are underdeveloped relative to other countries. Eldercare responses are limited to tax incentives to provide private nursing homes. Failure to individualise social security or to introduce child and elder care supports is paradoxical in a competition state aiming to increase the labour force participation of mothers. A neo-liberal fixation on limiting state intervention is a partial explanation but policy inaction is not just about ideology or cost avoidance. Policy paralysis is due to politicians’ fears of introducing reforms in the absence of policy consensus and to the political difficulty of mediating between those advocating conflicting policy options.<sup>6</sup> Policy is also limited by the strong veto power of employers who resist parental leave policies. The lack of policy to promote women’s economic participation is also due to a deeply rooted ideological ambiguity about mothers’ labour-market participation in a conservative, patriarchal political culture (McLaughlin, 2001). Finally, cost avoidance can also be seen in recent policy responses to inflows of asylum seekers and migrant workers. State policy is to exclude these needs from Irish social security and leave migrants to the mercy of the market. Asylum seekers are limited to ‘direct provision’ welfare entitlement. Government responded to EU enlargement with legislation restricting welfare entitlement to ‘habitual residents’. As a result of direct lobbying from international companies, legislation was introduced to exempt certain non-EU migrant workers from social insurance coverage. Social security policy is therefore actively responding to the needs and desires of international capital.

### *Residualisation*

Competition state theory anticipates new forms of inequality as well as increased gaps between rich and poor. It expects those most distant from the labour market (older people, carers, women in the home, lone parents and people with disabilities) to suffer most poverty. Here we review Irish trends towards more use of targeted means-tested payments, increased relative poverty, and shifts in the risk of relative poverty.

Competition states shift from universal to selective social security payments (Alber and Standing, 2000: 101); however already ‘Ireland is exceptional within the EU for the high proportion of its social spending which is means tested’ (NESC, 2005a: xvi). Despite

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<sup>6</sup> Montague (2003) describes three key policy coalitions comprised of the trade union SIPTU and the IBEC employers’ confederation lobbying for tax relief, the Open Your Eyes to Child Poverty Initiative lobbying for child benefit increases, a Childcare 2000 campaign lobbying for a parental Childcare payment, and ‘Women in the Home’, a lobby group campaigning against tax relief.

employment growth, decreases in unemployment and inward migration of labour, levels of dependency on social welfare among the working aged are stubbornly high.<sup>7</sup> Such path dependency would be reinforced by the NESC recommendation that Ireland maintain its hybrid model and reliance on means-tested payments (NESC, 2005a).<sup>8</sup> High dependency on means-tested payments might not matter if payments were adequate. However, Irish policy has always stressed work incentives and low replacement rates, and rates are characterised by a minimal subsistence type of support and have been allowed to decline relative to average net earnings.<sup>9</sup> While consistent deprivation-based poverty fell, the inequality indicator or relative income poverty, increased to 21.3 per cent (CSO, 2005), the highest relative income poverty in the EU where the average is 15 per cent (Eurostat).

**Table 4.1 Percentage of persons below 60% of median income by labour force status, 1997-2003**

	1994	1997	1998	2000	2001	2003
<b>Employee</b>	3.2	4.7	2.6	6.5	8.1	9.2
<b>Self Employed</b>	16.0	14.4	16.4	17.9	14.3	-
<b>Farmer</b>	18.6	16.7	23.9	24.1	23.0	-
<b>Unemployed</b>	51.4	57.7	58.8	57.1	44.7	42.1
<b>Ill/Disabled</b>	29.5	52.5	54.5	52.2	66.5	54.0
<b>Retired</b>	8.2	13.5	18.4	30.3	36.9	31.0
<b>Home Duties</b>	20.9	32.6	46.8	44.3	46.9	37.0

Source: CSO (2005), *European Survey on Income and Living Conditions, First results 2003*

Table 4.1 shows the shift in the composition of groups experiencing relative poverty. Consistent with what would be expected under a competition state, those outside the labour market experience a higher risk of poverty. Unemployment, while still significant, is no longer the major risk factor; those with disabilities are now most likely to experience poverty (up 24 per cent) and these are closely followed by the aged (up 23 per cent) and people in home duties/lone parents (up 16 per cent). Consistent with competition state theory on the working poor, those in work experienced a 6 per cent increased risk of poverty. The trend is clear. Those relying primarily on social welfare, particularly those in receipt of social assistance means-tested payments, are most likely to fall below poverty lines linked to average incomes. While fewer people were unemployed, the risk of poverty for those remaining unemployed doubled from 23.9 per cent in 1994 to 43.1 per cent in 2001, while for older people the risk increased from 5.3 per cent in 1994 to 49 per cent in 2001 (ESRI, 2003: Table 4.22). This pauperisation of segments of society is directly attributable to a conscious policy decision to keep social welfare payments low.

<sup>7</sup> Benefit dependency rose from 12.4% in 1980 to hold constant at 20% for claimants (37% for all adult and child recipients) over 1985-2005.

<sup>8</sup> This represents a significant policy shift from the 1986 Commission on Social Welfare consensus recommendation to expand social insurance coverage and reduce the use of social assistance payments.

<sup>9</sup> Social welfare increases fell considerably below net increases in earnings over the 1991-2001 period with the long-term unemployment assistance payment increasing by 64% compared to net average industrial earnings increasing by 109.1% (Government of Ireland, 2001: 46, Table 6.6).

### *Activation/Conditionality*

Irish social security offers less social protection in 2001 than it did in 1994. The traditional principle of designing social security to preserve work incentives is now underpinned by a new Irish focus on ‘performative inclusion’, which stresses employment as the best route out of poverty (Government of Ireland, 1997b). This policy direction is reinforced through employment support services (Dukelow, 2004: 16-18) and activation policies (McCashin, 2004: 211). This section seeks to establish the particular style and scale of Irish commodification by reviewing three key trends: spending on active measures, changes in ‘conditionality’ and extension of activation beyond unemployed claimants.

In the competition state we expect public investment to shift to active labour market spending. Significant active labour market expenditure is a long-standing feature of the Irish welfare state.<sup>10</sup> Irish spending on active labour market programmes increased from an already comparatively high 1.46 per cent of GDP in 1985 to 1.53 percent GDP in 2000 (a significant real spending increase). Active labour market programmes are administered by a number of government departments, such as the Department of Social and Family Affairs, the Department of Education and Science and the Department of Enterprise, Trade and Employment. Irish active labour market policy has been criticised for a lack of focus on progression to employment (Cousins, 2005a). Boyle explains this as an outcome of strong advocacy coalitions, including backbench politicians, supporting the social-policy rather than the labour-market aspect of programmes. Over time, the labour-market focus is gaining the upper hand, while programmes have become more progression oriented and linked to participation obligations. Irish institutional experience remains differentiated from other liberal welfare regimes by the separation of social security administration from active employment services, and further policy development in this area seems hampered by institutional competition between key government departments. ILO (1999: 4) evaluations highlight how reforms in the delivery of labour market policies through local employment services made labour market policies ‘more responsive to local enterprise needs’.

Irish social security literature is ambiguous about trends towards greater compulsion. McCashin (2004: 220), Van Oorschot (2002), McLaughlin (2001), Boyle (2005: 59), Ó Riain and O’Connell (2000: 334), Daly and Yeates (2003: 94), Martin and Grubb (2002) and Pearson (2003) all conclude that compulsion is remarkably absent in the Irish policy regime relative to more conditional practice in both liberal regimes and small open economies. It may be that perceptions are somewhat obscured by the positive discourse in social partnership and elsewhere. Empirical evidence, however, supports Taylor’s (2003: 57) and Dukelow’s (2004: 22) conclusion that policy shows significant supportive *and* punitive changes which, when combined, push welfare claimants towards employment.<sup>11</sup>

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<sup>10</sup> As a high net recipient of EU Structural funds, Ireland was required to spend on active labour-market policies.

<sup>11</sup> Up to 40 significant punitive or supportive changes took place over the period 1986-2005, some of which had a substantial impact on the quality of social protection experienced by the claimant. Negative changes included freezing child income support, limiting duration of payments, means-testing insurance payments, and restricting part-time workers’ access to insurance payments.



Stricter work availability tests were also applied to unemployment payments. Irish social policy discourse of ‘supportive conditionality’ and ‘sensitive activation’ masks a harder reality. Historically, job search conditions always applied to unemployment payments and Irish policy required limited adjustment to reach a ‘competition state’ level of conditionality. The 1987 Jobsearch programme was followed by 1992 legislation increasing and broadening the scope of sanctions. From 1996 onwards fears of labour shortages sparked vigorous debate about the need for more conditionality which resulted in a new Live Register Management Unit focused on ‘a more effective application of conditionality’ (Dukelow, 2004: 22). New regulations to tighten work availability and job-seeking guidelines were introduced in 1997 and 1998. Practical use was made of these sanctions. Appeals Office data show that since the 1997 National Employment Action Plan (NEAP) implemented a policy of systematic engagement with unemployed claimants there has been a substantial rise in appeals for loss of payment, with a 47 per cent increase (representing 1,700 extra claimants) in such appeals in 2000.

This stronger style of commodification was introduced through a window of opportunity presented in the European Employment Strategy Open Method of Co-ordination, which required each national government to enter into a national policy dialogue and produce a National Employment Action Plan to promote activation and other policy. We can see in this process how increased links between national and international interests is a factor determining policy choice but also how international policy processes shift power at the domestic level. In this instance the EU required the more productivist Department of Enterprise, Trade and Employment (DETE) to lead this national policy process. This empowered the DETE, giving them some leverage over the Department of Social and Family Affairs (DSFA), and it weakened institutional vetoes on conditionality.

Ireland still deviates from a strong model of conditionality in its reluctance to extend conditionality to lone parents, spouses of male claimants, and people with disabilities. DSFA (2001) argues that reluctance to extend conditionality is due to the lack of a coherent childcare infrastructure and of services for people with disabilities. Procrastination may also be due to fear of a political backlash from those who might conservatively respond to measures designed to deny women their ‘right’ to work in the home. The patriarchal culture may not yet be comfortable with measures to promote women’s economic participation. The recent NESC (2005a: 178) proposal that all social assistance payments enable a ‘lifetime attachment to the labour force’ therefore reflects a significant shift in policy consensus. It also reflects DSFA’s own internal reinvention of social security and its desire to move from a contingency-structured social security regime to one that identifies claimants by reference to their relationship with the labour market: claimants are young, old or ‘working age’<sup>12</sup>.

### *Conclusion*

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<sup>12</sup> Cousins (2005a) notes the significance of this new focus on ‘working age’. The language, more developed in UK policy discourse, is highly ideologically motivated implying that those of working age *should* be at work. He notes the approach has important gender implications placing all working aged claimants including mothers, on an employability continuum.

The Irish reinvention of social security has its own distinctive style, pace and discourse. Social security is still in the process of becoming a 'tool of commodification' (Holden, 2003) and the remaining journey to this recommodified regime will remain slow and incremental. There is still a considerable journey to go on the path to a comprehensive welfare to work strategy (NESF, 2000: 65). This slow cautious pace of change means Irish social security policy has yet to adapt fully to the needs of competitiveness (Cousins, 2005a: 339). The strategically ambivalent, hesitant and nervous discourse in NESC (2005a) reflects the challenge in Irish political culture of forging consensus between different advocacy coalitions around the remaining Irish recommodification project. Earlier we outlined how explanations for particular policy choices can be found in the interaction between domestic institutions and practices, national and international interest groups and the evolving relationship between the public and private sectors (Cerny et al., 2005: 15). We conclude by reflecting how particular Irish political features might be explanatory factors for this 'Irish style' recommodification.

Path dependence of existing social security institutions has played a key role in influencing the trajectory of change and the type of competition state social development model that has emerged in Ireland. The Irish social security system has always been well targeted and employment focused and so contained elements of a competition state regime. The legacy of a strong male breadwinner model combined with patriarchal ideologies and opposing political coalitions account for the slow progress in the individualisation of social security, the reluctance to extend conditionality to mothers and the paralysis in childcare policy. The Irish electoral system based on a single transferable vote in multi-seat constituencies makes the electorate a significant veto player. An electoral system based on transferring votes between candidates (in many cases of the same party) perpetuates a consensus-based political culture biased towards conservative and incremental policy development. The trend towards coalition government and social partnership reinforces middle ground consensus policy-making and slows down change. Government is increasingly reliant on using social partnership as a litmus paper to test for consensus. Lack of consensus is often masked by sensitive but ambiguous discourse. Policy shifts are often correlated with international policy community initiatives such as the European Employment Strategy.

The inconsistent, slow Irish transformation to date means we should expect more recommodification. Given the ambiguous developmental discourse it is less than clear what style further recommodification will take. Cerny et al. remind us there is 'room for maneuver' (2005: 3). Torfing (1999: 24) argues that workfare or activation policy can be focused on supportive carrots and be 'offensive' like Dutch and Danish policy or can use punitive sticks and be 'defensive' like UK and US policy. The former brings more equality while the latter results in higher percentages of working poor. The present Irish situation with rising inequality and increasing numbers of working poor, while not as neo-liberal as in Britain or the US, is clearly far from the Dutch or Danish model. The choice for the medium term is which variety of competitive capitalism Ireland wishes to follow. Does Ireland wish to reinforce this neo-liberal competition state development model or shift to a more egalitarian social democratic state model? The choice for the

longer term is whether it is possible to shift to a new global model of development that can produce more social, economic and environmentally sustainable outcomes.

The NESC Developmental Welfare State (2005a) represents the latest consensus about Irish social development. The NESC proposals straddle two different varieties of the competition state. Based on promoting high levels of participation in a rights and standards framework of activist measures, it opens up the possibility of an offensive model. Certain path dependencies enable a more offensive model to emerge and Ireland is institutionally oriented towards an offensive model on two fronts, a tradition of high levels of investment in active labour-market training and education, and a separation of employment services from surveillance and control functions. However the NESC recommendation of adequate but basic welfare generosity locks in the traditional Irish dependence on low replacement rates. It is ultimately its more generous payments which give the Danish model its equality outcomes.<sup>13</sup> The recommendation that ‘payment arrangements facilitate employment’ opens up the possibility of conditional and modest social welfare payments in a more defensive social development model.

Clearly there is much left to fight for and political agency remains crucial in mediating future Irish social security choices. The Irish style transition to a recommodified competition state social security regime is likely to continue to happen in a governance style dominated by task forces and working groups and to move in incremental and fudged stages.<sup>14</sup> The challenge is to create a communicative public debate about the desirability of a more fundamental move to a more egalitarian development model with higher social welfare rates and adequate state investment in quality activist policies that generate more inclusive and equal outcomes.

## **Conclusions**

This paper has argued that the model of the competition state best characterises the Irish state, especially as it has adapted to the pressures and opportunities of globalisation, what in the Irish debate is usually labelled the Celtic Tiger period. The paper advanced its case both theoretically and empirically. It firstly outlined the ways states are restructuring themselves in response to globalisation and identified the concept of the competition state as characterising the model of state that is emerging. This concept, it was argued, interprets more fully and adequately than do other concepts of state the changing nature of state governance in Ireland accounting for the greater state activism and the extension

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<sup>13</sup> NESC (2005a: 219) recommends that people of working age should receive a ‘basic payment’ to enable a ‘minimum threshold of income adequacy’ to ‘guarantee them access to the basic necessities of life’. It is difficult to interpret as a proposal for generous rates the NAPS target of 150 euro in 2002 terms by 2007 which it proposes as ‘the minimum justified by the present circumstances’. This persistence with lack of generosity differentiates Ireland (with replacement ratios of 24%) from offensive states’ polices characterised by high rates of payment (replacement ratios of 89% to 96% for low income groups) (ibid: 19).

<sup>14</sup> The peculiar mix of Irish institutions and political culture means that debate about Irish social security is modest and unambitious. US president Bill Clinton promised the US electorate to ‘end welfare as we know it’ and UK prime minister Tony Blair instructed his Minister for Social Security, Frank Fields, to ‘think the unthinkable’ In the ‘blame avoidance’ consensus-dominated Irish political culture, Irish Ministers are more likely to be told to ‘stay out of trouble’.

of state activity over the recent period even as the state hands over more power to private market actors. In identifying the imposition of competitive pressures on the economy and on society as the central logic informing state actions, the concept of a competition state explains better, than do other concepts of state the ambiguities that can be observed between the state's effectiveness in dealing with foreign capital and its ineffectiveness in addressing social needs. Finally, the concept of a competition state draws attention to the fragmentation of state actions as different agencies are charged with implementing different aspects of public policy with little coordination between them. Recognising that treatment of the competition state has been largely theoretical, the paper has devoted attention to testing its claims empirically through examining the changing nature of the Irish social security regime, analysing both the extent to which change has moved in the direction of a competition state model and also accounting for the distinctive features of what has taken place, what we call commodification 'Irish-style'.

The empirical section has highlighted the role that agency plays in the outcomes observed, drawing attention to the fact that, while the pressures of globalisation are moving states more and more away from a welfare or developmental state model and towards some form of competition state, there is nothing predetermined about how that change happens nor about the form of competition state that emerges. As was pointed out in the paper, the state maintains room for manoeuvre to influence distributional outcomes in a robust way. What we are witnessing therefore is the emergence of different varieties of competition state, just as the era of national capitalism saw many different varieties of welfare state – from the activist and egalitarian types to the more passive and residual types. However, the evidence also seems to point to the fact that the pressures of globalisation lead at this point in time away from the social democratic or developmental state and towards some version of the competition state. Whether states can successfully and sustainably combine economic competitiveness with generous and effective social provision is still unclear. What is clear, however, is that Ireland has opted for a particularly ungenerous approach towards social provision. Only time will tell whether Irish society has the capacity for the sort of determined political action to move towards a more egalitarian form of development even within the confines of the competition state model.

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