

LOST IN TRANSITION: HOW IRELAND  
AND  
THREE OTHER SMALL OPEN ECONOMIES  
RESPONDED TO EUROPEANISATION 1987-2013

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**Lost in Transition: How Ireland and Three Other Small Open  
Economies Responded to Europeanisation 1987-2013**

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## List of Abbreviations:

ALMPS	Active Labour Market Programmes
ATGWU	Amalgamated Transport and General Workers' Union
CDA	Dutch Christian Democratic Alliance
CDU	Christian Democratic Union (Germany)
CEE	Central and Eastern European
CME	Co-Ordinated Market Economy
CSO	Central Statistics Office
CTBOIS	Close To Balance Or In Surplus
D66	Democrats 66
DFA	Department Of Foreign Affairs
DM	Deutschmark
DPP	Danish Peoples' Party
ECA	Economic Cooperation Administration
ECB	European Central Bank
ECJ	European Court Of Justice
EDP	Excessive Deficit Procedure
EEC	European Economic Community
EFTA	European Free Trade Area
EIB	European Investment Bank
EIU	Economist Intelligence Unit
EMH	Efficient Markets Hypothesis
EMS	European Monetary System
EMU	Economic And Monetary Union
EPA	European Productivity Agency
ERM	Exchange Rate Mechanism
ERT	European Round Table Of Industrialists
ESB	Electricity Supply Board
ESM	European Stability Mechanism
ESRI	Economic And Social Research Institute
ETLA	Research Institute Of The Finish Economy
EU	European Union
FAOS	Sociologisk Institute Copenhagen University
FDI	Foreign Direct Investment
FNV	Socialist Federation Of Dutch Trade Unions
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GSM	Global Systems For Communications
IBEC	Irish Business And Employers' Confederation
ICC	Industrial Credit Corporation
ICT	Information And Communications Technology
ICTU	Irish Congress Of Trade Unions
IDA	Irish Industrial Development Authority
IMF	International Monetary Fund
IPA	Institute Of Public Administration
IT	Information Technology
ITGWU	Irish Transport and General Workers' Union
KF	Danish Conservative Peoples' Party
LISV	Dutch National Social Insurance Institute
LME	Liberal Market Economy
LO	Labour Organisation
LPF	List Pim Fortuyn
MNC	Multi-National Corporation

MPGWU	Marine Port and General Workers' Union
MSA	Mutual Security Agency
NASDAQ	Stock Exchange For Technology Companies
NCM	New Classical Macroeconomics
NERA	National Employment Rights Authority
NERI	Nevin Economic Research Institute
NESC	National Economic And Social Council
NESF	National Economic And Social Forum
NFA	National Farmers' Association
NUIM	National University Of Ireland At Maynooth
OECD	Organisation For Economic Cooperation And Development
OEEC	Organisation For European Economic Cooperation
PD	Progressive Democrats
PES	Public Employment Service
PNR	Programme For National Recovery
PR	Proportional Representation
Pvda	Dutch Labour Party
PVV	Dutch Party for Freedom
PWC	Pricewaterhousecoopers
R&D	Research And Development
RAM	Rational Actor Model
R-M	Rehn-Meidner
SAK	Finnish Trade Union Centre
SE/M	Southern European/Mediterranean
SEA	Single European Act
SER	Social-Economic Raad (Dutch Social And Economic Council)
SF	Danish Socialist Peoples' Party
SGP	Stability And Growth Pact
SIPTU	Services, Industrial, Professional Trade Union
SITRA	Finnish Innovation Fund
SME	Social Market Economy/Small And Medium Enterprise
STAR	Stichting Van De Arbeid (Dutch Labour Foundation)
TA	Technical Assistance
TASC	Think Tank For Social Change
TEU	Treaty Of The European Union
TNC	Trans National Corporation
UK	United Kingdom
UKIP	United Kingdom Independence Party
VNO-NCW	Dutch Christian Employers' Body
VoC	Varieties Of Capitalism
VVD	Dutch Liberal Party

## Summary

This thesis provides a political economy account of how four small open economies – Finland, Denmark, the Netherlands, and Ireland – have coped with the adaptation required by the exogenous pressures of Europeanisation over a period of 25 years. The research is grounded in Polyanian conceptualising of the interaction of States and markets using Varieties of Capitalism as a theoretical foundation. Starting with Katzenstein’s (1985) comparative study as a departure point, the research evaluates how each country responded to deepening EU integration over a four stage periodisation broadly aligned to critical junctures of integration, and closing with the fifth anniversary of the Lehman Bros bank collapse on 15<sup>th</sup> September, 2013.

Particular attention is paid to the Irish case, with a view to resolving the puzzling question of why its ‘Celtic Tiger’ phase of development proved to be unsustainable. The research also identifies the areas where the different Varieties of Capitalism converge and diverge.

The findings are that the ‘Democratic Corporatism’ which Katzenstein identified as the means by which small open economies could cope with market forces by balancing them with social compensation, is still intact. Finland, Denmark, and the Netherlands have all made necessary reforms to welfare regimes and labour markets without compromising societal values. While having to accommodate to an extent to liberalising forces, they remain developmental states.

Ireland exhibited developmentalist characteristics during the 1990s. It caught up with the rest of Europe in a material sense but not in respect of the capabilities required to carry this developmentalism forward to the new millennium. On the contrary, the 2000s saw the country make serious policy errors principally due to an intellectual failure to assimilate the requirements of living in a currency union. Moreover, democratic corporatism in an Irish context was not embedded. It is imperative that Ireland recaptures this developmentalism and repertoires of action to help it do so are identified.

A number of dilemmas confronting the European integration project are outlined. Foremost among them is the challenge of embarking on a course of deeper integration necessary to consolidate the future of the currency in circumstances where political legitimacy is seriously undermined by austerity. A singular focus on fiscal adjustment has resulted in a deflationary debt crisis which seems set to continue for some time. There is no obvious escape route for Ireland. Indeed the situation is much complicated by its relationship with Britain which is becoming increasingly semi-detached from Europe. Within the policy space available to it, the best course for Ireland is to reinvent itself as a Social Market Economy, as far as possible in the image of its northern European peers.

For all the bleakness of the current environment there is opportunity too. The institutional architecture of EMU is so dysfunctional that it must eventually yield to reform if European integration as a project is to survive. Therein lies the possibility for a social democratic revival if a convincing narrative for it can be communicated.

## CHAPTER 1: Introduction

On 18<sup>th</sup> November, 2010, the Irish public awoke to hear their Central Bank Governor, Professor Patrick Honohan, announce on the *Morning Ireland* radio programme that the country was shortly to be a ward of court of the European Union and International Monetary Fund. The fact that the Governor was the messenger was symptomatic of the state of disarray of the Irish government. All the previous week ministers had denied that this event was in prospect. It was symbolic too that he was speaking from the headquarters of the European Central Bank in Frankfurt. It emphasised who was in charge (Donovan and Murphy, 2013: Appendix 1).

Ireland had been the poster child of Europeanisation and globalisation. The rapid transformation of the Irish economy from one with high unemployment and emigration, persistent budget deficits and a debt to GDP ratio of over 100 per cent in the 1980s to full employment, net immigration and a debt ratio below 40 per cent by 2000, earned it fulsome praise. For this reason the rapid onset of the 2008 crisis, and the consequences that flowed from it, came as a great shock.

This was, moreover, in marked contrast to the other small open economies in Northern Europe, in particular Finland, Denmark and the Netherlands. These were champions of free trade and globalisation too and, while hard hit by the global downturn, were better able to alleviate the domestic consequences of the crisis. An extraordinary range of policies were deployed to ease stress in the financial system and, in the case of the Nordic countries, these were accompanied by fiscal stimulus. Generally speaking the Nordic and continental small states have an impressive record of combining economic efficiency and social cohesion including the highest levels of employment and most generous welfare systems in the affluent world (Gylfason et al, 2010; Hemerijck, 2013; Schmidt, 2011). This thesis traces and compares the evolution of the development models of Finland, Denmark, the Netherlands and Ireland over the quarter century spanning the years 1987-2013.

The purpose of this introductory chapter is to provide a context for this study in comparative political economy. It explains the purpose of the thesis, states the research question and identifies the theoretical foundation underpinning the work. It briefly profiles the four small open economies included and gives reasons for their selection. Finally, it outlines the structure of the thesis with a brief account of the task and conclusions of each of the remaining chapters.

The key question of this thesis is how these four countries managed the process of Europeanisation. European integration picked up pace in the late 1980s and Ireland's achievements seemed to parallel it. German policy makers and bankers had urged Europe towards financial integration since the 1950s. The course of this trajectory took an upward swing in June, 1988, when the European Council agreed to liberalise all capital movements. In effect this was formal financial integration, which was copper fastened by the Maastricht Treaty which came into force in 1994. Its effect was to elevate capital to the same legal status as goods, services and people which had enjoyed free movement within the borders of the EEC for forty years (Abdelal, 2009).

The European Central Bank (ECB) subsequently became the premier institution of Economic and Monetary Union (EMU) under the terms of the Maastricht Treaty. The single currency came into force ten years later in 2002. EMU did not, however, involve any institutions for fiscal or banking union which subsequently were revealed as serious deficits. The ECB received the singular mandate to maintain price stability. A Stability and Growth Pact (SGP) and Excessive Deficit Procedure (EDP) were intended to control fiscal sustainability, with the Maastricht Treaty explicitly proscribing bail-outs of imprudent members. These rules were believed to be sufficient to foster real economic convergence. It didn't work, not least because the architecture failed to take into consideration current account competitiveness divergence across the Euro area. The fiscal rules were ignored to allow Greece and Italy to join the currency union and deficit limits were ignored when exceeded by France and Germany in 2004. Moreover, the EMU's design bias towards public budgetary discipline let policy makers take their eye off the ball of private debt. In short there were serious design flaws in EMU (Hemerijck, 2013).

These were exposed following the collapse of Lehman Bros. bank in the United States on 15<sup>th</sup> September, 2008. Allowing Lehman to collapse without stabilising the banking system turned out to be a costly policy mistake. Shortly after the Lehman shock, the full effects of the market concerns began to be felt in Europe. A number of European banks – Dexia, Fortis and Hypo Real Estate – had to be rescued. Within days Ireland was pitched to the front of the gathering crisis. Up to that point it had enjoyed the sobriquet ‘Celtic Tiger’ but inappropriate risk taking by banks had built up unsustainable financial exposure to a falling property market. Ireland’s banks had borrowed short from the European banks and lent long to developers and home buyers. The collapse of Lehman’s Bank caused a crisis of confidence such that interbank lending froze. This meant that Irish banks could not roll over their loans. Initially this was seen by the authorities as a liquidity crisis. Under pressure from the ECB not to allow any bank to fail the Irish Minister for Finance guaranteed all bank liabilities at six financial institutions, an approximate potential liability of €440 billion.<sup>1</sup> This was the equivalent of 250 per cent of GDP. In the event the liquidity crisis turned out to be a solvency crisis and banking debt turned into sovereign debt crippling future generations of Irish citizens fiscally. The Celtic Tiger was dead (Hemerijck, 2013, Lewis, 2010; Marsh, 2011; Mason, 2009).

Membership of the Eurozone meant that the policy of adjustment adopted was to engineer an internal devaluation in an effort to bring down wages and prices. The peripheral countries were judged ineligible for what they really needed i.e. outright debt relief via Eurobonds or other mechanisms. Such options were opposed because of a kind of moral distain on the part of the creditor countries and because of a fear that any such action might be judged illegal by the German constitutional court (Hemerijck, 2013; Marsh, 2011).

The speed of change in Ireland took people by surprise. Unemployment rose quickly from 4 per cent to 15 per cent. This was most acute in the construction industry where employment fell from a peak of 286,000 to about 80,000. Overall

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<sup>1</sup> In June 2013 taped conversations between top executives of Anglo Irish Bank were revealed in the media. In one exchange the executives candidly admit asking for €7 billion from the Financial Regulatory Authority despite knowing that the needs of their troubled bank were much larger. Had truth been told the authorities might have let the bank fail. Moreover, the bankers appeared to have abused the guarantee by chasing deposits from the UK and Germany. These revelations, in their content and tone, caused enormous anger and damaged Ireland’s diplomatic campaign to secure an EU recapitalisation of the banking system via the ESM (*Financial Times* Editorial, 26<sup>th</sup> June, 2013, P.10).

some 365,000 jobs were lost. Net immigration turned quickly to net emigration. Wage cuts were imposed or negotiated in the public service and in some industries like construction, newspapers, radio & television, and aviation. A series of harsh budgets took about €25 billion out of the economy and this contributed to reducing domestic demand by 26 per cent.

Kelly and McQuinn (2013) argue that, in the context of the financial crisis, the Irish economy presents an exceptional case. The impact on output and employment has been very severe with GDP in 2011 still 9 per cent below its 2007 peak level. Nearly 40 per cent of the stock of Irish mortgages was issued between 2004 and 2007, when house prices were at their peak. With a 50 per cent fall in house prices since, negative equity has become a serious problem for many householders. The combination of a rapid rise in unemployment and increasing mortgage arrears created conditions of credit risk in the books of Irish banks which contributed significantly to the crisis which engulfed the Irish banking sector.

Looking back at Ireland's economic performance since achieving independence this is the fourth occasion on which the country's very survival has come into question. The first occasion was in the 1930s when the first Fianna Fáil government responded to depression by transitioning from an agrarian economy to import substitution industrialisation. The small scale of the Irish market and inept attempts to build viable indigenous industry behind tariff walls meant that by the 1950s the country was again in crisis. This time the solution involved a volte face on industrial policy moving to export orientated industrialisation. Opening the economy gave access to Marshall Aid and led, first to the Anglo-Irish Free Trade Agreement of 1965, and then to membership of the EEC with Britain and Denmark in 1973. The initial ten years of EEC membership did not transform the country or achieve the catch up on the post-war 'Golden Age' that Ireland had missed out on. In fact by the mid-eighties Ireland was again in deep trouble with high unemployment and emigration and unsustainable public finances. This time the solution involved a combination of neo-corporatism in the form of Social Partnership, a global economic upswing and two currency devaluations. The second of these was ten per cent devaluation within the Exchange Rate Mechanism (ERM) in January 1993. Still, although the macro-economic indicators began to come right after 1987 employment levels did not begin



to rise until after 1994. Between then and 2001 over 400,000 new jobs were created. This was the beginning of the Celtic Tiger<sup>2</sup> period and nobody expected it. Actually in the early 1990s people were beginning to doubt whether Ireland was a viable economic entity at all and whether the entire independence project had been a failure (Adshead et al, 2008; Ahern, 2009; Garvin, 2005; Kirby, 2010); MacSharry and White, 2000; Murray, 2009; O'Donnell, 2008; O'Riain, 2004 and 2008; Smith, 2005).

To an extent this uncertainty about economic development was influenced, not just by disappointment at the stagnant economy, but by comparison with the achievements of other small open economies in Europe. This caused the National Economic and Social Council (NESC) to commission a Norwegian academic, Lars Mjoset, to conduct a comparative study of Ireland with other countries with a view to determining why they had done so well and Ireland had done so badly.

In his report Mjoset (1992) argued that Ireland, by comparison to small Northern European economies, had failed to develop a national system of innovation. An auto centric national economy had not emerged and therefore the dynamic of socio-political mobilisation and economic performance combining to generate pressures for a widespread Fordist system of production and consumption had not materialised in a manner redolent of the comparator countries. Moreover, a weak national system of innovation contributes to social marginalisation and mass emigration, which in turn lessens the possibility of sociological pressures to improve the system of innovation. Mjoset further argued that reliance on FDI, and earlier on live cattle exports to the UK, militated against building a national system of innovation. These factors were compounded by the conservative nature of society influenced by the church and the populist nature of Irish political parties based on competing versions of nationalism arising out of the civil war in the 1920s (see also O'Riain, 2004: Chapter 3).

The three other comparator countries in this study were not without their difficulties at the time of Mjoset's report but they were better placed than Ireland.

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<sup>2</sup> The phrase 'Celtic Tiger' was coined in 1994 by Kevin Gardiner of US investment bank Morgan Stanley, who suggested that Ireland's high growth rates were comparable to those of the East Asian 'Tigers' (Smith, 2005: 37).

Per capita growth in Finland stayed in positive territory for the most part throughout the post war period with the exception of a banking crisis in 1992/93, when unemployment rose to 17 per cent of the labour force. The period until the mid-1980s was a phase of catching up and mobilisation of resources. The policy regime relied on state intervention in the manner of the Asian tiger economies. Public savings were an important factor in capital accumulation. Credit rationing was used to promote manufacturing investment and corporatist incomes policy underpinned export industry profitability. The geopolitical constraints of the Cold War were a major influence on public policy. Mjoset notes that trade with the Soviet Union was of major importance being a continuation of post-war reparations. The oil price rises of the 1970s served to consolidate this trade which was organised on a semi-barter basis in which Finland swapped manufactured goods for Soviet oil. This created a beneficial counter cyclical effect (Gylfason et al, 2010; Mjoset, 1992; Vartiainen, 2011).

Denmark, unlike Sweden, Finland and Norway, had no banking crisis to speak of in the late 1980s or early 1990s. While there were problems in the sector they never amounted to a full blown crisis. The two post-war episodes of mildly negative per capita growth coincided with the oil crisis of 1973-1974 and 1979-1981. Domestic demand in the economy was sluggish in the aftermath but accelerated in 1985-6 as the savings rate reduced. This eventually developed into a consumption boom prompting a rather extreme policy response. The so called 'potato cure' adopted by parliament in 1986 took the form of a 20 per cent surcharge on the net interest rate payments of households. This curtailed consumption severely and increased savings again. Unemployment actually reduced and the budget returned to surplus in 1986. Nevertheless, balance of payments problems caused growth to stagnate while the rest of Europe grew at the rate of 3 per cent. This in turn caused employment to stagnate and Danish firms began to lose market share internationally and at home. The resolution of Denmark's structural balance of payments problems in the early 1990s paved the way for long-term prosperity (Goul Andersen, 1011; Gylfason et al, 2010, Mjoset, 1992).

In the 1980s centre right coalition governments in the Netherlands relied on price-incomes policies and exchange rate stabilisation for macroeconomic adjustment.

The emphasis of policy was on shoring up corporate profits rather than sharing the burden of adjustment across societal cleavages or socio-economic groups. It was only in the mid-1990s that analysts reinterpreted the Dutch Model as being a consensual one. For a time the effectiveness of the 'Polder' model as a consensual adjustment strategy remained controversial. The effect of the two oil crises of the 1970s in the Netherlands was to drive up inflation, reduce exports and increase unemployment. The fact that the currency was pegged to the Deutschmark did mitigate inflationary pressures as the German currency appreciated after 1976. But appreciating exchange rate movements harmed exports competitiveness in circumstances of declining world markets. By 1984 unemployment had reached a record high of 800,000 or 14 per cent of the labour force. This was compounded by similar numbers on disability benefit or early retirement. Nevertheless, within ten years the unemployment figure had been halved (Jones, 2008; Visser and Hemerijck, 1997).

It would appear that not a lot of attention was paid to Mjoset's Report by the policy making community in Ireland. One senior minister of that period interviewed for this research had never heard of it. It may be that the technical nature of the report made it difficult to access or that more likely the rapid expansion of the economy began soon after its presentation and perhaps people felt that the source of their concern had dissipated.

But the events of 2008 and since have reawakened those old fears again. The difference now, however, is that we know that Ireland not alone performed well for over 20 years but became the toast of Europe, or at least of neo-liberal cheerleaders and commentators. On the other hand there were those who had doubts about whether the feted Irish model was built on solid foundations. Sean O'Riain (2008) questioned the Celtic Tiger explanation for the phenomenon of the 1990s expansion given its roots in the vicious circles described in the Mjoset (1992) analysis. Perceptively he also identified that during the 1990s new institutional spaces emerged via Social Partnership where movements for developmentalism and public participation were able to establish themselves. This created a virtuous circle where

an improved national system of innovation<sup>3</sup> combined with local demand for growth created jobs and better wages. Problematically, though, the 2001 dotcom crash created a hiatus in which the central state and market began to reassert control over the spaces for developmentalism that had emerged in the 1990s. The effect of this was to shift the dynamic of growth away from developmentalism and towards construction and consumer led growth.<sup>4</sup> Peadar Kirby (2002 and 2010) was also unconvinced about the Celtic Tiger. He argued essentially that long standing weaknesses in the economy, society and the political system were simply camouflaged during the boom and became apparent again amid economic decline. These separate critiques can be characterised by O’Riain’s argument that Ireland can, in the right circumstances, be a developmental network state but that liberal forces are constantly trying to drag it in a ‘competition state’ direction. Kirby’s view is that Ireland is already a ‘competition state’ although he would wish it to be otherwise.

The pity is that Mjoset’s work was not really completed. He wrote about Ireland:

‘Are there any lessons to be learnt from the contrast cases? This would be the traditional field of the applied social scientist. The long-term problems can be understood and they can be specified as complicated vicious circles, and a more thorough analysis might specify how many “small” causes accumulate to create them’.

(Mjoset, 1992:20)

He specifically identified the question of the role of institutions as requiring further in-depth study. No studies of this nature were proceeded with, but if they had been, they might have captured the shifting emphases about to take place in the models of the comparator countries revealing a richer source of inspiration for Irish policy makers.

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<sup>3</sup> The 1990s saw rapid growth in the indigenous software industry driven largely by people outside the business establishment who had gained experience in the high-tech MNC sector (O’Riain, 2004).

<sup>4</sup> Perhaps the two most egregious examples of this are: (i) Irish banks in 2003 borrowed the equivalent of 10% of GDP from foreign banks to fuel a credit expansion. By 2008 it was the equivalent of 60% of GDP (Honohan 2009), (ii) Between 2001 and 2008 capital stock expanded by 157 per cent. Most of it went into property. Only 14% went into productive investment.

## Purpose of Thesis

Ulrich Beck (2013) makes the point that a purely economic analysis of the European crisis which started in 2008 neglects the dimensions of society and politics and our prevailing ways of thinking about them. He opines that, while there is a widespread view that what we need to overcome the crisis is more Europe, we find less and less assent to this idea amongst the citizens of the Member States. He poses the question of whether preoccupation with economic issues and a political union has obscured the more crucial question of a European society for so long that we have ended up leaving the most important factor out of the reckoning altogether? This resonates with the thinking of Karl Polanyi who sixty years earlier advanced the concept of embeddedness, meaning that the economy is not autonomous, as suggested in economic theory, but subordinated to politics, religion, and social relations (Polanyi, 1944).

**The purpose of this thesis is to explore the core Polanyian tension between markets and social protection, with particular reference to the capacity of selected small open economies – Finland, Denmark, and the Netherlands – to manage that tension, and to compare these countries with Ireland.**

This tension between markets and society is an acute dilemma for small open economies. Coping strategies to deal with it have long been central to the politics of the Nordic countries in particular. This was the focus of a study by Katzenstein in 1985 but Christine Ingebritsen (1998) has pointed to the difficulty of maintaining national systems for social protection in the face of encroachment of international capital markets, particularly post 1985.

These tensions lend themselves most appropriately to analysis within that Polyanian framework. Why? Because as Fred Block (2001) explains, for Karl Polanyi (1944) the deepest flaw in market liberalism is that it subordinates human purposes to the logic of an impersonal market mechanism. The answer according to Polanyi, is for people to use the instruments of democratic governance available to them to impose the popular will on markets. Thus politics is the medium for this although quite what tools to use is not made clear (O’Riain, forthcoming, 2014). Bohle and Greskovits (2012) write that in their reading of Polanyi, market expansion and market

regulation did not develop in a tightly coupled pattern, but occasionally followed each other with considerable time lags. Accordingly, the pendulum logic of the double movement could lead to extreme swings in either direction, the one driven by market expansion and the other by its opponents. For them, Polanyi's work is a statement of the difficulty and occasional impossibility of balancing regulation by a politically agitated mass society against the needs of a functioning market economy. They conclude with the observation that, with the global crisis still unfolding, there is great uncertainty as to the course capitalist development may follow.

Peter Katzenstein's (1985) account of how small open economies have to balance openness to international markets with social compensation, mediated through the politics of corporatist negotiation of adjustment and social pacts is a good reference point. But in the intervening period exogenous pressures have become more acute with the extended reach of global capital post the collapse of the Soviet Union, a sea change in financial liberalisation post 1985 and concurrent deepening of European integration via the Single European Act (SEA) and the subsequent Economic and Monetary Union (EMU). These developments justify using the lens of European integration to view and compare the trajectory of each country's evolution.

Ireland appears to be an outlier. It is the sole Liberal Market Economy within the Eurozone, the most distant geographically of the Northern Member States from the heart of Europe, and one of only three countries not part of the continental land mass (Hay et al, 2008). O'Hearn (2001) points to its historical place in the Atlantic economy, with Britain as hegemon, and subsequently the United States. It was a late industrialiser and it missed out on the post-war 'golden age'. When it joined the EEC it had a long way to go to catch up and as late as 1994 its GDP per capita was only 60 per cent of the EU average. For a country with no tradition of class politics it nevertheless developed a sophisticated system of corporatist Social Partnership which had a central role in policy formation for 22 years. While the other countries in the study are firmly within the German sphere of influence (In Finland's case this is a recent development) Ireland's single biggest trading partner and closest ally in Europe is Britain. Put another way, when Ireland joined EMU no other potential entrant had the same trade exposure to non-entrants as it had (McCarthy, 1997). Moreover, the Irish economy cycles out of phase with that of

the core continental states of the Eurozone because of its heavy export and investment dependence on Britain and the United States and it has low levels of intra-industry Euro-area trade. This misalignment means that Ireland's interest rate requirements are different and unlikely ever to be a priority for the ECB. As Hay et al (2008) forecast, the absence of the devaluation option, and the fiscal constraints of the 3 per cent budget deficit limit of the Stability & Growth Pact, rendered Ireland much more vulnerable to an external shock justifying their description of Ireland as an 'Outlier' inside the Eurozone (ibid: 188). Despite this unique risk exposure EMU membership never became a highly politicised issue among the mainstream political parties (ibid: 189). Given their respective histories it is worthy of exploration whether Ireland could develop the kinds of institutions that characterise the other small open economies in this study and the extent to which the absence of a tradition of class politics influenced that. On the other hand Ireland has over the years since independence displayed a capacity to change direction in quite a radical way on a number of occasions. It has also been able to accommodate the social strains of both emigration and immigration with less angst than the comparator countries and it has found ways to permit a dual economy – hi-tech foreign multinational companies and traditional indigenous labour intensive industries – to coexist for a long period within a distinctive social partnership model. In this there is the possibility of mutual learning between the models. This all makes it an interesting case.

## **The Research Question**

What can be said with a degree of certainty is that there are still gaps in our knowledge about the influences causing different developmental outcomes amongst the small open economies of Europe. Mjoset (1992) was given a very tight timeframe by NESO to conclude his evaluation of the performances of the countries selected.<sup>5</sup> He focussed on development theory. However, he did recommend further study of a number of areas including institutions.<sup>6</sup> Most importantly, however, Mjoset's study used a periodisation from the 1970s to the late 1980s when Social Partnership began. Its effect was therefore not considered. Nor could it take on

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<sup>5</sup> The countries used for comparison purposes by Mjoset were: Austria, Denmark, Finland, Sweden and Switzerland (Mjoset, 1992: 5).

<sup>6</sup> The original terms of reference included a second stage investigation intended to achieve two things: First the analysis would move towards a causal account, based on comparative reasoning, and, second, specific issues for in-depth analysis would be identified. This second stage could not be completed within the time allowed (Mjoset, 1992:5).

board the financialisation of the global economy that was to happen subsequently. Katzenstein's (1985) seminal work of comparative political economy deliberately excluded Ireland and Finland from an analysis of the industrial adjustment strategies of seven small corporatist European States<sup>7</sup> because he considered both to be late industrialisers and it too missed out on financialisation. In general, also, the Varieties of Capitalism literature, which will be discussed later, is concerned mainly with ideal types. As mentioned above, the debate about the nature of the State in Ireland has to include this question of whether, and to what extent, Ireland is *sui generis* and perhaps not easily fitted into an ideal type.

A final point is that the pace of European integration accelerated after the Maastricht Treaty was implemented in 1994 and this has added to the exogenous forces with which small open economies have had to grapple. To the extent that this was a common factor it offers a useful lens through which to look at what has been happening in small open economies.

**The research question explores whether Katzenstein's thesis on democratic corporatism holds true for selected small open economies under the influence of Europeanisation over a four stage periodisation from 1987 to 2013. It asks to what extent Ireland is *sui generis* within its peer group and whether, and to what extent, certain counter tendencies to its categorisation in the literature as a liberal market economy have a bearing on its capability to match the economic and social achievements over time of the democratic corporatist economies.**

This research question suggests a number of lines of enquiry, viz:

- (i) Katzenstein's principal focus was the performance of small open economics under conditions of increasing market openness. Does his thesis hold in circumstances of deepening European integration in a single currency context and where rules are set at European level?

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<sup>7</sup> The States included were: Sweden, Norway, Denmark, the Netherlands, Belgium, Austria and Switzerland (Katzenstein, 1985:21).



(ii) Countries respond to exogenous influences in different ways during different periods. What openness means to a country may vary over time. Some countries that may have a democratic corporatist polity may do better or worse than others also based on democratic corporatism. Factors which might influence this include, inter alia, changing political landscapes or the emergence of new ideas. This topic is the subject of a study by Monica Prasad (2006) for some of the larger countries.<sup>8</sup>

(iii) Katzenstein writes in a uniform way about national systems but does not go into countertendencies. Therefore, some extra means of analysis is needed to explain the Irish case.

The countries selected as comparators with Ireland are: Denmark, Finland, and the Netherlands. The reasons for selecting these countries are as follows:

**Finland** – a late industrialising country like Ireland but now widely regarded as a hi-tech success story. Unlike Ireland, however, this success is based on the extraordinary achievements of an indigenous company, Nokia. The type of financial and banking crisis which hit Ireland in 2008 was experienced by Finland in 1992/93 but it recovered quickly albeit with a long term scarring effect. Moreover, Finland lost a significant export market when the Soviet Union collapsed around the same time. Basically the Finns had to reinvent their economy and aim it at western markets. Finland joined the EU in 1995 and qualified for membership of the Eurozone, like Ireland, in 1999. It is the only Nordic member of the Eurozone. Today it is at the heart of Europe and is one of the creditor countries taking a hard line on the need for fiscal consolidation. With Germany and the Netherlands it came out against allowing the ESM to recapitalise the Irish banks, contrary to an agreement apparently made by the European Council on 29<sup>th</sup> June, 2012. Finland has a population of 5.2 million. It has a 1500 km border with Russia.

**Netherlands**- an economic powerhouse at the heart of Europe but still a small open economy, albeit with a GDP four times the size of Ireland. It has a population of 16 million and the highest population density in Europe (493 people per sq. km). It has

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<sup>8</sup> Hemerijck (2013:44) also suggests that evolving cognitive understanding of policy elites, changing beliefs of politicians, and changing normative orientations with respect to social justice issues can be important factors affecting welfare state reform.

a total geographic area of 41,526 sq. km much of it below sea level. Dutch society traditionally had had deep religious cleavages and managing these differences – often referred to as pillarisation – has been a focus of public policy. Consensus building is at the core of the polity and the result is a consociational democracy. The Netherlands has been a key actor in the European integration project from the beginning. With Belgium it convened the 1956 Messina conference which led to the Treaty of Rome two years later. The Netherlands is a close ally of Germany and its currency has been pegged to the Deutschmark since the 1970s. For the Netherlands EMU was a logical stage of European integration and its membership of the Eurozone was never in doubt. The Dutch shocked the European elite by voting against the EU Constitutional Treaty in 2005. Also a hardliner amongst the creditor countries it has had to eat some humble pie due to increasing difficulties with its public finances in 2013.

**Denmark** – Denmark has a landmass of 43,000 sq. kms and a population of 5.6m. It ranks 21<sup>st</sup> in the world in terms of GDP. Like the Netherlands it pegged its currency to the Deutschmark in 1982 but has never been able to convince its population to join EMU. Nevertheless, its polity is constructed as if it were a member and European integration requirements have been a key focus since the early 1990s. Denmark has a strong agricultural tradition and is often compared to Ireland for that reason. It has also been compared with Ireland as an exemplar of the success of ‘expansionary fiscal contraction’ (Blyth, 2013). Industrially, however, it is the mirror image of Ireland with a strong indigenous SME industrial base and a relatively small amount of FDI. It is an important sub supplier of German industry. Consensus building is a way of life in Denmark. All interest groups in society have some form of representation and it is often described as a negotiated economy. The comparison of Ireland and Denmark is developed further in Chapter 3.

To sum up, what makes these countries appropriate for comparison with Ireland is that they are all small open economies. All three are social market economies and they are at the heart of Europe (even though Denmark is not formally a member of the Eurozone). Denmark and the Netherlands were covered in Katzenstein’s (1985) study while Finland and Denmark were analysed by Mjoset (1992). Accordingly there is a solid body of research to build on.

## Theoretical Foundation

The Theoretical Foundation for this research is the Varieties of Capitalism literature with a particular focus on the new institutionalisms.

Arguably the most influential critique of market liberalism ever written was *The Great Transformation* (1944) by Karl Polanyi. Fred Block (2001) says of it that the emergence of the Cold War, and the polarised public discourse that attended it, left little room for Polanyi's nuanced and complex arguments. But in the context of the modern debate about globalisation his work is increasingly seen as being particularly relevant.

According to Fred Block (ibid) Polanyi does not fit easily into standard mapping of the political landscape; although he agreed with Keynes' critique of market liberalism, he was not a Keynesian per se. He claimed to be a socialist although he did not agree with the concept of economic determinism in a Marxist sense. The core tenets of his argument were that labour, land and money could not be treated as commodities and that the economy should be embedded in social relations rather than the other way around as is the case with market liberalism. Mark Blyth (2002) describes Polanyi's Double Movement theory in which the advance of capitalism and the commodification of labour create disembodied markets provoking a reaction by labour. In other words those dislocated by the market will try to use the state to protect themselves, the consequence of which is large scale institutional change. Of course this can happen in reverse too as was the case in the early 1970s when business interests in the US mobilised to deconstruct the New Deal Settlement. David Harvey (2005) says that Polanyi saw liberalism (and by extension neo-liberalism) as a utopian construct. As such his fear was that it could only be sustained by resort to authoritarianism. The freedom of the masses would be restricted in favour of the freedom of the few.

Fred Block is the best known proponent of neo-Polanyian theory which he conceptualises in terms of four specific theses, viz:

- i. Market economies are always and everywhere embedded.
- ii. Market societies and the contemporary world economy have been shaped by an on-going double movement.
- iii. The interests of employers vary over time and space, but they play a critical role in shaping the development of market societies.
- iv. Competition among nations within the world economy tends to produce new variations in the structures of economic institutions.

This latter thesis links with the Varieties of Capitalism School insofar as it implies that there are multiple strategies for maintaining or improving a nation's relative position. For example, investment strategies for different economic sectors or for education and training might be prioritised. The path chosen is likely to lead to institutional innovations that could increase the institutional variations among market societies.

Taken together these four theses suggest that the trajectory of market societies can be seen as being shaped by political conflicts and political struggles. The importance of political institutions and political conflicts in shaping social development represents an overlap of significance between neo-Polanyian theory and the work done within 'new institutionalist' frameworks in political science and sociology. Carlo Trigilia (2002) suggested that Polanyi was an institutionalist, meaning that for him economic life could not be understood in individualistic terms but was influenced by social institutions.

Moreover, employer class interests and counter movements can contest to influence State power to make deep changes in the structure of the economy thus providing multiple paths to successful economic adaptation.

In Polanyi's reasoning it was not the First World War, or fascism in Europe nor the onset of the Russian Revolution that ended the civilisation of the nineteenth century as manifested in liberal capitalism. Rather it could be traced to a conflict between the functioning of markets and the requirements of social life – a view that finds a resonance in Europe post the 2008 financial crisis.

According to Katzenstein (1985:34) for small European states, with their open economies and fear of retaliation by other governments, exporting the costs of market competition and change through protectionist policies was not a viable option. Protectionism would risk retaliation. Competitiveness was the only economic option but that required building a national consensus. A consensus required everybody to realise that they were in the same small boat, fighting high waves, and everybody needed to pull the oars. Thus it followed that domestic quarrels were a luxury that could not be afforded. Building a consensus required the protection of citizens from the worst effects of open international markets.

The formula adopted was democratic corporatism. It involved agreements on incomes policy and broad social and economic policy between government and both sides of industry. Initially these were embodied in a number of landmark agreements as follows: Norway's Basic Agreement of 1935, Sweden's Saltsjobaden Agreement of 1938, the Netherlands' fifth corporatist chapter of the new Constitution of 1938, Belgium's Social Solidarity Pact of 1945 and Switzerland's Peace Agreement of 1937. The 'truce' between employers and unions eventually transitioned into a permanent way of doing business which was consolidated after the war (Katzenstein, 1985: Chapter 1).

However, it would be wrong to think that everything went smoothly at all times. Industrial conflict did occur. Moreover, centralised bargaining was abandoned in Sweden in 1984 and subsequently in some other countries. Incomes policy in both Denmark and the Netherlands has a mixed record. One of the interesting points brought out by Katzenstein is that best results are achieved where strong peak organisations of employers and unions exist. He notes that while Britain tried incomes policies on a few occasions, weak peak organisations and decentralised systems of collective bargaining condemned Britain's efforts to no more than intermittent success (Katzenstein, 1985: Chapter 2, see also Scharpf, 1991: Chapter 5). Hardiman (1988) argues that Ireland was subject until the 1980s to similar problems in its collective bargaining system.

Another feature of small European States is that protection of citizens from the ravages of markets requires a fairly large public sector to provide social transfers for

compensation and good quality public services. Therefore, public spending, and taxation, tends to be high. When Katzenstein was writing the average small State spent 45 per cent of its gross national product on public services while the large countries averaged 38 per cent.

The defining characteristics of corporatism are (i) an ideology of Social Partnership, (ii) a centralised and concentrated system of economic interest groups, and an uninterrupted process of bargaining among all the major political actors across different sectors of policy. Proportional Representation in the electoral system is important because it lends itself to a system of coalition or minority governments. This fosters an inclination to share power between political opponents with a view to jointly influencing policy. It adds to the orientation towards consensus and a negotiated economy (ibid, see also Lijphart, 1999).

This is very much associated with the social democratic model whereby the labour movement is integrated to a strong national consensus through strong socialist parties and strong trade unions. While it does not mean that social democratic parties will always be successful in elections it does mean that even conservative parties have to stay with a social democratic policy framework if they want to be successful (Vartiainen, 2011). In some cases, for example Anders Fogh Rasmussen, former prime minister of Denmark, politicians of the right have acknowledged the merits of the social democratic framework (Boss, 2010).

To summarise Katzenstein's thesis it is that the vulnerability of small countries to internal conflicts and external changes in the 1930s and 1940s caused them to adopt a policy of combining openness to international markets with social compensations. He described this as 'Democratic Corporatism' constituted of a blend of centralised politics, ideological consensus and complex bargains among interest groups, politicians and administrators. By balancing open economies and flexible industrial policies within Social Partnership the small countries of Northern Europe succeeded in adjusting to rapid changes in the international political economy without damaging social cohesion or political stability. However, he did not see that there was a universal model to fit all situations but rather that historical and institutional factors were influential (ibid).

While small countries lacked the market size and economies of scale of larger countries Katzenstein saw that there were alternative advantages to small size. All relevant parties could more easily get to sit around a table together to discuss pragmatic approaches to problems associated with vulnerability and to devise solutions. It was also possible to coordinate, to limit internal conflict and to duck and weave around international vulnerabilities sometimes by designing policies and institutions with which to contend with international forces otherwise beyond control (see also Campbell and Hall, 2010 a).

Hall and Soskice (2001) developed this thinking about coordination and institutions further. In their perspective Katzenstein had also given insufficient weight to the role of firms in the economy. This was something of a rebalancing of the primacy given to trade unions. They also emphasised the importance of culture. Societies that are deeply divided culturally, for example, might find difficulty in cooperating. A feature of the Northern European countries is that they are culturally quite homogenous (although this may be changing somewhat with immigration as discussed in Chapter 6). In this respect Campbell and Hall (2010) note that according to the World Economic Forum in 2006, five small countries – Switzerland, Finland, Sweden, Denmark, and Singapore – are the most competitive economies in the world.

Whereas this ‘Varieties of Capitalism’ literature speaks to the practical way economies and societies are organised, political science provides a theoretical approach with three main perspectives: rational choice theory; behaviouralism; and the new institutionalisms. Rational choice theory is based on the assumption that individuals are rational and behave as if they engage in a cost-benefit analysis of each and every choice available with a view to maximising their material self-interest. Rational choice theory seeks to produce a deductive and predictive science of the political, modelled on neo-classical economics. The behaviouralism approach is to focus on power as decision-making and to assume that an analysis of the inputs into the political system, such as the pressure exerted by interest groups upon the State, is sufficient to account adequately for political outcomes. Both approaches have been criticised by Colin Hay (2002). In particular he has drawn attention to an

inherent flaw in rational choice theory by virtue of perverse incentives not to engage in collective action in pursuit of public goods. Referring to the so-called ‘tragedy of the commons’ he explains how an individual country might not want to incur the competitive disadvantage of the costs of environmental protection if it can be free rider getting the benefit of the input of others.<sup>9</sup>

The origins, philosophy and approach of new institutionalism are given detailed treatment in a book written by John L Campbell *Institutional Change and Globalisation*. He explains that new institutionalism emerged in the 1970s in reaction to persistent problems for which neo-classical economics seemed to have no answer. These related to the realisation that competitive markets did not always produce the most efficient economic behaviour. The new institutionalists argue that markets were in fact typically inefficient insofar as monitoring and enforcing transactions could be done at lower costs through different institutions like corporate hierarchies or long term subcontracts. By institutions they meant systems of formal and informal rules and compliance procedures. Whereas neo-classicals had disregarded institutions in favour of unfettered markets the new institutionalists wanted to bring the analysis of institutions back into economics. The new institutionalists, however, cannot be said to hold a homogenous world view (Campbell, 2004).

New institutionalism is also explained in terms of the extent to which it emphasises how political conduct is shaped by the institutional context in which it occurs, the historical legacy and the diversity of actors’ strategic orientation to the institutional situation in which they find themselves. Rational choice institutionalism presents the State as a rational actor pursuing the national interest or as a structure of incentives within which rational actors follow their preferences. Historical institutionalism focuses on the constituent parts of the State and on how the State has originated and evolved. This brings into play a logic of path dependence. Sociological institutionalism sees the State as socially constituted and culturally framed, with political agents acting according to ‘the logic of appropriateness’ that

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<sup>9</sup> One is tempted to suggest that Ireland’s attitude to corporation tax and transfer pricing fits this description. By undervaluing imports from subsidiaries abroad and overvaluing exports to subsidiaries outside Ireland, affiliates of MNCs can declare higher profits for taxation purposes in Ireland and move after tax profits out of the country. Ireland’s 12.5 per cent corporation tax rate allows it to attract FDI but it is arguably contributing to a ‘race to the bottom’ for all European countries in their tax relations with MNCs.



follows from culturally-specific rules and norms. Discursive institutionalism is concerned with ideas and discourse used to explain or legitimate political action in an institutional context. New institutionalism began in the 1970s with the aim of bringing institutions of the State back into the explanation of political action (Hay, 2002; Schmidt, 2006).

But it is the treatment of ideas that is particularly challenging within this discipline. Mark Blyth (2002) asserts that ideas are important because they can change how people conceptualise their own self-interest. He complains that social scientists have had difficulty accepting that ideas matter, preferring instead to rely on self-interest as the ever ready tool of explanation. He makes the case for reconceptualising Polanyi's double movement thesis towards an analysis which is not static but which sees institutional change being driven sequentially by events where ideas have different effects at different junctures. In other words, institutional change may be a process comprehending the reduction of uncertainty, the specification of causes and the actual supply of new institutions. He explains it this way:

‘While Polanyi saw the double movement as a function of agents with structurally given interests reacting to self-apparent crisis, what this and other static accounts of institutional change miss is the importance of uncertainty and ideas in determining the form and content of institutional change. Economic ideas are causally powerful in this way because of the world that precedes them.’

(ibid:10)

Colin Hay (2002) suggests that the new institutionalism departs from the mainstream political science of the 1980s in important respects. First, it rejects the simplifying assumptions which make possible rational choice theory's modelling of political behaviour. Secondly it challenges the assumed regularity in human behaviour in which rests behaviouralism's reliance on a logic of extrapolation and generalisation (or induction). In their place the new institutionalists propose more complex and plausible assumptions which seek to capture and reflect the complexity and open-endedness of processes of social and political change. The result has been a series of hybrid positions, the most influential of which is probably rational choice institutionalism which examines the extent to which institutions can provide

solutions to collective action problems and, more generally the (institutional) context-dependence of rationality.

Vivien Schmidt (2006) suggests that Peter Katzenstein has moved his thinking in a constructivist direction. She categorises him as being in the historical institutionalist tradition when he wrote his book on small open economies in 1985 but by 1996 she considered him to be in the sociological institutionalist camp. This trajectory is associated with the accommodation of ideas. She regards him as one of those scholars, 'who see ideas more as static ideational structures, as norms and identities constituted by culture and thus remain largely sociological institutionalists....' (ibid: 112). Similarly Peter Hall, whose original work was within historical institutionalism, moved over time to combine a historical institutionalist approach to the structures of capitalism with a rational choice institutionalist focus on strategic firm coordination (2001), and in between focussed on the role of economic ideas to explain change. Schmidt's (ibid) opinion is that, whereas in his first ideational approach on the adoption of Keynesian ideas he remained largely historical institutionalist because historical structures come prior to ideas, influencing their adoptability, the second work on the introduction of monetarist ideas to Britain crossed into discursive institutionalism because ideas are central to change and constitutive of new institutions.

Discursive institutionalism came along somewhat later than the other three institutionalisms and arose from a concern that none of them were seemingly able to explain change, such as the collapse of the Berlin Wall, given their often static view of institutions. The use of ideas and discourse to explain change was a natural step in these circumstances. On the other hand ideas had formerly already been part of the DNA of sociological institutionalism (ibid). This is a point which has implications for the methodology used in this research which will be revisited in the next chapter (ibid:109).

Hall and Taylor (1996) identify three sub species of institutionalism as manifest in theories of EU integration. The first is rational choice institutionalism which is closely related to liberal intergovernmentalism and rational choice theory. It is based on the idea that human beings are self-seeking and behave rationally and

strategically. This means that institutions do not alter preferences but will have an impact on the ways in which actors pursue those preferences. Consequently, changes in the institutional rules of the game, such as the introduction of the co-decision procedure, will cause actors to recalculate how they will behave in order to realise their preferences. What can be strategically important in this analysis is the agenda setting power of the various institutions. Another important aspect of rational choice institutionalism is the application of the 'Principal – Agent Analysis' to EU politics. Here self-regarding actors (Principals) find that their preferences are best served by the delegation of certain authoritative tasks to common institutions (Agents). In an EU context this might be the Commission or the European Court of Justice (ECJ) (ibid).

If institutions engage with one another in a decision making process, then patterns that evolve over the early years of that institution may 'lock in' and become a permanent template for decision making. This is the basis of path dependency in which it is very difficult for the institution concerned to break out from established patterns of decision making. Policy entrepreneurs may attempt to redesign institutions to meet current needs, but they do so in the face of institutional agendas that are locked in and which are, in consequence, difficult to reform. This is the essence of historical institutionalism (ibid).

Sociological institutionalism is somewhat aligned to the constructivist school in international relations. The literature tends to reject the other institutionalisms because of their inherent rationalism. Sociological institutionalism/constructivism operates with a distinct ontology by which actors' interests are not seen as pre-set but as being the product of interaction between actors. As Hall and Taylor (1996) explain it, 'Institutions do not simply affect the calculations of individuals, as rational choice institutionalists contend, but also their most basic preferences and very identity' (Hall and Taylor, 1996:948). In this context sociological institutionalists tend to watch for patterns of institutional behaviour, for example, the way in which different Directorates General of the European Commission function in quiet distinct ways. A refinement of this is the quest to establish whether individuals in positions of influence manage to turn their own beliefs into wider shared understandings or values. According to Rosamond (2010) a lot of work is

being done on the interaction of national and European – level norms and in particular the ways in which ‘European’ norms filter into the existing political cultures of member states.

According to Marsh et al (2006:176) authors such as Hall and Soskice (2001) aim to ‘bring institutions back in’ to the study of capitalism. They argue that, while nations may experience common pressures, the existence of different institutional and cultural environments means that they may respond in a variety of different ways and achieve different outcomes. The institutionists believe that there is considerable scope for government intervention in economic and social affairs.

Thus The Varieties of Capitalism School divides economies, both large and small, into coordinated market economies and liberal market economies. As the name suggests, the former seeks competitive advantage through cooperation and through the efficacy of labour market and other institutions. The latter relies on the free play of market forces and minimal regulation.

The development of these ideas was partially at least also a response to the hyper-globalisation thesis which suggested that corporatist policies could not survive the diminution in the power of the state that would necessarily be a feature of globalisation. This suggested that the power of transnational corporations would force countries to accommodate to demands for low corporate taxes, favourable regulatory regimes and business friendly labour market conditions. On the contrary, however, Hall and Soskice (2001) argue that it was precisely the competitive institutional advantage and the dynamic approach to globalisation it entails, that explains why wholesale neo-liberalism did not take control in small States as predicted by the globalisation thesis. In other words they dispute the view that long term trends such as globalisation and the decline of manufacturing will drive a convergence on a single best or most efficient model of capitalism.

There are, of course, other perspectives on this. Wolfgang Streeck’s (2009) study of Germany is sceptical of the endurance of the coordinated market economy model. He sees some evidence of convergence with the features of the Anglo Saxon liberal market economy model. In a nutshell his view seems to be that capitalism is

capitalism, red in tooth and claw, and it will not accommodate itself to the desires of society any more than it has to. In later work (Streeck 2014:31), he advances the opinion that, whereas Polanyi had seen a human need for stable social relations as ‘The Archimedean Point’ for a fight back against the liberal project, the cultural tolerance of market uncertainty grew against all expectations in the last two decades of the twentieth century. Kathleen Thelen (forthcoming) makes the point that what Streeck has to say about Germany is not true of the Nordic countries that have retained their status as successful models of social solidarity and economic efficiency. She suggests that the role of institutions may be less important than the political coalitions on which they stand.

Fred Block (2007) finds Hall and Soskice’s (2001) categorisation of the United States as a ‘Liberal Market Economy’ in contrast to European ‘Coordinated Market Economy’ to be problematical. He asserts that the US model of capitalism is built around a core of highly protected and State-dependent industries especially relating to defence, agribusiness, energy, pharmaceutical, telecommunications and financial services. This suggests a degree of coordination which would imply that the US is not an ideal type liberal market economy.

Monica Prasad (2006) is slightly sceptical of the “Varieties of Capitalism” thesis. She defines it as an argument that high taxation, high welfare state spending, and an interventionist industrial policy can add up to an equally efficient and equally stable alternative form of capitalism. She notes that the Varieties of Capitalism literature sees firms as the central actors in generating persistent differences across countries; the argument is that firms in countries specialising in high-tech, high-quality, high-cost products that require highly skilled labour need, above all, a predictable political-economic environment. Firms in such countries will agree to the welfare projections and labour regulations necessary to convince labour to invest in the years of training necessary for such production. She says:

‘The Varieties of Capitalism thesis is a powerful and provocative synthesis of institutional and political economy approaches; however, at least for the countries and the time period examined here, the empirical evidence for this thesis based on the behaviour of employers is not strong.’

Erik Jones (2008) is another critic. His argument is that consensual adjustment strategies are self-destructive even where they succeed in fostering economic adjustment. The causal mechanism he relies on runs from consensual adjustment to political instability. Small States, he observes, react to international vulnerability by forging consensus. But over time he reckons that citizens begin to chaff under the discipline such consensual politics implies. Once they throw off the discipline of consensus at home, their vulnerability to world markets reveals itself in force. Then politicians used to promoting adjustment with broad based popular support are unable to act effectively without it. Moreover, economic and political actors are not alone in this exposure. Welfare state institutions are affected as well. An institution that plays an important redistributive function in one context may emerge as a powerful constraint on competitiveness in another. Thus, he argues, welfare-state institutions become focal points for political conflict. The problem with this analysis is that it is based on the emergence of the right wing List Pim Fortuyn Party in the Netherlands.<sup>10</sup> Moreover, the discipline he refers to has been a feature of the Dutch polity since the currency was pegged to the Deutschmark in the 1970s and is clearly deeply embedded.

While Colin Crouch (2011) is rather fatalistic about society's lack of power to rein in the oligopolistic MNCs, Otmar Issing, a former member of the European Central Bank's Executive Board has a different perspective. Writing in the context of a series of articles on the future of capitalism in *The Financial Times* in early 2012 he saw it as the responsibility of governments to prevent the financial industry from pursuing activities which are detrimental to society. This, he wrote, required governments to create a convincing system of regulation and supervision. Specifically, he emphasised that this was in the control of society rejecting Francis Fukuyama's (1992) determinist view of the inevitability of just one variety of liberal capitalism. (Issing, 2012:13)

The seminal work on welfare systems and labour markets is that of Gösta Esping-Andersen (1990). A good deal of his analysis is based on Karl Polanyi's (1944)

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<sup>10</sup> This party is today the Party for Freedom PVV led by Geert Wilders. Pim Fortuyn, the first leader, was assassinated.

original work on transformation and commodification of labour. In relation to the institutional problems of full employment he observes that pre-war reformists foresaw that full employment with welfare policies could establish a capitalism that was both more humane and more productive. Liberals, such as Beveridge, and Social Democrats such as Wigforss and Myrdal, were in agreement and placed their faith in the promotion of Keynesian welfare-state policies.

The pursuit of social justice and full employment and the issue of institutional accommodation condense into the problem of how labour's redistributive power will not jeopardise the need for balanced economic growth. The central question becomes how to turn potential zero-sum conflicts into positive-sum trade-offs that is consistent with both sustained price stability and full employment. In essence a question of the type of institutional framework that would allow private enterprise and a powerful working class to co-exist.

This dilemma has not been resolved conclusively.<sup>11</sup> But labour markets and welfare systems are related and Esping-Andersen (ibid) distinguishes their working into three groups or clusters. The Nordic group of countries broadly have a Universalist welfare state based on high levels of labour force participation and high taxes. The Continental European countries, epitomised by Germany, have systems with their origins in the Christian democratic tradition where welfare entitlement is based on work related social insurance contributions and where full employment is sometimes pursued at the expense of labour force participation (for example early retirement is often used to maximise sustainable employment). This is described as a Corporatist Regime, shaped by the Church, and hence strongly committed to the preservation of traditional family-hood. Unlike the Nordic cluster, day-care and similar family services are underdeveloped.

The third cluster contains the Liberal Welfare State, in which means tested assistance, modest universal transfers, or modest social insurance plans predominate. Benefits cater mainly to a clientele of low income, usually working class state

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<sup>11</sup> Paul Mason (2009) opines that there is an enduring aspect to the conflict between capital and labour which has become more acute with the addition of 1.5 billion new workers since the collapse of the Soviet Union and the decision of China to go capitalist. The change in the balance of power may take 30 years to work out.

dependents. The archetypical examples of this model are the US, Canada and Australia.

Esping-Andersen deals extensively with the potential of welfare regimes to achieve a decommodification of labour in line with Polanyi's (1944) precepts. He remarks that:

“When workers are completely market-dependent, they are difficult to mobilise for solidaristic action. Since their resources mirror market inequalities, divisions emerge between the ‘ins’ and the ‘outs’, making labour-movement formation difficult. Decommodification strengthens the worker and weakens the absolute authority of the employer. It is for this reason that employers have always opposed decommodification.”

(ibid: 22)

In summary, Esping-Andersen explores how contemporary welfare states cluster into three distinct regime types and asserts that different country's labour markets derive much of their logic from how they are embedded in the institutional framework of social policy.

Huber and Stephens (2001) modify Esping-Andersen's (1990) typology by adding the category of wage earner welfare states (Australia, New Zealand) and by taking a different perspective on his conservative-corporatist typology. In their view it is more appropriate to categorise this cluster as a Christian democratic type based on its political foundations, to fit in with the typology of the other clusters as Social Democratic and liberal types. In particular they emphasise the significance of the public provision of welfare services and gender-egalitarian policies as distinctive qualities of the Social Democratic welfare state.

The theme of equality under different regime types is also explored by Jonas Pontusson (2005). Whereas the ‘Varieties of Capitalism’ school of comparative political economy emphasises the capacity to coordinate the economy and generally divides the OECD countries into coordinated market economies (CMEs) and liberal



market economies (LMEs), Pontusson insists on the term social market economy (SME) in place of the former. His argument is against including Japan as exemplifying the same Variety of Capitalism as Germany and Sweden because the role of trade unions is much less influential in Japan and is institutionally different. Moreover, he explains that, taking Sweden as the epitome of the social market economy, it involves a very distinct strategic vision based on the idea that low wages represent a subsidy to inefficient capital. This is known as the Rehn-Meidner system. It recognises that wage differentials are necessary as an incentive for workers to acquire skills and to take on more responsibility in the production process. The goal of union wage policy should be to eliminate differentials based on corporate profitability while maintaining differentials based on skill and performance.

Lennart Erixon (2008) has written an extensive account of how the Rehn-Meidner model was implemented in practice. The essence of the model involves the use of selective employment policy measures, a tight macroeconomic policy and a wage policy of solidarity to combine full employment and equity with price stability and economic growth. Although never consistently applied in Sweden, it is possible to distinguish a period between the 1950s and 1970s when it was most effective. This was the period when active labour market policy came to the fore. The use of selective employment policy was a departure from Keynesian demand management approaches. Rehn in particular believed in mobility enhancing employability as giving individuals more power over corporations than laws to protect job security. In many respects it is the opposite of Esping-Andersen's (1990) approach to de-commodification of labour markets. Rehn and Meidner thought that their approach to restraining aggregate demand, intensifying price competition, squeezing profit margins and making labour markets more effective was superior to a Keynesian strategy for fighting inflation in an economy approaching full employment. The R-M model was basically formulated for an overheated economy and the medium term. According to Erixon (ibid:28), in the period 1985-2005, supply and matching (training) orientated measures were the most important components of Swedish labour market policy. Globalisation of financial markets and the risks of capital flight have imposed limitations on the operation of the R-M model as originally conceived as a national policy, especially in relation to profit squeezing.

Pontusson assembles an enormous amount of data on social and economic indicators by which he categorises OECD countries into clusters somewhat on the same lines as Gösta Esping-Andersen (1990). Denmark, Finland, Norway and Sweden are designated as Nordic SMEs. Austria, Belgium, Germany, Netherlands and Switzerland are clustered together as continental SMEs. The Anglophone countries – Australia, Canada, Ireland, New Zealand, Britain and the United States - are regarded as LMEs and France, Italy and Japan are considered to be outside the framework entirely.

It is striking that the comparative analysis based on a very extensive range of indicators and data places Ireland consistently in the Liberal Market Economy cluster.

However, using a statistical cluster analysis approach embracing four dimensions, family, market vs. state, religion and clientelism, a new paper (Minas et al, forthcoming) refines Esping-Andersen's findings to include southern European/Mediterranean (SE/M) or peripheral countries as a separate welfare cluster. Interestingly Ireland is included in this cluster. The authors cite Ferragina and Seeleib-Kaiser (2011) to say that of 19 other studies reviewed only one clusters Ireland with the SE/M group of countries and in this one study, Obinger and Wagschal (2001), the findings are ambiguous in respect of Ireland.

The seminal work of comparative political economy from a European social democratic perspective is that of Fritz Scharpf (1991). Its focus is the efforts made by social democratic governments in Germany, Austria, Sweden and Great Britain to achieve full employment in the 1970s. It exposes the constraints faced by Social Democrats trying to utilise Keynesian economic strategies, especially in the context of financialisation and capital liberalisation, in an increasingly globalised world. His later book (1999) explores the hypothesis that the weakening of political legitimacy in Western Europe is a consequence of the loss of problem solving capacities of political systems which have been brought about by the interrelated processes of economic globalisation and European integration. Colin Hay (2004) has also written

about the challenges faced by Social Democrats under conditions of complex economic interdependence in Europe. In more recent times a number of scholars have been grappling with a puzzle thrown up by the 2008 crisis i.e., why social democracy has so far failed to benefit from the failure of neo-liberalism. Specifically, the exploration of ‘The Third Way’ during the 1990s is seen as not having offered a credible alternative explanation and so people did not really trust social democracy enough to embrace it after 2008 (Cramme and Diamond, 2012; Cramme, 2013; Meyer and Hinchman, 2007; Painter, 2013). Crouch (2011) defines social democracy as covering all strategies for combining government power with the market to try to produce an economy that maximises efficiency in a manner designed to minimise the impact of man-made shocks, and which allows for the achievement of social goals and limitations of inequality that market processes produce. He cites the 1959 declaration of the German Social Democrats, “as much market as possible; as much State as necessary” (ibid:9). However, Crouch (ibid:12) also notes the fundamental importance of neo-corporatist industrial relations to the Nordic, Dutch and Austrian cases and points out that neo-liberals are unequivocally hostile to trade unions, which interfere with the smooth operation of the labour market” (ibid:18).

A comparative study of modern democracies and their political institutions drawn upon for this research is that of Arend Lijphart (1999), specifically in his categorisation of countries as majoritarian or consensus democracies in the context of exploring how the four countries converge and diverge. This is developed further in Chapter 3.

## **Structure of Thesis**

The remaining chapters are structured along the following lines: Chapter 2 explains the research methodology used and the precautions taken to prevent bias. It outlines the periodisation used beginning where Peter Katzenstein left off in 1985 and continuing through four periods of ever deepening European integration to a culmination coinciding with the fifth anniversary of Lehman Bros. bank collapse in September 2013. This is a point at which the EU may be on the cusp of the most ambitious phase of integration to date, paradoxically at a time when European

citizens have never been more hostile to the idea. Chapter 2 also shows how a model is constructed, drawing on the disciplines of political science and international relations, to remove the cover from the black box which is the Irish polity and to understand how its gears and levers operate. The model is effectively a tool kit to juxtapose the four new institutionalisms to the policy making system in Ireland, to expose any countertendencies which differentiate it from the ideal type of liberal market economy and to derive explanations therefrom as to why Ireland performed so well as an economy for so long, by reference to the comparator countries of Finland, Denmark and Netherlands, yet collapsed catastrophically when the 2008 financial crisis hit. The research methodology uses the lens of European integration because it is the common exogenous influence on each country.

Chapter 3 deals with the history of each country and the evolution of its political economy from 1987 to 1994. This periodisation is used as a benchmark to compare the different political economies of each country. It can be seen that, while there are obvious similarities in size and in terms of living in the shadow of a large neighbour, there are also quite significant differences. Denmark and the Netherlands have been closely aligned with the German economy since the 1980s and 1970s respectively. Finland's economy and geo-politics was closely associated with Sweden and Russia but it is now at the heart of Europe. Ireland is Britain's sixth largest trading partner and has a unique relationship with that country and the United States which is quite different to the others. Moreover, Finland, Denmark and the Netherlands would each fit Arend Lijphart's (1999) typology of consensus democracies while Ireland straddles a line between consensus and majoritarian models. Similarly Ireland is regarded in the Varieties of Capitalism literature as a liberal market economy (with countertendencies) while the others are social market economies.

The so called age of 'employment miracles' when Denmark, Netherlands and Ireland created large numbers of jobs and achieved virtual full employment is covered in Chapter 4. It relates to the periodisation 1994 to 2001, which in Ireland's case saw the emergence of the Celtic Tiger. Finland was the outlier at this time because it was hit by an endogenous and exogenous shock at the same time. Its banking system went into crisis and the Soviet Union fell apart bringing down approximately 20 per cent of Finland's exports. The country had to re-orientate its

economy towards the west which it did very effectively by creating an ICT industry based on Nokia, a former general purposes conglomerate. Finland recovered quickly from the crisis and the speed of this recovery, particularly in domestic demand, has been contrasted favourably with Ireland's difficulty in recovering from the 2008 crisis by NESC (2013). This era of 'employment miracles' coincided with social democratic government in the three comparator countries and with Labour being the junior partners in coalition in Ireland for part of the time (1994-1997). Another finding of interest for this periodisation is that the approaches to job creation were all different; increased female participation via part-time jobs in the Netherlands, active labour market policies and public investment via 'flexicurity' in Denmark; the use of science and technology councils to drive a national system of innovation in Finland (aided by a 30 per cent currency devaluation) and a combination of robust FDI (consequent upon the Single Market Act), devaluation in 1993 and genuine developmentalism boosting indigenous industry and public sector employment in Ireland. In comparative terms it can be observed that Denmark and the Netherlands had a human capital focus, the former developing a 'flexicurity' model to maximise labour force participation. The latter increased female participation through its 'one and a half jobs per family' approach to part-time work. Ireland and the Netherlands relied heavily on social pacts to kick start employment recovery as with the 'Wassenaar Accord' in the Netherlands and the 'Programme for National Recovery' in Ireland. Stabilisation agreements with the trade unions were important too in Finland when recovery came in the mid to late 1990s.

Chapter 5 deals with the periodisation bookended by bursting of the dot-com bubble of 2001 and the onset of the European banking crisis following the demise of the American Lehman Bros bank in Mid-September, 2008. Politics in all four countries moved to the centre-right during this period with some unravelling of social bargains struck in the 1990s. In Ireland's case it will be seen that the change from developmentalism to speculation (in circumstances of increasing financialisation of the global economy, including Europe) sowed the seeds for the fall of the Celtic Tiger economy. The effects of this change in political governance on welfare reform and neo-corporatism are explored as is the working out of EMU in its first years.

Chapter 6 looks at how each country coped with the onset of the 2008 financial crisis. What this reveals is that, while all small open economies were hit hard, none of the comparator countries was as exposed as Ireland. Their banking and regulatory systems were more robust and, although any one of them could have availed of the cheap interbank credit available in Europe consequent upon deregulation of capital markets, none did to the extent that Ireland did (Netherlands was closest). Moreover, their fiscal policy was more prudent. It did not allow bubbles to inflate, at least not to the same extent, and the tax base of each country was more sustainable not being based on property transactions taxes. When the crisis hit fiscal policy in Ireland had little scope for accommodative or expansionary initiatives to alleviate the consequences. In short, as stated by Glyfason et al (2010:16), the global crisis emanated from the conjunction of widespread financial fragility and a lopsided globalisation process proceeding rapidly amongst large financial imbalances and exacerbated in Ireland's case by domestic policy failures.

Chapter 7 addresses Ireland specifically, taking account of the relevance of countertendencies and undertakes the task of unpacking its polity in a forensic way from a new institutionalist perspective using the model described in Chapter 2. This study in comparative political economy uses the lens of European integration and Chapter 7 focuses in on three aspects of this process viz; the general policy of successive Irish governments towards integration, economic and monetary union, and social policy as mediated through social pacts. One striking aspect of this inquiry is what former Taoiseach, John Bruton, describes as 'a lack of philosophical enquiry' or 'intellectual failure' permeating many layers of the decision making apparatus of the State and of the larger society. This is particularly interesting from the standpoint of ideational or discursive institutionalism which is built into the research model as an overarching feature.

Chapter 8 compares the Varieties of Capitalism in the context of European integration as it impacted on individual countries over the entire periodisation. All of the countries looked at in this research are small open economies and thus, by their nature, very exposed to turbulence in the international environment. What Katzenstein's (1985) study showed is that they have, since the 1930s, developed political and societal coping strategies to deal with this exposure and these are well

embedded and have survived in a world more integrated than Katzenstein could have imagined. Denmark, Finland, and the Netherlands have, over the periodisation used, overcome serious challenges to their economies and welfare models. They have reformed both to accommodate the demands of European integration. This change has been effected without changing their values or intellectually embracing neo-liberalism. They managed to introduce flexibility to labour markets without jeopardising security and welfare reform has been accomplished without compromising the values of equality, universality or solidarity. Corporatist institutions in Finland, Denmark and the Netherlands proved more enduring than in Ireland indicating that Katzenstein's (1985) 'Ideology of Social Partnership' is more deeply rooted in them. . Where they have been less successful is in maintaining broad public support for European integration. Overtly anti-immigration and anti-EU political parties - The True Finns, the Danish Peoples Party and the Party for Freedom in the Netherlands – have gained substantial political support with the effect of pushing mainstream parties into a more conservative posture on immigration. There is some evidence of a Polyanian 'Double Movement' born of disenchantment and disillusionment with globalisation and Europeanisation amongst the lower middle class socio-economic cohorts of the population in particular. Ireland by contrast is not in a good space. For a period during the 1990s convergence with the other comparator countries – in a material sense if not in respect of capabilities – was achieved. Unfortunately, developmentalism was trumped by speculative policies in the 2000s leading to divergence again. As regards welfare effort Ireland spends considerably less than most of the comparator countries under most headings (Hemerijck, 2013). Its public sector is smaller and tax levels and public spending generally are more in line with the liberal market economies. The depth and severity of the economic crash it suffered after 2008 was one of the worst. For three years since 2010 it has been a ward of court of the EU/ECB/IMF Troika. Poised to exit the bailout programme by mid-December 2013, and with bond yields trading below 4 per cent at the end of September 2013, it can claim to have put clear blue water between itself and the other peripheral countries in bailout programmes. Still it lacks the escape velocity to make a full and sustained recovery, mainly due to a relentless decline in domestic demand and an enormous burden of public and private debt. The chapter also identifies some dilemmas that arise about the country's relationships with Britain and Europe and

points to repertoires of action that could recapture the developmentalism of the 1990s and put the country on a trajectory of convergence with its northern European peer group again. Noting that this is the third time since independence that Ireland has looked into the abyss of economic desolation the chapter ends with a call for the construction of a Social Democratic narrative, similar in objective if not in content, to the Rehn-Meidner plan which framed the Nordic model in the 1950s. In this way it may be again possible for Irish citizens to start imagining the future in its more promising terms.



## **CHAPTER 2: Research Methodology**

### **Introduction**

This study begins where Katzenstein left off in 1985. The global context has changed significantly since as indeed the literature on comparative political economy has evolved as described in Chapter 1. It ends with the fifth anniversary of the Lehman Bros Bank collapse i.e. mid-September 2013.

The world Katzenstein analysed was increasingly concerned with the openness of trade and the vulnerabilities associated with it. His American audience was obsessed with the rise of Japan as an economic power in competition with the United States. His purpose in writing the book was largely to point out to that audience that small European states, lacking the economic clout of big countries, could yet harness strength from weakness by choosing economic and social policies which accepted the change brought by more open international markets while compensating for it socially. He argued, in other words, that in the case of small European states, economic flexibility and political stability are mutually contingent. He described this approach as ‘democratic corporatism’.

Deep economic integration in Europe was close but still in the future. The passage of the Single European Act in 1986 brought with it a dynamic for negative integration and an increasing influence for competition law and an activist European Court of Justice. Financial markets were to be fully deregulated and indeed financialisation of the global economy was facilitated by the demise of the Soviet Union and the embrace of capitalism by India and China to a degree not possible to envisage when Katzenstein was writing in 1985. By 1992 Francis Fukuyama was writing about ‘The End of History’ meaning the ultimate ideological victory of liberal capitalism. It didn’t turn out like this of course but global economic integration – and especially European Union enlargement and integration through EMU – made for a different world than Katzenstein pondered.

The biggest challenge of all for the system of democratic corporatism described by Katzenstein came with the 2008 financial crises. Nevertheless it is proposed to

study how the comparator countries stood with reference to it at different stages over the quarter of a century since the book was written. This chapter is about two things; the collection of data and an approach to comparative analysis. The latter comprehends first of all the periodisation for the study and the basis for it. Secondly, it outlines a conceptual framework for a detailed case study of Ireland.

## **Periodisation**

Colin Hay (2004:255) contends that it is within the interaction of the processes and in the mobilisation of counter-tendencies to the tendencies they otherwise impose, that political opportunities can be shaped. He cites European integration as a key contemporary challenge and the institutional architecture of economic and monetary union and the processes associated with it as a case in point. But he is adamant too that of all the existing perspectives within comparative political economy, it is the institutionalism of the 'Varieties of Capitalism' approach that offers the best analytical purchase on such questions.

**In light of the foregoing it is considered that the best explanatory outcome can be achieved by adopting a periodisation which takes as its context the differing stages of EU integration linked to periods of development affecting the comparator countries.**

In Ireland's case the decision to join the European Monetary System (EMS) in December 1978 led to the breaking of the one to one parity between Sterling and the Irish Pound in 1979. From then onwards, the Irish Pound, newly linked to the currencies of the ERM, floated against Sterling as the European currencies themselves floated against Sterling.

Following the Plaza Accord of 1985 European countries had to deal with the competitive pressures of a weaker Dollar. They also had to grapple with the need to achieve a minimal stability in their currencies in order to mitigate large and frequently unexpected variations of exchange rates between their currencies and the Dollar, Yen and other currencies which the EMS had not totally managed to achieve. There were, in fact, severe crises within the EMS in 1992 and 1993 involving, inter

alia, the departure of Sterling and a 10 per cent devaluation of the Irish Punt on 31 January, 1993.

A combination of global buoyancy and the difficulties just described created a certain willingness to accept a liberalising programme of measures towards European integration. In fact the period between 1990 and 1997, following the fall of the Berlin Wall, was probably the heyday of neo-liberal doctrine. The Single European Act (1987) initiated a new era in European co-operation which led to an explosion of laws. It was followed by the Treaty of the European Union (1992) (the Maastricht Treaty), of Nice (2001) and the Lisbon Treaty (2009). The Single European Act gave a decisive impulse for completion of the internal market and the treaty on the European Union (The Maastricht Treaty) cleared the way for the creation of EMU. The other treaties were mainly concerned with power distribution between EU institutions and facilitating enlargement.

**Table 1: Establishment and Expansion of Treaty-based policy domains/analytic categories, 1957-1999**

<b>Treaty of Rome</b>	<b>Single European Act (1987)</b>
<b>General, financial, and institutional matters</b>	Law relating to undertakings
<b>Customs union &amp; free movement of goods</b>	Common, foreign, and security policy
<b>Agriculture</b>	Environment, consumers, and health protection
<b>Fisheries</b>	(Expanded) Economic and monetary policy and free movement of capital
<b>Freedom of movement of workers and social policy</b>	(Expanded) Science, information, education, and culture
<b>Right of establishment and freedom to provide services</b>	(Expanded) Industrial policy and internal market
<b>Transport policy</b>	(Expanded) Taxation
<b>Competition policy</b>	(Expanded) Energy
<b>External relations</b>	(Expanded) Right of establishment and freedom to provided services
<b>Industrial policy and internal market</b>	(Expanded) Free movement of goods
<b>Economic and monetary policy and free movement of capital</b>	(Expanded) Free movement of capital
<b>Taxation</b>	(Expanded) Regional policy and coordination of structural instrument
<b>Energy</b>	
<b>Regional policy and coordination of structural instruments</b>	
<b>Science, information, education and culture</b>	
<b>Treaty of European Union (1992)</b>	<b>Amsterdam Treaty (1999)</b>
<b>Cooperation in the fields of justice and home affairs</b>	Enlargement
<b>People's Europe</b>	(Expanded) Justice and home affairs
<b>Monetary union</b>	(Expanded) Common, foreign, and security policy
<b>(Expanded) Freedom of movement of workers and social policy</b>	(Expanded) Education
<b>(Expanded) Transport</b>	(Expanded) Environment
<b>(Expanded) Science, information, education, and culture</b>	
<b>(Expanded) Economic and monetary policy and free movement of capital</b>	(Expanded) Health and consumer protection
<b>(Expanded) Regional policy and coordination of structural instruments</b>	
<b>(Expanded) Energy</b>	
<b>(Expanded) Environment, consumers, and health protection</b>	

Source: Fligstein, Neil, (2008:44)

The increase in the pace of legislative activism after the Single European Act came into force in 1987 precipitated a number of critical junctures on the road to European integration. On 2<sup>nd</sup> June, 1992, Danish voters rejected the Maastricht Treaty in a referendum crystallising the gap in attitudes to European integration between the elite and ordinary citizens. In 1999 those countries participating in EMU locked

their currencies together and this was followed by the introduction of the Euro currency in 2002.

These events happened against the background of a rapid expansion of globalisation from around 1990 which saw hundreds of millions of additional, mainly Asian, workers join the industrial labour market and in so doing altering the power balance between labour and capital in favour of capital. Clearly this alone represented a sea change from the world considered by Katzenstein (1985) for his analysis of small open economies.

The period from 1986 to the coming in to effect of the Maastricht Treaty on 31<sup>st</sup> December 1994 will be used to establish a reference baseline for all four countries in the study.

The Maastricht Treaty was a critical juncture in terms of European integration. (Raunio and Tiilkiainen, 2003; Verdun, 2010). The period from 1992-2002 posed numerous challenges for EMU, most notably over ratification of the Treaty and the criteria for membership of EMU. Prior to its promulgation it could be claimed that member states would not delegate powers to the EU in so called 'high politics' areas but post Maastricht the jurisdiction of the EU extended into an increasing number of policy areas. The EU is responsible, for example, for almost 80 per cent of legislation on the production, distribution, and exchange of goods, services, capital, and labour in the EU countries. It pursues negative integration by deregulating exchange through removing barriers to trade while simultaneously establishing common standards to achieve positive integration. Negative integration is really a process of 'market making' while positive integration, although in some respects and situations market making, is more often 'market correcting'. Herein lies an ideological conflict between neo-liberal and Keynesian (Social Democratic) theorists. The latter consider negative integration problematical unless accompanied by the creation of political capacities for market-correcting positive integration while for the former positive integration is acceptable only insofar as it serves market-making purposes, for example through the adoption of rules for undistorted competition (Scharpf, 1999: Chapter 2). Accordingly, the second period extends

from Maastricht Treaty to the Nice Treaty in 2001 (and the collapse of the hi-tech bubble). This was a time of expansionary growth.

The next period is book ended by the Nice and Lisbon Treaties and the onset of the financial crisis. In 2000-2001 the hi-tech bubble burst causing a pause in global growth and a reduction in interest rates (Eichengreen, 2007; Gylfason et al, 2010; Mason 2009). From 2000 on there was an explosive growth in the volume of structured financial products issued and consequently in the growth of shadow banking which was to have such a malign influence in the evolution of the 2008 financial crisis. The 'Lisbon Agenda' on labour market reform was published in 2000 and Portugal exceeded the parameters of the Stability and Growth Pact (SGP) in 2001 to be followed in 2003 and 2004 by France and Germany. This resulted in a revised SGP in 2005. The EU experienced its biggest ever enlargement when 10 new CEE states joined in 2004. A new constitutional treaty was promulgated following a two year long convention in 2003 and 2004. Its aim was to rebalance the institutional power of the ECB but ironically it was rejected by French and Dutch voters.

To some extent the Lisbon Treaty could be seen as accommodating a political backlash against the more enthusiastic integrationists. They were obliged to accept the disappearance of any word or symbol which aimed at stressing that the union could be compared to an entity having more and more elements in common with a State (Boyer, 2000; Eichengreen, 2007; Fligstein, 2008; Piris, 2010).

**To sum up, the periodisation used is as follows:**

**1986-1994: historical context and evolution of development models from the Single European Act to the coming into effect of the Maastricht Treaty.**

**1994-2001: Preparation for EMU and deepening of European integration post Maastricht until the dot.com bubble collapse.**

**2001-2008: Implementation of the single currency to the onset of the financial crisis.**

**2008-2013: The European crisis.**

The intention is to give a political economy account, in the context of EU integration, of how each country mediated the exogenous pressures arising therefrom, to explore the trade-offs involved for example between economic and social progress, to look at how sustainable their growth models were when the 2008 crisis hit and to evaluate how they stand today. In so doing it should be possible to evaluate the extent to which Katzenstein's (1985) thesis remained valid and, in Ireland's case, why it did not apparently enduringly penetrate the Katzenstein world. This latter enquiry involves a forensic review of policy making using an analytical model which draws on the fields of international relations and new institutionalism.

### **Research Methods – Qualitative Interviews**

Primary research material was collected by means of qualitative interviews with elite actors in each country. These interviews were conducted face to face and involved two field visits each to Denmark, Finland and the Netherlands. Being resident in Ireland it was possible to spread the work in that country over a longer period. The interviews were semi-structured to allow participants to range freely over subjects they were happy to discourse on, and were underpinned by the principle of triangulation (cross checking the accuracy of information with alternative sources as far as possible).

Overall the research was conducted between 2011 and early 2013. The procedure received pre-clearance from the Ethics Committee of the National University of Ireland at Maynooth (NUIM) and followed the guidance provided in Alan Bryman (2008, Chapter 18). A list of those interviewed is included in Appendix 1.

For the purpose of analysing the research material to obtain the most explanatory power from it a dual approach was adopted in the case of Ireland. This involved drawing on both the fields of international relations and of the new institutionalisms in the manner described below. Moreover, Ireland presents a more complex case

because of the existence of countertendencies to an ideal type of liberal market economy. It was decided to use this methodology for Ireland because of the access available to a wide range of actors in politics, public administration, business and trade unions. It was also felt to be the most effective approach to getting explanatory power out of the interplay of institutions, policy and ideas.

In Denmark three of the people interviewed were from the world of politics, one was from a university based sociological institute, one had both business and university connections, and one was from the trade unions. In Finland one interviewee was from politics, two were from public administration, two were from research institutes, one was from a business related university R&D fund, one was from the disability sector, and one was from the trade union centre. Three people interviewed in the Netherlands were politicians, two were trade unionists, one was from business, one was head of the Social & Economic Council with a business background, and one was a university professor. In Ireland five people were from the world of politics, ten were from public administration, eight were from business, one was from academia and politics, two were from trade unionism and politics and two were trade unionists. These people were selected because they were judged to be either key actors or in a position of some influence. Access was a crucial consideration too and this was achieved through networks in academia, business, politics, public administration and trade unions.

Saunders, Lewis and Thornhill (2012:346-347) call attention to the need for reflexivity – considering the possibility of lack of objectivity or bias on the part of the researcher – when conducting research. In that spirit the reader should be aware that this researcher has been a participant either direct or indirect in some of the matters inquired into. Specifically, he is currently General Secretary of the Irish Congress of Trade Unions (ICTU), a member of the Executive Committee of the European Trade Union Confederation (ETUC), and a former Director of the Irish Central Bank. Clearly it is not possible to lay claim to complete detachment and it is perhaps unusual for people who have been active in aspects of public affairs to study same as a social scientist. That said, there are certain advantages in terms of access to key decision makers from being part of a network. Being personally known to people means that interviews can be conducted in a more relaxed and open way.



The mirror image of this is that people might be more guarded in what they choose to reveal. A case in point could be representatives of employers' organisations with whom the researcher has a professionally adversarial (but good personal) relationship. The experience of conducting many quite long interviews is that people were unfailingly courteous, open and discursive. In one case one of the interviewees asked for the recorder to be turned off, having originally assented to its use, but was happy to proceed on the basis of written notes. There is also a possibility that high profile interviewees subjected to public criticism – former Taoiseach Bertie Ahern for example – might indulge in self-justification in the knowledge that their actions might come under further scrutiny. This must be balanced against the acute knowledge of public affairs in the possession of these interviewees. In Bertie Ahern's case he represented Ireland at the European Council for twenty-one years and was one of the longest serving Prime Ministers in Europe. It would be hard to think of anyone with greater practical knowledge of Ireland's experience of European integration. In the case of the present and former governors of the Irish Central Bank it will be seen that triangulation is used to good effect to bring out contrasting perspectives on the 2008 financial crisis and the bank's role in it (see pp. 206-207). Finally, it should be noted that not all those approached agreed to be interviewed. EU Commissioner Ollie Rehn declined for lack of time while former Taoiseach Brian Cowen and former Secretary to the Department of Health, Michael Scanlan simply declined. Former Prime Minister of Finland, Paavo Lipponen, said he longer gave interviews as he was too busy.

Having regard to the foregoing the potential for bias was addressed in two ways. First by ensuring that the people interviewed were disproportionately drawn from the worlds of business, politics and public administration by comparison with the trade unions in Ireland. A second filter against bias was employed through asking two interviewees, one a former secretary general to the government and the other a former Minister and Advisor to the liberal Progressive Democratic Party,<sup>12</sup> to read drafts of chapters at different stages of development and to give feedback. More generally the danger of encountering group think, or 'cognitive lock' as Blyth (2002) describes it, amongst the elite actors interviewed was countered by having a wide

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<sup>12</sup> The Progressive Democratic Party was a small party with a strong liberal platform much like the Free Democrats in Germany. It was formed in 1987 and was a coalition partner in government for most of the period until its demise in 2010. Its outlook was not sympathetic to trade unionism although it supported Social Partnership for pragmatic reasons.

ranging group of interviewees whose interests would sometimes be opposed one to the other, and by asking international interviewees for their impressions of Irish policy at different stages. This risk was also mitigated by an extensive review of literature. In his comparison of four countries Scharpf (1991) followed a similar approach noting that elite interviews were essential to his research project because, ‘one must meet the actors in their milieu before one can interpret “objective” data’ (ibid: xix). Moreover, Katzenstein’s focus is on elites. He observes that while letting international markets force economic adjustments, elites in small open economies choose a variety of economic and social policies that mitigate the costs of change (Katzenstein, 1985: 24).

## **A Conceptual Framework for Analysing Interdependence – Ireland**

Colin Hay (2002:5) has drawn attention to the relationship between political science and international relations in the context of interdependence and international economic integration. He argues for an approach which accepts that the domestic and the international, the political and the economic are interdependent and the world so ordered must be analysed as such. This then entails a political analysis which refuses to accept a resolute internal division of labour between political science and international relations. Likewise it refuses to accept that the analysis of economic conditions can be left solely to economists. With this in mind an analytical model for specific application to the Irish case has been developed as explained hereunder and following from the theoretical discussion in Chapter 1

### **(i) International Relations**

From the field of international relations Allison and Zelikow’s (1999) publication is the second edition of a work first published in 1970 by Allison to explain the Cuban Missile Crisis.

The book is divided into three parts, each containing a conceptual framework or model which consists of a cluster of assumptions and categories that influence what the analyst finds puzzling, how he formulates the question, where he looks for evidence, and what he produces as an answer.

The first part of the conceptual framework is the Rational Actor Model. It is intended as a way of explaining events by recounting the aims and calculations of governments as if they were the product of a single rational unitary actor.

The second conceptual framework is the organisational behaviour paradigm. This can be understood as government decisions being seen less as deliberate choices and more as outputs of large organisations functioning according to standard patterns of behaviour. To perform complex tasks, the efforts of large numbers of people must be coordinated. Coordination, in turn, requires standard operating procedures; rules according to which things are done. Organisations create capabilities for achieving tasks that might otherwise be impossible. But every organisation has its own culture which shapes the behaviour of individuals. The result becomes a distinctive entity with its own identity and momentum. It is also the case that organisations may become so dependent on a particular path towards prosperity that the inertia and transaction costs of change become so high that choices for future development become constrained.

The difference between the first and second paradigm is that the rational actor model involves governments making decisions based on the logic of consequences. Actions are taken based on evaluation of the probable consequences on the preferences of the actor. It involves the evaluation of alternative courses of action.

Organisations, on the other hand, act on the logic of appropriateness. Actions are taken on the basis of matching a recognised situation to a set of pre-ordained rules.

The basic unit of analysis under the organisational behaviour paradigm (Model 2) is that of government action as organisational output. It assumes that governments sit atop a complex organisation structure of departments and agencies and that decisions are essentially decided by the output of this organisational structure. This model's explanatory power is achieved by uncovering the special capacities, repertoires, and organisational routines that comprise the puzzling behaviour under scrutiny.

The third part of the conceptual framework is the government's politics paradigm (Model 3). This posits that the leaders who sit atop the organisations of state are themselves no monolith. Rather, each individual in the group is, in his or her own right, a player in a central competitive game. The name of the game is politics: bargaining between players positioned hierarchically within the government. Outcomes are formed, not as organisational outputs, but as political compromises reflecting competing preferences. In contrast with the rational actor model there is no unitary actor but rather many actors who focus, not on a single strategic issue, but on many, players who act according to various conceptions of national, organisational and personal goals. Other issues adding to the complexity is the matter of who frames the problem and how it reaches the government's agenda. This is discussed in some detail by Allison and Zelikow (1999: 280-287) as is the phenomenon of 'Groupthink' – meaning that the cohesion that develops in small groups produces a psychological drive for consensus, which tends to suppress any dissent and the consideration of alternatives. The importance of framing the question and controlling the agenda for cabinet was confirmed in Ireland's case by the former secretary to the government, Dermot McCarthy. As he puts it, 'what is not put before a cabinet is often as important as what is. In other words; 'whoever controls the input controls the output'.

(Interview, 4<sup>th</sup> February, 2011).

He also makes a point, which reinforces the case for this methodology, that civil servants are good for keeping things running, and for blocking things, but only politicians can effectively take initiatives (ibid).

Overall the government politics paradigm sees action as a political resultant. Government decisions are made, and government actions are taken, neither as the simple choice of a unified group, nor a formal summary of leaders' preferences. Rather the context of shared power but separate judgements about important choices means that politics is the mechanism of choice. Each player pulls and hauls with the power at his/her discretion for outcomes that will advance his/her conception of national, organisational, group and personal interests. (Allison and Zelikow, 1999:302). This is likely to be particularly the case with coalition government.

In summary the three models or paradigms developed by Allison and Zelikow (ibid) can be represented schematically as in the conceptual framework included as Appendix 2. They can be described in this way. Each is complementary to the other. Model 1 fixes the broader context, the larger national patterns, and the shared images. Within this context, Model 2 illuminates the organisational routines that produce the information, options and actions. Model 3 focuses in greater detail on the individuals who constitute a government and the politics and procedures by which their competing perceptions and preferences are combined. Each, in effect, serves as a search engine in the larger effort to identify all the significant causal factors that determine an outcome.

Allison and Zelikow (1999) make the claim for their framework that it can be used by analysts to weave strands from each of the three conceptual models into their explanations and that by integrating factors identified under each lens, explanations can be significantly strengthened. Vivien Schmidt (2006), in the context of the new institutionalisms, observes similarly that the more problem-orientated scholars mix approaches all the time, pursuing whichever approach seems the most appropriate to explaining their object of study. In particular she notes that in regard to the new institutionalisms scholars have been exploring how to use insights from all four approaches in their empirical work.

The first edition of *Essence of Decision*, as the book was titled, was criticised, inter alia, by Miriam Steiner (1977) on the grounds that it was plagued by inconsistencies and contradictions. In the second edition with Zelikow twenty-five years on many of the criticisms are accepted. The authors acknowledge that new evidence showed a number of explanations in the original edition to have been incorrect, and others insufficient. Accordingly, the theoretical models were materially revised in the second edition to reflect advances in the disciplines of political science, economics, sociology, social psychology, organisation theory and decision analysis. The authors note that, while most of the text of the second edition was new, the basic structure of the book remained unchanged. It is cited as a seminal work of case study design in Yin (2009:7) and Bryman (2008:53).

## (ii) Political Science – New Institutionalism

The task at hand, therefore, is to build a research model which, using the Allison-Zelikow approach just described as a toolbox, can apply new institutionalist insights to explain why Ireland made such extraordinary economic progress for a long time, and in many respects appeared to be converging with the comparator countries, but ultimately could not sustain a Katzenstein (1985) like polity when the 2008 financial crisis hit.

**Table 2: Key Features of New Institutionalism**

<b>Aim/Contribution</b>	<ul style="list-style-type: none"><li>• To restore the link between theoretical assumptions and the reality they represent.</li><li>• To acknowledge the crucial mediating role of institutions in shaping political conduct and translating political inputs into political outcomes.</li><li>• To acknowledge the complexity and contingency of political systems.</li></ul>
<b>Key Assumptions</b>	<ul style="list-style-type: none"><li>• ‘Institutions Matter’ – political conduct is shaped profoundly by the institutional context in which it occurs and acquires significance.</li><li>• ‘History Matters’ – the legacy the past bequeaths to the present is considerable.</li><li>• Political systems are complex and unpredictable.</li><li>• Actors do not always behave to secure their material self-interest.</li></ul>

*Source: Derived from Table 1.3 of Hay (2004:14)*

The refined analytical model depicted in Table 3 is designed to incorporate both international relations and political science approaches to obtain maximum explanatory potential. By combining the techniques of Allison and Zelikow (1999) to apply new institutionalist insights to selected aspects of European integration decision making we can gain a deeper understanding of policy making in Ireland by looking at it through a number of different lenses. In effect the model aligns Allison and Zelikow’s rational actor model with rational choice institutionalism in a way that allows actions in a given institutional setting to be evaluated. The capabilities of the state model are aligned with historical institutionalism to explore the manner and degree to which organisations influence policy and the extent to which path dependence conditions their response to any situation. This comprehends employer and union organisations as well as state agencies. Finally the politics paradigm is considered to be a proxy for sociological institutionalism as it captures the

motivations of individuals and the norms and cognitive frames that guide their actions. The influence of ideas (ideational/discursive institutionalism) is built in to the model in an overarching way and issues pertaining to this innovation are discussed further below.

**Table 3: Refined Research Model**

PARADIGM/NEW/INSTITUTIONALISM	OBSERVABLE CHARACTERISTICS	The Influence of Ideas
<b>National Government Rational Actor Model/Rational Choice Institutionalism.</b> <div style="border: 1px solid black; padding: 2px; display: inline-block; margin-top: 5px;">Black Box Labelled</div>	(a) How can the Irish State be categorised? (b) What objectives are being pursued in economic, social and foreign policy? (c) What are the best choices available?	
<b>Capabilities and Practices of Institutions/Historical Institutionalism</b>	(a) What are the key State institutions? (b) What are their capabilities? (c) How well did they perform? (d) How are they influenced by culture and identity? (e) What tensions exist between them? (f) How well did the non-government institutions perform (e.g. Social Partnership)?	
<b>The Politics Paradigm (Role of the Elites)/Sociological Institutionalism.</b>	a) What constitutes the elite in Ireland? b) How did interchange ('Pulling & Hauling') between them affect outcomes?	
<b>Analytical Model derived from combining Allison and Zelikow approach and new institutionalism</b>		

**(iii) Issues which Arise with a Unified Analytical Model**

Some issues are thrown up by combining the Allison and Zelikow (1999) framework with the four new institutionalisms approach. In the first instance this brings the difficulty of rational choice to the fore. The main points of criticism of Hay (2002) have already been referred to. The difference between rational choice theory and rational choice institutionalism is that, whereas the former sees individuals as utility maximisers acting without regard for the collective interests, rational choice institutionalism is described by Schmidt (2006) as working best when explaining the interests and motivations behind rational actors' behaviour **within given**

**institutional settings** (emphasis added). The deductive nature of its approach to explanation means that it is good for capturing the range of reasons actors would normally have for any action **within a given institutional incentive structure** (emphasis added).

In his study of the efficacy of Social Democratic politics in Austria, Britain, Sweden and the then Federal Republic of Germany Fritz Scharpf (1991) also raises the difficulty of relying on a rational choice frame of reference. As he puts it:

‘The analysis I offer is formulated within the rational choice frame of reference that also underlines the economic theory of politics. But I have found myself unable to pursue this approach in a particularly rigorous fashion, since my study also demonstrates how “rationality” of action is defined by historically contingent, institutionally shaped identities, goals and perceptions of a situation that resists reduction to the universal assumptions used in economic analysis.’

(ibid: xix)

Two points arise from this; in the first case the methodology proposed here does not rely solely on the rational choice component of Allison and Zelikow’s framework. It is one part of a three part framework in respect of which the advantages of weaving a number of explanatory sources have already been cited. Moreover, the whole intention of the authors is to show that rational choice on its own does not provide a reliable explanation. That is the reason for adding two complementary models to the framework. More importantly, however, the roles of the actors which are to be considered are discharged within a rigid European institutional framework which has existed from the beginning of the periodisation of this study. Scharpf’s (ibid) analysis points to the restraints on social democratic governments trying to manage policy within the confines of inflexible European institutions. It follows that using the Allison and Zelikow rational actor model, where the actors are operating within the same institutional constraints, is in effect to adopt a rational choice institutionalist approach.



The second problematical consideration arising with the model relates to how to deal with the influence of ideas. Discursive institutionalism, the fourth and newest of the ‘new institutionalisms’, is sometimes referred to as ideational institutionalism. It is concerned with explaining changes within the state and to the state. But Allison & Zelikow’s framework does not, on the face of it, accommodate this fourth institutionalism. Schmidt (2006:112) argues that the sociological institutionalist tradition has always had ideas at its core as norms, cognitive frames and meaning systems. While rational choice institutionalism has always eschewed ideas, in the case of historical, sociological, and discursive institutionalism ‘the dividing line is admittedly fuzzy’ (ibid: 111). Another factor to take into account, given the centrality of Katzenstein’s (1985) study of small open economies and the Varieties of Capitalism literature to this research, is the intellectual journey that has brought Peter Katzenstein and Peter Hall to deal with ideas from the perspective of sociological institutionalism (ibid: 110).

As mentioned in Chapter 1 (Page 23) further insight is added by Mark Blyth (2002: Chapter 1) whose objective it is to open up the space for an ideational account of institutional change that builds on Polanyi’s original concept of the double movement. This he does by considering the role of economic ideas in providing an interpretive framework with which to analyse situations. He argues that ideas allow agents to reduce uncertainty, propose a particular solution at a moment of crisis, and empower agents to resolve that crisis by constructing new institutions in line with these new ideas.

The analytical-model would arguably fall short of its full explanatory potential if the influence of ideas in institutional change was not part of it. Accordingly, it is proposed to look at this dimension in an overarching way and to weave insights gained into the total explanation as represented in Table 3.

#### **(iv) Policy Domains to be Examined**

This study in comparative political economy uses the lens of European integration, of which EMU is the flagship project. But integration has affected a wide area of social and economic policy particularly since the Maastricht Treaty of 1992. Accordingly, it is proposed to apply the refined analytical model to a number of aspects of European integration including: the general policy approach of

governments to integration; Economic and Monetary Union (EMU) and social policy and social pacts.

These three aspects were chosen because how the Irish government conceptualised what the process of integration would mean is central to understanding the polity. EMU not only shapes the European macro-economy but it is the flagship project of integration and in many respects the institutional architecture associated with it determined outcomes in other policy areas. Social policy in Ireland is an example of where EMU foreclosed options and social pacts were the instruments through which social policy was mediated for 22 years from 1987 to 2009. Moreover, as Anton Hemerijck (2013:383) points out, the interaction between economic performance and the welfare state is largely mediated by the labour market. He argues that quality employment is the best guarantee against poverty and inequality and so it is crucial to place employment at the centre of welfare provision. This requires attention to such labour market issues as increasing the participation of women, eliminating long term structural unemployment and providing employment opportunities for disadvantaged groups, activation and upskilling. Hemerijck (*ibid*) sees these matters as being appropriate to the collective bargaining agenda. And from a European integration perspective this was the focus of the Lisbon Treaty and Europe 2020 which embodies the EU's normative commitment to a highly competitive social market economy (*ibid*:395). Hemerijck also notes that Ireland followed a distinctly different road to institutional redesign than did the UK under New Labour, moving closer to European patterns of social partnership cooperation through a series of social pacts (*ibid*:178). This was important in the context of intensified interdependence between European economic integration and national welfare states. For comparative purposes the Nordic countries have produced the best solutions to the challenges of structural social and economic change by combining economic efficiency with high levels of distributional equity (*ibid*: 379; Sapir, 2006).

Against this background it is plausible to argue that an in depth examination of the three linked aspects of European integration outlined above can provide the best explanatory result.

## **Alternative Methodological Approaches Considered**

Other methodological approaches were also considered but it was felt they would not offer sufficient insights. In particular sectoral analysis was looked at. Christine Ingebritsen (1998) argues that the sector approach is well suited to the study of European integration insofar as it has proceeded according to a sectoral logic – from coal and steel to agriculture, capital goods, and services. She opines that the small Nordic states are particularly appropriate for the application of sectoral analysis because of their high degree of dependence on a limited number of exports. This may be true for the Nordic countries but it would not necessarily assist in understanding, say, the complexities of consociational democracy underpinning the polder model in the Netherlands or the imperatives for policy that arise from overarching features of European integration such as EMU. Nor would it be particularly helpful in explaining the dualist nature of the Irish economy which relies on foreign companies for 90 per cent of its exports. These FDI companies enjoy a completely different and higher status in the power constellation than do indigenous companies. Whereas Nordic states which are export-dependent might seek to defend leading sectors in foreign economic policy, Ireland would be much more motivated to defend its independence in areas of fiscal policy such as corporation tax so as to attract inward investment. Moreover, as Ingebritsen (*ibid*:44) acknowledges, sectors do not always define the choices available to the State (geopolitical issues might be a factor, for example) and sectors are caught in a two level game because by their very nature they bridge the international and domestic political spheres.

Ingebritsen (*ibid*) herself considers and rejects certain theories of EU integration as unsuitable for the study of small open economies. Neofunctionalism she believes does not allow for the fact that the shift from national policy making to supranational policy making has been much more contested in the Nordic States. She also asserts that intergovernmentalists miss important variations in the political influence of social actors. Citing Maria Green Cowles (1995) she uses the example of the European Roundtable of Industrialist (ERT), set up by the Swedish industrialist Pehr Gyllenhammar, as strongly influencing the Single European Act. In any event Ireland, it will be seen later, never attempted to strongly influence the course of European integration through intergovernmentalism.

## Conclusion

This research takes as its starting point the study of a number of small open economies conducted by Peter Katzenstein (1985). It concludes with an assessment of where the comparator countries – Finland, Denmark, the Netherlands, and Ireland – find themselves on the fifth anniversary of the collapse of Lehman Bros. Bank on 15<sup>th</sup> September, 2013. The periodisation book ended by these events is organised to reflect key phases of European integration and its impact on developmental outcomes in each country.

The objective of the research is to evaluate how the world of Katzenstein changed with Europeanisation – and with globalisation and financialisation more generally – and how the development models of the individual countries evolved with that change.

In Ireland's case the research methodology goes deeper and draws on the fields of international relations and political science. A conceptual framework first developed in 1971 and substantially reengineered by Allison and Zeilkow in 1999 is refined by incorporating new institutionalist approaches. A number of precautions are taken to mitigate potential flaws which might otherwise skew the explanatory output from the model in one direction or another.

The refined model aims to give a 'thicker' explanation of why Ireland performed as it did over the periodisation by looking at specific aspects of Europeanisation including; the general stance of the country towards European integration, economic and monetary union, and social policy and social pacts. This approach is also consistent with certain requirements of analysis proposed by Hemerijck (2013) when he observes that policy actors reflect not only on policy problems and their resolutions, but also on causal links between institutions and their power positions. It accommodates his call for, 'a better understanding of how policy relevant ideas get selected, modified or ignored depending on constellations of power' (ibid: 46).

## **CHAPTER 3: Katzenstein's World and The Comparator Countries**

### **Introduction**

Katzenstein (1985) was writing against the background of quite impressive political advancement in Europe as a whole. In 1974 the Caetano regime in Portugal was ousted in a military coup. By 1976 Mario Soares had settled the country down into peaceful democratic rule. The military dictatorship of the colonels was also ended in Greece in 1974 clearing the way for the election of the Karamanlis led government. A year later, in 1975, General Franco of Spain died allowing that country also to transition to democracy. It should not be forgotten, however, that the EEC and United States had been willing to deal with these states as dictatorships for reasons of geopolitical and military expediency. There were added complications in Portugal's case, which complicated life for the EEC, because it had colonial possessions in Mozambique and Angola from which it disengaged in the mid 1970s. By the 1980s each country was part of a stable, if divided, liberal democratic Europe. That was only the beginning of the transition. Few could have imagined in 1985 that six years later, the USSR would cease to exist and that Germany would be united. The end of the bi-polar cold war world could not have been foreseen in 1985 nor could the savage conflict in the Balkans which was to erupt on the European Union's doorstep (Fukuyama, 1992; Hobsbawm, 1994; Huntington, 1997).

Katzenstein (1985:20) identified three dominant political forms of contemporary capitalism: liberalism in the United States and Britain; statism in Japan and France; and corporatism in the small European states and, to a lesser extent, in West Germany. Those models of capitalism were engaging with what Katzenstein (ibid:22) described as 'rapid change in the global economy'. Some of these changes have already been adverted to in Chapter 2 and can be summarised as including: global inflation, escalating energy prices, prolonged recession, increases in trade rivalries and protectionism, volatile foreign exchange markets, skyrocketing interest rates and debts, and structural readjustment. The oil crisis of 1973/74 had been compounded in 1979/80 by a major conflict between Iran and Iraq. Whereas

exporting or pre-empting the costs of change in adversity might in certain circumstances be options available to large industrial states, it was Katzenstein's (ibid) contention that small open European economies had no choice but to accept economic adjustment forced on them by markets while using a variety of social and economic policies to prevent the cost of change from causing political eruptions. In other words, economic flexibility and political stability are mutually contingent (ibid:191).

Nevertheless, Katzenstein (ibid: 192) acknowledged that in the early 1980s increasingly adverse economic trends were putting the corporatist model under strain. A 50 per cent decline in the growth rate of world trade (from 8.6 per cent in 1960-73 to 4.2 per cent in 1974-80) had created a more difficult economic environment for small countries depending on trade with others. The five small countries (including the Netherlands and Denmark) that accounted for most of the engineering exports from small countries had been losing market share from the mid-1970s. This crisis in industrial production created the phenomenon of *stagflation*, that is simultaneous inflation and unemployment. From the vantage point of the mid-1980s this trend appeared to be structural rather than cyclical. These structural problems were compounded by economic policy decisions by large countries which caused high interest rates more damaging even than the 1973 and 1979 oil crises. Specifically, changes in US monetary policy in 1979/80 led to a major increase in international interest rates (Mjoset, 1992:72).

Scharpf (1991) observes that a coherent social democratic or Keynesian economic policy – one which gives priority to full employment – was objectively still possible during the 1970s. Mjoset (1992) refers to a period when Keynesian and non-Keynesian approaches co-existed but often produced unintended outcomes. He describes this as a phase of 'fumbling' or 'muddling through', which reflected the contradiction between domestic priorities and economic feasibility. However, the crisis of the early 1980s marked the transition to a new more liberal era.

Katzenstein (ibid:197) noted that political leaders in the Netherlands and Denmark were already contemplating welfare reforms to bring social spending into line with the new realities but he predicted that even conservative leaders would not be

allowed to dismantle the welfare state. But he also observed that the calibration of welfare policies with international competitiveness had intensified political conflicts in the small European states. As an example of this he cited Swedish prime minister, Olof Palme, calling businessmen ‘Baboons and Elephants’.

Katzenstein was concerned to keep things in perspective. He pointed out that while the formal ‘consociational’ arrangements made between political parties in the 1960s in several of the small European States had eroded, and Social Democratic hegemony in Scandinavia partially decomposed in the 1970s, both developments had left democratic corporatism remarkably unchanged. The reason he gave for this is that democratic corporatism is not an institutional solution to the problems of economic change but a political mechanism for coping with change (ibid:198).

The purpose of this chapter is to chronicle the major historical events which contributed to the formation of the polities of Denmark, Finland, the Netherlands and Ireland, and, in addition, the 1987 to 1994 period will then be used as a reference baseline against which to compare how the development models evolved once European integration began to intensify as the Maastricht Agreement came into effect. The chapter will conclude with a reflection on the key differences which characterise the political economies of the four countries.

## **FINLAND**

### **The History and Political Economy of Finland**

Finland enjoyed home rule status within the Russian Empire from 1809 but when the Bolshevik Revolution occurred Finland seized the moment and declared its independence on 6 December, 1917. A bitter civil war followed from January to May 1918 between Finish government ‘White Forces’ and rebel ‘Red’ socialist forces supported by Russian troops stationed in Finland at independence. The government ‘White’ army was supported by a German expeditionary force. The Red forces were defeated and a peace agreement was concluded with Russia in 1920.

This was followed in 1932 by a non–aggression pact signed with the USSR (Mjoset, 1992).<sup>13</sup>

This did not prevent the Soviet Union from invading Finland on 20 November, 1939. The Soviet objective was to gain possession of the whole country but this failed because of unexpected strong Finnish resistance. The ‘Winter War’ as it is known ended in March 1940 with the cession of 12 per cent of Finland’s land area to the Soviet Union. The entire population of this territory was evacuated to other parts of Finland. The ‘Continuation War’ of 1941-1944, in which Finland was allied to Germany, was concluded by the armistice of September 1944 and confirmed in the Paris peace treaty of 1947. In addition to the 12 per cent of land area lost after the Winter War Finland had to cede more land. A third war was fought in 1944-45 to get rid of German army units in Lapland (ibid; Vartiainen, 2011).

After independence Finland shared a 1566 kilometre border with the Soviet Union. This did not prevent Finland from developing an advanced free market economy and its polity was firmly based on western democracy. Today it is recognised as one of the five Nordic countries of Europe. It would though also be true to say that its proximity to the communist superpower conditioned Finland’s foreign policy. After WW11 it followed a policy of military neutrality, it did not accept Marshall Aid and sought to live in ‘peaceful coexistence’ with its communist neighbour, and cultivated good relations with all countries (Personen and Riihinen, 2002; Raunio and Tiilikainen, 2003, Senghaas, 1985). This was sometimes referred to pejoratively in the West by the term ‘Finlandisation’ meaning the enforced neutering of foreign policy by the Soviet Union (*The Economist*, 21<sup>st</sup> June 2014).

As Personen and Riihinen (2002) note, industrialisation involved a significant rise in productivity. Finland was in a position to benefit from a catch-up effect insofar as it could adapt innovations developed by the forerunners of industrialisation. The preconditions for catching up involved improving the proportion of the population with higher levels of education, improving public administration, expanding foreign connections and so on. In the last two decades of the 20<sup>th</sup> century Finland achieved

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<sup>13</sup> Nationalism is a common feature in the respective histories of Ireland and Finland. Mjoset (1992:61) argues that, among the smaller European countries Finland is the only one that experienced a nationalist mobilisation similar to Ireland to liberate itself from Russia.



phenomenal progress causing it to be regarded in a post-industrial stage of development. The structural changes of industry are usually caused by three different factors: demand, international trade, and technological changes. The Finish achievement is primarily down to the latter made possible by intensifying research input, which has been growing faster in Finland than in any other OECD country.

In terms of its relatively late industrialisation and rapid catch up Finland is not unlike Ireland. However, insofar as Ireland laid more emphasis on trying to import a system of innovation through an industrial policy heavily dependent on FDI, and invested less in R&D (and was less successful in commercialising its investments), Ireland's industrial achievements seem to be less secure. It is now proposed to look at the benchmark periodisation 1986-1994.

### **1986-1994: Finland Moves Towards a Post Industrial Stage of Development**

Only seven countries in the world had a GNP per capita that was higher than Finland in 1988 according to the World Bank: in 1990 Finland ranked third highest in Europe in GDP per capita, below only Switzerland and Luxembourg. However, as Personen and Riihinen (2002: 246) observe, this ranking looks better than it really was because the Finnish Markka was overvalued at the time. Indeed, Vartiainen (2011) has drawn attention to Finland's particular practice of Keynesian interventionism which took the form of repeated devaluations and incomes policy settlements. In part this was due to Finland's vulnerability to external threat and particularly its exposed geographical position. Thus a political demand for democratic corporatism – Social Partnership between business, unions and government – was a strong feature of the Finish polity. This sense of acting together, and containing quarrels within acceptable limits, was in conformity with Peter Katzenstein's (1985) analysis of industrial policy in small states in the 1980s.

The Finnish economy is very dependent on foreign trade and more than 10 per cent of exports were sold to the Soviet Union. The loss of that market came at the worst possible time for the economy.<sup>14</sup> In addition the public sector expanded greatly during the 1970s and 1980s. Liberalising decisions involving deregulation of interest rates and capital movements by the Bank of Finland caused uncontrolled credit expansion, doubled house prices, and motivated excessive salary increases. The Bank of Finland reacted to these developments by pushing up interest rates, which in turn caused the economy to go into decline. There were many bankruptcies causing unemployment to rise. A devaluation of the currency helped exports but increased the burden of debt for those who borrowed from abroad (Personen and Riihinen, 2002).

In a refinement of this analysis Vartiainen (2011) opines that financial deregulation was a major development not properly planned for. It should have been carefully coordinated with other economic policy areas. He claims that the repercussions of such an enormous policy shift were never really discussed and evaluated in political circles. The Bank of Finland had attempted to steer the economy away from repeated devaluation cycles. It advocated in favour of adopting an exchange rate target as a new, more robust anchor for monetary policy. In a time of vigorous credit expansion and growth of nominal demand, coupled with a large inflow of capital, this amounted to a policy of quite low interest rates in the middle of an economic boom. It is hardly surprising that many households and businesses took this advocacy as sound guidance and borrowed in foreign currency. What was really called for was an extremely tight fiscal policy, both at a macroeconomic level and with regard to behavioural incentives. Both domestic bank credits and foreign and capital inflows (borrowing) were in foreign currency terms. The credit expansion fuelled a general increase in aggregate demand. Housing and equity prices increased significantly, with a knock on effect on increased household spending and on spending by firms and general increase in consumption. Between 1986 and 1989 private consumption and investment at around 5-7 per cent of GDP was above trend growth. The problems of this exuberance were compounded by a strong currency which increased imports while exports declined pushing the current account into deficit to the extent of -4 per cent.

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<sup>14</sup> The Finnish Ambassador to Ireland told this author in 2009 that despite impressions to the contrary, Russia was a good trade partner to Finland, being very reliable.

This explanation is remarkably similar to that put forward by a former Finnish central banker, Peter Nyberg, to explain the lead up to the crisis in Ireland that began in 2008 (Nyberg, 2011).

The economic crisis brought forward a move in a liberal direction in Finland during the 1990s. This was also influenced by a sharp rise in foreign ownership and resulted in ideas which challenged the corporate governance system including corporatism in industry. This trend in thinking was reflected in reductions in social welfare benefits in order to curb rising budget deficits. Product markets were deregulated and the system of coordinated wage bargaining came under attack. This was attended by a drop in inter-elite trust which is a hallmark of the Nordic society. Inexorably this led to tensions between the unions and centre right governments. (Lindgren, 2011:57).

As the world economy slowed and oil prices began to increase in the aftermath of the first Gulf War, GDP growth which had been around 5 per cent in 1990 declined by 1991 and –remained negative for the following 2-3 years. Vartiainen (2011) sees decline in investment as a critical component of that turnaround. He accepts that the trade effects of the collapse of the Soviet Union were important but not the only factor in export decline. He also emphasises the influence of debt deflation where the economy shrank as all agents wanted to get rid of extra leverage. All large banks, bar one, became bankrupt and had to be bailed out by the taxpayer.

Sixten Korkman, senior advisor to the Finnish Innovation Fund (SITRA), concurs with the view that capital market deregulation was a primary factor in the 1992/93 crisis. He described it as; ‘bad banking, bad policy, bad timing’ (interview, 28 September, 2012). Former prime minister, Matti Vanhanen, was more circumspect about deregulation. He felt it had to be done because other events were leading towards a crisis. He did say that the banking crisis caused enormous hardship for small business owners with more than 20,000 going to the wall. He said he thought this experience would exert a downward pressure on entrepreneurialism for a long time. In this regard he was very critical of the banks and felt they had to be

punished for the way they had behaved towards SMEs (interview, 27<sup>th</sup> September, 2012).

On the relative significance of the collapse of trade with the Soviet Union Korkman and Vanhanen agreed that the event was serious but cathartic for Finland. The collapse of trade accounted for about half of the increase in unemployment but it forced Finland to confront the reality that exports to Russia were 'trash' which would not be acceptable in the West. This precipitated a major policy change in favour of innovation and the R&D investment to achieve it. Vesa Vihriala, Managing Director of the Research Institute of the Finnish Economy (ETLA), described the exports as being 'of medium technology and quality'. This market disappeared just as the bubble burst. He estimated Soviet exports to account for roughly half of all exports (interview, 28<sup>th</sup> September, 2012).

The decision to re-orientate policy towards innovation and technology was to have a huge influence on the rise of Nokia, the ICT multinational, and Nokia in turn had huge importance for Finland. This topic will be dealt with in detail in the next chapter.

## DENMARK

### The History and Political Economy of Denmark

The shock to the Danish psyche of defeat in war and the loss of Schleswig-Holstein to Germany in 1864 led to a great debate about national identity. Denmark was now but a rump State of its former empire. The Danish political elite were discredited. Out of this national crisis emerged a movement led by Nikolai Grundtvig which purported to define national identity. The Grundtvigian movement cut across social classes and stressed the importance of individual freedom, volunteerism, free association, and popular education. In other words it was a classical liberal movement. Perhaps the most important legacy of the Grundtvigian movement was in education. They built an alternative educational system for the population in parallel with the State system (Campbell and Hall, 2006; Ostergard, 2006).

After 1864 Denmark was left with a sense of vulnerability, a condition which continued thereafter with a fear of both Germany and later the Soviet Union. This led to a consensus that external threats required a level of cooperation in society that would create an identity so strong that the nation would survive even the absence of its own State. After 1864 moderates from the political right and left began to cooperate and this led to a polity with a strong social orientation which reduced inequality through the establishment of institutions for this purpose and tended towards uniting the people of the nation. The populism of Grundtvigianism served as a bridge between the idea of the nation as ethnic and the idea of the nation as demos. Thus the redefined nationalism in many ways underpinned social democracy. By 1933 the Social Democrats, under the leadership of Thorvald Stauning, were able to accomplish an alliance between industrial workers and farmers which institutionalised democratic politics and thereby consolidated social democracy for the long term.<sup>15</sup> The value of this was evident in the manner in which the people internalised the concept of the nation allowing them not only to survive Nazi occupation in World War 11 but to act with a solidarity which allowed most of the Jewish population to survive the Holocaust (Østergård, 2006: 72). On the other hand economic cooperation between Denmark and Germany continued until 1943

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<sup>15</sup> It is not just a coincidence that this happened on the day Hitler came to power in Germany.

and Danish citizens volunteered to fight the Soviet Union in cooperation with Germany as part of Frikorps Danmark.

The cross-class consensus established in 1933 allowed for huge Keynesian inspired public investments to help solve the unemployment crisis of the depression years. This continued after the war when corporatist wage bargaining and other forms of cross-class agreements were adopted to promote the country's economic competitiveness internationally.

In Denmark's political makeup it is also necessary to say that there has always been a strong vein of liberalism going back to the Grundtvigian movement. What is unique about Denmark is the willingness of different political parties and social organisations to work together for the common good. As Campbell and Hall (2006) point out there is nothing naïve about this. Cross-class collaboration in politics and the economy is possible because everybody agrees that conflict is an indulgence that cannot be afforded in the face of a state of permanent, albeit varying, external threat. Denmark has lived with a long series of fragile minority governments since 1920 when proportional representation was instituted. The Social Liberal Party was often the cement that held governments together demanding at times that the parties in opposition and in government compromise for the good of the nation.

Denmark has managed to develop its own unique variety of capitalism which is neither liberal in the Anglo-Saxon sense or yet social democratic in the traditional understanding of that model.

Today Denmark is one of the most productive, competitive, economically egalitarian countries in the world and has one of the most generous welfare states. In fact it came third in the World Economic Forum competitiveness ranking in 2007 (Böss, 2010a). Danes uniquely manage to put the common good ahead of everything else and they will do whatever it takes – electoral reform, wage restraint, pension reform and tax changes – to achieve this. They place a high value on human capital which is reflected in their unique approach to the labour market and international competitiveness. Danes are assimilated to this way of thinking even before they enter the labour market. Teaching in schools emphasises how to interact with other

people and how to improvise. According to the Speaker of Parliament and former Finance Minister, Mogens Lykketoft, children are educated to be ‘socially strong, critical, independent, and innovative’ (interview, 22<sup>nd</sup> May, 2012). These are the skills Katzenstein (1985) identified as being necessary for small states to prosper. In the description of Ove Pedersen (2006, Chapter 6) Denmark is a *negotiated economy*. This means that it operates through a complex set of institutions developed during the 1960s and the 1970s allowing for matters of economic and social policy to be negotiated between all the major economic and political actors (see also Jessop, 2010 and O’Donnell, 2010).

(For a deeper discussion of what the negotiated economy entails see also Kjaer and Pedersen, 2001).

### **1986 – 1994: The Danish Concept of a Negotiated Economy**

The renowned business guru, Michael Porter, predicted the certain decline of Denmark in 1990 because he believed the country’s political economy was not fit for purpose (cited in Campbell and Hall, 2006:3). Events proved him wrong. By the mid-1990s Denmark’s economy was performing strongly.

Cathie Jo Martin (2006:280) identified two immediate causes of Denmark’s economic recovery in the early 1990s viz, resolution of the country’s debt problem and a positive effect from post-Fordist production systems. Debt reduction coincided with a decrease in interest rates, an increase in housing prices and tax reductions on mortgages altogether creating a wealth effect which stimulated domestic demand in the economy. The Danish economy is dominated by small and medium enterprises which lacked the economies of scale to benefit from Fordist production techniques in their heyday of the 1960s and 1970s. This possibly accounts for Porter’s negative assessment but with the advent of consumer demand for unique, well designed and not mass produced products offered by Danish SMEs the economy began to prosper again.<sup>16</sup>

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<sup>16</sup> The Danish manufacturing sector is very diverse. In 1991 only about 100 firms employed more than 500 people. Due to the lack of indigenous raw materials, industry is mostly confined to reprocessing and light industry. The dominant sectors were food processing, chemicals, furniture, and engineering. The value of industrial goods sold in 1991 was equivalent to \$64.8 billion (Economist Intelligence Unit, 1993/4).

This, no doubt, is a credible explanation for the immediate change in economic circumstances but much deeper restructuring of the Danish political economy was going on in the 1980s and early 1990s. One indicator of this is the shift in production between different sectors of the economy detailed in Table 4 below. Growth is evident in sectors like mining and quarrying, food, chemicals and metal products while textiles, furniture and paper either contracted or stagnated (see also Lykketoft, 2009).

**Table 4: Denmark: Volume of Industrial Sales by Sector 1987-1992**

(1985: 100 annual averages)

	1987	1988	1989	1990	1991	1992
<b>Mining &amp; quarrying</b>	111	113	120	105	103	<b>118</b>
<b>Food, beverages &amp; tobacco</b>	102	105	104	107	115	<b>114</b>
<b>Textiles, wearing apparel &amp; leather</b>	96	88	87	84	84	<b>85</b>
<b>Wood &amp; products, incl furniture</b>	108	105	104	102	105	<b>107</b>
<b>Paper &amp; products, printing &amp; publishing</b>	104	108	106	107	106	<b>106</b>
<b>Chemical, petroleum &amp; plastic products</b>	107	113	114	115	117	<b>125</b>
<b>Non-metallic mineral products</b>	104	103	104	102	99	<b>97</b>
<b>Basic metals</b>	90	94	106	99	96	<b>95</b>
<b>Metal products, machinery &amp; equipment*</b>	106	109	114	114	115	<b>117</b>
<b>Other manufacturing industries</b>	102	111	121	125	132	<b>138</b>
<b>Total mining &amp; manufacturing*</b>	104	106	109	109	111	<b>113</b>
<b>% change</b>	<b>-2.8</b>	<b>1.9</b>	<b>2.8</b>	<b>-</b>	<b>1.8</b>	<b>1.8</b>

\*Excluding goods resold without further processing, shipbuilding and ship repair

Source: EIU Country Report 1993/4

In Esping-Andersen's (1990) typology Denmark is included with a Nordic grouping of advanced social-democratic welfare states. A less sustainable aspect to this was that by the 1990s the livelihood of a third of the population was in some degree linked to welfare thus creating issues of dependency (Rasmussen, 2006: 240). On the other hand Cathie Jo Martin (2006) has pointed to some demographic positives in the population. Danish fertility rates were among the highest in Europe in the 1990s which would normally help the state to fund pensions and healthcare in a



planned intergenerational way. But an early retirement scheme introduced in 1979 in which people could retire at 60 tended to negate these positive demographic trends.

Reform initiatives by Conservative led governments were opposed tooth and nail by the Social Democrats and the unions. The unions ran a strong public campaign against reform, including placing advertisements in national newspapers, and even threatened a general strike. The government modified their proposal but that made little or no difference to the intensity of public debate. Eventually the proposals were abandoned altogether. It was only when Poul Nyrup Rasmussen took over as leader of a left wing bloc Government that any progress was made. (Green – Pedersen, 2002).

The new Government elected in 1993 launched on its term with the motto ‘new course towards better times’. The Social Democrats did not do well in the subsequent 1994 election but were able to continue as a minority government. Eventually this government passed the first major retrenchment in social welfare since 1984. This was achieved by what Green – Pedersen (2002:128) describes as a ‘Nixon goes to China’ logic. He explains this as meaning that until 1994 the government’s short time horizon was dominated by electoral considerations. But after that, social democratic led governments were able to get tacit agreement of unions and society for unemployment benefit and early retirement changes that a right wing government never could.

These efforts at reform culminated in what is today the hallmark of the Danish welfare state and that which is widely admired in Europe, viz; flexicurity. In truth it would be more accurate to say that flexicurity straddles both the welfare regime and the labour market. It combines vocational training and employment support into a highly fluid labour market in which employees are very flexible in the knowledge that they will retain high levels of income support and employers have much less restriction in firing people than in most other countries. Peer Hull Kristensen (2006) makes the point that although this flexibility has been a feature of the Danish labour market for 75 years it is only in recent years that the concept has been captured in the term ‘flexicurity’. It is an approach which is seen as being especially

accommodating to the emerging new economy. Per Kongshoj Madsen (2006) sees in flexicurity the means of adapting to a changing international environment while maintaining the type of solidaristic welfare system necessary to protect citizens from the more brutal consequences of structural change (see also Torben M Andersen (2011) for a discussion on how well flexicurity has coped with the global financial crisis of 2008).

Nevertheless, Poul Nyrup Rasmussen and former Finance Minister, Mogens Lykketoft, are highly critical of how the Conservative successors of the Social Democrats weakened flexicurity by reducing the duration for payments from 4 years to 2 and changing the qualification criteria. “It is now just therapy – asking middle aged shipyard workers to do things which are meaningless” says Rasmussen (interviews, 21<sup>st</sup> & 22<sup>nd</sup> May, 2012) (see also Goul Andersen, 2011).

The concept of ‘structural competitiveness’ was developed in the mid-1980s. It meant that the competitiveness of Danish industry was seen as being a function of a much wider variety of structural considerations including R&D and the existing orientation of the economy towards producing for low-growth markets and a general lack of adaptive and innovative capabilities in Danish industries. Some of this thinking was infused by neo-liberal ideas, particularly during the 1990s, but this never dislodged the propensity towards consensus building. What it did arguably do was bring about a fundamental change in how problems were looked at. Out of all this came what is widely accepted now as Denmark’s negotiated economy.

Apart from consensus about the competitiveness of Danish industry much of the restructuring of the economy that happened during the 1980s and 1990s was driven by the perceived imperative of dealing with EU integration. This process has been characterised by a number of historical compromises made by Danish society.

In the late 1980s the Danish peak organisations gave de facto acceptance to the Monetarist Agreement dealing with the overall monetary and fiscal stability of the Danish economy by reference to selected other countries. At the sharp end this meant accepting the policy started by the Conservatives in 1982 of pegging the currency to the Deutschmark, liberalising capital markets and accepting a

programme of fiscal retrenchment. This would ultimately lead to gradual reduction in inflation and real interest rates but the absence of control of these levers could lead to unemployment. The solution, insofar as one existed, was to effect coordination of the economy through keeping market mechanisms embedded in collective agreements thereby giving unions influence on social policies to mitigate the negative effects of monetarism (Pedersen, 2006 b: 460).

Similarly the public sector reforms were articulated as part of a broad programme to resolve structural problems by improving the adaptive capacity of Danish society as it coped with European integration. These too were unpalatable, involving as they did elements of privatisation and outsourcing of work. This provoked a backlash resulting in the rejection of the Maastricht Treaty in 1992 (Pedersen, 2006 a: 256).

The importance of EU integration should not be underestimated in terms of structural change. Around 1990 the evaluation of structural impediments moved in the direction of adaptation of Danish society as a whole to European integration. The political elite formed the view that the public sector had an important role in changing the political economy of Denmark to match the demands of EU integration and the longer term development of the EU. In the words of Michael Boss:

“The result was that Danish society developed into an integrated and coordinated political system of negotiations involving multiple private and public actors on national as well as local levels.”

(Boss, 2010b : 270)

## THE NETHERLANDS

### The History and Political Economy of The Netherlands

Over the five years between 1945 and 1950 output in the Netherlands rose by 10 per cent per year, faster than any other Western European country. According to Barry Eichengreen (2007:97) the roots of this extraordinary success lay in the country's neo-corporatist institutions. In the Depression of the 1930s Social Democrats and Progressive Catholics engaged in extensive discussions about alternatives to Liberalism which they saw as a failed ideology. After the war this morphed into important institutions including the Labour Foundation (Stichting van de Arbeid) and the Social & Economic Council (Sociaal-Economische Raad) where government, trade unions and employers could discuss wages, investment and social policies. This dialogue developed into strategies for coordinating economic and social activity especially wage negotiations. The process was given a legislative foundation in 1950.

Another key driver of European post war recovery was The Marshall Aid Plan. This was an American led initiative to sustain Europe's strategy for investment-led growth. According to Barry Eichengreen (2007:69) the people who designed The Marshall Plan saw it as having the potential to bring about a 'United States of Europe' where economic and political interdependence would make war impossible and would also achieve a solid pro-American European ally against the Soviet Union. Thus it was an important influence for European integration and a way of reconciling those countries, such as the Netherlands and France, which had suffered at Germany's hands during the war, to higher levels of that country's industrial production. The Netherlands was one of the nations which participated in, and subsequently benefitted from, The Marshall Plan.<sup>17</sup> Today it is a country with a highly developed welfare state and high taxation, resulting in low net income and wealth differentials. It is a strong proponent of free trade in the European Community.<sup>18</sup> While formally there are strong differences between political parties

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<sup>17</sup> The Marshall Plan addressed the obstacles to post-war recovery in Europe by providing thirteen billion Dollars in US government grants over four years (Eichengreen, 2007:65).

<sup>18</sup> Even before the end of the war the Dutch government in exile together with Belgium and Luxembourg signed the Benelux Agreement eliminating tariff barriers and looking forward to free movement of services, capital and labour between them (Judt, 2005).

in practice there has been a considerable degree of consensus around a centre of gravity which, in comparison with neighbouring countries, is relatively to the left.

When the French National Assembly dealt a body blow to hopes for enhanced European cooperation by vetoing the concept of a European army, the Dutch and Belgians together acted to convene a meeting to consider a strategy for European integration at Messina, in June 1955. Three years later the Treaty of Rome establishing the European Economic Community came into force on 1<sup>st</sup> January, 1958. According to Segers (2010) not only were the Dutch closely aligned with Germany but they were also key proponents of Britain's case for joining the EEC which placed them in very direct conflict with de Gaulle.

European integration vindicated Dutch policy. At an early stage the benefits began to flow. Agriculture, for example, became more efficient and less labour intensive with access to wider markets, particularly for butter, cheese, and pork products. The Dutch economy grew by 3.5 per cent each year from 1950 to 1970 – seven times the average annual growth rate for the preceding forty years. In the same period the population increased by a staggering 35 per cent such that by 1960, 30 per cent of the population was under 15 (Judt, 2005: Chapter 10).<sup>19</sup>

The two oil crises of the 1970s brought forward a policy response described by Green-Pedersen (2002:95) as 'fumbling' which was exacerbated by 'Depillarisation' which caused much unrest in Dutch politics during that decade. Nevertheless, the politics of accommodation inherent in a consociational democracy survived with politics being largely about governing from the centre. The deteriorating economic climate became the main focus of the CDA-VVD government elected in 1982.

Under the slogan of 'no nonsense' the new Lubbers led government launched an austerity programme the centrepiece of which was a demand for wage restraint. This implied a direct intervention by government in collective bargaining, a step which would have been most unwelcome to the social partners. Under pressure from this threat unions and employers agreed upon a social contract known as the 'Wassenaar Accord' days before an expected government policy statement in

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<sup>19</sup> Some of the population increase can be accounted for by people returning from the former colonies.

Parliament. This in effect conceded the government's objectives but on terms the social partners could live with. The Wassenaar Accord of 1982 turned out to be a ground breaking event with significant effects on the economy and society in the following years (Green-Pedersen, 2002).

Today the Netherlands has a population of 16 million and is often described as a 'consociational democracy'. This description is based on the idea of a society organised on 'pillars' or competing religious or ideological groups. Rising secularism since the 1960s means that this pillar structure is less valid but still has some influence on political allegiance. The Dutch economy is structured to a significant degree around transportation and logistics, international finance, business services and agro-industry. The country is highly economically dependent on access to world markets but unable to influence world market prices (Houwing and Vandaele, 2011:128).

### **1986-1994: Dutch Corporatism Re-emerges as an Alternative to State Intervention and Becomes Standard Operating Procedure at Times of Crisis.**

The CDA-VVD Christian Democrat-Liberal coalition led by Ruud Lubbers was re-elected in 1986 but an internal dispute over environmental policy caused the VVD to leave the government subsequently thereby causing an election. The Liberal vote fell as did that of the PvdA Labour Party. The CDA vote held up and a number of small fringe parties gained support.

After protracted negotiations a new coalition government of CDA-PvdA was formed in which Mr Lubbers was prime minister and the Leader of PvdA (and former head of the Dutch Trade Union Federation FNV) Mr Wim Kok, became Finance Minister. The programme of the new government allowed for increased social spending but this was balanced by a strong commitment to fiscal discipline, specifically reducing the budget deficit from 5.5 per cent of net national income to 3.25 per cent over the expected life of the government. Public reaction against this fiscal policy was damaging to PvdA who suffered in local elections in 1991. It was the government's resolve to tighten up welfare expenditure – especially disability claims – that was the focus of public anger. The problem for Wim Kok was that Labour was seen to be

acting against the interests of its natural constituency (EIU, 1993/4: Visser and Hemerijck, 1997). Nevertheless, he is unrepentant about welfare reform:

“Any welfare system can only survive if the benefits are confined to those who genuinely need them. If you really care about welfare you must be critical of the balance between how it runs.”

(Wim Kok Interview, 12<sup>th</sup> September, 2012).

Table 5 below outlines the composition of governments in the Netherlands over the 20 years from 1982 to 2002.

**Table 5: Governments in the Netherlands, 1982-2002**

	Prime Minister	Party Composition	Minority/Majority
<b>1982-1986</b>	Ruud Lubbers (CDA)	CDA and VVD	Majority
<b>1986-1989</b>	Ruud Lubbers (CDA)	CDA and VVD	Majority
<b>1989-1994</b>	Ruud Lubbers (CDA)	CDA and PvdA	Majority
<b>1994-1998</b>	Wim Kok (PvdA)	PvdA, VVD, and D66	Majority
<b>1998-2002</b>	Wim Kok (PvdA)	PvdA, VVD, and D66	Majority

Source: Green-Pedersen (2002:51)

Politics in the Netherlands in the 1980s and 1990s was dominated by the issue of welfare state reform and retrenchment.

The Netherlands is an example of a Christian democratic political economy, the unique features of which are well documented in the academic literature (for example: Esping Andersen, 1999; Huber and Stephens, 2001; Pontussen, 2005; Green-Pedersen, 2002; Scharpf, 1999). The main differences with a social democratic political economy like Denmark are seen in lower levels of female labour force participation, a strong bias towards protection of steady employment organised around a presumption of male breadwinners, combined with subsidised labour exclusion.

In the early eighties 10,000 jobs a month were being lost. Nearly all were full time and, as such, presented a real crisis for the political economy model just described. By 1984, 800,000 people – 14 per cent of the workforce – were unemployed and there was no sign of a let up in the trend. (Visser and Hemerijck, 1997:13).

This situation was characterised by Goran Therborn (1986) as the most spectacular employment failure in the advanced capitalist world. But this was not solely a problem of lack of jobs, it was also a problem of the welfare regime and an example of Gøsta Esping-Andersen's (1996) pathology of 'Welfare Without Work' manifested in 27 per cent of the labour force being unavailable for work through disability, early retirement or other headings of the welfare code. Jelle Visser and Anton Hemerijck (1997) refer to the expression 'Dutch Disease' being used to explain this phenomenon in economic text books in the 1980s. In short it meant that the Netherlands had become an expensive and unsustainable welfare state. Yet within less than fifteen years unemployment was reduced to low single figures and the Dutch Disease became the 'Dutch Employment Miracle'.

Between 1980 and 2009 there were eight social pacts negotiated in the Netherlands.<sup>20</sup> Basic information relating to the pacts and the economic and political conditions in which they were negotiated is set out in Table 6 below.

**Table 6: Social Pacts in The Netherlands 1980-2009**

Year	Name	Issues	Economic Cycle	Governing Coalition	Year	Initiative
1982	<i>'Wassenaar Agreement'</i>	Wages, working hours	Recession	Centre-right	1	U, E
1989	<i>'Joint Policy Framework'</i>	Indexation (benefits), social security, budget	Boom	Centre-right	1	G
1993	<i>'New Course Agreement'</i>	Wages, decentralisation	Downturn	Centre-right	4	U, E
1996	<i>'Flexicurity Agreement'</i>	Regulation of temporary agency work	Growth	Left-right	3	U
2002	<i>'Mini-Pact'</i>	Wages, job subsidies	Downturn	Centre-right	1	G
2003	<i>'Demi-Pact'</i>	Wages, negotiated reform	Downturn	Centre-right	1	G
2004	<i>'Museum Square Pact'</i>	Wages, early retirement, disability pensions	Downturn	Centre-right	2	G
2009	<i>'Crisis Pact'</i>	Wages, part-time unemployment, public investment, pensions	Recession	Centre-left	2-3	U, E

Source: Visser and van der Meer (2011:204)

<sup>20</sup> This is quite similar to Ireland where the process of making social pacts started in 1987 and seven pacts were negotiated up to 2009 when the process fell victim to the economic crisis.



The evolution of corporatism in the Netherlands is explored in depth by Jelle Visser and Anton Hemerijck (1997). They identify two distinct periods of corporatism, the first between 1950 and 1962, and the second after 1982. Over that timeframe the transition from Keynesianism to Monetarism did occur but the existence of a consociational polity meant that it occurred over a longer timeframe, was less celebrated by its victors and less hard on its victims.

Physical and social distances in the Netherlands are not large which means that key actors in politics, business and the unions have ready access to each other. This is not unlike the situation in Ireland and it helps create an environment where it is easier to reach agreement. Moreover, in the Netherlands there is a convention about social pact negotiations which holds that lines of communication should be kept open, there is no boasting and some compensation is always offered for losses. Above all, agreements once made must be kept. The principal trade union federation in the Netherlands is the Socialist Federation of Dutch Unions (FNV) and collective agreements made by it apply to 86 per cent of workers. The principal employers' organisation is VNO-NCW, a Christian employers' body with roots in the old pillar system. For the purpose of wage bargaining the Foundation of Labour (STAR) - founded in 1945 by the employers and unions – is the neutral ground where they meet to do business. The Social-Economic Council (SER) is a body which involves representatives of business and labour with a remit to advise the government. It performs much the same function as NESC does in Ireland albeit that the STAR tends to overshadow it within the institutional architecture of the labour market (Visser and van der Meer, 2011; Visser and Hemerijck, 1997; Houwing and Vandaele, 2011<sup>21</sup>).

The core exchange in the 1982 Wassenaar Accord was an exchange of wage moderation for jobs effected through a reduction in working hours progressively from 40, to 38, 36, and 34 and ultimately 32 hours by 1990. The employers did not like this approach and by the mid-1980s ramped up a campaign for part-time jobs. They succeeded in arresting the campaign for reduced hours and by 1987 it was dead, significant achievements being made only in 1983/84. The Central Planning

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<sup>21</sup> Smaller and medium enterprises are represented by MKB (the literal translation of SME). The overall organisation rate of employers is about 85 per cent. On the union side there is also the Dutch Christian Unions (CNV) and a smaller union for medium and higher skilled workers (De Unie/MHP). Union density was 22 per cent in 2006. (Houwing & Vandaele, 2011:28).

Bureau estimated that 25 per cent of the reduced working hours translated into new jobs. Insofar as there were further achievements in reducing working time it was through extra days off rather than hours' reduction. Nevertheless, there was a strong willingness on the part of union members to accept shorter working hours with income loss. According to Visser and Hemerijck (1997) 71 per cent would do so provided everybody signed up for it. A certain fatigue eventually entered into the equation and with an improvement in economic conditions between 1988 and 1991 pressure to recover 'lost' wages began to emerge. By this time nearly all job redistribution was anyway in the form of part-time jobs. The unions did achieve some modest increase in wages for members but the resurgent economy did not last. By 1990 the government was declaring that the economy was in decline and by 1991 the centre of gravity of industrial disputation had moved on to welfare reform. Nevertheless, the importance of the Wassenaar Accord should not be underestimated. Visser and Hemerijck describe it as 'a major change in policy and mentality' (1997:60). This characterisation reflects the willingness of the social partners to prioritise investment for job creation. Moreover, it recreated an atmosphere of trust between employers and unions which made later agreements possible.

Thirty years later its principal architect, Wim Kok, who was then head of the FNV Trade Union Federation and subsequently prime minister, said of the Wassenaar Accord with Dutch employers:

“We were so close to a real crisis with youth unemployment at 20 per cent that people were desperate. Doing nothing was not an option. I took a risk. Certainly trade union members were not sending me flowers but the whole atmosphere was dominated by despair and sometimes people will accept what they might not otherwise.”

(Wim Kok Interview, 12<sup>th</sup> September, 2012).

In summarising this period it can be said that the Wassenaar Accord marked the return to a policy of voluntary wage restraint on the part of the unions. This policy endured, with some hiccups, during the next fifteen years. The policy of wage

restraint did not begin with a consensus, but produced a consensus. It was a process which gave primacy to profits and investment and this reflects the measure of trust which informed the process. The union side had to believe that their sacrifices would result in significant employment gains – which it did, although not quite as they had hoped (Green-Pedersen, 2002:98; Visser and Hemerijck, 1997).

According to Jelle Visser and Marc van der Meer (2011) social pacts became the institutional alternative to state intervention after the Wassenaar Accord and are now standard operating procedure in times of crisis. They characterise the Netherlands as a coordinated market economy of the corporatist variant embodying a high degree of mutual cooperation between unions and employers, and regular consultations with the government.

## IRELAND

### The History and Political Economy of Ireland

Ireland's economic sustainability has been called into question on a number of occasions since independence. The country's experience prior to the 1990s has been described as 'A Case Study in Failure' by John Fitzgerald (2000:2) and MacSharry and White (2000) noted that economic crises in the 1950s and again in the 1980s caused people to wonder whether the country could succeed at all. Having endured famine, mass emigration and de-industrialisation in the nineteenth century, Ireland continued to perform poorly relative to other European countries for most of the twentieth century.

The first (Cumann na nGaedheal) government after independence in the 1920s adopted a *Laissez Faire* approach to economics. Agriculture was their focus with policy geared towards exports and the needs of larger farmers. They did not change the banking system and maintained the link with Sterling. Industrial policy followed the British approach of free collective bargaining in industrial relations but there were some disputes in which government even used military against strikers, most notable in the case of a Post Office strike in 1923. There were some counter tendencies in evidence even then e.g. the establishment of the Electricity Supply Board, the Dairy Disposal Company and the Agricultural Credit Corporation as state owned entities.

This all changed utterly when Fianna Fáil came to power in 1932. They pursued a programme of economic nationalism with protectionism as a core element. The Control of Manufacturing Act in 1932 was an example of this policy designed to keep industry under Irish control. The Irish market became highly protected with tariffs of up to 75 per cent imposed on more than 4000 categories of imports by 1936. Protectionism was also extended to agriculture, with duties imposed on various imports and bounties offered to encourage tillage. This policy caused a deterioration in relations with Britain. A prolonged dispute over the repayment of land annuities led to the 'Economic War' which lasted for six years until 1938. By then trade between the two countries had declined, while growth in the world economy had slowed due to the onset of the global depression (ibid).

It is important to point out that the economic war had as much to do with politics as with economics, including British antipathy to de Valera.. The Fianna Fáil government was committed to self-sufficiency and the need to create an industrial structure. Unfortunately, they were not discriminating in the application of protectionism. They did not target industries likely to succeed and no thought was given to what to do with infant industries when they matured. No effort was made at innovation.

The self-sufficiency aspect of policy was undoubtedly suitable to the war years. But afterwards the general policy of protectionism did not fit with the emerging world order. Ireland was slow to react and remained on the same economic footing even as other countries sought to restructure their economies. Eventually the restricted size of the Irish market and increasing balance of payments difficulties began to take their toll. Moreover, Ireland wanted Marshall Aid and America intended serious conditionality in the form of opening European markets to its exports to go with the aid. (For a detailed treatment of this topic see Murray, 2009: Chapter 2). Much credit is given to Whitaker and Lemass for effecting another transformation – this time to export orientated industrialisation – in the late fifties. But Denis O’Hearn (2001) argues that this was dictated by force of circumstances just described.

Brian Girvin (2004) compares Ireland’s experience of Marshal Aid with those of Austria, Denmark, the Netherlands and Norway, noting that each country had a dependence on foreign trade, though the nature of this dependency was not the same in each case. His conclusion is that the Irish political elite, the electorate and the society valued continuity over the change promised by American involvement in Europe and thus the opportunity that was presented by Marshall Aid was one that was lost on Ireland. In each of the other small countries strategies for modernisation were elaborated which led to enhanced income, sustained growth and expanding welfare. By the early 1960s most of these states had industrialised, normally with a strong domestic dimension. Even when Ireland began to industrialise and expand in the 1960s most of this growth was a consequence of foreign direct investment. The losses accumulated between 1945 and 1960 were only made up during the 1990s.

Tom Garvin (2005; 190) concedes that there was an isolationist streak in Fianna Fáil but it was not shared by Sean Lemass who as early as 1929 said that both America and Europe would be important objects of Irish foreign policy in a post-British context. Ireland joined the Organisation for European Economic Cooperation (OEEC) because it was necessary to do so to access Marshall Aid. As Murray (2009:2) points out, becoming a Marshall Aid recipient drew Ireland into wider European economic cooperation that would eventually deepen into the integration of the European Economic Community (EEC). This integration would create conditions within which Ireland would be able to reduce its dependence on Britain.

It seems likely that the internal debate within Fianna Fáil was complemented by the exogenous pressure associated with Marshall Aid as described by O’Hearn (2001) and Garvin (2005). Smith’s (2005) take on it is that it was not a case of having no ideational continuity at all but rather one of rearticulating the nationalist emphasis to suit the new circumstances. Breen et al (1990) described it as Irish nationalism henceforth proceeding from an assumption that the primary objective was ‘to reap the benefits from full economic participation in the world economy’ (ibid: 38). This thinking largely underpinned Ireland’s subsequent application for membership of the EEC. It was a way to assert independence from Britain, the historic goal of Irish nationalism.

The catalyst for a major policy shift towards export orientated industrialisation was the publication of *Economic Development* and the *First Programme for Economic Expansion* in the late 1950s. T.K. Whitaker was the senior civil servant principally associated with these policy documents. According to Murphy (2009) neither declared the explicit aim of entering a free trade bloc, but that was the direction in which they were headed and the European Free Trade Area (EFTA) and the European Economic Community (EEC) were possible destinations.

The Lemass led government of the early 1960s actively sought to engage with farming and trade union interests in what, according to Murphy (ibid), was an effective realignment of government economic policy in which agricultural and industrial policy was placed on an equal footing. Farming in particular would benefit from membership of an economic bloc.

Nevertheless, there was a perception within the agricultural community that Lemass was primarily focussed on industrial development and this came to a head in 1958 when the National Farmers' Association (NFA) passed a motion of no confidence in the government. Under the leadership of Rickard Deasy relations deteriorated into major conflict in the 1960s, precipitated by a campaign to withhold rates in Kilkenny. Deasy identified four main reasons for farmer unrest: the increasing rates burden, a persistent decline in farm incomes, a bleak future and, most importantly, a general lack of attention to the fundamental task of planning agricultural development more coherently. However, by 1964 Lemass managed to co-opt the farmers into a formal negotiating relationship with the government on the same basis as the trade unions (ibid).

The economic depression which afflicted Ireland in 1957 and 1958 was, according to Brian Girvin (1989), often seen as a crisis for protectionism. He argues, however, that it was more to do with fiscal policy in the short run and in the medium term it was a result of the failure of agriculture to increase exports and expand national income. In the longer term, it was a consequence of the failure of the Irish economy and society to respond to the dilemma it faced. On the one hand, the society wished to retain traditional patterns of economic organisation, particularly in agriculture. On the other it demanded an end to emigration and full employment and rising incomes. The Department of Finance remained committed to an agricultural economy throughout the 1950s. Nor had the Department of Industry and Commerce a realistic alternative at the time. This depressing outlook had not changed by the time the cabinet discussed the practicality of participating in a European Free Trade Area in 1957.

Girvin (ibid) is less effusive than most about the credit due to Whitaker for changing policy direction. He argues that *Economic Development* written by Whitaker did not treat the industrial sector in any detail but stressed the need to improve the competitive position of agriculture. Lemass' emphasis was different. He put his personal stamp on the *Programme for Economic Expansion* differing from Whitaker in his belief that industrial expansion was a precondition for economic expansion.

For his part Whitaker (2006) chronicles the debate which took place within the civil service on the options for membership of EFTA and the EEC. There were major reservations on the part of the Department of Industry and Commerce about the loss of industrial jobs and the special concessions that would be needed because of the country's state of underdevelopment. Indeed, Maher (1986) points to the fact that potential trade partner countries had come to see Ireland as having an economy which differed substantially from their own with its heavy dependence on agriculture and an inadequately developed industrial arm of recent growth and highly protected. EFTA was a seven member British led rival project to the EEC and it was always going to be a delicate issue for Ireland as to which option to pursue by virtue of its unique trading relationship with Britain.

Most small European countries joined EFTA but Ireland did not. The Scandinavian countries formed the Nordic Union. Some small states joined the North Atlantic Treaty Organisation (NATO) and the Netherlands became a founder member of the EEC. By comparison Ireland was relatively isolationist. The other small countries were exploring various forms of cooperation, if not integration. In reality Ireland's commitment to interdependence, not to mention integration, was weak if not non-existent (Girvin, 2004: 218). Nevertheless, when Britain applied to join the EEC Ireland did too. When President de Gaulle vetoed Britain's application Ireland too had to wait on the side-line until Britain reapplied in 1967, eventually achieving membership in 1973. In the interim a free trade agreement with Britain was concluded in 1965 (Whitaker, 2006).

The casualty rate among Irish industry in this progression towards free trade was horrendous, even though detailed analyses of the threats facing each sector were done in advance and government adaption and re-equipment grants were given to affected companies. At the time of EEC entry, half the employment in indigenous firms was in sectors facing full free trade competition, like textiles, clothing and footwear. By 1980, one out of four jobs was lost and in bigger companies with over 500 employees, the losses were even more devastating – one out of two jobs disappeared. According to MacSharry and White (2000):



‘The stars of the traditional Irish industrial firmament were grievously, if not mortally, damaged and in a weak position to proceed with investment and job creation.’

(ibid: 306)

Denis O’Hearn (2001) has a less benign view of the stars of the traditional Irish industrial firmament. He considers that it is one of the enduring failures of the Irish capitalist class that they are much more likely to invest outside the country than in it. He says bluntly:

‘The regime was also unable to induce domestic capitalist to reinvest. After they exhausted the few highly profitable local possibilities, Irish industrialists reinvested their profits in British financial markets.’

(ibid: 119)

A similarly critical view of the indigenous business community is detailed in Murray (2009:50).

By the 1980s the policy paradigm began to break down and the implications of the compromises of the 1950s became more apparent. The industrial development strategy of relying on foreign investment with little connection to the local economy was not sufficient to generate enough employment to meet the needs of an expanding labour force. Linkages were especially low among US subsidiaries in the leading sectors of computers (6.7 per cent) and pharmaceuticals (3.25 per cent), which later came to dominate the miracle recovery of the so called ‘Celtic Tiger’ economy in the 1990s. But by the middle 1980s Ireland was again looking into the abyss for the second time in thirty years. As in the mid-fifties there were doubts about the capacity of the political and administrative system to overcome the challenges presented. (MacSharry and White, 2000; O’Hearn, 2001; O’Riain, 2004; Smith, 2005). Alarmed by this bleak outlook NESC commissioned the Telesis Consultancy Group to conduct a review of industrial policy in 1982. It was heavily critical of the prevailing model of development, especially reliance on foreign direct investment. A similar process led to the Culliton Report in 1992 which led to the

reorganisation of the Industrial Development Organisations (O’Riain, 2004: 181-184).

### **Ireland Turns the Corner: The Single European Act to Maastricht: 1986 - 1994**

By late 1986 – early 1987 the viability of the Irish state was at issue for the second time in thirty years. Cast in the role of Celtic pauper the country was a prime candidate for bankruptcy. Concerns lay with credit risk or fear of default on national debt repayments. By 1986 debt had reached 129 per cent of GDP. In August 1986 the Irish pound was devalued by 8 per cent against all EMS currencies. Living standards had stagnated for five years and nearly 20 per cent of people were unemployed. The economy was trapped in a vicious circle of high spending, high taxes, high interest rates and rising debt. A measure of political instability was added by the collapse of the Fine Gael/Labour coalition government in January 1987 (MacSharry and White, 2000). As can be seen from the following tables Ireland did not compare very favourably with the other comparator countries in respect of unemployment and labour force participation rates.

**Table 7: Standardised unemployment rates in comparator countries, 1980-95.**

Country	1980	1985	1990	1995
<b>Finland</b>	4.6	5.0	3.4	17.1
<b>Denmark</b>	n/a	n/a	7.7	8.2
<b>Netherlands</b>	6.0	10.6	7.5	6.5
<b>Ireland</b>	7.3	17.0	13.3	12.2

Source: Derived from Tansey (1998:56) and O'Hagan (2000:161)

**Table 8: Labour force participation rates compared**

Country	1983	1993	1995
<b>Finland</b>	77.4	73.8	73.0
<b>Denmark</b>	80.0	82.6	78.7
<b>Netherlands</b>	59.0	67.5	68.8
<b>Ireland</b>	62.7	62.4	63.3

Source: Derived from Tansey (1998:74)

Writing about Ireland's record in 1989 Joe Lee said of it:

‘Irish economic performance has been the least impressive in Western Europe, perhaps in all Europe, in the twentieth century.’

(Lee, 1989: 521)

Similar bleak assessments were advanced by other authors around that time (see Girvin, 1989; O'Malley, 1989; Kennedy et al, 1988).

In the 1980s growing alarm about the state of the economy inspired the production of a number of policy statements. Fianna Fáil published *The Way Forward* in 1982 and the Fine Gael/Labour coalition government published *Building on Reality* in 1984. Both emphasised budgetary targets but little progress was made in reducing the current budget deficit. Smith (2005: 171) opines that what was really lacking was an alternative vision and there was little consensus about an appropriate future strategy.

But some strategic thinking had been going on behind the scenes and in 1986 the National Economic and Social Council (NESCC) published *A Strategy for Development*. Smith (ibid) credits this report as creating an ideational framework for a new approach based on macro-political bargaining. It fulfilled the same purpose in this respect as the Whittaker Report did in 1958.

The significance of the NESC report was that its prescription was supported by all the major interest groups in Irish society – business, trade unions and agricultural groups. All were represented by senior people on the NESC Council and once a consensus was reached in that forum it fell to the leaders to persuade their respective constituencies

The reasons why the social partners – and particularly the trade unions – supported the NESC strategy are more complex. Such centralised agreements were not foreign to the Irish experience having being tried a number of times in the 1970s (see Adshead, 2006; Hardiman, 2006; Roche, 2009), but the most recent ‘National Understanding’, as the agreement was called, had collapsed in 1980. Since then unemployment – a particular concern of the trade union movement – had deteriorated significantly. Radical policy change introduced by the Thatcher government in Britain and by Roger Douglas in New Zealand, had changed the landscape in a very hostile way for trade unions. It was clear that the failures in the Irish economy would have to be corrected and there was a fear that the correction would come at the expense of organised labour. Therefore, there was on many fronts, a powerful imperative for the trade union movement to make a proactive intervention. Such an approach was also consistent with the concept of social dialogue introduced as part of the EU integration project by Jacques Delors, two years earlier.

John Dunne, former Director General of IBEC, expressed the view that employers were very hostile to the idea of a return to centralised bargaining. Experience of the earlier ‘National Understandings’ had convinced them that the price of stability had become too costly. But an agreement was reached and it cemented trust. Subsequent agreements were not as good according to Dunne. There were too many people, too many issues and it became too political. Employers do not have the same social role as the union confederation. A strategic core cared but the rest were only interested in the bottom line (interview, 16<sup>th</sup> February, 2012).

Farmers are somewhat different to the other social partners in that their income is largely governed by the EU Common Agricultural Policy (CAP). In 1993

significant changes were made to the structure of CAP. There is now a single farm payment which is decoupled from current production levels. The exchange for this payment, based on historical production patterns, is conditional on keeping land in good agricultural and environmental condition. CAP is now organised around two payments: about 80 per cent of the budget is related to income support under the single farm payment. The second pillar covers 'rural development'. On average farm households derive 37 per cent of their income from farming. Over the years Irish agriculture has benefitted from very substantial transfers from CAP. In 1993 Ireland's net receipts from CAP were €1.46 bn. By 2009 this had fallen to €1.00 bn. To that extent social partnership was much less critical to farmers than to unions (NESC, 2010).

Anyway the emerging consensus manifested itself in the *Programme for National Recovery*. It was the first of what was to become a series of seven Social Partnership agreements lasting for 22 years. These agreements not only covered pay at a national level, but also allowed key elements of economic and social policy to become institutionalised as a feature of Ireland's governance structure (Kirby, 2010: 4; Proceedings of ICTU Conference, 1986).

A few days before his death in 2006 the former Taoiseach, Charles Haughey, completed a paper setting out his views on Social Partnership.<sup>22</sup> Writing specifically about the transformation in the Irish economy and society between 1986 and 2006 he said:

'There were, of course, other factors which assisted that transformation but Social Partnership from its inception and for twenty years has provided the essential bedrock on which sound public finances and progressive fiscal, social and economic policies could be firmly based. Should any proof of its basic soundness be required, it must surely be the number of individuals and bodies who have laid claim to its parenthood'

(ibid: 1)

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<sup>22</sup> The author is indebted to Mr Padraig O'hUiginn, former Secretary General of the Department of An Taoiseach for providing him with a copy of this paper in December, 2010.

The economy began to emerge from recession towards the end of *The Programme for National Recovery*. Economic growth averaged 3.6 per cent per annum between 1987 and 1993 but by the latter year 294,000 people were still unemployed or 15.6 per cent of the labour force. Average incomes grew by 34 per cent between 1987 and 1994. The current budget deficit fell to 0.7 per cent of GNP by 1990 from 8.3 per cent in 1986. There was also a big improvement in industrial relations due to the agreement with the social partners. It was a big shot in the arm for centralised bargaining and it solidly anchored the PNR agreement. Sean O’Riain described this period from 1987 to 1994 as neo-corporatist stabilisation (O’Riain, 2008: 172 – 180; see also Kirby, 2010: 32; MacSharry and White, 2000: 102).

Even though the macro-economic fundamentals were coming right, with exports growing at a rate of 4 per cent per annum, unemployment remained stubbornly high. This jobless growth undermined confidence again – particularly amongst the unions – because people could not see any social dividend emerging. This concern became so acute that NESC once more stepped into the fray. It commissioned a Norwegian academic, Lars Mjoset, to investigate why Ireland had not made the same degree of economic and social progress as other small European states. An outline of Mjoset’s (1992) findings is contained in Chapter 1.

While Mjoset’s (1992) emphasis on the need for a national system of innovation has informed policy making (with mixed success) in the intervening years, there is not much evidence that his report otherwise got much traction within the policy making community.

One possible explanation is that by 1993 the economy began to take off. Unemployment began to fall, to the relief of all those involved with the Social Partnership project. Ireland was about to enter its ‘Celtic Tiger’ phase as can be seen from the Table 9 below.

**Table 9: Irish Economic and Employment Growth, 1993-2008**

Year	GDP*	GNP*	Labour Force (000S)	Employment rate among 15-64 year olds (%)	Unemployment rate (%)
1993	5.8	6.3	1386	51.7	15.6
1994	9.5	8.8	1423	53.0	14.3
1995	7.7	7.2	1452	54.4	12.3
1996	10.7	9.0	1498	55.4	11.7
1997	8.9	8.1	1560	57.7	9.9
1998	8.5	7.7	1645	60.6	7.5
1999	10.7	8.5	1713	63.3	5.6
2000	9.2	9.5	1767	65.2	4.3
2001	6.2	3.9	1810	65.8	3.8
2002	6.1	2.7	1845	65.6	4.3
2003	4.4	5.7	1882	65.1	4.6
2004	4.6	4.3	1920	65.5	4.4
2005	6.2	5.6	2015	67.1	4.2
2006	5.4	6.3	2150	63.3	4.5
2007	6.0	4.4	2219	63.8	4.4
2008	-3.0	-2.8	2247	63.7	6.4

\* at constant prices

Source: Kirby (2001: 33).

Following the introduction of the PNR in 1987 Irish and German interest rates began to converge, while Irish inflation remained low. This contributed to improving competitiveness until the currency crisis of September 1992 to February 1993 and the subsequent virtual collapse of the Exchange Rate Mechanism (ERM) in August 1993. Rory O'Donnell (2008) says of this period that the social partners became committed to a credible, non-accommodating exchange rate policy and eventual transition to the Euro.

## Convergence and Divergence of the Four Countries

As explained in the introduction the purpose of this chapter is to provide an historical context for each country and to use the period between 1987 and 1994 to benchmark and compare their political economies. The intention is to use this benchmark to compare how each country did or did not maintain the procedures and practices of political interaction identified by Katzenstein (1985), as Europeanisation intensified.

The comparative political economy literature reviewed in Chapter 1 points to a pattern in which Ireland is an outlier in the liberal market economy camp. The Netherlands is part of the Continental/Christian democratic family but is linked to the two Nordic social democratic/social market economy countries – Finland and Denmark – by virtue of being a coordinated market economy.

And yet there are similarities between all of the countries which suggests that it is hard to be absolutely clear cut about categorising them. Minas et al (forthcoming) argue for a different clustering of welfare regimes, based on Esping-Andersen's (1996) criteria but adding in factors of family and religion which would put Ireland into a cluster with southern European/Mediterranean countries. Sean O'Riain (2004) and Nicola Jo-Anne Smyth (2005) have made the point about Ireland that it displays countertendencies to the Liberal Market Economy categorisation. The institutional framework of Social Partnership which included farmers and community and voluntary NGOs in a way not replicated elsewhere in Europe, and operated for 22 years, is a case in point. The fact that this model did not sustain when the global crisis hit requires further discussion particularly the possibility that the model failed to reinvent itself in the manner suggested in a comparative study by Darius Ornston (2012) which we will return to in a later chapter. Ireland also has an interventionist policy on industrial development in which it goes a long way towards trying to pick winners, for sectors if not for single enterprises – a concept which is an anathema to Liberals.

In the view of Peter Katzenstein (1985) the small open economies in his study relied on proportional representation electoral systems and democratic corporatism to manage the vulnerability attached to being small actors in international trade. Arend Lijphart (1999) studies 36 democracies and categorised them as either 'majoritarian' or 'consensus' models. The former is epitomised in the Westminster system which operates on the simple principle of winner takes all. In other words, in an election, the candidates with the highest number of votes is elected. The consensus model also accepts majority rule, but only as a minimum requirement. Instead of being satisfied with narrow decision making majorities it seeks to maximise the size of those majorities. Its rules and institutions aim at broad



participation in government and broad agreement on the policies that the government should pursue.

Comparing our four countries we can note that all have proportional representation electoral systems although Finland, Denmark and the Netherlands operate a list system while Ireland uses a single transferable vote. Ireland is categorised by Lijphart (ibid) as having a two and a half party system, a reference to the enduring but weak position of the Labour Party. The other countries all have multiparty systems with one party explicitly designating itself as 'Christian'. This is an interesting comparison because, although a Catholic country, Ireland has never had an overtly Christian democratic party.

There are three main types of PR. The most common is the list PR system used in half the countries examined. The system involves the parties nominating lists of candidates in multimember constituencies, the voters cast ballots for one party or another and seats are allocated to the party lists in proportion to the number of votes received. The d'Hondt formula is a variation which has a slight bias in favour of larger parties. A second form is the 'mixed member proportionality' in which a list and constituency local dimension are combined. The third form is the Single Transferrable Vote (STV) system. It differs from list PR in that voters vote for individual candidates instead of for party lists. Votes are cast in the order of the voter's preference and these preferences are distributed during the count as individual candidates are eliminated or exceed a quota set in relation to the total valid poll. The advantage of STV is that it combines the benefit of allowing votes for individual candidates and of yielding proportional results. It is rarely used, however, the only cases being Ireland, Malta and for the Senate elections in Australia (Lijphart, 1999: Chapter 8).

Denmark and the Netherlands are constitutional monarchies while Ireland and Finland are republics of a semi-presidential character (ibid). This means that the president is elected by popular vote but co-exists with a parliamentary system headed by a prime minister with executive power. These powers were further curtailed to bring Finland closer in line with the EU governance structures. For many years (1956-1981) the presidency was dominated by Urho Kekkonen and his

departure facilitated change. The Irish president is the formal head of state, but not of government, and has few powers.

Different degrees of local government also apply. Ireland is a unitary and highly centralised State with a high level of executive dominance. Denmark and Finland are unitary but decentralised and Netherlands is categorised as semi-federal. The prime minister has consequently a high degree of influence in Ireland, medium in Denmark and low in the Netherlands. In the Netherlands members of the cabinet cannot remain as members of Parliament although they can take part in parliamentary debates (ibid).

Denmark adopted a unicameral parliamentary system in 1953 and Finland has always been so. The Netherlands has a bicameral Parliament in which both chambers have equal power unlike Ireland where the Seanad (upper house) has much less power than the Dáil (lower house).<sup>23</sup>

It is also worth noting that Transparency International rates Denmark, Finland and the Netherlands as ‘totally clean’ in its corruption index (cited in Lijphart, 1999:289). Ireland, on the other hand has suffered a series of scandals over the last 20 years involving the business-politics nexus.

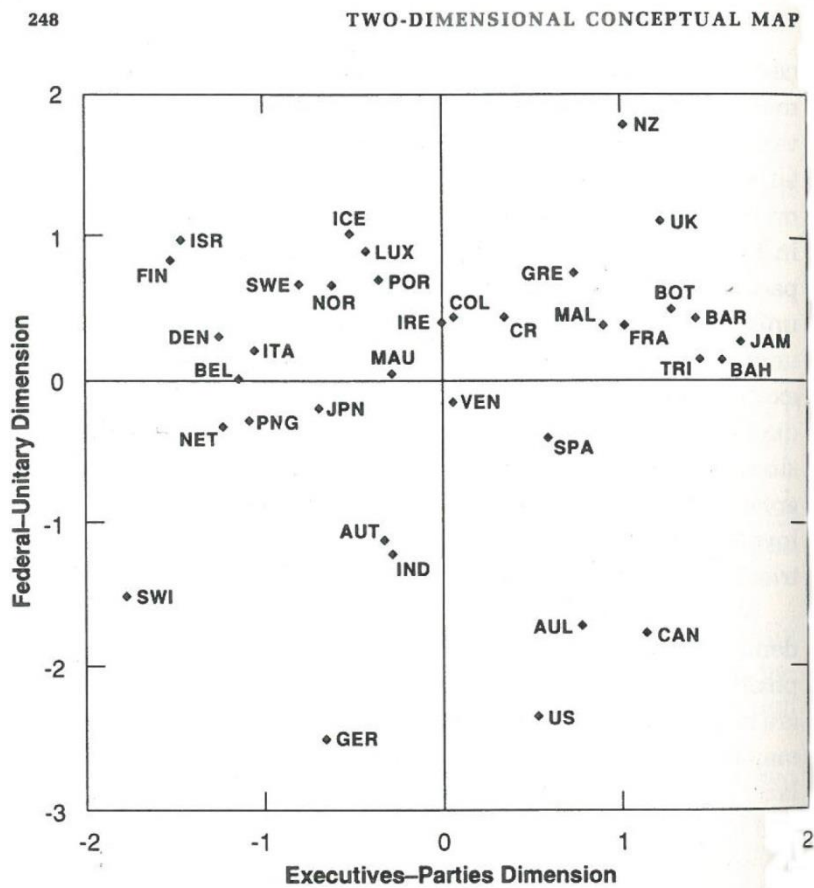
Lijphart (ibid) has developed a two dimensional conceptual map of democracy in which those countries on the left hand side are deemed to be consensus democracies in accordance with the criteria outlined above. It can be seen that Finland, Denmark and the Netherlands fit into this category. Ireland is problematical not fitting into either the consensus or the majoritarian boxes. In fact it is exactly in the middle. So just as some of the Varieties of Capitalism literature sees Ireland as a liberal market economy with countertendencies (O’Riain, 2004; Smith, 2005) in terms of its political institutions it is somewhat comparable to a Westminster majoritarian democracy with PR. In this regard it is worth noting a point made by Lijphart (1999:306) that consensus democracy may not be able to take root and thrive unless it is supported by a consensual political culture. Moreover, a consensus-orientated culture often provides the basis for and connections to the institutions of consensus

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<sup>23</sup> A Constitutional Referendum on the abolition of the Seanad on 4<sup>th</sup> October, 2013 was narrowly rejected.

democracy. In the two dimensional consensus map of democracy of Lijphart (ibid) four of the five elements of the executive-parties dimensions are structurally connected – PR leading to multipartism, multipartism to coalition cabinets, and so on – but there is no structural connection with the fifth element of interest group corporatism. In Lijphart’s (ibid) view the most plausible explanation is cultural. Perhaps this can partially explain why Ireland found it so difficult to take its place permanently in Katzenstein’s (1985) world of small open economies.

Figure 1: Two-Dimensional Conceptual Map of Democracy



Source: Lijphart (1999)

However, Kirby and Murphy (2011:26) warn that there are dangers within Ireland’s particular version of PR which, by virtue of the voters’ ability to transfer their single vote in order of preference to as many candidates as they like in multi-seat constituencies fosters local politicians with a focus on personal effectiveness. The particulars of this Irish system of proportional representation make for a politics which is populist and legalist at the same time and this, according to Paus (2012),

caused populism and deal-making to triumph over developmentalism in the 2000s with tragic consequences for the country. At a critical juncture when developmentalism needed to move up a gear from its credible performance in the 1990s it actually became weaker.

Huber and Stephen's (2001) observations on partisan politics are interesting in relation to Ireland too. They make the point (ibid, 343-344) that where the Catholic Church was strong, the development of a strong Christian democratic movement with a multiclass base and a project of mediation of class interest, and thus the development of a Christian democratic welfare state, was much more likely. On that criterion Ireland should have a strong Christian democratic polity but in fact it does not. John Bruton, former Taoiseach and leader of Fine Gael, the party sometimes regarded as being closest to the Christian democratic tradition, dismisses the connection saying that it was something tried in the 1930s but it got caught up in the corporatist thinking of that period. It was accidental that Fine Gael joined the Christian democratic family in the European Parliament. Nationalism dominated everything in Irish politics and his personal political icon was John Redmond, leader of the Irish Parliamentary Party in the early years of the 20<sup>th</sup> century (interview, 8<sup>th</sup> March, 2012).

Tom Garvin (2005:206) blames heavy handed leadership within the church for sweeping aside the nascent Christian democratic tendency in lay society in the 1950s through its insistence on control. He mentions in particular Archbishop McQuaid's engineering of a take-over of the social science discipline within the universities as generating an anti-clerical reaction which damaged irretrievably the prospects for a lay political Catholicism. According to Joe Lee (1989: 579) Bishop Michael Browne of Galway engaged strongly in the debate about the church's involvement in sociology denouncing economists and socialists who wanted to confine the church to 'confessional, sacristy and armchair'. In truth the Catholic Church was so strong that, unlike other small European countries, Ireland had, in effect, a Catholic polity. Even political leaders on the left, like Labour's William Norton, had to accommodate to that reality (Ferriter, 2012: 99).

Huber and Stephens (2001) also posit that a Christian democratic movement with a multi class base stunted the growth of social democracy by attracting working class support. Again Ireland appears to be an outlier in this respect. Even without the competing attractions of a multiclass Christian Democrat movement social democracy has never taken a foothold in Ireland. This is so despite the Labour Party being the oldest political party founded by the trade union movement in 1912. John Bruton's point about nationalism dominating everything politically is developed by Breen et al (1990). His thesis is that the civil war in the 1920s shaped the political party structure with the two main parties, Fianna Fáil and Fine Gael, offering competing varieties of nationalism. Every significant issue was conceptualised in terms of independence rather than of class which militated against the growth of the Labour Party. In a way one could say that this bears out Huber and Stephen's (2001) findings except that the distraction for the working class in Ireland's case was nationalism not ideology. As Murphy (2009) points out, the influence of the trade union movement was greatly diminished by the existence of two competing trade union centres. The state of affairs had its origin in the absence in the United States of Jim Larkin, the principal figure on the union side during the Lockout, for eight years after 1913. When he returned to reclaim the leadership of the Irish Transport and General Workers' Union in 1923 he ran into strong opposition from William O'Brien, the interim leader. This led to such serious division that Larkin was expelled from the ITGWU altogether and formed the Workers' Union of Ireland (or more specifically his sons, Peter and Jim, were the people who did the organising). Sixteen thousand members, two thirds of the ITGWU membership in Dublin, defected to the new union. This was the start of a civil war within the labour movement which resulted in two Congresses and two labour parties and a conflict which brought to the fore divisions between Irish and British based unions. Moreover, it deprived the left in Ireland of opportunities which were more open to it in the late 1920s, arguably, than at any time since. The division with the trade union movement was formally ended with the formation of the Irish Congress of Trade Unions in 1959. For a full treatment of this period refer to: Morrissey (2007, Chapter 12), McCarthy (1977, Chapter 2), O'Connor (2011, Chapter 6), and Puirseil (2012). To complicate matters, within the trade union movement in the 1940s and 1950s education provision became a major cleavage with British style secular provision contesting with Jesuit adult education espousing the social teaching of the

Catholic church (Murray, 2009: Chapter 5). Certainly Dick Spring, former Tánaiste and Labour Party leader, has no doubt that in his experience leading labour the legacy of the civil war is a major inhibitor of class politics (interview, 18<sup>th</sup> September, 2012). Unlike the Finnish case where a party system also evolved from a civil war, there was little in the way of a class dimension to the internal Irish conflict. The bottom line is that the influences affecting the composition of the Irish polity are quite different from the other comparator countries where the party systems are structured, or founded, on class cleavages (Weeks, 2010).

Another interesting area where Ireland has lagged the other countries is the degree of social cohesion achieved. Ireland tends to be behind in indicators of equality, social transfers etc. as Huber and Stephens (2001) and Hemerijck (2013) attests by virtue of their categorisation of the country in the liberal market cluster. And yet the Irish state has increased spending at different stages quite significantly. Breen et al (1990) and O’Riain (2004) make a strong case that the issue is not so much that the state has not intervened but that it has intervened in the wrong way – to prop up the existing class structure.

Nor is the polity of the other countries clear cut Keynesian in economic terms. In fact the Rehn-Meidner Model adopted in Sweden in the 1950s and which has influenced the shape of the Nordic model generally is specifically not a Keynesian recipe as emphasised in Chapter 1 (Erixon, 2013). Erik Jones (2008) observes that the Thatcher-Reagan neo-liberal revolution had no influence in the Netherlands. Policymakers from all parts of the political spectrum have long held economic views that would be considered neo-liberal. It was just that these views were accommodated alongside a strong consensus approach to economic adjustment via the ‘Polder’ model. In any event the decision in the mid-1970s to peg the Dutch Guilder to the Deutschemark foreclosed on economic options as Wim Kok (interview, 12<sup>th</sup> September, 2012) pointed out. Even in the aftermath of the oil crisis in the mid-1970s the Dutch followed a broad disinflationary policy while many countries were still responding via a Keynesian programme. The centre right Christian Democrats governments of Ruud Lubbers continued with austerity into the 1990s but they lost power to Wim Kok in 1994 for the first time in 70 years.

Finland has been characterised by a corporatist political culture such that parliamentary democracy in economic policy making has never enjoyed the same legitimacy as in other Nordic countries. This has historical roots in the civil war outcome in which large employer organisations merged with the State in organising the campaign by the ‘Whites’ against the ‘Reds’. Vartiainen (2011) argues that a conservative fiscal policy and a rejection of Keynesian demand management was partly as a result of the corporatistic political culture. This, he asserts, is because, while Keynesian stabilisation policy can be attractive to the electorate and to labour interests, its support in a system dominated by business and export interests can be difficult to achieve. In general Finnish economic policy has been quite conservative with even some prominent Social Democratic leaders on occasion being concerned about budget deficits. Insofar as Keynesian interventionism featured it was in the form of repeated devaluations and incomes policy. Incomes policy was achieved through tripartite social contracts from the mid-1990s. Its Nordic neighbour, Sweden, would, for example, have a far stronger Keynesian tradition than Finland, albeit, as already mentioned, this was modified by the Rehn-Meidner model in the 1950s (Erixon, 2013).

In a discussion about the concept of the knowledge based economy Bob Jessop (2010: 123) identifies some unique characteristics of the Danish economy. First he emphasises that Denmark is a small State with a negotiated economic, political and social approach to mobilising stakeholders and citizens around its competitive economic strategy. He notes that the term ‘knowledge economy’ first came into use in Denmark around 1997 but dropped out of economic discourse quite quickly. He attributes this to the fact that the Danish economic model was never really Fordist and already displayed many of the features of the purportedly emerging new economy by the time the OECD began to adopt the term ‘knowledge economy’.

Denmark has long been a source of particular interest to Ireland. Rory O’Donnell (2010) draws attention to the similarity of size, climate, and geographical location. He recalls that as early as 1943 Beddy undertook a detailed comparison of the principal economic features of Denmark and Ireland with a view to establishing the basis of Denmark’s greater economic success. This was followed by studies by Lee (1989), Mjoset (1992) and O’Rourke (2006). Sir Horace Plunkett who set up the

Irish Agricultural Organisation Society (IAOS) was influenced by the achievements of Danish agriculture including the innovation of cream separators so important to dairy coops.

However, Kevin H O'Rourke (2006) points out there are some important differences between Denmark and Ireland. For example, Ireland was at one stage part of the UK whereas Denmark was always an independent country. Denmark has been a more homogeneous society than Ireland which suffered from religious and political cleavages and competing nationalisms. Irish emigration far exceeded Danish emigration although emigration from Denmark was significant in the late nineteenth century. Finally land reform was introduced in Denmark in the late eighteenth century more than a hundred years before Ireland. But like both Ireland and Finland, Denmark has lived in the shadow of a powerful neighbour in Germany.

For geopolitical reasons Finland did not benefit from Marshall Aid after the Second World War and Ireland received only limited assistance. At the end of December 1951 the Economic Co-operation Administration (ECA) was replaced by the Mutual Security Agency (MSA) changing the context of US aid provision from European economic recovery to strengthening mutual security and collective defence. Ireland, like Finland, practiced a foreign policy with neutrality at its core and felt unable to sign up to the US Economic Cooperation Act of 1948 thus cutting itself off from further Marshall Aid after 1952. The loss of technical assistance available under the programme was a big blow to Ireland inhibiting productivity improvement. Overall more than six thousand European managers, workers, educators, and engineers visited the United States to learn production and construction methods by the end of 1951 alone. The programme continued for the rest of the decade and, as at the beginning of 1958, Denmark had received \$9.01 million and Netherlands \$11.28 million. However, Ireland's comparative loss was mitigated to some extent by its involvement with the European Productivity Agency (EPA) which was established within OEEC in 1953 and provided an alternative source of technical assistance (Murray, 2009: Chapter 2).

Overall the position of the comparator countries at the time when Katzenstein was writing in 1985 can be summarised thus; Denmark and Netherlands were advanced



industrial economies while Finland and Ireland were late developers in this regard. The Netherlands and Denmark were firmly within the German sphere of influence having their currencies pegged to the DM. Finland was in a delicate geo-political and security relationship with Sweden and the Soviet Union, having a 1500km border with the latter. Ireland had an important trade relationship with Britain, particularly for labour intensive food products, and was increasingly becoming a base for US multinationals exporting to Europe, a situation that was to accelerate after the passage of the Single European Act in 1986.

In Denmark, Finland and the Netherlands social democracy and corporatism were under attack although the 1982 Wassenaar Accord began to turn the tide of opinion in the Netherlands. Ireland at that time had no established system of corporatist exchange, early attempts at it having failed. Social Democracy had always been marginal to Irish politics. In both political and economic terms Ireland was a Liberal Market Economy while Finland and Denmark were part of the Nordic social democratic model while the Netherlands was part of the Christian democratic SME tradition, albeit the most Nordic orientated of that cluster.

Ireland was facing an existential crisis of its public finances, inflation, unemployment and emigration. Andersen's (1996) pathology of 'welfare without work', gave rise to the expression 'The Dutch Disease' because 27 per cent of the population of the Netherlands was on disability or some other welfare payment.

In Denmark the fact that collective agreements had automatic 'cost-of-living' adjustments built in to them meant that the oil crises generated increasing large wage movements which undermined competitiveness and impacted on employment. This gave a strong impetus to reform in the 1980s (Lykketoft, 2009). Finland's emphasis on innovation and restructuring of its industrial base, and its use of devaluation cycles, left it in a more favourable employment position during the 1980s.

The principal factors of convergence and divergence in 1985 can be depicted as in Table 10 below. With few exceptions Ireland is at the bottom when it comes to economic indicators. Its GNP growth was in fact above average and above both Denmark and Finland in the 1973-79 period, but, according to Mjoset (1992), this

performance rested largely on borrowing. In the 1980-88s Ireland was at the bottom again. Consumer price inflation was the highest during both periods since 1973. As for unemployment, there are interesting parallels between Ireland and Denmark. Both countries had a history of periods of high unemployment Between 1948 and 1969. After 1973 Ireland became one of the small mass unemployment countries and while Denmark was a little below the Netherlands, its employment record looked more like a continental than a Nordic country.

In the next chapter we will explore how these relatively poor performances transitioned into 'Employment Miracles' during the 1990s.

**Table 10: Characteristics of Institutional and Economic Convergence and Divergence of the Political Economies of the Comparator Countries in the World of Katzenstein (1985)**

	Finland	Denmark	Netherlands	Ireland
<b>VARIETIES OF CAPITALISM</b>				
<b>Nordic SME</b>	X	X		
<b>Continental SME</b>			X	
<b>Liberal Market Economy</b>				X
<b>POLITICAL INSTITUTIONS</b>				
<b>Majoritarian Democracy</b>				
<b>Consensus Democracy</b>	X	X	X	
<b>Hybrid (Westminster + PR)</b>				X
<b>Unitary State</b>				X
<b>Unitary but Decentralised</b>	X	X		
<b>Semi-Federal State</b>			X	
<b>Class Base Politics</b>	X	X	X	
<b>CORPORATIST INSTITUTIONS</b>				
<b>Democratic Corporatism</b>	(Strong employer base-decentralised until 1995)	X	X	(Commenced in 1987)
<b>INDUSTRIAL POLICY</b>				
<b>Advanced Industrial Policy</b>		X	X	
<b>Late Industrial Development</b>	X			X
<b>National System of Innovation</b>	X	X	X	(Attempt to import via FDI)
<b>ECONOMIC CHARACTERISTICS</b>				
<b>Part of ERM</b>				X
<b>Pegged to DM</b>		X	X	
<b>Independent Currency</b>	X			
<b>Annual Average Growth Rates of GDP (1980-89) %</b>	3.7	1.7	1.6	1.7
<b>Inflation (CPI) %</b>	7.4	7.1	3.0	10
<b>Unemployment Average (1973-85)</b>	Low (4.9)	High (7.3)	High (13)	High (17.6)
<b>Employment Average (1973-85)</b>	High (72.7)	High (74.2)	Low (51.2)	Low (49.9)
<b>Employment Growth (1973-85)</b>	Negative (-0.1)	Medium (0.4)	Negative (-6.9)	Negative (-16)

Source: Partially Derived from Mjoset (1992) and Lijphart (1992)

# CHAPTER 4: 1994-2001 The Age of Employment Miracles

## Introduction

This chapter explores the evolution of the political economies of Finland, Denmark and the Netherlands over the period 1994 to 2001 with particular reference to how each went about achieving the employment gains which caused the references in the literature to ‘employment miracles’ (Green-Pedersen, 2002; Becker and Schartz, 2005). Finland is an outlier to some extent because it was still in recovery mode after the twin crisis of the Soviet Union collapse and banking meltdown in the first years of the decade. Ultimately, of course, the dissolution of the Soviet Union and the decision of China to become capitalist by decree greatly enlarged the capitalist world and added 1.5 billion to the existing industrial workforce (Mason, 2009). The world of Katzenstein (1985) was changing rapidly. The single European Act of 1986 represented a sea change in regional integration. Exchange control regulation in Europe was removed in 1990. Financialisation of the global economy was increasing, culminating in 1999 with the repeal of the Glass-Steagall Act which had been enacted in the US in 1933 after the Wall Street Crash to separate commercial and investment banking.<sup>24</sup> This cleared the way for an extensive range of sometimes fairly exotic financial investment products (Gyfason, 2010). Globalisation of production was also a feature of the 1990s especially in the electronics industry. In the world of high-tech peripherality became less important (Donovan and Murphy, 2013, Paus, 2012).

The period 1994 to 2001 is bookended by the Maastricht Treaty and implementation of the currency union. The Maastricht Treaty was a crucial milestone on the path of European integration. Passed in 1992 the die was cast for monetary union and the overriding policy imperative of the 1990s was to implement the necessary convergence adjustments to qualify for admission to the single currency. Not alone was this achieved but a period that started with high unemployment and welfare expenditure, and crisis in the case of Finland, ended with considerable achievements

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<sup>24</sup> The purpose of the Act was to protect depositors’ money against speculative investment activity by banks. It was repealed in the US Senate by the Gramm-Leach-Bliley Act in 1999. The banking industry had been lobbying for the repeal since the 1980s. Ultimately this contributed to the 2008 crisis.

in these areas. In Finland, Denmark and the Netherlands this coincided with a Social Democratic renaissance.

## FINLAND

### **Recovery to the Dotcom Decline: 1994-2001**

Economic recovery when it came to Finland coincided with the return to power of the Social Democrats although this did not imply an immediate or dramatic change in economic policy (Lindgren, 2011:58).

In 1995 a new social democratic government led by Paavo Lipponen formed a broadly based coalition including the Conservatives as junior partners. The priority of the new administration was to prepare the country for EMU accession. EMU was very much a political as well as an economic objective for Finland since it conformed to the long held aspiration of being a core western European country. Being eligible for EMU membership required the country to attain certain fiscal standards. This translated directly into the need for fiscal consolidation as well as a responsible incomes policy (Vartiainen, 2011).

Shortly after entering office the Lipponen government presented a policy programme including expenditure cuts and tax increases. This had the positive effect of causing a drop in the interest rate differential with Germany. Whereas the ratio of debt to GDP continued to increase up to 1997 it started to decrease consistently from that year on. The first central budget surplus was registered in 1999 (ibid).

The Lipponen government was also able to achieve a change of direction in incomes policy. Vartiainen (ibid) maintains that the centre-right government of 1991-1995 had a poor relationship with organised labour and no real attempt had been made to harness the centralised wage bargaining system to the service of macroeconomic policies. The Lipponen government realised that both fiscal consolidation and an incomes policy were essential preconditions both of EMU membership and employment generation. In Vartiainen's words:

“Economic theory suggests that loss of monetary autonomy (EMU) will in an economy with strong trade unions require a more stringent centralisation of pay

bargaining than that would be the case with a national central bank with an inflation target.”

(Ibid: 76)

Accordingly, the government set about encouraging comprehensive pay agreements to limit the increase of unit labour costs. The first Lipponen administration from 1995-1999 and its successor (also led by Lipponen) from 1999-2003 were reasonably successful in most of its objectives. One exception was unemployment. In 1999 the rates of unemployment were 9 per cent in the EU and 10 per cent in Finland; in 2000 Finland was still at 9.6 per cent (Personen and Riihinen, 2002, Vartiainen, 2011).

The recovery when it came was quite rapid. By 1994 unemployment had increased by 12 per cent within four years. The attempt to sustain the exchange rate of the Markka had to be abandoned in the autumn of 1991. The currency promptly collapsed, so that the Bank of Finland's currency index rose by almost 40 per cent. This contributed to a completely new direction for the Finnish economy. Net exports started to increase, consumption remained moribund, fiscal deficits soared and a slow and painful de-leveraging process began. By 1997 aggregate output had increased by 5 per cent. In 1997 Finland's gross domestic product equalled 23,309 US dollars per capita which was higher than the EU average, but ranked eight of the EU 15. By 1999 exports had started to recover from the effects of the collapse of the Soviet Union. By 2000 the economy was growing again at a rate of 5.7 per cent while the whole EU could only manage 2.5 per cent. In 2000 exports were 26 per cent higher than in 1999 and amounted to almost 43 per cent of GDP (Personen and Riihinen, 2002; Vartiainen, 2011). The contribution of Nokia to the Finnish economy over the 20 years from 1991 to 2011 can be seen from Figure 2. The role of Nokia in Finland's national system of innovation is summarised in Box 1.

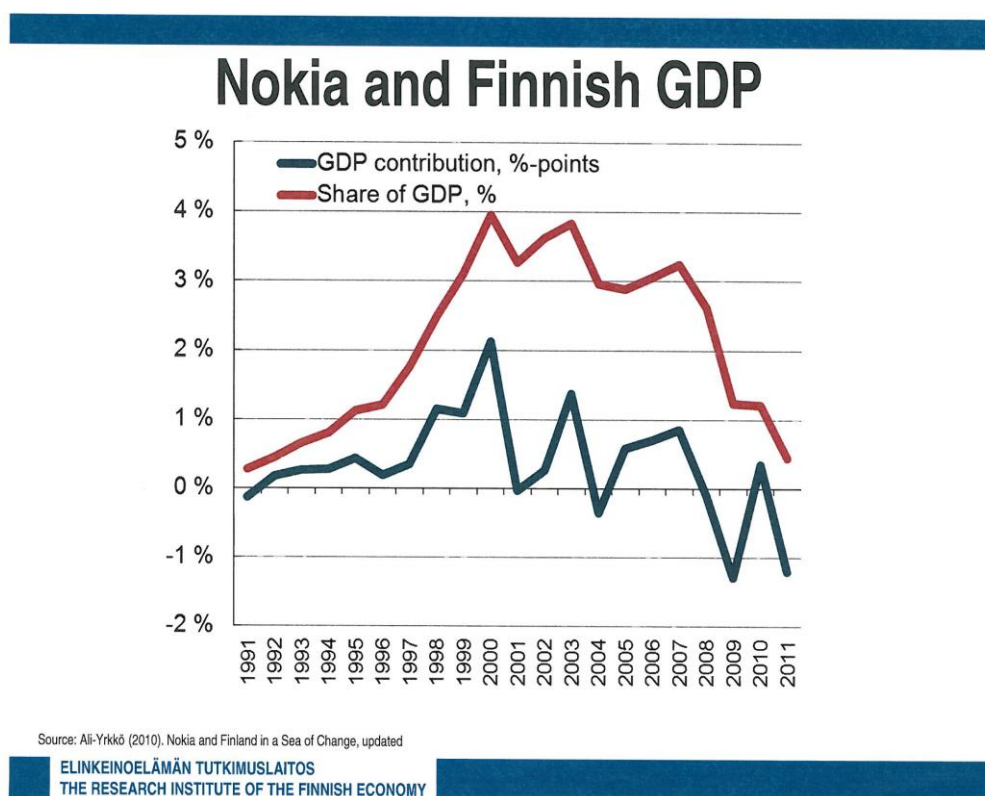
Sixten Korkman of the Finish Innovation Fund (SITRA) attributes the speedy recovery from the crisis to three factors, viz, devaluation, tax reform and stabilisation agreements with the trade unions. In response to a question about whether the country had become more liberal he said it had in some respects citing the removal of the ceiling on rents in Helsinki as an example (interview, 28<sup>th</sup>

September, 2012). Vesa Vihriala, Managing Director of the Research Institute of the Finnish Economy, recalls that there was a debate about whether fiscal consolidation was done too early but he feels the timing was right. He also cites the decision to promote innovation through investment in R&D to change direction from being focussed on medium technology exports to the Soviet Union. Also the tax base was broadened. Corporation tax was reduced but offsets were eliminated. Dividends were not taxed at all for a period. He notes that reform of the labour market did not go very far until the Social Democrats returned to power in 1995 (interview, 28<sup>th</sup> September, 2012).

However, the country's export performance was rather asymmetrical. By the fourth quarter of 2000 the output of the electronics sector was almost 50 per cent higher than it had been the previous year, while other Finnish exports grew by only 5 per cent. The main cause of this boom in electronics was Nokia. In 1992 it changed from being a diversified business to one concentrating on mobile communications, quickly becoming the world leader in this sector. Its share of all Finnish exports grew from 6 per cent in 1995 to 26 per cent in 2000. It accounted for 70 per cent of Finland's information technology exports. The role played by Nokia in reinventing the Finnish economy is widely recognised in Finland. Prof. Sixten Korkman of the Finnish Innovation Fund (SITRA) says the company was helped by its central role implementing EU standards in ICT and by the existence of private companies rather than State monopolies in the sector. But, he says, Nokia is still a bit of a mystery (interview, 28<sup>th</sup> September, 2012). Former prime minister, Matti Vanhanen, notes that at one stage Nokia accounted for 1.5 per cent of Finland's growth rate, although it is less important today (interview 27<sup>th</sup> September, 2012). The state secretary to the minister for Labour, Janne Metsamäki, recalls that the decision of Nokia to change from a conglomerate to focus on ICT was an internal company decision. At one stage consideration was given to selling the company to Ericsson which would have been a terrible mistake. By the end of the 1990s Nokia accounted for 6 per cent of GDP, it accounted for 1 per cent in 2012 (interview, 26<sup>th</sup> September, 2012).



Figure 2: Contribution of Nokia to Finnish GDP from 1991 to 2011



The entire Finnish IT cluster contained more than 3000 companies, 10 per cent of which were Nokia’s suppliers. About 60 per cent of production of Finnish industrial companies is performed outside the country. In 1980 Finnish companies employed 20,000 outside the country, but by 2000 the number had expanded to 200,000. On the other hand 1500 foreign companies had come to operate in Finland employing about 10 per cent of the private sector labour force. This internationalisation of the Finnish economy reflects a concern with the strategic vulnerability of a small open economy. Domestic markets are not big enough so the countries that buy Finland’s products are a source of risk if their economies are not performing well. Also international competitiveness in a globalised world requires specialisation and this carries its own risk. All in all though, Finland’s industrial policy in the 1990s would appear to bear out Peter Katzenstein’s (1985) thesis on small States, although it was not part of his original study.

## Box 1: Nokia and Finland's National System of Innovation

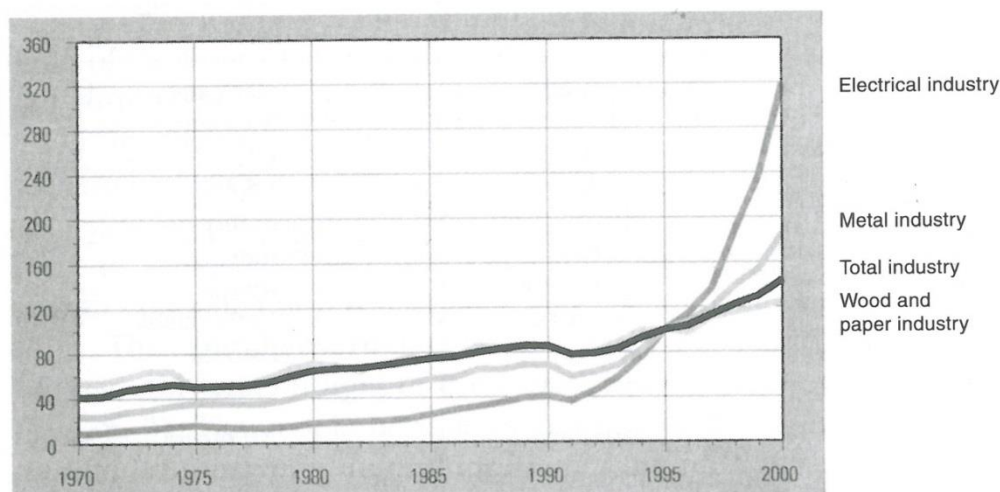
### **Nokia and Finland's National System of Innovation**

The key to understanding Finland's economic achievements from the 1990s onwards is to understand Nokia's transformation from a pedestrian type of conglomerate to a world leader in information and communications technology. According to Moen and Lilja (2005) there were two key factors involved. The first was strategic coordination between industries which allowed Nokia to commercialise protracted development work done by Tele Finland within the framework of a publicly funded Nordic collaboration dating back to the 1960s. This collaboration provided some very rich outcomes including the Global System for Communications (GSM) which was ultimately adopted as a European Community standard for digital communications. When GSM became commercially available in the early 1990s it was the first such system used on a global scale presenting tremendous business opportunities for Nokia.

The second factor was the unique enabling environment for innovation in Finland. The seeds of transformation in the Finnish economy were planted in the early 1980s. A political decision was made to support technology driven development and create a national system of innovation. This was done by increasing research funding and establishing new policy making institutions. These in turn institutionalised dialogue between political and economic actors which formerly had been ad hoc in nature. A key institution was the Science and Technology Councils. In effect the core coordinating functions of the formerly bank-based financing system were taken over by these institutions.

Finland's national system of innovation is interesting from a Varieties of Capitalism perspective. Moen and Lilja (2005:353) observe that in a Coordinated Market Economy (CME) innovation is expected to happen incrementally whereas a Liberal Market Economy (LME) is expected to facilitate radical change. Yet Finland, while clearly a CME, was able to achieve extraordinary change over the period of the 1990s. They offer a possible explanation in the form of the exogenous shock that hit the country by virtue of the Soviet collapse. On the other hand they make the point that the basis of the transformation of the Finnish economy was policy decisions made in the 1980s.

Figure 3: Trends in Finland's Industrial Output from 1970 to 2000 (volume indexes, 1995=100)



Source: *Personen and Riihinen (2002:250)*

Katzenstein's view is further supported by the fact that 1995 marked the return to centralised bargaining in Finland. The income policy agreement of that year was followed by similar agreements in 1997, 2001, 2003 and 2005. In fact during the period 1995-2007, it was only in 2000 that wage bargaining was conducted at the industry level without a previous central agreement. As in Sweden Finnish employers had turned against centralised bargaining but they found that uncoordinated bargaining rounds in the early 1990s produced higher pay increases than they expected. According to Karl-Oskar Lindgren(2001) the decision to join the European Monetary Union was also a factor contributing to the revival of centralised wage bargaining.<sup>25</sup>

Another important factor in Finland's recovery in 1999-2000 was the strength of the American economy and an improving performance by the bigger European countries. But by the summer of 2001, when the government was finalising its budget for 2002, it was already apparent that America and the others were beginning to slow down. *Personen and Riihinen (2002)* credit the government with prudent management of fiscal policy in light of these changing circumstances.

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<sup>25</sup>According to Ollie Rehn (1996) The Liinamaa Agreement in 1968 represented "The peak in the history of Finnish incomes policy". Olli Rehn was EU Commissioner for Economic Affairs in 2011.

## DENMARK

### **The Danish Employment Miracle 1994 to 2001**

The 1990s saw the beginning of what turned out to be a period of very rapid expansion of the Danish economy coinciding with a prolonged period of Social Democratic rule from 1993 to 2001. It was also the time when structural reform of the broad economy, the labour market and the welfare regime began to gain some traction. Basically the Social Democrats were able to persuade people to accept change that they would not accept from Conservatives.

It would be wrong to think that the extraordinary transition we are about to explore was easily or painlessly achieved. In comparison to other advanced economies Denmark in the early 1990s had higher levels of unemployment and indebtedness. Measured in terms of days lost through industrial action Denmark, during the second half of the decade, exceeded all of the other EU countries. Between 1996 and 2000, the average number of days lost through strikes was in excess of six times greater than the EU average (Campbell and Hall, 2006: 15).

Nevertheless, the degree of economic progress made during the period was impressive. In terms of economic growth as measured in GDP per capita Denmark outperformed most of the advanced capitalist countries. Moreover, in 1998 Denmark was able to run a budget surplus of 1.7 per cent of GDP while most of the other EU countries were running deficits. The average duration of unemployment in Denmark was less than that of other EU countries except Norway and labour productivity grew faster on average during the 1990s than in the OECDs as a whole. Denmark was the fourth most competitive country in the world by 2003. At the same time Denmark managed to remain at once one of the wealthiest societies and the most egalitarian. During the 1990s GDP per capita increased from \$18,463 to \$22,123 making it the third best OECD country in 1998 and in 1997 it had a Gini coefficient of 0.21 which was the lowest in the EU. During the mid to late 1990s poverty rates were reduced to 4 per cent, again well below the EU average of 12 per cent (ibid).

**Table 11: Income Inequality and Poverty**

	<i>Gini Coefficient</i>		<i>Poverty Rate*</i>	
	1995	1997	1995	1997
<b>Austria</b>	0.28	0.25	7	<b>8</b>
<b>Belgium</b>	0.37	0.34	10	<b>10</b>
<b>Denmark</b>	0.22	0.21	4	<b>4</b>
<b>Finland</b>	--	0.23	--	<b>3</b>
<b>France</b>	0.30	0.30	9	<b>11</b>
<b>Germany</b>	0.31	0.29	11	<b>8</b>
<b>Greece</b>	0.35	0.35	16	<b>16</b>
<b>Ireland</b>	0.34	0.33	8	<b>10</b>
<b>Italy</b>	0.33	0.32	13	<b>13</b>
<b>Luxembourg</b>	0.29	--	--	--
<b>Netherlands</b>	0.29	0.28	7	<b>9</b>
<b>Portugal</b>	0.38	0.38	17	<b>15</b>
<b>Spain</b>	0.34	0.35	12	<b>13</b>
<b>Sweden</b>	--	0.23	--	<b>7</b>
<b>United Kingdom</b>	0.34	0.34	13	<b>16</b>
<i>EU mean</i>	<b>0.32</b>	<b>0.31</b>	<b>11</b>	<b>12</b>

\*The poverty rate is expressed as the percentage of household with disposable income 50 per cent under the median disposable income for that country.

Source: Campbell and Hall, 2006: 16

Per Kongshoj Madsen (2006) identifies the components of this successful strategy as including; the role of macroeconomic expansion in the 1990s; the long-term nexus between labour market flexibility and a generous level of economic support for the unemployed (flexicurity); the reforms of the labour market achieved from 1994 on.

He summarises the accomplishments of the strategy as embracing a strong increase in public and private sector employment without deficits on the external balance of payments except in one year (1998). He also notes that it was achieved without a significant increase in wage inflation. He observes that:

“Denmark seems to have created an unique combination of stable economic growth and social welfare since the mid-1990s, at a time when Liberals were

arguing that the classical Scandinavian model was becoming obsolete and was no longer able to face the demands of flexibility and structural change arising out of technological progress and the growing forces of international competition.”

(Madsen, 2006: 327)

Poul Nyrup Rasmussen was prime minister of Denmark from 1994 to 2001. According to him the government sought to kick-start the economy through investment in infrastructure and time limited incentives to business. GDP growth went from 2.3 per cent to 5.4 per cent without inflation. He achieved this by bringing the unions on board. His proposition was rooted in investment in active labour market programmes (ALMPs) on a conditional basis i.e., no benefit without training. It was a proposition involving obligations and rights. He says of the engagement with the unions: “It was a tough discussion. The unions agreed on one condition – more jobs within two years or else!”.

Reform and kick starting the economy went hand in hand. By 1995 the plan was seen to be working so the trade unions were willing to continue with it; “You need to present people with a choice – people are not soldiers – it has to be a real choice, not a cover for austerity” (interview, 21<sup>st</sup> May, 2012).

Rasmussen’s main collaborator in this enterprise was Finance Minister (now Speaker) Mogens Lykketoft. He recalls that the main worry about the high unemployment rate of 12 per cent in 1994 was the structural (long term) component of 9 per cent. The ‘growth packet’ included, as well as public investment and tax reform, a reorganisation of the mortgage market to convert old high interest loans into low interest loans with a longer time period. High interest rates and the fact that the mortgage market had been frozen meant that resolving this problem boosted real estate and gave a kick start to the economy. However, Lykketoft is adamant that the initiative on ALMPs – with new qualifications and training – was the most important single contribution to success (interview, 22<sup>nd</sup> May, 2012).

These labour market changes were achieved by redesigning the flexicurity model which is a voluntary insurance based scheme intended to give participants up to 90

per cent replacement income for 4 years. It was highly regarded by the European Commission who made some efforts to promote it in other countries. Wim Kok considered a social pact negotiated in the Netherlands in 1996 on the theme of flexicurity to be of seminal importance in that country (interview, 12<sup>th</sup> September, 2012).

Rasmussen and Lykketoft are highly critical of the centre right government which took office in 2001 for hollowing out the flexicurity contract. They say that the prime minister at the time, Anders Fogh Rasmussen, gave tax deductions to the wealthy funded by cutbacks to flexicurity. First he gave the tax cuts then paid for them by imposing austerity, they accuse (interviews, 21<sup>st</sup> and 22<sup>nd</sup> May, 2012).

However, Goul Andersen (2011:116) draws attention to the fact that, notwithstanding Poul Nyrup Rasmussen's contract with the trade unions, the reforms after 1993 were not the subject of tripartite negotiations with the social partners. They were nearly all carried through as part of the annual budget negotiations between the government (minority) and other parties. He claims this forms part of a broader de-corporatisation in Danish society – and fast moving political decision - making processes.<sup>26</sup> Organisations are included if there is time, and if legitimacy is necessary.

Soren Kaj Andersen of FAOS, Sociologisk Institute, Copenhagen University, observes that Rasmussen's ability to create jobs was what was important. He believes flexicurity as a concept has been oversold or at least it is necessary to identify more precisely the circumstances in which it will work. Whatever about the mid-1990s, using flexicurity to deal with the 2008 crisis was not as effective as the German approach to managing short time working.

The trade union perspective is given by Anette Berentzen, European and International Officer of Danish LO. She considers that great credit is due to Poul Nyrup Rasmussen for kick starting the economy. She does not believe that flexicurity can be successfully divorced from its cultural context and copied by other countries (interview, 22<sup>nd</sup> May, 2012).

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<sup>26</sup> This is somewhat similar to what Kaspersen and Torsager (2009) describe as 'authoritarian liberalism' referred to later in this chapter.

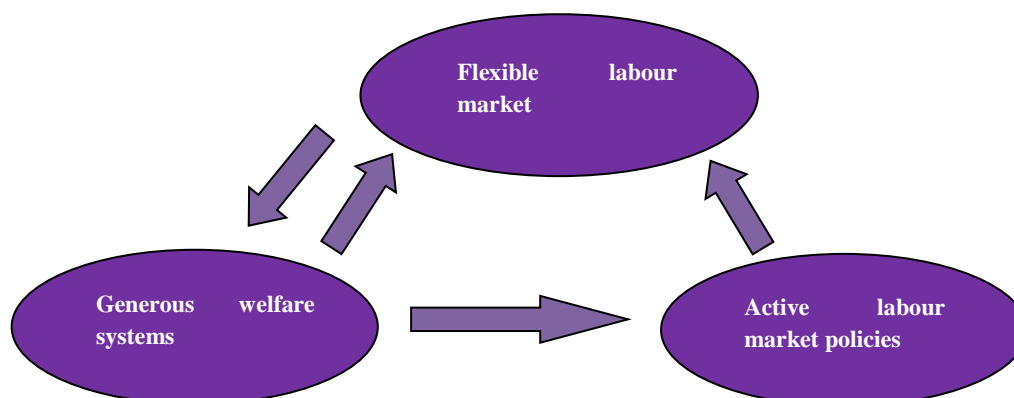
In Madsen's (2006) reasoning the economic upturn in the 1990s was less a miracle and more a standard example of the demand-driven growth. In 1994 both exports and domestic demand each recorded growth rates of 6 per cent. This kick start was sustained with steady growth rates over four years. It was not until 1999 that domestic demand began to level off leaving exports to carry the expansion of the economy forward. This demand led expansion was engineered by the Social Democrats using fiscal policy when they took office in 1993. It was helped by falling interest rates and rising property prices. In 1994 alone private consumption increased in real terms by 7 per cent. Exports increased strongly driven by improved competitiveness facilitated by stable nominal wages after 1994. However, what happened in Denmark in this period can also be plausibly interpreted as fitting Scharpf's (1991, chapter 2) description of a Keynesian response to investment-gap unemployment as distinct from unemployment caused by a lack of demand.

In any event the combination of causal factors outlined above stimulated ideas about the existence of a unique Danish model. (Madsen, 2006: 329). Christoffer Green-Pedersen (2002: 45) writes about parallel developments in the Netherlands from 1994 and speaks of a Dutch and Danish 'miracle'.

Per Kongshøj Madsen (2006), while acknowledging the tremendous achievements of the period, is a little more circumspect on this point. He opines that the decline in unemployment can be explained easily enough within the framework of standard macro-economic analysis but the interesting thing is that it happened without an incidence of wage inflation. He speaks instead of "The Golden Triangle" of the Danish employment system which embodies three unique features of the Danish labour market and labour market policy, via; a flexible labour market indicated by significant movements in and out of employment; high income replacement rates while unemployed; a focus on active labour market policies of upgrading the skills of those who find it hard to get back into employment.



Figure 4: The Golden Triangle of Flexicurity



Source: Madsen (2006: 331)

The labour market improvements in the 1990s can be summarised thus; gross unemployment fell from 600,000 persons in 1994 to 434,000 persons in 2002. This employment gain was balanced across both the public and private sectors of the economy and was achieved without wage inflation or deficits on the external balance of payments. This is based on a particular variant of flexicurity where a high level of mobility between firms is combined with income security (ibid).

The operation of the labour market is obviously closely related to the system of collective bargaining for wages. Mailand (2011:71) writes that in 1987 the social partners jointly agreed to take the overall macro-economic performance of the economy into account for wage bargaining purposes and in fact agreed on wage increases below the prevailing international wage inflation in order to improve the competitiveness of Danish industry. This joint declaration in 1987 continued to inform wage bargaining through the 1990s and beyond. This was the 'negotiated economy' in action in a tangible way. Over the period of the 1990s wage bargaining was decentralised to the level of individual firms to a large extent. In 1989 the share of private sector wage agreements centrally negotiated was 34 per cent whereas by 2000 only 15 per cent were centrally agreed (ibid). According to a hypothesis developed by Calmfors and Driffill (1988) decentralisation of bargaining could help to explain the subdued level of wage inflation over this period.

Despite the obvious success of the negotiated economy Rory O'Donnell (2010:158) points to a subtle change in emphasis beginning in the early 1990s. The focus moved

to methods and procedures for devising policy prescriptions rather than concentrating on substantive matters as it had formerly. This was a move beyond classic neo-corporatism. It was in response to the perceived need to change to structural policy which required it to change its institutions of social dialogue and concertation.

On the whole O'Donnell (ibid) accepts this as a necessary and benign evolution. However, an alternative perspective is offered by Lars Bo Kaspersen and Linda Thorsager:

“Over the last 10-15 years the Danish State has shifted power strategy. In order to achieve its goals it intervenes more directly in societal matters unlike in previous periods, when it most often negotiated with different societal and organised interests. We conceptualise this shift in power strategy as a move from the application of infrastructural power to despotic power.”

(Kaspersen and Thorsager, 2010: 247).

This conceptualising of what began in the 1990s is located in the context of Denmark's response to the pressures of globalisation. It does not subscribe to the hyper globalisation thesis that State power and influence is diminishing, but rather that it is being reordered in response to changing exogenous forces – in Denmark's case as a more direct State intervention than applying a negotiating form of State power. This alternative power strategy is termed '*authoritarian liberalism*' by Kaspersen and Thorsager (ibid: 249).

Another feature of the 1993 to 2001 periodisation was the emergence of Europragmatism as a refinement of Danish foreign policy.

At a political level Denmark's relationship with the EU has been a complex one attended by many frustrations. In part this is due to the fact that policies favoured by the political elite, sometimes known as 'the Privy League', have been rejected twice by Danish voters. This happened in the 1992 referendum on the Maastricht Treaty and again in the 2000 referendum on Denmark's continued Euro-cooperation. Like

the UK Denmark was an EFTA graduate. It did not share the commitment to political integration of the six founding members of the EC and worried about the implications of monetary union for its autonomy. This mass-elite division did not sit well with a polity which relied so much on consensus building. The referenda of this period revealed Denmark as a country with a confederalist view of Europe. It wants EU political decision making to complement rather than diminish the power of national parliaments. It sees little value in a small well-functioning welfare state delegating political powers to the EU on welfare and constitutional issues. This is much the same as the other Nordic countries. They all subscribe to a model which delivers high quality welfare services on a universal basis by the State. This approach involves a high level of female participation in the workforce and takes caring out of the family and into the formal economy. This is much different than the continental welfare model. Thus after the 1990s Denmark's attitude to the EU was set within the limits of confederalism – a kind of Europragmatism. This pragmatism manifested itself in the way Danish society, from the early 1990s, began the task of adapting to those demands of European integration that it was willing to accommodate and globalisation. This was all part of the restructuring that was seen as an imperative of public policy. Danish foreign policy traditions have deep roots. At one level Denmark has a 'small State tradition' that lends itself to a kind of passive adaption policy. At another level Denmark has a more independent internationalistic tradition rooted in its earlier history as a small empire. All this makes for the complex but yet pragmatic approach to foreign policy forged in the 1990s (Abrahamson, 2006; Boss, 2010 b; Eichengreen, 2007, Hvinden, 2010; Kelstrup, 2006).

It is important to note that foreign policy considerations must take account of Denmark's historic and economic ties to Germany. The historic Schleswig Holstein link<sup>27</sup> has been documented earlier but the economic links (like for the Netherlands) began in the 1980s when the currency began to track the D-Mark. Niels Christopher Thygesen of the University of Copenhagen recalls that the early days of this relationship were difficult but there were no major problems after 2003. Denmark had to upgrade the long term sustainability of the public finances. Debt was eliminated by Poul Nyrup Rasmussen but it is back up to 40 per cent of GDP now he

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<sup>27</sup> In the Danish Parliament building there is a stained glass window featuring two women embracing. It is meant to depict a mother and daughter – the daughter representing the Danish population of Schleswig

claims. He notes that Parliament signed up for the 2012 Fiscal Compact Treaty without reservation. “We are a German satellite”, he concludes (interview, 22<sup>nd</sup> May, 2012). According to Anete Berentzen of Danish LO:

“We have always been protected by Germany. The Danish Krone was always supported since linked to the D-Mark.”

(Interview, 22<sup>nd</sup> May, 2012).

She suggested that a factor in this regard might be the strategic importance of Denmark as a sub supplier of German industry.<sup>28</sup>

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<sup>28</sup> In 1993 Ireland expected support from Germany for the Irish Punt within the ERM against speculative attacks. It was not forthcoming and Ireland had to devalue by 10 per cent. However, Denmark was supported (Connolly, 1995).

## THE NETHERLANDS

### The Netherlands Welfare State Reform and the 'Jobs Miracle' 1994-2001

Whereas the period 1986-1993 was dominated by the re-emergence of corporatism the period 1994 to 2001 saw very far reaching reforms of the welfare state.

The election of 1994 produced a result which changed the political landscape significantly. The new government was led by Mr Wim Kok of the Social Democrats (PvdA) and included also the Liberals (VVD) and a relatively new party, the Democrats (D66). It was popularly known as the 'Purple' coalition. This was the first time since 1918 that there was no Christian Democrat (or its predecessor parties) represented in government. This also represented a break in the pivotal position of the CDA in the Dutch political system (Green-Pedersen, 2002; Visser and Hemerijck, 1997).

The cause of the seismic shift was welfare reform. It had become obvious towards the end of the previous decade that the system of social security disability pensions had become unsustainable. These had been introduced as a measure to try to contain the unemployment numbers in the wake of the first oil crisis but, twenty years later, the system was being abused. Employers were using disability pensions as an alternative to layoffs, and with the support of unions, in an effort to export the cost of industrial restructuring to the state and to allow them to hire younger, cheaper and more productive workers (interview with Wim Kok, 12<sup>th</sup> September, 2012).<sup>29</sup> The government's efforts to reform the system cost them a lot of votes because the disability regime was very popular. The Social-Democrats (PvdA) lost a quarter of their votes and 12 seats in Parliament in the 1994 election. Things were even worse for the Christian-Democrats (CDA) who lost a third of their vote and 20 seats. Overall, however, while the Christian Democrats were out in the cold, the Social

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<sup>29</sup> The President of FNV Trade Union Confederation, Agnes Jongerius, did not agree. She argued that workers and employers were paying the bill through their social insurance contributions. She referred to her own experience of restructuring the inland shipping industry and said she had no moral qualms about using disability to cover people who might have lost their jobs after 30 years. But she acknowledged that high insurance contributions made labour costs very high. The issue was one of sustainability rather than morality (interview, 12<sup>th</sup> September, 2012). PvdA Chairman, Ruud Vreeman, added the important point that the restructuring concerned older industries predominantly and that the disability allowance was higher than unemployment benefit (interview, 12<sup>th</sup> September, 2012).

Democrats were able to form a government with the two Liberal parties, D66 and VVD (ibid).

Notwithstanding the drubbing received from the electorate the Purple government continued with welfare reform but tried to legitimise this by emphasising a strategy of higher labour force participation. Thus ‘Jobs, Jobs, Jobs’ became the mantra of the government and they were right to the extent that low labour force participation had become the Achilles heel of the welfare state.<sup>30</sup> The PvdA imposed one important condition on welfare reform; the level and duration of welfare benefits would not be tampered with. There were essentially two pillars to the welfare reform project adopted on the advice of Mr Flip Buurmeijer (PvdA) who chaired a parliamentary enquiry into the subject which reported in 1993. First, financial incentives and limited competition were used to reduce problems of moral hazard. Secondly, the roles and responsibilities of various actors in the system were restructured (ibid).

The Buurmeijer committee had bluntly stated that the social partners had misused the disability scheme. Acting on this finding the government removed the social partners from the administrative councils deciding on disability pensions and Parliament voted to reduce the number of advisory bodies. At this time the concept of corporatism was also under attack from politicians who claimed the ‘primacy of politics’ in public policy making. The combination of these circumstances induced the social partners to deepen their relationship with one another and unite behind a common approach. One example of this was an ‘agreement to agree’ on the conditions for EMU on the basis of an opinion produced by the Social and Economic Council (SER). In the subsequent working out of the welfare reform programme the only scheme that did not suffer cuts was old age pensions. Interestingly, it was the only area which did not involve the social partners. Bluntly, therefore, trade union involvement in welfare administration, notwithstanding its contribution to job creation in the labour market, did not prove an effective shield against retrenchment (Green-Pedersen, 2002; Visser and Hemerijck, 1997; Visser and van der Meer, 2011).

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<sup>30</sup> Prior to the initiation of reforms 27 per cent of Dutch citizens were in receipt of a transfer payment of some sort (Esping-Andersen, 1996; Visser and Hemerijck, 1997; Linbert, 2007).

The employment achievements were formidable in the 1990s. An average rate of employment growth of 1.6 per cent per annum halved the unemployment rate and had 6.8 million people in employment by 1997. This Dutch ‘Miracle’ was comparable to that achieved by the American jobs machine but without the inequality. How was it achieved? A combination of Social Democratic incumbency and trade union pressure for an emphasis on increasing employment as a priority over wage increases within the corporatist model is the most likely answer.

**Table 12: Employment Growth in the Netherlands, the EU and selected OECD countries**

	1983-1993	1994	1995	1996	1997*
Netherlands	1.8	0.8	2.4	1.9	2.0
EU	0.4	-0.7	0.5	0.1	0.4
Belgium	0.5	-0.7	0.3	0.1	0.5
Germany**	0.7	-1.8	-0.3	-1.2	-0.9
France	0.1	-0.4	-0.4	0.9	0.2
DK	0.2	1.2	1.6	1.0	1.3
SW	-0.6	-0.7	1.6	-0.6	-0.4
UK	0.6	1.2	0.8	0.5	1.3
US	1.8	3.2	1.5	1.4	2.3

\*Projection \*\*Until 1993 West Germany only

Source: Visser and Hemerijck (1997:24)

In the period under review two important social pacts were negotiated, *New Course* in 1993 and *Flexicurity* in 1996. The former was signed on 16<sup>th</sup> December, 1993 and brought a multi-issue approach to the negotiations. The agreement also marked a change from centralised to coordinated de-centralised wage bargaining. Wim Kok places particular importance on the flexicurity agreement declaring it ‘a real breakthrough’. The social partners made a compromise acceptable to government. Flexicurity was not just about losing social protection (interview, 12<sup>th</sup> September, 2012). The government had, as in 1982, tried to cast the ‘shadow of hierarchy’ over the negotiations via the Wage Act. The scope for this was limited because the circumstances for intervention are tightly circumscribed under the Act. But the government was also able to apply pressure by refusing to apply indexation to the minimum wage or to social welfare allowances.

The *Flexicurity* agreement of 1996 represented a deepening of relations between the social partners. The context for it was the inability of the 1994-1998 ‘Purple’

government to agree on how to regulate a flexible labour market. The employers, as a counterpoise to the unions' demands for working time reduction, had been advocating for a greater degree of temporary and part-time work. Although the unions were intuitively against this, fearing that it would undermine job security and conditions, they found that the flexibility involved was congenial to many women with caring responsibilities. Accordingly, as the numbers of these atypical workers increased, two things happened. A burgeoning temporary agency workers' industry developed and unions changed tack to try to agree a regulatory labour market regime and employment conditions that would protect these jobs.<sup>31</sup> In the union's view these jobs would always be a 'second best option' but they adopted a pragmatic response to the reality of what the labour market had become. Wim Kok says that there was no strategy behind the increase in part-time jobs. It just happened. The original intention was job sharing but this was not possible in some sectors. There was a dual objective; to increase employment and to improve work life balance (interview, 12<sup>th</sup> September, 2012). Agnes Jongerius of FNV noted that the context was one of high unemployment and low female participation rates. Netherlands was very conservative with a marriage bar in public sector employment up to the 1960s. Consequently there was a pent up demand for part-time jobs. Moreover, restructuring of the economy from manufacturing to services reinforced or complemented this pent up demand (interview, 12<sup>th</sup> September, 2012). The government also had difficulty getting to grips with this. The temporary and part-time work agency firms lobbied the Liberal members of the government to introduce a deregulated labour market whereas the unions lobbied the PvdA members in the opposite direction. As a result the Social Affairs Minister, Ad Melkert, became locked in battle with the Liberal (VVD) Cabinet colleagues. Melkert wanted to strengthen the hand of the unions without alienating employers.

Visser and van der Meer (2011) conducted extensive interviews with the principal actors in these negotiations and cite the chief union negotiator, Lodewijk de Waal, as likening the process to 'a kind of three dimensional chess' in which each side had to deal with each other, with government, and with internally opposed constituencies (ibid:216). The final outcome was that the market for work agencies and temporary

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<sup>31</sup> What happened in the Netherlands with the emergence of a Temporary Agency Workers' employment placement industry almost certainly informed the EU Lisbon Strategy and the eventual emergence of an Agency Workers' Directive. Wim Kok was a major player in that process.



work was liberalised, but the employment, training, and social security of agency and temporary workers was improved. In essence the unions conceded employment flexibility, whereas the employers conceded income security. The deal prioritised employability rather than job protection. In 1995 the first proper collective agreement for temporary workers, introducing a right of continued employment and pension insurance after 24 months of service, was concluded. This in turn formed part of an agreement concluded in May 1996 at central level on ‘flexibility and security’ and paved the way for an overhaul of Dutch dismissal protection law (see also Visser and Hemerijck, 1997:44).

The 1990s saw significant changes in the regulation of the Dutch labour market. The result was a phenomenal growth in labour force participation, by women particularly, at the rate of 1.6 per cent per annum. This new Dutch ‘one and a half jobs per family’ model is widely admired but is not without its difficulties. Certainly from a union viewpoint the safety nets they managed to put in place were regarded as sub optimal. But unions now have a more benign view. They consider that the arrangements work well and there is good social protection with the caveat that part-time work does make it more difficult for women to progress to senior positions (interviews with Agnes Jongerius, FNV and Ruud Vreeman, President of PvdA on 12 September, 2012). One FNV representative, Martin Strickler, dissented to the extent that there is no investment in the labour market any more. The Public Employment Service (PES) has been privatised (interview, 12 September, 2012). Former President of the Dutch Employers, Alexander Rinnooy Kan, says employers are satisfied too although they need women to work for longer hours now. A threshold of 12 hours per week is too low in his view (interview, 11 September, 2012). On the other hand low levels of labour force participation was formerly considered to be the Achilles heel of the welfare state. By improving participation the Dutch dealt with one important aspect of the problem but they also had to tackle the issue of reform to make the welfare state sustainable. It is to that issue that we will now return.

In Green-Pedersen’s (2002) comparative study of Denmark and the Netherlands he categorises Denmark as an example of a Social Democratic political economy and the Netherlands as an example of a Christian democratic one, a difference that is

epitomised by the female labour-force participation rates in the two countries. However, it is also the case that the relatively low levels of female participation in the Netherlands left considerable headroom for employment gains, particularly in the services sector, in the 1990s. On the other hand the social welfare regime was structured around low levels of participation. Female labour force participation rose from 39.4 per cent in 1982 to 62.2 per cent in 1997. In a sense, therefore, the expanding labour force might have been expected to ease the pressure for welfare retrenchment. It is also necessary to reflect on another characteristic of the Christian democratic welfare model, viz, the financing of social security through social insurance contributions instead of general taxation. The problem with the former is that it is damaging to low-skilled employment. An option, which the Dutch followed, is to change the system of financing to favour low paid workers. Thus by 1997 the tax-wedge on low earnings in the Netherlands was lower than in other continental countries. Indeed it was lower even than in Denmark. This was all part of a coherent strategy to address the ‘welfare without work’ problem which had dogged the Dutch economy.<sup>32</sup>

Recall that the Buurmeijer Committee report of 1994 was a catalyst for political action on social welfare reform. Not only did it result in the social partners being pushed out of administration but it precipitated large scale institutional change as well. In 1994 the cabinet of the Purple coalition amended the Social Insurance Organisation Act of 1953 to provide for independent administration. In 1995 two new bodies replaced the Social Insurance Council. In 1997 a revised new Organisation of the Social Security Act was enacted to prepare for the introduction of market incentives in the implementation of social security legislation. Also in 1997 the social partners were brought back in – albeit in a more guiding rather than administrative role – in a permanent tripartite coordinating body known as The National Social Insurance Institute (LISV). The LISV sets yearly premiums for the different social security schemes (Visser and Hemerijck, 1997).

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<sup>32</sup> Lindert (2007) notes that heavy taxes on labour bring the tax burden to rest on the same income groups that vote in favour of the welfare state. To a large extent workers themselves pay for the safety nets designed to protect the less fortunate. This was the argument relied upon by Agnes Jongerius of FNV to justify using the Disability Scheme to facilitate industrial restructuring, an approach deprecated by Wim Kok as mentioned already (interview, 12<sup>th</sup> September, 2012).

Perhaps the most significant change has been the introduction of a form of ‘managed competition’ to the Dutch welfare state. For example the reform of sickness insurance was introduced in stages starting in 1994 and required employers to fund the first weeks of sickness pay. Then from March 1996 they became legally obliged to continue sick pay coverage, at a minimum of 70 per cent of a worker’s last earned wage, for up to one year. Employers can choose private insurance to cover this risk. So also is the system of cover for disability open to private insurance. In effect, this means that the system of coverage for sickness benefits has been privatised. To an extent this also applies to health services delivery where managed competition is at the core of the system (ibid; ICTU, 2011).<sup>33</sup>

Overall the Purple government’s efforts to reform social security enjoyed considerable success when measured in outcomes. The total number of people on welfare declined quickly from a peak of 925,000 in 1994 to 841,000 in 1995, reflecting a fall in inflow and a strong outflow. On the other hand the Netherlands became a borderline welfare state. Major cuts in its disability and other programmes brought the level of social transfers down close to 20 per cent which is the threshold identified by Peter H. Lindert (2007) as constituting a ‘Welfare State’.<sup>34</sup>

Overall, Green-Pedersen (2002) finds that the Netherlands is the OECD country that retrenched social-security the most since 1980.

Corporate governance also changed during the 1990s. The Ministry of Economic Affairs was the architect of a scheme to privatise, liberalise and deregulate certain segments of the economy. No doubt this was influenced by Brussels but the Dutch banking sector was also interested. As noted earlier banking is a large part of the Dutch economy and, taken in conjunction with large pension funds, these changes led to the doubling of market capitalisation. As a ratio of GDP market capitalisation in the Netherlands in the 2000s ranked among the highest in the OECD countries. This development indicates a shift of corporate governance to institutional shareholders.

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<sup>33</sup> In the run up to the 2011 general election in Ireland Fine Gael health policy proposals were modelled on the Dutch system. However, ICTU studies found that the limited development of the market for health insurance in Ireland would militate against adoption of the Dutch model.

<sup>34</sup> According to Lindert (2007) Ireland definitely left the ranks of the welfare state on this criterion.

Moreover, FDI flows into and out of the Netherlands more than doubled during this period. The larger Dutch banks moved to increase their involvement with Global Financial Markets and to make Amsterdam a financial hub. This did not seem such a clever idea in hindsight when the global financial crisis hit the Dutch banks hard in 2008 (Houwing and Vandaele, 2011:130-131).

Asked to comment on the restructuring of the economy by his government Wim Kok was fairly sanguine. He acknowledged that deregulation had left the global banking system exposed when the crisis hit. He said the Dutch banks were not unique but they did find themselves more exposed than most. On the concept of 'managed competition' he felt there were reasons to review the health system but the basic concept was sound. His main concern was the need to develop a preventative approach to health care, otherwise health costs could rise to 35 or 40 per cent of GDP (interview, 12<sup>th</sup> September, 2012). Ruud Vreeman said that public transport firms who came in from abroad had to employ the old workforce. Quality has not deteriorated and social conditions are satisfactory. In health and education management numbers and salaries have increased while nurse and teacher numbers have come down. But, he opined that the Dutch health and education systems are still the best in the world despite managed competition (interview, 12<sup>th</sup> September, 2012). Agnes Jongerius saw managed competition in public service delivery as a very liberal concept. She recalled that when in government with the liberal VVD party Wim Kok had made a speech saying "ideology is from the past". The context was a booming economy and the pie was big enough to give everyone a slice. In effect health care was privatised with everyone obliged to have insurance. The debate was about privatising a public good. There was a sense that the pragmatic Dutch could manage any issue. This was too optimistic. The same was true of postal privatisation but people were unaware of the forces being released. In general her feeling was that Wim Kok was an advocate for the 'Third Way' version of social democracy espoused in the 1990s by Tony Blair and Bill Clinton. She felt this was mistaken. As she put it:

“What have market forces ever really done for us except to give us cheap telephones. We need to claim back our public goods”.<sup>35</sup>

(Interview, 12<sup>th</sup> September, 2012).

Martin Strickler, also of FNV, said that Wim Kok’s speech about the end of ideology was interpreted as PvdA giving up its principles. While a lot of people were sympathetic to his argument “it turned out to be a wolf in sheep’s clothes” (interview, 12<sup>th</sup> September, 2012). On the other hand the Mayor of Dalfsen, Han Noten, felt that Dutch politics would increasingly converge on the centre ground because people want solutions (interview, 11<sup>th</sup> September, 2012).

Finally, it is worth recording an external event of this period which had a profound effect on the psyche of the Dutch people and which ultimately caused a government to resign. On 11 July, 1995 Bosnian Serb forces entered one the so-called UN ‘safe areas’ in Bosnia, the town of Srebrenica. Thousands of Muslim refugees were under the protection of 400 Dutch soldiers but they offered no resistance to the Serbs. In the course of the next four days 7,400 Muslim men and boys were murdered. The Dutch returned safely to Holland. Srebrenica was the worst mass murder in Europe since World War Two. When the official report into the event was published Wim Kok and his entire government resigned as a matter of honour (Judt, 2005:677-678).

## **IRELAND**

### **The Job Creating Machine – Maastricht to Nice: 1994 – 2001**

In many respects Ireland’s achievements in the 1990s were the most impressive of the countries under scrutiny. How could a country with chronic mass unemployment and emigration come close to full employment and net immigration? How could a country with equally chronic large fiscal deficits, and public debt levels exceeding 100 per cent, get to run budget surpluses and a debt to GDP ratio of less than 40 per cent by 2000?

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<sup>35</sup> Agnes Jongerius quoted former PvdA leader, Wouter Bos as comparing the restructuring of the economy as akin to “letting loose Bookita in releasing market forces” (Bookita was a gorilla in the zoo which got loose and chased a woman).

In the period between 1994 and 2001 GNP grew at an average of 8.4 per cent per annum and 468,000 new jobs were created. Whereas the economy had been stabilised prior to 1994, these were the years when real progress began. It was this rapid growth that caused Ireland to be cast in the role of the test case for globalisation. Its achievement was cited as evidence of how small nations can flourish in the global economy. Indeed, having become famous as the ‘Celtic Tiger’, the Republic was widely regarded as a model economy for other countries to emulate. Ireland became, in short, a showcase for globalisation (Antonaides, 2010,; O’Riain, 2008; Smith, 2005). No doubt there were many factors which helped Ireland’s booster rockets to fire but foremost among them was a change in the value of the Irish pound. The refusal of the Bundesbank to accede to Irish requests for support during the currency crisis of 1993 forced the government to request a 10 per cent devaluation within the ERM on 30<sup>th</sup> January.<sup>36</sup> The devaluation restored a competitive edge to the economy and laid the foundations for the subsequent years of rapid economic growth (MacSharry and White, 2000: 112, O’Sullivan, 2006: 72). This is also the view of former Taoiseach, Bertie Ahern. He argued that the devaluation was deliberately fixed at a level large enough to give the country a competitive advantage. This and the stability of the 1987 to 1992 period set up the Celtic Tiger (interview, 13<sup>th</sup> January, 2012).

Donovan and Murphy (2013) advance the case that the more stable exchange rate environment post 1993, together with a growing confidence that interest rates would converge at German levels approaching EMU, boosted domestic demand. By the end of the decade Ireland was the second most open economy amongst OECD countries with exports and imports together amounting to 1.7 times the value of GDP (ibid).

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<sup>36</sup> According to O’Sullivan (2006) this was a major embarrassment to Ireland’s policy making community who had tried to be exemplary members of the ERM. He observes that Mr Trichet (subsequently President of ECB) was indifferent to Ireland’s plight. Interestingly, the Bundesbank intervened at that time to support Denmark’s currency. Former Secretary of the Department of Finance, Tom Considine, recalls how this period was when the power of markets in a world of free movement of capital manifested itself. He was struck by the fact that Britain had available a fund of £20 billion Sterling to defend the currency but this was swept aside by markets. Asked about the failure of Germany to come to the aid of the Punt when they had supported the Danish Krone, he opined that this could be explained by the realisation that Denmark was a lot more stable – it would not have been affected by movements in an adjacent currency – whereas Ireland was exposed to Sterling. He posed the question; how would the Bundesbank know that Sterling might not drop again and expose the Punt to further speculative attack? If they had tried to help Ireland there was no knowing how far and for how long they would have had to back to Punt (interviewed, 24<sup>th</sup> May, 2012).

But Eva Paus (2012) draws attention to a conjuncture of particular regional and global factors and the cumulative effect of deliberate and fortuitous policies by the Irish authorities adopted during previous decades, first to attract FDI and later to advance social capabilities in education and infrastructure, as accelerating growth (see also O’Riain, 2004). Horizontal and vertical industrial policies were used to attract investment to high-tech sectors and to support the advancement of local firm capabilities, both to create local linkage capability with foreign affiliates in Ireland and to help local firms become competitive in international markets. It worked to the extent that by the end of the 1990s, Ireland had closed the income gap but not the capability gap. Ireland had made virtually no income gains since joining the EU such that in 1986 GDP per capita was only 63.7 per cent of the EU average while Finland, Denmark and the Netherlands exceeded it. But by 1999 Ireland had caught up with them.

Economic growth was supported by investment which caused gross fixed capital formation as a share of GDP to rise to 17 per cent in 2000 partly due to FDI inflows. Net annual FDI inflows increased from \$205 million during the 1970s and \$141 million during the 1980s, to \$4.9 billion during the 1990s. Labour supply was helped by an increase in female labour force participation from 35.3 per cent in 1990 to 47.2 per cent in 2000 (Paus, 2012: 164).

There was also a degree of industrial restructuring during the 1990s. High tech foreign owned manufacturing (chemicals, electrical and electronic equipment, and professional goods) increased their share in total manufacturing employment from 21 per cent in 1990 to 30 per cent in 2000. Indigenous industry remained concentrated in traditional industries. Another change was that by 2000 nearly a quarter of the industrial work force was employed in internationally traded services, up from 10 per cent in 1990. The significant improvement in Ireland’s employment performance relative to the comparator countries is clear from the following tables:

**Table 13: Labour Force Participation Rates**

Country	Males		Females	
	1990	1998	1990	1998
<b>Finland</b>	80.8%	76.6%	73.5%	69.7%
<b>Denmark</b>	N/A	83.5%	77.6%	77.5%
<b>Netherlands</b>	80.8%	82.8%	53.1%	62.9%
<b>Ireland</b>	77.7%	77.8%	42.6%	53.1%

Source: Derived from O'Hagan (2000:155)

It can also be seen from Table 14 below that a significant proportion of female employment is part-time in Denmark and Ireland and especially in the Netherlands.

**Table 14: Part Time Employment, 1997**

	Part-time Male Employment as a percentage of total Male employment	Part-time Female employment as a percentage of total Female employment
<b>Finland</b>	6.0	10.6
<b>Denmark</b>	11.1	24.2
<b>Netherlands</b>	11.1	54.8
<b>Ireland</b>	7.0	27.2

Source: Derived from O'Hagan (2000:158)

**Table 15: Standardised Unemployment Rates as a % of the labour force**

Country	1990	1994	1998	2000
<b>Finland</b>	3.2	16.8	11.4	10
<b>Denmark</b>	7.7	8.2	5.1	4.8
<b>Netherlands</b>	6.2	7.1	4.0	3.9
<b>Ireland</b>	13.4	14.3	7.8	4.5

Source: Derived from O'Hagan (2000:161)

Labour productivity did not improve between 1990 and 1995 but grew at an annual rate of 3 per cent between 1995 and 2000. The most important external factors affecting economic performance in the period under review were the single market and globalisation of production, especially in the electronics industry.

And just as structural funding was important in the post SEA period in helping to kick start the economy, so also were the cohesion funds negotiated by Ireland in the context of the Maastricht Treaty. This second wave of funding was dedicated to closing the gap in economic performance between different EU countries. It was focussed on providing financial assistance for projects in the fields of the



environment and trans-European networks. The criterion to receive this aid was for a country to have a per capita GNP of less than 90 per cent of the overall EU average. The improvements in governance required to access this funding is held to have improved public administration in Ireland (Adshead, 2008: 67-68).

According to Donovan and Murphy (2013) structural and cohesion funds may have raised Ireland's GNP by 4 per cent. However, they observe that there was a reluctance at times to accept that the other side of the bargain was the adoption of German style fiscal discipline and low inflation policies.

Rory O'Donnell (2008) points to the role of the EU in promoting deeper and wider mutual engagement between the state and civil society. He emphasises some further profound effects on the Irish state as a political, administrative and legal order. He cites as an example of this deeper effect, the EU approach to market regulation which required the establishment of numerous independent regulatory agencies.

The fact that the 1987 Social Partnership Agreement, The Programme for National Recovery (PNR), stayed intact, notwithstanding initially disappointing social outcomes, inspired confidence in the parties to the agreement. The PNR was followed by the Programme for Economic and Social Progress (1991-1994), The Programme for Competitiveness and Work (1994-1996), Partnership 2000, The Programme for Prosperity and Fairness (1996-2002), Sustaining Progress (2003-2005) and Towards 2016 in 2006.<sup>37</sup> Maura Adshead (2008: 68) posits that the making and implementation of these agreements shows how closely employers and unions became involved both in making public policy and implementing it. She refers to it as 'partnership government' while O'Donnell (2008: 89) describes it as being in part about 'building a public system'. Nevertheless, the role of Social Partnership in Ireland is a highly contested space to this day (see also Begg, 2010 and Collins, 2010). By 1993 the intellectual foundations for it were being discussed particularly its relationship with the models of neo-corporatism experienced in continental Europe (O'Donnell, 2008: 92).

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<sup>37</sup> Towards 2016 was a 10 year framework agreement which set out an ambitious programme of social change based on the requirements of citizens at different stages of their lives. It was to be reviewed on a rolling basis. It collapsed in December 2009, a victim of the pressures caused by the recession.

Ireland's improving economy after 1993 made a positive contribution to reducing unemployment but its impact on social spending was less pronounced. While social spending increased in absolute terms it fell proportionately from 12.3 per cent of GNP in 1992 to 7.8 per cent in 2000. This welfare performance is characterised as being closer to Anglo-American neo-liberalism than the European Social Model (Millar, 2008: 101). But it also seems to reflect Irish peoples' more individualist values in explaining poverty and inequality as held at least during the 1993-2001 period as seen in Table 16 below. Bluntly, there is evidence of a pervasive view that the Irish public consider poverty to be the fault of the individual rather than that of society (ibid: 118).

John Loughrey, former Secretary General of the Department of Public Enterprise, endorses this view:

‘NESC and Social Partnership are redolent of social justice but are swept aside at the ballot box. The *realpolitik* of Ireland is that solidarity dies at the ballot box.’

(Interviewed, 7<sup>th</sup> March, 2012)

In his perspective Ireland is different from the comparator countries in that Social Partnership was never a shared vision, except in respect of the dangers to the economy, not about where we wanted to get to. Unlike in the comparator countries it is not deeply embedded (ibid). We will return to this discussion later.

**Table 16: EU and Irish Citizens' Perceptions of Why People Live in Need (percentage of population)**

	EU 15 2001	EU Poor 2001*	Ireland 2003	EU 15 1993	Ireland 1993
<b>Injustice in society</b>	35	49	25	40	<b>32</b>
<b>Inevitable part of modern progress</b>	23	16	22	25	<b>31</b>
<b>Laziness and lack of willpower</b>	18	13	25	12	<b>10</b>
<b>Because they (the poor) have been unlucky</b>	19	20	25	13	<b>15</b>
<b>None of these</b>	<b>6</b>	<b>2</b>	<b>8</b>	<b>6</b>	<b>5</b>

\*'EU Poor' specifies a subsample of respondents who are living in poverty, defined as serious solvency problems.

Source: Millar (2008: 111)

Sean O'Riain (2008) takes the view that welfare effort during this period continued to preserve social solidarity by maintaining a basic level of social citizenship rights

on near-universal grounds, but allowed a mixture of public and private provision to ensure that the basic minimum of provision can be supplemented by the market. He explains it thus:

‘In short, the welfare state was in some respects strengthened for the middle classes even as it remained a minimalist support for the most excluded.....it is the inequality of the state’s intervention in the market, rather than its withdrawal from the market, that distinguishes the contemporary Irish political economy.’

(ibid: 175).

By the late 1990s the government was comfortably in surplus and a form of virtuous circle, the opposite of the experience of the 1980s, was in place. The high growth rate of the economy caused budgetary surpluses which in turn facilitated debt reduction and lower debt servicing costs which led to further surpluses. By the end of the 1990s the debt/GDP ratio was well below the OECD average (Madden, 2000). This development is reflected in the trend of total government spending which fell as a percentage of GDP over the 1990s, as indeed it did in all the comparator countries (albeit having risen between 1987 and 1993 in Finland and Denmark).

**Table 17: Total Government Spending as % of GDP**

Country	1987	1993	1999
<b>Finland</b>	44.2	59.6	47.1
<b>Denmark</b>	56.9	60.9	54.6
<b>Netherlands</b>	53.1	49.9	43.5
<b>Ireland</b>	54.6	46.6	42.1

Source: Derived from Orla Lane (2000:86)

Much of the conventional wisdom surrounding Ireland’s development in these years sees the period 1994-2001 as one of sustainable growth based on a competitive economy supporting a strong exporting manufacturing base. This is often favourably contrasted with the period post 2001 which is held to have been based on an unsustainable construction boom. While events have supported the latter contention, the strength of Ireland’s manufacturing export performance in the former period may be somewhat overstated.

Sean O’Riain (2004) notes that manufacturing accounted for 18.6 per cent of total Irish employment in 2001 and for 14.5 per cent of the growth in employment between 1987 and 2001. He makes the point that the improvements that there were in internationally competitive industry is not sufficient to explain the most impressive feature of the job creating machine that Ireland had become. He identifies other factors affecting the growth in employment including expanding social service employment and expanding local demand for business, retail, construction and personal services. If export competitiveness had driven some of the growth, it had gone hand in hand with public – sector expansion of social service employment. Together, these twin drivers of economic development generated huge local demand from 1994 to 2001, resulting in rapid increases in employment in personal services and construction. As he puts it:

‘Foreign investment and export competitiveness in internationally traded sectors interacted with such unfashionable factors as public – sector employment in creating patterns of local demand that generate further employment increases.’

(O’Riain, 2004: 63)

As suggested earlier, Ireland’s historical experience has been one of weakness in the indigenous capitalist class. O’Riain (ibid) draws a distinction though between those in the traditional business elite and a new generation of entrepreneurs who mostly gained experience abroad, or with US TNCs, and who began to build an indigenous software industry in the 1990s. Whereas at the start of that decade the indigenous software sector was dominated by small firms, by 2001 seven indigenous software-product-development companies were publically listed on NASDAQ. These were Smartforce, Iona Technologies, Baltimore Technologies, Trintech, Riverdeep, Parthus and Datalex. Together these companies employed five thousand of the sector’s eleven thousand employees and generated half the sector’s revenues. The earliest indigenous software firms focused either on services or made a transition to product development based on connections with large international customers located in Ireland. By 2001 a new generation of firms were playing a more significant role in the economy. They were the beneficiaries of a strongly interventionist industrial policy whereby the state invested in education and

telecommunications and made available resources to help them mobilise a combination of global and local resources. (ibid: 105).

Donovan and Murphy (2013:13) have an interesting perspective on this period. They argue, following Krugman (1997), that globalisation undermined traditional convergence theory. Whereas in a more industrial setting transport and communications costs conferred advantages on countries at the core, and where investment from the core could gradually help peripheral countries to converge economically, in a post-industrial high-tech world these concepts had started to become anachronistic. Ireland had successfully made the transition from a donkey and cart economy to a high-tech economy without going through an intermediate stage of industrialisation. Therefore it did not have legacy issues from that stage of development and could therefore more easily attract and benefit from investment attracted by low corporate taxes from multinationals involved a worldwide revolution in information technology.

## **Conclusion**

What is remarkable about the period under review is that the four countries managed to re-engineer their economies in line with the Maastricht criteria in order to qualify for membership of EMU (Denmark did not ultimately join but its currency is pegged to the Euro) while simultaneously dealing with quite serious employment and welfare challenges. How they made the transition from failure to success can be summarised in the following terms.

Denmark and the Netherlands both placed a strong emphasis on human capital. They had less freedom of action during this period because of their currencies being linked to the DM. Nevertheless, macro-economic expansion alongside active labour market policies was the key formula for Denmark. A stimulus to the economy was achieved through investment in infrastructure and time limited incentives to business. This was complemented by the famed 'flexicurity' model whereby high levels of social compensation are available within a flexible labour market, with the agreement of the trade union movement. The Dutch 'Miracle' of employment growth of 1.6 per cent per annum was comparable with that achieved in the US but

without the inequality. A combination of social democratic incumbency in government and trade union pressure to create jobs through reductions in working time led to an increase in part-time work and increased female labour force participation. To a large extent this was not a planned outcome but rather a synthesis of the pressures already mentioned which originated with the Wassenaar Social Pact in 1982.

As Eva Paus (2012) has written, unrestricted access to the single market made Ireland an attractive production location for multi-national corporations from which to export to the EU. The convergence process involved substantial net resource transfers from which Ireland benefited. Structural funds throughout the 1980s amounted to 1.5 per cent of GDP but increased to 3.5 per cent in 1991-1993 and remained at 2.4 per cent for the 1990s. Again Paus (2012) points out that this was equivalent in magnitude to the Marshall Aid that Ireland and other European countries received after the Second World War. She estimates that structural funds may have contributed as much as half a percentage point per year to GNP growth in the 1990s. This was a strong stimulus to economic activity.

The employment gains in Ireland were, like in the Netherlands, similarly based on increasing female labour force participation in the services sector of the economy. Genuinely developmentalist policies were assisted by the stabilising influence of Social Partnership together with the stimulus from EU structural and cohesion funds and increased FDI consequent upon the 1987 Single European Act. Currency devaluations in 1986 and 1993 were also significant. Social democratic incumbency in Finland and a return to social pacts in the mid-1990s were central to recovery following the 1992/93 financial crisis.

The Finns completely reorientated their economy towards the west following the collapse of the Soviet Union. Heavy investment in R&D saw the transformation of Nokia from a conglomerate to an ICT market leader and the consequent birth of a high-tech industry. In effect both Finland and Ireland applied a developmentalist approach allowing them to shake off any disadvantage associated with being late industrialising economies and to participate in a globalising hi-tech revolution. Developmentalism is defined in this context by Eva Paus (2012) as using active

industrial policies to advance social capabilities. She laments that, in Ireland's case, the policy coherence underpinning this approach did not survive into the 2000s. It is that periodisation we will now consider.

## **CHAPTER 5: 2001-2008 European Integration Intensifies**

### **Introduction**

The purpose of this chapter is to review the conduct of policy in each of the countries in the study in the period between 2001 and 2008 when the world was incubating the most acute financial system crisis since the Wall Street crash of 1929. By 2001 the global context had shifted still further from that in which Katzenstein (1985) analysed the politics of the selected small open economies of Europe. That those countries had displayed a remarkable capacity for adaptation to changing circumstances is evident from the previous chapter. Ireland and Finland too seemed to be set to be developmental states characterised by innovative, nimble and coherent policies.

In the first half of the decade there were a number of significant exogenous forces in play, any one of which would have been challenging on its own for a small open economy to deal with.

The growth of a globalised ICT industry, and the power and influence of Silicon Valley in particular, had a big impact on financial markets. This was characterised by vast flows of financial capital as investors and financial institutions tried to link in to the high-tech growth miracle. Growing financialisation and financial product innovation meant increasing quantities of money looking for ever better investment returns. It seemed for a time that all a company had to do was to append 'dot.com' to its name and then make an initial public offering at whatever price it choose. The fact that it had no earnings and no track record did not deter markets. On 10<sup>th</sup> March 2000, the NASDAQ Composite Index peaked at 5000, double its value of the previous year. The inevitable crash of the newly minted dot.com companies brought the internet boom down to earth with a bang throughout 2000 and 2001. Coinciding with war in Iraq, it led to a sharp downturn in the US economy and global trade.



The second significant factor was the advent of the new Euro currency on 1<sup>st</sup> January, 2002 and the third was the enlargement of the EU to include ten new central and Eastern European states on 1<sup>st</sup> May, 2004.

## FINLAND

### EMU to the Onset of the Global Crisis: 2001-2008

The revival of coordinated bargaining in Sweden and Finland in the late 1990s indicated at least a partial return to coordinated capitalism in those countries. In Finland a major reform of pensions in 2005 was a direct result of tripartite bargaining between the social partners and the government. There were also indications in both countries of a reversal of the more pronounced aspects of the liberalising trend which had influenced policy by the early 2000s. The evidence for this can be seen in the mitigation of the welfare cuts implemented in the recession of the 1990's. Still there was no retreat from product market deregulation or liberalisation of corporate governance (Lindgren, 2011:62).<sup>38</sup>

Average labour productivity growth in the economy between 1994 and 2003 was ahead of most EU countries at 2.5 per cent according to Vartiainen, (2011). He lays a lot of stress on the contributions of the ICT sector and its rapid expansion led by Nokia. He notes that, in contrast to the post war phase of capital accumulation, the new wave of productivity growth was driven by new technical processes, instead of just capital widening. He draws attention to the significance of the so-called 'between effect' in which the movement of workers from lower productivity to higher productivity firms boosts overall productivity. He notes that there was also an increase in the quality of human capital which was partly a consequence of the policy failure of the crisis because so many people lost their jobs in primary and secondary production. Of importance too, according to Vartiainen (ibid), were the Social Partnership agreements since they imposed a uniform pay increase on all segments of the labour market, meaning that the ICT sector which increased its productivity faster could of course enjoy a huge boost in profitability.<sup>39</sup>

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<sup>38</sup>Lindgren (2011:62) is careful to point out that this trend towards corporate governance liberalisation should not be overstated. It has not made much impact on the dispersion of ownership. Ownership is still quite heavily concentrated in family owned firms.

<sup>39</sup> This phenomenon was identified also in the multinational sector in Ireland by McGuinness et al (2010) who showed how the FDI sector was a significant beneficiary of the various Social Partnership agreements.

**Table 18: Economic Outcomes in Finland, 1970-2004**

	70-74	75-79	80-84	85-89	90-94	95-99	00-04
Finland							
Unemployment	2.9	5.7	5.8	5.0	10.9	12.9	9.1
Employment	69.0	69.6	72.0	72.8	65.9	63.3	67.6
Growth	5.6	2.4	3.1	4.0	-1.4	4.6	2.9
Inequality	26.7	21.4	20.5	20.0	20.3	23.4	25.8
Productivity	-	-	-	2.6	1.1	2.3	2.0

*Source: Lindgren/2011: 48-50)*

By 2007 there was a change in political sentiment. The Social Democrats did badly in the election of that year ending up only the third largest party in Parliament. The Conservative Party emerged as the winner with the largest number of seats. Interestingly, however, as Vartiainen (*ibid*) observes, they campaigned on what was an essentially Social Democratic platform. In his interpretation this means that centre right parties can only win elections if they stick with the Social Democratic model. He considers this to be the fundamental victory of the labour movement in all the Nordic countries.

Karl-Oskar Lindgren (2011:66-67) concurs with this noting that Finnish politicians of all persuasions took great care to present welfare cuts, when they occurred, as a means to maintain the universalistic welfare state rather than as a way to abolish it. He further notes that the trade union movement remains strong and that in reviewing a period of change it is important to distinguish between institutional changes which weaken the capacity for coordination from those which do not.

## DENMARK

### **Structural Reform Intensifies in Denmark: 2001-2008**

Denmark's europragmatism, based on a deep confederalism which leaves room for cultural differentiation and a variety of societal models within an integrated economic and political network, was seen to work around the turn of the millennium. The country's economic success was largely due to institutional innovation, the negotiated economy concept of policy learning and corporatist strategies, a high degree of social and cultural capital and all embedded in national narratives, institutions and historical experience (Boss, 2010b: 286).

And this economic success was complemented by impressive social cohesion. According to the Human Development Index, the OECD, the EU and other international organisations, Denmark has become one of the most successful economies in the world. The World Economic Forum in 2003 ranked Denmark first overall in the quality of its public institutions. This metric covered measures including judicial independence, quality of property rights, enforceability of contracts and political corruption. The same report ranked Denmark first in the world in terms of the effectiveness of public policy in reducing income inequality. Active labour market policy and wage bargaining seemed to have institutionalised the capacity of business and labour to constantly adapt to changing circumstances. The progress made by Denmark in comparison with other countries in achieving higher living standards from the 1970s to the end of the millennium can be seen in Table 19 overleaf. (Campbell and Hall, 2006; Kaspersen and Thorsager, 2010).

**Table 19: GDP Per Capita**

**(1990 Dollars)**

	<i>1973</i>	<i>1990</i>	<i>1998</i>
<b>Australia</b>	12,759	17,043	<b>20,390</b>
<b>Austria</b>	11,235	16,881	<b>18,905</b>
<b>Belgium</b>	13,945	17,194	<b>19,442</b>
<b>Canada</b>	13,838	18,933	<b>20,559</b>
<b>Denmark</b>	13,945	18,463	<b>22,123</b>
<b>Finland</b>	11,085	16,868	<b>18,324</b>
<b>France</b>	13,123	18,093	<b>19,558</b>
<b>Germany</b>	11,966	15,932	<b>17,799</b>
<b>Greece</b>	7,655	9,984	<b>11,268</b>
<b>Ireland</b>	6,867	11,825	<b>18,183</b>
<b>Italy</b>	10,643	16,320	<b>17,759</b>
<b>Japan</b>	--	--	--
<b>Luxembourg</b>	--	--	--
<b>Netherlands</b>	13,082	17,267	<b>20,224</b>
<b>New Zealand</b>	12,513	13,825	<b>14,779</b>
<b>Norway</b>	11,246	18,470	<b>23,660</b>
<b>Portugal</b>	7,343	10,852	<b>12,929</b>
<b>Spain</b>	8,739	12,210	<b>14,227</b>
<b>Sweden</b>	13,493	17,680	<b>18,685</b>
<b>Switzerland</b>	18,204	21,616	<b>21,367</b>
<b>United Kingdom</b>	12,022	16,411	<b>18,714</b>
<b>United States</b>	16,689	23,214	<b>27,331</b>
<b>Average</b>	<b>12,020</b>	<b>16,454</b>	<b>18,811</b>

*Source: Campbell, Hall and Pedersen, (2006: 15)*

Denmark's appreciation of the vulnerability of small nations to exogenous shocks and the forces of globalisation in general was well captured in the prime minister's opening speech to parliament in October, 2000. This is what he said:

“.....concerning globalisation and the new international economy. Denmark's dependence on the surrounding world is bigger than ever before.....the constant international changes are a reality. These are conditions of existence for Denmark in the future – both as a source of continuous wealth and as a pressure on our welfare.”

(Rasmussen, Poul Nyrup, 2000; cited in Kaspersen and Thorsager, 2010: 260).

This statement by the leader of the Social Democrats is evidence of how much the discourse on globalisation, its threats and opportunities, had been assimilated by the

Danish political elite. The resultant preoccupation with restructuring the economy and society to cope with these issues continued through the early to mid-years of the first decade of the new millennium.

Kaspersen and Thorsager (2010: 157) go so far as to say that the Danish political elite viewed globalisation as a potential crisis requiring the State to intervene extensively and intensively in societal matters. They see this as a departure from the traditional approach of engaging civil society. They argue that a gradual move toward the application of a more authoritarian liberal power strategy is discernible from 2001 onwards under the centre right coalition government.

Certainly structural reform of the public sector continued at a heightened pace. The idea of further major reforms was tabled by the government in 2002 for implementation by 2007. In 2004, on the initiative of the education minister (a Liberal), a law was passed giving the State much more power to directly intervene in the running of schools – contravening a 150 year old tradition of allowing self-government of primary and secondary schools. Earlier, in 2003, the governance structure of the universities was reformed. A Welfare Commission was established in 2003 to analyse and make recommendations about the challenges facing the welfare regime. A Globalisation Council was established in 2005 which was charged with advising the government on the topic. In relation to welfare and the labour market a special low cash benefit for immigrants was introduced in 2002 to prevent them accessing the high unemployment income replacement rates available to Danish citizens.<sup>40</sup> More generally the Conservative-Liberal government in 2003 introduced a radical reform of the labour market focused on getting people back to work quickly through activation. It must be said, however, that Denmark's spend on active and passive labour market measures in 2002 was the highest in the OECD (Kaspersen and Thorsager, 2010; Madsen, 2006).<sup>41</sup>

Pensions were another important area of welfare reform. Extensive tripartite work in the 1980s prepared the way for agreement in the collective bargaining round of 1991. Sectoral Pension Funds were established which took the form of investment

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<sup>40</sup> In 1993 Danish workers were entitled to receive 90 per cent of their wages prior to unemployment. This was subject to a ceiling of 162,000 DKK (21,800 euro).

<sup>41</sup> The labour market reforms of 2003 are outlined in Madsen (2006: 337).

companies with both social partners equally represented on the board and with a trade union chairman. By 2003 it was estimated that 92 per cent of all employers had coverage under these arrangements, although not all to the same extent (Mailand, 2011:82).<sup>42</sup>

Towards the end of the period under review societal tensions began to emerge in Denmark which exposed the difficulty of transitioning from a homogenous population to one with a high immigrant content. Cartoons in a Danish magazine depicting the prophet Muhammad in an unflattering way caused offence amongst the Muslim community and even resulted in riots in the Arab-Muslim world in 2006 (Hill, 2010: 317).

Poul Rasmussen says he lost the 2001 election because of a second wave of immigration from the Balkans in the 1990s. He believes that Anders Fogh Rasmussen capitalised on this with the right wing Danish Peoples' Party to create fear – a fear that was heightened by the 9/11 incident. Mogens Lykketoft says that there are welfare sustainability issues connected with immigration for some groups. Muslims from rural areas in Turkey, for example have difficulty with issues around language and women joining the labour force. This situation calls for passive welfare support in what is an active system (interviews, 21<sup>st</sup> & 22<sup>nd</sup> May, 2012). Anette Berentzen of the Danish LO says that failure by public bodies – and trade unions – to recognise local problems caused by immigration and lack of early integration efforts to help Mayors, caused the arrival of the Danish Peoples' Party and allowed them to tap into a sentiment of people saying 'enough is enough'. But it was an over-action. She pointed out that there was no popular support for revoking the Schengen Accord on border control. "The bottom line on immigration is that most people just want a job" she says (interview 22<sup>nd</sup> May, 2012). Former Social Democrat MP, Klaus Haekkerup, is not so sanguine. "We have tried to integrate too fast without considering the social and economic cost. With wiser policies the resentment this caused could have been avoided" he declares (interview, 22<sup>nd</sup> May, 2012).

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<sup>42</sup> In 2005 Parliament decided that all employees should have a statutory right to occupational pensions (Mailand, 2011:87).

## THE NETHERLANDS

### **'Polder' Model of Consociational Democracy Challenged – Immigration Concerns Influence Politics and Undermine Commitment to European Integration: 2001-2008.**

By the first years of the twenty first century Europe began to experience an extraordinary wave of immigration. According to the Pew Research Religion and Public Life Project (2011) there were 44 million Muslims in Europe in 2010 representing 2.7 per cent of the global Muslim population and 6 per cent of Europe's population. Such a large influx of religious people to communities which had been more or less secular in outlook posed difficult questions of social policy. In the Netherlands there appeared to be a broad sense of tolerance for cultural distinction but this was called into question by subsequent events. Public debates about immigration and asylum precipitated the rise to prominence of a new generation of xenophobic parties like the True Finns in Finland, Dansk Folkeparti in Denmark and List Pim Fortuyn in the Netherlands. Tensions in the Netherlands were heightened by the assassination of Pim Fortuyn and a film director, Theo Van Gogh. Judt (ibid) argues that the problem was compounded by the absence of a counterweight to anti-immigrant sentiment in the form of strong organs of the political left which, in the past, could corral and mobilise the insecurity people felt under the banner of class.

In the Netherlands List Pim Fortuyn won 17 per cent of the vote in the 2002 general election in the aftermath of its leader's assassination. The party joined the government for a short period but its support collapsed in the next general election. With just 5 per cent of the vote its parliamentary representation declined from 42 seats to 8. To be fair to Fortuyn and his party they were not the reincarnation of a 1930s model fascist party. In fact they argued that Dutch traditional tolerance was under threat from religious fanaticism and retrograde cultural orientation of the new Muslim minorities (ibid: 744-745). Mr Geert Wilders, Mr Fortuyn's successor, is more aggressive. In his case strong anti-Muslim vitriol is supplemented by anti-Euro invective (*Economist*, 8<sup>th</sup> September, 2012).



The two coalition governments led by Wim Kok over the period 1994-2002 coincided with mainly stable economic conditions. However, there was a downturn following on the so-called 'dot-com' crash in 2001 which, when associated with growing anti-immigrant sentiment, cost the loss of many seats from the Social-Democrat PvdA to List Pim Fortuyn. The new government was formed only after difficult negotiations which lasted three months. It was a coalition led by Mr Jan Peter Balkenende of the Christian Democrat CDA with the Liberal (VVD) and List Pim Fortuyn (LPF). However, this government disintegrated after only eighty-six days in office. New elections were scheduled for January 2003. Faced with a deteriorating economic situation the Balkenende government adopted a very confrontational and ideological stance towards the principal union federation, FNV. This manifested itself in the elimination of the programme of 'assisted jobs' in local public services which was the flagship social policy of the previous government led by Wim Kok. The outcome of this confrontation was a wage norm of 2.5 per cent for 2003 and the retention of some of the assisted jobs programme (Visser and van der Meer, 2011:217).<sup>43</sup>

In the January, 2003 elections the List Pim Fortuyn vote substantially returned to the PvdA such that it regained what it lost in 2002. Nevertheless, it ended up behind the Christian Democrat CDA and the initiative in forming a government fell to them. This time it took four months to form a government with the Liberals VVD and the Social-Liberal and radical Democrats 66 (D66). At this time the stance of the employers was for wage moderation. This objective was not helped by a decision of the new government to achieve an extra €1.8 billion in extra savings to help meet EMU deficit criteria. Visser and van der Meer (2011) observe that, contrary to expectations, an accord was reached in November 2003 for a zero wage increase in 2004 and increases 'approaching zero' in 2005. In return the government agreed to negotiate proposed changes to early retirement, disability and unemployment benefits. In the event these negotiations were not successful and by mid-2004 FNV resiled from the terms of the 2003 agreement. According to Barry Eichengreen (2007:417) the Christian Democrats led government had formed the view by 2004

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<sup>43</sup> This author recalls a discussion at an ETUC meeting in Brussels at this time with Mr de Waal of FNV in which the latter expressed the view that the Balkenende people seemed to be influenced by a kind of religious asceticism – if it wasn't hurting it wasn't working.

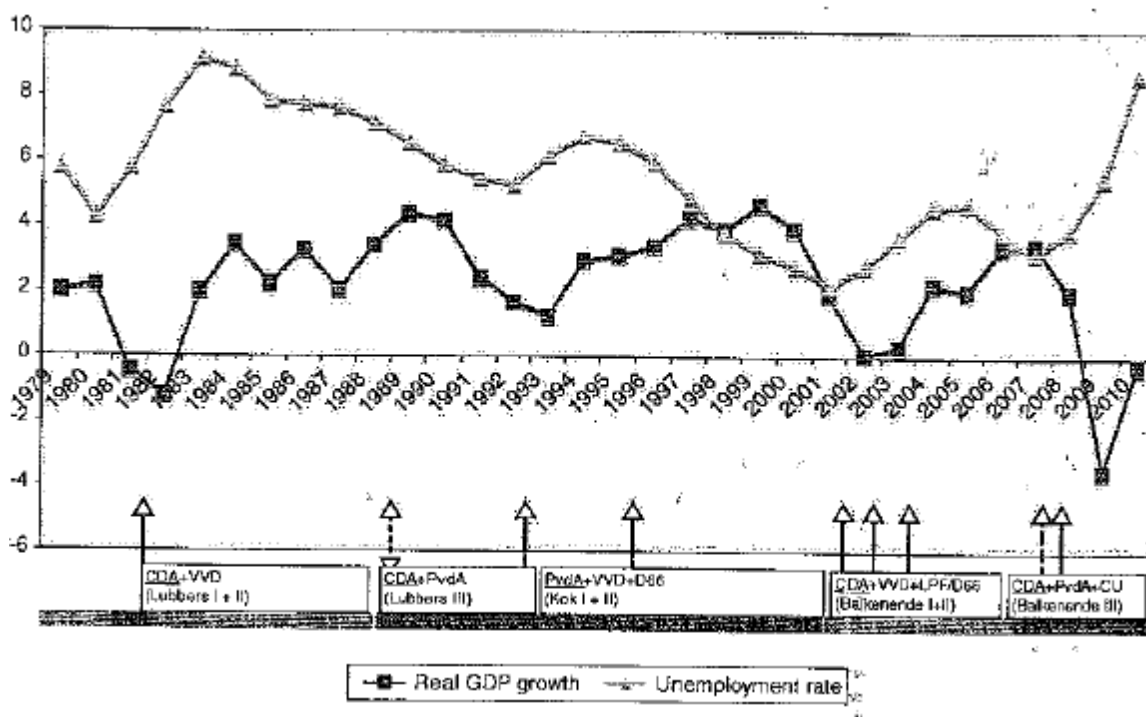
that the 'Polder' model of collaboration and consensus decision making had become too costly for a world of intense international competition.

In their analysis of what happened at this juncture Visser and van der Meer (2011) draw attention to an ill judged media interview in which the employers' VNO-NCW Chairman, Mr Jacques Schraven, suggested that trade unions were becoming irrelevant. The government also overplayed its hand by presenting a bill to parliament claiming that collective agreements need only be made universally applicable when it suits the government. The unions judged that they would have to react decisively against this twin pronged attack or see their influence diminish considerably. So, on 2 October, 2004, the unions brought 300,000 members to Amsterdam's Museum Square. It was the largest demonstration of raw union power since the war and brought a greater sense of realism to the thinking of both employers and government. The government was further unnerved at this time by the murder of film director, Theo van Gogh, by an Islamic terrorist. Fearing social unrest the government opened informal discussion with the unions which, after an exploratory period, revealed that a deal was possible. The employers were to some extent left in the dark but when an agreement was reached between the government and FNV they felt that they had little choice but to sign up for it. The core element of the agreement preserved the collective nature of the regime of early retirement and the retention of the possibility of retirement at age 60 for those with 40 years' service. Certain fiscal advantages for early retirement were scheduled to end in 2006 but for other changes a transition to 2022 was agreed. The government reversed its intended further reforms of disability pensions and unemployment insurance. The matter was left to be discussed by the Social & Economic Council (SER) which in 2005 produced advice acceptable to all parties.

After 2004 relations between the government and the social partners stabilised. All major organisations elected new leaders and in the 2007 election PvdA was back in coalition with CDA in a centre-left government. The VNO-NCW employers precipitated a crisis by demanding a reform of dismissal protection. In this they were supported by the new CDA Minister for Social Affairs, Mr Piet Hein Donner, but faced stiff opposition from PvdA ministers such that the government nearly fell. In accordance with a well-established procedure of Dutch politics the controversial

issue was referred to a ‘Committee of Experts’ which produced ideas but not a definitive proposal. Contrary to expectations this issue was resolved in direct negotiations between Ms Agnes Jongerius, head of FNV and Mr Bernard Wientjes, chair of VNO-NCW, in September, 2008. The dismissal protection system remained the same but the costs were capped. The accommodation was timely as all parties were to be tested by the onset of the 2008 global financial crisis (ibid).

Figure 5: Social Pacts, Government Coalitions, GDP Growth and Unemployment in the Netherlands



Source: Visser and Van der Meer (2011:208)

In 2003-2004 a constitutional convention of the European Union produced a draft constitution which, given its record of commitment to EU integration, was surprisingly rejected by the Netherlands in the spring of 2005. The intention of the constitution had been to create a political counterweight to a European Central Bank preoccupied with price stability. This generated a shocked realisation amongst European policy elites that there was nothing inevitable about the further course of European integration (Eichengreen, 2007; Judt, 2005). One possible explanation for the change of attitude on the part of the Dutch is the demise of the Stability & Growth Pact in 2003 as a cornerstone of EMU. In 2004 France and Germany both

broke the terms of the Pact but, because of their political weight, could not be punished for it.

Wim Kok's assessment is that the 2005 rejection of the Constitutional Treaty was due to "a complete lack of interest in the whole process". He says it was a mistake to call it a constitution – otherwise there might not even have been a need to hold a referendum. Another factor was that the Balkenende government was not popular. But he feels that support for Europe has regressed for a number of reasons – perhaps to punish governments (interview, 12<sup>th</sup> September, 2012). Alexander Rinnooy Kan, President of the Social and Economic Council, believes it was a rejection of the Dutch elite. It also reflected the influence of Pim Fortuyn. He believes there is huge support for integration and for the EMU in the Netherlands. He said the attitude was that changes cannot be ignored. It is better to face up to them and try to look after the victims. In his words "integration is a non-debate topic" (interview, 11<sup>th</sup> September, 2012).

By 2008 the Netherlands had completed a twenty year transition from being a 'sick' economy to 'Dutch Miracle'. Its productivity exceeded that of the United States and it had achieved virtual full employment.<sup>44</sup> This had been achieved while preserving the institutions of a consociational democracy. The 'Polder Model' had been challenged politically and by external economic conditions and had come through unscathed. The Netherlands was one of six countries that would provide an anchor during the banking crisis about to break over Europe.

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<sup>44</sup> An employment rate of 74 per cent in 2007 was in line with Nordic achievements but a very high proportion of jobs (60 per cent) are part time (Houwing and Vandaele, 2011:135).

## IRELAND

### The False Boom: Nice to Lisbon: 2001 – 2008

Friedrich Engels once wrote of Ireland:

‘The worst thing about the Irish is that they become corruptible as soon as they stop being peasants and turn bourgeois’.

*(Ireland and the Irish Question P. 372 cited in O’Sullivan, 2006: 59)*

By the end of 2000 there were six tribunals investigating a range of governance failures in the corporate and public spheres in Ireland: The Moriarty Tribunal investigating payments to Charles Haughey and Michael Lowry – a former Fine Gael Minister for Transport & Communications; The Flood Tribunal investigating planning corruption; The Laffoy Commission on the abuse of children in institutions; The Lindsay Tribunal on the infection of haemophiliacs by contaminated blood; The Barrow Inquiry on the Dublin Monaghan Bombings in 1974; and a Non-Statutory Dunne Inquiry into organ retention in hospitals. The early 1990s had seen an investigation into the collusion of government and business in the beef trade arising from a BBC documentary by Susan O’Keefe *Where’s the Beef?*. Perhaps the most bizarre event to lead to a tribunal of enquiry involved supermarket tycoon, Ben Dunne. As a result of a cocaine snorting incident in Florida resulting in Mr Dunne’s arrest his family business colleagues tried to oust him but found out in the process that he had given huge sums of money to certain politicians, which in due course led to the establishment of the McCracken Tribunal in 1997, the findings of which led to a wider tribunal into payments to politicians. The banks too were up to their necks in corruption. Between 1989 and 1993, Allied Irish Bank (AIB) operated over 50,000 bogus overseas accounts in order to avoid paying DIRT (Deposit Interest Retention Tax) Tax, and in a secret deal with the Revenue Commissioners it was agreed to keep the issue under wraps and to impose no penalties. The Irish section of a European Values System Study found that while Irish people were less tolerant of sexual morality infringements they were more

tolerant than other Europeans of social welfare fraud or tax evasion (Ferriter, 2005: 677 -681).

Economic growth was happening without any essential change in industrial strategy according to O’Hearn (2001: 191). As in the 1970s and 1980s the IDA targeted the leading sectors of global production – computers, pharmaceuticals and internationally traded services – and the economy rode on that growth.

It was, he argues, practically a universal conclusion among orthodox economists that wages and spending must be constrained for fear of making the economy uncompetitive. Yet wages make up only a very small part of the costs of the TNCs that drove Ireland’s economic growth and despite the fact that Ireland had the lowest ratio of public spending to GDP in the EU (see also Gray et al, forthcoming: 93).<sup>45</sup>

In consequence O’Hearn (2001) argues that inequality in society was not just a side effect of the rapid growth in Ireland during the 1990s: it was a direct consequence of the neo-liberal economic model that was seen to be responsible for growth. Thus, he argued, Irish growth in the 1990s was disarticulated. It was not based, like that in small European economies which earlier developed to core status, on the development of a local market for products that could be the centre of innovation and expansion. It was driven by the rapid external growth of the 1990s, by the new investment patterns that were associated with it and by the European policies that increased its attractiveness as a market for US goods. About the future he entered some serious reservations:

‘Although the mainstream economic experts refused to contemplate it, questions still remained as to whether this form of economic growth was sustainable or even desirable’.....as the limitations of Irish-style neo-liberal development become clearer, semi-peripheral countries may return to a model based on more interventionist and regulatory forms of developmental state.’

(O’Hearn, 2001: 193)

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<sup>45</sup> Even in 2010 average labour costs account for only 13 per cent of net output for foreign-owned manufacturing firms in Ireland.

This prediction was made as Ireland entered another phase of development. The limitations of the neo-liberal growth model were not to become apparent for almost another decade. In any case it was not universally accepted that the Irish state could be simply classified as a story of neo-liberal globalisation. Authors such as O’Riain (2004, 2008) and Smith (2005) pointed to the role of the state in social and economic matters which, at the very least, constituted strong counter tendencies to neo-liberalism. Smith points in particular to Social Partnership as the most controversial and contested of the counter tendencies. (Smith, 2005: 120).

Former Secretary General of the Department of the Taoiseach, Dermot McCarthy describes it thus:

‘Social Partnership was constantly challenged within the system although nothing else was. Ministers too were never happy because Social Partnership limited their scope to claim big initiatives.’

(Interview, 4<sup>th</sup> February, 2010)

Former Director General of IBEC, Turlough O’Sullivan was equally scathing about the critics of Social Partnership:

‘People who criticise it do so from a position of ignorance or malevolence – they did not understand what happened before or how we were able to sort out the problems.’

(Interviewed, 2<sup>nd</sup> February, 2012)

It is part of the accepted economic orthodoxy in Ireland that tax cuts created the Celtic Tiger economy. But actually, in the macro economy, lower taxes largely came into force after the boom began to slow down. The cutting of taxation was a political strategy that was made possible by the boom. The result was levels of public spending in line with the US but considerably lower than the EU average. In fact the culture relating to taxation in Ireland was central to the 2008 crisis and is at variance with that of other small countries in Europe. As O’Riain (forthcoming

2014: 207) points out, corporate taxes are kept low to attract foreign firms, while Pay Related Social Insurance (PRSI) and the broader tax wedge are kept low in order to promote smaller service employers. Crucially, the property sector was promoted by low rates of capital gains taxes. Even the initial attempt to cool down the property market through the use of stamp duty transaction taxes had the effect of making the public finances dependent on the property bubble. By 1997 Irish government spending had fallen to 35 per cent of GDP, marginally ahead of the US but 13 per cent below the European average (O’Riain, 2004: Sweeney, 2004).

**Table 20: Ireland: Central and Local Government Current Expenditure, 2000-2009**

Year	% of GDP	% of GNI
2000	25.3	29.3
2001	26.3	31.0
2002	26.8	32.3
2003	27.0	31.6
2004	27.5	32.2
2005	27.8	32.3
2006	28.0	32.0
2007	29.3	33.8
2008	33.8	39.0
2009	39.1	47.1

Source: CSO (2010)

In terms of GDP per capita, Ireland moved over the course of the 1990s from a position of around 60 per cent of the EU average (which was consistent over the whole period from 1973 when Ireland joined the EEC) to 145.4 per cent in 2006 making it the second richest country in the EU after Luxembourg. However, this disguises the true position. Because of the relative importance to the Irish economy of TNCs, and because they repatriate about €32 billion in profits, Ireland is unique in having a gap of the order of 20 per cent between GDP and GNP. For this reason Gross National Income (GNI) gives a more accurate reflection of relative living standards. Using this indicator lowers Ireland’s place in 2006 to 125.2 per cent of the EU 27, or fifth place after Luxemburg, the Netherlands, Austria and Denmark (Kirby, 2010: 32-33; O’Riain, 2008: 178)<sup>46</sup>.

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<sup>46</sup> In 2009 Ireland still had the second highest GDP per capita in the EU27 at 31 per cent above the EU average. But the value of GDP fell by 11.3 per cent in 2009. Based on Gross National Income (GNI) Ireland had fallen to tenth highest place (CSO, 2010).



**Table 21: Per Capita GDP Growth, 2000-6: Ireland in the EU**

Country	2000	2006
<b>Luxembourg</b>	200.0	<b>279.1</b>
<i>Ireland</i> (GDP)	114.8	<b>145.4</b>
<b>Netherlands</b>	110.8	<b>130.5</b>
<b>Austria</b>	115.2	<b>127.5</b>
<b>Denmark</b>	116.8	<b>125.7</b>
<i>Ireland</i> (GNI)	99.3	<b>125.2</b>
<b>Sweden</b>	106.2	<b>124.6</b>
<b>Belgium</b>	107.3	<b>119.8</b>
<b>UK</b>	102.0	<b>117.9</b>
<b>Finland</b>	102.9	<b>116.9</b>
<b>Germany</b>	106.1	<b>114.1</b>
<b>France</b>	101.1	<b>110.9</b>
<b>Spain</b>	82.0	<b>104.9</b>
<b>Italy</b>	101.9	<b>103.3</b>
<i>EU 27</i>	<i>100</i>	<i>100</i>
<b>Greece</b>	65.3	<b>97.3</b>
<b>Cyprus</b>	75.3	<b>91.9</b>
<b>Slovenia</b>	70.1	<b>87.8</b>
<b>Czech Republic</b>	60.6	<b>78.6</b>
<b>Malta</b>	NA	<b>76.9</b>
<b>Portugal</b>	68.1	<b>74.5</b>
<b>Estonia</b>	40.0	<b>68.4</b>
<b>Hungary</b>	49.6	<b>64.8</b>
<b>Slovakia</b>	47.0	<b>63.7</b>
<b>Lithuania</b>	35.3	<b>56.1</b>
<b>Latvia</b>	<b>30.8</b>	<b>53.7</b>

Source: Kirby (2010: 34)

A significant feature of the economic boom was an increase in female participation in the labour market. Women accounted for two thirds of the employment growth in services but 32 per cent of women work part-time as distinct from 6 per cent of men. The general pay gap has stabilised at around 15 per cent. In 1993 there were 435,000 women in the labour force but by 2004 this had grown to 787,000 increasing the female participation rate from 38.5 to 56.5 per cent just ahead of the EU average of 56.3 per cent (Kirby, 2010: 34).

There are a number of significant changes in the Irish economy and society which took place after 2001 which should be noted particularly as follows.

After 9/11 and the puncturing of the dot-com bubble the Irish growth rate bounced back quickly as can be seen in Figure 6. But the composition of that growth changed. It has come to depend to a greater extent on domestic demand than it formerly had, relative to exports. Export growth declined from an annual average of 17.6 per cent between 1995 and 2000 to an average of 4.9 per cent annually between 2001 and 2006. The value of merchandise exports in 2006 was less than it was in 2002. From a position of balance in 2003, the payments deficit reached 3.3 per cent of GDP by 2006. This period also saw industrial employment begin to decline and a major increase in the construction sector whereby at the height of the boom employment exceeded 286,000. Thus construction with services, became the main engine of job growth as can be seen in Table 22 below. The full extent of the construction boom can be appreciated by recalling that as recently as 1995 only 82,000 were employed in the sector. In general the shift towards services and construction had the effect of dampening productivity growth. Although total labour productivity rose by 30 per cent between 1995 and 2005 (an annual average 2.6 per cent increase), growth began to slow after 2002 and remained virtually unchanged between 2004 and 2005<sup>47</sup> (Kirby, 2010: 32-36; EIU Country Profile '96/97).

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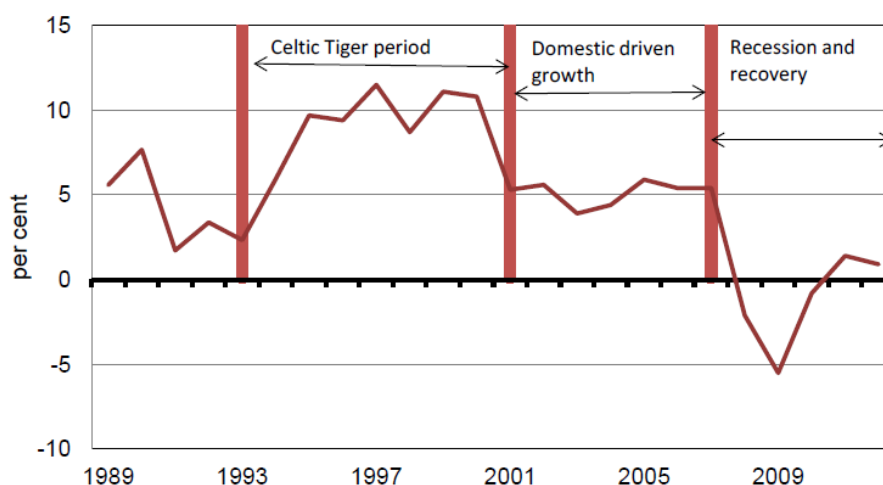
<sup>47</sup> According to the Minister for Finance, writing in *The Financial Times* on 24<sup>th</sup> November, 2010 Ireland's productivity in 2010 was second highest in the EU. The CSO (2010) also state that Ireland's productivity is 30 per cent above the EU average. However, O'Sullivan (2006: 68) draws attention to the divergence in productivity between indigenous and foreign owned TNCs. The former cannot match the achievements of the latter. To compound the problem he asserts that transfer pricing for tax purposes makes it look as if the amount of added value to goods produced in Ireland by TNCs is greater than it really is – hence productivity is overstated.

Table 22: Ireland - Sectoral Changes in Employment 2002-6 (000s)

Sector	2002	2006	Change %
Agriculture	124	117	-5.6
Production Industries	309	291	-5.8
Construction	197	269	+43.9
Services	1156	1362	+17.8
<b>Total at Work</b>	<b>1777</b>	<b>2039</b>	<b>+14.7</b>

Source: Kirby (2010:36)

Figure 6: Irish Economic Growth 1989 to 2009



Source: Fitzgerald & Kearney (2013:5) ESRI

The second factor of significance is the adoption of the so called ‘Lisbon Agenda’. The stated intention of this strategy was to turn Europe into the most competitive region of the world with ‘More and Better Jobs’. O’Riain (2008) saw this as a more wholehearted embrace of neo-liberalism and the transformation of the whole of Europe into a ‘Competition State’. Each European country was supposed to follow this prescription and to provide annual reports of its progress in doing so. The Lisbon Strategy was reviewed in 2005 and the social dimension was further de-emphasised relative to the market liberalising dimension.

By and large the Lisbon process failed. By 2010, its end date, its objectives were not secured and it was replaced by the ‘Europe 2020 Strategy’. Its effects on Ireland though were to impart a further liberalising impetus and O’Riain (ibid) also noted

that the Fianna Fáil – PD government had a distinctly neo-liberal edge to it. He summed up this episode up by observing that:

‘In believing their own rhetoric and failing to recognise the social and economic policies that have contributed to economic success, Irish policy makers have contributed to a rising level of inequality. Tax cuts, spending gaps and deregulated markets have created a deeply unequal society in Ireland.’

(O’Riain, 2008: 179).

Pointing to the unsustainability of the boom he wrote that while the professional classes and the self-employed could take advantage of a two-tier system of public subsidies, poorer sections of the community had been left behind with far fewer services to assist them to compete in the market. Insofar as employment was concerned he identified a vulnerability in that little had been done to guide those working in the boom industries of construction, retail and lower paid services into more secure employment (ibid).

These boom employment areas also attracted many immigrants. When Ireland opened its labour markets fully after accession in 2004 thousands flocked to Ireland from CEE countries. The only other countries to do so were Sweden and the UK. So it was plain that these three countries would see very big changes in the composition of their labour markets. At the height of the boom about 10 per cent of the labour force were foreign nationals, annual overall immigration rose sharply from 52,600 in 2000 to 109,500 in 2007 before falling back to 57,300 persons in 2009. In 2005 about 33,700 persons moved to Ireland from the 12 new EU countries who joined in 2004 and 2007, rising to 52,100 in 2007 and then falling back sharply to 33,100 in 2008 and 13,100 in 2009 (CSO, 2010: 56). In practice what this meant was that a lightly regulated labour market of 2 million was opened to one of 72 million. Not surprisingly there were problems involving some very high profile

industrial disputes.<sup>48</sup> The trade unions tried to address these issues through the Social Partnership process with only limited success.<sup>49</sup>

**Table 23: Ireland: Migration and Natural Increases\*, 2000-2009**

000 persons

Year	Inward migration	Outward migration	Net migration**	Natural increase	Population Change
2000	52.6	26.6	26.0	21.8	47.9
2001	59.0	26.2	32.8	24.8	57.7
2002	66.9	25.6	41.3	28.8	70.0
2003	60.0	29.3	30.7	31.9	62.6
2004	58.5	26.5	32.0	33.3	65.3
2005	84.6	29.4	55.1	33.5	88.6
2006	107.8	36.0	71.8	34.2	106.0
2007	109.5	42.2	67.3	38.8	106.1
2008	83.8	45.3	38.5	44.6	83.1
2009	57.3	65.1	-7.8	45.1	37.3

\*Data refers to the twelve months up to April for each year

\*\*Net migration is the number of immigrants less emigrants

Source: CSO (2010)

Arguably the most significant event during the period under review was the coming into effect of the new Euro currency. But this later turned out to be a double edged sword for Ireland. On the positive side membership of the Euro gave monetary stability at the height of the Celtic Tiger boom and with the depreciation of the Euro against Sterling and the Dollar in the years following its creation in 2002, added to export competitiveness. On the negative side Ireland lost control of monetary policy and with no power to fix interest rates the country was exposed to a low interest rate regime, which suited countries like Germany, but which fuelled the construction boom in Ireland. Secondly, from the mid-2000s on the Euro began to appreciate against Sterling and the US Dollar and Ireland's exports, which are high to the US and Britain, were badly hit. What was not probably fully appreciated at the time of the introduction of the Euro, but which became very obvious after the onset of the 2008 recession, is that Ireland's situation with respect to EMU is *sui generis*. While

<sup>48</sup> The most notable involved a dispute in 2005 in which the Irish Ferries company replaced its Irish crew with non-nationals earning half the minimum wage.

<sup>49</sup> Legislative commitments to regulate the labour market were not fully honoured. The most significant gain for the unions was the establishment of the National Employment Rights Authority (NERA).

EMU has significantly limited the policy tools available to all Member States the policy constraints on Ireland are particularly severe. This is because the Irish economy cycles out of phase with that of the EU due to its heavy dependence upon the UK and US. Since currency devaluation is no longer an option, EMU leaves Ireland less able to adjust to asymmetric (that is, country specific) shocks. The government is therefore limited to labour market and fiscal policy measures to effect adjustment to shocks. But it is also constrained by the parameters of the Stability and Growth Pact, most particularly the 3 per cent budget limit. (Kirby, 2010: 48; Smith, 2005: 157).

In 2002 the European Commission remonstrated with Ireland about its conduct of economic policy. In the context of the Stability and Growth Pact the Commission felt that public spending was increasing too much. The perspective of the Finance Minister at the time, Charlie McCreevy, was that they wanted him to take more money out of the economy but Ireland was not breaking any rules and was running a budget surplus whereas Germany and France had broken the Stability and Growth Pact with impunity. What the Commission said, therefore, was only an opinion and he points out that when he left office the debt to GDP ratio was down to 27 per cent. Mr McCreevy was critical of how the Commission managed the Stability and Growth Pact noting that there were five separate rules and Ireland complied with them all strictly. Ireland, for example, was one of the few that met the debt to GDP ratio criterion.

Former Minister for Economic Planning, Martin O'Donohue, looks at these matters from a different angle. He recalls that the new Fianna Fáil/PD government which came into office in 1997 commenced cutting taxes. This was wrong because when in a monetary union which is not a political union there needs to be a correct mix between monetary and fiscal policy i.e. in circumstances where low interest rates were driving the economic boom at the time.<sup>50</sup> He recalls that the disagreement with the Commission in 2002 centred on the role of the Stability and Growth Pact which was to keep the public finances close to balance or in surplus or 'CTBOIS'. He felt that policy was too expansionary. Productivity rates were giving a false impression because they were driven by the hi-tech sector, in particular, pharmaceuticals. The

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<sup>50</sup> Prof O'Donohue recalls presenting a paper to the PD leadership at the time to try to get them to understand the need for discipline in a monetary union without a political union.

underlying rate of productivity growth was more like 2-3 per cent and wage formation policy did not reflect this reality (interview, 22<sup>nd</sup> November, 2011).

A lot of official time – more than 50 per cent – was spent by the Department of Finance on European driven issues between 2004 and 2007 and the same was true of other departments, according to Kevin Cardiff, former Secretary General of the Department of Finance. He recalls that there were full flights to Brussels every day bringing people to talk about integration, including financial services which was explicitly about the single market (monetary integration was dealt with separately through the ECB in Frankfurt). The various State bodies had their own contacts but there were 10 to 15 cabinet sub-committees involved in integration matters at any one time. He notes also that the European Parliament became more important from 2004 (interviewed, 14<sup>th</sup> December, 2011). Charlie McCreevy, former EU Commissioner and Minister for Finance, considered that Ireland failed to appreciate the significance of the European Parliament gaining more power. He contrasted the disconnect between the Executive in Dublin and the European Parliament with the way in which Denmark briefs its MEPs (interview, 7<sup>th</sup> June, 2012). The accuracy of this observation was confirmed by Anete Berentzen of the Danish LO who explained how the Social Democrats had held a joint seminar with employer and union involvement to impress upon Danish MEPs how they should try to protect the Danish national interest in Europe (interview, 22<sup>nd</sup> May, 2012). Senator Joe O’Toole and Ruth Barrington, former Chair of the Irish Times Trust, also criticised this disconnect noting that the Department of Foreign Affairs for a very long time resisted an Oireachtas Foreign Affairs Committee because they did not want anybody looking over their shoulders on Europe (interviews, 4<sup>th</sup> December, 2012 and 9<sup>th</sup> January, 2012).

## **Conclusion**

In seeking to identify the common links between the comparator countries we can start by noting that the Netherlands is now often categorised with the Nordic countries in the context of measures of redistribution, equality and labour market regulation in a way that detaches it from the continental SME cluster (Houwing and Vandaele, 2011; Schmidt, 2011:154). As noted earlier, Schmidt (2011:149) has

drawn attention to the way these countries have transcended economic crisis to reform their welfare states but to nevertheless do so in a way that preserves the core values and protections of the welfare state. At the same time these small open economies remain amongst the most economically strong in Europe. The ‘ideology of Social Partnership’ identified by Katzenstein (1985) as a key component of their success almost succumbed to the ‘Primacy of Politics’ argument during the 1980s and 1990s but recovered by the end of the 1990s to a point where it is seen as the first refuge in a crisis and seems to be firmly embedded in the institutional architecture of each country. By contrast Social Partnership was one of the first victims of the crisis in Ireland.

The period from 2001 to 2008 saw the Euro begin to function as a currency alongside the Dollar and the Yen. However, early infringements of the Stability & Growth Pact, most notably by France and Germany, somewhat undermined the project. A revised version of the Pact introduced in 2005 probably exacerbated this. It may also have contributed to votes against the new EU constitution in some countries, including the Netherlands. For the first time perhaps it began to dawn on policy elites that the integration process was not inevitable. EMU was soon to be challenged in a way that was not foreseen. Despite the apparent tranquillity of the so called ‘Great Moderation’ the world was incubating a financial and banking crisis, which, when it broke in 2008, would hit the small open economies particularly hard.

By the end of the 1990s it was apparent that Ireland was at a critical juncture. It had closed the income gap but not the capabilities gap with the rest of Europe. Put another way, it looked no better than the other peripheral countries in the EU. In the case of R&D, for example, EU average expenditure was 1.93 per cent of GDP while Ireland was still at 1.17 per cent in 2001. But Ireland actually needed to develop the necessary technological capabilities to compete on the basis of more knowledge-based activities (Paus, 2012). If anything the need for a national system of innovation was now more acute than had been identified by Lar Mjoset in his report for the National Economic and Social Council ten years earlier (Mjoset, 1992). Paus (2012) concludes that it was the inability to replicate the institutional ability to find solutions and ensure coordination among the relevant actors to implement them, that



had been present in the 1990s, that led to the fall of the Celtic Tiger. While this was undoubtedly one important factor regard must also be had for the doomed love affair with property investment in the 2000s (see O’Riain, forthcoming, 2014), in which speculative investment fuelled by tax incentives created a bubble which, when it collapsed, had serious consequences for the public finances and the economy as a whole.

The deepening of European integration consequent upon implementation of EMU represented a sea change in the international order considered by Katzenstein (1985). Moreover, it had profound implications for the system of democratic corporatism because it imposed boundaries on the freedom of labour market actors to negotiate social compensation solutions. Absent the capacity to devalue the currency the burden of adjustment to shocks had to be accommodated by labour markets. It is true that Denmark and the Netherlands had much earlier tied their respective currencies to the DM but they could, in theory at least, have sundered that connection. The institutional architecture of EMU is constructed in a way that is intended to prevent withdrawal of any member state. As well as that the independence and power of the ECB, with its singular focus on price stability, is not balanced by any EU institution concerned with social policy.

Hemerijck (2013: viii) points to the considerable change that has occurred even in the last decade and its implications for social policy. The EU has enlarged from a community of 15 to 27 member states in 2007 bringing added heterogeneity and complexity to domestic and EU-level policy spaces. He contends that fragmentary economic analysis focussed on the integrity of the single market, low inflation, and sound public finances, anchored in the Stability and Growth Pact, precluded European macroeconomic policy makers from taking the Lisbon concept, ‘social policy as a productive factor’ really seriously.

In the next chapter we will evaluate how each of the comparator countries dealt with the 2008 crisis within the limited policy space available.

In concluding this chapter it may be useful to recall the principal features of each country’s developmental journey as summarised in Table 24:

Table 24: Principal characteristics of each country's journey

	BASELINE 1987-1994	REASON FOR JOINING EMU	EVOLUTION OF DEVELOPME NT MODEL
<b>NETHERLANDS</b>	<ul style="list-style-type: none"> <li>• High unemployment</li> <li>• High welfare dependency</li> <li>• 'Most spectacular unemployment failure in advanced capitalist world'</li> <li>• Structural flaws – disability regime exploited for industrial restructuring</li> <li>• PvdA chooses welfare reform over relations with unions</li> <li>• But Wassenaar Agreement hugely influential</li> </ul>	<ul style="list-style-type: none"> <li>• Economic reasons</li> <li>• Logical extension of close links to German economy and 1970s peg to DM</li> </ul>	<ul style="list-style-type: none"> <li>• Preparation for EMU</li> <li>• Improving sustainability of welfare regime via increased labour force participation.</li> <li>• Unemployment problem solved via part-time work (1.5 jobs per family model)</li> <li>• Welfare/pensions reform</li> <li>• More limited role in welfare admin for labour market actors</li> <li>• But social pacts first default option in crisis</li> </ul>
<b>FINLAND</b>	<ul style="list-style-type: none"> <li>• Late industrialiser helped by war reparation requirements</li> <li>• Loss of Soviet market (estimated @ 20% of exports)</li> <li>• Banking/financial crisis compounded by liberalisation of capital markets</li> </ul>	<ul style="list-style-type: none"> <li>• Geo-political imperative to be at the heart of Europe</li> <li>• Sub-optimal experience of monetary policy as conducted by Bank of Finland</li> </ul>	<ul style="list-style-type: none"> <li>• Complete restructuring of economy and re-orientation towards West</li> <li>• Big focus on ICT-Nokia</li> <li>• Reversal of Cold-War policies e.g. neutrality</li> <li>• Return of centralised corporatist bargaining</li> </ul>
<b>DENMARK</b>	<ul style="list-style-type: none"> <li>• High unemployment as a result of two oil crisis in 1970s</li> <li>• Compounded by peg to DM</li> <li>• Ameliorated through coordination of economy via market mechanisms embedded in collective agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Not a member but tracks Euro</li> </ul>	<ul style="list-style-type: none"> <li>• Employment generated via public investment and strong labour market activation (flexicurity model)</li> <li>• Public sector reform to support export strategy</li> <li>• Strong focus on globalisation challenge</li> <li>• Exports influenced by innovation for domestic needs (e.g. Green Energy)</li> </ul>
<b>IRELAND</b>	<ul style="list-style-type: none"> <li>• Gradual recovery from mid-1980s crisis <b>but</b></li> <li>• Still high unemployment and GDP/capita of only 60% of EU average</li> <li>• Early gains led to embedding of Social Partnership</li> </ul>	<ul style="list-style-type: none"> <li>• Independence from UK</li> <li>• Earlier experience of currency volatility</li> <li>• Expected benefit from low interest rates</li> <li>• Strong coalition in favour</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable economic expansion and job growth via productive investment to 2001</li> <li>• Post 2001 construction boom fuelled by financialisation, low interest rates via EMU and perverse tax incentives</li> <li>• Pro-cyclical budgetary policies</li> <li>• Crisis and unwinding of Social Partnership</li> </ul>

## CHAPTER 6: Beyond 2008: Coping With The Crisis

### Introduction

In a series of speeches in 2006 and 2007 the President of the European Central Bank, Mr Jean-Claud Trichet, was at pains to emphasise the positive features of the single currency. He praised growing financial integration as contributing to diversifying and sharing risks and offsetting future economic shocks. He described the single currency as ‘the most advanced feature of European unity and in many ways its emblem’ (cited in Marsh, 2011:241).

This shows how unprepared the authorities were for the tide of financial market convulsions that washed through Europe in the wake of Lehman and Merrill Lynch banking collapses. The Dutch bank Fortis, the Franco-Belgian financial group Dexia and Germany’s second biggest mortgage lender, Hypo Real Estate, all had to be saved from collapse with combined public and private sector rescue packages. European and North American governments moved to prop up their banking systems with funding of between €3,000 and €4,000 billion to ward off the most serious financial threat to the world economy since the 1930s Depression. The scale of the crisis was such that it was estimated that a quarter of the world’s financial wealth had been destroyed. The IMF estimated that global GDP would fall from 5 per cent a year to 0.5 per cent in 2009. President Sarkozy of France was moved to say:

‘The idea that markets were always right was mad...the present crisis must incite us to refound capitalism on the basis of ethics and work....laissez-faire is finished. The all-powerful market that always knows best is finished.’

(cited in Mason, 2009:29)

According to Gylfason et al (2010) the Nordic countries were hit hard by the crisis even though it had nothing to do with the stability of their own financial systems or with their competitiveness in global markets. The problem was that as small open

economies in a globalised world they were vulnerable to the fall-out from the bursting of asset price bubbles that had been inflated over many years through a combination of global imbalances, excessive credit expansion, and unhealthy increases in leverage. Large financial flows looking for investment outlets contributed to keeping real interest rates low worldwide. The abundance of liquidity and low interest rates encouraged financial institutions and asset holders to try to increase the rate of return on their portfolios by increased leverage at the cost of higher risks. The global financial crisis emanated from the conjunction of widespread financial fragility and a lopsided globalisation process, proceeding rapidly amidst large financial imbalances. The inadequacy of regulation and supervision and mismanagement of large financial institutions was a compounding factor (ibid:16).

On the positive side the Nordic countries were able to respond to the crisis in a countercyclical way by virtue of running general government financial surpluses over the period 1998-2008. Countries running general government financial deficits have been forced into a pro-cyclical policy response (ibid).

The purpose of this chapter is to examine how each country dealt with the crisis and to identify policy judgements at a domestic level which either eased or exacerbated the exogenous shock.

## FINLAND

Finland experienced a previous deep financial crisis in 1992/93 when unemployment rose to an unprecedented 17 per cent. But Finland emerged strong from this crisis joining the EU in 1995. The gross financial cost of the clean up after the 1992/93 crisis amounted to 13 per cent of GDP (Gylfason et al, 2010).

The primary driving force of the 2008 recession was a collapse in export demand. The lesson learnt from the 1990s is that the banking system is fundamentally sound. While budget deficits have increased rapidly, public sector indebtedness has remained relatively low and the strong public finances has kept the cost of debt down. Discretionary fiscal policy has been expansionary. Therefore, domestic demand is not held back by domestic financial disturbances and public finances will not be weakened by the need for bank support expenditure. That is not to say that the crisis, like the one in 1992/93, will not have problematic consequences far into the future (ibid).

**Table 25: Economic Development in Finland in 2007-2011**

ECONOMIC DEVELOPMENT IN FINLAND IN 2007-2011						
	2007	2008	2009	2010	2011	
						1
<b>Growth of GDP, %</b>	4.1	0.8	-6.9	0.4	2.4	
<b>Unemployment, % of labour force</b>	6.9	6.4	8.3	9.7	9.7	
<b>Gen. Gov. financial surplus, %</b>	5.2	4.4	-2.3	-4.8	-5.2	
<b>Consumer prices, %</b>	1.6	3.9	1.7	1.5	1.4	

Source: Gylfason et al (2011)

According to Varitiainen (2011) Finland applied a modest fiscal stimulus during the crisis, comparable to the other Nordic countries. He notes that, in the very long perspective, the country has been very successful and its EMU membership has

been a reasonable success. Issues for the future are the long term sustainability of the welfare state and unfavourable demographic trends.

2011 saw the return to centralised wage bargaining and the negotiation of a 2 year framework agreement. This had been the ambition of the SAK trade union centre under the leadership of Lauri Lyly (interview, 10<sup>th</sup> May 2011). The outcome of the sectoral bargaining round of 2008 was a rather high nominal wage increase which caused the Finnish government to postpone planned tax reductions. This may have influenced the employers and the new government to return to centralised bargaining. While Mr Lyly saw the new framework agreement as being strategically important it is not without its critics in Finland.

Sixten Korkman said the negotiation of the framework agreement was a surprise. Employers wanted decentralised bargaining but felt that the new leader of the employers' peak association may have gone along with the deal to reduce the possibility of strikes. If it did not work out that way the agreement was unlikely to be renewed in 2013. His view was that the labour market organisations were not active enough on labour market issues like pensions but should stay away from making agreements on tax and welfare which are more appropriate to Parliament (interview, 28<sup>th</sup> September, 2012). He also felt the wage settlement was too high for competitiveness. He expressed some reservations about Finnish neo-corporatism, saying that it tied the hands of government in certain areas thereby creating a democratic deficit. He cited the health service as an example saying that collectively bargained health benefits provided by the private sector were leaving the public service only for poorer people and it was under resourced as a result. Katja Lehto-Komulainen of SAK confirmed that there was some merit in the argument.

The 2011 election was seen as something of a watershed in Finnish politics. In the 2007 elections the True Finn Party took just 4.1 per cent of the vote but by 2011 they had secured 19 per cent of the vote putting them on level par with the three main parties, the National Coalition Party (Conservative), The Centre Party and the Social Democrats.

The *Financial Times* described the outcome as ‘a political earthquake’ in a country used to stable governments more wedded to pragmatism than to ideology. The paper opined that the True Finns exploited a sense of economic insecurity felt by blue collar workers in particular due to the decline in traditional industries such as forestry and paper manufacturing. Turnout rose from 67.9 per cent in 2007 to 70.4 per cent in 2011, suggesting that the True Finns succeeded in rallying disaffected voters (Ward, 2011 a: 7).

The view amongst the political and administrative elite in Finland is that the leader of the True Finn Party, Timo Souni, is a brilliant communicator but there are a lot of unsavoury people in his party who don’t know how to use parliament and are regularly involved in scandals. Protest parties are popular in Finland because the mainstream parties converge so much on policy that they all appear to be the same. The received wisdom in 2012 was that the Eurosceptic orientation of the True Finns means that they would never be acceptable in any government involving the mainstream parties. If this were to change, which was unlikely, the True Finns would be found out because they have no coherent policy platform. Because they don’t have to take responsibility for anything the party can continue its populist bent and so was likely to be part of the Finnish electoral landscape for quite some time. However, the True Finns should not be likened to some of the other far right parties in Europe. They are not overtly racist and have been careful to select some immigrants as local elections candidates in 2012. At least Timo Souni was trying to suppress such racist elements within the party. Many of its local election candidates were also public sector workers – like nurses and teachers – concerned about cutbacks. The overall verdict seems to be that the True Finns are a protest movement and as such are not likely to make a big impact on Finnish politics in the long run (interviews with Vanhannen, Tiilikainen, Kekkonen, Metsamaki, Korkman and Kunola).

The general expectation amongst the political elite in 2012 that the Finns (formerly The True Finns) would collapse under the weight of mainstream politics has not been borne out. According to the Economist Intelligence Unit Country Report (May, 2013) the party consolidated its position in the October, 2012 local elections and is now a credible political force with a sustainable and expanding voter base that spans

all age groups. In fact it is possible that the party could get sufficient support to lead a government after the next election in 2015. There is said to be growing apprehension among the leaders of the mainstream parties about sharing government with the Finns, a fear fuelled by the Finns' radical views on economic relations with the EU, hard-line immigration policies, and desire to shift the weight of taxation from personal income to corporate earnings and wealth. According to the EIU analysis the Finns' ability to attract new voters is indirectly served by a disgruntled ageing population fearing cuts to pension entitlements and the expanding ranks of younger and unemployed Finns who see bleak employment prospects and reduced job security.

Notwithstanding the foregoing the EIU expects the six party coalition led by the conservative National Coalition Party (but including the Social Democrats, the Left Alliance, the Swedish Peoples' Party and the Christian Democrats) to serve its full term until 2015. But Finland will be a more difficult partner in the Eurozone than before the 2011 election because of the destabilising effect of the Finns party.

Nokia began to experience trading difficulties in 2012 and by September 2013 its mobile phone business had been sold to Microsoft. This was something of a shock given that Nokia had been the world's largest maker of mobile phones in the 2000s. Earlier, NSN, Nokia's telecoms business, shed 17,000 jobs worldwide in a deep restructuring (Milne, 2013).

Finnish people interviewed for this research seemed mainly to be sanguine about the impact of Nokia's trading difficulties on the Finnish economy. Vessa Vihriala of ETLA said that Nokia makes zero contribution to GDP at this stage directly. Most of the production capacity is abroad but there are 10,000 people working in R&D and marketing (interview, 28<sup>th</sup> September, 2012). Sirpa Kekkonen of the Prime Minister's Office said there was some concern about the risk of relying on one strong pillar of the economy and there was a need to diversify into other areas e.g. green technology (interview, 25<sup>th</sup> May 2012). Former prime minister, Matti Vanhanen, conceded that Nokia was enormously important for R&D but suggested that there was no serious risks to employment because anyone affected by Nokia's travails could be absorbed by the broader ICT sector which is doing well – although



he did qualify this by noting that ICT was notoriously volatile (interview, 27<sup>th</sup> September 2012). A dissenting view was entered by Kirsi Kunola, a specialist in disability, who said people were worried about Nokia. It closed a major factory in Southern Finland in 2011 which closed off opportunities for students of one of the technical universities, all of whom were more or less certain to have worked in the factory formerly (interview, 13 November, 2012).

Apart from the future of Nokia Finland is facing some strategic challenges:

Finland has been less affected than many other countries by the financial crisis, given its resilient domestic demand, healthy banking sector, benign public finances and low exposure to highly indebted Eurozone members. Nevertheless, there has been a GDP drop of 0.4 per cent in 2013, after a 0.2 per cent fall in 2012. Average annual growth of 1.5 per cent is projected for 2014-17. Industrial output contracted by 6 per cent year on year in February 2013, and new orders in the manufacturing sector dropped by 9.7 per cent in February 2013, up from 7.5 per cent in February 2012. Under a new inward investment strategy the government wants to develop Finland as a gateway for Russian and Asian investors and manufacturers to European markets. A cut in corporation tax by 1.5 percentage points to 24.5 per cent has been implemented and a further cut of 4.5 per cent is promised from 2014.

Richard Milne (2013) suggests in fact that Russian influence in Finland is growing. Russian is the most commonly spoken foreign language in Finland and 1.3 million visas were issued to Russians in 2012. Trade between the two countries is growing again. Finnish exports to Russia increased by 1 per cent in the first seven months of 2013. In late 2013 Rosatom, the Russian owned United Shipbuilding Corporation, announced its intention to buy Arctech Helsinki, a shipyard specialising in building icebreakers.

The public sector debt to GDP ratio is expected to remain low by international standards at around 60 per cent and the budget deficit is only 1.8 per cent. It is an important keystone of policy for Finland to retain its AAA sovereign credit rating. A tripartite wage agreement for 2012-13 involved an income tax cut of 0.2-0.5 percentage points (ibid).

**Table 26: Economic Growth Forecast for Finland to 2016**

%	2012 <sup>a</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>	2016 <sup>b</sup>
<b>GDP</b>	-0.2	-0.4	1.0	1.8	1.7
<b>Private Consumption</b>	1.6	0.7	1.2	1.8	1.7
<b>Government Consumption</b>	0.8	-0.2	1.2	1.8	1.7
<b>Gross fixed investment</b>	-2.9	-0.2	0.0	1.0	0.8
<b>Export of goods &amp; services</b>	-1.4	-1.8	2.9	4.4	3.6
<b>Import of goods &amp; services</b>	-3.7	-3.0	3.6	5.3	4.1
<b>Domestic demand</b>	-1.2	-0.9	1.1	2.0	1.8
<b>Agriculture</b>	-1.1	0.5	0.7	0.9	0.7
<b>Industry</b>	-1.9	-2.5	0.9	1.8	1.6
<b>Services</b>	0.8	0.7	1.0	1.9	1.8

<sup>a</sup>Actual

<sup>b</sup>Economist Intelligence Unit Forecasts

Source: EIU Country Report Finland, May, 2011, P. 10

Lauri Lyly, President of the trade union confederation, SAK, takes the view that the biggest labour market issue in Finland today is associated with the country's demographics. Employers want the retirement age raised to 65 from its current level of 63-68 (employees can now choose when to retire within these parameters). SAK is opposed to this although it does share the analysis of the demographic problem, if not the solution proposed by employers. Mr Lyly said unions want a more holistic approach to the problem dealing also with the fact that one third of all workers effectively retire on incapacity benefit at an average age of 52. Higher education means that young people are entering the workforce later and his view is that some way should be found to allow young people to start working earlier albeit within a flexible regime that would allow them to continue their education. He explained that this is a topic much debated in Finland. He emphasised that this is an issue less about the pension system as such and rather more to do with the length of a person's working life and the labour supply needs of the economy (interview, 10<sup>th</sup> May, 2012).

Interestingly, Sixten Korkman is in agreement with the need for students to progress through university at a faster pace than the current 7 years. He feels that the incentives which allow people to work in part-time jobs unrelated to their discipline

while having a good time and studying in a relaxed kind of way need to change (interview, 28<sup>th</sup> September, 2012).

As Lauri Lyly puts it, the demographic issue is forcing the country towards unpleasant choices between lengthening working life or increasing immigration. Juhana Vartiainen sums it up this way:

‘Yet it is not obvious that Finland’s corporatist political system can easily cope with this new, internal challenge. The main reason for this, in my view, is that the corporatist political culture may make it too difficult to manage intergenerational conflicts. To take care of long-term sustainability, the government must balance the long term interests of future generations with those of the currently old and currently active. This requires a solid political mandate, which may not really exist today.’

(Vartiainen, 2011:82)

## DENMARK

The right of centre government, consisting of the Liberal Party and the Conservative Peoples' Party (KF) governed Denmark from 2001. In November, 2011 the Social Democrats led by Helle Thorning-Schmidt returned to power. All parties agreed that consolidation of the public finances is an imperative for medium term reasons. Because of an ageing population and dwindling North Sea oil, Denmark potentially faces a huge deficit by 2020 (Economist Intelligence Unit, 2010; *Economist*, 2011; MacCarthy, 2011).

The wild card in Danish politics is the populist and anti-immigrant Danish Peoples' Party and its leader, Pia Kjaersgaard. She has been described as "a sparsely educated grandmother with a magnetic hold on a large section of the electorate" (MacCarthy, 2011). According to MacCarthy (ibid) the DPP'S influence on the Danish political spectrum has been immense. Founded in 1996, it took 7.4 per cent of the vote in 1998 and 12 per cent in the 2001 election, allowing it to enter an informal alliance to put the new centre-right government into office. The position of the party was so pivotal in supporting the minority government that no major legislation succeeded in parliament without Ms Kjaersgaard's approval. She succeeded in shifting the centre of gravity to the right and virtually the entire political playing field shifted with her. The immigrant issue is now and for the foreseeable future front and centre in Danish politics. This is a big change for a country that was widely perceived as a welcoming haven of Nordic tolerance.

It is a little surprising that this issue has taken such hold given that only 8 per cent of Danish residents are foreign citizens. Campbell and Hall (2010) discern the immigration issue as a new cleavage in Danish politics and observe that political elites are now concerned about the implications of this for national solidarity.<sup>51</sup>

Clare MacCarthy (2011) also argues that the flexicurity labour market model has begun to unravel. However, a study of the effects of the economic recession on the effectiveness of the flexicurity model by Torben M Andersen (2011) does not

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<sup>51</sup> A report by the Globalisation Council in 2006 on how to bolster Denmark's competitiveness called for better education and language training for immigrants in order to maintain the sort of social cohesion and national solidarity that served the country so well in the past.

support this conclusion. He notes that the crisis imparted a great shock to the Danish economy causing output to fall by 6 per cent between 2008 and 2009 and unemployment to rise by some 3-4 percentage points. Nevertheless, in a comparative perspective the performance is characterised by below average unemployment and no stronger tendencies for unemployment to become persistent. Overall, however, he concludes that it is too early to reach final conclusions about the effectiveness of flexicurity in a deep recession.

Moreover, Vivien A. Schmidt (2011:55) argues that one of the problems of the Varieties of Capitalism school is its scant regard for the role of the state acting through its institutions. She is highly complimentary of the success of the Danish state in promoting policy change through national level coordination mechanisms aimed at getting the long term unemployed back into the economy. She contrasts Denmark favourably with Germany in this regard by virtue of the latter's inability to mobilise the social partners for solidaristic purposes. She specifically identifies centralised corporatism combined with a unitary state as the key to success.

Dr Soren Kaj Andersen of the Sociologisk Institute (FAOS) is based in Copenhagen University. Conversely, he considers that the flexicurity model performed in a suboptimal way compared to Germany's approach to managing short time working. Germany did not suffer any rise in unemployment whereas 17% of industrial jobs were lost in Denmark (interview, 21<sup>st</sup> May, 2012). However, he does acknowledge the point made by others that the post 2001 government of the centre right hollowed out the ALMPs system such that when the 2008 crisis arrived flexicurity was not fit for purpose (Goul Andersen, 2011; interviews with Poul Nyrup Rasmussen and Mogens Lykktoft, 21<sup>st</sup> & 22<sup>nd</sup> May, 2012).

The minority coalition of the Social Democrats, the Socialist Peoples' Party (SF) and the Social Liberal Party elected in 2011 has suffered a slump in its poll ratings. The next general election is not due until 2015 and, while there is a long tradition of minority coalition governments in Denmark, it is possible that the government will not go full term, according to the Economist Intelligence Unit Country Report (April, 2013).

The government introduced an additional stimulus to the economy in 2013 and the 2014 budget strikes a balance between some social and green growth investments and fiscal consolidation. Further welfare and labour market reforms designed to increase work incentives will be crucial to medium term fiscal consolidation. Longer-term policy priorities will be to address waning competitiveness, demographic change, and the pressures generally on public spending (ibid).

Danish banks have received substantial State support since 2008, including capital injections, and State guarantees of deposits and bank debt (ibid).

As regards fiscal policy Denmark compares favourably with the rest of Europe with a debt to GDP ratio below 50 per cent and a budget deficit of about 4 per cent. It has been in a fiscal position to stimulate the economy by public investment to the tune of Dkr 10.7 billion (€2 billion) in 2012. The government also tried to increase consumer spending by the reimbursement of pension contributions between April and October in a large once off cost to the State of around 1 per cent of GDP. Nonetheless, the economy contracted by 0.5 per cent in 2012 mainly as a result of the external sector. Private consumption was resilient. The EIU (2013) is forecasting that growth will recover mildly to 0.6 per cent in 2013 and will average 1.6 per cent per year in 2014-17. This will be aided by public investment which is at an all-time high and will continue to grow in 2013. Construction of the Fehmarn Tunnel to Germany will support investment from 2014-15 (ibid). According to the EIU, an erosion of competitiveness has taken place over the last decade and, despite productivity gains and pay restraint, this will restrain a recovery in exports. However, it is also worth noting that Denmark is a net exporter of petroleum.

**Table 27: Economic Growth Forecasts for Denmark to 2017**

%	2012 <sup>a</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>	2016 <sup>b</sup>	2017 <sup>b</sup>
<b>GDP</b>	-0.5	0.6	1.1	1.5	1.9	1.8
<b>Private Consumption</b>	0.6	0.4	1.4	1.2	1.9	1.7
<b>Government Consumption</b>	0.2	0.1	0.3	0.6	0.4	0.4
<b>Gross fixed investment</b>	2.2	0.8	2.9	3.1	4.1	4.2
<b>Export of goods &amp; services</b>	0.9	1.7	1.8	3.0	3.3	3.4
<b>Import of goods &amp; services</b>	2.5	1.3	2.5	3.2	3.8	3.6
<b>Domestic demand</b>	0.5	0.6	1.5	1.5	2.1	1.8
<b>Agriculture</b>	1.2 <sup>c</sup>	0.5	0.5	0.5	0.5	0.5
<b>Industry</b>	-1.2 <sup>c</sup>	1.1	1.0	1.0	1.0	1.0
<b>Services</b>	-0.3 <sup>c</sup>	0.4	1.2	1.7	2.2	2.0

<sup>a</sup>Actual                    <sup>b</sup>Economist Intelligence Unit Forecasts   <sup>c</sup>Economist Intelligence Unit Estimates  
Source: EIU Country Report Denmark, April, 2013, P.9

How well has the Danish model survived the 2008 economic crisis? According to the forecasts of the Economic Intelligence Unit outlined in Table 27 above it would appear that Denmark remains a strong and wealthy economy. However, a combination of an ageing population, declining North Sea oil revenues, and a growing intolerance to immigration provide significant challenges in the years ahead. This is reflected in a concern amongst the political elite about growing heterogeneity and its implications for national solidarity and competitiveness, underscoring the importance of homogeneity in the past. In the face of these challenges the question is whether the negotiated economy can be as effective as it was heretofore? And if it cannot, what is the alternative?

Soren Kaj Andersen (interview 21<sup>st</sup> May, 2012) also opines that, while the influence of the Danish Peoples' Party may have peaked (the 2011 Social Democrat government actually reversed some of the anti-immigrant legislative changes introduced by the previous government under pressure from the DPP), it is a fact that the Nordic welfare model is being threatened by immigration. This is because immigrant workers, particularly in construction, are allowing the establishment of a secondary labour market with different pay and conditions. In relation to welfare generally his view is that the phase of right-wing inspired reform terminated after the election of the Social Democrat led government in 2011. He said that people are

not going to move further in that direction and that the new Government had not been afraid to relax the rules.

Former MP, Klaus Haekkerup, identified himself as a dissident on Europe within the Social Democratic party although he says he is not so much against Europe as concerned about what we want it to be. He says Denmark has a love-hate relationship with Europe. It is an elite project opposed by manual workers and people who live in rural areas. The Social Democrats are divided on Europe – half for and half against. Every referendum is dangerous for the party. The referendum in 2000 finished off Poul Nyrup Rasmussen's government (interview, 22<sup>nd</sup> May, 2012).

This difference between the elite and the people was confirmed by Anete Berentzen of Danish LO. According to her:

‘We are a selfish people. I liken popular views on Europe to that of a person coming out of a storm into a warm house but not wishing to contribute to the house.’

(Interview, 22<sup>nd</sup> May, 2012).

Professor Niels Christopher Thygesen said there are two Eurosceptic parties, the Danish People's Party (DPP) and the far left, with the former being a little xenophobic. The latter support the government but are not part of it. Otherwise Parliament would still join the Eurozone. The prime minister, Helle Thorning Schmidt, is very pro Europe but everything is a bit uncertain now (interview, 22 May, 2012).

Asked if authoritarian liberalism as suggested by Kaspersen and Thorsager (2010) was a growing component of the Danish polity Thygesen said there was some evidence that it is. He considers that the centre-right government of Anders Fogh Rasmussen was contract orientated, ‘government declares something and follows it through - no tax increases etc.’ On the other hand the Danish LO were again negotiating in a tripartite forum under the new Social Democrat government, albeit negotiating below inflation wage increases to improve competitiveness with Germany (interview, 22<sup>nd</sup> May, 2012). Poul Nyrup Rasmussen also accepted that



the climate had moved towards a more authoritarian approach. From 2001 there was a down grading of the importance of tripartite negotiations. There was ‘a lot of show but no substance’. He felt that Anders Fogh Rasmussen was very clever about achieving this change by stealth. However, he did also consider that the way things were evolving in Europe was a prime example of authoritarian liberalism. In particular he felt that the Fiscal Compact Treaty was ‘foolish and conservative’. He contrasted this with the approach to previous treaties like Maastricht where Denmark was not forced to accept a macro-economic regime it didn’t want to (interview, 2st 1 May, 2012).

In conclusion it can be observed that when the crisis hit Denmark had a very strong economy. By July 2008, registered net unemployment reached a low point of 1.6 per cent. In 2006, the Finance Minister Thor Petersen became famous for this remark ‘we can buy the whole world’. But from 2003 to 2008, Danish banks built up a large deposit deficit of 525 billion DKK or some 40 per cent of GDP. Similar to Ireland the banks were depending on continuous refinancing of short-term loans, although not of the same order of magnitude. Four weeks after the collapse of Lehman Brothers on 15<sup>th</sup> September, 2008, the State guaranteed all lending and deposits in Danish banks. A new State body ‘Financial Stability’ was established to take over banks heading for bankruptcy. According to Goul Andersen (2011) efforts were made to restructure the mortgage market in a way that allowed for cheap loans to replace expensive ones and enabled home owners to consolidate.<sup>52</sup> But, he warns, the long term impact of this could leave the Danish economy at risk:

‘A volcano eruption would look like this: the housing market has become sensitive to fluctuations in short-term interest rates, and sharp increases could affect housing prices dramatically. With high indebtedness, widespread insolvency could occur. Finally, to take the worst case scenario, the massive need for annual refinancing of flexible loans – nearly 50 per cent of GDP – bears resemblance to the refinancing needs of the banks when they suffered the large deposit deficit in 2008. In case of financial unrest, there might be a sudden increase in interest rates on Danish bonds (as it happened in 2008). Briefly this was the risk scenario in 2011.’

(Goul Andersen, 2011:127).

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<sup>52</sup> This looks a bit like what Mogens Lykftoft did as Finance Minister in the early 1990s (interview, 22<sup>nd</sup> September, 2012)

## THE NETHERLANDS

A new right wing minority government was elected in October, 2010. It was led by Mr Mark Rutte of the Liberals (VVD) and also involved the Christian democratic Appeal (CDA) and was supported in parliament by the Party for Freedom (PVV). PVV is an anti-establishment populist and anti-immigration party. It is also Euro-sceptical in orientation. This political combination was not conducive to stability as the CDA was distinctly uneasy in its partnership with PVV and, to compound the problem, the government only had a slim majority. In many respects multi culturalism in the Netherlands is under stress. The current crisis of the Eurozone has opened up many opportunities for Euroscepticism (Dinmore, 2011; Economic Intelligence Unit, 2011; Economist, 2011).<sup>53</sup>

Another election on 12 September, 2012 produced almost equally strong performances by the PvdA Labour Party and the Liberal VVD led respectively by Diederik Samson and Mark Rutte. They achieved a combined total of 80 seats out of a total of 150 and subsequently formed a new government . The Euro-sceptic and xenophobic Party for Freedom (PVV) led by Geert Wilders lost 40 per cent of its seats and had been blamed for bringing down the previous government. The Christian Democrat Appeal (CDA) also performed poorly continuing what seems like long term decline.<sup>54</sup> The election outcome moved the *Financial Times* to editorialise:

‘The skies are clearing over Europe. This week Dutch voters injected a much needed boost of confidence after decisively rejecting Euro-sceptic voices in the national poll.’

(*Financial Times* editorial, 14<sup>th</sup> September, 2012: P.10)

However, Matt Steinglass (2012 a) also writing in *The Financial Times* a few days later challenged this conclusion. He argued that it was not accurate to conclude from the result that the Netherlands had once again embraced a pro-European

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<sup>53</sup> By May, 2011 the Netherlands had pledged €4.7 billion to the €110 billion rescue plan for Greece. Mr Wilders described this as “Throwing boxes of money over the dikes” (Gilmore, 2011:8).

<sup>54</sup> The actual distribution of seats was: Liberals 41 (31), Labour 39 (30), Freedom Party 15 (24), Socialists 15 (15), Christian Democrats 13 (21), D66 12 (10), Others 15 (19). Seats in outgoing parliaments are recorded in brackets.

agenda, pointing out that the Liberals had, in fact, conducted a very Euro-sceptical campaign which attracted many PVV voters making it difficult for the party to turn pro-Europe again. He also noted that the Socialist Party had maintained its complement of seats despite campaigning on a Eurosceptic agenda. He also posited that the Freedom Party had lost seats, not because voters had turned against its policies but because other parties had ruled out joining a coalition with it. The PVV position on Europe and the economy would make it difficult for any government of which it was a member to maintain a coherent policy front and consequently render the Netherlands less influential in Europe.

However, by 3<sup>rd</sup> November, 2012, with the new government coalition in place, *The Economist* was reporting that the new government programme had set the country on a firmly centrist course. Indeed, a shift to the left was highlighted in a provision in the programme committing the government to back Brussels' proposed financial transaction tax, a direct reversal of policy from Mr Rutte's previous term as prime minister. It also reported that the head of the employers' peak association declared a revival of neo-corporatism stating 'The Polder Model is back'.

This may not be quite as straightforward as it looks. The trade union confederation (FNV) imploded in December, 2011 in an internal dispute over the conclusion of a pension agreement and the President, Agnes Jongerius, resigned. This was part of an agreement to establish a new confederation to be called 'The New Labour Movement' which came into existence in June, 2012 and is headed by Ton Heerts.

Asked whether it would be possible today to negotiate a new 'Wassenaar Agreement' Wim Kok said that such an agreement was needed – indeed a more wide-ranging agreement was needed to embrace issues like pensions and social security. But, he said, it would not be possible at the moment because the trade union movement is in disarray. It must be reinvented:

“This is a time for a visible role for the social partners. Reforms to the labour market are unavoidable. The social partners have always played a strong role in the Polder model. The political world will not wait for the social partners. Decisions will be taken without them but this would be sub-optimal”.

Prof. Paul de Beer of the University of Amsterdam Business School opines that the crisis in FNV can be traced back to the 1980s. In his view the trade unions have been struggling with the logic of influence versus the logic of membership. The country has moved in a neo-liberal direction. The trade unions had to admit that this was the dominant analysis. They tried to deal with it by emphasising social issues and having this incorporated in policy. In this the trade unions have had a marginal influence but have been unable to change the main neo-liberal thrust. Members did not understand this and resented it. They had to accept impositions and began to feel there was nothing to gain by being in a trade union. This created tensions within FNV. The pensions issue was simply a catalyst for a much deeper problem. The feeling was that if the leadership gives in on such an important issue as pensions, what is left? The crisis in FNV involved a clash between two big unions. Paul de Beer's view is that the only solution is to emphasise industry level bargaining. Asked if this would not weaken the unions further, he said that possibly it would but the feeling amongst the membership is that it hardly matters since there is so little to gain at national level anyway (interview, 11<sup>th</sup> September, 2012).

Han Noten, Mayor of Dalfsen, acted as an advisor to try to resolve the FNV crisis. This arose from the pensions crisis. Employers had problems too but they managed them better. He saw this as partially a political crisis but mainly it was an institutional crisis. His analysis was that we are witnessing the emergence of a new kind of capitalism which traditional attitudes in unions cannot grasp. Unions in the Netherlands were built on a Taylorist production model which is now much less relevant. There are, for example, between 700,000 and 1.2 million self-employed in the Netherlands. The classical tools from traditional institutions are not working anymore. Unions cannot accept that whereas collectivity worked in the past diversity must today be managed so that union power can be developed (interview, 11 September, 2012).

The employers' perspective was that FNV undermined Agnes Jongerius in a straightforward power struggle. It was not likely that union members would be satisfied with a new centre or that it would underpin the consensus model. There was also a perspective on institutional weakness in that the Social and Economic

Council (SER) was not in a position to give advice to government on the pensions problem. This was because politicians interfered and also because employers backed out of a deal. Agnes Jongerius was then left with little alternative but to resign (interviews with Hans Ten Berg on 26 June, 2012 and Alexander Rinnooy Kan on 11<sup>th</sup> September, 2012).

From within FNV there was a view that the Confederation had been used by the Socialist Party in its battle with the PvdA Labour Party. There was considerable resentment at the fact that the socialists had fought tooth and nail against any concession on pension reform to the employers but then moderated their position during the election campaign when it was expedient to do so, leaving FNV torn asunder (interviews with Martin Strickler and Ruud Vreeman, 12<sup>th</sup> September, 2012).

The 'Grand Coalition' government of Liberals (VVD) and Labour Party (PvdA) elected in 2012 was judged by the Economist Intelligent Unit in 2013 to be less effective than expected, but nevertheless likely to complete its full term of office to 2016 (EIU, 2013). The outlook for the Dutch economy is that GDP will contract by 1.2 per cent in 2013 before returning to sluggish growth of 0.3 per cent in 2014. The medium term range forecast is for average growth rates of 1.4 per cent in the period 2015-17. Domestic demand is forecast to remain particularly weak. The Dutch unemployment rate rose to 6.5 per cent in April, 2013 but remains far below the 12 per cent average of the Eurozone (ibid).

The government has been challenged by fiscal consolidation demands from the EU aimed at reducing the budget deficit below 3 per cent. To that end austerity measures worth €4.3 billion, on top of €12 billion in savings already planned for 2013-14, were agreed in March, 2013. However, this agreement was subsequently rescinded and the EIU does not expect the 3 per cent target to be reached by 2016. The fiscal situation was not helped by a requirement to nationalise the country's fourth largest bank, SNS Reaal, at a cost of €3.7 billion in January, 2013.

One reason for rescinding the fiscal consolidation package was to facilitate a tripartite agreement between government, unions and employers in April, 2013,

suggesting that the Polder model is alive and working despite the internal travails of the FNV Trade Union Confederation. Actually by September 2013 it looks as if the new trade union structure is falling into place.

The introduction of competition to health care provision has not been particularly successful. The Netherlands spends 2.5 percentage points of GDP more on healthcare than the OECD on average. An important cause of the rising costs is the ageing population. The share of people aged over 65 in the overall population rose from 12.8 per cent in 1990 to 15.6 per cent in 2011 (ibid).

**Table 28: Economic Growth Forecast for the Netherlands to 2017**

%	2012 <sup>a</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>	2016 <sup>b</sup>	2017 <sup>b</sup>
GDP	-1.0	-1.2	0.3	1.5	1.4	1.3
Private Consumption	-1.4	-1.6	-0.5	0.2	0.5	0.8
Government Consumption	0.0	-1.1	-0.8	0.1	0.5	0.4
Gross fixed investment	-4.6	-8.0	-2.0	3.0	2.8	2.5
Export of goods & services	3.3	2.5	3.5	4.2	4.0	3.7
Import of goods & services	3.1	0.8	2.5	3.8	3.6	3.5
Domestic demand	-.15	-2.5	-0.9	0.8	0.7	0.7
Agriculture	-0.6 <sup>c</sup>	-0.2	0.3	0.7	1.1	1.3
Industry	-0.4 <sup>c</sup>	-0.7	1.0	1.9	1.8	1.7
Services	-1.2 <sup>c</sup>	-1.4	0.1	1.5	1.3	1.2

<sup>a</sup>Actual

<sup>b</sup>Economist Intelligence Unit Forecasts <sup>c</sup>Economist Intelligence Unit Estimates

Source: EIU Country Report Netherlands, June, 2013, P.8

The substantive problem giving rise to institutional difficulties in the Netherlands is one of demographics, just like Denmark and Finland.<sup>55</sup> Employers want people to work longer. They feel that unions must know that unless there is reform, wages will be affected. They see a simple solution; increase pensionable age in line with life expectancy. This would change the power to fire people but they would accommodate hard cases. In this worldview the government would control a basic tier 1 State pension but employers and unions would control a tier 2 occupational pension (interview with Rinnooy Kan, 11<sup>th</sup> September, 2012). This is the first time that a problem of demographics has caused such an egregious institutional failure

<sup>55</sup> To put the scale of the problem in perspective, however, Mercers consider Netherlands to be second only to Denmark in terms of the quality of its pensions in a review of 18 of the world's best pension systems ([www.dutchreviews.nl/news/archives2012/10/dutch.pension\\_system](http://www.dutchreviews.nl/news/archives2012/10/dutch.pension_system))

and it is something of a shock that it happened in a country with such a long and stable tradition of neo-corporatist bargaining.

Finally, Visser and van der Meer (2011) are persuaded that the real challenge for social partners in the Netherlands is to find a way to improve the poor employment prospects of people over the age of 50 and align them with an increasingly unpredictable and demanding economy in which cognitive skills are key. This is a particular dilemma for employers because if they want to link retirement age to increasing life expectancy they have to do something about equipping older workers to be able to be productive. Whereas in 1982 the solution was found in the ‘Wassenaar Accord’, built around a formula of low wage growth facilitating more profits, investment and jobs – the landscape is more complex now. All of the contentious issues of recent years – disability, unemployment insurance, and dismissal protection – come together in this contemporary challenge. In their summation:

‘The emergence and (re-)institutionalisation of pacts is not only a matter of power bargaining, and elite co-operation but also of inventing and accepting key ideas that can become drivers of change and compromise.’

(Visser and Van der Meer, 2011:229).

## IRELAND

In 2009 the National Economic and Social Council (NESC) had analysed the crisis as one with five parts – economic, social, fiscal, banking and reputational. It took the view that these sub crisis could not be dealt with partially or sequentially. A holistic approach was needed (NESC, 2009).

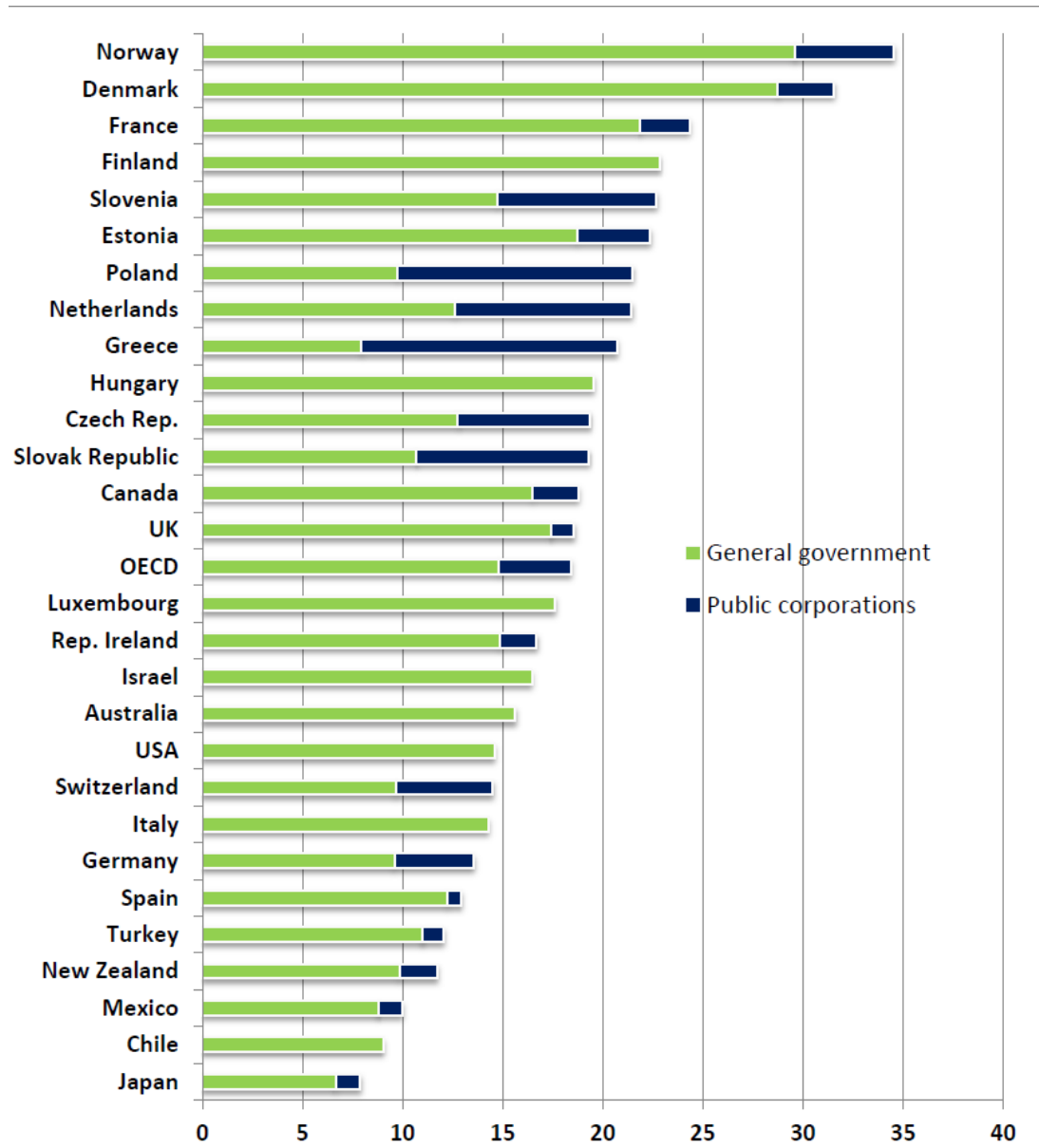
In the event no such holistic approach was attempted. The government became preoccupied with the problem of the banking sector which eventually overwhelmed it. A bailout to the tune of €85 billion at an interest rate of 5.8 per cent was more or less imposed by a joint team from the EU, IMF and ECB. Belatedly a *Programme for Recovery: 2011 – 2014* was constructed but, insofar as it dealt with the component parts of the NESC analysis, it did so in an orthodox application of neo-classical economics. This was epitomised in legislation to reduce the minimum wage by 12 per cent. In addition there was a major assault on public service employment with a reduction in numbers of 12 to 15 per cent even though the size of the public sector in Ireland is small, especially by comparison to the other case studies, as can be seen from Figure 7 below. Arguably the government made a crucial strategic error in the early part of the crisis in equating banking debt and sovereign debt in the form of a guarantee, not just to depositors but to bondholders as well. The potential exposure of this guarantee was €440 billion, a sum no Irish government could afford to stand over. The fact that the government could not stand over all its guarantees undermined confidence in bond markets and eventually locked the country out of money markets. It was then that the IMF/EU/ECB came in. Their mission was to save European banking systems and the Euro.

However, Donovan and Murphy (2013) argue that the bank guarantee was the least worst decision available to the government. We will return to this discussion later in this section.



While official policy expects an export led recovery, a renewed international focus on corporate tax competition raises questions about the strategic vulnerability of an industrial policy relying entirely on FDI.

Figure 7: Numbers Employed in the Wide Public Sector as % of Total Labour Force – OECD Countries (2008)



Source: NERI Quarterly Economic Facts, Summer 2013

The Chairman of Forfas, Eoin O’Driscoll, is concerned about this industrial policy. He agrees that the 12.5 per cent corporation tax is too low but considers that it would be too dangerous to try to raise it. Nevertheless, he opines that we have a broken model of industrial development and that the fix is not going to come from the IDA. He argues that some sectors, considered strong, are actually quite vulnerable. As examples he cites medical devices and Intel. The former he considers to be a kind of up market assembly operation and the latter ‘a very sophisticated knitting machine which could be moved to China tomorrow’. Yet, he notes, this is regarded as the pinnacle of Irish business. The type of industry we should promote is the agri-engineering products of Keenans of Carlow which are based not just on exporting a high class engineering product but on establishing an on-going commercial relationship with the user of that product. Our capacity to advance in this sector is inhibited by lack of skills. He contrasts our preoccupation with FDI with that of the Finns who had very little focus on it but yet built a strong indigenous economy. He said he was particularly impressed by what the Finns and Danes had achieved in the area of green technology. In relation to Enterprise Ireland he concurred with Benner & O’Riain’s (forthcoming) assessment that it lacked a narrative to underpin its work which was different from the free market liberal orientation of the IDA considered essential for attracting American investment. As he saw it the big failure of Enterprise Ireland and Forfas was not to be able to put indigenous industry on a sound footing. Our relationship with Europe from an industrial policy viewpoint involved “very little engagement really” except for science policy. America dominates everything and the IDA is very strong. Northern European models are different with funding mainly from banks and thus more patient capital. The biggest problem from his viewpoint is the impossibility of having a discussion about these matters in official circles (interview, 26<sup>th</sup> April, 2012). It would seem that there is strong evidence in this of path dependency in the institutions responsible for industrial policy.<sup>56</sup>

This rather pessimistic assessment of industrial policy was not shared either by Minister for Enterprise and Jobs, Richard Bruton, or Director of IBEC, Danny McCoy. However, the former accepted that Enterprise Ireland did not succeed in

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<sup>56</sup> For a detailed treatment of the evolution of industrial policy in Ireland see Peter Murray (2009).

building clusters and that it was not a developmental organisation. He also agreed that Ireland did not have enough indigenous ‘champions’<sup>57</sup> – a point echoed by Minister for Education and Science, Ruairi Quinn – and that this was something of a failure. Danny McCoy countered this argument by pointing to Irish companies which were multinationals like Ryanair, CRH and Kerry Group. He did not agree that imbalance in the Irish industrial base was a problem but does acknowledge that the companies mentioned are creating jobs outside Ireland (interviews 10<sup>th</sup> May, 2012; 26<sup>th</sup> May, 2012 and 27<sup>th</sup> April, 2012). Danuta Gray, Chairman of O2, considers the influence of the United States on industrial policy to be ‘startling’ given Ireland’s membership of the European Union. She is critical of Enterprise Ireland in this respect too. She said she is not a fan of the US. Policy in Ireland is too much focussed on looking west and this is wrong because the US is too much driven by Wall Street and London, too short term (e.g. companies being taken private). Germans and Danes look to the long term. She feels, however, that there may be changes in financial models in the wake of the crisis (interview, 7<sup>th</sup> February, 2012). Former Tánaiste, Dick Spring recalls that FDI was the key deciding factor that carried the decision to join EMU but Ireland is now ‘frighteningly dependent on FDI’ (interview, 18<sup>th</sup> September, 2012).

There is some support in recently published literature for those who identify vulnerabilities in Irish industrial policy. Blyth (2013: 236-7) points to the incongruity of Ireland being used as a role model for Greece inasmuch as there is a case to be made that growth based on export performance is misleading. This is because service exports reflect the revenue of multinationals operating out of Ireland, even in circumstances where there may be no real economic activity going on. According to Blyth (*ibid*) it is this factor which explains an apparent boom in exports from 80 per cent of GDP in 2007 to 101 per cent of GDP in 2010. In fact he suggests that services exports are overstated by as much as €30 billion which is 25 per cent of GNP.

By mid-2013 the pressure was increasing on Ireland’s system of low corporation tax rates used to attract FDI. There was strong criticism of Ireland in the US Senate

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<sup>57</sup> National Champions are firms capable of achieving success in strategic economic sectors thereby advancing the interests of the country industrially.

when it was revealed that some multinationals paid an effective corporation tax rate as low as 2 percent Joseph Stiglitz (2013) was surely referring to Ireland when he wrote in the *Guardian*:

‘There should be no room in our system for countries that are complicitous in tax avoidance. Why should tax payers in Germany help bail out citizens in a country whose business model was based on tax avoidance and a race to the bottom.’

(Stiglitz, 2013: 30).

Stewart (2013) argues that most companies in Ireland currently pay either zero or minimal corporation tax because effective rates bear no relationship to the nominal rate of 12.5 percent. He asserts that the policy focus on reducing corporate income tax to tempt capital is attracting speculative capital not productive capital thereby hurting the innovation agenda.

Ashoka Mody (2013:9) argues that there is no realistic prospect of a fiscal union in Europe, observing that such a possibility was not envisaged in either the 1970 Werner Report or the 1989 Delors Report on European Monetary Union. However, were a fiscal union to come to pass as part of a broader political resolution of the crisis it is difficult to see how the Irish model of corporation tax could remain intact.

The phenomenon of redomiciled Plcs has been identified by John Fitzgerald (2013) as a distortion of the data relating to the performance of the economy. He observes that over the last few years a number of companies have relocated their headquarters to Ireland without generating any real activity in the economy in terms of employment or purchases of domestic inputs. They have legal presence in the country and their retained profits are attributed to foreign owners. He speculates that the rapid growth in the number of these companies relocating to Ireland since 2008 may be driven by expected tax changes in other jurisdictions.

**Table 29: Ireland - Effect of Redomiciled Plcs on current account and real GNP**

	2009	2010	2011	2012
	<b>% of GNP</b>			
<b>Current account before adjustment</b>	-2.8	1.4	1.4	6.1
<b>Current account after adjustment</b>	-4.1	-2.7	-3.2	0.6
<b>Difference, percentage points</b>	1.2	4.1	4.6	5.5
	<b>Growth Rate, %</b>			
<b>GNP, volume, before adjustment</b>	-8.1	0.9	-2.5	3.4
<b>GNP, volume, after adjustment</b>	-9.2	-1.9	-3.0	2.3
<b>Difference, percentage points</b>	1.1	2.9	0.5	1.1

Source: ESRI Quarterly Economic Commentary, Spring 2013: 36

The Irish banking system had not been deeply involved in the period of export led growth between 1994 and 2001. But lending by Irish banks to the Irish private sector (individuals and businesses) increased almost five fold between 1999 and 2008 to reach €367.1 billion by 2008. This was far ahead of the expansion of the economy. In 1999, lending represented approximately 100 per cent of GNP while by 2008 it had risen to 237 per cent of GNP. The expansion of lending relative to the size of the economy was particularly strong between 2003 and 2008. Lending outstripped the growth in deposits of Irish banks so banks became increasingly reliant on lending from abroad. The net indebtedness of Irish banks to the rest of the world increased from 10 per cent of GDP at the end of 2003 to 60 per cent of GDP by 2008 (Honohan, 2009, *The Economist*, 20<sup>th</sup> November, 2010, PP 11 and 73).

**Table 30: Inter-bank Borrowing by Irish Banks 1999-2003**

	1999	2003	2008	2010	% change 2003 to 2008
<b>Loans to Irish private sector (€ billions)</b>	€76.9	€143.8	€367.1	€328.4	<b>155.3</b>
<b>Loan to GNP ratio</b>	<b>100.1</b>	<b>121.8</b>	<b>237.5</b>	<b>255.6</b>	<b>95.0</b>

Source: NESC (2013)

Why this all happened has been the subject of reports commissioned in 2010 by the Minister for Finance. These reports identified a series of domestic and external factors that caused the crisis including the following. First, the period after 2003 was characterised by very liquid conditions in global financial markets. Financial intermediaries in this period searched for higher yields. Second, Ireland's entry to the Euro led to reduced risk premia on Irish interest rates while membership of the Euro also facilitated the ability of banks to raise funds across borders. Third, there was increased competition at retail level in European countries, particularly in peripheral countries and the new Member States. In Ireland this meant that subsidiaries of UK banks became more active in the Irish market and offered cheaper mortgages on better terms to Irish customers, including 100 per cent loan to value mortgages. Fourth, Anglo Irish Bank became a kind of market leader putting strong competitive pressure on the other banks. Fifth, there was some shift towards less intrusive supervision globally and also a relative neglect of liquidity risks (Regling and Watson, 2010: 36).

This is captured succinctly by David Marsh as follows:

‘At the end of September, 2008, the epicentre of the banking upheavals moved suddenly to Ireland, the country where years of heady economic expansion had earned it the sobriquet of Europe’s ‘Celtic Tiger’ but where unseen by the outside world, a deep-seated financial malaise had been building up with ramifications spreading well beyond its shores. Recognising the exposure of the Irish banking system to the new mood of risk awareness on financial markets, and determined to protect Europe from another Lehman-like collapse, the European Central Bank in discreet telephone conversations with the Irish government requested all possible steps to prevent Irish banking failures. Ireland subsequently took the momentous decision to guarantee all bank liabilities at six financial institutions – an estimated \$570 billion, about 250 per cent of GDP – action that was to have cruelly spectacular effects in terms of increasing public borrowing and further enlarging Irish taxpayers’ exposure to ever increasing debt.’

(Marsh, 2011:242).<sup>58</sup>

External sources were no more prescient in warning about the banking risk. The OECD (2006) review of the Irish economy identified housing as the key domestic risk facing the economy. But it said nothing about the banking related aspect and anyway considered that a soft landing was the most likely outcome but noted that this was not guaranteed.

As late as June, 2007 Mr Trichet, President of the ECB, was lauding the Irish economy as ‘a role model for the Euro’ in a speech in Berlin.

The IMF (2007) overview on the Irish economy found that:

‘Fiscal policy has been prudent, with a medium term fiscal objective of close to balance or surplus, in line with fund advice. In the past couple of years, windfall property related revenues were saved and the fiscal stance was not procyclical, in line with fund advice.’ (IMF, 2007: 3).

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<sup>58</sup> See also Honohan, Patrick, (2010) ‘The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008: A Report to the Minister for Finance by the Governor of the Central Bank’, 31 May 2010, PP. 119-120 **and** Nyberg, Peter (2011) ‘Misjudging Risk: Causes of the Systemic Banking Crisis in Ireland’: Report of the Commission of Investigation into the Banking Sector in Ireland, March 2011, P. 78. Mr Nyberg was Director General of Financial Services, Finnish Finance Ministry.

While both the OECD and IMF identified risks facing the Irish economy, neither identified the extent to which the public finances were reliant on property related transaction taxes.

This helps to explain the puzzle of why, if all the comparator countries were faithfully following the Stability & Growth Pact, any one should find themselves in more difficulty than another. Willie Scally, former Economic Advisor to Dick Spring, explains the answer by reference to the fact that it was not enough to look at the formal Stability & Growth Pact requirement – it is also necessary to look behind those numbers at what was happening in the economy (interview, 11<sup>th</sup> December, 2012). (See also NESF, 2010:92). Dermot McCarthy takes the view that people became cynical over time about EU discipline:

‘That’s how our eye came off the ball. We just focussed on the monitoring requirements. There was no anxiety to consider issues below that which were building up including the building industry, pensions etc.’

(Interview, 4<sup>th</sup> February, 2010).

John Hurley, former Governor of the Irish Central Bank strongly defends the role of the bank in the unfolding crisis. The bank did speak about price levels and competitiveness emphasising that it was a significant risk. In addition the bank always spoke about house prices. The 2006 Annual Report of the Central Bank signalled the first signs of stabilising or cooling off of the property market but it turned out to be a false dawn reversing later. This was fuelled by a variety of interests talking up the property market and the spurt which occurred in 2007 was a real problem. Mr Hurley recalls that he kept warning the government. He warned the Minister for Finance in writing to prepare for the day when tax revenues would not be as strong. Moreover, ‘there was never a meeting with government at which the property market was not discussed’, he asserts. A specific warning on the implications of a fall in construction activity for the tax base was carried at the time by the broadsheet media.<sup>59</sup> With regard to the Honohan Report’s charge that the Governor could have issued guidelines to the Regulator on what to require of retail

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<sup>59</sup> For a discussion on the role of the media in the crisis see Donovan and Murphy (2013, Chapter 8) and Mercille (2013).



banks, Mr Hurley felt this would be impractical for institutional reasons. When the Financial Regulator was created as a separate autonomous entity, albeit within the umbrella of the Central Bank, the ECB requested legislation to allow for the imposition of a policy direction by the governor but this required joint meetings and both boards to sign off. But he pointed to another provision of the Central Bank Act which says that the regulator cannot be second guessed. While acknowledging that the Central Bank Stability Reports could have been stronger and more specific – for example in relation to lending – he disagrees with the broad thrust of the separate Honohan and Regling/Watson Reports on the banking crisis.<sup>60</sup> As he puts it, ‘The international vulnerabilities were so large that even now people can’t get to grips with them. What hope was there for us?’

(Interview, 9<sup>th</sup> November, 2011)

The current Central Bank Governor, Patrick Honohan, is not receptive to this line of argument. He does not accept that the previous administration was powerless because of legal restraints. He believes that the Governor could have found legal space to act given the seriousness of the matter. He points to the constraints of confidentiality in the 2003 Central Bank Act but argues that he has been able to ventilate many issues publicly notwithstanding those constraints (interview, 31<sup>st</sup> October, 2013).<sup>61</sup>

In relation to Anglo-Irish Bank Governor Honohan argues that it should have been closed right away and the management dismissed. Not doing this was not understood and poisoned the atmosphere for Ireland internationally. He recalls that the Finance Minister, Brian Lenihan, had a mistaken view that ‘a silk purse could be made out of a sow’s ear’ and that Anglo could be reorientated to become a lender to SMEs. But Anglo was ‘a one trick pony’ with no capacity to change from what it was – a bank for property developers. But, he acknowledged, once the government had agreed to guarantee the banks, Anglo bond holders could have claimed compensation if it was closed immediately. Subsequently Europe would not allow

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<sup>60</sup>Regling, Klaus and Watson, Max, (2010), A Preliminary Report on The Sources of Ireland’s Banking Crisis; Honohan, Patrick, (2010) The Irish Banking Crisis: Regulatory and Financial Stability Policy, 2003-2008

<sup>61</sup> The relevant legislation is the Central Bank Act 1997 and the Central Bank and Financial Services Authority of Ireland Act 2003. The latter was enacted for the purpose of separating the function of bank regulation into a separate authority with its own board.

the bondholders to be burned. As compensation they did a deal to allow a €30 billion Promissory Note by the government to Anglo to be extended over a 35 year timeframe (ibid).

Former Secretary General of the Department of Finance, Kevin Cardiff, notes that the department was concerned about how to transition the economy to a lower growth rate. The challenge of controlling exuberance was a hard one. Even investment caused asset price inflation in infrastructure, in health and the general public sector. He recalls that in 2005 there was a review of fiscal policy relating to property reliefs but there was a concern that pulling the plug could have accelerated the fall in the property market. On the other hand property transaction taxes were a flaw in the tax base but less tax on transactions would have inflated a bigger asset bubble. It would have been hard to increase taxation at a time of exchequer surplus and a historically low debt to GDP ratio. With regard to capital ratios the Central Bank Act (1971) did give the power to set them at whatever was considered an appropriate level but there was a risk of unintended outcomes viz, foreign builders could have been operating in Ireland financed by foreign banks. In general prudential controls could have been imposed on key players but others might have filled the gap, although he reflects that if this approach had been taken, the problems might now be more acutely felt in other capitals. He adds that any action controlling credit would also have provoked a public outcry (interview, 14<sup>th</sup> December, 2011).

It is worth noting that the Department of Finance was not always so conservative. Under T.K. Whitaker and Charlie Murray in 1957 it was favourably disposed to French and Italian style planning and partnership-type thinking. Its expanded role and influence in this period was also an object of bureaucratic jealousy (Whitaker, 2006: 9-10).

Another former Secretary General of the Department of Finance, Tom Considine, also addresses the issue of foreign banks – in particular the Scottish banks – which were active in the Irish market. He says the Scottish banks drove down margins on mortgages thereby creating more demand. This was combined with massive availability of money in wholesale markets but ‘when one takes flight, the whole lot take flight and this is also true of corporate deposits’. Mr Considine argues that the

same failure of regulation happened also in the UK and the US (interview, 24<sup>th</sup> May, 2012).

The defence of policy by the authorities at the time does not resonate with the business community. Danny McCoy, Director General of IBEC, does not put a tooth in it:

‘No one realised the scale of the problem of bank borrowing except Patrick Honohan. The soft landing hypothesis was possible in 2006. Lehmans changed all that. We were incredibly exposed but didn’t know it. The same goes for the tax base, the Finance narrative is not credible.’

(Interview, 27<sup>th</sup> April, 2012).

Gylfason et al (2010) are similarly critical observing that some of the more extreme crisis countries like Ireland and Iceland had predominantly homemade crisis that were only ignited by global developments. Echoing Martin O’Donohue they say that these countries had for years done too little to ensure adequate regulation and supervision of their financial systems. With respect to the conduct of fiscal policy they charge that tax policies not only permitted bubbles to inflate but left little scope for accommodative or expansionary initiatives to alleviate the consequences of the crisis when it happened. Nevertheless, there is some mitigation too in the observation that:

‘The errors committed by the management of financial institutions as well as the shortcomings in regulation and supervision of banks and other financial institutions are undeniable, but they are not at the root of the issue. The global crisis emanated from the conjunction of widespread financial fragility and a lopsided globalisation process, proceeding rapidly amidst large financial imbalances.’

(Gylfason et al, 2010:16)

In any event the design of the bailout package for Ireland is seen internationally as flawed, inadequate and unfair and likely to lead to a ‘lost decade’ much as Latin

America experienced in the 1980s. (Krugman, 2010; Milne, 2010; Pisani-Ferry, 2010; Stephens, 2010; Wolf, 2010).

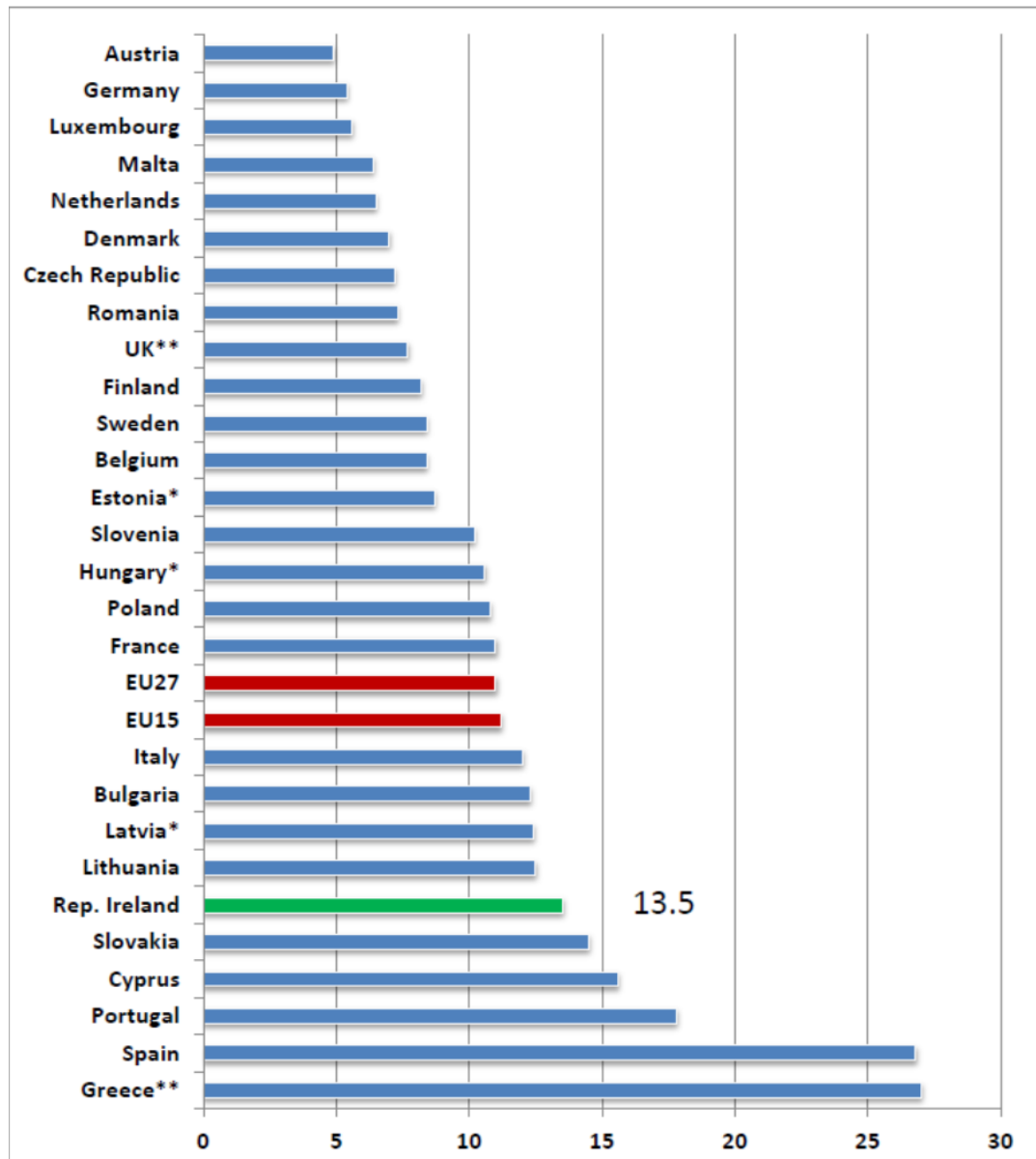
The problem with the austerity programme in economic terms is its impact on household consumption in addition to the diminished level of public and private investment. Household consumption constitutes about half of Ireland's GDP and about 63 per cent of domestic demand. As of the first quarter of 2012, private consumption was continuing to decline at the rate of 2.2 per cent year on year. A very high savings rate of 14 per cent influenced by the high levels of personal indebtedness averaging 210 per cent of disposable income compounded this problem. The extent of households' indebtedness distinguishes Ireland from any of the other countries in debt (ibid). Central Bank Governor, Patrick Honohan, takes a different view. He believes that domestic demand is tied to middle-class confidence, 'when they think recovery is happening they will begin to spend again' (interview, 31<sup>st</sup> October, 2013). Presumably this would not be likely to be the case where people were trying to pay down personal debt.

So it was that Ireland entered 2013 having made enormous sacrifices to achieve no more than a 2 per cent reduction in its debt to GDP ratio and with economic growth flat lining. As can be seen from Figure 8 below the unemployment level was one of the highest in the EU and in or around twice that of any one of the comparator countries. Under the EU/IMF/ECB programme growth rates of 2.75 per cent had been projected. The absence of any buoyancy to assist fiscal consolidation caused the government to reopen the Croke Park Agreement<sup>62</sup> with a view to achieving public pay related savings of €1 billion. After much difficulty, including a serious breakdown in negotiations at one stage and the threat of emergency legislation, this objective was secured in a further agreement with the public service trade unions known as 'The Haddington Road Agreement.'

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<sup>62</sup> The Croke Park Agreement is an agreement to protect pay, pensions and security of employment in return for flexibility in the public sector aimed at reducing the cost base.

Figure 8: Rates of Unemployment in the EU, April 2013



Note: \*Data from Mar 2013 ; \*\*Data from Feb 2013

Source: NERI Quarterly Economic Facts., Summer 2013

For Ireland the crucial objective is to sever the link between banking and sovereign debt so ill-advisedly conflated in 2008. In this they are relying on an agreement reached by Eurozone heads of government on 29 June, 2012 which mandated the Euro group to examine the Irish situation. Unfortunately for Ireland, a number of creditor countries – Finland, Netherlands and Germany – publicly resiled from the agreement shortly after asserting that it could not deal with legacy issues. Failure to resolve the debt issue would leave Ireland in a very bad space economically and

socially. In large measure Ireland is trying to present itself as being exceptional and there is some support for this view in the literature mainly on the basis that its difficulties were caused by a property crash but the country's economic fundamentals are sound (Andritzky et al, 2012; Brown, 2010; Gylfason, 2010).

As of mid-January, 2013 the auguries for the early or even satisfactory resolution of this issue were not good. The *Financial Times* editorialised that the European Commission would break its promise to sever the bond between sovereign and banking debt if it proceeded with a reported plan to have Member States make good the losses of private banks before they are recapitalised with Eurozone rescue funds. It noted that in Ireland's case, nearly half the country's annual income has gone to making whole private, risk-taking investors, mostly from other Euro members (*Financial Times Editorial*, January 15, 2013. P.10). By the third quarter of 2013 no progress has been achieved. Realistically the ESM will not be used to help Ireland alone. Some other country would need to be in the same circumstances for it to happen.

In the medium term Ireland is sensitive to what Britain's future in Europe may be. Congenital Euro scepticism on the part of the Tory Party may be a self-fulfilling prophecy with implications for Ireland. Ireland's foreign policy has been characterised by some ambivalence towards Britain – seeing Europe as a way of escaping Britain's dominance and yet regarding her as our closest ally in Europe. (*Economist*, 8<sup>th</sup> December, 2012, P. 15, Gillespie, 2012, interview with Charlie McCreevy, 7 June 2012; Ruane, 2010;). Central Bank Governor, Patrick Honohan, takes an optimistic view of this situation. He opines that it is to Ireland's advantage not to be uniquely dependent on a slow growing Europe. He does not regard debt as an unbridgeable burden at 6 per cent of GPD and recalls how it 'melted away' in the 1980s. We could become the Hong Kong of Europe – a bridge to the dynamic economies of the Anglo-Saxon world. He acknowledges also that there could be fragmentation with southern countries leaving the Eurozone in the future but international expectations are that Ireland would stay in (interview, 31<sup>st</sup> October, 2013).

The Economist Intelligence Unit (EIU) central forecast for Ireland in June 2013 was that Ireland would exit the bailout programme on schedule at the end of the year but that achieving debt sustainability would require further action beyond concessions on the time period of promissory notes for Anglo Irish Bank given in the earlier part of the year. The sustainability of Ireland's sovereign debt remains uncertain. The forecast was for the budget deficit to be still slightly above 3 per cent in 2017 (the target was 2015). The debt to GDP ratio is expected to peak at 129 per cent in 2014 before declining gradually in 2015-17. The EIU is forecasting GDP growth of 0.5 per cent in 2013 although ESRI is saying it might be as high as 2 per cent. The current account of the balance of payments is expected to remain in surplus and to average 3.5 per cent in the period 2013-17. Domestic demand is expected to remain weak with private consumption declining in 2013 and 2014 before returning to modest growth in 2015-17.

The EIU also considers high mortgage arrears and a deterioration of the quality of loans to SMEs to pose a major risk to Ireland's still fragile banking system. Unemployment is expected to remain high at around 14 per cent. The EIU notes that export growth is heavily reliant on the pharmaceutical sector which accounts for 60 per cent of the total value of export of goods. The prospect of generic drugs eating into sales of Irish based multinationals is a serious concern. Of the ten highest-selling drugs due to lose their patent protection by the end of 2014 seven are produced in Ireland.

**Table 31: Economic Growth Forecast for Ireland to 2017**

%	2012 <sup>a</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>	2016 <sup>b</sup>	2017 <sup>b</sup>
<b>GDP</b>	0.9	0.5	1.0	1.8	2.1	2.0
<b>Private Consumption</b>	-0.9	-0.8	-0.5	0.5	0.6	0.7
<b>Government Consumption</b>	-3.8	-3.5	-0.5	0.5	0.5	0.5
<b>Gross fixed investment</b>	1.1	-2.0	1.5	2.0	2.0	2.0
<b>Export of goods &amp; services</b>	2.9	1.8	2.1	3.1	3.5	3.6
<b>Import of goods &amp; services</b>	0.3	-0.4	1.5	2.9	2.7	3.1
<b>Domestic demand</b>	-1.5	-1.5	-0.1	1.1	0.6	0.8
<b>Agriculture</b>	-12.2	0.2	0.5	1.0	1.5	1.5
<b>Industry</b>	-0.1	0.2	0.5	1.0	1.5	1.5
<b>Services</b>	2.1	0.7	1.0	1.8	2.1	2.1

<sup>a</sup>Actual                      <sup>b</sup>Economist Intelligence Unit Forecasts

Source: EIU Country Report Ireland, June, 2013, P.9

In July 2013 the ESRI also published a Medium Term Review involving three possible scenarios (Fitzgerald and Kearney, 2013). The *recovery scenario* sees the EU economy returning to reasonable growth rates for the rest of the decade. It also assumes banking issues are dealt with. In this case growth in foreign demand would see a turnaround in domestic demand. While the economy would not be likely to again reach full employment by 2020, the level of unemployment could be halved to around 6 per cent.

The *delayed adjustment scenario* considers what would happen if the EU economy recovered but domestic banking issues, or other complications, remained unresolved. The effect might be two more austerity budgets in 2015 and 2016 and an unemployment rate remaining in double digits until 2020.

In the *stagnation scenario* the EU does not return to growth resulting in a ‘zombie’ decade for the EU and with serious consequences for Ireland. With no growth in the EU, the Irish economy, even if managed effectively, would do well to grow at 1 per cent a year over the second half of the decade. In that case unemployment in 2020 would be as bad as it is in 2013. Austerity budgets would continue and the country would remain vulnerable to shocks. Any attempt to use fiscal policy to boost



domestic demand in these circumstances would be inhibited by debt sustainability issues and the need to maintain broad balance on the current account of the balance of payments.

In summary the scenario modelling conducted by ESRI suggests that if the recovery scenario materialises it should be possible to generate the escape velocity to get away from pro-cyclical fiscal policy. If it is the stagnation scenario that would not be possible any time soon. In fact the economy would be teetering on the brink of sustainability.

Two other key points are made in the *ESRI Medium Term Review 2013-2020*. Long term unemployment runs the risk of skills impairment such that people could be permanently locked out of the labour market even with recovery. This requires special attention to active labour market policies. The second point is that it will be important that the driving force behind the export sector moves gradually away from businesses that are dependent on the low corporate tax regime to businesses that rely on other aspects of Ireland's competitive advantage.

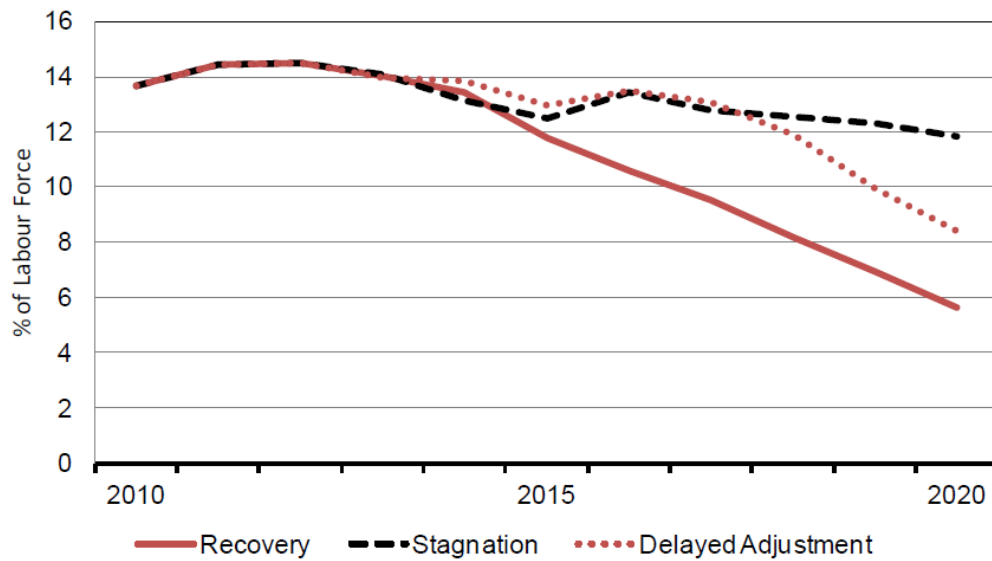
The forecast principal features are captured in Table 32 below and Figure 9 below:

Table 32: Summary Table of Forecast for Ireland to 2018

	2013	2014	2015	2016	2017	2018
<b>Recovery Scenario</b>						
<b>GDP, %</b>	1.7	3.0	4.0	4.1	4.2	3.7
<b>GNP, %</b>	1.2	0.5	4.3	3.6	4.0	3.4
<b>General Govt. Deficit, % of GDP</b>	7.3	5.0	3.2	1.2	0.4	-0.3
<b>Unemployment Rate, % of Labour Force</b>	14.0	13.4	11.8	10.6	9.5	8.2
<b>Delayed Adjustment Scenario</b>						
<b>GDP, %</b>	1.8	1.9	2.7	1.9	2.7	3.0
<b>GNP, %</b>	1.3	-0.9	3.0	1.1	2.8	3.1
<b>General Govt. Deficit, % of GDP</b>	7.3	9.2	3.2	1.2	0.3	-0.4
<b>Unemployment Rate, % of Labour Force</b>	13.9	13.8	12.9	13.5	13.1	11.9
<b>Stagnation Scenario</b>						
<b>GDP, %</b>	1.7	3.5	1.3	1.1	2.0	0.8
<b>GNP, %</b>	1.2	0.0	1.9	0.6	2.1	0.4
<b>General Govt. Deficit, % of GDP</b>	7.3	4.5	2.7	2.5	2.0	0.6
<b>Unemployment Rate, % of Labour Force</b>	14.1	13.1	12.5	13.4	12.8	12.5

Source: ESRI Medium Term Review 2013-2020 P.viii

Figure 9: Unemployment Rate (ILO) Under Three Different Scenarios for Ireland



Source: ESRI Medium Term Review 2013-2020 P. 35

## Conclusion

The 2008 global financial crisis has fundamentally redrawn the boundaries between states and markets (Hemerijck, 2013:7). It emanated from the conjunction of widespread financial fragility and a lopsided globalisation process proceeding rapidly amongst large financial imbalances. As Gylfason et al (2010) have pointed out small open economies are vulnerable to the fallout from asset price bubbles. The vulnerability has increased significantly since Katzenstein (1985) formulated his thesis because EMU means that the option of devaluing the currency to maintain export competitiveness is not available (not even to Denmark). The prescribed remedy under EMU for a country in difficulty is an internal devaluation via wage reduction. Since this affects domestic demand the effect is procyclical. Domestic demand is also hit where the savings rate increases to retire private debt, usually mortgage related. As a programme country Ireland was uniquely hit by both factors but the Netherlands was also in trouble with domestic demand because of high levels of private debt. By contrast Finland did not suffer any significant reduction in domestic demand and Denmark managed to keep it up reasonably by co-ordinated government action (public investment and pension contribution refunds). Finland's

banking system proved to be robust in the aftermath of its 1992/3 restructuring. Danish banks build up large deficits equal to 40 per cent of GDP and had to be re-capitalised. Some Dutch banks had to be nationalised but the scale of their problems was eclipsed by the Irish case. So in descending order of impact it would appear that Ireland was by far the most egregious case followed at a distance by the Netherlands, Denmark and Finland in that order.

Does Katzenstein's (1985) study help us to understand the problems created by the 2008 financial crisis? It does not give us the solution to these problems but it tells us how to go about solving them. Katzenstein (ibid:198) makes clear that democratic corporatism is not an institutional solution to the problems of economic change but a political mechanism for coping with change. It is distinguished by three traits: an ideology of Social Partnership; a centralised peak structure of interest groups; and continuous political bargaining between interest groups, the state bureaucracy and political parties (ibid:32). In the context of the 2008 crisis this bargaining was the immediate default option in Denmark, Finland and the Netherlands.

It must be remembered that these countries could, as Schmidt (2011:158) points out, draw upon the resources of a deeply embedded collective memory that in the 1930s, at the time of agreements on collective bargaining institutions, served to remind all parties that cooperation was both possible and desirable. It is a collective memory that retains a contemporary validity. Mjoset (1992) makes a similar point noting that Ireland, with a small working class, and a party system derived from a split in the independence movement, was unable to develop the Labour Party/unions/farmers' movement structure which led to the Nordic Red/Green Alliance of the 1930s, compromises which are at the root of the social democratic systems in Scandinavia. It is a testimony to this polity that the Nordic countries and the Netherlands have been able to establish new, virtuous mixes of equity and efficiency in their efforts at welfare recalibration (Hemerijck, 2013; Schmidt, 2011).

Perhaps the intellectual lesson for Ireland lies in the constancy of approach of the other comparator countries. What emerges from the interviews conducted for this research was a sense 'that we had arrived' when Ireland qualified for EMU membership; a feeling that nothing more needed to be done. Ireland did not

assimilate the need for the constant discipline required by membership of a currency union. From 1979 onwards, the Irish pound, newly linked to the currencies of the ERM floated against sterling. The Irish Central Bank introduced exchange control regulations in 1979 to limit capital transactions outside the sterling area thereby protecting the value of the pound. However, evolution towards EMU resulted in the abolition of these controls by 1992 (Donovan and Murphy, 2013:21). Those countries with currencies historically linked to the DM were better equipped to deal with this reality. A constant discipline is unlikely to be achieved without the embedded mechanism for managing change described by Katzenstein.

For Finland, Denmark and the Netherlands this is a story of the renaissance of democratic corporatism and the ultimate sustainability, even in circumstances of radical global and regional integration, of the model described by Katzenstein (1985). But there is another story too; despite the divergence with the other comparator countries that began to emerge again in the 2000s, it is a fact that for a period in the 1990s Ireland was operating a democratic corporatist polity. This lends considerable weight to the refinement of the general categorisation in the Varieties of Capitalism literature of Ireland as a Liberal Market Economy towards the view that it is more accurate to describe it as an LME with countertendencies (O’Riain, 2004 and Smith, 2005). What exactly constitutes those countertendencies, what gave rise to them, and how they compete with one another is explored in some depth in the context of selected aspects of European integration in the next chapter.

Concerning Europe as a whole, by mid-2013 there were increasing doubts about the efficacy of austerity as a policy. The European economy was again in recession and some of the academic precepts upon which it was constructed had been found wanting. Specifically, the IMF has admitted that assumptions about the way multipliers transmitted fiscal consolidation to the economy has been understated (Blanchard and Leigh, 2013). The Harvard Economists, Carmel Reinhart and Kenneth Rogoff (2010), who had argued that government debt above a critical threshold of 90 per cent can become a substantial drag on the economy, were found to have made a critical spread sheet error. President Barroso admitted in a press conference that austerity had reached the limits of political acceptability. Mark Blyth (2013) argues that the policy of austerity does not work and that it is based on

a fundamental misrepresentation of the facts. Specifically, he points to the fact that the problem is not one of a sovereign debt crisis generated by excessive spending for anyone except the Greeks. For him the crisis in the bond markets started with the banks and will end with the banks. He puts the price of saving the global banking system at between 3 and 13 trillion dollars. He introduces the concept of ‘a fallacy of composition’ problem in which what is true about the whole is not true about the parts. In other words, we cannot all be austere at once since all this does is to shrink the economy for everyone. If a country’s private and public sectors are deleveraging at the same time, then the only way that country can grow is by exporting more to another country that is still spending. But if everyone is following the same strategy of not spending, as is the case with Europe, then it becomes self-defeating (ibid: 9-10).

## **CHAPTER 7: Unpacking Ireland's Polity From A New Institutional Perspective**

### **Introduction and Recap on Methodology**

In the literature Ireland is most often characterised as a Liberal Market Economy albeit that some authors (O'Riain, 2004 and Smith, 2005) have pointed to countertendencies – an interventionist industrial policy and Social Partnership for example – which cast doubt on the total accuracy of that description. Others, such as Gyfason et al (2012), acknowledge Ireland as a special case while Minas et al (forthcoming) clusters it with Southern EU States from a welfare perspective. By and large Katzenstein's (1985) research did not consider the possibility of countertendencies (and of course it did not include Finland and Ireland). So far this thesis has concentrated on how well Katzenstein's core proposition of democratic corporatism has held up as his world changed under the influence of European integration. The purpose of this chapter is to focus on Ireland and on the nature of any countertendencies and their relevance to the evolution of its development model. It is proposed to do this using a 'new institutionalisms' approach via the model described in Chapter 2 to forensically unpack the components of its polity and associated decision making processes in the context of European integration. The aspects of integration selected include; the general policy approach of successive Irish governments to European integration; economic and Monetary Union (EMU) and its implications for Ireland and social policy generally and the role of social pacts in mediating integration pressures to the labour market.

These three aspects were chosen because how the Irish government conceptualised what the process of integration would mean is central to understanding the polity. EMU is the flagship project of integration and in many respects the institutional architecture associated with it determined outcomes in other policy areas. Not only that but, by definition, EMU marked out the contours of the European macro-economy. Social policy is an example of where EMU foreclosed options and social pacts were the instruments through which social policy was mediated for 22 years from 1987 to 2009. Moreover, as Anton Hemerijck (2013:383) points out, the

interaction between economic performance and the welfare state is largely mediated by the labour market.

The broad position of the four countries for each of the aspects of European integration considered can be represented by the following table:

**Table 33: Broad Approach to Integration in the Comparator Countries**

	Netherlands	Denmark	Finland	Ireland
<b>Integration</b>	Core Europe. One of the founding countries.	Euro pragmatism with 'voluntary' discipline.	Geo-political imperative to be at the core of Europe. Discipline.	Unconditional support plus opportunistic behaviour within this.
<b>EMU</b>	Currency peg to Deutschmark since 1970s. Natural fit with EMU constraints.	Voted out but tracks Euro strictly. Pegged to Deutschmark from 1980s	Strong supporter of disciplinary approach.	Did not assimilate constraints of being in single currency. Assumed politics would trump economic challenge (vs UK and EU)
<b>Social Pacts</b>	Competitive Corporatism.	Creative corporatism keeping market mechanisms embedded in collective agreements.	Creative corporatism	Elements of competitive and creative corporatism. Not deeply embedded.

Using the methodology outlined in Chapter 2 the research task is to take the cover off the black box of the monolith state that is Ireland to see how its gears and levers operate. The toolbox used for the task – being derived from the work of Allison and Zelikow in international relations and the new institutionalisms school of Varieties of Capitalism – can be depicted thus:



**Table 34: Research Model refined from Allison & Zelikow (1999) by including perspectives from new institutionalism**

PARADIGM/NEW/INSTITUTIONALISM	OBSERVABLE CHARACTERISTICS	The Influence of Ideas
<p><b>National Government Rationale Actor Model/Rational Choice Institutionalism.</b></p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;">Black Box Labelled</div>	<ul style="list-style-type: none"> <li>• How can the Irish State be categorised?</li> <li>• What objectives are being pursued in economic, social and foreign policy?</li> <li>• What are the best choices available?</li> </ul>	
<p><b>Capabilities and Practices of Institutions/Historical Institutionalism</b></p>	<ul style="list-style-type: none"> <li>• What are the key State institutions?</li> <li>• What are their capabilities?</li> <li>• How well did they perform?</li> <li>• How are they influenced by culture and identity?</li> <li>• What tensions exist between them?</li> <li>• How well did the non-government institutions (e.g. Social Partnership) function?</li> </ul>	
<p><b>The Politics Paradigm (Role of the Elites)/Sociological Institutionalism.</b></p>	<ul style="list-style-type: none"> <li>• What constitutes the elite in Ireland?</li> <li>• How did interchange ('Pulling &amp; Hauling') between them affect outcomes?</li> </ul>	

## The Irish Approach to European Integration

Ireland's attitude towards European integration has been characterised by a somewhat narrow parochial view. Primarily it is concerned with maximising the economic benefits of membership and with asserting independence from Britain. Paradoxically Britain is regarded as the country's closest ally in Europe and both countries have often taken similar positions of opposition to social policy initiatives such as, for example most recently, the directive on regulation of agency workers. Ireland's diplomacy in Europe is based on strongly supporting the Commission (like Finland) in the belief that this is the best way to protect small countries. Yet it has never really bought into the overall integration project.

In other words, Ireland was happy to go along with the idea of 'ever closer union' when it gave access to structural and cohesion funds and allowed multinationals based in Ireland access to the Single Market. Access to the Common Agriculture Fund (CAP) was also an important consideration given the relatively high

importance of farming supports, socially and economically, in Ireland. Low interest rates associated with EMU were also seen by some as a benefit (Baker et al, 1996) although this eventually became a double edged sword. But Ireland was not so accommodating towards integration when its vital national interests were perceived to be threatened. Opt outs were sought and received from various treaties such as relating to military neutrality, corporate taxation and aspects of social policy. There is an interesting contrast here with Finland which reversed a long settled policy of neutrality when it joined in 1995 (Raunio and Tiilikainen, 2003; Chapter 7).

The following three sub-sections will explore why Ireland's approach to European integration is as narrowly focussed as it is, using the analytical model outline above.

### **National Government – Rational Actor Model/Rational Choice Institutionalism**

In the Varieties of Capitalism literature Ireland is widely categorised as a Liberal Market Economy (Esping-Andersen, 1990, Hall & Soskice, 2001, Huber & Stephens, 2001; Pontusson, 2005) although a more nuanced view of Ireland as an LME with countertendencies is taken by Smith (2005) and O’Riain (2004, 2008). The latter sets out detailed reasons why Ireland is a somewhat unique developmental network state while Kirby (2010) simply sees it as ‘a competition state’. However, even in the context of the 2008 financial crisis Ireland does not fit easily into any box (Gylfason et al, 2010).

Irish exceptionalism, if it can be said to exist, to some extent is predicated on a foreign policy based on the notion of a ‘Multi Interface Peripheral State’ (Ruane, 2010). In other words Ireland sees it as being important to have equal relations with Britain, the United States and Europe, although as pointed out earlier, the importance of Europe was recognised very early on by Sean Lemass (interview with Martin O’Donohue, 22<sup>nd</sup> November, 2011). Jack Lynch saw in Europe ‘a way of avoiding the Republican trap of the North’ according to Martin O’Donohue (ibid).

The problem for small open economies is that they are very exposed to pressures from global financial markets (Gylfason et al, 2010). A willingness to cope with these pressures while simultaneously seeking to protect citizens from the worst extremes of markets was the principal characteristic of small open economies captured by Katzenstein (1985). Boyer (2000) somewhat prophetically poses the question whether the European currency will be a step in a victory of collective intervention over market forces; or whether it will be the hidden strategic device invented in order to bring the forces of globalisation into the domestic space of each member state? The point to make here is that the strategic options for any small open economy, including Ireland, are limited in the context of European integration.

It can be argued that Ireland's decision to join the European Economic Community (EEC) with Britain and Denmark in 1973 was a rational choice made in the knowledge of what 'ever closer union' meant. It was already evident that strong inter-governmentalism between Germany and France was shaping monetary policy. In the wake of the 1972 decision by the Nixon administration in the US to abandon Dollar convertibility to gold, the EEC set up a new regional system of controlled currency floating, called The Snake. The prospective EEC members, Britain, Ireland and Denmark, joined the Snake a week later. Britain was forced out of the Snake by June of 1972 (Ireland was then still in a currency union with Britain). Twenty years later Britain was forced out of the ERM and Ireland had to devalue its currency by 10 per cent (Connolly, 1995; Marsh, 2011).

In terms of openness to trade Britain was virtually the sole destination for Irish exports in the 1960s. But the Irish authorities could see decline in this market and were concerned at over exposure to what they saw as a stagnant UK economy. Moreover, EEC membership was seen as likely to be highly beneficial from the viewpoint of agriculture, which it turned out to be (although not so for fisheries)<sup>63</sup>. Ireland negotiated a 14 year derogation on car assembly which was twice the normal of 7 years and got acceptance for capital transfers for infrastructure development,

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<sup>63</sup> As Dick Spring put it 'for the farmer the most important man was the postman' – meaning that transfers under the Common Agriculture Policy (CAP) were highly beneficial to Irish agriculture (interview, 18<sup>th</sup> September, 2012).

Martin O'Donohue recalls that it had been hoped to develop a car components industry to mitigate the disappearance of car assembly (interview, 22<sup>nd</sup> November, 2011).

Niamh Hardiman (2012:88) points to the evolution of Ireland's trade post EEC entry such that by the 1990s its trade openness index was almost 100 per cent of GDP and 120 per cent of GNP and with exposure to three export markets – Britain, America and Europe – the demands of which posed rather contradictory policy pressures on Ireland. The extent of FDI and export reliance on the US market kept Ireland attuned to the US economic culture. Britain was declining but was still very important. Europe provided access to a single market much prized by the same multinationals investing in Ireland. Thus as monetary union became an increasing focus of EU integration policy Ireland found itself positioned between three currency zones. While managing this complexity is a significant policy challenge the benefits turned out to be equally significant. By the early 1990s Ireland was receiving 1.7 per cent of total world FDI inflows. In terms of FDI per capita Ireland was the EU's largest recipient with three times the per capita rate of the Netherlands (Smith, 2005:66).

Former SIPTU President and MEP, Des Geraghty has no doubts that EU integration was of great benefit to Ireland and a rational choice for the country's policymakers:

‘Technology and mass communications are driving globalisation outgrowing the nation state. The US did away with the institutions of global governance. The EU was meant to be an antidote to this. It was intended as a counter to unregulated capitalism. There was no obvious alternative because all history teaches that you can't put Chinese walls around things people want. EU integration was an experiment to protect people’.

(Interview, 12<sup>th</sup> January, 2012)

Chair of the Irish Times Trust, Ruth Barrington is equally positive albeit from a different perspective:

‘I shudder to think what this country would be like without Europe – perhaps the Isle of Man would be an example – private affluence and public squalor. EU integration was the best thing that happened to the country. It brought social harmonisation, including issues like equal pay. Left to ourselves that would have taken another generation. Integration affected policy making in a way that people had to think in European terms.’

(Interview, 9<sup>th</sup> January, 2012).

The influence of European integration on the policy making process is confirmed by Bertie Ahern. In his view the positive effects of this were evident from the beginning. He points particularly to the impact of regional funds (interview, 13<sup>th</sup> January, 2012). Interestingly, the Secretary General of the Taoiseach’s Department for all of Mr Ahern’s time in office, Dermot McCarthy, has a more nuanced view:

‘Yes, integration was influential in a policy sense in relation to labour markets, regulation, competition policy etc. But the approach was ad hoc. There was no integrated framework approach. There was no sense of being shaped as an administrative system by EU integration. Cultural questions did not excite. The issue was growth and jobs.’

(Interview, 4<sup>th</sup> February, 2010).

John Coakley (2010:27) concludes that economic development has been strongly influenced by Ireland’s changing relationship with Europe pointing to popular endorsement of the Single European Act, the Maastricht and Amsterdam Treaties in 1987, 1992 and 1998 respectively although the Nice and Lisbon Treaties subsequently had a more difficult passage. This implied substantial support for, and willingness to engage in, a new European political structure and a willingness to restrict Irish sovereignty.

In interviews for a report on Ireland published by the French Think Tank, Notre Europe – Jacques Delors Institute, former EU Commissioner, Peter Sutherland and Europe Minister, Lucinda Creighton, both characterised the Irish vote in favour of the Fiscal Compact Treaty as ‘Rational Choice’ based on the need to keep open the

possibility of access to the ESM (cited in Aziliz Gouez, 2013:19). But that is not the full story. A large number of people voted yes for negative reasons. They feared Ireland might not be allowed access to further bailout funds unless it ratified the treaty. Of the yes voters, 15 per cent voted yes for positive reasons while 21 per cent voted yes for primarily negative reasons (Eurobarometer, 2012 cited in O’Riain, forthcoming, 2014:232).

We can conclude that European integration, on this evidence, was a rational choice for Ireland because the nature of the Irish State is that of a Liberal Market Economy with a certain countertendencies principally relating to the level of state intervention in the economy and a degree of neo-corporatist Social Partnership. Joining the political construct which is Europe, being based on a Social Market Economy idea, gave a level of cover for these countertendencies, albeit that Britain and Ireland were outliers. Moreover, the objectives of economic, social and foreign policy were principally growth and jobs. European integration, particularly the Single Market, immeasurably assisted the achievement of these objectives. The most significant factor, however, was that Ireland in reality had no choice regarding European integration. In fact it was the only choice once Britain decided to join.

In conclusion one can opine that an armchair strategist, knowing the circumstances in which Ireland found itself, and in the context of an inflexible EU institutional framework, would surely have found the path towards European integration irresistible.

## **Capabilities and Practices of Institutions /Historical Institutionalism**

For the purpose of this part of the analysis the most important institutions are government departments, State Agencies like the IDA, and the labour market institutions and actors.

Returning to the influences which caused the critical juncture in the late 1950s – The Whitaker Report and moves towards export orientated industrialisation and

ultimately membership of the EEC – one can discern many conflicting pressures on policy makers. The weakness of Ireland’s industrial base compelled Sean Lemass to try to form an industrial efficiency bureau as early as 1947. This project failed in the face of resistance from a united domestic capitalist class and a deflationary coalition led by the Department of Finance. A position had been arrived at by the 1950s whereby domestic capitalists were strong enough to resist efficiency measures but too weak to block the free trade that would ultimately decimate them. While Ireland (unlike Finland) had participated in the Marshall Plan, it was less heavily incorporated into it and related European integration projects than some of the other small countries which were more successful in achieving auto centric national economies (Girvin, 2004, Mjoset, 1992; Murray, 2009; O’Riain, 2004).

Out of this policy vacuum came the founding of the Industrial Development Authority (IDA) with a remit to support indigenous industry. In time this mission metamorphosed into attracting foreign direct investment. It is fair to say that the IDA enjoys widespread approval in Ireland and is very powerful. Its former chairman, John Dunne, describes it thus:

‘The IDA is a terrific organisation. Its people are imbued with a sense of vocation, like the priesthood. It had extraordinary leaders.’

(Interview, 16<sup>th</sup> February 2012)

Minister for Enterprise, Innovation and Jobs, Richard Bruton, is less effusive. He says of the IDA that it had a simple task. It was really a marketing agency with a good product to sell. It did it effectively and well but it had a simple mission (interview, 10<sup>th</sup> May 2012).

The IDA is an important institution to focus on because it is at the heart of a dichotomy in Irish industrial policy. While European integration, via the Single European Act, made Ireland proportionately one of the largest recipients of FDI in the world it has not worked the same miracle for indigenous industry. As Smith (2005:146) puts it, ‘a self-sustaining industrial base was simply not achieved after 1958’. Sean O’Riain’s (2004, 2008) explanation is that, in addition to the conservative disposition of Irish capitalism, the State agency responsible for

development of indigenous industry, Enterprise Ireland, never managed to develop a narrative for its existence independent of the IDA's free market rhetoric. In other words, it could never find a way of advocating or justifying a different State led approach.

The Chairman of Forfás, Eoin O'Driscoll, largely agreed with this analysis and his evaluation of the industrial policy as exposed by the 2008 crisis has been outlined in Chapter 6. He believes in the need for State sponsored enterprises (interview, 26<sup>th</sup> April 2012). Richard Bruton feels this is 'a bit unfair' to Enterprise Ireland but feels it has been too mired in corporate welfare and did not succeed in building clusters. He too believes in the need to build national 'champions' as does Ruairi Quinn (interview, 10<sup>th</sup> May, 2012 and 26<sup>th</sup> May, 2012 respectively).

Another perspective on this is offered by the chairwoman of telecommunications company 02, Danuta Gray. She suggests that anyone from an American multinational is much more appreciated in Ireland than someone from another country of origin. She considers this to be true both of politics and business 'especially IBEC' (interview, 7<sup>th</sup> February 2012). This puts into context Niamh Hardiman's (2012:88) conundrum that arising from increasing European integration, Ireland finds itself positioned between three currency zones. The same is true for Ruane's (2010) views on the complexity of operating a multi interface periphery foreign policy. In its medium-term review of the Irish economy for the period 2013-2020 the ESRI stresses the need for industrial policy to focus on businesses that rely on attractions other than tax policy (Fitzgerald and Kearney, 2013).

Eoin O'Driscoll accepts that there has been very little engagement with Europe in the matter of industrial policy except in relation to funding for Science Foundation Ireland. According to him:

'There was a strong attempt to understand Finland, Denmark and the German Mittelstands as models but the US always dominated. Northern European funding via banks was different.'

(Interview, 26<sup>th</sup> April 2012).



He says that culturally the Irish get on well with Americans and that we do not have that cultural ease with Europeans (ibid).

Speaking from an IBEC perspective John Dunne did not accept the argument that industry did not look towards Europe. He explained that during his tenure as director general there were extensive contacts with Sweden, even to the point of a Swedish person coming to Ireland to study business practice. ‘We were starting to influence the Swedes’ he said (interview, 16<sup>th</sup> February 2012).

With regard to public administration another Director General of IBEC, Danny McCoy, noted that in relation to the capabilities of government departments they seemed to lack an overall narrative about the country. He opined that that there are different cultures influencing different government departments. For example, the Department of Justice is so different to the Department of Finance and the Department of the Taoiseach (when strong) was different again. However, he admitted that this was also true of IBEC because it was a blend of two different traditions embodied in the Federated Union of Employers and the Confederation of Irish Industry, the two bodies which merged to create IBEC (interview, 27 April 2012).

John Dunne recalled that there were ‘ferocious tensions’ between the Departments of Finance and The Taoiseach in the 1988 to 2000 period.

In reality the quest for ‘joined up government’ proved elusive. While state spending increased during the boom years it was done by layering a series of policy initiatives alongside or on top of a relatively unreformed system of administration and social service delivery. Unfortunately, this produced a dualism between a relatively under resourced existing infrastructure and a set of new agencies that could undertake particular projects. It did not lead to good coordination (O’Riain, forthcoming, 2014; Paus, 2012)).

As regards managing Ireland’s relations with the process of European integration both former Secretary General of Foreign Affairs, Noel Dorr and former Secretary

General of the Taoiseach's Department, Dermot McCarthy, confirmed that there was a lack of coordination of policy (interview, 28<sup>th</sup> November, 2012). Noel Dorr recalls that Paddy Hillery fought off Finance wanting to be the coordinating Department for European Affairs (interview, 30 November 2011). Charlie McCreevy was firmly of the view that Finance should have led on Europe 'on the grounds that 95 per cent of our relationship with Europe is economic' (interview, 7th June 2012)<sup>64</sup>. As he explained it DFA always wanted to be 'best boy in class' – a mind-set contributed to by Taoiseach Garret Fitzgerald – and this is a weakness that persists to this day.

Dermot McCarthy is not a huge admirer of the Department of Finance worldview. He asserts that, 'the Finance outlook is that it is not worth doing anything. All expenditure is waste. They risked standing back and losing influence. Yet they didn't get fiscal conservatism right in the end' (interview, 28<sup>th</sup> November 2011). It is interesting to juxtaposition this viewpoint with Kevin Cardiff's concern (P. 208) that in the context of an overheating economy pre-2008 controlling credit would have produced an adverse public reaction.

In relation to the process of European integration Dermot McCarthy recalls that senior Irish appointed officials used to feed back concerns about the perceived narrowness of Irish official engagement. He says that Ireland always played by the rules and never tried to use Irish people in the Commission to advance the country's national interest (ibid). This is in marked contrast to how Denmark conducted its relationship with Europe as explained by Anette Berentzen of the Danish LO about the structured approach of both political and civil society actors towards ensuring that Danish national interests were upheld in Brussels (interview, 22 May 2012).

Charlie McCreevy confirms that the Danish approach to mediating relations with Europe is much more integrated and active than Ireland's. He says that the Department of Foreign Affairs standard operating procedure is to always support the

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<sup>64</sup> He imparted an interesting anecdote about how Foreign Affairs came to lead, according to which the wife of Minister for Finance in the early years did not like travelling and so the then Taoiseach, Garret Fitzgerald agreed that DFA could take pole position.

Commission and go along with what they say. Policy is made in consultation with the permanent representative in Brussels. He evaluates it this way:

‘Is this wrong? It worked for a time. The €8 billion cohesion funding we got in the 1990s was down to the skill of our public servants. But things change – you don’t train racehorses today the way they did sixty years ago.’

(Interview, 7<sup>th</sup> June 2012).

Of his experience of the Commission he says that it is effectively run by France;

‘They know exactly what their own people are doing at all times and they manage them very well at every level. These are the *Énarques*<sup>65</sup>. They all come from the same stable. When the French eliminated the aristocracy in 1791 they replaced them with a new elite. These are top class people. It is accepted that they are political and their individual politics are well known. They are nominally independent but they act in the French national interest.’

(Interview, 7<sup>th</sup> June 2012).

This is a perspective substantially confirmed by Bernard Connolly in his strongly critical portrayal of the European Commission in which he served as a senior official (Connolly, 1995). Given this situation and a less than fully effective Irish engagement, it is difficult to avoid the conclusion that Ireland has been dragged along by the events of European integration and that the institutions lacked the capacity to shape those events.

Former Secretary General of the Department of Public Enterprise, John Loughrey, concurs. He believes that despite their ability at rooting out money and working the corridors of power, Irish civil servants could not compete with other countries; ‘We don’t have the confidence of the French civil servants to speak truth to power sufficiently loudly’ (interview, 7<sup>th</sup> March, 2012). Conversely with Mr McCreevy, he argues that the Department of Foreign Affairs provided such intellectual firepower as there was and that they have done the State some service.

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<sup>65</sup> Products of an elite national university dedicated to the education of public administrators.

At an agency level it is the opinion of the former chief executive of the Electricity Supply Board (ESB), Pdraig MacManus, that Ireland is super compliant but does not need to be. He cites his experience of handing the process of negative integration<sup>66</sup>. The ESB tried to pick strategic concessions which they felt were achievable and only those that were really important e.g. emissions trading. His view of EU integration is summed up in the following statement:

‘Small countries don’t matter. What Ireland does doesn’t matter. We are only a rounding error in anything to do with Europe.’

(Interview, 11<sup>th</sup> January 2012).

### **The Politics Paradigm/Sociological Institutionalism**

This involves studying the interaction of elite actors as they struggled with decisions relating to European integration.

Verdun and Christiansen (2000) argue that the entire history of the European project has been one of pursuing the goal of political integration through the means of economic integration. Is this what Irish policy makers consciously bought into?

Broadly speaking the answer is in the affirmative even if at times it was a reluctant buy in. Tom Garvin (2005:191) notes that as early as 1954, the Irish government was already discussing the possibilities of the economic unification of Europe and Ireland’s role in the process. Laffan and Tonra (2010) suggest that after the Second World War Ireland was drawn in to a broader, more stable and increasingly interdependent international system. In their perspective European integration provided a framework within which a small open polity could mediate the forces of growing interdependence and globalisation (although this only became a factor much later). After the disastrous recession of 1955-1956 Ireland realised that its existing trajectory of policy was looking highly pessimistic. The report written by T.K. Whittaker in 1958 entitled ‘*Economic Development*’ and the subsequent white paper had ‘Startling Pro-Growth Orientation’ in the words of Eichengreen

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<sup>66</sup> Negative integration in this context is the process of competitive market making for public utilities.

(2007:120). It was not so much that Ireland welcomed free trade; it was rather that it realised that the country would eventually have to face up to European integration. Thus it was that Whitaker's Report and the White Paper provided the basis for an influential group of politicians, academics, trade unionists, business people and civil servants 'to begin breaking away from the constellation favouring isolationism and stasis' (ibid).

Eichengreen (ibid: 121) asserts that this generation of leaders welcomed the opportunity to shift the country's external relations away from Britain and towards Europe. Opening and reform were pre-requisites for this reorientation. All those interviewed for this research who expressed a view concurred with this analysis. That said, the fact that so much of domestically owned small business was critically dependent on UK markets always had to be factored in to decision making (Quinn, 2005: 356).

In so far as the conversion to openness was reluctant the coldly rational choice and the dilemma it posed is captured in the following somewhat acerbic assessment:

'The patriots had come reluctantly or otherwise to the conclusion that economic and cultural protectionism would have to be abandoned in favour of free trade, and that multinational capital would have to be used to supplement local capital.'

(Garvin, 2005:144)

Garvin goes on to say that after 1956 opposition to European integration came from a broad, incongruous, noisy and usually ineffective coalition including the Irish left, insurrectionist republicans, anti-militarists and Catholic isolationists (ibid:192).

Still Ireland had failed to benefit from the golden age of social democracy which lasted from 1943 to 1973 and was an outlier in Europe in terms of economic growth. As Tom Garvin puts it:

'Ireland combined the slow growth rates characterised of a rich and mature economy with the underdevelopment characteristic of a rather poor country.'

(Garvin, 2005:12).

To overcome this deficit through converging with other European countries was the political prize to be striven for. On the face of it, it was an objective shared by all political parties, especially given the lack of ideological difference which is a feature of Irish politics. But, as Garvin again points out (*ibid*), following Olson (2002), there is no guarantee that groups in society with a common objective will pursue it rationally.

As Ireland turned its face towards Europe it was somewhat inhibited, at least as regards industrial policy, by a factor again identified by Garvin; the real long term effect of Marshal Aid was to expose Irish decision-makers and much of the broader Irish public to an American business culture (*ibid*:185). The accuracy of this influence today is confirmed by Eoin O'Driscoll of Forfás and Danuta Gray of O2 (interviews 26<sup>th</sup> April 2012 and 7<sup>th</sup> February 2012 respectively). But at a political level Garvin (2004:191) affirms that by 1954 the government was already seriously discussing the possibilities of an economic unification of Europe and Ireland's role in that process. On the Fine Gael side the emergence of Garret Fitzgerald, a politician and economist with a strong Europhile outlook, reinforced this thinking.

There were early Labour Party and trade union reservations about joining the EEC, mainly due to justified fears about the effect on indigenous industry and employment. In fact labour advocated seeking association rather than full membership. However, there was popular endorsement of the Single European Act, of the Maastricht Treaty and of the Amsterdam Treaty in 1987, 1992 and 1998. This paved the way for Irish participation in a new European political structure and implied substantial support for the restriction of Irish sovereignty. This trend was halted in 2001 when the Nice Treaty was rejected in a referendum but the decision was reversed by the people in 2002. The same thing happened with the Lisbon Treaty in 2008. All the major parties, together with employer and trade union peak organisations are generally supportive of European integration. Opposition has come from the nationalist Sinn Fein party and from ultra-left and right-wing political groups. However, the kind of political forces found elsewhere in Europe have been weak or absent in Ireland and the link between parties and particular social classes

has been tenuous. The dominance of competing versions of nationalism represented by the two major parties, Fianna Fáil and Fine Gael, and a weak Labour Party, means that most big issues, including EEC membership, have been conceptualised in terms of independence rather than class interests (Breen et al, 1990, Coakley, 2010; Garvin, 2004; Gilland, 2004).

Senator Joe O'Toole points to the electoral system as discouraging politicians from taking an interest in European affairs:

‘There is no understanding of EU affairs in Leinster House because there is no need for it. They have no role. Ireland has a presidential style administration. There is a lack of understanding of the differences between federation and confederation. This leads to a confused debate about sovereignty and independence. By contrast there was no debate at all, for example, about the Charter of Fundamental Rights.’

(Interview, 4<sup>th</sup> December 2012).

This sense of distance from Europe is echoed by former Tánaiste, Dick Spring. He says that Ireland is a peripheral country with very little interaction with the others.

And yet not every senior politician was conscious of Ireland's peripherality. Bertie Ahern, former Taoiseach, observes that in 21 years attending European Council meetings he never felt overawed or intimidated. He concedes that Irish people do have a narrow view ‘but in their hearts they would not want Europe to fail’. Personally he said his only concern about European integration and enlargement is where the boundaries should ultimately be fixed. He noted that Germany is now dominant in Europe:

‘They invest massively in China and Africa. They have anchored themselves very cleverly. For that reason Europe must stay together and strong.’

(Interview, 13<sup>th</sup> January 2012).

Former Secretary General of the Department of Public Enterprise, John Loughrey, asserts that Ireland was hooked on grants. He was not sure that we ever made a real contribution to European values:

‘We were always concerned about venal issues of money or welfare. Garret (Fitzgerald) was the only exception. The Irish civil service was better than most at capturing money. But there was no political or administrative imagination to get a better developmental outcome. Irish ministers, for the most part, did not have an independent view. Neil Kinnock<sup>67</sup> did more for Ireland as a Commissioner than anyone else.’

(Interview, 7<sup>th</sup> March 2012).

Of the politicians with whom he engaged on the European integration issue Noel Dorr makes no secret of his admiration for Garret Fitzgerald (in his view Fitzgerald accepted the principle of European integration but others were just concerned about accessing funds). He also says that Brian Lenihan senior also had a great sense of history while Paddy Hillery was ‘deep, subtle, intelligent and enthusiastic’. He had a more difficult relationship with Charles Haughey when Taoiseach. Nevertheless, he says of Haughey that he had a good sense of timing and of history. Chancellor Kohl was very appreciative of his efforts during the second Summit of the Irish Presidency in 1990 and thanked him profusely. They were, he said, creating a ‘European Germany’ (Interview, 30 November, 2011)<sup>68</sup>.

Thus it is that European integration has, for the most part and with honourable exceptions, been viewed by politicians as a way of maximising the financial benefits for Ireland. As Coakley (ibid) points out it is likely that the most profound changes in the character of Irish politics will be incremental, as the freedom of action of the Irish political system is compromised by its incorporation in a larger political entity, the EU, and by global economic realities. And in that cauldron Charlie McCreevy observes of the Member States of the EU:

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<sup>67</sup> Vice President of the European Commission (1999-2004). Former leader of the British Labour Party (1983-1992).

<sup>68</sup> It is clear from the interview with Wim Kok recorded in Chapter 2 that Kohl placed a lot of value on loyalty and support. This is evidenced in the negative in Wim Kok’s belief that Kohl treated Dutch Prime Minister Lubbers badly because of his lack of support for German unification. We can only speculate that Ireland might have found a more sympathetic ear in Germany post 2008 if Kohl were still in office.



‘When it comes to the crunch they will all look after themselves.’

(Interview, 7<sup>th</sup> June, 2012).

## Summary

In this section we have used the analytical model described earlier to explain why Ireland’s approach to European integration is characterised by a narrow focus on maximising the economic benefits, asserting independence from Britain and generally supporting the EU Commission as the cornerstone of its diplomacy.

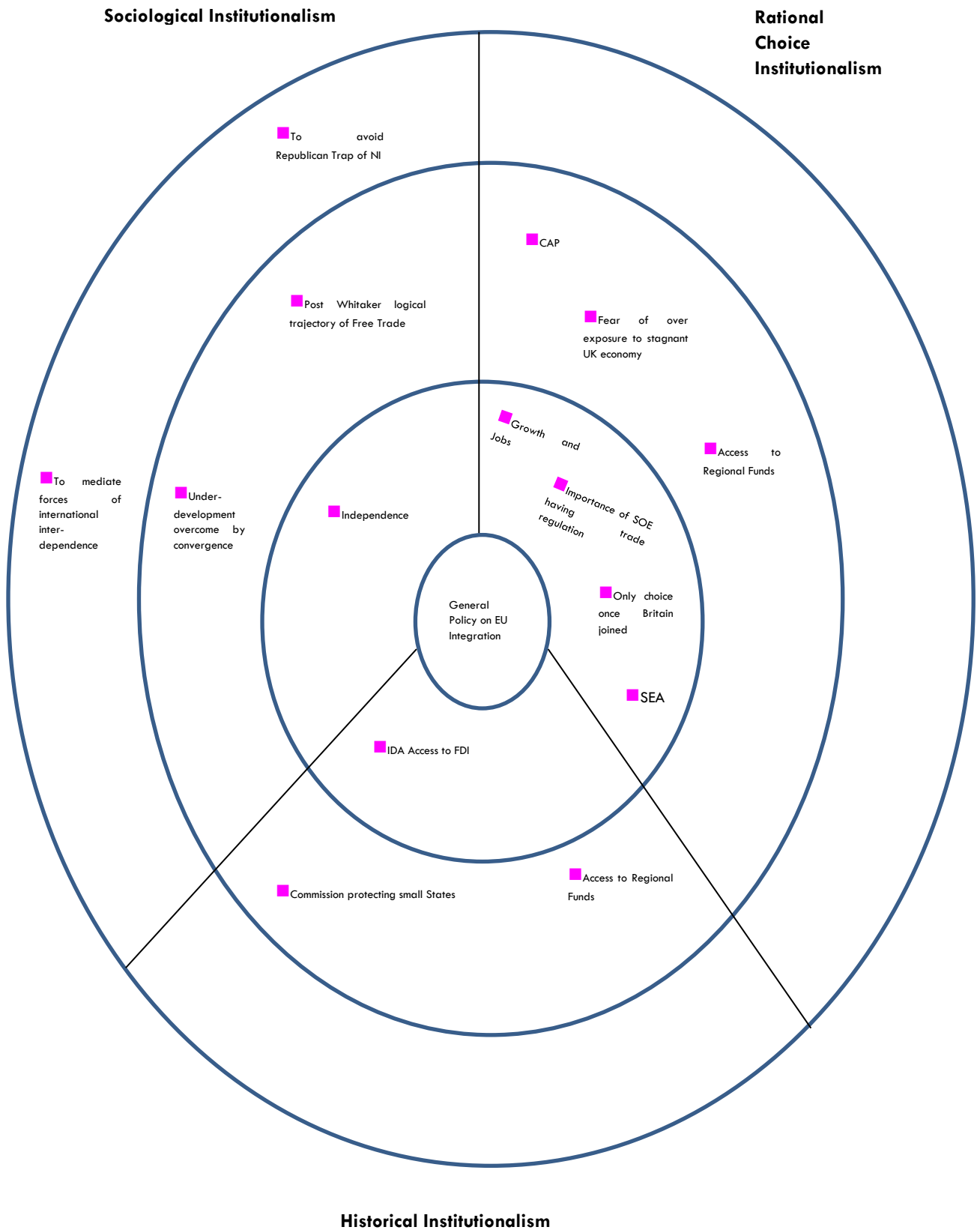
European integration was rationally the only choice available to Ireland. The failure to exploit the opportunities of the post war golden age left the country economically and socially backward. Once a decision was made to move from import substitution industrialisation to export orientated industrialisation the die was cast. A small open economy needs the protection of international institutions to enforce trading conditions that it is too weak to enforce itself. It is clear that the inexorable logic of this situation dawned on the government as early as 1954. However, it can be argued from the foregoing analysis that Ireland has failed to optimise the potential of European integration for a number of reasons viz: first, over dominance of a US focussed business culture as a residual from the Marshall Plan. Second, a compliant mentality shaped by a Department of Foreign Affairs which desires to always please the EU Commission retaining strong indications of path dependence to this day. Third, a deflationary mind-set in the Department of Finance shaped by a fiscal conservatism which yet failed the country in the 2008 crisis. Fourth, a lack of institutional engagement with Europe. The dominance of Germany and France means that it was always going to be difficult to make an impact, but there is no evidence of a coherence which might, if exercised in the manner of Denmark, have provided better outcomes.

The institutionalist influences revealed by the application of the analytical model can be depicted using the radar diagram in Figure 14 below.

The key problem of Irish policy on EU integration can be succinctly stated as a lack of strategic engagement based on an intellectual failure to grasp what the whole

project is about. This is compounded by an electoral and parliamentary system that discourages interest in foreign affairs. The real and potential consequences of this failure will become clearer as we proceed now to look at the practical manifestations of integration that we have chosen to focus on viz; EMU and social policy/social pacts, using the same analytical model.

Figure 10: Radar Diagram outlining clusters of institutionalist influences on overall integration policy (strongest influences closest to the centre)



## Economic and Monetary Union

In the case of EMU Ireland's policy approach was characterised by a similar imperative to demonstrate independence from Britain while hoping and expecting at the same time that Britain itself would join, if not in the beginning, then eventually. Ireland saw EMU also as a potential haven of currency stability after the experience of the Exchange Rate Mechanism (ERM) and earlier currency volatility. In essence the view was that the train was leaving the station and the overriding imperative was to be on it regardless of where it was going. Because it was the great political project arising from German re-unification it was assumed that problems would get solved. Ireland never tried to shape EMU in its national interest. The purpose of this section is to apply the three part analytical model to explain why this was the case.

The flagship project of European integration is Economic and Monetary Union and that, while first advanced via the Werner Report in 1969, the project languished until after the Single European Act was passed in 1987. It was taken off the shelf, dusted down and represented in a different format by Commission President Jacques Delors in 1989. What really breathed life into it though was the prospect of German reunification consequent upon the fall of the Berlin Wall in 1990. Apprehensive at the prospect of a reunited Germany, and all that implied in an historical context, France promoted the idea of creating a 'European Germany' as distinct from the feared 'German Europe'. It was first and foremost a matter of high politics directed by Chancellor Kohl of Germany and President Mitterrand of France. Because EMU is primarily a political rather than an economic project there are certain unresolved problems which continue to defy resolution as set out below.<sup>69</sup>

The institutional architecture is deficient. It provided only for monetary union via the establishment on Bundesbank lines of the European Central Bank (ECB). Thus economic policy remains substantially uncoordinated as evidenced by the huge imbalances within the Eurozone. Fiscal policy is still a domestic competence as is largely social policy.

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<sup>69</sup> In a recent paper Ashoka Mody suggests that while the Euro was a political decision it had no operational political dynamic in a key sense. He asserts that there was never a realistic possibility that fiscal – and, hence, political – sovereignty would be surrendered (Mody, 2013:9).

Germany and its satellites (Netherlands, Finland, Belgium – and Denmark in practice) believe in the idea of an independent central bank, whereas France with the support of the Southern European countries has consistently advocated political control over monetary policy<sup>70</sup>.

The Franco-German partnership has always been far more of a roller-coaster ride of political opposites than a smoothly functioning motor of European integration. Nevertheless, the fall of the Berlin Wall, the resurgence of Germany and the deepening weakness of France have changed everything. We are in a space, post the 2008 crisis, where federalism under German hegemony is an ever increasing real prospect if the Eurozone is to find a long term settlement of its difficulties. Indeed, Beck (2013:44) writes that this is the best case outcome; in the worst it could be neo-colonialism for the debtor countries. This is the context in which it is now proposed to examine the evolution of policy in Ireland using the model derived from Allison and Zelikow (1999) and the new institutionalisms school of Varieties of Capitalism (Connolly, 1995; Verdun and Christiansen, 2000; May, 2013; Peel and Carnegie, 2013).

### **National Government-Rational Actor Model/Rational Choice Institutionalism**

According to former Finance Minister and current Minister for Education, Ruairi Quinn, Jacques Delors seized the opportunity which the Single European Act (SEA) provided to reignite the whole European project. While there had been a brief reference to economic and monetary union in the preamble to the SEA, the real work on the project began in 1988. Known as *The Delors Report* it culminated in the Maastricht Treaty of 1991, which came into force in 1993. Britain and Denmark argued successfully for an opt out of the treaty and the right to remain outside the single currency (Quinn, 2005:347).

Clearly Britain's decision to stay out of the currency had implications for Ireland which were ventilated at the time. A large proportion of the domestically owned

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<sup>70</sup> These contesting viewpoints are characterised as differences between 'Monetarists' and 'Economists'.

small-business sector was critically dependent on the British market. However, there was a belief amongst the Irish political and administrative elite that Britain would eventually join. Currency volatility was a worry for policy makers. The Irish Punt was felt to be ‘flotsam and jetsam’ likely to be pushed around by speculators. The experience of ERM when Ireland was forced to devalue by 10 per cent in 1993 tended to validate that fear (interviews with Ruairi Quinn, Dick Spring, John Loughrey). Nevertheless, Dick Spring did say that the advice the government received was that if Ireland choose to align with Sterling as against joining the single currency the effect would be the same. Interestingly, this is the assessment of Finland’s experience vis-à-vis Sweden held by people in Finland interviewed for this research. Dick Spring confirms that the factor which carried the decision to join EMU was the potential effect on FDI. It was felt that membership of the single currency would make Ireland an even more attractive place for investors (interview, 18<sup>th</sup> September 2012).

Noel Dorr, by contrast, says that there was never consideration given to staying out of EMU for three reasons. First, independence from Britain; here was a concern that the UK economy was stagnant and Ireland did not want to be linked to it. Second, a desire to be at the centre of Europe and third a belief that the discipline of EMU would be good for the country.

Whatever the different emphasis on the reasons for joining EMU there is consensus amongst interviewees that the 1996 ESRI evaluation of the options was of seminal importance. The report considered three scenarios. The first was Ireland and the UK remaining outside EMU at least in its early years. The second was Ireland joining without the UK, and finally both Ireland and the UK joining EMU from its inception.

The study also considered the loss of devaluation as a potential adjustment mechanism to shocks. Its principle conclusion was that the gains of EMU would outweigh the losses (Baker, Fitzgerald and Honohan, 1996).

Moreover, a report on Ireland's experience of, and prospects in, the European community published by the National Economic & Social Council also came out in favour of EMU stating:

'Based on these analyses our conclusion is that both Ireland and the community as a whole would have a lot to gain from moving to an economic and monetary union of the sort outlined above'.

(NESC, 1989:437).

In fairness the NESC report drew attention to some risks of regional imbalances and pointed to the historical experience: 'That economic and monetary integration generally can, in the absence of countervailing policies, have a negative impact on peripheral regions' (ibid:438).

Although the ESRI report was well received amongst the policy making community its findings were contested in some sections of the financial press and on the grounds that it understated the risks of inflation and of a property bubble emerging. The Economist who coined the phrase 'Celtic Tiger' to describe Ireland of the 1990s employed his talent for colourful language again in a newspaper article, observing that:

'The economic advisers at the Central Bank, like a pub landlord with a headache, must be itching to call "time" , but will shortly find themselves having to stand free drinks all round.'

(Kevin Gardiner, 1998).

Other commentators highlighted what they regarded as a financial analysis of the growth achieved in the 1990s on the grounds that mostly it tended to prioritise supply side over demand side factors and did not give sufficient weight to the stable macro-economic management that had achieved this in an ERM regime that allowed the Irish Punt to adjust between a DM and Sterling peg, which flexibility would not be available under EMU with attendant potential consequences for employment (O'Leary, 1997; Neary, 1998; Leddin, 1998; Barry, 1998; Taylor, 1998).

Twenty one years later NESC again reviewed the experience of EMU and considered what might have happened if Ireland had stayed out of the single currency. Citing Lane (2010) they opine that for certain mature economies, including Britain, Norway and Switzerland, with a strong tradition of monetary independence, this might be possible. For others with less reputation for price stability, uncertain long term growth and a susceptibility to speculative capital flows, the exchange rate is less likely to play a stabilising role. Boom and bust cycles could be amplified by exchange rate movements and interest rate policy. Ireland is categorised as an intermediate case. Nevertheless, NESC argues that the ‘Celtic Tiger’ growth narrative would, outside EMU, have plausibly led to considerable speculative capital flows and strong currency appreciation, posing severe stabilisation challenges. In other words, things could have been worse outside EMU (NESC, 2010).

On a rational choice basis the critical influencing factors were judgement as to what Britain might eventually do and positive assessments from ESRI and NESC. There was also the fact that the risks to peripheral countries could be mitigated by cohesion fund transfers. Overlaying all this was the fact that EMU was in reality a political project driven by the biggest event in post war history viz: German reunification.

In this context to join EMU was unquestionably a rational choice. Whether it was the right choice or not – and NESC thinks it was – remains to be judged in light of the eventual outcome of the current crisis. Once the Maastricht Treaty was ratified, and Ireland did not seek an opt out like Britain and Denmark, the die was in any event cast for membership of the single currency ten years later. So, while prima facie a rational decision was made, we can now look at the process by which it was arrived at and see what other contingencies manifested themselves.

## **Capabilities and Practices of Institutions/Historical Institutionalism**

As indicated above, the two foremost economic and social think tanks had come out in broad support of Ireland’s participation in EMU. Some economists had



questioned the wisdom of joining the single currency if Britain stayed out but the two independent reports, and a belief that Britain would join eventually, clinched the matter. Former Secretary General of Finance, Tom Considine, had a contact in the UK Treasury who told him that Prime Minister Blair was confident of winning a referendum on the question. The only question was whether to come in at the beginning or later (interview, 24 May, 2012).

According to Tom Considine the main worry was about the effect of Sterling vis-à-vis the Euro. British Chancellor, Gordon Brown, made the Bank of England independent and stable. Having devalued by 10 per cent in 1993 Ireland was super competitive and the worry was that Sterling might drop in value (ibid).

On whether any consideration was given to the implications of a loss of control of monetary policy Mr Considine recalled that a Department of Finance working group on the implications of Euro membership existed in 1999. He says of it that:

‘There was a fair understanding that without monetary policy control other policies would have to take the strain. The view on devaluation as a means of maintaining competitiveness was that wages catch up in about 18 months. Therefore, devaluations give only temporary respite so it would not have been a panacea for us if we stayed out of EMU.’ (ibid).

His colleague in the Department of the Taoiseach, Dermot McCarthy, concurs that there was concern about UK participation but Sterling remaining outside the single currency at that time seemed implausible. Moreover, Ireland had experienced the perils of exchange rate volatility in the 1980s and there was a sense of how independent could you be really?<sup>71</sup> But, he says, people never thought it would end in tears; EMU was always seen as a political project – it was believed that any problems would be fixed. People felt Ireland had to join regardless of what Britain did, it was a matter of independence. He recalls that the only other option seemed to

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<sup>71</sup> This thinking finds a resonance with Karl Polanyi’s views on currency

‘No government except perhaps the most powerful, could afford to disregard the taboos of money. For international purposes the currency was the Nation; and no Nation could for any length of time exist outside the international scheme’  
(Polanyi, 1944:215)

be to stay out and that not much attention was given to other alternatives. He sums up the official viewpoint in this way:

‘People were sanguine about EMU in light of the exchange rate policy of the 1990s. Being in a single currency would force us to focus on competitiveness. Social Partnership was seen as settling the distributional questions leaving us free to focus on growing the economy.’

(Interview, 28<sup>th</sup> November, 2011).

According to Noel Dorr EMU brought the Department of Finance centre stage and Foreign Affairs was slightly peripheral. Nevertheless he recalls that it was a policy objective to be at the centre of the endeavour to create the single currency primarily because it was viewed as a political project.

John Loughrey, Secretary General at the Department of Enterprise, says candidly that the full implications of the single currency were never thought through (interview, 7<sup>th</sup> March, 2012).

John Hurley, former governor of the Central Bank confirms the importance given to the ESRI report noting that the benefits were felt to outweigh any downside due to an inability to devalue. As he puts it: ‘Not a lot of thought was given to failure’. The discipline of keeping to the Maastricht criteria was felt to be very good for the country, EMU was seen as a great protection. He believes the outlook of the policy making community was essentially the following:

‘Deciding to be part of the Euro was a bigger statement by us about where we saw ourselves, where our bed was going to be. The economy was already catching up giving a strong signal to investors. With flexibility in the domestic economy they would expect us to do well.’

(Interview, 9<sup>th</sup> November, 2011)

Later he recalls that low interest rates at a time of overheating were unwelcome. Ireland locked into the common currency in 1999 and evidence of this overheating emerged by the early 2000’s. Nevertheless, policy makers were sanguine. Ireland

had achieved the 3 per cent budget deficit target. As he puts it: ‘We had arrived’. ‘But’, he adds, ‘having achieved the requirements for entry to EMU control on expenditure and growth relaxed. Property related transaction taxes gave buoyancy to revenue. Still, it was all within the Stability and Growth Pact rules’ (ibid). The dysfunctional impact of this tax policy was ultimately made manifest in an oversupply of housing and hotel capacity and the displacement of investment from manufacturing into an already overheated construction industry (O’Riain, forthcoming, 2014).

Willie Scally, Economic Advisor to the Tánaiste in 1996, says the Department of Finance used the Maastricht criteria as a controlling instrument but notes that meeting the targets was anyway not that difficult in a rapidly growing economy. He considers that the institutional influence was strong.

‘Ireland sort of drifted into EMU because the civil service was in favour of it. Fianna Fáil was also in favour of it. There was no serious internal government debate, it was more or less an evolution.’

(Interview, 11<sup>th</sup> December, 2012).

That said, he confesses to having had doubts himself about trade with Britain and the loss of the capacity to devalue – a view shared by a number of economists at the time. He too confirms that the ESRI report was very influential and provided the intellectual underpinning for the Department of Finance position. In particular he mentions that the prospect of low interest rates was considered to be important (ibid).

For the IDA John Dunne argues that EMU was a factor in the agency’s success giving ‘enormous impetus’ to its efforts to attract FDI. He recalls that government policy was universally expansionist – including the American and European economies – and that arguments about moving too fast were countered by ‘a concern not to take our foot off the accelerator’ (interview, 16<sup>th</sup> February, 2012).

The evidence suggests that the NESC and ESRI reports, particularly the latter, were of seminal importance. The Department of Finance had superseded the Department of Foreign Affairs as the leading actor even though EMU was recognised as essentially a political project. The ESRI provided the intellectual underpinning for a pro-EMU policy stance at the Department of Finance. Although it seems that the longer term implications of EMU were not widely considered at an institutional level there is evidence that the Department of Finance realised that, absent the facility to devalue, any adjustments due to external pressures would fall on other policy areas. The issue of independence from Britain arises again emphasising the strain of path dependency shaping policy making at the level of the state institutions.

### **The Politics Paradigm/Sociological Institutionalism**

According to Verdun and Christiansen (2000) the particular design of EMU chosen was a reaction to the success of the German model of monetary policy and the perceived success of the European Monetary System (EMS) although those who designed it wanted to deconstruct the dominance of Germany. The particular feature of an independent Central Bank was to create a European institution that was credible vis-à-vis the markets. There was also a belief that monetary policy was most effective when it was geared towards a single objective such as price stability. In short the belief was that once EMU provided successful economic effects its institutions would gain credibility and legitimacy and this in turn would create a political commitment. In that sense EMU was clearly a political project of enormous importance and the question is whether Irish politicians realised fully what they were committing the country to.

On this point Ruairi Quinn, to whom it fell to guide much of the negotiations about EMU, notes that opinion at the time was that if the Euro was simply going to be the Deutschmark zone renamed then Ireland would have a problem. In the event, however, Ireland, Italy, Spain and Portugal were all let in. He makes it clear that they were engaging with 'a uniquely and as yet untested, major political initiative' (Quinn, 2005:356).

It is clear that the huge concern of policy makers was less about whether we should join the Euro but whether we would be allowed in. This anxiety is described by Ruairi Quinn:

‘There had been a lot of speculation about whether or not Ireland would meet the criteria and be able to join the single currency on day one. If we were going to be in that league, then interest rates on Irish bonds and loan notes issued by the NTMA would fall as Ireland converged towards the Deutschmark and the single currency. The potential savings were enormous, given the size of our national debt, which reached its height of 128 per cent and falling by 1994. Paddy Mullarkey<sup>72</sup> was particularly anxious about the perception of Ireland, not necessarily by domestic commentators, but more critically by London and Frankfurt based financial journalists. Diligently, he ensured that Irish embassy based staff in Bonn followed up unfavourable mentions or exclusions of Ireland in news stories about the currency project.’

(Quinn, 2005:358).

Noel Dorr recalls that there was no real concern about an optimal currency area or whether there were deficits in the institutional architecture of EMU. He recalls that a lot of the detail was worked out in December 1996 under the Irish Presidency with Finance Minister Ruairi Quinn, in the chair and that the Luxembourg Prime Minister, Jean Claud Juncker, was a ‘mover and shaker’ (interview, 30<sup>th</sup> November, 2011).

Former Taoiseach, John Bruton, acknowledges that much of the work on EMU and the Stability & Growth Pact was done by Dick Spring and Ruairi Quinn because his own time was inordinately consumed by Northern Ireland. He recalls, however, that the final deal was done by Kohl and Chirac with Juncker in a corner of the room at a meeting he chaired in Dublin Castle in 1996. His recollection was that:

‘We had not really thought about what EMU meant – we had read the Werner and Delors reports but not much more.’

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<sup>72</sup> Secretary General of the Department of Finance.

(Interview, 8 March, 2012).

He also mentions that in the lead up to Maastricht it was assumed that everybody was in but the Danes got out at the last minute. On the general approach to Europe he says:

‘European integration always worked on a “bring it on” basis but EMU was so much bigger. We were on a train, the destination of which we were unsure of, we had bought tickets but we could not get off.’

(ibid).

Of the thinking in elite circles he said that a level of philosophical enquiry did not exist here and anyway we were getting much more out of Europe than we were putting in (ibid).

On the subject of EMU and the liberalisation of capital markets he says:

‘It was the orthodoxy of the time. We never thought through what it might mean in respect of imbalances. Again it was an intellectual failure.’

(ibid).

Research conducted by Hay et al (2008) points to a strong political consensus in favour of EMU based on interviews with policymakers which consistently highlighted the advantages to Ireland of being able to operate at the heart of the EU decision-making process. However, they note that the public articulation of political support for EMU was rather different. An examination of Dáil Eireann debates reveals that the most common argument put forward was that the economic policy entailed by the Maastricht Treaty represented ‘good economic policy; to which there was no sensible alternative’. The economic character of this consensus was broadly based across the political parties.<sup>73</sup> Thus Ireland’s membership of EMU did not become a highly politicised issue. It was, and continues to be, articulated as a non-negotiable external constraint. Of course this ‘good economic policy’ was German

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<sup>73</sup> There were 45 speeches from Fianna Fáil, 16 from Fine Gael, 16 from Labour and 3 from the Progressive Democrats reflecting this discourse (Hay et al, 2008:183).

ordoliberalism, the principles of which were incorporated in the ECB constitution and the EU Commission's competition-focussed policies. According to Blyth (2013) there is a consistent linkage between the Maastricht convergence criteria, the Stability & Growth Pact and the Fiscal Treaty and it is all about the rules, the *ordo*. The basic design of the EU reflects Germany's focus on rules, obligations, a strong monetary authority, a weak parliament, and no spending to compensate for the busts. This conditions the EU's response to the current crisis and it was, in effect, endorsed by the Irish political class, albeit perhaps not consciously in all cases.

**Table 35: Irish policy makers' attitudes to the benefits of EMU membership**

	'Membership of EMU is good for Ireland's economic performance'			'Membership of EMU increases Ireland's influence in Europe'		
	<i>Strongly Agree/agree (%)</i>	<i>Neither (%)</i>	<i>Strongly disagree/disagree (%)</i>	<i>Strongly agree/agree (%)</i>	<i>Neither (%)</i>	<i>Strongly disagree/Disagree (%)</i>
<b>Civil Servants</b>	95.4	2.3	2.3	71.1	21.4	7.4
<b>Members of the Dáil</b>	92.0	4.8	1.6	74.2	14.5	9.7
<b>Fianna Fáil</b>	92.0	4.0	4.0	72.0	12.0	12.0
<b>Fine Gael</b>	100.0	0.0	0.0	85.7	14.3	0.0
<b>Labour</b>	100.0	0.0	0.09	100.0	0.0	0.0

Source: Hay et al (2008: 184) – based on 28 interviews conducted in 2002 and 2005 by Nicola J Smith.

Charlie McCreevy confirms that there was a general political consensus that Ireland should join EMU. He says that most studies and concerns focussed on the downside risks of staying out and a fear that the Euro would appreciate up to 1.10 against Sterling, noting, however, that in the event the opposite occurred. He recalls also that as opposition spokesman on finance, (1994-1997) he participated actively in a Dáil finance committee which, under the chairmanship of the late Jim Mitchell<sup>74</sup> met twice a week for over a year and in the course of which many of the concerns referred to above were ventilated by people who gave evidence to the committee. His view of this political process was that it was very good and that he was very impressed by some of the arguments against participation in EMU most notably contributions by David Grafton<sup>75</sup>. (interview, 7<sup>th</sup> June, 2012).

<sup>74</sup> Senior Fine Gael politician who held a number of ministries over the course of a long political career.

<sup>75</sup> Economic Advisor to Labour Party Leader, Michael O'Leary and subsequently Dick Spring. He fell out of favour with the latter due to his opposition to EMU.

According to Mr McCreevy once the decision was made in 1999 to lock in the currencies the emphasis shifted to the role of the ECB. There were opposing French and German perspectives on this and ‘you had to be on one side or the other’ (ibid). Germany wanted the Bundesbank model but France wanted political direction of monetary policy. McCreevy took the German side in this argument, ‘not because central bankers make better decisions than politicians but because markets need consistency.’ (ibid).

In his view it was important that the Germans won out. The only mandate of the ECB is price stability (meaning inflation at or close to 2 per cent). He says he knows all the ECB presidents - Duisenberg, Trichet and Draghi – personally and they all believe in this mandate (ibid).

Asked if he thought it might not be wiser to change the remit of the ECB to require it to have regard to a broader range of economic conditions along the lines of the US Federal Reserve Board (FED)<sup>76</sup>, he replied:

‘Perhaps, but to change the remit (of the ECB) you would have to overcome the psyche of the German people. They have a deeply ingrained fear of inflation by virtue of their history.’<sup>77</sup> (ibid).

In the years following introduction of EMU Irish policy makers experienced some criticism from European colleagues on aspects of EMU. Charlie McCreevy’s fight with the Commission about budgetary policy and the Stability & Growth Pact in 2003 is a case in point. Bertie Ahern recalls getting a lot of grief from President

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<sup>76</sup> The ECB’s mandate is set out in Article 105 of the 1992 Treaty on the European Union (Maastricht). It is institutionally both narrow and exclusive. It sets the maintenance of price stability as the ‘primary objective’ of the ECB, and of no other body. Although the ECB must support ‘the general economic policies in the community’ its support must be without prejudice to the objective of price stability’. The plurality of goals means that the FED has to be prepared to work with others to coordinate policies and balance objectives (Taylor, 2000).

<sup>77</sup> Mark Blyth (2013:56) explains that contrary to what is commonly assumed, inflation in the 1920s was not in fact the result of a policy of monetary stimulus by German central bank and treasury trying to stave off a recession. The main cause was that World War 1 had been financed by debt rather than through taxes, which lowered post war exchange rates and made imports more expensive, which in turn fuelled inflation. A complementary factor was that the German government had an incentive to allow inflation to accelerate because it had the convenient effect of wiping out large amounts of government debt and stymied its ability to make war reparations payments to France.



Jospin of France about Ireland's policy bias towards low corporation tax, although he says that the others did not feel as strongly about it (interview, 13<sup>th</sup> January, 2012). On this topic Martin O'Donohue cautions that it is important to realise that the Germans always wanted parallel progress on fiscal union which is what brought in a common VAT structure. A common tax structure involving, in the case of corporation tax a common tax base as distinct from common rates, is their objective (interview, 22<sup>nd</sup> November, 2011). Charlie McCreevy's view is that the corporation tax issue – in respect of which Ireland is an outlier – will eventually be settled on the basis of the common consolidated tax base concept.

## Summary

In this section we have explained why Ireland's policy approach to EMU was characterised again by concerns about independence from the UK and yet worries too about Britain's non-participation. Policy was also influenced by earlier experience of currency volatility. Mainly, however, policy was characterised by a fear of not qualifying for membership and any caution there might have been was subordinated to this objective setting aside any attempt to influence the shape of this flagship project of EU integration.

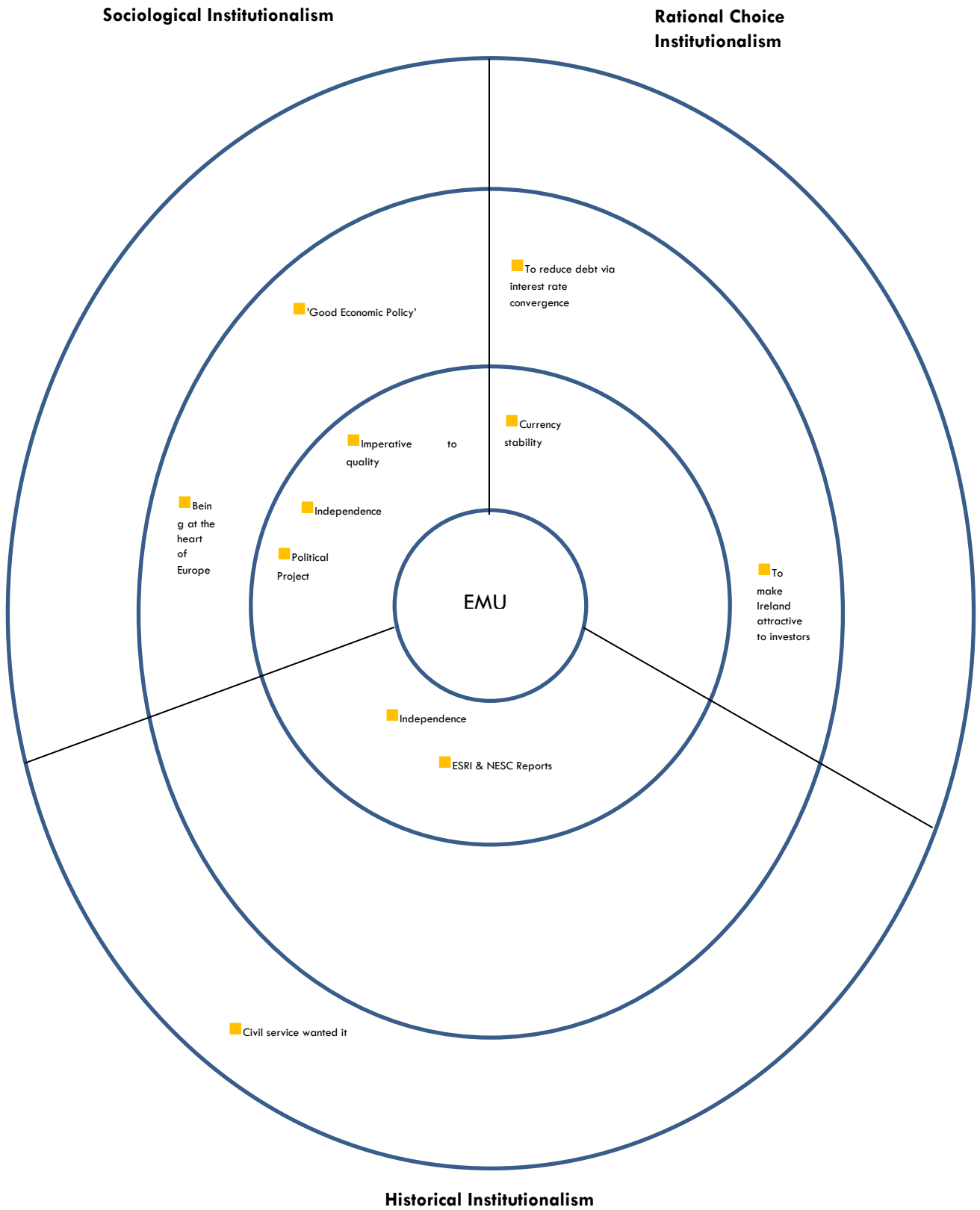
An exploration of the politics paradigm reveals some contrary evidence about the depth of knowledge of, or consideration given, to EMU. What seems clear is that there was a European bandwagon for it. This is hardly surprising given the political nature of the project and the urgency given to it by the imperative of creating a basis for everybody to live with the prospect of German reunification. Nevertheless, Irish politicians could have stood aside if they wanted to using uncertainty about British intentions as a justification for an opt-out similar to Denmark with their European partners. Another justification for a cautious approach would have been that while EMU has significantly limited the policy instruments available to all national governments the constraints on Ireland are particularly severe. As Smith (2005:157) points out, the Irish economy cycles out of phase with that of the EU due to its heavy dependence upon the UK and US. Currency devaluation would not be an option in the event of an asymmetric shock. Government would have to rely upon fiscal policy and labour market flexibility to adjust to shocks. But even these policies were

constrained under the terms of the Stability & Growth Pact which imposes a 3 per cent deficit limit on national budgets. Here was a major political conundrum; many politicians saw EMU as part of a process enhancing Ireland's independence from Britain but the factors outlined above, taken together, actually add up to a serious loss of economic independence. Interestingly, when the debate about EMU took place in Finland the Liberals under Matti Vanhanen (Prime Minister 2003-2011) argued against joining until the impact on at least one economic cycle could be evaluated (interview, 27<sup>th</sup> September, 2012). Nobody in Ireland's political mainstream seems to have argued that case. As John Bruton reflects, subsequent events point to 'an intellectual failure' in evaluation of the potential outcomes of policy decisions based on an absence of an adequate level of philosophical enquiry in elite circles (interview, 8 March, 2012). Either that or there was a lack of intellectual willingness to face up to what the historic break with the UK might mean or to the constraints and implications nationally of living in the Eurozone.

The institutional influences revealed by the application of the analytical model to the case of EMU can be depicted using the radar diagram in Figure 11 below.

Social Partnership was the cornerstone of public policy when EMU came into being. What were the expectations of how these two policy pillars would relate to each other? Was Social Partnership intended to be the transmission mechanism to the real economy of a neo-liberal EMU regime (Crouch, 2000; Regan, 2012) or was Social Partnership intended to look after distributional questions while government got on with the business of exploiting EMU to create growth and jobs (McCarthy interview, 2012, 4<sup>th</sup> February, 2010). Social policy generally and social pacts in particular are the focus of inquiry in the next section.

Figure 11: Radar Diagram outlining clusters of institutionalist influences on EMU decisions  
(strongest influences closest to the centre)



## Social Policy and Social Pacts

The Irish welfare system is characterised by a greater reliance on transfer payments than service provision. It is classified as a liberal welfare regime by virtue of relatively low levels of tax and public spending and a significant use of means testing (Hemerijck, 2013; O’Riain, forthcoming, 2014; NES, 2005).

Social policy evolution in Ireland has been hugely influenced by the European Union not least in respect of a system of Social Partnership which came into existence in 1987 and through which social policy was mediated. There are many claims to its parentage but it is not a coincidence that it followed hot on the heels of Delors’ 1986 institutionalising of social dialogue as part of the Single Market construct. Social Partnership is characterised in some of the literature as ‘competitive corporatism’ (Ornston, 2012; Hemerijck, 2013, Kirby, 2010). Yet this characterisation is contested (Adshead, 2006; Hardiman, 2006; O’Riain, forthcoming, 2014). Others see the Irish model as *sui generis* (Boucher and Collins, 2013, Hastings et al, 2007). Nevertheless, for twenty two years Social Partnership was a key component of governance – flexible network governance as it has been described (O’Donnell, 2008) – in the Irish context. What was distinctive about it was its reach across the range of public administrative activity and its inclusiveness in terms of the number of social actors engaged in it. It proved to be durable for a long time but ultimately not embedded. In this section the intention is to tease out why a model which was admired internationally was so contentious at home and to identify the influences on its ultimate unravelling.

Smith (2005:158) citing Teague (2000:1) argues that the European Union has a much stronger social dimension than any other regional trading bloc in terms of the directives it legislates for and the forms of social action it engenders amongst policy communities and labour market actors.

It is certainly true that the period from 1987 up to the onset of the 2008 recession was viewed very positively in Ireland in terms of social progress. On the eve of the recession the Institute of Public Administration (IPA) published a study with the upbeat title *Best of Times: The Social Impact of the Celtic Tiger*. In it a number of

respected academics reflected on what has been achieved – not just in regard to social progress indicators but on quality of life issues too. Fahy et al (2007) noted that economic growth had brought average income to among the highest in the world, although they also confirmed that Ireland had a high degree of income inequality by rich country standards, albeit that this was not exacerbated by the Celtic Tiger phase. They also concluded that the rising tide had lifted many boats. Delving more deeply into wealth distribution Brian Nolan and Bertrand Maitre (2007), using Gross National Income (GNI) as distinct from GDP, concurred that GNI per capita was well below the average for OECD countries in 1995 but exceeded that average by 2002. They deemed this to be a remarkable achievement in a very short space of time. They also agreed that Ireland had a high degree of economic inequality by comparison with the Scandinavian countries and the Netherlands. They drew attention to the low redistributive ‘effort’ as a long standing characteristic of Ireland’s welfare state.

The generally upbeat tone of this IPA publication does not resonate with an earlier assessment from the same organisation in which O’Riain and O’Connell (2000:310) characterise the Irish welfare state as a case of interrupted development which falls far short of the European model by virtue of its overall State and welfare spend as a percentage of GDP being closer to US than EU levels.

Sadly, these arguments were soon to become moot. Ireland was on the threshold of the worst recession since the 1930s.

In the 22 year period between 1987 and 2009 social policy in Ireland was mediated through a series of seven social pacts in a process known as Social Partnership. Smith (2005) sees this as being directly related to EU integration noting that:

‘One area in which the EU has played a “more subtle but more profound role” in Irish economic policy is that of Social Partnership. It has been an important element in EU social policy, evident for example in the Cologne process, which aims to coordinate economic policy and improve interaction between wage development and monetary, budgetary and fiscal policy through macro-economic dialogue. As the NESc notes, this has meant that national social partners have

been brought into “structured regular macro-economic policy dialogue” with the EU.’

(Smith, 2005:158).

However, some authors see the involvement of the EU as highly disingenuous in this context (Crouch, 2000; Regan, 2012). Essentially their argument is that the design of EMU is premised on the non-existence of trade unions – or at least their ineffectiveness – and the neo-classical assumption that labour markets operate in a perfectly competitive fashion. In this conception it is assumed that in the event of a macro-economic shock, and absent the facility to devalue the currency, the burden of adjustment will fall on labour markets. A reduction in labour costs is presumed to act as a functional equivalent to currency devaluation at a macro level. Crouch (2000) in particular draws on the work of Calmfors and Driffill (1988) in support of the proposition that neo-liberal orientation is at the heart of the architecture of the treaties of Maastricht and Amsterdam and the constitution of the European Central Bank (see also Hay, 2004; Donovan & Murphy, 2013).

Events since 2000 in the comparator countries which have seen something of a renaissance for social pacts would not seem to bear out Crouch’s analysis completely although there is evidence to support it in the way the Troika of EU/ECB/IMF have focussed on internal wage devaluation as the primary instrument of adjustment to the shock of the 2008 crisis. However, this theoretical conceptualising of what EMU means provides a useful ideological benchmark against which to judge Irish Social Partnership.

The only comprehensive history of Social Partnership is that of Hastings et al (2007). Interestingly, in the context just discussed, the most frequently used word and phrase in the book is ‘pragmatic’ and ‘non-ideological’. The impression given is that actors on all sides were anxious to avoid this kind of discussion.

The periodisation under review saw a total of seven social pacts negotiated as follows:

### **1987-1993**

- 1987-1990: The Programme for National Recovery (PNR)
- 1990-1993: The Programme for Economic and Social Progress (PESP)

### **1994-2001**

- 1994-1996: The Programme for Competitiveness and Work (PCW)
- 1997-1999: Partnership 2000
- 2000-2002: The Programme for Prosperity and Fairness (PPF)

### **2001-2008**

- 2003-2005: Sustaining Progress
- 2006-2008: Towards 2016<sup>78</sup>

Over the 22 years of its existence the Irish Social Partnership model evoked great external interest and many visitors from the worlds of business and labour came to see how it worked. A former General Secretary of the Irish Congress of Trade Unions (ICTU), Peter Cassells, described it this way:

‘It’s hard to explain to outsiders. If you try to explain it as just Social Partnership, it doesn’t add up. If you look at all the ingredients – the tax changes, Europe, inward investment, public service change and the young educated population – they were there before and it didn’t work. What Social Partnership did was make all of these ingredients work by bringing them all together.’ (cited in Hastings et al, 2007).

The peculiar nature of Irish politics, being principally built on competing forms of nationalism and no significant social democratic base, is key to understanding the *sui generis* version of neo-corporatism described above by Peter Cassells. The

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<sup>78</sup> ‘Towards 2016’ was actually intended to be a 10 year framework agreement with medium term social objectives. It was intended to negotiate pay terms every two years.

Fianna Fáil Party has always worked – and with some success – to secure trade union support, much to the chagrin of the Labour Party. This is all the more surprising given that the Labour Party was formed by the trade unions in 1912. Indeed until 1930 the Irish Trade Union Congress and Labour Party were one body. They separated by mutual consent because it was felt at the time that low levels of union membership would hold the party back (Morrissey, 2007). However, there were serious divisions within the labour movement in the 1940s and 1950s with Fianna Fáil being sympathetic to one side which may help to at least partially explain the relationship (Murray, 2009:80).<sup>79</sup>

Emmet O'Connor (2011) argues that the Labour Party didn't simply emerge in 1912: it was the product of an intellectual revolution in trade unionism, whipped up by James Larkin's syndicalism and republicanism. It was assumed at the time of formation of the party that trade unionists would vote Labour. When by 1923 that assumption was seen not to be well founded, another intellectual revolution was required. Continuing with the assumption that the unions would mobilise in pursuit of wage increases through collective bargaining in a voluntary system of industrial relations while the party would implement their political agenda via a Labour government was too simplistic. It failed to take account of the ambitions of Fianna Fáil. Fianna Fáil governments always had an agenda to reform industrial relations and in this respect their ambitions partly conflicted and partly converged with those of the unions. The simple fact was that Fianna Fáil in government could be more use to the unions than Labour in opposition. The effect was to drive the ITGWU and other Irish private sector unions towards Fianna Fáil, and induce a questioning of inherited assumptions about Labour-state relations which culminated in a serious division within the labour movement in the mid-1940s (see also Niamh Puirseil, 2012).

Suarez (2001) points out that the decision to move from import substitution industrialisation to export orientated industrialisation required a measure of labour control in order to attract foreign investment. The only options available to

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<sup>79</sup> A factor was also the personal friendship forged between William O'Brien of the ITGWU and Eamon de Valera, first leader of Fianna Fáil during and after the 1916 Rising. O'Brien was interned in Frongoch in Wales with members of the generation of leaders that would dominate Irish politics for most of the next half century.



government were coercion or co-option. For Fianna Fáil, which returned to government under Sean Lemass in 1959, co-option was the only policy consistent with its political objective to be seen as Ireland's 'real' Labour Party. This is an objective pursued to this day (interview with former Taoiseach Bertie Ahern on 13<sup>th</sup> January, 2012).

Thus it was that a process of centralised bargaining on wages began in 1959 and continued with six more agreements on wages up to 1970. There was a step change in 1970 with the establishment of the Employer-Labour Conference and government intervention in a National Wage Agreement which also brought trade unions into the public policy making process for the first time (Suarez, 2001).

It was also a period of some internal conflict for the trade union movement. The British based Amalgamated Transport and General Workers' Union (ATGWU) deeply resented the ITGWU signing single union agreements giving it monopoly representation with foreign multi-national companies setting up in Ireland (ICTU, 1982: 96-98). This tension exploded into a major industrial dispute in a Dutch factory named Ferenka making steel cord for tyres in Limerick. The immediate cause of the dispute was worker dissatisfaction with the terms of a collective agreement on employment conditions signed by the ITGWU as part of the recognition agreement with the company. A large percentage of the workforce joined another union, the Marine Port and General Workers' Union (MPGWU) which commenced industrial action to secure improvements. In the event Ferenka closed in 1977 with the loss of 1,400 jobs and this was largely blamed on the unions. The collateral damage to the trade union movement was not just reputational, Ferenka was a critical juncture after which it became increasingly difficult to organise MNCs not least because the IDA which had supported single union agreements withdrew that support (Paul Sweeney, Interview, 24<sup>th</sup> May, 2012).<sup>80</sup>

Six more wage agreements were reached in the period between 1972 and 1978 and there was a further incremental move in the direction of social pacts in the form of

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<sup>80</sup> While closure of the factory was popularly blamed on the unions the real reason was adverse trading conditions associated with developments in tyre manufacture which Ferenka was not equipped to respond to. I am indebted to Mr Laurance Crowley who provided accountancy services to the company for this information.

‘National Understandings’ in 1979 and 1980. While these agreements were more sophisticated they did not secure industrial peace, control inflation or create jobs. This was, of course, a very difficult period economically following on two oil crises (ibid).

During the 1980s Ireland experienced a long recession. There was a decrease in union membership and strike activity reflecting a weaker trade union movement. But the government’s problems were enormous too with unemployment at 18 per cent, high emigration and a debt to GDP ratio of 130 per cent.

### **National Government - Rational Actor Model/Rational Choice Institutionalism**

The circumstances leading to the negotiation of the Programme for National Recovery have been referred to in Chapter 3. Therefore, it is proposed only to focus here on what made the PNR a rational choice for all actors constrained by the institutional context of the EU at one level, and encouraged by the concept of social dialogue introduced two years earlier by Delors at another.

For the government led by Charles Haughey the idea of involving unions was consistent with his party’s long held ambition to be ‘The Real Labour Party’. He and his front bench spokespersons had put considerable time and effort into courting the unions in opposition.

A second imperative was the appalling state of the economy. The government led by Garret Fitzgerald of Fine Gael and his Labour colleagues had also toyed with the idea of trying to get an agreement. It was clear that something radical had to be done. But he could not really assimilate the idea of government sharing power and responsibility with the unions. Ruairi Quinn of Labour wanted such an agreement but could not carry the government with him. Haughey had no such inhibitions. Once he believed the trade unions were serious about sorting out the public finances he was willing to take a risk (Hastings et al, 2007).

And the trade unions were serious. They had to be. Unemployment at 18 per cent and rampant emigration was not only socially unacceptable, it was weakening the trade union movement too. Like Wim Kok and the Wassenaar Accord in the Netherlands they felt they had to take risks too. Moreover, there was a real fear that the influence of Thatcherism in the UK would take hold in Ireland with all that implied for trade unionism. The formation of the Progressive Democrat Party on a strong neo-liberal political platform heightened that fear<sup>81</sup>. A third consideration for the unions was that inflation and the size of the tax wedge was eroding the real value of pay increases. The then General Secretary of the Federated Workers Union of Ireland (FWUI), Bill Attley, recalls that people were 7 per cent worse off in real terms in the period from 1980 to 1987 notwithstanding what appeared to be high nominal pay settlements (cited in Hastings et al, 2007:111). Industrial relations as practiced at that time was a rough business. As late as 1979 postal workers were engaged in a six month strike over pay.

For the employers there was less pressure but things were still difficult. They pulled out of centralised bargaining in 1981 opting instead for enterprise and sectoral bargaining in some cases. Six years later they felt they had made some progress on their agenda of competitiveness. But while they had made progress there was still a distance to go and the economy was in dire straits. According to Hastings et al (2007) the decisive factor in securing the employers' support was a visit by the new Taoiseach to FUE headquarters in Baggot Street to meet the Executive Council. Two of the key players at the time give a more nuanced explanation.

Former Director General John Dunne said the employers' fear was that the government wanted a deal and they would end up paying for it. There was a lot of disenchantment with the 1981 National Understanding and resentment of earlier attempts by Haughey to bully them. A key problem (as in the Netherlands) was a union demand for a working time reduction of one hour. However, in a broader sense he personally felt that productivity was the key. He met privately to explain this to Peter Cassells of ICTU and to get him to understand the importance of credibility with employers. This conversation and Cassells' positive response – and

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<sup>81</sup> Although Hastings et al (2007) argued that there was never a real prospect of the PDs adopting a Thatcherite approach pointing out that the party leader, Mary Harney, was never hostile to Social Partnership.

ultimate delivery – was instrumental in removing the road block to the implementation of the 39 hour week. Not only that but it cemented trust for years afterwards (interview 16<sup>th</sup> December, 2012).

John Dunne's successor, Turlough O'Sullivan, recalls that working time reduction was very difficult and some people left IBEC over it. Taking on the competitiveness agenda and the subsequent establishment of the National Competitiveness Council were positive developments. Still he feels it took people a long time to make the connection between a productive economy and social progress. Exposure to Europe was very helpful in this regard. People realised from what they saw that a better society was possible through working together. Reflecting forward over the years he observed that:

‘In the end Social Partnership deals were getting too expensive but only a minority of employers objected. My principals (employer firm members of IBEC) wanted them and were prepared to pay for them.’

(Interview, 2<sup>nd</sup> February, 2012).

So in the end Social Partnership was the rational choice for all the main actors. In time it developed into a pillar system to accommodate the agriculture and community & voluntary sector. It was unique in terms of the wide range of participants and scope of its activities. In institutional terms it fitted the European social dialogue innovation and prompted some innovative thinking of its own that we will now discuss.

## **Capabilities and Practices of Institutions/Historical Institutionalism**

According to former Taoiseach Bertie Ahern the strong civil service advice given to the new government in 1987 was to stay away for any idea of a National Social Partnership Agreement. This advice was consistent with an institutional antipathy to

tripartism going back to the 1950s. Peter Murray (2009:43) recalls that in the context of Marshall Aid the US Economic Cooperation Administration (ECA) wanted government, employers, unions and other interests to work together to improve productivity. The Secretary of the Department of Industry and Commerce at the time rejected any labour involvement on the grounds that this might cause wages and conditions in certain industries to ‘get out of hand’. The path dependent endurance of this thinking is reflected in a recent paper on civil service reform wherein two former Assistant Secretaries in the Department of Transport mount a strong attack on Social Partnership and the role of the Department of the Taoiseach in facilitating it at the cost of diminished influence of the Department of Finance which they deprecate (Lumsden and Mangan, 2013: 156-157). Hostility to the Department of the Taoiseach in the context of Social Partnership is a function of the reality that its few individual champions within the system – Padraig O’hUiginn, Paddy Teahon, and Dermot McCarthy – happened to be successively Secretaries General of that department . O’hUiginn who was Secretary General in 1987 was close to the Taoiseach who initiated Social Partnership, Charles Haughey, and was a very powerful mandarin by virtue of that relationship (Hastings et al, 2007; Interview with Bertie Ahern, 13<sup>th</sup> January, 2012).

His arrival in the Department represented a subtle shift in the power structure at the cost of the Department of Finance. The latter remained critical of the Social Partnership process for its entire life span. John Dunne as Director General of IBEC was in an unusual position as a result. The norm in pay negotiations was for the private sector to lead but it did require an understanding between IBEC and the Department of Finance about objectives. He recalls that in the 1988-2000 period there was tension between individuals and confusion of roles. He had to conciliate between them to try to get a coherent employer position for the pay talks. According to him the Secretary General of the Department of Labour was once excluded from the talks (interview, 16<sup>th</sup> February, 2012).<sup>82</sup>

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<sup>82</sup> It is worth noting that what is described here represents an extraordinarily high level of coordinating responsibility being devolved to private sector employers which resonates with Hall and Soskice’s (2001) perspective of the role of the firm in Varieties of Capitalism

Labour market institutions have been created and altered to support the maintenance of the social pacts. Existing institutions like the Labour Court and Labour Relations Commission changed their standard operating procedures to better serve the needs of the new regime. For example, the Labour Relations Commission has from time to time appointed external assessors or auditors to validate claims made by contesting parties. The Labour Court has publicly stated that its judgements will be confined to the parameters set by the social pacts. A new body, the National Implementation Body, was established to police compliance with the terms of the pacts and put in place a new set of standard operating procedures for the duration of its existence until 2009. It was strongly interventionist, particularly relating to the resolution of industrial disputes. Its membership was composed of the Secretary General of the Taoiseach's Department together with the Director General of IBEC and General Secretary of ICTU (Hastings et al, 2007). Similarly the National Employment Rights Authority (NERA) was established through Social Partnership to ensure compliance with employment rights. The National Competitiveness Council was also a project of Social Partnership.

Within the trade union movement the constitution of ICTU was changed to restrict voting on social pact issues to unions with members within the Republic of Ireland. Where such issues are to be debated, a Special Delegate Conference, confined to ROI delegates, must be convened. This is certainly unique within Europe because ICTU is the only trade union centre spanning two jurisdictions. This change was necessitated to prevent delegates from Northern Ireland voting, perhaps for reasons of internal politics, against a social pact. Should a vote be lost in these circumstances it would cause serious problems (ibid).

There is a reason to doubt that there ever was 'an ideology of Social Partnership' in Ireland. Hastings et al (2007) emphasised the pragmatic nature of the Irish model and interviews for this research confirm that from the perspective of government and employers although some in the trade union movement saw it as an opportunity to build social democracy without the political base to complement it (ICTU, 2013). In this respect Ireland is *sui generis* because social democracy never got a strong foothold in Ireland. The 'two and a half party' system in which Labour is often in the unenviable position of supporting coalition government but never able to lead it,

contrasts with the multiparty systems of the other comparator countries where the Social Democrats have better possibilities to head a government. This makes for difficult conditions for the trade unions in Ireland. They can never make an agreement which has a long term wage moderation/social wage exchange in the sure and certain knowledge that the political system will deliver. Without that certainty it has been difficult at times to contain internal wage pressure. At the ICTU Conference in 2001 tensions emerged in public with teachers' unions wanting to pursue special wage claims. Des Geraghty, President of the largest ICTU affiliated union, SIPTU, rounded on teachers for their lack of a broad vision in the following terms:

'You don't live on the moon. Don't expect that private sector workers are going to sit back and see you going in for your special, and your other special, and your other special, plus the other national agreements and say, "that's grand, we didn't notice".....survival into the next millennium is entirely dependent on our ability to manage success effectively....we mustn't take our eye off the ball of the social wage...if we descent into mere sectionalism, if we descend into the worst form of dog-eat-dog capitalism, because that is what it is about, the strong will succeed and the poor will go to the wall.'

(Cited in Hardiman, 2000:296)

One institutional issue which has caused tensions in relations between unions and employers, and to a lesser extent between unions and government, is the absence of a legal right to collective bargaining. This has been part of the trade union agenda since 1913.

Emmet O'Connor (2011: 250-251) observes that it is difficult to be definitive on the impact of social partnership on trade union militancy. Strike activity fell under both free collective bargaining and centralised bargaining. This was an international trend as was declining union density. Union membership reached a low of 475,000 by 1990, thereafter it rose steadily as the numbers at work increased reaching a peak of 843,995 in 2008 before declining to 768,991 in 2013. In the EU as a whole

approximately half of all employees were unionised in 1991, but this ratio had declined to one in three by 2010 (ETUI, 2014: 79; ICTU, 2014).

Where the Social Partnership process has been most innovative, however, has been in the pillar structure which facilitated participation by a wide range of civil society organisations. This was more or less imposed on the social partners by government in 1996<sup>83</sup>. Quite a few of the people interviewed felt that in retrospect this was a mistake because it made the process too unwieldy.

At an academic level there is a debate about the nature of the Irish model. Following Crouch (2000), Regan (2012) charges that Irish Social Partnership legitimised an Irish neo-liberal model of development favoured by the architects of EMU. He argues specifically that the legal and institutional framework of collective bargaining is the most important variable in accounting for the diversity of responses to the economic crisis across Europe. His case is that the Irish liberal market economy model leaves Ireland uniquely vulnerable to internalising the macro-economic shock affecting EMU via an internal wage devaluation. This is because its system of industrial relations allows conflict to be mediated through state conciliation machinery even though the national consensus based approach to pay bargaining and socio-economic policy has collapsed. Regan (ibid) fails to understand the subtleties of the countertendencies to a pure LME even after the onset of the crisis. In the first case a wage devaluation did not happen across the economy. It happened in some sectors – the public service and construction for example – but by negotiation. A case can be made that, even in its debilitated state, the Irish model was capable of protecting workers as well or better than in some of the other peripheral countries (see Bergin et al 2013).

Nevertheless the circumstances under which the government moved a second time within the space of four years to retrench the cost of public service provision caused deep resentment amongst its employees and serious divisions between the public service unions. In fact the ‘Haddington Road Agreement’ was actually a series of

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<sup>83</sup> According to Willie Scally, former Economic Advisor to Tánaiste, Dick Spring, Labour made an input to the 1993 Programme for Government expanding Social Partnership to include wider societal representative groups. This was done initially by creating the National Economic and Social Forum (NESF) to parallel NESC. The Community & Voluntary groups eventually joined as full partners in 1996.



bilateral agreements between individual public service unions and the government as the Public Services Committee of ICTU was not able to agree on a collective position. Just as in the Netherlands when governments on a number of occasions tried to cast ‘the shadow of hierarchy’ over wage negotiations (see pages 83,84 and 133) to coerce social actors into settlements the Irish government presented the public sector unions with a kind of ‘Hobson’s Choice’. The Financial Emergency Measures in the Public Interest Bill 2013 (FEMPI) provided for the implementation of pay reductions for staff earning over €65,000 per annum, reduction in pensions and suspension of incremental progression for all public servants for three years unless they were covered by a collective agreement modifying the terms of the Bill. For the unions it was a case of damage limitation.

Michael Doherty (2011) considers that the ramifications of the 2008 crisis exposed basic flaws in the Irish social partnership model:

‘To some extent the process generated its own momentum; as long as the tune of economic growth and employment creation was playing, the participants (whether music-lovers or not!) seemed unwilling to get off the dance-floor for fear of being left, lonely, at the margins. However, when the band stopped playing, the weakness of the “deliberate governance” aspect of partnership was demonstrated. While deliberation and problem-solving became ingrained in the partnership process, “hard” decision making policy implementation remained centralised and ultimately, subject to government whim’.

Doherty, 2011: 371-385)

Bill Roche (2011) takes the view that it might have been possible to save social partnership via concession bargaining in 2009, as in many micro-economies of firms severely affected by the recession, were it not for the effects of other influences, not least the social partners’ inability to reach agreement on an economic recovery strategy. His conclusion is that the collapse of social partnership can be attributed to the interaction of a series of influences that individually or severally might not have proven fatal but that in combination were lethal in their effects.

Ornston (2009) compares models of corporatism in different countries. He considers the Irish model, and that of the Netherlands, to be 'competitive corporatism' aimed at securing macro-economic stabilisation, wage restraint and market orientated reform. Denmark and Finland dismantled 'core conservative corporatist' bargaining over the course of the 1980s and 1990s and moved to a mode of 'creative corporatism'. The 1982 Wassenaar Accord in the Netherlands was a prototype competitive corporatist bargain, born out of dire economic conditions and is strikingly similar to the 1987 Programme for National Recovery in Ireland. The main difference with creative corporatism would appear to be investment in supply side measures such as active labour market programmes with a view to driving high technology expansion. A critical factor is also influencing sources of investment funding to support industrial objectives. Ornston (ibid) identifies three conditions for neo-corporatist adjustment viz: crisis, coalition building, and a tradition of cooperation. Crisis and coalition building led competitive corporatism while creative corporatism requires all three. He notes that moves towards creative corporatism was perhaps most limited in Ireland and the reason is easy to discern within the parameters of his definition. As Hastings et al (2007) point out it was never possible to roll out Social Partnership extensively at enterprise or sectoral level despite establishing the National Centre for Partnership and Performance for this precise purpose (although there have been some successes and work organisation has evolved within the economy). Unlike the other countries examined in this research there is not an embedded practice of engagement at a local level in Irish industry. Doherty (2011) refers to the lopsided nature of social partnership whereby cooperation at national level was never underpinned by a code of rights to guarantee social partnership engagement at enterprise level. Murray (2009) draws attention to the reluctance of business to engage with unions at local level epitomised by its killing off of proposals for tripartite industry specific Development Councils in the 1940s and 1960s.

Adshead (2006) takes a more cautious approach to pigeon holing Social Partnership as 'competitive corporatism'. She says that if you accept the four pillar structure – business, unions, farmers and community and voluntary – at face value, then Social Partnership is self-evidently neither pure corporatism, neo-corporatism, nor competitive corporatism. She observes that current institutional set ups would

suggest that there is more to Social Partnership than can be explained by and of these approaches. She continues:

‘On the other hand, if you are more discriminating about the evidence you select and point to the existence of a long-term well-established policy community, establishing a clear consensus between three major interests – government, business, unions (and agriculture) – then you might be equally swayed by neo-corporatism or competitive corporatist definitions. In doing so, you will however, be implicitly confirming that the status and conditions of the fourth pillar does not warrant attention.’

(Adshead, 2006:333).

There were in fact tensions within the Community and Voluntary Pillar of social partnership in the early 2000s. One section comprised of organisations under umbrella group of Community Platform argued that their concerns were treated as a ‘residual category’ in the course of the talks and they subsequently left the process (Hardiman, 2000). Doherty (2011) and Larragy (2006) are both persuaded that there was a hierarchy of partners within which the Community and Voluntary Pillar were subordinate in bargaining power terms. This is probably true but perhaps to a lesser extent than might be imagined. Hardiman (2000:302) points out that governments wanted the inclusion of the sector because their support increased the perceived legitimacy of the social partnership agreements.

O’Riain (forthcoming, 2014) is also sceptical about the competitive corporatism argument. He observes that many of the elements identified by Ornston (2012) as defining creative corporatism in Finland and Denmark were also present in Ireland. He argues that, especially in the 1990s, there were initiatives to broaden the reach and scope of social partners participating in the development of local area partnerships, policy committees addressing a variety of social issues, and significant expansion of public sector employment. At an industrial level the state intervened to provide venture capital, fund research and development and support other elements of the innovation system. These economic and social developments were made possible through the availability of EU structural funds, which provided not just

capital, but also the institutional space to let them happen. According to O’Riain (ibid) Irish corporatism followed a different trajectory from the classic European manifestation by first negotiating social pacts and then building new governance capabilities around and through these pacts. In effect these were the institutions of a developmental welfare state but they coexisted with, rather than replaced, the existing dominant policy system. The following metaphor graphically summarises this particular characterisation of Irish Social Partnership:

‘If the pacts were paving stones on a particular pathway to the future, the pacts were also building the machines that would cut and lay those stones – sometimes after the stones themselves had been laid.’

O’Riain (forthcoming, 1014:163).

With respect to the academic discourse about the variants of corporatism the following table seeks to capture the degree to which elements of ‘Creative Corporatism’ were present in each country case study.

**Table 36: Key indicators of types of corporatism in selected European economies, late 1990s and mid-2000s**

		Ireland		Denmark/ Finland		Austria/ Belgium		UK	
		Late 90s	Mid-2000s	Late 90s	Mid-2000s	Late 90s	Mid-2000s	Late 90s	Mid-2000s
<b>Risk Capital</b>									
<b>Business</b>	Early Stage Venture Capital (% of GDP)	5.2	2.0	6.7	4.5	4.4	1.2	4.7	8.7
<b>Public</b>	Sectoral Aid (% of GDP)	.69	.19	.81	.55	.37	.13	.18	.08
<b>Active Labour Market Supports</b>									
<b>Business</b>	% of Labour Costs spent on Training	2.4	2.2	2.7	2.1	1.5	1.5	3.6	1.3
<b>Public</b>	Spending on Active Labour Market Policies (% of GDP)	0.95	0.53	1.35	1.04	0.67	0.67	0.09	0.05
<b>R&amp;D</b>									
<b>Business</b>	Business Funded R&D	.82	.70	1.48	1.93	1.31	1.72	.86	.74
<b>Public</b>	Government Funded R&D	.29	.38	.78	.79	.79	.84	.55	.56

Dates:

Venture Capital, 1998-2001 and 2003-2006

Training, 1999 and 2005

Active Labour Market Policy, Sectoral Aid, R&D: 1996-99 and 2003-2006

Sources: O'Riain, (forthcoming, 2014:168)

For comparison purposes it is worthy of note that Denmark, Finland and Ireland were quite similar in relation to the provision of risk capital in the 1990s. This was driven by state intervention as were supports for training. Sean O'Riain (forthcoming, 2014) observes that this is impressive because the use of GDP in Ireland's case conceals a higher input due to a gap between GDP and GNP of the order of 18-20 per cent. He concludes that in the 1990s Ireland's Social Partnership model could be identified with the 'creative corporatist' economies in terms of provision of risk capital and training and active labour market supports. However,

he discerns a diminution of this effort in the 2000s except in relation to R&D where the state concentrated its resources during the period. While Denmark and Finland also did less, Ireland's shift from developmentalism to financialisation, and associated inputs, was particularly egregious. Specifically, in the areas of risk capital and labour market policy, Ireland fell well behind Denmark and Finland. O'Riain's (ibid) overall verdict is that Irish corporatism is characterised by surprising if hidden progress in the 1990s but this progress was eroded in the 2000s. He is critical of Ornston (2012) for failing to discriminate between these two periods in his analysis.

Hardiman (2006) concedes that the Irish model of Social Partnership does bear some resemblance to competitive corporatism but she argues that the institutional framework and the relationship between actors is country specific. In her perspective Social Partnership became intricately involved with obligations incurred at EU level and is best understood as constituting a new model of flexible network governance. It became more firmly embedded into the political process than its role in shaping pay trends might indicate.

The central player in the process from the late 1990s was Dermot McCarthy, Secretary General of the Department of the Taoiseach. He says that Social Partnership was constantly challenged within the system although nothing else was. Ministers were never happy because Social Partnership limited their scope to claim bold initiatives (interview, 28<sup>th</sup> November, 2011). A strong antipathy to social partnership and to the public sector in particular, is an embedded feature of the Irish print media. An example of this is the way that a perfectly rational proposal for 12 days unpaid leave – a form of work sharing which is a fairly standard approach to addressing commercial difficulties in the private sector – proposed by public sector unions in 2009 was rubbished by the media (Cawley, 2012; Doherty, 2011; Roche, 2011). Unfortunately, unions have on occasion given the media hostages to fortune as in the case of revelations about foreign junkets by union officials and public servants under a local level partnership training initiative sponsored by the Health Services Executive (HSE).

In an historical context perhaps the most insightful observation belongs to the President of SIPTU, Jack O'Connor, who described the collapse of social

partnership in December, 2009 as the end of a contract between Fianna Fáil and the unions that began in 1942 (cited in O'Connor, 2011: 293).

## **The Politics Paradigm/Sociological Institutionalism**

Although the Irish model of Social Partnership had distinctive features – particularly in respect of its wide scope and inclusiveness of a wide range of social actors – it was anchored in Jacques Delors' concept of social dialogue as a sort of social policy counterbalance to the negative integration pressures of EU integration (Delors, 1988). At a minimum the Irish government would have had to provide a range of fora for consulting the 'Social Partners' on aspects of EU policy including directives relating to employment conditions. For the twenty-two years of its existence Social Partnership was a cornerstone of Irish policy. Although it was constantly sniped at by commentators and some politicians it was never seriously challenged politically until the end. According to Dermot McCarthy Social Partnership was seen as settling the distributional questions leaving government free to concentrate on growing the economy (interview, 28<sup>th</sup> November, 2012).

John Dunne, former Director General of IBEC, recalls that when government changed in 1994 the new Taoiseach, John Bruton, was opposed to Social Partnership. He was initially surprised that employers would favour it but John Dunne convinced him of its merits such that he became a supporter and worked it well (interview, 16<sup>th</sup> February, 2012). John Bruton explained his change of mind in this way:

‘My view would be that policy should be made in the Dáil and not outside the Dáil with people who haven't been directly elected. But I think, with the benefit of hindsight, we can see that, in any event, policy isn't actually made in the Dáil. In the Irish system the government makes policy and the Dáil approves it, or disapproves it, and if it disapproves it there is a general election.’

(Cited in Hastings et al, 2007:205).

Former Finance Minister and EU Commissioner, Charlie McCreevy, is often perceived to be on the centre right of politics and assumed to be an opponent of Social Partnership. This is not the case. In fact he was a strong defender of the model and of public service pay benchmarking, one of its more controversial outcomes:

‘I was in favour of Social Partnership because I liked the people involved and because it worked. Benchmarking was one of the best things we did because it avoided leapfrogging pay claims, a feature of the old Conciliation and Arbitration Scheme.’<sup>84</sup> (Interview, 7<sup>th</sup> June, 2012).

Former ICTU President Peter McLoone is not convinced about Fianna Fáil’s commitment. He feels that they were all in favour of Social Partnership as long as it suited their agenda. With hindsight he recalls that the Secretary General of the Department of Finance used to turn up at NESC meetings occasionally to impart the message that there should be no tilting at low tax, FDI and light touch regulation: “We thought we were active within a consensus but we weren’t really.”

(Interview, 25<sup>th</sup> January, 2012).

Crucial tensions which arose within the rainbow coalition government of 1994-1996 concerning the negotiations of the *Programme for Competitiveness and Work* are recorded by the then Finance Minister, Ruairi Quinn. He was involved in crucial Ecofin discussions concerning the single currency when he received a call from Tánaiste, Dick Spring, explaining that the government had received a virtual ultimatum from the union side about accepting the current pay claim. He recalls his reaction:

‘We had been resisting, in Finance, the scale of the pay demands coming from the unions. I was looking for public sector productivity improvements and other economies to ensure that we would continue to meet the criteria for membership

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<sup>84</sup> The Conciliation and Arbitration Scheme for the public service was established by a Fine Gael Finance Minister, Gerard Sweetman in 1958. By the 1990s it had become seriously dysfunctional as a system of pay determination due to a propensity to fix pay mainly on internal public service grade relativities with only a small number of comparisons with the private sector. The problem is well described in Hastings et al (2007: Chapter 6).



of the single currency and to maintain budgetary discipline, especially with regard to public service pay....I was being gazumped and bushwhacked right at the time of the critical discussions which were going on at Ecofin. Despite being furious with Dick, I also knew I was powerless. The Taoiseach and Tánaiste had agreed to the pay deal.’

(Quinn, 2005:363-363).

Richard Bruton of Fine Gael, also a Minister in that government, says that Fine Gael was an outsider and a critic of Social Partnership but nevertheless worked it well in government. His critique of Social Partnership would be that it failed to develop broader political underpinnings. Indeed he developed this point in a speech to Dáil Eireann on 5<sup>th</sup> July, 2006 as recorded in Hardiman (2006:368). In effect this critique has as its core point the ‘supremacy of politics’ argument, a theme which arises from time to time in the comparator countries too. Another criticism voiced by Richard Bruton is that Social Partnership failed to take on the agenda of public sector reform citing FÁS as a case in point<sup>85</sup> (interview, 10 May, 2012).

Social Partnership seems to have caused less tension within the Fianna Fáil/Progressive Democrat coalition government which followed in 1997. Bertie Ahern, former Taoiseach, said of it:

‘O’Malley (Desmond, Leader of PDs) didn’t believe in it (Social Partnership) but he let me off to do it.’

(Interview, 13 January, 2012).

In fact, as Hastings et al (2007:74) record, in the run up to the general election of June, 1997, all of the mainstream political parties issued statements backing Social Partnership. It was a remarkable convergence, almost ten years after the PNR was roundly condemned in the Dáil by Fine Gael and Labour. Hastings et al (ibid) infer that the criticism may have been as much directed at the then Taoiseach, Charles Haughey, as against the social pact itself. Nevertheless, within a similar space of time the wheel was to turn full circle only this time it was Fianna Fáil backbenchers

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<sup>85</sup> Management practices around foreign travel and other matters at the State training agency became publicly controversial in 2010 resulting in the demise of the agency and reallocation of its functions.

who brought down Social Partnership. In December, 2009 in the teeth of a major fiscal and banking crisis the government led by Brian Cowan resiled from the terms of the then current agreement '*Towards 2016*'. An alternative public sector cost saving agreement was negotiated but Cowen was unable to deliver it with his party. Partly this was through a misunderstanding of the terms of the putative agreement hyped up by elements of the media. Essentially, the union side had proposed saving money by taking unpaid leave, but this was represented as seeking extra holidays (Roche, 2011). Ironically a not dissimilar agreement – known as the 'Croke Park Agreement' – was negotiated with the public sector unions some months later. But by this time it was too late to save Social Partnership. The employers had by then, albeit reluctantly, resiled too. The unions were able to retrieve some ground with the new government elected in 2010 in specific areas like restoration of minimum wage cuts. But still the demise of Social Partnership heralded a series of opportunistic legal attacks upon labour market institutions, some of which were established during the Social Partnership era, but some which even predated it. This litigation was perhaps also encouraged by the hostility of the Supreme Court to union recognition rights reflected in a judgement which struck down a Labour Court Recommendation in favour of pilots in a case taken against Ryanair in 2007. It had all the hallmarks of a Polanyian double movement except that it was the employers rolling back trade union gains.

## **Summary**

In this section we have analysed the conflicting perspectives on the nature of the Irish Social Partnership model. Dermot McCarthy explains that it was integral to the national strategy of adjustment to EMU insofar as it was a mechanism for handling distributional issues. This is consistent with Smith's (2005) view that Social Partnership was key to the Cologne process for improving coordination of economic policy and improving the interaction between wage development and monetary, budgetary and fiscal policy through macro-economic dialogue within the EU. Regan (2012) shares this perspective to an extent except that his assessment is that Social Partnership was mediating a neo-liberal implementation of EMU. He is firmly in the 'competitive corporatism' camp with Ornston (2012) and others. Those who have a

more benign take on Social Partnership like O'Donnell (2008) who regard it as having advanced an experiment in flexible network governance, or Hastings et al (2007) who extol its pragmatic orientation, tend to point to its long record of success being central to providing the stability for the most sustained period of economic and social progress in Ireland's history. In the end the model turned out not to be sufficiently embedded to survive the 2008 crisis. Overall the literature on Social Partnership is not as well developed as the literature on democratic corporatism in the comparator countries (for example, Becker, 2011; Boss, 2010 (a); Campbell and Hall, 2006; Campbell and Pedersen, 2006; Katzenstein, 1985; Mjoset, 2011; Visser and Van der Meer, 2011).

The problem with the academic treatment of social pacts in Ireland is to either over intellectualise the process (Ornston, 2012; Regan, 2012) or to reduce it to pure pragmatism with no ideological context at all (Hastings et al, 2007). The reality is that different actors had different objectives as this section has revealed. Sean O'Riain gets closest to the truth in a forthcoming publication (2014) when he observes that, at least in the 1990s, many of the attributes of 'creative corporatism' identified in Finland and Denmark by Ornston (2012) were also present in Ireland particularly in relation to State support for dynamic adjustment among firms and for venture capital, research and development and other elements of the innovation system. In his summation it is best to understand Irish corporatism as the product of competing tendencies towards competitive and creative corporatism. However, O'Riain (ibid) also asserts that Social Partnership was 'hollowed out' in the 2000s but the evidence for this is less convincing. For example, in the matter of social investment Hemerijck (2013:381) argues for a life-cycle approach as the most adequate framework for achieving it. He holds that it is desirable to distinguish between different life-cycle cohorts – children, young adults, people of working age, pensioners and people are reliant on care, while asking what combination of social services, income support, and enabling regulation is necessary to achieve better social protection and promotion, and through what governance methods. The last of the Social Partnership agreements, *Towards 2016*, provided exactly this framework. It was arguably the closest Ireland has come to delivering a social democratic programme. While it is clear from the interview evidence that many people did not approve of such far reaching intervention in the policy arena, and that some believe

the electorate to be conservative on social policy, it was equally a trade union ambition to build a social democratic polity in Ireland within which all governments would have to govern (ICTU, 2013). In this objective they were seeking to emulate the accomplishments of the Nordic labour movement. They might have succeeded too but for the shock and speed of onset of the 2008 crisis. *Towards 2016* was perhaps too ambitious an undertaking for an institution not sufficiently deeply embedded to withstand the financial storm. This is not to deny O’Riain’s (forthcoming, 2014) argument that broader public policy in the 2000s moved away from the developmentalism which characterised the 1990s.

In 2013 Social Partnership occupies a sort of ‘undead’ status. The events of December 2009, together with a negative media retrospective which blames Social Partnership as a contributory factor to the unwinding of the Celtic Tiger (Cawley, 2011; Roche, 2011), and a natural antipathy in Fine Gael and a certain reserve in Labour, means that Social Partnership dare not speak its name. Yet everybody speaks enthusiastically of ‘Social Dialogue’ and the Croke Park Agreement between the government as employer and the Public Service Committee of the Irish Congress of Trade Unions is seen as being vital to economic recovery and is really a kind of sectoral Social Partnership. Otherwise, tentative discussions have taken place about re-creating the National Implementation Body in another format and even about the possibility of a legal right to collective bargaining. Countertendencies to a pure liberal market economy model have weakened but are not completely extinguished.

As Crouch suggests there may be something of a Sisyphus<sup>86</sup> dimension to this question.

‘Something about labour markets in many European countries seems to destine their major participants to keep returning to the task of constructing neo-corporatist agreements even though just as the tiring work seems almost complete something goes wrong and it crashes again.’ (Crouch 200:212).

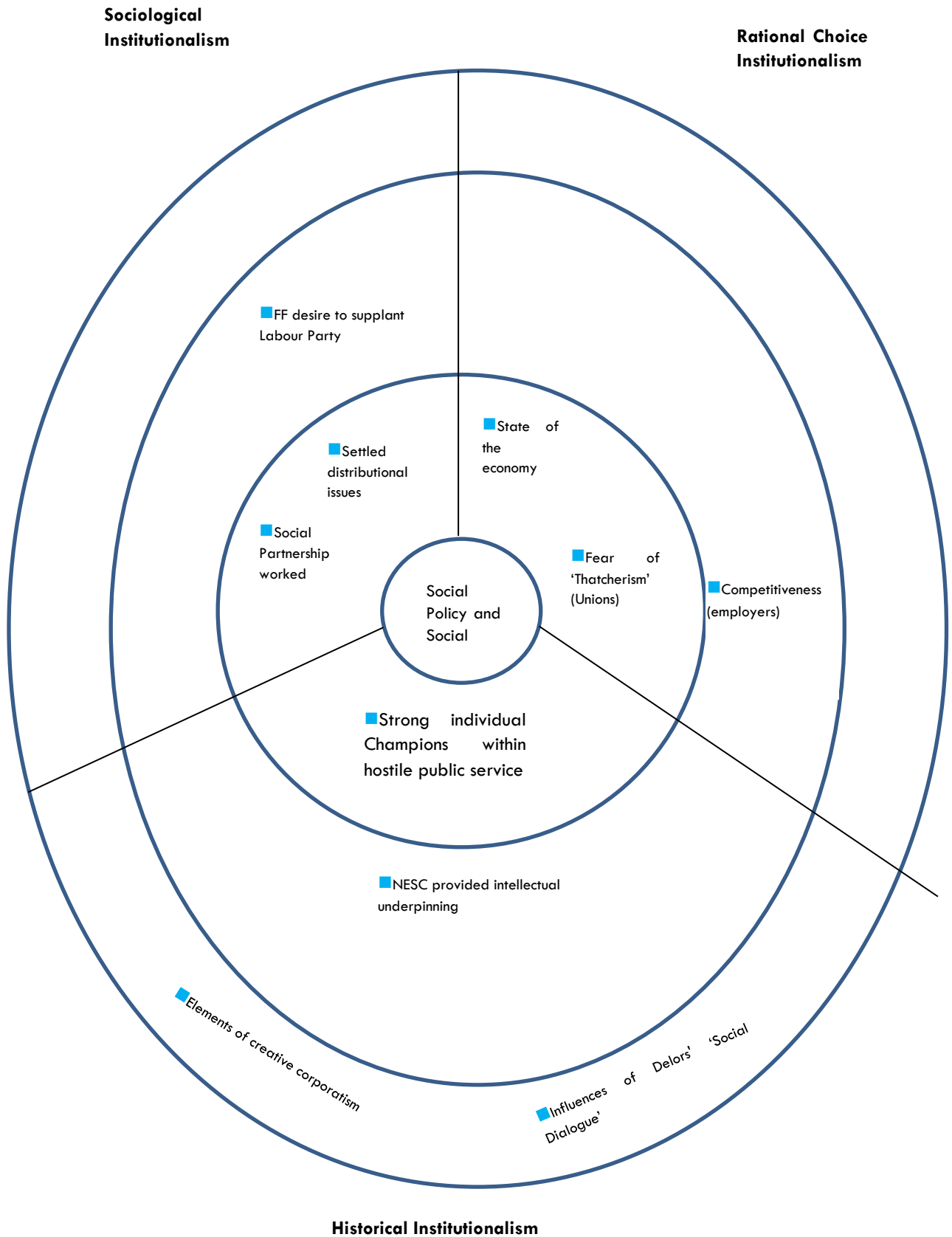
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<sup>86</sup>A figure in Greek mythology who kept pushing a huge rock up a cliff only to have it fall down on him again and again.

This he points out, may be because of the impossibility of the opposite task of achieving pure free labour markets and the refusal of neo-corporatist policy attempts to obey predictions of their final demise. This is especially true of the Irish case. The opponents of Social Partnership have offered no credible alternative outside a free market context. The truth is that large sections of the political class, the public service elite and the media never bought in to it or understood what it was about. Its main supporters were amongst institutions like NESC, employers, unions, individual senior civil servants and politicians. In these circumstances what Social Partnership achieved in Ireland was significant.

The institutionalist influences revealed by the application of the analytical model in the case of social pacts can be depicted using the radar diagram in Figure 12.

Figure 12: Radar Diagram depicting clusters of institutionalist influences on social policy and social pacts (strongest influences closest to the centre)



## **The Influence of Ideas – Ideational/Discursive Institutionalism**

John Maynard Keynes once famously wrote that; ‘It is ideas, not vested interests, which are dangerous for good or evil’ (Keynes, 1936:333). Colin Hay (2002:205) notes that the role accorded to ideas in political analysis is highly contested and tends to reflect assumptions about the role of theory, the value of parsimony and whether ideas should be accorded a causal role independent of material factors or not. Later (ibid:257) he argues that what differentiates social and political systems from the natural sciences is the capability of reflective actors to shape the environment in which they find themselves. Therefore, the ideas actors hold about that environment should be accorded an independent role in political analysis. Hay describes this as ideational institutionalism while Schmidt (2006:109) uses the term discursive institutionalism. In this research the influence of ideas is considered in an overarching way to seek out any causal role they may have had in any of the material decisions made by policymakers.

As detailed in Chapter 4, Smith (2005: Chapter 7) points to the significant role that ideas have played in Irish policy making. She singles out in particular the idea amongst the elite of achieving economic independence from Britain and later in 1986 the role played by NESC in creating an intellectual platform for social partnership. Independence was the principal motivation behind the economic nationalism of Fianna Fáil and its purpose was stated as being ‘the reuniting of the Irish people through measures such as the making of Ireland as an economic unit, as self-contained and self-sufficient as possible’ (ibid, 168). Above all the priority was to achieve economic independence from Britain. It is clear from all the interviews conducted for this research that was still the main reason for joining the EU.

However, insights offered by Professor Martin O’Donohoe (interview 22<sup>nd</sup> November, 2011) suggests that there were more complex ideas about independence and EU membership influencing the thinking of former Taoiseach, Jack Lynch. He saw EU membership as a way of avoiding ‘the Republican trap of the North’ meaning that it was a way of turning Ireland away from an enduring and sterile obsession with the so called ‘National Question’ of independence. In other words it

was a way of rendering paramilitary conflict in Northern Ireland meaningless if Britain and Ireland were both part of a new political construction in Europe.

Smith (ibid, 175) observes that globalisation is considered a further opportunity to independence but also one that ultimately constrains policy choices. Ireland is presented as having flourished under conditions of globalisation but must accept certain non-negotiable external economic constraints, mainly an imperative towards competitiveness. Discourses on European integration are conducted in a similar vein. The very perception that Ireland is competing on global markets has played a powerful role in driving a shift towards prioritising economic competitiveness. Nevertheless, she emphasises that this is not the same as driving the country towards neo-liberalism. Indeed, O’Sullivan (2006) argues that a great part of Irish society is untouched by globalisation, not least in the relative underdevelopment of its physical and social infrastructure.

In a speech to the American Bar Association on 21<sup>st</sup> July, 2000 the Tánaiste (Deputy Prime Minister of Ireland), Mary Harney, said:

‘As Irish people our relationship with the United States and the European Union are complex. Geographically we are closer to Berlin than Boston. Spiritually we are probably a lot closer to Boston than Berlin.’

(Harney, 2000)

These remarks subsequently became quite controversial in public discourse because they zeroed in on a fault line in Irish foreign policy, specifically the meaning of being a ‘multi-interface periphery’ (Ruane , 2010). In other words, is Ireland closer ‘spiritually’ to the ideal concept of a liberal market economy or, alternatively, does it identify with the concept of a European social market economy? Mary Harney was nailing her colours firmly to the mast of the former. This reflects a characteristic of public policy identified by a number of people interviewed for this research (Gray, O’Driscoll) which is that Irish government agencies are disproportionately focussed on the American MNCs. It is an idea that comes to the fore also in the argument about the characterisation of Ireland as a developmental network state (O’Riain,



2004) or a competition state (Kirby, 2010). As leader of the Liberal Progressive Democratic Party, Mary Harney was often seen as the embodiment of neo-liberalism in Ireland. However, Ruth Barrington (interview 9<sup>th</sup> January, 2012) opines that the speech was in fact written by the Secretary General of the Department of Jobs, Enterprise and Innovation, Paul Harron, reflecting a reality that European funding opportunities had begun to dry up and the EU was not a cow to be milked anymore. Either way the speech, coming on the eve of the introduction of the Euro, suggests at the very least a deep ambivalence about European integration, although strangely not embedded in any justifiable concerns about the functioning of the project. Moreover, it reinforced a particular perspective of industrial development as being orientated towards the American liberal market model arguably militating against Enterprise Ireland being able to develop an independent narrative for its mission to develop indigenous industry (O’Riain, 2008). This is all the more incongruous given the importance of the 1987 Single Market Act in creating conditions for a massive expansion of FDI to Ireland from US multinationals seeking access to the single market. More puzzling still is that the Dáil debates on EMU demonstrated a clear consensus on EMU. It simply was not a political issue. Gilland (2004) identifies the year 2000 as a critical juncture in Ireland’s relations with the EU. The Boston V Berlin debate, the budget row with Finance Minister Charlie McCreevy and the Nice Referendum added nuance to the debate on Ireland’s membership. However, she observes that when it came to decisive choices any latent Euroscepticism amongst the major political parties quickly dissipated.

Contrary to public perception Des Geraghty (interview, 12<sup>th</sup> January, 2012) suggests that Mary Harney was not a particularly ideological politician. He characterises her as a pragmatist who believed in hard work and who adopted neo-liberalism because it made sense in a pragmatic way. However, he holds a different view of some of her Progressive Democrat colleagues remarking that Pat Cox and Michael McDowell were strongly ideological. Fianna Fáil he considered to be without ideology except striving for power. By and large they bought into the neo-liberalism of the PDs (although Bertie Ahern was an exception) because it suited the power objective. Des Geraghty (ibid) characterises Fianna Fáil as a party which would do a

deal with anyone but which was ultimately destroyed ‘by creatures in business like Seanie Fitz<sup>87</sup> who had more money than they had and kept them in power’.

Whatever about the degree of buy in of individual political parties there can be little doubt that ideas associated with neo-liberalism shaped both the process of European integration and the emerging Irish polity, particularly after 2001. Donovan and Murphy (2013, Chapter 2) comprehensively describe the influence of ideas such as new classical macroeconomics (NCM) and efficient markets hypothesis (EMH). NCM is a development of the monetarist thinking of Milton Friedman. Its inspiration came from two of Friedman’s students, Robert Luca and Thomas Sargent. Whereas Friedman argued that Keynesian economic stimulus would only have a short term effect, the NCM analysis implies that macro-economic policy would be ineffective, even in the short run, the so called macroeconomic policy impotence rule. From the 1970s on NCM became the dominant paradigm taught in American universities. As graduates found their way into key positions of power in government and international institutions, including the newly established ECB, the influence of NCM ideas became quite profound. Its rejection of any kind of economic stimulus based on the impotence rule implied that independent central banks should be used to take monetary and fiscal policy out of the hands of politicians.

The efficient markets hypothesis became the ideological soul mate of NCM. It is the brain child of another Chicago economist, Eugene Fama, and holds that asset prices will reflect all the relevant information that is available such that market actors cannot make excessive gains from trading. Markets, by this reasoning, are self-correcting and adjust for any change in information. The logical implication is that light touch regulation only is necessary.

Together NCM and EMH ideas changed macro-economic policy thinking towards being less concerned with employment and growth and being preoccupied with inflation. This was accompanied by a change away from demand management in

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<sup>87</sup> A reference to Sean Fitzpatrick, former Chairman of Anglo Irish Bank now facing prosecution for his role in the bank’s activities.

favour of supply side policies and taking decision making out of the hands of politicians and transferring it to independent central banks.

The institutional architecture of EMU is consistent with the NCM/EMH philosophy. Under the Maastricht Treaty the ECB became a powerful independent institution with the single objective of price stability, leaving growth and employment to be determined by market forces. Donovan and Murphy (2013:276) argue that prevailing ideas about the capacity of financial markets to largely self-regulate, subject to certain overall capital adequacy constraints and limited governance requirements, exercised a subtle, but pervasive influence on Irish policy thinking. This was confirmed in essence by former Secretary General of the Department of Finance, Tom Considine (interview, 24<sup>th</sup> May, 2012). In its investigation into the causes of the Irish banking crisis the Nyberg Report explicitly criticised the light touch approach to banking regulation (2011:4).

The most disturbing ideational dimension of Ireland's engagement with Europe is characterised by former Taoiseach John Bruton (interview 8<sup>th</sup> March, 2012) as a lack of capacity for philosophical enquiry – an 'intellectual failure' to grasp what the whole thing was about. In practical terms this manifested itself in a failure to explore options, even if to reject them, on the path to making policy choices. The overwhelming sense seems to have been a belief in no alternatives.

Donovan and Murphy (2013:153) make the point that this failure was evident in academia as well as in politics and public administration noting that macroeconomics in general, and financial stability issues in particular, received progressively less attention in the research priorities of university economics faculties. They observe that consideration of major downside scenarios to the Celtic Tiger era seem to have been almost entirely absent from mainstream policy making by official institutions as well as by auditing and consultancy firms involved in assessing the true state of the financial institutions (ibid:290). They conclude that:

‘The absence of sufficient self-questioning lies at the heart of the underlying causes of the Irish crisis.’

(ibid:288)

It can be argued that a lack of willingness to be realistic about downside risks was evident in the ESRI (1996) report on EMU. The report stressed the advantages to the construction industry of lower interest rates but did not apparently anticipate that this could lead to an asset boom. Given the influence of ESRI with policy makers this was significant.

Dermot McCarthy (interview 4<sup>th</sup> February, 2010) has stressed the importance of Social Partnership in managing issues of distributive justice while leaving government free to concentrate on growing the economy. But he also identifies an intellectual failure of policy makers to engage seriously with some of the more important ideas, such as the concept of a developmental welfare state, that emerged from the Social Partnership process via NESC. It is clear from Hastings et al (2007) that the whole Social Partnership project was presented as a pragmatic engagement rather than one rooted in Katzenstein's 'ideology of Social Partnership'. This was so notwithstanding that some on the trade union side saw it as a means of building social democracy in unfavourable political circumstances (ICTU, 2013).

Smith (2005:167) observes that if we accept that actors are not blessed with flawless knowledge of their environment then we must acknowledge the role that ideas play. O'Riain (2008) sees this as being particularly important within coalitions which shaped the course of Ireland's development between the 1990s and 2000s. The developmentalism which was inherent in the policy which created sustainable development from 1994 to 2001 was supplanted by a more liberal orientation within the policy making community which took the country down the path of speculative rather than productive investment. Mainly this was concerned with ideas about tax incentives described elsewhere in this thesis, which, unfortunately, coincided with ideas of growing financialisation together making a toxic mixture.

## **Conclusion**

This chapter has undertaken the task of lifting the cover off the black box that is Ireland's polity shaped by its engagement with the process of European integration.

Allison and Zelikow's (1999) methodology has been used as a toolbox to identify how the gears and levers that are historical, rational choice and sociological institutionalism come into engagement. This has been overlaid with an assessment of the influence of ideas thereby bringing ideational institutionalism into engagement as well. The objective is to weave together explanations from each component of the methodology to form a view about repertoires of action available, which, if adopted, might have produced different outcomes from Ireland's engagement with EU integration.

In relation to European integration there is substance to John Bruton's charge of an intellectual failure on the part of the elite. It is clear from the evidence that Ireland's approach to Europe was primarily mercenary. With few honourable exceptions there was no big vision or no contribution to formulating one. Irish officials were good at rooting out money which they saw as their principal remit. Similarly, Irish ministers seem to have had a low level of engagement at European Council level. The exception was when Ireland held the presidency when it was seen as important to achieve results.

It would appear too that the Oireachtas is not geared to deal with European issues. The electoral system militates against it and the committee system, being based on the Westminster system, is not conducive to effective engagement. However, it has been suggested that the Department of Foreign Affairs (DFA) did not welcome parliamentary scrutiny. Always supporting the Commission did not equip Ireland to deal with the changing power shifts, both to inter-governmentalism or to the European Parliament.

The conclusion is that Ireland's engagement with Europe was sub-optimal.

With EMU Ireland was effectively moving into a space similar to that occupied by the Netherlands in relation to Germany since the 1970s. Having met the criteria for membership of EMU it was not assimilated at any level of society that this implies running the economy on German lines. Instead the policy was pro-cyclical. Admittedly, since Ireland did not benefit from the 1945-1973 'Golden Age' of economic growth there was a catch up element involved. But still, economic growth

seemed to become a goal in itself. This was epitomised by a circular relationship in which people invested in houses built by immigrants who rented the same houses. Opening the labour market on the occasion of the 2004 European enlargement might have served to cool wage inflation but it increased demand for public services and boosted the housing market. It was not a matter upon which the social partners were consulted.

Wages and prices in Ireland moved ahead of the rest of Europe. When Germany was negotiating rises of 1 to 2 per cent Ireland was negotiating 4-5 per cent. But this was driven by property prices and a general cost of living up to 29 per cent above the EU average.

Because the Irish economy cycles out of phase with the rest of Europe – by virtue of our trading relationship with Britain and the US – it might have been prudent to delay entry to the Eurozone so as to observe at least one economic cycle. Ironically one of the principal advantages of EMU membership identified by the influential ESRI (1996) report was low interest rates and the positive effect they would have on the construction sector. The ESRI misread the impact of this effect and this was significant because the report provided the intellectual underpinning for the Department of Finance pro-EMU position at the time.

It was a serious policy failure not to tackle the narrowness of the tax base and its dependence on property transaction taxes. It would have been politically difficult but introducing a property or site value tax, as the country is now doing belatedly, would have saved a lot of grief.

Overall the property market would have been easier to control if the 1974 Kenny Report on land prices had been implemented by successive governments since. The key recommendation in the report was to cap the price of development land at one and a quarter times its agricultural value.

This could also have indirectly affected the whole economy. For example, although capital stock increased by 157 per cent between 2000 and 2008 only 14 per cent was invested in productive assets, and that mainly by semi-state companies. The bulk of

it went into property. Concerns about the Kenny Report are largely related to the property rights protected in the constitution. These same provisions have prevented changes to upward only rent reviews. Not implementing the Kenny Report could come back to haunt policy makers. Even by late 2013, although the country is otherwise still just bouncing along the bottom of an ‘L’ shaped recession, prime Dublin sites are again making between €8 million and €10 million per acre (Buckley, 2013).

Central Bank stability reports and letters to government did identify the risks but did not speak truth to power loudly enough. Nor did the ECB and OECD for that matter. Similarly the anomalous position of Scottish banks in the Irish market was not attended to, nor has it been yet.

For their part, trade union negotiators did not understand that, absent the ability to devalue, and in the event of a macro-economic shock, the structure of EMU is such that the whole burden of adjustment falls on labour markets. If they had insisted like the Finns in creating buffer funds as part of the social pact negotiations, it might have been possible to ease the burden on workers and even preserve the Social Partnership model.

Finally, for much of its history European integration proceeded on the basis of a ‘permissive consensus’ which allowed for a neo-functionalist or an intergovernmentalist gradual progress of ever closer union. This process was conducted in a technocratic manner, ever more so in the case of financialisation but also in the context of European institutions, coalitions and social compacts intended to deliver auto-centric development. The peripheral countries only partially managed to benefit from this process. Now Europe needs to embark upon an even more ambitious phase of integration and institution building to complete economic and monetary union and resolve the current crisis. Apart from doubts as to whether popular support for this exists any more there is the problem of the underlying failure to reconcile the very different social compacts, and therefore economic models, that were to be integrated within the European economy. Therefore, it can be argued that just when it was most needed, Ireland set about dismantling its much

vaunted Social Partnership model (Lawrence & Nohria, 2002; Mjoset, 1992; O’Riain, forthcoming, 2014; Senghaas, 1985; Verdun, 2010).

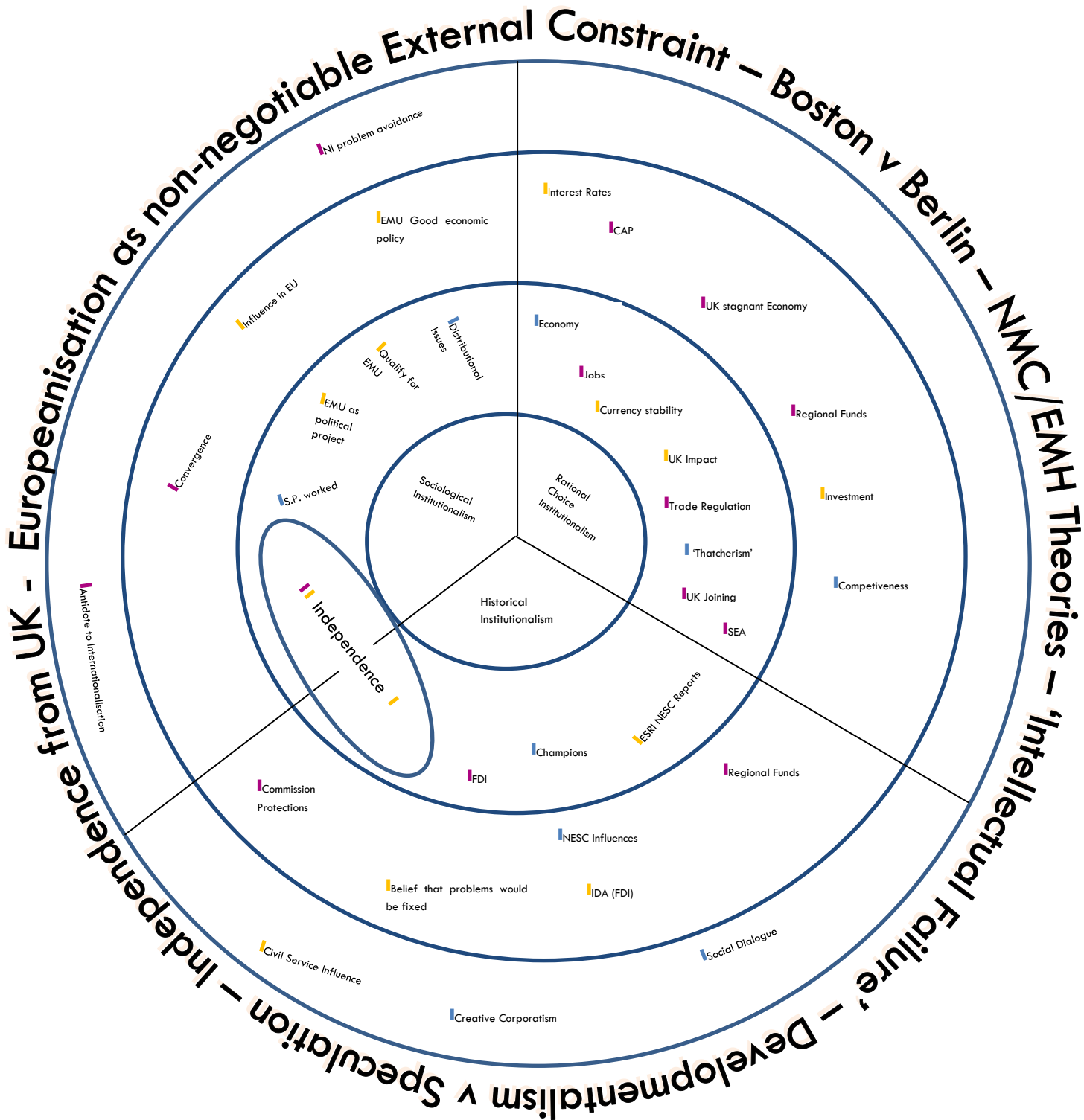
In summary, this chapter has focussed on decision making in Ireland. It has used the model outlined in Chapter 2 to unpack the polity in a forensic way and to question how and why decisions were made about three key aspects of European integration, economic and monetary union, and social policy and social pacts. The institutionalist influences and ideas at play can be depicted in a composite way in the radar diagram at Figure 13 below.

It reveals that Ireland’s engagement with Europe was sub-optimal, being more focussed on gains from structural funds and the Common Agricultural Policy than on any broader vision of Europe’s destination. In former Taoiseach, John Bruton’s words, Ireland suffered from a ‘lack of philosophical enquiry’ or ‘intellectual failure’ permeating many layers of the policy making community.



Figure 13: Composite Radar Diagram of Clusters of Institutionalist Influences/and Ideas (Ideas on circumference)

(strongest influences closest to centre)



- General Policy on Integration
- EMU
- Social Policy and Social Pacts

## **Chapter 8: Conclusions**

### **Introduction**

The intention in this chapter is to pull together the similarities, differences, puzzles and dilemmas which can be identified from a study of the evolution of the political economies of Finland, Denmark, Netherlands and Ireland over the last 25 years.

Recall that this research has been conducted through the lens of European integration which is appropriate for two reasons; first because integration will continue and will likely intensify for the foreseeable future and secondly because it is the process through which globalisation is mediated in a regional sense. There is also the consideration of whether national Varieties of Capitalism are possible in the face of deepening integration as posited by Boyer (2000).

In the periodisation used, which is explained in Chapter 2, the period from 1986 to the coming into effect of the Maastricht Treaty in 1994 was used as a reference baseline for all four countries in the study. The purpose of doing this was to evaluate to what extent the structure of the respective political economies at that time conditioned outcomes in later years. As Raunio and Tiilikainen (2003) and Verdun (2010) have argued, the Maastricht Treaty was a critical juncture of European integration. Post Maastricht the jurisdiction of the EU began to extend into a much wider range of policy areas. Accordingly, the second periodisation was from Maastricht in 1994 to the Nice Treaty in 2001, the latter coinciding with the collapse of the hi-tech bubble. The third periodisation chosen was from the Nice to the Lisbon Treaties – 2001 to 2008 – and the onset of the financial crisis and finally the period beyond 2008 to the fifth anniversary of the Lehman Bank collapse, September 2013, was considered.

### **Contrasting Varieties of Capitalism**

The 1980s was characterised in all four countries as a period of high unemployment and high welfare dependency. In Ireland's case unemployment levels of 18 per cent were compounded by high emigration and a debt to GDP ratio of 130 per cent.

Unemployment in the Netherlands reached 14 per cent, a situation characterised by Goran Therborn (1986) as the most spectacular employment failure in the advanced capitalist world. In addition 27 per cent of the workforce was officially on disability benefit mainly because employers and unions were using relatively generous level of benefits available under that heading to restructure industry. It was a combination described in economic text books of the time as 'The Dutch Disease' (Visser and Hemerijck, 1997). As a result Dutch politics in the 1980s and 1990s was dominated by welfare reform.

This posed a major dilemma for the PvdA Labour Party in government because reform of disability hit its natural working class constituency and went directly against the policy of the trade unions. However, in Chapter 4 former Dutch Prime Minister Wim Kok explained that, from his perspective, it was an issue of the sustainability of the welfare state which he believes in deeply.

Finland, like Ireland, was a late industrialiser and the process was only completed in the 1960s. According to Senghaas (1985), writing from the perspective of development theory, Finland was assisted in its journey from peripherality to the metropolitan core by the requirement to make \$300 million worth of war reparations to the Soviet Union in the form of manufactured goods comprising ships, railway wagons, machinery, cables and other goods from sectors of production which, in Finland, at the time, did not exist at all or existed only in rudimentary form. Finland was confronted by major dilemmas on two fronts at the same time in the early 1990s. First of all this Soviet relationship had morphed into a major export market of low quality goods or 'trash' as one interviewee described it. When the Soviet Union collapsed Finland had to find alternatives quickly. They chose to completely restructure their economy and redirected it towards hi-tech goods for western markets. Nokia is the best known manifestation of this directional shift (Gylfason, 2010; Personen and Riihinen, 2002; Raunio and Tiilikainen, 2003; Vartiainen, 2011).

The second dilemma was caused by the worst financial/banking crisis since the 1930s which hit Finland in 1992/93. Formerly the country had tended to use a kind of Keynesian inspired monetary policy involving frequent cycles of devaluation and wage increases. Although there was not a consensus on it amongst those interviewed, liberalisation of capital markets, which was introduced without proper

advance planning, seems to have compounded the financial crisis. Suffice it to say that monetary policy as practiced by the Bank of Finland was sub-optimal. An alternative, and the course ultimately chosen, was EMU, but Finland was not even in the EU at that time. It joined in 1995. Joining the EU was a dilemma in the context of national security and the relationship with the Soviet Union (ibid).

Denmark too suffered high unemployment after the two oil crises of the 1970s. According to Poul Nyrup Rasmussen this was a strong factor, as well as the general state of the economy, in returning a Social Democrat led government in 1993. Denmark, like the Netherlands, has a long standing policy of a fixed exchange rate with the Deutschmark (from 1982, Netherlands from the 1970s). This ultimately led to a gradual reduction in inflation and real interest rates. However, it posed a dilemma in that the other side of the coin, so to speak, was high unemployment. The solution, insofar as one existed, was to effect coordination of the economy through keeping market mechanisms embedded in collective agreements thereby giving unions influence on social policies to mitigate the negative effects of monetarism. Despite the pegging of the currency to the Deutschmark Denmark voted against the Maastricht Treaty in 1992 (Kelstrup, 2006; Pedersen, 2006).

This poses a puzzle and perhaps a future dilemma. If the currency is pegged to the Deutschmark anyway what is the point in staying out of the single currency in practice? In the longer term if the solution to the current financial crisis is, as it seems to be, even deeper integration of the Eurozone, can Denmark continue to remain outside? If the judgement is 'no' can the political elite of Denmark achieve what they have failed to achieve to date viz; persuade the electorate to vote for EMU?

The 1990s was the era of 'employment miracles' (Visser and Hemerijck, 1997). In Denmark this was achieved through a combination of active labour market policies-combined with 'flexicurity'- and public investment to stimulate the economy. In the Netherlands though employment restructuring involved increased female labour force participation and large numbers of part time jobs in services. In Ireland's case 450,000 new jobs were created in the most sustained period of economic expansion the country has known. A major factor was the stimulus given to the economy by foreign direct investment attracted by the opportunities for access to European

markets created by the 1986 single European Act. However, over 80 per cent of the new jobs were not driven by exports but by domestic demand (O’Riain, 2004 and 2008). Finland was an outlier in this respect. The 1992/93 crash had a devastating effect on employment but the recovery began in 1994.

What were the common factors behind this positive trend? First of all each of the economies is very open and positive towards globalisation<sup>88</sup>. Second, an upswing in global trade was an advantage in this context. Third, the US economy particularly went through a long period of expansion. In Denmark, the Netherlands and Finland social democratic governments came to power. By political orientation they were anxious to boost employment and they anticipated, and received, a measure of cooperation from trade unions in a way that centre right governments would not. This had positive results validating Huber and Stephens (2001) proposition that social change is most effectively achieved through social democratic incumbency and strong trade union peak organisations. In political terms Ireland is the outlier in this dimension. The Labour Party was a minority party in government from 1994 to 1997 but this changed to a centre right coalition in 1997 (O’Riain, 2008). It is a peculiarity of the Irish political scene that trade unions have cooperated as well with the populist Fianna Fáil party as with Labour (Doherty, 2011; Hastings et al, 2007; Quinn 2005; MacSharry and White, 2000; Garvin, 2004, Roche, 2011; Yeates, 2011).

Nevertheless, there are quite striking parallels between the Wassenaar Accord negotiated in the Netherlands in 1982 and the Programme for National Recovery negotiated in Ireland in 1987. Both agreements are categorised in the literature as ‘competitive corporatism’ by some authors (Ornston 2009; Regan, 2012) although this typology in Ireland’s case is challenged by others (Adshead, 2006; Hardiman 2006; O’Riain, 2014 forthcoming). Both addressed dire economic and employment situations. Both restored social pacts as the institutional alternative to direct state action (Visser and Der Meer, 2011). Both commenced a series of social pacts (8 between 1980 and 2009 in the Netherlands; 7 between 1987 and 2009 in Ireland). Both focused on working time reduction to create employment, although this

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<sup>88</sup> Although as Smith (2005) points out globalisation is a bit of a misnomer in Ireland’s case. Ireland has three main markets and sources of FDI viz, Eurozone, Britain and the US. Thus it can be said to be highly international and open but not global as such.

morphed into part-time work in the Netherlands. Both established a reservoir of trust between the main actors which helped to solidify the process into the future. In both cases the embrace of wage moderation set the pattern of bargaining for the years ahead.

The roots of neo-corporatism are quite different in each comparator country. In Ireland they go back to the period of Ireland's transition from import substitution industrialisation to export oriented industrialisation in the 1940s and 1950s and the need to either coerce or co-opt labour to the task of attracting foreign direct investment. Social democracy has never had a strong foothold in Ireland but the aspiration of Fianna Fáil, the larger of the two main nationalist parties, to present itself as the 'real' labour party meant that co-option of trade unions to neo-corporatism fitted perfectly with the policy of the time (Breen et al, 1990; Hastings et al, 2007; Garvin, 2004; Suarez, 2001; Yeates, 2011). Vartiainen (2011:57) explains that, while Finland is regarded as being part of the Nordic family it stands out from the other countries in two respects. Firstly, it has historically operated under the tight geo-political constraint of its long border and relationship with Russia. This has strongly influenced most of its economic policy choices. Secondly, Finland has been characterised by an extremely corporatist political culture such that parliamentary democracy in economic policy making has never had quite the same legitimacy as in other Nordic countries. This dates back to the 19<sup>th</sup> century nationalist revival in which an organic Hegelian view of society was the dominant theme. Corporatism in a Finnish context was employer dominated. This is because large employer organisations joined with the state during the civil war to organise the military capacity to defeat the 'red' front. During the interwar period Finnish corporatism was of a distinctly 'right wing' type. However, during the Second World War trade unions did cooperate with the war effort and the post-war era saw the emergence of a new political grouping of forces which made it possible for left wing parties to exert more influence on economic and labour market policies. From the 1950s trade unions could engage in incomes policy debates and this became a standard part of economic policy making.

Overall, however, Vartiainen (ibid) considers that the distribution of power resources between corporatist organisations and the government is not clear-cut and he sees this as a strategic vulnerability.

Neo-corporatism in Denmark can trace its roots back to the war with Germany in 1864. The vulnerability this exposed convinced Danes that to survive as a nation they had to pull together. Social democracy was firmly established in Denmark in the 1930s on the eve of Hitler's accession to power. However, there was also always been a strong parallel liberal influence which is a product of the Grundtvigian movement of the 19<sup>th</sup> century. Nevertheless, Denmark is a society with a strong commitment to 'the common good' and with institutions to support its achievement. Thus Denmark has a variety of capitalism which is neither liberal in the Anglo-Saxon sense nor social democratic in the traditional understanding of that model. It has been described as a 'negotiated economy' (Kjaer and Pedersen, 2001; Pedersen, 2006; Jessop, 2010; Boss, 2010; Campbell and Hall). O'Donnell (2010:150) interprets the negotiated economy concept as a development of classic neo-corporatism similar to Social Partnership in Ireland.

Historically Dutch society has been deeply fragmented across ideological or religious cleavages. Because of this political elites strove to form consensual governments. As a result the country responded to economic change through negotiated solutions that share the burden of adjustment, (lost income, unemployment etc.) across society. This 'pillarisation' in which religion played a big part, began to change slowly from the 1960s. Consociational democracy began to evolve and the tradition of consensus building lends itself to neo-corporatism. This sits alongside a preference for hard currency policies influenced by the need to import a lot of components for manufacture. The Netherlands pegged its currency to the Deutschmark as early as the 1970s and maintaining this position, with its implications for employment, required a widespread acceptance of the policy. According to Jones (2008) the Netherlands 'Polder Model' as it is called appears to bear out Katzenstein's (1985) thesis about small states and world markets.

Visser and Van der Meer (2011) suggest that social pacts became the alternative to state intervention in the Netherlands after the Wassenaar Accord of 1982.

Not only did the Dutch manage to preserve consensus but they were able to achieve welfare state reform, improve competitiveness, support European integration and engineer an employment miracle.

However, the Dutch Model is not without its critics. Wiemer Salverda (2005) argues that, when the Dutch relative performance finally improved at the end of the 1990s this was not related to the essentials of the Dutch Model and its policies as commonly perceived, i.e. wage moderation and exports. On the contrary, he suggests that strong domestic consumption growth, composed of wage growth instead of moderation, a wealth effect associated with rising house prices (by 60 per cent between 1996 and 2000) and the related increase in tax-favoured mortgages for consumption purposes played a prominent role. He identifies three characteristics of the model which he claims are misinterpreted. First, the success of the job creation was largely based on the previously low participation rate of women and a large demographic decline of the youth cohort of the population. Second, the Wassenaar Agreement, which has the same status in the Netherlands as has the Saltsjöbaden Agreement of 1938 in Sweden (see p. 27), actually came at the end of a long period of wage moderation instead of initiating it. Also neither the growth of part-time jobs nor that of contractually flexible jobs in the Netherlands was initiated by the institutions of the labour market. Finally, the labour market achievements seem less convincing when the amount of informal employment and the plight of vulnerable groups such as low skilled minorities is taken into account. He concludes that the working of the dominant set of institutions and policies in the Netherlands is primarily adaptive and not initiating 'making itself small in a big nasty world' (ibid: 61).

Writing in the 1990s Traxler (1996), cited in Crouch (2000:212-213) argues that industrial relations systems are embedded in past practice and develop in ways consistent with past trajectories. In the typology he uses Finland, Denmark and Netherlands are considered to be part of an inclusive pattern of collective bargaining of a highly coordinated form in which agreements made are applied to all firms in a sector or nationally. In this initial work Traxler did not include Ireland but in a subsequent publication in 1997 he concludes that Ireland cannot be categorised



either in this form or in the alternative, a more disorganised form of bargaining based on single employer agreements with no extensions.

So, from the viewpoint of establishing a benchmark, it would appear that, while pragmatism is a factor in all four countries, there is considerably more evidence of path dependency and thus historical institutionalism and a deeper embeddedness and philosophical belief in neo-corporatism in Denmark, Netherlands and to a lesser extent, Finland, than Ireland.

In macro-economic terms there were exogenous factors such as global, and particularly American, economic expansion, and the Single European Act which contributed to the employment miracles in the 1990s. However, some factors were unique. For example, Ireland devalued its currency by 10 per cent in 1993 which gave a huge boost to exports. Similarly Finland devalued the Markka by 30 per cent which helped it to recover quickly from the banking crisis of 1992/93. However, Denmark and the Netherlands had pegged their currencies to the Deutschmark in 1982 and the 1970s respectively. Employment growth in Denmark was achieved through active labour market policies and in Netherlands through an expansion of part time working in the services sector. Finland completely re orientated its economy towards western markets and hi-tech products. Thus from the viewpoint of how benchmark conditions affected longer terms outcomes, it would seem that Denmark, Finland and Netherlands accomplished what they did much more via endogenous reforms than did Ireland. Foreign direct investment is a case in point. Finland and Denmark have an industrial base and a national system of innovation which is indigenous and has been invested in heavily and institutions built to support it. As far back as 1992 Mjoset identified this as vulnerability for Ireland. The former Secretary General of the Taoiseach's Department, Dermot McCarthy, says the Department of Finance saw all investment in research as waste (interview, 28<sup>th</sup> November.2011). In effect Ireland tried, not very effectively, to import a national system of innovation via FDI. While Ireland can claim to have intervened in the economy, its overreliance on US multinationals and low corporation tax, and relegation of institutions for promoting indigenous industry to second class status, tends to support the contention, except for a period between 1994 and 2001, that it

intervened in the wrong way (O'Driscoll and Gray interviews; O'Riain, 2004 and 2008).

Another baseline distinction of importance is that social democracy has been an influence on the polity of the Nordic countries in a way that it never was in Ireland. Nationalism and the civil war in the 1920s ensured that virtually all major issues in Ireland have been conceptualised in terms of independence rather than of class interest (Breen et al 1990; Weeks, 2010). In effect all governments, whatever their political orientation, have to govern within a social democratic polity in the Nordic countries. This, according to Vartiainen (2011), has been the great success of the labour movement. It is rooted in ties that bind strong trade unions – with membership density up to 90 per cent – to social democratic parties. In fact the Nordic model was designed by two LO (trade union) economists in Sweden in the 1950s and has more or less been adopted by all countries in the region since. Neither social democratic politics nor trade unionism is quite as strong in the Netherlands but it is categorised as the most Nordic of the continental social market economies.

Welfare effort is also of a different order as has been researched in some detail and as can be seen in Table 37 (Esping Andersen, 1990; Hemerijck, 2013; Huber and Stephens, 2001; Pontusson, 2005). Ireland with Britain has been categorised as a liberal model with much more emphasis on safety nets and means testing rather than universal and state provided services. Traditionally, also, Ireland operated a kind of mixed economy of welfare with many services being delivered by church institutions. A critical difference between social market economies and liberal market economies as described by Pontusson (ibid:98) is that the coordination of wage bargaining characteristic of social market economies provides an effective mechanism to ensure that wage growth remains consistent with the requirements of non-inflationary growth and international competitiveness. Lacking such institutions, the liberal market economies must rely on unemployment to discipline Labour. In Social Partnership Ireland had some of these features of co-ordination but it also had above average inflation and a cost of living higher than the EU average.

Table 37: Public Social Expenditure by Function (% of GDP)

	Total Social Expenditure	Old Age	Survivors	Incapacity Related	Health	Family	Active labour market programmes	Unemployment	Housing	Other social policy areas
<i>Scandinavian Regime</i>										
<b>Denmark</b>	27.3	7.3	0.0	4.3	5.9	3.4	1.7	2.8	0.7	1.0
<b>Finland</b>	26.1	8.5	0.9	3.8	6.2	3.0	0.9	2.0	0.3	0.5
<b>Sweden</b>	29.8	9.6	0.6	5.6	6.8	3.2	1.3	1.2	0.5	0.6
<b>Norway</b>	22.9	6.3	0.3	4.4	5.8	2.8	0.7	0.5	0.1	0.6
<i>Continental Regime</i>										
<b>Germany</b>	27.9	11.2	0.4	1.9	7.7	2.2	1.0	1.7	0.6	0.2
<b>France</b>	29.5	10.9	1.8	1.9	7.8	3.0	0.9	1.7	0.8	0.4
<b>Netherlands</b>	21.6	5.5	0.3	3.6	6.0	1.6	1.3	1.5	0.3	0.6
<b>Belgium</b>	26.4	7.2	2.0	2.3	7.3	2.6	1.1	3.3	0.1	0.4
<b>Austria</b>	28.1	12.6	2.4	2.4	6.8	2.8	0.6	1.1	0.1	0.3
<i>Anglo-Saxon Regime</i>										
<b>Ireland</b>	16.7	2.9	0.8	1.6	6.5	2.5	0.6	0.9	0.5	0.3
<b>United Kingdom</b>	22.1	6.1	0.2	2.4	7.0	3.2	0.5	0.3	1.4	0.2
<i>Mediterranean Regime</i>										0.0
<b>Italy</b>	26.5	11.6	2.5	1.7	6.8	1.3	0.6	0.5	0.0	0.4
<b>Greece</b>	20.5	10.8	0.8	0.9	5.6	1.1	0.1	0.4	0.5	
<b>Portugal</b>	No data available									
<b>Spain</b>	21.2	21.2	0.6	2.5	5.8	1.1	0.8	2.2	0.2	0.2
<i>Visegrad Countries</i>										
<b>Czech Republic</b>	19.7	7.5	0.2	2.4	6.3	1.7	0.3	0.6	0.1	0.4
<b>Hungary</b>	22.5	8.8	0.3	2.8	6.0	3.1	0.3	0.6	0.5	0.1
<b>Poland</b>	21.0	10.4	1.0	2.7	4.3	1.1	0.4	0.5	0.5	0.4
<b>Slovakia</b>	18.8	6.2	0.2	1.7	5.3	2.1	0.3	0.3	0.0	0.5

Source: Hemerijck, 2013

## **The Differential Impact of Integration on Development Models**

The principal pre-occupation of all of the comparators during the 1990s was meeting the criteria to qualify for membership of EMU. This imposed considerable discipline. To the extent that all four countries qualified – against expectations in Ireland’s case according to the Finance Minister (Quinn, 2005) – this was itself a benchmark of achievement. It is noteworthy too that change in the scale and pace of European integration had to be accommodated while simultaneously managing a transition from high 1980s levels of welfare expenditure and unemployment.

One of the principal structural reforms was based on a dawning realisation that low labour force participation rates was the Achilles heel of the welfare state. Thus it was that collective bargaining and social pacts were pressed into the service of changing the balance through flexicurity in Denmark and part time jobs in the Netherlands. There was also a more strategic overhaul of welfare systems in respect of which labour market actors were more or less bypassed. This included pensions which, not surprisingly, was very contentious.

In Finland the first Lipponen government (social democratic) and its successor from 1999 to 2003 were very successful in achieving comprehensive pay agreements. They did not succeed so well in relation to unemployment which in 2000 was still 9.6 per cent. Nevertheless, the revival of collective bargaining marked a return to a coordinated market economy. The most important development for Finland was the restructuring of the economy and financial system that saw the emergence of Nokia and an extensive ICT industry which became a market leader.

Concern that privatisation and deregulation- the so called ‘negative integration’ effects – need to be balanced by social policy initiatives at an EU level saw a qualitative increase in activism in employment and other policy areas between the mid-1990s and mid-2000s. The Dutch presidency of the EU in 1997 put forward the idea of rethinking social policy as a ‘productive factor’ favourable to economic development. At that time 13 of the 15 member states had social democratic governments sympathetic to such thinking and this was further advanced when Finland joined in 1995. Thus it was that at the Amsterdam summit a renewed European social policy agenda emerged based on respect for the integrity and

divergence of national systems. While this helped to protect values and standards in the Nordic countries and the Netherlands it also means there has been little or no harmonisation across the EU leaving countries like Ireland in a relatively inferior position as regards welfare effort

But these efforts at social policy reform were in any event inadequate to counteract the pressures from an Europeanisation that came at a cost of failing to address the very different social compacts, and therefore economic models, that were to be integrated within the European economy.<sup>89</sup> The financial flows and general relationship between core and periphery were altered between the 1990s and 2000s such that the capital flows from core to periphery arising from financial liberalisation overwhelmed the public development of the structural funds programme. This caused a structural change within the real European economy reflected in major current accounts imbalances (Hooghe and Marks, 2009 cited in O’Riain, forthcoming, 2014:147).

The period 2001 to 2008 saw an unwinding of some of the more progressive achievements of the social democratic governments e.g. a hollowing out of the flexicurity system in Denmark. The credibility of EMU was also undermined in that period by infringements of the stability and growth pact by France and Germany and the impotence of the EU Commission to respond. In addition the banking systems of the world were incubating a crisis, which when it broke in 2008, hit the small countries hard because their economies are so open.

The thirty years before 2008 was essentially an era of neo-liberalism often referred to by the euphemism ‘The Great Moderation’, A combination of increased global labour supply, disinflationary effects from Chinese exports and cheap credit kept growth high and inflation low. Modest wage increases were facilitated by the stick and carrot of outsourcing and cheap credit. But the great moderation was being slowly undermined by global imbalances, excessive credit expansion and unhealthy increases in leverage. These were feeding into both consumption and investment and the build-up of asset bubbles. The growth of shadow banking, the inadequacy of

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<sup>89</sup> Denmark and the Netherlands were ahead of the curve having learned to deal with these pressures from the time they linked their currencies to the DM by using social pacts to mitigate employment effects via social policy innovations.

regulation and the greed of banks which drove inappropriate risk taking, were all part of the problem. High saving rates in emerging economies gave rise to large financial flows looking for investment outlets. This abundance of liquidity encouraged risk taking in the hope of better returns. The global crisis emanated from the conjunction of widespread financial fragility and a lopsided globalisation process, proceeding rapidly amidst large financial imbalances (Gylfason et al, 2010; Marsh, 2011; Mason, 2009)

As indicated above all small open economies were hit hard by these events but amongst the comparator countries only Ireland had a financial crisis.

In reflecting on the evolution of the development models we can first of all note as outlined in Chapter 5 that the Netherlands is now often categorised with the Nordic countries in the context of measures of redistribution, equality and labour market regulation in a way that detaches it from the continental group of SME countries. We can note also that in Finland, Denmark and Netherlands significant welfare reforms have taken place. But, politically the social reform agenda has been shaped by pragmatic considerations. These countries have bounced back from the crises of the 1980s and 1990s. Their reforms have maintained the principles of universalism and the core values of the welfare state. At the same time these countries remain among the most economically strong, productive, competitive and socially cohesive in Europe if not the world. Besides cost containment the most important leitmotiv of the Nordic reform agenda was ‘activation’. Moreover, the ‘Social Partnership’ identified by Katzenstein (1985) as a key component of their success, which, while it almost succumbed to the ‘primacy of politics’ argument during the 1980s and 1990s, recovered in all three countries to a point where it is now seen as the first refuge in a crisis and is firmly embedded in the institutional architecture of each country. By contrast Social Partnership had collapsed in Ireland by 2009 unable to survive the five part crisis-economic, social, banking, fiscal and reputational-identified by NESC (2009) (Howling and Vandaele, 2011; Schmidt, 2011; Hemernick, 2013).

## **Managing the Financial Crisis within EMU**

Finland had a financial crisis in 1992/93 but Denmark had one in the 1980s. The Danish financial system, as a result, maintained a sharper distinction between the

various classes of institution. One consequence of this was that the Danish mortgage system by 2008 was probably the most stable and trouble free in the world (Mjoset, 2011: 369).

Mjoset (2011) is careful to explain that monetary policy in the Nordic countries is quite nuanced, being neither neo-liberal nor orthodox Keynesian. He observes that, to the extent that applied empirical research has influenced policy makers in the finance ministries, it has floated between saltwater (new Keynesian) and orthodox Keynesian<sup>90</sup>. The important point to make is that the Nordic countries and the US are the only ones running counter cyclical fiscal policies since the crisis began. The Nordic countries can do this because they ran fiscal surpluses over the period 2001 to 2008. So did Ireland but the money was blown away by bank debt. The Nordics believe in fiscal discipline so that they can finance counter cyclical measures when they need to.

In any event, and by contrast, Marsh (2011:242) recalls that when the epicentre of the banking upheavals moved suddenly to Ireland in September, 2008, the ECB put pressure on the Irish authorities not to let any bank fail lest, like with Lehman Bros., this might reverberate through the European banking system. The authorities guaranteed all bank liabilities at six institutions, an exposure amounting to €440 billion or 250 per cent of GDP. This, in the end, left Ireland with a staggering bank debt, taken on as sovereign debt, of €64 billion. The key misstep was that of including Anglo-Irish Bank which was not strategic and could have been allowed fail, as indeed it eventually was several years later. This alone cost Ireland in excess of €30 billion (see NERI, 2013).

But what got Ireland into this space in the first place? It seems to be remarkably like an account of the Finnish crisis of 1992/93 given by Gylfason et al (2010). The difference is that Finland did not have to work within the framework of EMU at the time where, as Crouch (2000) points out, the entire burden of adjustment is expected to be carried in labour markets through an internal wage devaluation.

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<sup>90</sup> 'Saltwater' is intended to designate east coast US academics as distinct from 'freshwater' meaning Chicago school or neo-liberal. New Keynesians tend to accept rational expectations, but are nevertheless able to conclude that markets can fail (Skidelsky,2009:44)

However Gylfason et al (2010) also make the point with some justification that in Ireland's case a combination of inadequate regulation and supervision of financial systems, fiscal policies which allowed bubbles to develop and conversely left no room for accommodating or expansionary policy to alleviate the consequences of the crisis, were compounding factors.

A second question is whether the difficulty of managing the crisis can be traced to anything in the baseline periodisation. In 2003 there was a spat between Ireland and the EU Commission about the stance of budgetary policy being too expansionary. With hindsight a case can be made that if the economy had been reined in at that time, and perverse property incentives reversed, investments might have been directed to ends which would have improved the productive capacity of the economy.

The problem was that these difficulties were not foreseen, not by the Irish authorities and not by anyone else. As late to 10<sup>th</sup> May 2007, the President of the ECB, Mr Trichet, at a press conference in Dublin, lauded the Irish economy as a role model in many respects for the Euro area (Marsh, 2011:241).

As we have seen in Chapter 7 there was no general appreciation of the discipline required of membership of a monetary union. Apart from the Department of Finance nobody assimilated the fact that, in the event of a macro-economic shock, and absent the capacity to devalue, the burden of adjustment would fall on workers and welfare recipients. Nobody seemed to realise that EMU was designed that way to establish credibility with markets. John Bruton spoke in his interview about an 'intellectual failure' and Dermot McCarty spoke of a lack of policy coherence and a sense of the notion that once Ireland qualified for EMU that was it. There was nothing more to be done.

The problem may have been more to do with people not speaking truth to power loudly enough. The Central Bank stability reports identified some of the risks and vulnerabilities as did NESC. Former Central Bank Governor, John Hurley, references particularly the 2005 Stability Report (interview, 9<sup>th</sup> December, 2011).<sup>91</sup>

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<sup>91</sup> Mr Hurley also recollects writing to the Minister for Finance in 2004 drawing attention to the risk posed by property tax reliefs. He recommended phasing out the reliefs but this was not done at the pace he suggested.



However, former Central Bank senior economist and advisor, Raffique Mortiar has made the point that stability reports went through an iterative process involving several layers of senior management before they saw the light of day. They were so carefully nuanced that it would be difficult for a non-expert to identify signals pointing to serious risk (interview, 7<sup>th</sup> May, 2013). Peter McLoone recalled in his interview raising concerns about the sustainability of the high rate of economic growth with Brian Cowen as Minister for Finance, but not a lot of notice was taken. Indeed, when the external authorities were clearly regarding Ireland as a poster child of European integration, who internally could expect to get a good reception for expressing reservations about the transparency of the Emperor's clothes?

However, Ireland still did not break the stability and growth pact terms so there is a puzzle here as to why it went into crisis and the comparator countries did not? A possible answer is provided by Labour's economic advisor, Willie Scally, when he observes that the Stability and Growth Pact indicators were not capable of measuring what was going on in the real economy. The EU Commission may have been right to attempt to call Ireland to book over its budgetary policy in 2003 but Charlie McCreevy had an unassailable defence in being able to point to compliance with the Stability and Growth Pact. The Commission's case was not helped by their failure to discipline France and Germany for actual breaches of the pact. Moreover, as Hemerijck (2013:367) points out, the EMU's bias towards public budgetary discipline made Eurozone and domestic policy makers in Ireland, Portugal and Spain completely ignorant of the destabilising effects of accumulating private sector indebtedness. As pointed out in *The Economist* (26<sup>th</sup> October, 2013) the household debt burden is especially heavy in Ireland and, surprisingly in the Netherlands, exceeding 100 per cent of GDP in both places. It cites the IMF as saying that private debt is a bigger drag on Europe's growth than government debt, presumably because of its implications for domestic demand.

So, reverting to the research question outlined in Chapter 1 what are the findings from this study in comparative political economy?

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This decision followed a study commissioned from Inbucon. He thought the Department of Finance was worried about precipitating a collapse of the property market.

First of all we can say that Katzenstein's thesis on democratic corporatism does hold true for Finland, Denmark and the Netherlands, notwithstanding the pressures of financialisation and globalisation and, particularly, Europeanisation over the ensuing quarter of a century. We can agree with Hemerijck (2013:8) that the competitive strength of the Nordic economies before and after the 2008 crisis, is slowly but surely being recognised as in part a product of their expensive, active and capacitating, universal provisions in areas of work, care and welfare in direct contrast to neo-liberal dogma. We can say too that the institutions of democratic corporatism are deeply embedded but flexible enough to allow each country to respond as appropriate in its own cultural context to the different situations presented at different stages of the periodisation. An example of this is Finland's response to the twin crises of the 1990s which was unique to it, albeit that Denmark and Netherlands experienced their own crises in the 1980s. What makes these countries better able to deal with crises is the strength of their tradition of accommodative politics which as Katzenstein (1985:35) points out dates back beyond the nineteenth century and facilitated the political reorientation that took place in the 1930s and 1940s. The distinctive political structures and practices built on this tradition allow pragmatic bargains to be struck by a handful of political leaders. The fact that institutions are so deeply rooted affords them a protection from exogenous shocks (ibid:89). Thus the depth of commitment to European integration must be understood in this context. It is a constant which influences policy in all aspects; a spine to the system that does not shift. This tradition is absent in Ireland. In fact the Irish case validates Katzenstein's thesis insofar as its institutions collapsed under the pressure of an exogenous shock in the form of the 2008 financial crisis precisely because they were not deeply rooted in an ideology of Social Partnership.

But if, as Vivien Schmidt (2011) asserts, these small open economies of Northern Europe managed to achieve enormous structural adjustment while preserving their core values, what if anything did it cost them? The answer to this question is not easy to discern but this research unearthed a number of considerations worthy of mention. The first concerns the role of elites emphasised by Katzenstein (1995). It is arguable that their influence has diminished under the unremitting pressure exerted on livelihoods and employment security by the liberalising trend of European integration. This is important given the role of elite bargaining in the structures and

practices of accommodative politics. The second is that the narrative which underpinned social democracy is no longer as coherent as it once was due to the compromises which have had to be made with the neoliberalism of European integration. Absent that coherence, when economic conditions deteriorate and people ought to move to the left, there is, as Benn (2013:282) suggests, a reaction of pessimism which leads people to be attracted to right wing arguments about immigration and welfare. This lends itself to a cynicism corrosive of the values upon which Katzenstein's thesis was built in the first place.

Katzesnstein did not deal with the possible existence of countertendencies to the ideal type of small open economy on which his research is based. Some countertendencies are present in each country. For example, there is a strong liberal influence in Danish society going back to the Grundtvigian movement; Finland has a model of democratic corporatism which for historical reasons is based on asymmetrical power constellations and yet is vested with more legitimacy than the parliamentary system; the Dutch consociational system is based on unique religious and political cleavages but gives unions a much higher level of influence than their membership levels would suggest. Although countertendencies did not interest Katzenstein it appears that the democratic corporatism he described is capable of dealing with them. On a less encouraging note one would be less certain about its capacity to accommodate new emerging cleavages in society such as arising from immigration and demographic change.

For a period during the 1990s Ireland appeared to converge with the other comparator countries, achieving as good or better employment and economic outcomes. The developmentalism driving the convergence was not sustained. Figure 14 seeks to capture this trajectory of convergence and divergence over the full periodisation (1987-2013) and align it both with critical junctures of European integration and the interpretation of Ireland's performance by elements of the international business press. Chapter 7 is dedicated to a forensic analysis of the Irish polity and the countertendencies which differentiate it from an ideal type liberal market economy in an effort to expose factors contributing to this lack of sustainability. Nor does the country have an embedded institutional framework of democratic corporatism going back to the 1930s as is the case with the others. For

reasons explained in the next section it is imperative to recapture that developmentalism and to make another attempt at convergence especially in the context of what European integration will mean in a post crisis scenario.

**Figure 14: Katzenstein's World Changes. Small open economies grapple with Pressures of European Integration**

Critical Junctures

Ireland goes full circle (as the international press saw it)

**Convergence Begins 1987-1994**

- All small open economies grapple with unemployment and welfare dependency in wake of 1970/80s oil crises in circumstances of more open trade.
- Ireland & Finland as late developers use industrial policy to grow.
- Ireland embraces Social Partnership.
- Democratic corporatism challenged in other countries.

**Convergence Reaches Apotheoses 1994-2001**

- Age of employment miracles.
- Ireland, Denmark, Netherlands use different approaches to achieve virtually full employment.
- Social Democratic and Democratic Corporatism renewal.
- Structural reforms in Finland, Denmark and Netherlands.
- Developmentalism via Social Partnership takes hold in Ireland

**Convergence Influences Weaken 2001-2008**

- Finland, Netherlands & Ireland part of EMU. Denmark outside but joined at the hip.
- Finland, Netherlands & Denmark consolidate welfare reforms but preserve core values.
- Coalition for Developmentalism overshadowed by neo-liberal politics in Ireland.
- Social Partnership policy influence weakens.

**Divergence Again (2008-2013)**

- Finland, Denmark, Netherlands hit hard by crisis but maintain high international standing.
- Democratic corporatism renaissance complete.
- Ireland has to accept bailout, labours under mountain of public and private debt.
- Social Partnership collapses.

1987- Single European Act – Financialisation begins

1989/90 Soviet Union collapses

1991/2/3 Finnish banking crisis

1992 Maastricht Treaty (rejected by Danish voters)

Currencies locked 1999

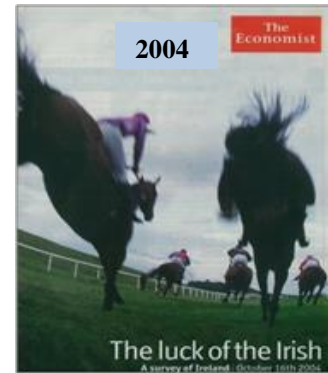
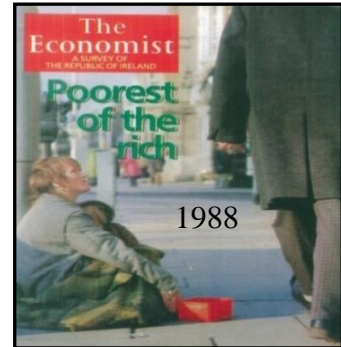
EMU 2001

Germany/France break Stability & Growth Pact 2003/4

Reformed SGP- 2005

Lehmann Collapse 2008

Troika engages with Ireland



**THE IMF COMES TO TOWN**



## Futures and How to Construct Them

### i. Europe – Dilemmas, Trilemmas and Repertoires of Action

Europe in the autumn of 2013 was not in a particularly good space. Unemployment across the Eurozone averaged 12 per cent. Gross domestic product in the second quarter of the year was 3 per cent below its pre-crisis trend. The peripheral countries remained fragile. All were heading for public debt levels in excess of 100 per cent of GDP. Several countries were close to deflation, running the risk of increasing their debt burden even more. The ECB's stated intention in mid-2012 to be willing to intervene in bond markets to prevent unwarranted increases in sovereign bond yields did succeed in calming markets and generally worries about the future of the Euro area appeared to recede. Yet the Euro crisis could still be revived again by any one of several events: a banking crisis, another slump, a political backlash or interventions by the German constitutional court (Donovan and Murphy, 2013; *The Economist* September 28<sup>th</sup>, 2013; Wolf, 2013a).

The approach of the newly elected German government was spelled out by the Finance Minister in a *Financial Times* article (Schauble, 2013). He made it clear that the approach adopted in Germany - deflationary austerity – would continue to inform Germany's input to the Eurozone crisis. This was strongly criticised a few days later in the *Irish Times* by Martin Wolf who observed that Dr Schauble's refusal to accept any role for domestic demand in his analysis meant that Eurozone policy would fail, explaining that:

‘But it also will not work, for two reasons. First the Eurozone is far too big to achieve export-led growth, as Germany has done. Second, the currency is likely to appreciate still further, thereby squeezing the less competitive economies all over again’.

(Wolf, 2013b:16)

Adherence to its current policy line by Germany ultimately poses a dilemma for Europe. Donovan and Murphy (2013:286) make the point that the debt burden of the Euro area is unsustainable for many of the individual countries. Given that there

is a limit to the extent of fiscal adjustment that can be insisted upon, some way of dealing with the debt will have to be found. If creditor countries are unwilling to foot the bill via debt write offs, fiscal transfers or large-scale interventions in sovereign bond markets, then higher inflation could end up as part of the solution. Basically this would involve the ECB quietly abandoning its 2 per cent target to allow debt levels to be floated down over time. It is hard to see this being more acceptable to Germans than Dr Schauble's current line but debt levels pose a dilemma which will have to be resolved at some stage.

An associated dilemma is the imbalances within the European economy. Germany can hardly expect peripheral countries to cut their current account deficits while maintaining its own surplus. As Wolf (2013 b) further points out, a large country with a huge structural current account surplus does not just export products. It also exports bankruptcy and unemployment, particularly if the counterpart capital flow consists of short-term debt. It is clear from the interviews conducted for this research that business in the creditor countries is not inclined to allow its competitive position to deteriorate in order to contribute to a correction of imbalances.

Herein lies a fault line at the heart of EU decision making which is likely to mean that a solution to the current crisis will remain elusive. Fritz Scharpf (1999:74) points to the probability of policy initiatives being blocked at the Council of Ministers increasing exponentially with the number of veto positions associated with unanimous or qualified majority voting. He cites the 'Coase Theorem' in support of the proposition that, in principle at least, negotiations will allow the participating parties to realise all outcomes that are Pareto-superior to the status quo (Coase, 1996). This means that Europe is capable of positive action if, and only if, there is a possibility of common gains. With the Eurozone divided between debtor and creditor countries such common gains are increasingly hard to perceive.

The man who designed the Troika programme for Ireland, Ashoka Mody, subsequently became one of its strongest critics and a pessimist about the state of affairs in Europe. He broadly endorses the assessment of the Glienicker Group which is that:

‘None of the fundamental problems underlying the Euro crisis have been solved – not the banking crisis, nor the sovereign debt crisis, nor the competitiveness crisis. National debt problems continue to escalate. Banks are overloaded with bad loans, crippling the private sector. In the crisis countries a generation is being deprived of their livelihoods and opportunities. The margins of the political spectrum in these countries are becoming increasingly radicalised and willingness to find common solutions for the Euro area appears to be rapidly on the wane. We – eleven German economists, lawyers and political scientists – cannot accept the prospect of further playing for time and betting – with ever-larger wagers – that the crisis will eventually pass. Europe has structural problems that require structural solutions.’

(Von Bogdandy et al ‘ The Glienicker Group’, 2013: 1).

However, whereas the Glienicker Group favours deeper integration and economic Government now, Mody (2013) argues for ‘a decentralised resting stop (which) would provide an opportunity to reset, reflect, and plot the best course towards a more stable, more integrated Europe’. This approach could be embodied in what he describes as ‘ a Schuman Compact for the Euro Area’ providing time and space to reinforce the core values that have guided integration for more than sixty years. He warns that continuing to stumble forward could lead to a debilitating, if not fatal, fall (Mody, 2013:32). Of one thing we can be certain: it is impossible to effectively manage a monetary union without a fiscal and political union (Hemerijck, 2013:13).

There are other dilemmas to be grappled with by Europe in the medium to long term.

Perhaps the longest standing of these dilemmas is that relating to the ‘Economists’ and ‘Monetarists’ debate. This is an argument about monetary policy being decided by an independent central bank or by a system of economic government. The former view is held by Germany and its satellites, the latter by France and the southern countries. The 2008 crisis clearly revealed this dilemma as a fault line in the integration project. One expects that it will finally be decided in the context of a move towards political union. France has never been able to dominate this debate in



the way that Germany has. Having the ECB modelled on the Bundesbank was a victory for Germany but the project cannot stand still simply as monetary union. It is meant to be economic and monetary union and even this understates what is at stake. Although it has always been presented as an economic project, EMU is clearly a political project. As such European citizens are unlikely to be willing to accept an undiluted German perspective on discipline. This is especially so since EMU is constructed in a way that requires the burden of adjustment to a macro-economic shock to be borne by workers via internal wage devaluations. Here again Polanyi has insights to offer. His claim that “*laissez-faire* was planned” seems to fit EMU. As Fred Block (2001) observes, it requires state craft to impose the logic of the market and its attendant risks on ordinary people.

Compounding this dilemma is the fact that the Eurozone is about to embark upon the most ambitious phase of economic integration when there was never less support for it from EU citizens<sup>92</sup>. Integration was always the ambition of the elite rather than the masses but for most of its 50 year history it could proceed on the basis of a permissive consensus. That is not the way it can be after riots in European cities. Both the populations of creditor and debtor countries are up in arms, albeit from opposite perspectives. The True Finns in Finland, The Danish Peoples’ Party and The Party for Freedom (PVV) in the Netherlands and the Alternative for Deutschland (AFD) in Germany are manifestations of Euroscepticism in creditor countries. Golden Dawn, an overtly Nazi Party, is a more sinister manifestation in Greece.

Yet another dilemma relates to those countries outside the Eurozone. The more deeply the Eurozone integrates the more obvious a two speed Europe becomes.

Then there is the trilemma of the social service economy (Iversen, 2005; Hemerijck, 2013). The concern here is that the shift from an industrial to a service economy, in

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<sup>92</sup>The Pew Research Centre Global Attitudes Project reported in mid-2013 that the European project now stands in disrepute across much of Europe. The favourability of the EU fell from a median of 60 per cent in 2012 to 45 per cent in 2013. Interestingly the survey reports strong divergence in public opinion between Germany and France with 77 per cent of French people believing that European economic integration has made things worse for France. Whereas, only 43 per cent of Germans took that view.

the shadow of accelerating economic internationalisation, makes it impossible for welfare states to achieve budgetary restraint, earnings equality, and job growth. The trilemma arises from the idea of having to let go of distributional justice, providing full employment or fiscal discipline.

Associated with this trilemma is the prospect of permanently lower growth rates in Europe. This was a particular concern of Wim Kok in his interview because the prospect of an increasing aged cohort of the population living longer with chronic illness will pose enormous tax challenges for a younger generation. One solution would be to allow increased immigration but this generates its own backlash as evidenced by the growth of right wing populist parties referred to above. Paradoxically lower growth is a consequence of the reversal of the trajectory of financial integration caused by the 2008 crisis<sup>93</sup>

Looking at the growth in support for anti-immigration and Eurosceptic political parties across Europe this has the hallmark of Polanyi's double movement. It is a reaction against an elite project for economic and monetary union, which, in order to maintain credibility with markets, imposed the burden of adjustment on citizens. The evidence from the interviews conducted is that people who vote for these parties are nostalgic for a past which is being eroded.

What it is really necessary to do is to rethink the interaction between economic progress and social policy in order to mobilise the productive potential of citizens in order to mitigate new kinds of social risk. It is a space ripe for exploitation by a reimagining of social democracy. As Hemerijck (2013:170) points out the idea that sustaining the welfare of an ageing population requires a highly productive labour force and high levels of female participation is much more widespread in Nordic countries than in any other welfare clusters. As he states it the key challenge for social policy is to make long-term social investment and short-term fiscal consolidation mutually supportive, both economically and politically (ibid:375).

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<sup>93</sup> Eurozone banks have reduced cross border lending within the Eurozone by \$2.8 trillion since 2007 (David and Lund, 2013).

The problem is that in trying to get to grips with these challenges Europe is in a kind of decision trap. The further European integration progresses, particularly as led by EMU, the more it infringes on the basic rights, provisions, and redistributive functions of national welfare states. Primarily this is because price stability and sound fiscal policy are privileged under EMU. But, because welfare is a domestic competence, and because of the great variations in levels of welfare effort across the enlarged EU, Member States are unable to collectively further EU social policy integration to balance the effect of EMU (ibid). In order to create the political space to build institutions of social policy to balance EMU institutions the Nordic countries would have to be willing to surrender their sovereignty over social policy in favour of collective EU action. This is a huge ask given the diversity of social systems amongst the 27 member states and the potential for erosion of the Nordic model as a result. It goes to the heart of the question about maintaining Varieties of Capitalism in EMU.

What repertoires of action might be available at European level if Member States were willing to act? The most important single action would be to change the remit of the ECB to bring it more in line with that of the Federal Reserve Board in the United States. The ECB has an exceptionally strong single mandate of 'price stability' and with its independence it is not counterbalanced by any other European institution. To all intents and purposes the ECB is not accountable to anyone. By contrast, under the Humphrey Hawkins Act of 1978, the FED is required to take on board the government's economic goals including achieving economic growth near potential combined with 'reasonable price stability'. Changing the remit of the ECB would require the unanimous agreement of member states which is a high benchmark. Without that, however, it is difficult to conceive of any institutional arrangement to balance the priority given to inflation. Without easing up on the inflation target of 2 per cent it is difficult to see how the Eurozone economy can be reflat. Without reflation it is difficult to see how 25 million unemployed people can be helped.

Another requirement is the creation of a Banking Union with proper bank resolution processes, deposit guarantee insurance and mutualisation of debt requires only the political will to do it. A Fiscal Union would pose particular challenges to Ireland

because of its current attitude to corporation tax yet it is difficult to see how tax competition could be allowed to continue. The bottom line is that Europe's banks need to be fixed because firms in peripheral economies are still facing crippling borrowing costs. Here again Germany is key because it wants to exclude its smaller banks from the system of banking supervision and resolution (*The Economist*, 26<sup>th</sup> October, 2013).

Over time Europe needs to become a joint coordinated market economy with the ECB acting as a lender of last resort. This implies also the coordination of industrial policy to eliminate the imbalances between the core and the periphery. It should also be able to legislate to ensure that supply chains do not result in higher prices for goods in one country than in another. For example, it is hard to understand why, after five years of recession, the cost of living in Ireland is still 17 per cent above the EU average.

Most immediately though the challenges for Europe is to achieve the escape velocity to get out of recession. This requires growth. Sean O'Riain (2014, forthcoming) argues that the policy mix in Europe is wrong. Whereas the US is practicing a mixture of Keynesian demand management with efforts to boost private sector confidence, and the Nordics complement fiscal consolidation with public investment in infrastructure, the EU has the worst of both worlds; fiscal consolidation and an expectation that same will restore confidence. It is a variation of the notion of expansionary fiscal contraction, which in reality is an economic oxymoron (see also Blyth, 2013). O'Riain (ibid) suggests, as a practical solution to the ideological contestation inherent in this argument, combining fiscal consolidation with public investment at a European level. His views resonate with those of Anton Hemerijck (2013:22) who argues that the key challenge is to make long-term social investment and short-term fiscal consolidation mutually supportive at both EU and member state levels.

## **ii. Recapturing the Developmentalism of the 1990s**

It is clear from the previous section that Ireland's future is highly contingent on whatever policy is adopted at EU level. Indeed it is important to be realistic about

how constrained the available policy space actually is. In Chapter 7 it was outlined how the institutional architecture of EMU is constructed on ideas emanating from new classical macroeconomics (NMC) and efficient markets hypothesis (EMH). Despite the many weaknesses exposed during the financial crisis it is clear that German policy towards Europe as explained in *The Financial Times* by the Finance Minister, Wolfgang Schauble, (17<sup>th</sup> September, 2013:13) remains consistent with this paradigm.

Moreover, Fritz Scharpf (1991 and 1999) has written extensively about the obstacles encountered by social democratic governments attempting to use Keynesian demand management strategies to achieve full employment. Whereas Nordic countries have tried to get around these obstacles by using active labour market policies (ALMPs), German Social Democrats have tried to deal with unemployment by reducing the labour supply rather than promoting employment. Thus Scharpf (1999:192) remarks that there is no single type of non-Anglo-Saxon 'welfare capitalism' or 'European social model' which could be adopted for the EU if only the political support could be harnessed for it. Instead he posits that there are diverse, historically contingent, and complex national solutions, deeply embedded in the institutions, values and established practices of specific societies – constantly evolving and changing, it is true, but capable of changing only in path dependent ways if change is to be distinguished from dismantling.

The essence of Scharpf's argument is that EMU enforces a strict division of responsibilities which directly cuts through national policy autonomy. This bereaves Member States of any effective macro-economic instruments and problems are thus largely left to wage policies.

Also writing from a social democratic perspective Olaf Cramme (2013) argues that restricted policy space is a reality of the modern world that has to be engaged with. It is not simply a product of economic integration but a consequence of increased debt and deficit financing in circumstances of low growth compounded by a need for increased social investment to meet the needs of an ageing demographic. He argues that opting out from EMU would be unlikely to significantly improve the policy space as the debt burden cannot be wished away. Moreover, he argues that the large

majority of citizens have accommodated to these constraints although less well-off people are being pushed towards the margins of politics by virtue of feeling unrepresented by the mainstream parties. Cramme (ibid) holds that the left-right axis of political contestation remains the central frame in European politics but nowadays competes with a new mainstream versus populism cleavage.

This is a fairly accurate depiction of what is happening in each of the comparator countries. The fringe parties – The Finns in Finland, The Party for Freedom in the Netherlands, The Danish Peoples’ Party and Sinn Féin in Ireland – are enjoying considerable support mainly on the back of opposition to austerity and to the EU. However, Eoin O’Malley (2008) points out that these so called ‘Radical Right’ parties are often quite dissimilar. Sinn Féin is in fact a left-wing party which, by virtue of its radical nationalism and anti-establishment position, might be attractive to the type of voter who in another country, with a different nationalist past, might support a radical right-wing party.

When asked about the impact of the 1789 French Revolution by President Nixon in 1968, the Chinese Premier, Zhou Enlai, is reported to have replied ‘It’s too early to say’. This may be the most appropriate response in relation to the Irish case too because, for all the reasons set out above, what happens to Ireland is highly contingent on what happens in Europe. The most critical phase of EU integration is yet to come and the Irish case is hugely complicated by its close relationship with Britain and that country’s future in Europe is, to say the least of it, somewhat uncertain just now.

However, Donovan and Murphy (2013:291) draw attention to some positive achievements. Although there can be little doubt about the costs of the financial crisis and the damage to society the impact has not been as great as in other peripheral countries. The economy and the people appear to be more resilient. Many positive elements of the Celtic Tiger period remain intact. Ireland still ranks highly in GDP per capita in the global economy and the MNC sector remains intact, which is important given its role in driving the economy forward in the 1990s. It has shown further signs of growth in areas such as social media technology. NESCI

(2013) concurs with this analysis noting that foreign direct investment into Ireland has held up well with employment in IDA Ireland companies returning to pre-crisis levels of 150,000. Moreover, the rate of unemployment fell from a peak of 15.1 per cent in the first quarter of 2012 to 13.9 per cent in the second quarter of 2013.

However, NESCF (ibid) offers a highly qualified assessment overall. It observes that while there has been some progress recovery has been limited. In a comparative perspective Ireland's initial recovery is considerably weaker than that experienced by Finland following its financial crisis in the early 1990s. By this stage of economic recovery Finland had experienced recovery of domestic demand in contrast with the extended decline in Ireland. According to NESCF:

‘This underlines the unusual scale and complexity of Ireland's crisis, the fragility of the international economy compared to the early 1990s and the policy and institutional challenges which confront Irish society.’

(NESCF, 2013:11)

In truth the jury on Ireland may be out for some time yet and it may be more productive to seek to identify the repertoires of action that could propel Ireland towards a more sustainable long term future, albeit acknowledging the limited policy space available. That means, inter alia, finding the means to recapture the developmentalism of the 1990s.

First of all, however, there are two related dilemmas for Ireland which should inform any policy choice. Neither features to any extent currently in political discourse about the future.

The first concerns Ireland's foreign policy and its relationship with Britain in particular. Operating a multi-interface periphery foreign policy as described by Ruane (2010) becomes more difficult in circumstances where completion of the EMU architecture involves eventually moving towards a fiscal, banking and perhaps eventually, social and political union. To be sure there are dilemmas for Europe (described in the previous section) which could impede progress towards this goal. It is true too that, as the Economist Intelligence Unit and Governor Honohan of the Central Bank warn, there is still an outside possibility that the Eurozone could

dissolve in the medium term (EIU Country Report for the Netherlands, June 2013:9; interview, 31<sup>st</sup> October, 2013). Nevertheless, at this stage of the crisis it is prudent to base policy on a working assumption that this will not happen because to do otherwise would lead to paralysis. But with Britain distancing itself further from the EU, and given that Britain is acknowledged as Ireland's principal ally in Europe, how should Ireland deport itself in the Eurozone? Should not Ireland try to build alliances with the other small open economies to try to balance the dominance of Germany in circumstances where intergovernmentalism is now the principal means of policy making? In the past small countries, like Ireland and Finland as we have seen, relied on the Commission for fairness. Ireland indeed did so to a fault. However, while the other small countries looked at in this research are all strategically important to Germany, Ireland is not. But it is Britain's sixth largest trading partner.

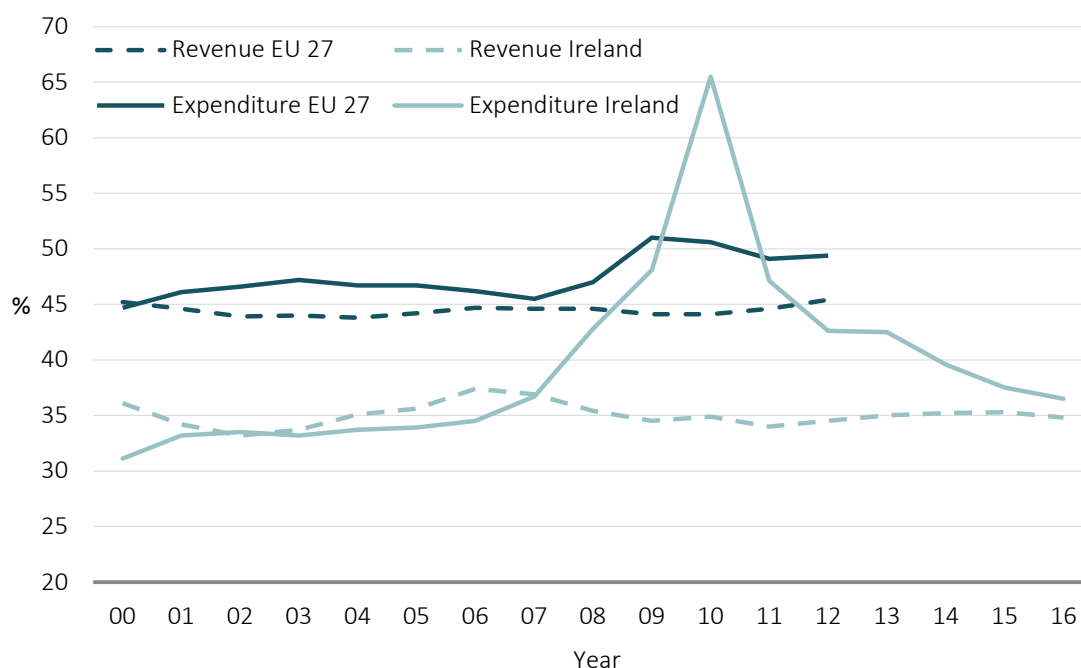
Yet there seems to be little choice but for Ireland to make the best of its involvement with the Eurozone. As Donovan and Murphy (2013:23) point out, by deciding to join the ERM as far back as 1978, Ireland had effectively anchored its currency in the Deutschmark (DM) block. It was always hoped that Britain would eventually stay the course with Europe but as Martin O'Donohue explained in his interview (22<sup>nd</sup> November, 2011), based on his experience of British politicians, this was the triumph of hope over experience. If anything Britain is today more semi-detached from Europe than ever. The Tory Party is congenitally Eurosceptic and it has the United Kingdom Independence Party (UKIP) snapping at its heels. Moreover, the press and public also seem to be firmly Eurosceptic. However, Britain will always be important to Europe, not just because it is one of the largest economies, but because of the role of the City of London. Without the City the Euro will perhaps struggle to assert itself as an alternative pole of currency to the Dollar and the Yen (Talani, 2000). Jonathan Powell (2014) points to the potentially dysfunctional economic relationship that could affect the British Isles specifically if Scotland were to vote for independence from Britain in September, 2014 and Britain was subsequently to leave the EU. A patchwork quilt of EU membership could result in the imposition of border controls in what is now a common travel area. It is possible, of course, that Ireland may be able to redefine its multi-interface peripheral foreign policy to carve out a role as an intermediary between Britain and the US and Europe



by leveraging its cultural, linguistic and economic links with them all, as Honohan puts it, ‘to become the Hong Kong of Europe’ (interview, 31<sup>st</sup> October, 2013). One suspects that this will only be possible in the context of an unequivocal commitment to Europe.

This brings us to the related dilemma; what would an unequivocal commitment to Europe imply in terms of the polity of the country, given that it is considered to be part of the Liberal Market Economy (LME) group of countries? It seems hardly likely that Ireland could maintain a position as the sole LME within a social market economy group of countries. One would expect convergence pressures to force Ireland to realign its polity such that the countertendencies identified by some authors (Smith, 2005; O’Riain, 2004 & 2008) would become mainstream, so to speak. As can be seen from Figure 15 the plan for Ireland’s recovery worked out with the EU/ECB/IMF Troika sees tax revenue and public expenditure return to its pre-crisis trajectory – well adrift of the EU average. This is hardly sustainable in a more deeply integrated Eurozone. Not just that, but fiscal convergence would require Irish people to be weaned away from their addiction to low taxes and low public spending. The same would apply to corporation tax. Colin Hay’s (2004) observations that common trajectories followed at different paces in a path-dependent world invariably lead to divergent, not convergent, outcomes may be tested in the Irish case.

Figure 15: General government revenue and expenditure: Ireland and EU 27



Source: NERI Quarterly Economic Facts, December, 2013 [www.nerinstitute.net](http://www.nerinstitute.net)

Taking the foregoing as a context there are a number of repertoires of action which can be identified to help Ireland cope with the dilemmas it confronts and propel it towards a more sustainable future.

The first repertoire of action must deal with the intellectual failure that has characterised Ireland's development and its engagement with the European integration project. Of course it is not possible to legislate to make people more strategic or more responsible in their thinking and actions. But institutional reform can help to ensure that policy making is, as far as possible, evidence based and inclusive. Towards the end of their recently published book on Ireland, Donovan and Murphy (2013: 290) opine that what has happened in Ireland is the by-product of a small country where personal and professional relationships are built up over many years and sharp disagreements tend to be avoided. Pointing out that this is not inevitable based on the experience of other small countries they argue that a constructive and important step would be for Ireland to study closely the policy – and

decision – making processes of countries similar in size in order to identify what lessons might be drawn. This is what this thesis tries to do.

Starting with the political system, the Varieties of Capitalism literature beginning with Katzenstein (1985) lays stress on the importance of proportional representation electoral systems in creating consensus democracies, whose merits over majoritarian systems are detailed by Lijphart (1999). Ireland has a PR system but it is bolted on to a Westminster majoritarian system. As in so many other things Ireland is neither fish nor flesh – neither wholly consensus democracy nor wholly majoritarian democracy. In Lijpharts ‘two dimensional conceptual map of democracy’ Ireland is exactly on the border line between both systems (ibid: Chapter 14). A number of authors (Kirby and Murphy, 2008; Paus, 2012) have drawn attention to the propensity for populist politics which arise from this situation. Candidates from the same party compete with one another in multi-seat constituencies minimising what they have in common (as distinct from other parties) and emphasising their ability to work for local issues. Thus localism trumps over ideology and the candidate’s potential as a legislator. Taken in conjunction with the historical dominance of nationalism over class interests this means that Irish politics and electoral systems are fundamentally different from those of the comparator countries. An effort at political reform was tried in October 2013 but rejected in a constitutional referendum. It was a proposal to abolish the Senate, or Upper House of Parliament, but was pursued on no sounder basis than a whimsical idea of the Taoiseach. It was not a proposal rooted in any serious plan for political reform. The introduction of a list system alongside the existing multi-seat PR electoral arrangement occurs to this author as being the simplest way to get over the problems identified earlier. The rejection of the referendum may mean that the Senate will be reformed to give it a more active role in scrutinising European issues, which, as the evidence has revealed, is a major lacuna in the Irish system. Ireland needs to engage in a serious debate with other countries on the future of Europe. Ruth Barrington in her interview (9<sup>th</sup> January, 2012) made the point that she could not recall any major speech on Europe by any Irish politician. For far too long Ireland’s only concern was to work the system to extract as much by way of structural funds and agricultural support as possible. That was bad self-defeating politics.

Intellectual failure is evident too where one would least expect to find it – in the universities. Donovan and Murphy (2013:153) remark that the intellectual strands of thinking associated with new classical macro-economics and efficient markets hypothesis were reflected in the research priorities of academia where macroeconomics in general, and financial stability issues in particular, received progressively less attention. It is to be hoped that the emergence of more social democratic research institutes like TASC and the trade union financed Nevin Economic Research Institute (NERI) will stimulate a more heterogeneous research environment.

At a societal level Ireland will have to fully rehabilitate Social Partnership. It may, and perhaps should be, a different model, but without a national central bank deciding monetary policy and within a fiscal union the levers to influence pay policy available to government are non-existent. Yet Irish workers will be expected to behave as Finns, Danes and Dutch do, looking to Germany for guidance. Unless there is an appropriate institutional architecture of the labour market to mediate signals from the ECB to the workforce then no coordination can happen. By early 2013 there was no significant wage pressure in the system but if the economy begins to recover in two or three years by then there will have been almost ten years of pent up wage pressure. In circumstances of tighter labour markets this pressure could explode into a series of individual industry pay demands potentially cutting off any putative recovery before it begins<sup>94</sup>. This problem could be compounded by the obsolescence of institutionalised wage bargaining skills in both unions and firms.

In the absence of Social Partnership there is a danger that the National Economic and Social Council (NESC) could become a stranded asset. If there is no obvious forum for its output to feed into then it will be hard to maintain the enthusiasm of its members and staff. By early 2013 it has become clear that many organisations and government departments are not sending their most senior representatives to Council meetings. Similarly if there is no reconstitution of, or replacement body for, the National Implementation Body (NIB) then there will be no forum in which unions and business can discuss issues particular to the labour market e.g. pension's reform. Absent these institutions, working effectively and with the respect and trust of

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<sup>94</sup> This is a matter discussed in general terms (not specifically for Ireland) by Crouch (2000:211).

relevant societal actors, Ireland has no means of establishing a consensus about the common good for the future. Specifically, there will be no way to construct a post-bailout distributional settlement.

Restructuring of the institutions of labour market actors also needs to be considered. Continuing with 48 trade unions – as many as in Britain – for a working population of 1.8 million makes no sense. Moreover, some trade unions are headquartered in the UK and tend to be influenced by quite different policy drivers than their Irish counterparts e.g. in relation to incomes policy. Again this could become a more acute problem in the event of British disengagement from Europe. Changing this situation sounds logical and sensible but it is as well to remember that, as recounted by Peter Murray (2009, Chapter 5) and Emmet OConnor (2011), the role of UK and Irish based trade unions straddles a fault line which caused a serious trade union rift in the 1930s and 1940s. Consolidating the trade union movement is a necessary but challenging project.

The Nevin Economic Research Institute (NERI) has pointed out that when Ireland eventually exits the EU/ECB/IMF bailout agreement the profile of its tax and spending will return to pre-crisis patterns in percentage terms. This places the country towards the bottom of the EU 27 member states (NERI, 2013). The world is going through a paradigm shift involving low growth, high public debt, an ageing demographic and a significant challenge to social investment to maintain welfare states (Hemerijck, 2013). A return to business as usual is not sustainable in this context. Moreover, Ireland has to reconstruct its tax base because of its overdependence on property related transaction taxes. The goal of policy should be to move towards the tax and public spending profiles of other Eurozone members. This would be a very significant policy shift requiring a parallel distributional accord. It would bring to the fore issues around the taxation of people earning below the minimum wage and in receipt of welfare benefits. Broadening of the tax base in this direction would have to be balanced by the minimisation of tax expenditure (reliefs) at the corporate and higher end of the socio-economic spectrum. Serious tax reform challenges some very fundamental aspects of Irish society e.g. the extent to which the State intervenes to support the existing class structure as posited by

O’Riain (2008). Yet this is a necessary and inevitable adjustment in the context of building a sustainable economy and society in a more deeply integrated Europe.

Ireland also needs to rebalance its economy in a number of respects. Its manufacturing base is the mirror image of Denmark and Finland to a lesser extent. Ireland badly needs to increase the strength of its indigenous industrial base. An overreliance on US FDI attracted by low corporate tax rates does not look to be sustainable in a fiscal union. Charlie McCreevy tacitly acknowledged this in his interview (15<sup>th</sup> May, 2012) when observing that ultimately this is likely to be resolved through the common consolidated tax base. Moreover, if Britain does disengage from the EU to any significant extent it is likely to become a more aggressive competitor for investment based on a combination of lower corporate taxes and lighter regulation (O’Ceallaigh and Kilcourse, 2013). Ireland needs to begin to consider industrial policy in a European context. Up to now it has seen itself mainly as a gateway to the Single Market for US MNCs. But the Eurozone itself will have to rebalance to smooth out current account deficits and surpluses and Ireland will surely be expected to fit in with this. Obviously it will be necessary to plan for construction accounting for 8-9 per cent of employment not 15 per cent as happened during the boom. There are aspects of banking, specifically the role of foreign banks, which have not yet been resolved. Most of these are from the UK which could pose a complication in the event of a banking union within the Eurozone. While the IDA continues to be successful in attracting FDI, its equivalent for indigenous industry, Enterprise Ireland, needs to grow to at least parity of esteem and develop a narrative for its mission which is not in the shadow of the IDA. Availability of credit is crucial for indigenous SMEs who do not have access to capital markets. A state owned Strategic Investment Bank similar to the Industrial Credit Corporation (ICC) of past times is a pre-requisite to creating a strong indigenous industrial base, particularly in circumstances of a shrinking banking sector. Creating innovative indigenous firms should be the cornerstone of industrial strategy as pointed out in a recent TASC publication (Jacobson, 2013).

Although the demographic profile of Ireland is more favourable than that of the comparator countries there is a danger that structural unemployment, running at over 60 per cent of the total in 2013, could constitute a long term social welfare revenue

drain and impediment to recovery (Fitzgerald & Kearney, 2013). During a recession active and passive welfare measures tend to merge (Puntusson, 2005) so it is imperative that economic recovery is accompanied by strong activation measures lest a cohort of the population be trapped in long term unemployment.

But bearing in mind the Danish experience of the 1990s that ALMPs are not effective where unemployment exceeds 12 per cent (Lykketoft, 2009) more immediately an initiative to create employment is necessary. Kirby (2010) has drawn attention to a suggestion for a slower pace of fiscal consolidation aimed at giving growth an opportunity to do some of the heavy lifting of adjustment proposed by the Irish Congress of Trade Unions (ICTU). In its pre-budget submission for 2014, ICTU also proposed the creation of an investment fund of €4.5 billion for infrastructure based on a paper by Victor Duggan (2013). For reasons already explained the policy space for a traditional Keynesian response at national level has been circumscribed by EMU. However, it is possible, using money from the National Pensions Reserve Fund, private pension funds (€73 billion in total) and various combinations of public-private partnerships, to raise money which can be leveraged via the European Investment Bank (EIB). The ICTU argues that investment in infrastructure, taking into account multiplier effects, could create up to 40,000 jobs. This would be of great assistance to the army of construction workers made redundant since 2008. It would increase confidence in the economy and generate growth because spending power would increase domestic demand. It would also improve competitiveness by improving Ireland's infrastructure which does not rate well by international standards. It is an approach which compliments Sean O'Riain's (2014 forthcoming) proposal for a change in the policy mix at Eurozone level to allow for public investment to balance fiscal consolidation.

Finally, Ireland needs to develop a land use policy faithful to the principles enshrined in the unimplemented 1974 Kenny Report. Land speculation must never again be allowed to drive a property bubble. Kenny proposed restricting the premium on land sold for building to 1.25 times its agricultural value. Ireland is a small island and land is a finite resource. Its proper use is also important for environmental reasons as evidenced by the damage caused by developers building on flood plains during the boom. This is a matter in which we encounter Polanyi's thesis about fictitious

commodities. Land is not a commodity, it is a public good in the sense that governments need to play an active role in managing markets and that role requires political decision making; it cannot be reduced to some kind of technical or administrative function.

These issues – institutional reform, industrial rebalancing, tax base reconstruction and land use policy – are interconnected. Institutional reform can create conditions for a consensus democracy and potentially a Danish approach to a negotiated economy via a rejuvenated Social Partnership. This in turn can create the climate for a distributional settlement which can accommodate broadening of the tax base. The distributional settlement can be underpinned in return by social investment. Social investment can be supported by higher levels of labour force participation made possible by improved competitiveness generated by infrastructural investment and a stable industrial relations climate which should continue to attract inward investment. Gradually industrial policy, aided by institutional coherence at agency level, should facilitate a strengthening of indigenous industry to leave the country less vulnerable to tax competition. Controlling land prices should provide protection against house prices pushing up wages and undermining competitiveness. Most importantly these initiatives could allow for a return to the developmentalism of the 1990s by recapturing the capabilities which created conditions for the most sustainable era of development in Ireland's history. In other words, Ireland could definitely be a developmental network state of the nature described by O'Riain (2008).

It boils down to this; if one accepts that Ireland cannot afford to revert to the speculative and unsustainable trajectory it was on pre-crisis, then the logical course is to try to recapture the developmentalism of the 1990s – the period when Ireland appeared to converge with the other small open economies of Northern Europe. This means reconnecting with the unfinished work of Mjoset (1992) and with the democratic corporatism of Katzenstein (1985).

The foregoing is intended as simply an outline of the broad parameters of a plan for Ireland's future development model or political economy. What is needed is to mould these parameters into a comprehensive medium to long term plan for the post Troika era by emulating the way the Swedish LO Economists, Gösta Rehn and



Rudolf Meidner, created a development model for Sweden in the 1950s and which ultimately shaped the acclaimed Nordic model. The circumstances of today's world are very different, and there is less policy space in which to manoeuvre, but a plan is essential all the same. Why? Well because of what Zygmunt Bauman (2013), referred to as *Imaginaire*. *Imaginaire* is in other words how we imagine the world order, what the conditions for our actions are, and for what values it is worth struggling or, if necessary, make a sacrifice. Bauman (ibid) laments that the neo-liberal world view still dominates policy thinking even though its ideology is in crisis. As he puts it:

‘The misfortune of today’s social democracy is that there is no alternative vision. Chancellor Schroder has gone down in history with his remark that there is no capitalist or socialist economy, there is only good or bad economy. It is as if we had thrown in the towel: “I give in, I have nothing to say”.... there was no thought here of this semi-bankrupt bourgeois *imaginaire*.’

(Bauman, 2013:4)

This is challenging for Ireland because it is such an outlier relative to the comparator countries. It has no strong tradition of social democracy nor is an ‘ideology of Social Partnership’ embedded as explained by Katzenstein (1985:35) in ‘distinctive political structures and practices’ for resolving distributional conflict going back to the 1930s. The democratic programme of the first Dáil in 1919, authored by the leader of the Labour Party, Thomas Johnson (assisted by William O’Brien and Cathal O’Shannon of the Irish Transport and General Workers’ Union), was probably the only occasion when a social democratic polity was seriously considered in Ireland. Thereafter nationalism dominated politics (Yeates, 2011:298).<sup>95</sup><sup>96</sup> Nevertheless, the shock

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<sup>95</sup> It is intriguing to speculate what might have happened if Labour and Fianna Fáil had remained in government under Bertie Ahern’s leadership in 1994. Ahern is a Social Democrat who considers himself to be to the left of Labour (interview, 13<sup>th</sup> January, 2012). Ireland might have had its own version of a red-green alliance.

<sup>96</sup> The catalyst for the Democratic Programme was an international Socialist conference in Berne. Sinn Féin were interested in this conference as a possible support for Ireland’s case for independence. To promote their cause at Berne they thought of formulating, with Labour, a Democratic Programme, a strong statement of the social and economic aims of the new state. However, some members of Sinn Féin were uneasy about the ‘Communist’ flavour of the document and spoke to William O’Brien about it. How O’Brien responded is not

imparted to the national psychology following the collapse of the Celtic Tiger must allow for consideration of new ideas if only they can be presented in a credible narrative about the future of the country in Europe.

## Conclusion

At the end of September, 2013, Ireland's economy was becalmed, bouncing along the bottom and lacking the escape velocity to effect a convincing recovery. Its future is highly contingent on EU policy which reflects a dogged German adherence to deflation and austerity, a policy supported by a handful of donor countries too. This accords priority to stabilising national budgets at the expense of welfare systems, public services and collective goods (Harbermas, 2013). Debt, both public and private, weighs heavily on Ireland's efforts to extract itself from the depression into which it has sunk. The immediate focus of government policy is to exit the bailout agreement with the EU/ECB/IMF Troika by the end of 2013. Austerity as a policy has been undermined by its own failure and even at an intellectual level by IMF error admissions concerning multiplier effects and in respect of debt sustainability levels assumed in influential work by Harvard economists Rogoff and Reinhart (Blyth, 2013; *The Economist* 4<sup>th</sup> May, 2013). Austerity is implemented in the so called programme countries by 'The Troika', an apparently socially indifferent technocracy of zealous neo-liberal persuasion. This technocracy operates as it does because Germany imposes its will, not by action, but by studied inaction (Beck, 2013; *The Economist* 28<sup>th</sup> September, 2013). We are at a critical juncture which brings to mind Gramsci's definition of a crisis as a situation which, 'consists precisely in the fact that the old order is dying and the new cannot be born.'

(Gramsci, 1998)

The Varieties of Capitalism practiced in the comparator countries are quite different to Ireland. They are classified as social market economies in the literature and the Nordic version has a distinct emphasis on universal and publicly provided public

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recorded but the degree of serious commitment by Sinn Féin to the Democratic Programme needs to be evaluated in this context (Morrissey, 2007: 162)

services, high labour force participation and high productivity industries. The Netherlands is classified as part of a continental Christian democratic type of social market economy, yet close to the Nordic model. All have engaged with challenging economic conditions over the last twenty five years, have reformed labour market and welfare systems but have preserved the core values of their societies. Ireland is classified as a liberal market economy, the only one of its kind in the Eurozone. Such countertendencies as were evident in the developmentalism of the 1990s have been almost extinguished by the speculative excesses of the 2000s and the post-crisis imposition of austerity policies.

European integration has dominated public policy choices and this is particularly the case with EMU. Further integration of the Eurozone seems inevitable and this poses dilemmas and trilemmas as outlined above. It is unlikely in the circumstances to be a smooth passage. Not least of the problems for the comparator countries will be preserving their national systems against the liberalising emphasis of negative integration and the jurisprudence of the European Court of Justice (ECJ). It is possible, of course, that some accommodation in an institutional sense will be made to balance the power of the ECB but having tried and failed with the Constitutional Treaty in 2005 politicians may find this challenging. The question is will there be convergence on just one variety of capitalism and to what extent will the European authorities and governments respond to evidence of a 'Double Movement' in the form of populist politics?

Wolfgang Streeck (2014) considers that Europe is on the road to a 'consolidation state' governed by a one size fits all authoritarian neo-liberalism, a political jurisdiction close to the ideal of a market economy freed from politics by politics itself. He argues that by surrendering the right to their own currencies, and with it the option of devaluation to protect their citizens' economic situation, European countries have been party to what Polanyi called 'planned *Laissez-Faire*' (Polanyi, 1944: Chapter 12). Streeck (2014) argues that four decades of neo-liberal progress have left Europe in a space where democracy and social justice are contesting with market justice. The main task of democratic politics should be to reverse the institutional devastation wrought by neo-liberal convergence. Democratisation should mean building institutions through which markets can be brought back under

the control of society: labour markets that leave scope for social life, product markets that do not destroy nature, credit markets that do not mass-produce unsustainable promises. He makes the case for a new type of European Monetary System based on Keynes' ideas for the Bretton Woods regime with its fixed but adjustable exchange rates. The Euro would not necessarily have to be abolished; it could remain as a non-national anchor currency alongside national currencies, rather like the artificial currency called Bancor proposed by Keynes. Streeck also believes there is evidence of a Polyanyian double movement but that authoritarian champions of neo-liberal reform, such as Wolfgang Schauble of Germany, will simply respond with more of the same 'reforms'. Streeck's is a bleak assessment of the future.

In the ninety years or so since independence Ireland has looked into the abyss of economic destruction four times. The first was in the 1930s when de Valera took over and moved policy from agricultural *laissez faire* to import substitution industrialisation. The second was in the 1950s when Lemass and Whitaker reversed course towards export orientated industrialisation and ultimate membership of the EEC. The third time was 1987 when a combination of the Single European Act, two devaluations and Social Partnership took the country off the rocks. Although it is otherwise full of hubris, MacSharry and White's (2000) account of the Celtic Tiger period mentions that in the early 1990s people were wondering whether Ireland was a viable economic entity at all. It was at that time that the National Economic and Social Council asked Lars Mjoset (1992) to compare Ireland with other small open economies to find out why they were doing so well and Ireland was doing so badly. Twenty years on this thesis seeks to explain, using Varieties of Capitalism theory and the experience of European integration, why Ireland did so well for so long, before succumbing to the 2008 financial crisis in such a catastrophic way.

The conclusion is that Ireland can still build on what was achieved. All was not lost but a new national narrative is needed which assimilates the lessons of the mistakes made. It must also attempt to factor in the enormous challenge associated with deepening Eurozone integration coinciding with probable British disengagement. In effect Ireland is at a critical juncture and needs a Rehn-Meidner type model on the lines of that constructed by the Swedish LO economists in the 1950s and which subsequently shaped the acclaimed Nordic model. It will not be the same because

times, values, cultures, and the circumstances are different. But at the very least, it may help to recapture the developmentalism of the 1990s and put the country on a trajectory towards a sustainable future. Without a political vision of where we should be headed, we become mere spectators of our own drift.

On a personal note this research has thrown up some aspects which were unexpected. Firstly, given their history of tolerance and social cohesion it is surprising that Finland, Denmark and the Netherlands have had such a reaction against migration flows and the exogenous pressures of European integration. It is not what one would intuitively expect from societies steeped in a tradition of corporatism of the type described by Katzenstein (1985) or 'The Negotiated Economy' as referred to more generally in the Varieties of Capitalism literature for the Nordic countries. For its part, the Netherlands has built a model of 'consociational democracy' from a society historically used to pillarisation. But each has seen the emergence of new, and sustained political forces which are, to say the least, considerably to the right of the mainstream parties. In my view these forces are likely to be a permanent feature of the political landscape and alter the centre of gravity of the polity in the direction of Euroscepticism. This will be so because the mainstream parties will struggle to respond to the populist appeal of these new parties. This phenomenon has not really been addressed in the existing literature.

A second aspect worth remarking on is that the dog that has not barked since the 2008 crisis is organised labour. To be sure there have been many public protests, particularly in Southern European countries, and strong advocacy against austerity in individual countries and at ETUC level, but nothing comparable with, say, the sustained campaign by the Solidarity Union in Poland in the 1980s which was central to the regime change. In circumstances where 26 million people are out of work one might have expected more serious challenges to the order. Scholars like Crouch (2011) expect that social movement will emerge as the catalyst for change but more or less dismiss organised labour, as indeed do many of those considering the state of social democracy (e.g. Cramme and Diamond et al, 2012; Meyer and Hinchman, 2007; Painter, 2013). This suggests that a double movement in a Polanyian sense is not on the cards. I do not share these views for a number of reasons. Social movements often have a single issue focus, are not usually mass membership based

or have difficulty with financial sustainability. The Occupy movement came and went without leaving an intellectual trace. By contrast trade unions are primarily focussed on the world of work, have a mass membership, have a representational status within a legal framework in most countries, and are organised at national, European and global levels. They are incomparably better equipped to be agents of change than social movements as suggested by Crouch (2011). On the other hand their capacity to effect change depends on mobilising their members. This is incredibly difficult to do during a depression where people are fearful of losing their jobs, or even their homes if they have mortgages. It is worth remembering that the New Deal in the US did not emerge until 1935, some six years after the Wall Street Crash. My expectation is that the labour reaction will coincide with economic recovery. There could be a number of influences on this e.g. tightening labour markets (to some extent associated with demographics), the possibility of a shrinking wage gap between advanced economies and emerging economies making outsourcing less attractive (See PWC, 2013), and a reaction to, by then, perhaps ten years of wage stagnation. Most importantly, the middle classes are unlikely to tolerate the kind of precarious employment relationships that inhibit them from buying houses and forming families. The easiest way to rectify these problems is through demanding better terms and conditions from employers. So long as trade unions remain in existence it is plausible to suggest that they will be eventually the vehicle for a Polyanian double movement. After all that was the experience of Europe after World War II. The 1950s were a period of stagnant wages as Europe was rebuilt but the 1960s saw a wage explosion all over Europe.

A related question is the interconnectedness of demographic trends, the sustainability of welfare systems, and labour markets addressed by Anton Hemerijck (2013). It seems to me that this is becoming an increasingly urgent field of study. The cleavages in society potentially arising therefrom would, *prima facie*, appear to have implications for the Varieties of Capitalism discourse. Reform of welfare systems is a huge part of the VoC literature but the dilemma of sustaining universal welfare services in the face of an ageing demographic and increasing precariousness of employment less so. Reforms such as lengthening working life do have implications for people coming in to the labour market and insecure and poorly paid employment, together with inadequate pension provision, actually throws more people into a state

of dependence on public services. This greater demand requires a broader tax base which can only in turn be underpinned by well-paid secure employment. In a sense it seems as if the Rehn-Meider model in its original form is necessary more than ever but the policy space for that at an individual country level is now much more limited than in the 1950s. The cleavages which societies will encounter as a result of conflicting objectives of social sustainability and competitiveness in a more deeply integrated Europe could include some such as between migrants and indigenous populations and between generations in a way not experienced before. This could become a really serious problem in circumstances of endemic low growth.

The nature of the EU's response to the 2008 financial crisis fails to resonate with Jacques Delors' declaration twenty years earlier that:

‘The **social dimension** is an integral part of the European way of life. It is part of our identity’.

(Delors, 1988:8).

And yet, as Wim Kok in his interview for this research points out, that for all its faults, Europe is the only political entity in the world concerned with the collective issues of welfare sustainability as a public good. I am inclined to agree and to believe that the issues identified above will eventually force a new distributional settlement in Europe.

As mentioned earlier one of the dilemmas of holding social policy at national level is a decision trap which leaves the ECB all powerful. Bluntly my own view is that if there is not to be a German Europe a new social democratic narrative of Europe is required. It has to provide answers to these dilemmas to be credible to the middle classes and also be capable of winning working class people back from the margins of populist politics. By definition it implies a more deeply integrated Europe to embody the distributional settlement referred to above. It all comes back to the influence of ideas. Ideas offer the possibility to bring people together and enable them to believe that they can control their collective destiny.

Lastly, as regards Ireland it is surprising that electoral politics remained so impervious to Europeanisation. In the literature this is generally explained in terms of the competing varieties of nationalism emerging in the form of Fianna Fáil and Fine Gael after the Civil War in the 1920s, and the dominance of the independence question (compounded by 40 years of conflict in Northern Ireland) over class interest issues (Coakley et al, 2010; Breen et al, 1990). Other factors are relevant too such as the existence of a de facto Catholic polity and a lack of engagement with Europe on anything deeper than Ireland's immediate concerns. However, my own view is that this goes deeper. The Civil War was preceded by the War of Independence from 1919-1922. Before that was the Easter Rising in 1916 and before that again the Lockout in 1913 which involved 25,000 workers being locked out in an industrial dispute by a combination of 400 employers in Dublin. It lasted five months, five people were killed and eventually the workers were starved into submission.<sup>97</sup> Given that a similar dispute in Sweden in 1931 ushered in the hegemony of Nordic social democracy, it is surely surprising then that, not only did something similar not happen in Ireland, but social democracy never really got a foot in. My personal explanation for this is that one of the key figures on the union side in 1913, and a founder of the Labour Party, James Connolly, came to perceive physical force nationalism as being the only way to bring about a new social order. He committed the armed wing of the labour movement at that time, the Citizen Army, to the nationalist revolution thereby ideologically confusing future generations of trade unionists. Connolly was executed for his part in the 1916 Rising. The playwright, Sean O'Casey captured it this way:

‘Nationalism became his daily rosary, while the higher creed of international humanity that had so long bubbled from his eloquent lips was silent forever, and Irish labour lost a leader.’

(Cited in Yeates, 2011:74).

Finally, it is appropriate to record that the year 2014 marks the millennium of the Battle of Clontarf when, on 23<sup>rd</sup> April, 1014, the Irish King, Brian Boru, defeated

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<sup>97</sup> The dispute would have been over much earlier but for the foodships financed to the tune of £100,000 by the TUC in Britain.



Danish invaders. If the outcome had been otherwise Irish people might today be living in a prosperous and progressive social democracy. It may be that this was a public policy failure of a magnitude far beyond anything described in this thesis.

## Appendix 1

### List of Persons Interviewed

#### DENMARK

NAME	POSITION	DATE OF INTERVIEW
Poul Nyrup Rasmussen	Former Prime Minister	21 <sup>st</sup> May, 2012
Soren Kaj Andersen	FAOS Sociologisk Institute, Copenhagen University	21 <sup>st</sup> May, 2012
Niels Christopher Thygesen	Copenhagen University	22 <sup>nd</sup> May, 2012
Mogens Lykketoft	Speaker of Parliament and former Finance Minister	22 <sup>nd</sup> May, 2012
Kraus Haekkerup	Former MEP	22 <sup>nd</sup> May, 2012
Anete Berentzen	European and International Officer of LO	22 <sup>nd</sup> May, 2012

#### FINLAND

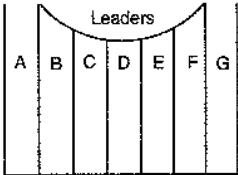
NAME	POSITION	DATE OF INTERVIEW
Sirpa Kekkonen	Policy Analyst, Primer Minister's Office	24 <sup>th</sup> May, 2012
Janne Metsamaki	State Secretary to the Minister for Labour	26 <sup>th</sup> September, 2012
Vessa Vihriala	Research Institute of the Finnish Economy	28 <sup>th</sup> September, 2012
Teija Tiilikainen	Finnish Institute for International Affairs	26 <sup>th</sup> September, 2012
Matti Vanhanen	Former Prime Minister	27 <sup>th</sup> September, 2012
Sixten Korkman	Senior Advisor to the Finnish Innovation Fund (SITRA)	28 <sup>th</sup> September, 2012
Kirsi Kunola	Disability Sector Specialist	13 <sup>th</sup> November, 2012
Lauri Lyly	President SAK Trade Union Confederation	10 <sup>th</sup> May, 2011

#### NETHERLANDS

NAME	POSITION	DATE OF INTERVIEW
Hans Ten Berge	Secretary General Euroelectric	26 <sup>th</sup> June, 2012
Alexander Rinnooy Kan	President of Social & Economic Council (SER) and Former Head of Employers' Association	11 <sup>th</sup> September, 2012
Paul de Beer	University of Amsterdam	11 <sup>th</sup> September, 2012
Han Noten	Mayor of Dalfsen	11 <sup>th</sup> September, 2012
Wim Kok	Former Prime Minister	12 <sup>th</sup> September, 2012
Ruud Vreeman	Chairman of PvdA	12 <sup>th</sup> September, 2012
Martin Strickler	FNV Trade Union Federation	12 <sup>th</sup> September, 2012
Agnes Jongerius	President of FNV	12 <sup>th</sup> September, 2012 21 <sup>st</sup> June, 2011

## IRELAND

NAME	POSITION	DATE OF INTERVIEW
Dermot McCarthy	Former Secretary General of Taoiseach's Department	4 <sup>th</sup> February, 2010 18 November, 2011
Martin O'Donohue	Former Minister for Economic Planning/Minister for Education	24 <sup>th</sup> February, 2010 22 November, 2011
Noel Dorr	Former Secretary General of Department of Foreign Affairs and Ambassador to UN	30 <sup>th</sup> November, 2011
John Hurley	Former Governor of Central Bank and ECB Board Member	9 <sup>th</sup> November, 2011
Kevin Cardiff	Secretary General, Department of Finance	14 <sup>th</sup> December, 2010
Bridget McManus	Secretary General, Department of Education	19 <sup>th</sup> December, 2011
Ruth Barrington	Chair of Irish Times Trust and CEO of Molecular Medicines Board	9 <sup>th</sup> January, 2012
Padraig McManus	CEO of Electricity Supply Board (ESB)	11 <sup>th</sup> January, 2012
Des Geraghty	Former MEP and President of Trade Union, SIPTU	12 <sup>th</sup> January, 2012
Bertie Ahern	Former Taoiseach	13 <sup>th</sup> January, 2012
Paddy Teahon	Former Secretary General of Taoiseach's Department	24 <sup>th</sup> January, 2012
Peter McLoone	Former President of Irish Congress of Trade Unions	25 <sup>th</sup> January, 2012
Turlough O'Sullivan	Former Director General of Employers' Organisation (IBEC)	2 <sup>nd</sup> February, 2012
Danuta Gray	Chairman of Telecoms Co. O2	7 <sup>th</sup> February, 2012
John Dunne	Former Director General of Employers' Organisation (IBEC)	16 <sup>th</sup> February, 2012
John Loughrey	Former Secretary General of Department of Public Enterprise/Board of IDA	7 <sup>th</sup> March, 2012
John Bruton	Former Taoiseach (1994-97)	8 <sup>th</sup> March, 2012
Colin Hunt	Former Political Advisor to Ministers for Transport and Finance	20 <sup>th</sup> March, 2012
Eoin O'Driscoll	Chairman of Industrial Strategy Board (Forfas)	26 <sup>th</sup> April, 2012
Danny McCoy	Director General of IBEC, Former ESRI Economist	27 <sup>th</sup> April, 2012
Tom Considine	Former Secretary General, Department of Finance	24 <sup>th</sup> May, 2012
Joe O'Toole	Senator and former Head of Teachers Union (INTO)	4 <sup>th</sup> December, 2012
Paul Sweeney	Chief Economist, Irish Congress of Trade Unions	24 <sup>th</sup> May, 2012
Charlie McCreevy	Former Minister for Finance & European Commissioner	7 <sup>th</sup> June, 2012
Raffique Mortiar	Former Senior Economist, Central Bank	7 <sup>th</sup> May, 2013
Patrick Honohan	Governor of Central Bank and ECB Board Member	31 <sup>st</sup> October, 2013
Dick Spring	Former Tánaiste and Minister for Foreign Affairs/Leader of the Labour Party	18 <sup>th</sup> September, 2012

	Model 1	Model 2	Model 3
	<p>National Government</p> <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>Black box labelled</p> </div> <p>Notional state Generic state Identified state Personified state</p>	<p>National government</p>  <p>What actually occurs Range of choice Structure of situation Innovation</p>	<p><b>National Government</b></p> <div style="border: 1px solid black; padding: 5px; display: inline-block;"> <p>A B z r y y C D E n t z x y r F P r</p> </div> <p><b>Players in positions (A-F) Goals, interests, stakes, and stands Power Action – channels</b></p>
<b>Basic unit of analysis</b>	Governmental action as choice	Governmental action as organisational output	<b>Government action as political resultant</b>
<b>Organising concepts</b>	<p>Unified National Actor The Problem Action as Rational Choice Goals and Objectives Options Consequences Choice</p>	<p>Organisational actors Factored problems and fractionated power Organisational missions Operational objectives, special capacities, and culture Action as organisational output Objectives – compliance Sequential attention to objectives Standard operating procedures Programs and repertoires Uncertainty avoidance Problem – directed search Organisational learning and change Central coordination and control Decisions of government leaders</p>	<p><b>Players in positions Factors shape players' perceptions, preference, stands Parochial priorities and perceptions Goals and interests Stakes and stands Deadlines and faces of issues Power What is the game? Action – channels Rules of the game Action as political resultant</b></p>
<b>Dominant inference pattern</b>	Action = value maximising means toward state's ends	<p>Actions (in short run) = output close to existing output Action (in longer run) = output conditioned by organisation view of tasks, capacities, programs, repertoires, and routines.</p>	<b>The Paradigm</b>
<b>General propositions</b>	<p>Increased perceived costs = action less likely Decreases perceived costs = action more likely</p>	<p><b>Existing organised capabilities influence government choice Organisational priorities shape organisational implementation Special capacities and cultural beliefs Conflicting goals addressed sequentially Implementation reflects previously established routines SOPs, programmes and repertoires, leaders neglect administrative feasibility at their peril Limited flexibility and incremental change Long – range planning Imperialism Directed change</b></p>	<p><b>Political resultants Action and intention Problems and solutions Where you stand depends on where you sit Chiefs and Indians The 51 – 49 principle International and international relations Mis-expectation, miscommunication, reticence and styles of play</b></p>

Source: Allison and Zelikow (1999:39)

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