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1 INTRODUCTION ................................................................................................................................................ 2

2 THE IRISH DEVELOPMENT STRATEGY: "INDUSTRIALISATION BY INVITATION" AND "COMPETITIVE CORPORATISM" ........................................................................................................... 3

3 CORPORATIST POLICY MAKING IN IRELAND SINCE 1987 ........................................................................... 6

4 ECONOMIC AND SOCIAL PERFORMANCE OF "COMPETITIVE CORPORATISM" ...................... 10

5 EXPLAINING "COMPETITIVE CORPORATISM" IN IRELAND ................................................................. 16

REFERENCES ..................................................................................................................................................... 18
Introduction

In a recently published article titled "globalization, labour markets and welfare states: a future of ‘competitive corporatism’” Martin Rhodes (1998, 178f.) argues that "reforming labour market regulation and recasting welfare states may require in most European countries a search for a new type of ‘corporatism’…” A successful response to globalization and unemployment can neither be found in the politics of deregulation nor in social corporatism, but in a new form of "competitive corporatism". Rhodes identifies two contradictory pressures on the system of industrial relations. On the one hand there is pressure on the part of the employers looking for greater flexibility in the labour market. This greater flexibility concerns the internal organisation within the firm, the relationship to the wider labour market and pay flexibility at the local level. Further, the Single European Market and the European Monetary Union are putting pressure on cost competitiveness. These developments should lead to decentralised forms of industrial relations, but at the same time there are counterforces. New forms of work organization like flexible specialisation, lean production and total quality management strengthen the position of the workforce and generate a need for trustful relations at the firm level. Achieving cost competitiveness also means countries must avoid wage drift and inflationary pressures. This can be achieved by the centralisation of national wage bargaining processes. So, there are countervailing pressures on the national systems of industrial relations, which are best being resolved by institutional forms of "centralised decentralisation” which combine elements of national wage coordination with greater flexibility at the local level.

This form of corporatist arrangement between state and social partners should be distinguished from the ‘social corporatism’ of the (older) Scandinavian type. The ‘social corporatism’ has been characterised by agreements between centralized peak organisations which cover a solidaristic wage policy, a commitment to full employment and to the expansion of the welfare state. This type of corporatism appears to have collapsed in the face of liberal markets and growing global competition (Rhodes 1996; Stephens 1996). The social component of ‘competitive corporatism’ will be much weaker, because the overall aim of those agreements is to improve national competitiveness. This is expected to lead to more investments and new jobs. The welfare state is regarded as a barrier towards new jobs because it creates an inflexible rigid labour market with "poverty and unemployment traps" (cf. OECD 1994). The agreements will, therefore, involve some kind of adjustments and restructuring of labour market regulations and labour market linked welfare programmes with shifts towards greater flexibility.

In this article I would like to take a closer look at the case of Irish "competitive corporatism”. Ireland has seen four national agreements between social partners and the state since 1987: the Programme for National Recovery (PNR, 1987), the Programme for Economic and Social
Progress (PESP, 1991), the Programme for Competitiveness and Work (PCW 1994) and finally Partnership 2000 (1996). Those agreements are said to be of crucial importance for the economic success of the "Celtic Tiger" (Sweeney 1998, 90). In the following chapters I would like to analyse the contents of the subsequent national agreement and their impact on social and economic development in Ireland.

2 The Irish development strategy: "Industrialisation by invitation" and "competitive Corporatism"

The Irish development strategy has seen several changes since independence. When de Valera (Fianna Fáil) was elected as Taoiseach in the 1930s he ended the epoch of "laissez faire" and pursued a protectionist strategy of import-substituting industrialisation. He wanted to build up a self-sufficient country based on agriculture and on Irish industry. In the end of the 1950s this strategy proved to be a failure. While the other west-European countries were enjoying the "golden age of capitalism", Ireland stagnated. With the publication of the influential document "Economic Development" in 1958 a political change was introduced towards a strategy of "industrialisation by invitation" (Stanton 1979). The economic borders were abolished and Ireland became part of the world economy. The ratification of the Anglo-Irish Free Trade Area Agreement (1965) and the application for membership in the European Community were major steps of opening up the protected Irish economy. Several political decisions have been reached to invite MNCs to invest in Ireland. The most important steps were the abolishment of the formal restrictions to foreign companies as provided for by the Control of Manufactures Act, the foundation of the Industrial Development Agency (IDA) as implementing public organisation of state support to MNCs, and financial incentives in the form of export profit tax relief (until 1981 there were no taxes on these profits, and since then there is a low 10 per-cent tax) and subventions (ranging from the provision of industrial buildings to financing the training of the labour force). These incentives have been accompanied by some kind of strategic economic planning and a growing acceptance of public deficits in order to initiate a sustainable economic progress (cf. Kennedy et al. 1988; Lee 1989; O'Malley 1989 and Mjoset 1992). The implementation of this strategy was widely accepted as successful in the 1960s and the 1970s. The economy grew, many foreign companies invested in Ireland and contributed to the industrialization of the Irish society (cf. Breen et al. 1990).

However, by the early 1980s the Irish economy ran into a crisis as the oil-price shocks of 1973-74 and the early '80s led to a huge increase of the public deficit as the Irish government reacted to that challenge with large deficit-financed public programmes1. The development

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1 The fact that the public expenditures have been largely used for consumption and not for investments has been criticised in particular: "It was not that the borrowing policy was necessarily wrong in itself. Borrowing for productive purposes can make sense. (...) But much Irish borrowing continued to be for consumption purposes,
strategy was now increasingly attacked for its over-emphasis and dependence on the investments of MNCs against a strategic approach to strengthen Irish companies based on local resources (Telesis 1982; similar proposals have been made more recently by the Culliton report 1992) and for its public spending. Kennedy and his colleagues argued that "a development strategy involving an ever-increasing Exchequer burden clearly could not be sustained for ever" (1988, 72). In the 1980s the crisis was obvious. The growth rates were falling; the public deficit amounted to over 120 per-cent of the GNP in 1986 leading to an exchequer borrowing requirement of about 12 per-cent of the GNP. The MNCs no longer invested, but repatriated their profits which contributed in combination with the servicing of the public debts to a balance of payments deficit of almost 10 per-cent of Ireland’s GNP. The unemployment rate was rising to almost 20 per-cent of the labour force.

It was in these circumstances that a political reorientation evolved. From the beginning of the early 1980s the political parties accepted that an expansionary fiscal policy was no policy option for a small open economy. In 1984 the trade unions proposed a coordinated strategic approach against the economic crisis which involved the acceptance of restrictive income policies. The tripartite National Economic and Social Council further elaborated this proposal in its study "A Strategy for Development 1986-1990" (NESC 1986). The huge public deficit and the unacceptable rate of unemployment which the NESC considered the main problems of the Irish republic, could both be traced back to insufficient levels of economic growth. Therefore, the most important task was to raise the economic growth rates. Since Ireland has turned to a small open economy, which is integrated in the European market and the European monetary system, the NESC argued that a Keynesian strategy of increasing the national demand is no sustainable political option. "What is crucial ... is the capacity of the internationally trading sectors to produce goods and services and to sell them competitively on export markets, or on the domestic market in the face of competition from imports" (NESC 1986, 148). A decade later it wrote that the economic situation of being a small open economy "implies that the competitiveness of the Irish economy is a precondition for the pursuit of all other economic and social goals" (NESC 1996, 63).

The NESC elaborated a strategy to raise competitiveness with four main elements, which have been kept since then (NESC 1986, 145ff and 305ff; 1990; 1993; 1996):

1. The strategy is based on a solid macroeconomic policy intended to reduce the level of public debts and maintain the internal and external stability of the Irish currency. There are no political choices, it is simply called "an imperative" (NESC 1986, 149). The macroeconomic policy is expected to create low inflation and interest rates and a positive climate for investors which should lead to more investments and employment. In more recent reports the obligations of the European Union (Single European Market and the

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mainly by financing wage increases, particularly in the public sector” (Lee 1989, 518; for data: Kennedy et al. 1988).
Maastricht convergence criteria) have increasingly been used to stress the need for a rigid macroeconomic policy.

2. The second element is a coordinated approach towards increasing the cost competitiveness of the Irish economy by restraining wage increases. Although the wages in Ireland were not too high in a comparative perspective (cf. O'Malley 1989, 224ff), income policy became an essential part of the development strategy (NESC 1986, 309). While European integration restrained the national capacity for macroeconomic fiscal and monetary policies, the determination of wage levels remained under domestic control (NESC 1986, 180). Since the government has only limited power in the area of wage bargaining, there was a need for a coordinated approach between social partners and the state. The government was expected to compensate for wage restraints on the part of the workers by lowering income taxes. The NESC argued that negotiations between the government and social partners should not only involve agreements on pay issues, but also on fiscal and monetary issues.

3. In order to increase long-term competitiveness, the NESC argued in favour of structural reforms in several policy areas (e.g. taxation and industrial policy). The Irish taxation system was analysed as being biased against employment creation because it substantially raised labour costs, but offered subventions to capital and land property. Each NESC report contained some chapters on sectoral development.

4. The implementation of the first three elements of the strategy was expected to contribute in itself to social integration, because improving competitiveness would lead to economic growth and more employment. Creating more jobs would ease the social welfare budget. Nevertheless, there should be a separate effort in the field of social policy with the aim to ensure social justice. It should be avoided that the costs of fiscal consolidation are borne by those parts of the Irish society depending on social welfare. The NESC referred to the report of the Commission on Social Welfare (1986), which argued that „all social welfare recipients should be entitled to a common payment instead of the present system... We estimate that the value of this payment would, in 1985, be of the order of £50-£60 per week“ (Commission 1986, 15). The NESC argued, therefore, that increases in social benefits should accrue to the lowest social welfare payments.
While Breen et al. reported that "by the mid 1980s Irish policy-makers ...(just, A.A.) passively awaited an upturn in the world economy. (...) the state, in practice, had ceased to see the goal of economic growth as lying within its purview" (1990, 47f.), the NESC presented a coherent political strategy which promised that national policies would still play a crucial role in raising the well-being of the people by improving competitiveness (cf. O’Donnell 1993).

3 Corporatist policy making in Ireland since 1987

Although the NESC presented its preport in 1986 and the social partners indicated their willingness to collaborate, the incumbent Fine Gael/Labour coalition under Garret FitzGerald (1982-1987) didn't react. It was only when Charles Haughey (Fianna Fáil) was elected as Taoiseach in 1987 that an agreement between state and social partners was sought. Haughey invited trade unions and reached a consensus which was "then forced upon the FUE (the employers organisation, A.A.) and the Irish Farmer's Association" (Bew et al. 1989, 178). In October 1987 the Programme for National Recovery (PNR) was published and it contained a programme based on the NESC report. It was based on the assumption that a stabilisation of the National Debt/GNP was required by reducing the Exchequer borrowing requirement to 5-7 per-cent of GNP. In regard to monetary policy a close link to the EMS was agreed upon. These policies were intended to decrease inflation and interest rates as well as rebuild investors' confidence. At the heart of the PNR was the political exchange between trade unions and the Government: "An appropriate pattern of pay developments has an essential part to play in the success of this Programme. Lower income taxation and a low level of inflation can help to bring about more moderate pay expectations" (Government 1987, 9).
Government promised to reduce income taxes by £225 million over the next three years. The unions, on their part, accepted the wage increases as indicated in the appendix. Other parts of the PNR were the reduction of the work hours from 40 to 39, and the commitment of the Government to maintain the overall value of social welfare benefits. Any increases of social welfare benefits should target the lowest payments. Institutional innovation gave the social partners direct access to the government: a Central Review Committee (CRC) consisting of the participating actors has been founded to monitor the implementation process.

The Haughey minority government used political support to conduct a very restrictive fiscal policy. Public investments as well as current expenditures have been largely reduced; especially in the areas of social infrastructure (health, housing and education). The strategy proved to be successful. The government reduced the general government deficit from 8 per-cent to 2 per-cent of the GNP in just two years (from 1987 to 1989) without evoking an economic crisis. In contrast, all economic indicators, but the unemployment rates, were improving2. Although the overall social benefits were increased only at a marginal level the benefits for the poor and the long-term unemployed have been increased quite substantially (Unemployment Assistance and Supplementary Allowance Scheme). Very important for the duration of the corporatist politics at that time was that the Haughey government not only kept its promise to reduce income taxes by £225 million, but reduced them by over £800 million.

The contents of the two next agreements, the PESP (Government 1991) and the PCW (Government 1994a), were quite similar. Both programmes were again based on reports of the NESC (1990 and 1993). Again, there was the combination of solid macroeconomic policies with a political deal of tax reduction against wage restraints and some social policies. The steps to decrease public debt were a commitment to a reduction to 100 per-cent until 1993 (PESP) and to 95 per-cent in 1996 (PCW). In exchange for the limited increases of wages the government committed itself to further reductions of the standard income tax rate from 35 per-cent to 30 per-cent. The PESP allowed for some additional wage bargaining at the local level up to a limit of 3 per-cent. Furthermore, the government agreed to implement some labour market initiatives. A PESP pilot programme against long-term unemployment was introduced. In 12 selected disadvantaged areas there have been enhanced efforts to develop the local economy and support long-term unemployed people by providing publicly funded jobs (cf. results: Craig 1994). In regard to labour laws several improvements (e.g. for the social protection of part-time workers and employment equality), were agreed upon.

2 There has been a discussion on why the Irish economy prospered aeven though the state pursued a very restrictive fiscal policy. The Commission of the European Community called the effect "expansionary fiscal contraction" and argued that the fiscal stabilisation created confidence on the part of the economic actors, leading to more consumption and investments (cf. EC Commission 1991 and McAleese 1990). Other authors attributed the economic success to the so-called Lawson-boom in the United Kingdom which enhanced the demand for Irish products and the massive fall of the oil-prices. They concluded: "Irish policy makers were just lucky that their adjustment was carried out at a time when world growth became buoyant and world interest rates were falling" (Bradley et al. 1993, 106; similar: NESC 1990).
The PESP has not been perceived as being as successful as the PNR. External economic conditions worsened and the European currency crisis of 1992-93 undermined the confidence in the external stability of the Irish pound. In January 1993 it finally had to be devaluated by 10 per-cent. In this context the employers regarded the wage increases as too high while at the same time there was growing criticism from social interest groups. Those later organisations, e.g. the Irish National Organisation of the Unemployed (INOU), the Community Workers, parts of the catholic church (esp. Seán Healy and Brigid Reynolds) argued that the interests of the socially weak strata of the Irish society (the long-term unemployed, the poor...) were excluded from the policy-making process. Therefore, the agreements would neglect the interests of these groups. The agreements were just "pay negotiations" with no use for the unemployed or the poor. The Labour Party expressed this dissatisfaction on the political party level and in its 1992 election campaign it called for a new organisation which would elaborate a strategy to combat (long-term) unemployment in Ireland. In contrast to the already existing National Economic and Social Council, the new organisation would involve the so-called "third strand", which are the organisations operating in the fields of social and welfare policy. As the Labour Party entered a coalition with Fianna Fáil in 1993, the new government founded the National Economic and Social Forum (NESF) along the lines of the proposal of the Labour Party. Although NESF already published a report on a PESP-successor, it did not appear to have much influence at that time.

In 1994, after some time of tough negotiations, the social partners and the government signed another Programme, the PCW. The overall strategy remained the same, but the local bargaining provision of the PESP was abolished. A further reduction of the public deficit was agreed upon as well as steps to continue tax reform. The recommendations of the Commission on Social Welfare to provide minimum rates in all social welfare schemes were again adhered to. As the unemployment rate was still rising and criticism spread, the PCW included a commitment to a major extension of the labour market programmes by 100 000 places in community-based work, training and education. The Community Employment Scheme which provides financial support for work in the fields of social economy and local development was expanded. It became the most important opportunity for older long-term unemployed people.

Since the signing of the PCW Ireland has enjoyed great economic success, leading commentators to speak of the "Celtic Tiger". The NESC (1996) analysed the impact of corporatist politics in the light of the long term experience of the Irish economy and called it largely successful in achieving a national consensus (similar: NESF 1996). While before 1987 there had been distributional conflicts leading to different negative results\(^3\), "in the period since 1987 has there been little evidence of inconsistent claims on Irish output." However,

\(^3\) The NESC mentions inflation and industrial unrest in the late 60s, inflation, growing public debts and falling profit rates in 70s and early 80s and growing unemployment rates in the 80s.
"even then, one major claim has not been adequately met: that of the unemployed and those living in poverty" (NESC 1996, 21).

According to the NESC, the changing economic situation raised new challenges for Irish policy makers. It mentioned that Irish policy was facing the problem of sustaining the consensus in favour of a rigid macroeconomic policy and wage restraints. This consensus now needed to be maintained "outside of a crisis". Therefore, the main problem was "managing growth" (NESC 1996, 26ff.). The NESC argued that an "inclusive perspective" was needed, which meant a continued commitment to the successful strategy with a new emphasis on social integration. These aims were "best served by a negotiated determination of income distribution, which encompasses wage growth, taxation and social provision" (NESC 1996, 63). The NESC recommended commitments to fiscal stability and social integration:

- "an action programme for social inclusion;
- real tax reductions representing at least 0.5 per-cent of GDP each year;
- current public expenditure strictly limited to a 2 per-cent real increase;
- a gradual reduction in the public financial deficit to not more than 1.5 per-cent, between 1997 and 1999; and
- a debt/GDP ratio of 70 per-cent by 1999 (a 60 per-cent level can on this basis be achieved early in the 21st century" (NESC 1996, 90f.).

In addition, the NESC proposed a widening of the negotiation process. The groups of the so-called "third strand" should be invited to participate. Those groups themselves, especially the INOU, called for an involvement for several years and now used its institutional power in the NESF to reinforce their plea (NESF 1996, 43). The incumbent "Rainbow coalition" of Fine Gael, Labour Party and Democratic Left (since 1994) accepted the proposals by both the NESC and the NESF to rearrange the negotiation process (cf. details: O'Donnell/Thomas 1998) and opted for a "four room-negotiation model". Those four rooms were the labour market organisations (ICTU and IBEC4), a "community room" involving the "third strand", a farming room and a business room. Each room negotiated with the Department of the Taoiseach. While the questions of pay increases and industrial relations were reserved for the labour market parties, the other rooms dealt with other elements of public policy.

The increased number of participants in the negotiation process is reflected in the Partnership 2000 document. In contrast to the earlier programmes, it is characterised by its encompassing contents. Although the commitments to macroeconomic stability and the pay guidelines are still the most important parts of the programme, it also contains chapters on greater social inclusion, equality, enterprise culture, small business, agriculture, modernisation of public services and a commitment to support the partnership approach at the company level. The

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4 The IBEC was founded in 1994 by a merger of FIE and CIE becoming the most important employers organisation.
Irish Times called the Partnership 2000 programme a "new Pact" that "aims at a wider social contract" (19.12.1996). The document mentions three challenges, which the Irish economy and society must face:

- "maintaining an effective and consistent policy approach in a period of high economic growth;
- significantly reducing social disparities and exclusion, especially by reducing long-term unemployment; and
- responding effectively, at both national, sectoral and enterprise level, to global competition and the information society" (Government 1996, 5f.).

Partnership 2000 adds to the commitments to macroeconomic stability and the political exchange of wage restraints and tax reforms enhanced promises in the field of social integration and sectoral developments. The pay element of the agreement is summarized in the appendix. It should be stressed that again there is a local bargaining clause. The fiscal commitments of the government are kept within the mentioned limits of the NESC proposals which means the prime focus remains on fiscal consolidation. Nevertheless, given the expectations of continued economic growth, there also is room for tax relaxation and spending programmes. The "rainbow coalition" promised to reduce the taxes by £1000 million and to spend £500 million for social inclusion during the life-time of Partnership 2000. The tax reductions will concentrate on reducing personal income taxes (90 per-cent) and 10 per-cent will be used for easing the companies’ burdens. The "social integration” monies will be spent within the framework of the national anti-poverty strategy. In response to the public pressure built up by the third strand, the government accepted that the proposals of the Commission on Social Welfare would finally be implemented.

4 Economic and social performance of "Competitive Corporatism"

The Republic of Ireland becomes increasingly known as the "Celtic Tiger" (cf. Sweeney 1998). The economy of the island has been growing from 1987 to 1993 at an annual rate of about 5 per-cent of GDP. In the years from 1994 to 1996 it grew by 22 per-cent, being at the top Auf all OECD countries. The recently published Irish "Economic Review and Outlook 1998” calls the performance of the Irish economy "exceptional both by international standards and in terms of our own experience”. According to the report GDP rose in 1997 by 9.5 per-cent and GNP by 7.7 per-cent and the prospects for 1998 were 8.7 and 7.5 per-cent for GDP and GNP respectively (Government 1998, 7). Consequencely Ireland has almost reached the

5 “For those on the average industrial wage, receiving pay increases of 9 1/2 per-cent, their post tax income will increase by up to 14%” (Government 1996, 14).

level of average EU GDP per head (in PPP). It rose from 71.9 per-cent in 1990 to 99.3 per-cent in 1996 (NESC 1997, 209). Most of the other economic indicators are also in a very healthy state. Inflation, as well as interest rates, remains at a low level, the budget deficit turned into a surplus, public debts are falling and the balance of payments turned from a substantial deficit in the early 80s to a surplus in the 90s. Most important for the Irish people, the economy is not just prospering, but also creating new jobs. After several years of almost "jobless growth" (except 1989/90) the level of employment finally rose from 1.15 million to 1.3 million between 1993 and 1996. In 1997 employment grew by over 50,000 jobs. The Republic of Ireland, therefore, had no problems being accepted in May 1998 as one of the members of the European Monetary Union. In this chapter I will mention some factors which account for the economic success and then continue to discuss how much the "partnership" approach contributes to the "economic miracle”. Finally, I will critique the Irish development strategy.

The Irish economic success in the past few years has been, to a large extent, the result of foreign direct investments (FDI). As the OECD shows in its 1997 survey of Ireland, the number of foreign firms in Ireland has risen by over 50 per-cent in the last decade. In 1986 there have been about 650 foreign firms in Ireland and the number rose to over 1,000 in 1996. FDI to Ireland grew from an average of $50 billion in the mid 1980s and $200 billion in 1990 to $315 billion in 1995 (Seeney 1998, 116). Those investments were primarily accounted for by modern high-tech sectors (chemicals, computers, instrument engineering and electrical engineering). The per-cent share of the modern industries of GDP (at constant prices) grew from 12.4 in 1990 to 18.2 in 1995. These sectors grew in 1994 and 1995 by almost 20 per-cent (data taken from the 1997 OECD report). Overall manufacturing output grew in 1997 by 16 per-cent, which "was primarily attributable to foreign-owned, high-technology sectors...” (Government 1998, 21). In the last decade the Irish government also tried increasingly to attract internationally traded services with a focus on financial services. The establishment of the International Financial Service Centre in Dublin has been quite successful in that regard.

Why do companies invest in Ireland? There are four reasons I would like to emphasize.

- As mentioned in chapter two, Ireland has a tradition since the 1950s of inviting MNCs . The reported incentives and instruments to attract foreign investors continue to operate. The most important incentive still is the comparatively low taxation on export profits, which accounts for only 10 per-cent. Furthermore, the IDA decided in the late 1970s to concentrate their activities on high-technology sectors. As Sweeney correctly argued: the IDA has been "picking winners” (1998, 128). The incentives have been spread to cover for internationally traded services as well.

- In the past few decades there has been a growing emphasis within the Irish development strategy on providing a well-educated workforce which led to major investments in
education and training. As a result, human capital in Ireland has largely improved (cf. NESC 1996, 38ff.). Cohorts now entering the labour market are comparatively well qualified. 40 per-cent of school-leavers are now progressing to third level education. An international survey reported by the OECD (1997, 16) shows that the quality of Irish workforce is ranked second in Europe by business-men. In addition, the Irish education and training system is increasingly adapting to actual and expected economic needs (cf. Government 1994).

- Huge investments, supported by the European Structural Funds, have been implemented to strengthen the supply side of the Irish economy. Ireland has been investing in the training of the labour force and the improvement of the infrastructure (roads, ports etc.). In addition, there has been a partial reorientation in industrial policy: Irish policy has strengthened its indirect support of industry by providing services for research and development, management and market development (cf. Tomaney 1995).

- The liberalisation of the European market as a consequence of the Single European Market programme and the prospect of the European Monetary Union is of crucial importance for MNCs. They do not invest in Ireland to provide it with products or to use local resources, rather to use Ireland as a production site to export the final products to (Continental) Europe. The result of such development is an extremely open Irish economy. While the GDP (market prices) in 1995 was £38 billion, exports and imports accounted for £30 billion and £25 billion respectively (all data: OECD 1997). The chemical sector saw a rapid expansion in exports from less than $2 billion in 1985 to $8 billion in 1995. The expansion of machinery and transport equipment was quite similar: from $5 billion in 1987 to $15 billion in 1995, most of it due to office equipment ($9.3 billion in 1995).

This leads to the conclusion that the Irish success is, to a large extent, due to high-tech foreign companies using Ireland as a production site for exports to the EU market. They do so because Ireland provides a very profitable site. To quote from the OECD report: "Overall, the combination of various factors ... has made manufacturing investment in Ireland profitable. In 1995, for example, US companies earned post-tax rate of returns of 23 per-cent on capital employed in Ireland, up to five times higher than that of US companies elsewhere in Europe" (1997, 16).

In addition to the attraction of international investors, two further elements of the recovery need to be emphasized: the strengthening of indigenous industry and rising domestic demand. The abolishment of protection for Irish industry after entry to the EC led to a rapid decline of older Irish industries, especially companies with more than 100 employees. This decline finally came to an end in the mid 1980s when all the industries that were not able to adapt to the liberal market had disappeared. The surviving Irish companies, however, were competitive and Irish policies supported them in expanding and strengthening their linkages with the
MNCs. The partial change in Irish industrial policies from direct subventions to indirect support primarily favored the indigenous companies. Finally, the EU structural interventions selected some Irish industries with developmental prospects (esp. food industry) and focused its financial support on these sectors.

Lastly, *domestic demand* contributed to the expansion of the Irish economy. Although wage increases were limited, the overall post-tax income rose due to reductions of income taxes. The fiscal policies were also able to play a positive role. The burden of fiscal consolidation was borne between 1987 and 1990. After 1990 increased taxes and support from the Structural Funds allowed the Irish government to simultaneously pursue a policy of decreasing public debts and increasing public expenditures. While the debt to GDP ratio fell by the end of 1997 to 63.4 per-cent current spending rose between 1990 and 1995 at an annual average of 6.6 per-cent in nominal terms\(^7\). It should be mentioned that the policies of fiscal consolidation and the fall of inflation and interest rates were very beneficial to the public budget. In 1987 the debt servicing costs accounted for 9.2 per-cent of the budget, but it was reduced to 5.3 per-cent in 1995. This achievement eased the financial situation of the Irish government substantially and provided for greater maneuverability of the government\(^8\).

To what extent is the Irish success due to the politics of "competitive corporatism"? As I have tried to show, the NESC strategy has been implemented by the Irish government and the social partners. A rigid fiscal and monetary policy, restrained wage increases to enhance cost competitiveness and structural reforms have been central elements of the strategy to increase national development. Social policies should ensure a socially just distribution of the national income.

The macroeconomic policies were pursued in accordance with the proposal of the NESC and proved effective. These policies helped maintain low inflation and interest rates, external stability of the Irish pound (except the devaluation in 1993) and created the background for improved business and investors’ confidence. For Ireland’s development strategy is still based on the attraction of foreign capital, adherence to the Maastricht convergence criteria has been imperative for Irish policies. The second major benefit of reduced interest rates has been the decrease of debt servicing costs, which freed public money for other purposes.

FDI’s have also been attracted by the improved cost competitiveness in Ireland. Wage increases -at least in the private sector- have followed the pay guidelines of national programmes (Teague 1995). The OECD reports that the increases of the average hourly industrial earnings between 1993 and 1996 have been below the PCW agreement of 8.2 per-cent (1997, 41). The development of the real unit labour cost is an indicator of improvement

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\(^7\) The growth is made up by the following areas: a) public sector pay bill (including pensions), b) economic and social services and c) social welfare benefits (cf. Commission of the EC 1996, 33).

\(^8\) When expressed as debt servicing costs to tax incomes the achievement is even more impressive. While in 1987 28% of all taxes were needed to finance the obligations resulting from public indebtedness it fell to 18% in 1995 (Commission of the EC 1996, annex).

As the NESC hoped the combination of increased competitiveness and business confidence led to more investments and -since 1993- more jobs. The politics of "competitive corporatism" have contributed to the new economic prosperity. It should be kept in mind, however, that the long-term strategies of "industrialisation by invitation" and investments in human resources are important factors, as well, which can not be related to the corporatist policy making style. To conclude, one might argue that the politics of "competitive corporatism" completed the strategy of "industrialisation by invitation" by providing favourable conditions for productive investments.9

Irish corporatism led to substantially increased national prosperity and more jobs. Why should it not, however, be called 'social corporatism'? Social corporatism was largely based on social integration through paid work (commitment to full employment), expansion of the welfare state (esp. social services) and public efforts to reduce social inequality. What distinguishes the Irish experience from that type of Scandinavian-like corporatism? To answer this question I refer to Paul Teague (1995) who discussed four functions 'social' corporatist arrangements should fulfill:

- a competitive function,
- a stabilization function,
- an employment function and
- an equity function.

I have already dealt with the first three functions, but I would like to add one comment about the competitive situation of Ireland which is closely related to the equity function.

The comparative advantage of the production site Ireland is providing is a very profitable location for investors whose products are exported to continental Europe. The Irish economy remains a dependent economy, dependent on the investment decisions of -mainly- MNCs. While the Irish policies invested a lot of money into the development of human resources and other supply side elements of the Irish economy, the main attraction remains the provision of high profitability. The older tax-based incentives are now being complemented with restrained wage costs. Given the high rates of economic growth and productivity gains, this policy implies a redistribution in favour of capital. Some data illustrate this effect: the wage share fell from 82 per-cent in 1970 and 73 per-cent in 1987 to 63 per-cent in 1996. The average for

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9 Two further effects of corporatist policy making should be mentioned: corporatist policy resolved distributional conflicts between capital and labour in a peaceful way by decreasing the number of work days lost due to strikes, and the trade unions became involved in a "restructuring of the supply side of the economy" (Taylor 1996, 266), accepting and helping to introduce new forms of work organisations, such as World Class Manufacturing and Total Quality Management (Sweeney 1998, 144ff.).
the EU average is 72 per-cent (Sweeney 1998, 160). Consequently, the profits have been
rising: the profit share of non-agricultural income grew from 20 per-cent in 1980 to almost 30
per-cent in 1993 (NESC 1996, 22). A major portion of these earnings -about 50 per-cent- were
repatriated by the MNCs. In 1991 these transfers accounted for 9.2 per-cent of GNP and rose
to 14.4 of GNP in 1995 (OECD 1997, 30). The main beneficiaries of the Irish boom are,
therefore, the MNCs in the high-tech sectors. As quoted earlier their profits in Ireland are
significantly higher than in any other European country.

Ireland’s dependence on the investment decisions of the MNCs has consequences for the
"equity function" of corporatist arrangements. Since the Irish economy is dependent on
MNCs, its profits can only partially be taxed. Thus, the Irish tax system remains biased
against labour. Public expenditures are still based on income and consumption taxes, but only
marginally on property and capital. Given the political deal at the heart of "competitive
corporatism", wage restraints against tax reduction in the context of fiscal consolidation, there
are not many resources to finance the expansion of the welfare state. In fact, the needs of the
(long-term) unemployed, the poor and the social welfare beneficiaries have largely been
neglected (NESC 1996 and NESF 1996). In 1994 between 17 and 20 per-cent of all
households were classified as poor (depending on the measurement, cf. NESC 1997, 218ff.).
The long-term unemployed have not benefitted from the recent employment growth, because
employers would not hire them, rather the well educated youth or returning migrants. At the
end of 1997 170,000 people were still unemployed, representing 10 per-cent of the labour
force (Government 1998, 37) of which more than 50 per-cent were long-term unemployed.
However, recipients (incl. Children) of the lowest social welfare benefits saw remarkably
increased benefits. This proposal of the Commission on Social Welfare has been largely
implemented by now (NESF 1996, 31 and McCreevy 1997). Thus, the social achievements of
corporatist politics are ambivalent: While there have been huge increases in the number of
jobs, an expansion of active labour market programmes (partially due to the increased aid
from European Social Funds) and increases in some social welfare schemes, social inequality
has continued to widen: the two top deciles held 41.3 per-cent of the national income
(disposable income in 1994 against 40.1 in 1980) and the analogous number for the lowest
four deciles was 16.6 per-cent (against 17.3 in 1980)\textsuperscript{10}. Even the latest Partnership 2000
agreement is criticised for its socially insufficient contents: "People with jobs benefit from tax
cuts, from pay rises and from increments on their salaries,' Father Healy says. 'Unemployed
people only benefit from their social welfare increases, which are negligible in this

\textsuperscript{10} The widening of direct market income was even worse: from 48\% (1980) for the top 20 to 52\% (1994) and a
fall for the lowest 4 deciles from 9\% to 5.6\%, cf. Collins/Kavangh (1998). The redistributive capacity of the
public interventions seems to have strengthened. It should be remembered that Ireland was already a rather
inequal society in 1980 and 1987 when compared to other developed countries (cf. Callan/Nolan 1992). Callan
and Nolan argued that this higher rate of inequality was due to the relative underdevelopment of the Irish
economy and expected inequality to fall with economic development. This did not happen.
The Irish experience is clearly different from Scandivanian 'Social Corporatism' because the overriding imperative to enhance and maintain competitiveness reduces the governments capacity to pursue policies for social integration. In contrast, the policies to strengthen competitiveness are socially regressive, because they imply a redistribution in favour of capital which is not even invested in Ireland, but repatriated.

5 Explaining "competitive Corporatism" in Ireland

There is a need to explain the success of Irish corporatism, because Niamh Hardiman (1988 and 1992), in her excellent analysis of the Irish experience in corporatism up to the early 1980s argued, that Ireland lacks the structural prerequisites for successful corporatism:

- Irish political actors, especially the Government, do not have much control over the Irish economy because it is a "small open economy" which is highly dependent on external economic circumstances and the investment decisions of Multinational Corporations.
- The Irish political system with its two "catch-all parties", Fianna Fáil and Fine Gael, appears to be structurally immobile. Both parties organise people from different social strata and are unable to offer trade unions some kind of redistributional policies to compensate for restrictive income policies. Consequently, the Irish Government "resolved" distributional conflicts by lending money and increasing public debt.
- The central organisations of the social partners can not assure that the national agreements will be implemented by their constituent members. The IBEC suffers from a dualistic structure of the Irish economy (successful, European oriented MNC’s and stagnating, britain-oriented Irish companies) which undermines the strategic capacity of the organisation. ICTU, as the central organisation of the trade union movement, does not have sufficient influence to negotiate obligatory wage agreements. This results in a two-tier wage bargaining system, which has eroded the legitimacy of the national agreements.

The National Wage Agreements and the National Understandings in the 70s and early 80s led to a "vicious circle", in which none of the actors' interests were satisfied. The government suffered from increasing public deficits, the employers complained about declining competitiveness and the trade unions were angry about the rising taxes on the wages of their members, thus leading to stagnating incomes (cf. Hardiman 1988, Ch. 4).

Further criticism may be added. A major element of the Irish development strategy is still the 10% tax on export profits. In an "ever closer" European union and market attracting investors in that way will impose pressures on the other European countries to lower their tax rates as well to remain competitive. In fact, this is already happening as the NESC reports: "Attracting FDI is becoming increasingly competitive. The main threat for Ireland .. come ... from the current developed economies of Europe. Countries in mainland Europe have become increasingly aggressive in the use of tax packages and incentives" (NESC 1997, 336). In the end this might result in a "dangerous obsession" where no country is winning as Krugman (1994) warned. The low taxes on export profits are particularly problematic because MNCs use practices of transfer pricing to reduce their tax obligations in other countries.
Although these arguments are very convincing Ireland has now seen a decade of "competitive corporatism". Why was the corporatist policy-making style revived in 1987 and what accounts for its survival? Three brief arguments are offered as an answer (cf. Aust 1999).

The external challenge of the Single European Market increased competitive pressure on Ireland exactly at a time when Ireland was in a deep crisis. This development led to a strategic reorientation on the part of the trade unions (esp. the ICTU). The unions were afraid of a Thatcher-like neoliberal strategy. To provide the Irish government with an alternative political strategy they called for a coordinated approach. While the older industrial relations could be called "antagonistic" (Prondzynski 1998, 56), the unions now accepted the role of "junior partner" in a coordinated effort to strengthen the Irish economy. Within the Single European Market the national interest became increasingly more important than the social antagonistic strategic approach.

Political institutions played a major role. The existence of the NESC was of crucial importance, because it developed a common strategy which was already a compromise and therefore accepted by most of the important political actors (O'Donnell 1993; O'Donnell/O'Reardon 1998). The NESC Council stressed in its first report that the proposed strategy is a "carefully balanced package" upon which those involved have already agreed and should, therefore, be implemented "as an integrated whole" (NESC 1986, 306). The incumbent government just needed to take the initiative. Once established the Central Review Committee allowed for negotiations and compromises between governmental and social partners.

Most important for the viability of Irish corporatism is the fact that the cooperation turned from a "vicious circle" to a "virtuous circle". Given the excellent economic performance cooperation was accepted by all participating actors as a positive-sum game, which satisfied their interests. This is completely different to the epoch analysed by Hardiman. In contrast to the experiences of the 1970s, the government was able to reduce the public deficit, maintain a stable macroeconomic environment for productive investments and even enjoyed increasing fiscal manoeuvrability. Employers could also be satisfied, because the main goal of the agreements was to increase national competitiveness. Although the overall effect of the deals led to a social redistribution in favour of capital, the unions and their members gained too. While real net pay fell during the years of decentralised bargaining, it rose -moderately- from 1989 onwards. The trade unions were also able to influence the overall public policy. The economic success of the programmes increased the legitimacy of "competitive corporatism",

12 To quote the General Secretary of ICTU, Peter Cassels: "Our success in creating jobs will dependend on our ability to produce goods and services that the people of Europe need, of a quality that they require and at prices they can afford. To do this we need capital, materials and workers, but the key element that makes it all come together and produce jobs is enterprise and entrepreneurship" (1993, 81).
resulting in full acceptance among all political parties. Even the new minority coalition between Fianna Fail and Progressive Democrats adheres to it (cf. McCreevy 1997). This is remarkable because the Progressive Democrats is the only liberal party in Ireland. Apparently the party composition of the government is not overly important for the politics of corporatism.

The only actors that criticised the national agreements were the non-participating social organisations (esp. INOU). The growing public unease due to unequal distribution of the fruits of the economic prosperity was the reason for the widening of the partnership approach. As the Labour Party articulated the interests of the marginalised groups in its election campaign in 1992, it doubled its Dáil seats and found itself in a strategically crucial role. The Labour Party could choose its coalition partner (it chose Fianna Fáil). The new government agreed to establish the NESF, which evolved as an important actor on its own and finally called for greater participation rights in the negotiation process. Under the "rainbow coalition" of Fine Gael, Labour and Democratic Left, which replaced the Fianna Fáil/Labour coalition in 1994, the participation of the "third strand" was partially accepted. Although the negotiation power of the third strand was weak, it gained concessions by the government which it could afford in the circumstances of high growth without hurting the main goals of fiscal consolidation and debt reduction.

Returning to the initial argument of Martin Rhodes we may conclude: as the prospects for the Irish economy are very optimistic (cf. Sweeney 1998, 183ff.) and the positive-sum character of the cooperation process has now been accepted by all important political actors, there will be a future of 'competitive corporatism' - at least in Ireland!

References

Aust, Andreas (1999): Irlands Entwicklung im europäischen Binnenmarkt. Wiesbaden (i.E)


Appendix 1: Pay terms of the national Agreements

<table>
<thead>
<tr>
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<th>Private</th>
<th>Public</th>
</tr>
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</table>
| **PNR 1987-1990** | • 3% on first £120 of basic weekly pay, 2% on any amount over £120. Minimum: £4 a week  
• Working hours reduced from 40 to 39  
• "inability to pay clause" | • overall shape of pay arrangement same for 36 months  
• phasing in timetable to cover payment of any "special awards" made under C&A system |
| **PESP 1991-1993** | • basic agreement of 10.75% over 3 years. Minimum increase of not less than £5, £4.25 and £5.75 in each of 3 years  
• limited degree of local bargaining (limit: further 3% in year 2 of programme)  
• industrial peace clause  
• "inability to pay clause" | • same basic pay increases  
• local bargaining clause translated to "grade restructuring" or option to pursue "special claim" through C&A (limit: 3% to be paid in year 3 of programme) |
| **PCW 1994-1996** (separate agreement for construction industry) | • pay agreement: 2.5% for year 1 and 2, 2.5% next 6 months and 1% last 6 months, minimum: £3.5  
• new clause dealing with training and employee involvement  
• industrial peace clause  
• "inability to pay clause" | • public sector: 2% for 12 months (after 5 month pause); 2% for 12 months; 1.5% for 4 months; 1.5% for 3 months; 1% for 6 months; minimum pay of £2.8; £2.21 in phases 3 and 4.  
• 3% outstanding under local bargaining clause of PESP. 1% paid up front, the remainder depending on local negotiation. |
| **Partnership 2000 1997-2000** | • overall pay increase: 7.25% from July 1997 to April 2000  
• minimum: £3.5 second year, £2.4 next 9 months, £1.6 next 6 months  
• local bargaining: 2%  
• industrial peace clause  
• "inability to pay clause" | • overall: the same  
• PCW carryover, esp. in 1997 |

Sources: NESC 1996, 104 and Government 1996
Appendix 2

Table 1: Unit Labour Costs 1987 - 1994 (1987 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>UK</th>
<th>USA</th>
<th>D</th>
<th>F</th>
<th>I</th>
<th>J</th>
<th>Haupt Partner</th>
<th>Irland</th>
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<tbody>
<tr>
<td>1987</td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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<tr>
<td>1989</td>
<td>114.3</td>
<td>110.0</td>
<td>101.8</td>
<td>96.2</td>
<td>107.3</td>
<td>104.9</td>
<td>106.4</td>
<td>88.5</td>
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<tr>
<td>1991</td>
<td>120.2</td>
<td>104.7</td>
<td>109.3</td>
<td>104.8</td>
<td>121.2</td>
<td>97.7</td>
<td>111.9</td>
<td>92.7</td>
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<tr>
<td>1993</td>
<td>111.6</td>
<td>110.4</td>
<td>127.8</td>
<td>114.0</td>
<td>104.1</td>
<td>135.3</td>
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<tr>
<td>1994</td>
<td>112.5</td>
<td>106.5</td>
<td>123.1</td>
<td>109.8</td>
<td>98.9</td>
<td>147.2</td>
<td>113.1</td>
<td>79.3</td>
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Quelle: EIRR 260, 26

Table: Percentage Fall in Unit Labour Costs, 1991-97 (total economy – purchasing power weighted)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage Fall</th>
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<tbody>
<tr>
<td>Ireland</td>
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<td>-6.4</td>
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<tr>
<td>US</td>
<td>+0.3</td>
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<tr>
<td>Japan</td>
<td>+0.8</td>
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