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**IRELAND'S ECONOMIC TRANSFORMATION  
Industrial Policy, European Integration  
and Social Partnership**

**Rory O'Donnell**

Jean Monnet Associate Professor  
of European Business Studies  
at University College Dublin

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**Rory O'Donnell** is a Jean Monnet Associate Professor of European Business Studies at the Michael Smurfit Graduate School of Business, University College Dublin. He received graduate degrees in Economics from University College Dublin and University of London, before doing his Ph.D. at the University of Cambridge. In addition to academic posts, he has worked as an economist and later as Director at Ireland's National Economic and Social Council. He has prepared policy research on European integration, regional and local development, competitive advantage and the analytical foundations of Irish social partnership. He was a founding member of the Institute of European Affairs, and edited its volume *Economic and Monetary Union* (1991).

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**Desislava Jordanoff**

Center for West European Studies  
European Union Center  
4E01 Forbes Quadrangle  
University of Pittsburgh  
Pittsburgh, PA 15260, USA

Tel: (412) 648-7405  
Fax: (412) 648-2199  
E-mail: <[wesp+@pitt.edu](mailto:wesp+@pitt.edu)>

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## **Industrial policy, European Integration and Social Partnership**

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**Jean Monnet Associate Professor of European Business Studies  
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### **Abstract**

Ireland has been one of the fastest growing economies in the European Union or the OECD in the 1990s. This paper reviews the policy approach which underpins the country's economic transformation, tracing the role of industrial policy, European integration, macroeconomic stabilization and social partnership. Despite the initial success of the outward-looking strategy, a combination of domestic factors and European integration produced a deep economic, social and political crisis in the 1980s. From within this drastic experience, there emerged a new perspective - on the Irish economy and the policy approaches available to a small European member state - shared by the major economic, political and social actors during the past decade. This involved a new understanding of the relation between domestic policy and European governance and a new model of social partnership. The partnership approach, in place since 1987, provided the framework within which Ireland's macroeconomic, industrial and European policies have finally achieved success. The paper outlines the analytical foundations of the partnership approach and the critique by neo-liberal and orthodox economists. Irish social partnership offers an analytical challenge, since the country does not display the structural or organizational characteristics normally associated with neo-corporatism. By contrast, the self-understanding of Irish social scientists emphasizes deliberation and problem-solving. The Irish story reflects a complex interaction of domestic and international factors. European integration has transformed Ireland's relation to its international environment, and social partnership has transformed its internal ability to mediate interests and adhere to coherent strategies.

# **IRELAND'S ECONOMIC TRANSFORMATION**

## **Industrial policy, European Integration and Social Partnership**

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### **Introduction**

Ireland has been one of the fastest growing economies in the European Union or the OECD in the 1990s. Rapid growth of exports, output and employment have led market analysts to describe Ireland as the 'Celtic Tiger'. This paper reviews the policy approach which underpins the country's economic transformation.

It is hard to know where best to locate the Irish story. It is an interesting case of macroeconomic stabilisation and adjustment in a small and extremely open economy. It is a fascinating study in industrial strategy and modernisation, a transformation from a weak peripheral economy to a significant centre of high-technology manufacturing and advanced services. It is a story of European integration, and the threats and opportunities it offers to small member states. Finally, it is a remarkable story of social concertation, interest mediation and institutional innovation. While the paper attempts to weave these four stories together, it focuses particularly on the last of them. Since 1987, Ireland has conducted economic and social policy by means of social partnership between the state and economic and social interests. This provided the framework within which Ireland's macroeconomic, industrial and European policies have achieved success in the past decade.

The paper describes and interprets Ireland's economic transformation. But its primary purpose is to recount the evolution of a perspective—on the Irish economy and the policy approaches available to a small European member state—shared by the major economic, political and social actors. That perspective was developed and articulated by the National Economic and Social Council (NESC)—an advisory body, in which employers, trade unions, farmers and senior civil servants analyze policy issues and seek consensus on strategic policy directions. While every effort is made to provide an objective account of the strengths and weaknesses of Irish policy in the past decade, the author has been more a participant than observer, working as Economist and later Director at the NESC.

Section 2 outlines the background to the developments of the past decade, particularly the strengths and weaknesses of the outward-looking strategy adopted in the late 1950s. Section 3 describes the deep economic, social and political crisis of the 1980s, tracing it to both domestic pressures and the effect of European integration, and reports a variety of recent interpretations of Ireland's economic 'failure'. Section 4 outlines the new perspective on internationalisation and the social partnership approach developed in the late 1980s and pursued through the 1990s. Economic performance in the decade of social partnership is summarised in Section 5. Section 6 outlines the analytical underpinnings of the social partnership strategy and the objections to it advanced by some of the country's more orthodox economists. Section 7 discusses interpretation of Irish social partnership, suggesting that it is not adequately captured by the concept of neo-corporatism. Some conclusions are outlined in Section 8.

## Background: Ireland's Development Strategy

This section provides the background to the remarkable developments of the past decade. The long-term background is Ireland's difficult economic and political history. The nineteenth century saw de-industrialization, agrarian crisis, famine and emigration, which more than halved Ireland's population<sup>1</sup>. Political independence was used, from the early 1930s to the early 1960s, to pursue a strategy of protection and import substitution. Although protection increased employment in industry, it failed to solve the underlying developmental problem. The switch to an outward-orientated strategy was prompted by the severe balance of payments difficulties, recession and emigration of the 1950's. The switch coincided with, and was encouraged by, the emergence of economic growth, which continued strongly until 1973. Ireland's decision, in the late 1950's and early 1960's, to switch from protectionism to outward orientation, was a highly conscious one. It was intended to achieve an exporting economy by modernizing and re-orienting the indigenous economy and attracting inward investment. Meticulous studies were undertaken and new public organizations and policies were created to address the perceived weaknesses. Industrial policy combined strong fiscal and financial incentives to both inward investment and indigenous enterprises—an approach that has continued to this day.<sup>2</sup>

The new economic strategy had four significant successes from 1960 to 1987<sup>3</sup>. After a century and a half of virtual stagnation, Ireland achieved relatively strong economic and demographic growth. There was a dramatic structural adjustment of the economy. In 1960, agriculture forestry and fishing accounted for almost 37 percent of all employment. By 1987, this had fallen to 14 per cent, reflecting rapid productivity growth. These achievements were accompanied by a distinct modernization. The period after 1960 saw a strong increase in living standards and expectations. Incomes, wages and welfare provisions converged with those in the UK and the quantity, quality and range of consumer goods increased strongly.

However, these successes were qualified in important ways. The development of viable, employment-generating, businesses outside of agriculture was in doubt. The adjustment of indigenous enterprises to international competition failed more often than it succeeded (see Section 3 below). By default, Ireland's economic strategy came to rely heavily on inward investment. While Ireland proved an attractive location, it was not clear that this was an adequate basis for development. An ongoing concern was the fact that Transnational Corporations (TNCs) located only certain stages of production in Ireland, retaining high value-added functions at headquarters, or in other advanced countries. Indeed, during the 1970s, the weakness of *linkages* between foreign-owned enterprises and the indigenous economy became a major subject of research and policy concern<sup>4</sup>. It was feared that the only significant impact of the TNCs on Ireland was the hiring of labor and the relaxation of the balance of payments constraint. This impression was reinforced by evidence that employment in each plant tended to decline after a number of years<sup>5</sup>. The extent and persistence of differences between foreign-owned and indigenous enterprises—in technology, export orientation, product quality, scale—prompted many to describe Ireland as a 'dual economy'<sup>6</sup>. This raised questions about the adequacy of the industrial policy and prompted arguments for a greater focus on building strong indigenous enterprises and sectors<sup>7</sup>.

The relative success from 1960 to 1980 occurred in a context which contained an underlying

difficulty. Ireland's late baby-boom yielded an increase in social needs and labor force at a time of acute international and domestic difficulty. Growth and international comparison created increased aspirations, distributional conflict, new social needs and intensified political competition. Despite strong economic growth, inconsistent claims on Irish output were allowed to develop and were resolved in ways which created major economic problems. Ireland's strong recovery from the recession of 1974-75 was largely driven by increased public spending and borrowing. Buoyant domestic growth in the 1960s and 1970s postponed the day of reckoning for much indigenous manufacturing industry and cloaked the problems of Ireland's political economy. However, in the 1980's the underlying weaknesses were cruelly exposed.

From the current vantage point, it is possible to interpret the experience from 1960 to 1987<sup>8</sup>. The approaches adopted reflected insufficient awareness of international competition. Inevitable adversities were allowed to become divisive and produced delayed and insufficient responses. The inconsistent claims on Irish output were resolved by inflation and public borrowing. Although Ireland handled certain aspects of EC membership relatively successfully, particularly the CAP and Structural Funds, these were allowed to occlude the wider policy and behavioral requirements of internationalization. The common factor in each of these failures would seem to be insufficient appreciation and acceptance of the interdependence of the economy and society interdependence: between the indigenous economy and the international economy, between the public and the private sectors, and between the economic and the political. Organizational and institutional arrangements capable of identifying and mediating these mechanisms and pressures were not in place, and seemed beyond the capability of Ireland's political, administrative and interest-group system. By the mid-1980s, Ireland economic, social and political strategy was in ruins, and its hope of prospering in the international economy was in considerable doubt.

## **Domestic Crisis and European Integration**

This section describes and interprets the profound economic, social and political crisis in Ireland in the 1980s. It outlines the proximate cause of the crisis in international recession, domestic fiscal correction and disinflation. However, the major shakeout in indigenous enterprises and employment should be interpreted as a delayed adjustment to international competition, particularly European integration. This section ends by noting the effect of the crisis on academic and, to an extent, popular perceptions of Irish development.

### *Domestic Crisis and Correction*

Despite the slowdown in the world economy and initial adjustment to EC membership, the Irish economy performed relatively well through most of the 1970s. Intensified political competition and pressure of an increasing labor force produced pro-cyclical increases in public spending and tax reductions. While most countries sought to avoid the inflationary effects of OPEC II, Ireland attempted to maintain growth in the face of international recession. Rapidly increasing fiscal deficits pushed the overall exchequer borrowing requirement to almost 16 percent of GNP in the late 1970s and early 1980s. Ireland abandoned its 150-year-old one-to-one link to sterling, to join the European Exchange Rate Mechanism (ERM) on its establishment in 1979, hoping to achieve a switch from

British to German inflation rates. The imperative of fiscal correction and dis-inflation dominated the 1980s, but was initially pursued by taxation increases rather than expenditure reduction. Ireland experienced the Thatcher recession, but not the UK's resumption of economic growth in the mid-1980s. The period 1980 to 1987 was one of prolonged recession, falling living standards, a dramatic increase in unemployment and, once again, the prospect of emigration as the best option for the young. Total employment declined by almost 6 percent and employment in manufacturing by 25 percent. The length and depth of this depression reflected Ireland's sharp balance of payments and public finance adjustment and adherence to the ERM. In addition, this weak real performance coincided with increasing public sector deficits and debt; controls on capital spending were more than offset by high interest payments and weak revenues. By 1987, the debt/GNP ratio was approaching 130 percent and real fears of national insolvency emerged. Fifteen years after joining the EC, Ireland's ability to manage in an increasingly global environment had been tested and found wanting.

### *Economy Wide Adjustment to European Integration*

In this context, the signing of the Single European Act (SEA) naturally prompted Irish reflection on its performance in the EC and prospects in the deepening European internal market. It was clear that Ireland's adjustment to European market integration had yielded striking changes in both the level and composition of trade. There was a remarkable increase in the openness of the economy: exports increased from 38 percent of GDP in 1973 to 67 percent in 1989, while imports increased from 45 percent of GDP in 1973 to 56 percent in 1989. The share of Irish exports going to the UK fell from 61 percent in 1972 to 35 percent in 1988, while the share going to EC countries other than the UK rose from 17 percent to 39 percent over the same period.

The commodity composition of Irish exports showed equally dramatic changes. Although food, drink and tobacco accounted for over 45 percent of the value of exports in 1972, these were soon overtaken by the value of manufactured exports, and now stand at around 24 percent. The exports of the chemical and engineering industries grew from 15 percent of total exports in 1972, to over 46 percent (67 percent of manufactured exports) in 1992. This reflects the profound changes in the structure of the Irish economy which have occurred since Ireland switched to an outward looking economic strategy, and especially since membership of the EC.

Drawing on recent developments in the theory of international trade and integration, NESCF identified four possible effects of the removal of tariff and non-tariff barriers<sup>9</sup>:

- Inter-industry adjustment and trade
- Cold shower effect of improved technical efficiency.
- Intra-industry and trade
- Increased firm size and restructuring.

The first of these effects is that predicted by traditional trade theory. There is increasing recognition that a major effect of trade liberalization is a reduction in x-inefficiencies—a possibility excluded from traditional trade theory.<sup>10</sup> Intra-industry trade refers to two-way international trade of similar goods, involving specialization within industries, rather than between them. The final possible effect

of market integration—increased firm size and restructuring—is related to economies of scale. In studies of European integration, it was argued that the reduction of barriers brought about an increase in the concentration of industry, as access to foreign markets increased the incentives for large scale producers in each country to drive out marginal producers by increasing capacity, thereby lowering costs.<sup>11</sup>

Detailed analysis of output, employment and trade developments in the industrial sector since 1973 identified which of the possible effects, outlined above, materialized in the Irish case. The results of such an analysis can be summarized as follows<sup>12</sup>:

- Cold shower effect
- Some intra-industry adjustment
- Large inter-industry adjustment
- Reduction in firm size

Given that the Irish economic structure in 1973 was one that had developed behind high protective tariffs, it is likely that severe inefficiencies existed. Economic performance during the gradual reduction of protection suggests that efficiency was improved in a typical cold shower effect. There is clear evidence of an intra-industry adjustment in Ireland following the reduction of tariffs, as firms reacted to free trade by specializing in particular segments of their industry. However, the most significant feature of Ireland's adjustment to European market integration was a substantial inter-industry adjustment. The nature of this adjustment is best illustrated by identifying three groups of industries, each of which had a different pattern of response<sup>13</sup>:

1. Foreign-owned, grant-aided, export-orientated industries.
2. Industries in which the domestic market is naturally protected.
3. Internationally traded, relatively large-scale, industries.

The first group—chemical, pharmaceutical and electronic machinery—experienced continuous expansion, and rapid export growth, throughout the period of EC/EU membership. Because of their reliance on the domestic market, the industries in the second group (which include paper and printing, drink and tobacco, some food industries and small-scale metal and woodworking firms), fared well in the 1970's—when domestic demand was buoyant—but suffered severe contraction in the 1980's, when the Irish economy languished in prolonged recession. For example, between 1980 and 1987, employment in furniture declined by 25 percent, in metal articles by 33 percent, in dairy products by 25 percent.

The third group is comprised of textiles, clothing, footwear, leather, or parts of the chemical industry, motor vehicles and parts, electrical engineering, shipbuilding, bread, biscuits, flour and confectionery and other food industries. Many of Ireland's relatively large manufacturing firms were in these sectors. After the removal of tariff protection, import penetration was rapid and, in this highly competitive international environment, these industries suffered secular decline in which the larger Irish producers were eliminated. While some difficulties were experienced in the 1970s, the dramatic collapse occurred in the 1980s. For example, between 1980 and 1987, employment in the motor sector declined by 59 percent, in the textiles and wool sector by over 40 percent, and in leather goods

by 67 percent. The drastic removal of these industries—and their replacement by foreign-owned firms in high-technology segments of chemicals, pharmaceuticals and electrical machinery—constituted a much more significant inter-industry adjustment than was found in the case of the EEC6 or, indeed, in Britain or Denmark<sup>14</sup>. It created an enormous increase in unemployment, and is the major source of the continuing problem of long-term unemployment and poverty.

The fourth possible effect of market integration listed earlier, industrial concentration, was not observed in industry in Ireland. There was, in fact, a fragmentation of indigenous manufacturing industry. The opening of trade induced a sharp reduction in average manufacturing firm size, thereby reversing a slow process of industry concentration that had operated since the 1930s. This seemed to further reduce the possibility of building a large-scale indigenous industrial sector.

This radical adjustment in the structure of the Irish economy was interpreted as the response of firms to European integration<sup>15</sup>. The removal of inefficient practices (the cold shower effect) and an element of product specialisation (intra-industry specialisation) offered some breathing space to indigenous manufacturers. But it did not, as in other countries, complete the process of adjustment. Because Irish firms' basic scale was too small relative to their new competitors, and because they suffered a range of other competitive disadvantages, that breathing space was only temporary. Competitive pressure for further adjustment built up, forcing contractions of output and employment. In industries where economies of scale exist, contraction of employment and output tends to raise costs rather than lower them.<sup>16</sup> Consequently, such 'adjustments', rather than re-establishing Irish competitiveness on a new basis, were the start of the process of long-run decline, inherent in specialisation between industries. The experience of Irish manufacturing between 1973 and 1987 can be seen to be consistent with a modern and realistic understanding of how trade and integration work where there are initial differences in levels of development, technology and scale of production.<sup>17</sup>

The appalling experience of the 1980s, and its analysis as a failure to handle economic integration, had a significant influence on the approach of policy-makers and social partners to the dramatic deepening of European integration initiated by President Delors in the mid-1980s. However, as shown in Section 4, it did not prompt a retreat from European integration or internationalization.

#### *The Debate on Ireland's Economic 'Failure'*

The severity of this experience in the 1980s altered perceptions of the Irish economy. Expectations of medium and long-term prosperity became extremely weak, which encouraged rent-seeking and profit-taking behavior. This was evident in the extent of capital flight in the 1980s and the tendency for various government incentives to produce rent-seeking financial manipulation rather than increased business initiative. The emergence of the so-called 'black hole' in the balance of payments and national accounts, and the coincidence of rapidly growing exports with falling living standards and employment, produced fears that the modern Irish economy was fundamentally fictitious.<sup>18</sup> The failure, once again, of indigenous development gave rise to a number of major studies of Ireland's 'economic failure'.

Crotty argued that Ireland should be compared with third world countries, in which the social and

political structures established under colonialism are used by the state in ways which favor entrenched elites.<sup>19</sup> O’Hearn traced Ireland’s long-run failure to its outward-looking free market strategy, which made Ireland a ‘classic case of “dependent” relations: slow growth and inequality caused by foreign penetration’.<sup>20</sup> Although supportive of inward investment, O’Malley argued that Ireland, as a late-developing country, faced, and still faces, significant barriers to entry created by the scale, market power or technological lead of established firms in larger, more developed, economies.<sup>21</sup>

In an important historical account, Lee traced Ireland’s twentieth century experience to the predominance of a ‘possessor ethic’, as opposed to a ‘performer ethic’, in the country’s institutions, intellect, character and identity.<sup>22</sup> Political structures—the nature of party politics and the failure of politics to represent and mediate conflicting interests—were emphasized by Girvin.<sup>23</sup> Others analyzed the relationship between national political mobilization and the development of Irish Catholicism,<sup>24</sup> and suggested that those factors could have an influence on economic life.<sup>25</sup> Kennedy *et al* identified a set of proximate causes of Ireland’s failure at the level of policy and administration: failure to grasp the implications of the small size of the economy, absence of a long-term perspective, and neglect of the human resource dimension.<sup>26</sup> Finally, Mjoset’s work for NESC synthesized these studies, suggesting a dynamic interaction of economic and social structures, global political factors, and cultural and attitudinal patterns. In his view, Ireland’s ‘basic vicious circle starts from two facts: the weak national system of innovation and population decline via emigration. The mechanism whereby these two features reinforce each other must be sought in social structure. These mechanisms are highlighted by studying contrasts which emerge from the comparison with the other...countries’.<sup>27</sup>

In retrospect, many of these perceptions of the Irish economy seem colored by the extreme difficulties of the 1980s. Some of them reflect the fact that—because of its openness and high share of inward investment—Ireland was, perhaps, the first country in which conventional national accounting categories became insufficient.<sup>28</sup> Others reflect the fact that dead-weight, displacement and rent-seeking are particularly prevalent in a stagnant economy with weak expectations. What is remarkable is that within ten years of emergence of the so-called Celtic Tiger, large-scale studies by some of the country’s senior social scientists shared the premise that independent Ireland was an economic ‘failure’.

## **New Perspectives and Approaches**

The turnaround achieved in the late 1980s involved, among other things, an intense reflection on the experience of European integration and internationalization. From within this traumatic, but dynamic, experience, there emerged a new perspective on Ireland’s position in European integration and a globalizing economy. This was embodied in the social partnership approach to economic and social management, innovative approaches in several policy areas, a resurgent enterprise sector, attuned to the radical changes in international business, and a new cultural confidence to adopt and

adapt international influences. Thus, Irish development since 1960 has been an evolution from deliberate strategy, through radical disruption, disorientation and loss of direction, to a new shared understanding of the constraints and possibilities of national and international governance.

### *A New Perspective on European Integration and Internationalization*

It is notable that those studies that saw Ireland's engagement in European integration and the international economy as the source of ongoing economic failure, were never seen as offering a guide to practical action. Indeed, the significant development in ideas and policy in the late 1980s involved a new recognition of the link between domestic policy (and action by non-state actors) and international developments. Far from accepting the analysis of Crotty or O'Hearn, there emerged a view that internationalisation, and European governance, while they had exposed critical weaknesses in Ireland, were no longer the *cause* of those weaknesses. Indeed, even deeper European integration and internationalisation, when properly understood and managed, came to be seen as a route to success.<sup>29</sup>

While Ireland's membership of the EC allowed the country to achieve one of its agricultural policy aims—access to a large, high-priced market—attention turned to problems in agriculture which remained despite, or because of, the CAP.<sup>30</sup> The disappointing development of the food industry, and other problems in agriculture, reflected a range of industrial, agricultural and structural constraints which had not been successfully removed by domestic policy. The loss of so many indigenous businesses was traced to failure of industrial policy and the uneven growth of domestic demand.<sup>31</sup> The focus and delivery of industrial policy was quietly changed—shifting from grants to equity, to an emphasis on indigenous development, to providing business services rather than start-up capital, to strengthening linkages from the TNCs—without any overt shift in industrial strategy.<sup>32</sup> The argument for a greater focus on building indigenous firms and sectors—including clusters of related and supporting industries—received a measure of official support.<sup>33</sup>

Considerable advance was made in the understanding of economic and monetary union. There was greater recognition of the constraints which interdependence, particularly the EMS, places on domestic monetary and fiscal policy.<sup>34</sup> A feature of the NESc approach was its insistence on placing the issue of EMU within a wider set of questions concerning Ireland's strategic approach to European integration (including political integration) and a new perspective on the regional effects of the overall integration process.<sup>35</sup> This involved a revision of the view that it is the *monetary* stage of integration which presents weaker regions and countries with the greatest problems, and instead, a focus on the *economic* forces unleashed by free trade and the mobility of labor and capital.<sup>36</sup>

It was noted that the effects of integration can take considerable time to work themselves out, adjustments to membership of the EC being experienced in the 1980s as well as the 1970s. Indeed, it came to be recognised that internationalisation is an ongoing process which throws ever greater sections of the economy and society into international competition.<sup>37</sup> While Ireland's approach to the Community continued to focus, to a considerable extent, on the cohesion question and the Structural Funds, an attempt was made to put cohesion in the correct perspective. The continuing importance of domestic policy was emphasized, and a perspective attained on how the cohesion

question relates to the wider set of EU goals and policies.<sup>38</sup> Economic actors came to recognize what Irish officials had long understood: that small states generally benefit from the formal, legal, supranational elements of integration, whereas larger and more powerful states can work intergovernmental negotiations to much greater effect.<sup>39</sup> From intense study and deliberation, there emerged a recognition that the '1992' program must be seen in the context of other changes in the general economic environment affecting business, many of which are independently encouraging internationalization. The Irish Congress of Trade Unions (ICTU), which had opposed the SEA in the referendum of 1987, was, by 1989, promoting integration in a campaign entitled 'Make Europe Work for Us'.

This widely shared new perspective on domestic policy, international governance and internationalization supported a more positive, if tentative, assessment of Ireland's chance of escaping more thoroughly from the vicious circles of the past<sup>40</sup>. Note was made of the emergence of a more autonomous civil society, and the possibility was raised that changes in technology and the international economy could reduce the significance of some of Ireland's historical disadvantages and increase the economic relevance of some of Ireland's strengths.

### *Social Partnership*

In a context of deep despair in Irish society in the mid-1980s, the social partners—acting in the tripartite National Economic and Social Council—hammered out an agreed strategy to escape from the vicious circle of real stagnation, rising taxes and exploding debt. NESC's *Strategy for Development* (1986) formed the basis upon which a new government and the social partners quickly negotiated the Program for National Recovery to run from 1987 to 1990.<sup>41</sup> This was to be the first of four agreements which have recently brought Ireland to a more than a decade of negotiated economic and social governance. Following the influence of *A Strategy for Development*, the negotiation of each subsequent social partnership program has been preceded by an NESC *Strategy* report, setting out the shared perspective of the social partners on the achievements and limits of the last program and the parameters within which a new program should be negotiated.<sup>42</sup>

The Program for National Recovery, 1987-1990 (PNR), involved agreement between employers, trade unions, farming interests and government on wage levels in both the private and public sectors for a three-year period. Moderate wage growth was seen as essential to international competitiveness and to achieving control of the public finances. However, the PNR, and its successors, involved far more than centralised wage bargaining. They involved agreement on a wide range of economic and social policies—including tax reform, the evolution of welfare payments, trends in health spending, structural adjustments and Ireland's adherence to the narrow band of the ERM and the Maastricht criteria. On the macroeconomic front, each partner agreed that they would not generate inflationary pressures that would warrant devaluation and would not seek devaluation when external problems arose. The PNR also established a new Central Review Committee to monitor implementation of the programme and ensure ongoing dialogue between government and the social partners on key economic and social policy issues.

The PNR enlisted trade union support for a radical correction of the public finances. In return, the government accepted that the value of social welfare payments would be maintained. In addition,

it undertook to introduce reforms in income tax that were of benefit to trade union members, reform of labour law and, recently, a minimum wage. Each programme was ratified by a ballot of all union members.

The three subsequent agreements—the Programme for Economic and Social Progress (PESP) 1990-1993, the Programme for Competitiveness and Work (PCW) 1994-1996, and Partnership 2000, 1997-2000—had a broadly similar form. Each has covered a three-year period, and has set out agreed pay increases for the public and private sector. They also contained agreements on a variety of policy areas, including commitments to social equality and tax reform. While the macroeconomic strategy has been adhered to consistently since 1987, subsequent agreements contained policy initiatives that are worthy of note. The PESP initiated an experiment in which local partnerships seek innovative approaches to long-term unemployment. A recent OECD evaluation of Ireland's local economic development policies considered that the local partnership approach constituted an experiment in economic regeneration and participative democracy which is, potentially, of international significance.<sup>43</sup> Commercialization, and limited privatization, of Ireland's state-owned enterprises has proceeded in the decade of partnership. The most recent program, Partnership 2000, contains a measure of agreement on action to modernize the public service, enlisting the social partners in support of the Strategic Management Initiative. Partnership 2000 marks some progress in addressing the issue of enterprise-level partnership. In addition, a partnership approach has been adopted in several policy areas, and was reflected in a range of Task Forces and Forums examining issues concerning education, poverty, the travel community, and people with disabilities.

An important feature of the recent Irish approach is the attempt to widen partnership beyond the traditional social partners (trade unions, business and agricultural interests). A new forum was established and the membership of NESC was gradually widened, to include representatives of the voluntary and community sector. Reflecting this, Partnership 2000 was negotiated in a new way, involving representatives of the unemployed, women's groups and others addressing social exclusion.<sup>44</sup>

### **Economic Performance Under Social Partnership**

The social partnership approach produced the much-needed recovery from the disastrous early and mid-1980s and has underpinned a sustained period of growth since then. In the decade 1986 to 1996, real Irish GDP has grown by an average of 4.9 percent a year, compared to an OECD average of 2.4 percent. While total employment had fallen by an average of 1.1 percent per year between 1980 and 1986, since then it has grown by 1.8 percent per year, compared to an OECD average of 1.0 percent and an EU average of 0.3 percent. More recently, growth of output and employment has reached unprecedented levels. From 1993 to 1996, growth of real Irish national output has averaged 7.5 percent a year, and employment by a remarkable 4.0 percent per year. The rate of growth of employment in services during the 1990s has been higher than in any other EU country, and also higher than the US. Indeed, the outstanding feature of recent economic performance has been the strong growth of employment rather than earnings. Social partnership has also produced a transformation in Ireland's public finances. The general government deficit as a percent of GDP

declined from 8.5 percent in 1987, to 2.3 percent in 1994. The debt/GDP ratio, which reached 117 percent in 1986, has fallen steadily, to 76 percent in 1996. Inflation has remained significantly below the EU average and, having reduced inflation in the 1980s, Ireland did not need a second bite of the cherry (and a second deep recession), as the UK did. However, the performance on unemployment has been less satisfactory. Unemployment actually increased in the early 1990s, and has only begun to fall significantly in recent years. Despite the recent fall in unemployment, the single greatest problem facing Irish society remains the high proportion of long-term unemployment and the associated poverty and social exclusion.

Social partnership would seem also to have aided Ireland's successful participation in the ERM and transition to EMU. "After considerable initial difficulties, it was recognized that satisfactory participation in EMS and EMU requires not only conduct of monetary policy consistent with the exchange rate peg, nor the private sector's acceptance of modest wage increases, *but also* consensus on the management of the public finances, including taxation".<sup>45</sup> Partnership provided the context in which Ireland maintained low inflation and reaped the benefits of lower interest rates and improving competitiveness. After the loosening of the ERM in 1993, the social partners remained committed to a credible, non-accommodating, exchange-rate policy, leading to membership of EMU. While technical arguments suggest that this is the best exchange rate regime for a country such as Ireland (compared with a crawling peg or free float).<sup>46</sup> the Irish case shows that technical mechanisms can only be effective where the *political economy* of inflation, incomes and public expenditure is resolved.

The growth of the past decade reflects continued growth of exports and, more recently, strong domestic demand. In the economic conditions created after 1987, Ireland attracted a high proportion of US investment in Europe, particularly in electronics, pharmaceuticals, software, financial services and teleservices. Between 1987 and 1996, the number of foreign firms grew from 670 to 1050, an increase of 57 percent in a decade. In 1996, foreign firms accounted for 47 percent of employment in manufacturing and internationally traded services.<sup>47</sup> There is no doubt that the exports and employment of these firms constitute a significant part of Ireland's economic transformation. However, there is evidence of greater strength in indigenous enterprises. Irish banking and insurance firms, many of which consolidated prior to the international competition introduced by the '1992' programme, have grown strongly. In manufacturing, it has been estimated that the exports of Irish-owned firms have grown at annual rate of 11 percent in the period 1986 to 1995, slightly ahead of the EU (10.2 percent) and the OECD (10.5 percent).<sup>48</sup> Between 1987 and 1996, Irish-owned firms accounted for 28 percent of the increase in employment and in the period 1993-96 they accounted for 41 percent of the net growth in manufacturing employment.<sup>49</sup> In recent years, a significant number of Irish enterprises—in food and financial services—have undertaken mergers, acquisitions and alliances abroad. Irish enterprises have become attractive acquisitions for foreign investors. Such acquisitions, and the launch of emerging Irish enterprises on the New York or London stock exchanges, have become a routine feature of business life. There is evidence that the new methods of decentralized and flexible organization are being adopted by both TNC and indigenous firms in Ireland.<sup>50</sup>

## **Analytical Underpinnings and the Neo-Liberal Critique**

### *The Partnership Perspective*

In its second *Strategy* document, 1990, NESC set out a framework which has informed its subsequent work, and which underlies the commitment of government and the social partners to the process. It argued that there are three requirements for a consistent policy framework in a small, open, European democracy:

1. The economy must have a macroeconomic policy approach that guarantees low inflation and steady growth of aggregate demand.
2. There must be an evolution of incomes that ensures continued improvement in competitiveness, and which handles distributional conflict in a way that does not disrupt the functioning of the economy.
3. There must be a set of complementary policies which facilitate and promote structural change, in order to maintain and improve competitiveness in an ever changing external environment.

The manner in which a consistent and effective overall approach is developed varies considerably across countries. Consideration of how various countries, with different structures and political traditions, operate economic and social policy suggest that the system must be internally consistent, and that it must be suitable for the economy and society to which it is applied.

It was argued that, in the Irish case, the first of these requirements is best met by adherence to the ERM, a non-accommodating exchange rate and, as soon as possible, transition to membership of EMU. The second requirement is best met by a negotiated determination of incomes. To be really effective, such a negotiated approach must encompass not only the evolution of pay, but also taxation, the public finances, exchange rate and monetary policy, the main areas of public provision and social welfare. In pursuit of the third requirement, the Council advocated a major programme of structural reform in taxation, social welfare, housing, industrial policy, manpower policy and the management of public enterprises. It argued that such reforms can only succeed with the active consent and participation of those who work in the agencies and institutions concerned. This participation is more likely in the positive industrial relations atmosphere which can be created by national policy which, on the one hand, minimizes the scope for conflict over pay and, on the other, lays down rights and duties which foster and encourage security and flexibility.

The conduct of policy along these lines since 1987 allows us to identify some of the core elements of the emerging Irish model of economic and social governance.<sup>51</sup> The first element is an overall orientation, which begins with the belief that the widest participation in social life, economic activity and policy-making are inseparable and fundamental requirements for the well-being of Irish society. This is combined with an unambiguous recognition and acceptance of Ireland's participation in the international economy and the European Union. This implies that the competitiveness of the Irish economy is a precondition for the pursuit of all other economic and social goals. The third element of the emerging Irish model is the fact that the achievement of a consistent approach to macroeconomic policy, incomes and structural adjustment has been strongly associated with

negotiated programs. These align the social partners to consistent and competitive actions and provide a framework within which government can adopt a strategic perspective on important policy issues.

The international orientation of Irish social partnership was further underlined in the study which underpins the current program, Partnership 2000. While globalization has undoubtedly undermined many elements of national economic policy, even in large countries, there remain several areas where national policy remains crucial, and may even have become more significant. National policies which influence corporate governance, innovation, the labor market and industrial relations still have a significant effect on national prosperity. In addition, study of current economic conditions clarifies the policy approaches which can be effective in a small, open, European democracy like Ireland:

1. Most of the policies which affect national prosperity are *supply-side* policies;
2. Given rapid economic change, national policies must produce *flexibility*;
3. Successful national supply-side policies, directed towards innovation and competitiveness, depend on ‘the high level social cohesion and co-operation that the state can both call upon and development’<sup>52</sup>.

NESC argued that this view on globalization has implications for the three elements of a consistent policy framework, outlined above. It underlines the importance of consensus, both the social partners and the political parties, on macroeconomic and monetary policy. It suggests that, once such a consensus is in place—and is reflected in government policy, wage bargaining and management—there is little value in active discussion of macroeconomic matters, or in agonizing over the transition to, or terms of, European monetary union. The main focus of policy analysis and development should be on the supply-side measures that influence competitive advantage and social inclusion, and the institutional arrangements which encourage discovery and implementation of such measures.<sup>53</sup>

In assessing the merits and potential of the social partnership experiment, note should be made of the political context. It might once have been believed that the social partnership model was dependent on the dominant position of the center-left, catch-all, political party, Fianna Fail. However, since 1987, the party composition of Irish government has gone through rapid change, such that all political parties of any significance have been in government in various coalitions. The social partnership approach has not only survived this, but has gained the support of the Labour Party and the second largest party, Fine Gael. Indeed, the evolution of social partnership has seen a co-evolution in Irish party politics—towards a system of permanent, but frequently re-negotiated, coalition. This brings Ireland nearer to a European system of governance, which does not have the ‘winner takes all’ and ‘oppositional’ characteristics of the British system.

#### *Orthodox and Neo-Liberal Criticisms of Social Partnership*

While the evolution of Irish economic policy in the past decade has been marked by a high level of consensus—between the social partners and across the political spectrum—the more liberal and orthodox economists have stood outside the consensus. Some have objected to the politicisation of industrial relations because it ‘adds to the bargaining power of trade unionism on an ongoing basis’.<sup>54</sup>

Others have argued that the social partners are ‘insiders’, whose pay and conditions have been protected at the expense of ‘outsiders who would work for less’, and that social partnership has had the effect of ‘raising the level of unemployment and emigration’.<sup>55</sup> An aspect of the strategy that has particularly provoked orthodox and neo-liberal economists is EMU. A preference for the British model of economic and social policy (of the 1980s) is combined with a preference for sterling rather than the euro.<sup>56</sup> Having failed to shake the consensus on EMU, they argued that EMU requires abandonment of centralised wage bargaining. In its recent assessment of the achievements and limits of the social partnership approach, NESC argued that these criticisms require careful consideration. It suggests that a number of qualifications are warranted.

First, the proposition that centralised agreements have prevented the unemployed undercutting the wage of existing workers, and has thereby increased unemployment, is both conceptually and empirically questionable. As Solow has shown, one of the fundamental features of labour markets, observed almost everywhere, is the absence of wage under-cutting by unemployed workers.<sup>57</sup> This reflects the fact that the ongoing relation between management and labor gives rise to complex patterns of co-operation in which ideas of fairness play an important role. Wage rates and employment are entwined with social status, and the performance of the worker depends on the price paid for her services. Consequently, it seems inaccurate, on the part of the opponents of Irish social partnership, to attribute the absence of wage under-cutting to the centralised agreements of the past decade<sup>58</sup>.

Second, the argument that social partnership arrangements maintain a high level of unemployment, ignores the fact that, without national agreements, income determination will remain a non-competitive, highly collectivized, process, with tendencies to monopoly power on both sides of industry.<sup>59</sup> Ireland is unlikely to move to the atomistic bargaining which would seem to underpin the analytical argument, and the political preference, for decentralized bargaining. It remains to be explained how, in a world of decentralized, sectional and non-political bargaining, agents acting in their own self-interest will take *greater* account of the problems of the unemployed.<sup>60</sup>

The argument that EMU requires abandonment of centralized wage bargaining—or wage contracts linked to the Irish punt/sterling exchange rate—confronts certain problems of a factual, conceptual and practical nature.<sup>61</sup> It is based on the misapprehension that the partnership agreements are entirely inflexible arrangements. It ignores the evidence, from Ireland and other European countries, that co-ordinated wage bargaining, as part of a wider consensus, plays a role in maintaining low inflation by means of a hard currency peg. Linking Irish wages to the sterling exchange rate would involve less co-ordination of Irish wage settlements, introduce unsynchronized behavior, establish a most unusual (and implausible) wage-contract, and could allow a return to the type of inflation-based bargaining which proved so destructive in past decades.

Indeed, the poorly specified analytical argument against the experiment, can be contrasted with the analysis advanced by the social partners themselves. This is an analysis which begins by noting the small scale and open nature of the Irish economy, the structure of industrial relations, high levels of taxation and social provision and the significant outstanding national debt. In this context, a negotiated consensus—with a non-accommodating exchange rate as the sheet-anchor of macroeconomic policy—must include agreement on the evolution of pay, taxation, the public

finances, the exchange rate and monetary policy, and the level of publicly provided services and social welfare. Four arguments underlie this position. First, the internationalization of financial markets renders active manipulation of the exchange rate impossible in a small and extremely open economy. Second, this is underpinned by the new perspective on the regional effects of economic and monetary integration, noted above. Third, the social partnership agreements underpin the credibility of a non-accommodating exchange rate policy, by enlisting support for it as a long-term policy and ensuring that the 'fixed' exchange rate gives the right signal. As Soskice notes, depending on the institutional arrangements, a fixed exchange rate can either encourage moderate wage growth (when unions and employers jointly favour a low real exchange rate), or high nominal wage growth (when unions seek higher real wages in the short-term)<sup>62</sup>. Fourth, if the social partnership agreements underpinned the exchange rate policy, the reverse is also true: adherence to the ERM narrow band (and transition to EMU) guaranteed low inflation to such a degree that unions were willing to enter three-year wage agreements.

Adopting this approach, Ireland has made major advances in economic management and economic performance. In particular, consensus on this long-run strategy has taken the exchange rate, and therefore inflation, outside day-to-day party political competition and industrial relations conflict. This can be contrasted with an approach in which short-termism rules in economic policy, business decisions and wage setting. It has led, in the UK, to short bursts of fast economic growth, followed by deep recessions imposed in order to reduce inflation. Ireland's experiment since 1987 has, for the first time in its history, partly inoculated it against the strikingly unsuccessful combination of macro policy and income determination pursued in Britain for many years. Ireland has finally escaped the most negative effects of Britain's political business cycle and, in the process, has also rejected the neo-liberal approach to social policy and regulation adopted in Britain between 1979 and 1997. As a result, it has preserved a higher level of social solidarity, which seems an essential pre-requisite to sustaining redistributive policies and addressing issues of structural change and reform in a non-conflictual way.

### **Interpreting Irish Social Partnership**

While Ireland's remarkable economic performance in the past decade is an interesting case of macroeconomic adjustment, industrial strategy and European integration in a small member state, it is also an intriguing case of social and political concertation. How should we interpret the emergence, success and persistence of social partnership in Ireland since 1987? While it is clearly tempting to see it as a version of 'neo-corporatism', there are several difficulties with this view. Within Ireland, there is an interesting debate on the correct way to characterise and interpret the development of social partnership since 1987.<sup>63</sup> Perhaps the most compelling interpretations are those which have emerged within the partnership process itself, in response to perceived difficulties and opportunities.

## *Ireland's Structural Unsuitability for Neo-corporatism*

Industrial sociologists have raised important questions about the potential of corporatist governance in Ireland. Hardiman compared the Irish centralised pay bargains in the 1970s with the patterns of neo-corporatist 'political exchange' in Austria, Sweden and Norway. Important conditions which facilitated concertation in those countries—such as a dominant social democratic party, cohesive employers' organisations and a trade union movement with a high degree of authoritative centralisation—were not met in Ireland. Thus, her study explained the limited success of national agreements from 1970 to 1981 and raised doubts about the potential for future development.<sup>64</sup> Her doubts were shared by some other students of industrial relations, who dispute that the current Irish experiment can be viewed as *social* corporatism, arguing that the trade union elite agreed to a program of severe measures to adjust the Irish economy, first to fiscal crisis, and then to European integration.<sup>65</sup> In addition, it was pointed out that social partnership at national level is weakly reflected in workplace industrial relations.<sup>66</sup>

There can be no doubt that structures and procedures which sustain national tripartite arrangements were weak in Ireland *when compared with the classical neo-corporatist models*. However, developments since 1987 strongly suggest that this may not preclude the development of a significant form of social partnership. The trade union movement has entered four agreements covering a wide agenda—including pay, taxation, social policies, public finance management and the Maastricht criteria.<sup>67</sup> The partnership approach has prompted important institutional developments—particularly the establishment of a central monitoring system—that have improved the effectiveness of tripartite concertation and that go some way to overcoming the indecisiveness and clientelism which can arise within the Irish party system. Unlike the 1970s, the agreements of the 1980s and 1990s have been based on a shared understanding of the problems facing the Irish economy and society and the main lines of policy required to address them. While the Irish case involves an unusual balance between national-level and enterprise-level partnership, Partnership 2000 has given rise to a potentially significant initiative on enterprise-level partnership.

In any case, comparison with the classical, Northern European, neo-corporatist cases may have lost some of its relevance. International developments suggest some revision of traditional ideas on both the *conditions for* and the *nature of* neo-corporatism.<sup>68</sup> It seems more relevant to compare the Irish experiment with approaches to social concertation in other European countries in recent years, rather than the heyday of post war neo-corporatism. This suggests that we can compare alternative approaches to the policy problem of the late 1980s and 1990s—how to control inflation and maintain social cohesion in the context of deepening European integration and intensified international competition—rather than the policy problem of the post-war golden age. Despite the rhetoric of the 1980s, it does not seem useful to compare countries in traditional terms, such as 'state versus market' and 'centralised versus decentralised' bargaining. As Crouch suggests, the concepts of institutionalization/de-institutionalization, encompassingness, social partnership and co-ordination, are more useful than the contrast between 'state-imposed incomes policy' and 'free collective bargaining', and between 'state control' and *laissez-faire*.<sup>69</sup>

The Irish approach has been encompassing in two senses: it encompassed a large enough proportion of the economic actors to produce low inflation and increased competitiveness; and it encompassed

enough of the things that concern these actors—prices, pay, taxation, welfare and social provision—to make the overall strategy coherent. The Irish approach bears some similarities with other cases: as in Germany, there is a de-politicisation of exchange rate policy, combined with a politicisation, or at least institutionalization, of other policy areas; it bears some similarities to the emergency packages undertaken in Belgium, the Netherlands and the Nordic countries; it may, also, involve some ‘social promotion’ of trade unions, in pursuit of wider social goals, such as occurs in Spain, Italy, Greece, Portugal and France. However, an emphasis on encompassing organisations does not fit well with the Irish attempt to widen social partnership beyond the traditional social partners.

A comparative approach has also been used to throw light on the unusual features—some say weaknesses—of the Irish experiment. Traditionally, the most successful approaches to coordination—in Germany, Austria and Switzerland—involve similar macroeconomic policies, but with less reliance on centralised, and particularly state-led, incomes policy. These countries are notable, less for national *pacts* than for a rich institutional framework that links company-level market sensitivity and flexibility with coherent national-level behaviour. A key challenge facing Irish social partnership is to address the weakness of indigenous Irish enterprises and the problems of long-term unemployment and social exclusion. It is now recognised that this requires institutional developments below the central level at which the social partners and the state have recently developed expertise in dialogue and negotiation. But it is no longer clear that the institutional arrangements in the once-successful continental countries provide a model which Ireland should follow. Indeed, considerable institutional innovations have been undertaken in Ireland—in policies addressing long-term unemployment, rural and urban re-generation and business development—and it is possible that these, however unorthodox, are more suited to current economic, organisational and technological circumstances.

### *The Self-Understanding of Irish Social Partnership*

In order to develop social partnership, and make it more inclusive, it has been necessary to analyze the nature, purpose and goals of the partnership approach itself. In its 1996 report, *Strategy into the 21st Century*, NESc offered the following characterisation of social partnership, as it has developed in the past decade:<sup>70</sup>

1. The partnership process involves a combination of *consultation, negotiation and bargaining*.
2. The partnership process is heavily dependent on a *shared understanding* of the key mechanisms and relationships in any given policy area;
3. The *government* has a unique role in the partnership process. It provides the arena within which the process operates. It shares some of its authority with social partners. In some parts of the wider policy process, it actively supports formation of interest organisations;
4. The process reflects *inter-dependence* between the partners.
5. Partnership is characterised by a *problem-solving* approach designed to produce consensus, in which various interest groups address joint problems;
6. Partnership involves *trade-offs* both between and within interest groups;

7. The partnership process involves *different participants* on various agenda items, ranging from national macroeconomic policy to local development.

This list can be seen as both a *description* of the partnership process, as it is, and a set of *conditions* for effective participation in the process. Indeed, most of these principles were explicitly adopted by both the ‘traditional’ and ‘new’ social partners in the latest agreement, Partnership 2000. The widened partnership approach is experiencing distinct problems, among them the limited terms of inclusion of non-traditional partners, the difficulty of linking national representation to local action, and the ineffectiveness of the formal, centralised, monitoring system. Consequently, the participants have continued their self-reflexive examination of Irish partnership, a process in which the author

has continued to have a role. This has yielded a further characterisation of the process, and underlines the view that Irish partnership should not be understood in classic neo-corporatist terms.<sup>71</sup>

A distinction can be made between two conceptions, or dimensions, of partnership:

- Functional interdependence, bargaining and deal making.
- Solidarity, inclusiveness and participation.

Effective partnership involves both of these, but cannot be based entirely on either. To fall entirely into the first could be to validate the claim that the process simply reflects the power of the traditional social partners, especially if claims for the unemployed and marginalised are not included in the *functional* inter-dependence, and are seen as purely *moral*. To adopt a naive inclusivist view would risk reducing the process to a purely consultative one, in which all interests and groups merely *voiced* their views and demands. While these two dimensions are both present, even together they are not adequate.

There is a third dimension of partnership, which transcends these two. Although the concepts of ‘negotiation’ and ‘bargaining’ distinguish social partnership from more liberal and pluralist approaches, in which *consultation* is more prominent, they are not entirely adequate to capture the partnership process. Bargaining describes a process in which each party comes with definite preferences and seeks to maximize its gains. While this is a definite part of Irish social partnership, the overall process (including various policy forums) would seem to involve something more. Partnership involves the players in a process of deliberation that has the potential to shape and reshape their understanding, identity and preferences. This idea, that identity can be shaped in interaction, is important. It is implicit in NESC’s description of the process as ‘dependent on a shared understanding’, and ‘characterised by a problem-solving approach designed to produce consensus’. This third dimension has to be added to the hard-headed notion of bargaining (and to the idea of solidarity) to adequately capture the process.<sup>72</sup>

The final element in this argument is that there are limited pre-conditions for effective social partnership of that sort. The key to the process would seem to be the adoption of ‘a problem-solving approach’. As one experienced social partner put it, ‘The society expects us to be problem-solving’.

A notable feature of effective partnership experiments is that the partners do not debate their ultimate social visions. This problem-solving approach is a central aspect of the partnership process, and is critical to its effectiveness. This suggests that rather than being the *pre-condition* for partnership, consensus and shared understanding are more like an *outcome*. It is a remarkable, if not easily understood, fact that deliberation which is problem-solving and practical produces consensus, even where there are underlying conflicts of interest, and even where there was no shared understanding at the outset. It is also a fact that using that approach to produce a consensus in one area, facilitates use of the same approach in other areas. The key may lie in understanding what kind of consensus is produced when problem-solving deliberation is used. It is generally a provisional consensus to proceed with practical action, as if a certain analytical perspective was correct, while holding open the possibility of a review of goals, means and underlying analysis. This type of agreement certainly involves compromise. But the word compromise is inadequate to describe it. ‘Compromise’ so often fudges the issues that need to be addressed.

This view, that there are limited pre-conditions to social partnership, is then combined with observation of three trends which demand a further revision of conventional ideas of neo-corporatism.

The nature and role of social partners is changing, in ways that require a new view of what a social partner is now. The traditional characteristics of partners in neo-corporatist systems—‘social closure’ (monopoly representation of a given social group), a functional role in the economy (preferably in production), centralised structures for representing and disciplining members<sup>73</sup>—seem to be losing their relevance. Organizations cannot take for granted their role as representatives of a given group, with defined and stable roles. They must continually mobilize, co-ordinate and provide services. While success traditionally depended on power resources, information is the key resource that a modern social partner brings to the table. In the place of the old form of bargaining, there are new forms of public advocacy: analysis, dialogue and shared understanding. The role of representation has weakened. Mobilizing, organizing and solving problems (with others) are the feature of effective social partners.

We are also witnessing an historical shift in the role of the center and national government. The complexity, volatility and diversity of economic and social problems, and of social groups, is undermining the ability of central government to allocate resources, direct the operation of departments and agencies, and administer complex systems of delivery and scrutiny. These traditional center roles are being replaced by new ones: policy entrepreneurship, obliging and assisting monitoring, facilitating communication and joint action between social interests, protection of the non-statutory organizations that now have responsibility in many policy spheres, and supporting interest group formation. Traditional conceptions of neo-corporatism seem premised on an outdated view of the power, autonomy and effectiveness of central government.

The relationship between policy making, implementation and monitoring is changing, in ways which place monitoring, of a new sort, at the center of policy development. For a variety of reasons, national-level partnership, which focuses on national-level *policy-making*, is unlikely to solve the complex and diverse problems which citizens confront. What is required is examination of practical successes and failures, which is used to revise both the *methods* and *goals* of policy.<sup>74</sup> This demands

a new fusion of policy-making, implementation and monitoring. If the institutional arrangements to achieve this can be found, it seems unlikely that the social partners will play their conventional neo-corporatist role as representatives to the same extent.

This discussion of the nature and preconditions of social partnership, when combined with the three trends outlined above, provide a new view of social partnership as it is developing in Ireland. In particular, the categories and ideas found in earlier studies of classical North European neo-corporatism seem inappropriate in understanding the Irish experiment. Indeed, it is possible that the Irish case might assist the formulation of a new concept of post-corporatist concertation, as it is emerging in several European countries.

## **Conclusion**

Four strands of policy development have been reviewed: macroeconomic stabilisation, industrial policy, European integration and social partnership. None of these is entirely resolved, and none entirely understood. The nearest to resolution is the macroeconomic, the long transition to EMU being almost complete; though UK adoption of the euro is necessary for Ireland to make permanent its approach of the past decade: economic policy without macroeconomics. The least well understood is industrial policy, and the apparent transformation of Irish business. In seeking more effective policies for indigenous development over the past 20 years, Irish studies drew on various models: the Japanese firm, the industrialization of Korea and other late-developing economies, flexible specialization, the industrial districts of Italy and Germany, the National System of Innovation of successful, small, European countries, Porter's clusters and the networks of resurgent Danish and other regions. Now that some competitive success is emerging, it turns out not to conform to any of these models. Consequently, we urgently need to know more about Ireland's business transformation and how industrial policy works in its relations with enterprises and sectors.<sup>75</sup>

The relevance and interaction of the four strands of policy is not in doubt. All four figure in any tentative explanation of Ireland's success of the past decade. First, after 1987, Ireland achieved consensus—across both the social partners and the political parties—on the requirements for successful participation in the European economy and on the view that there was no way of escaping these requirements. Second, Ireland achieved a high degree of wage co-ordination; in Ireland's case, this was done by means of centralized bargaining, which relied primarily on a cohesive trade union movement and strategy. Third, Ireland achieved a sufficient degree of consensus on public finance. This was necessary not only because of the Maastricht criteria but, more fundamentally, because of the way in which taxation and public provision interact with both wage bargaining and the exchange rate. Fourth, Ireland (in its European context) had a set of supply-side characteristics that ensured international competitiveness and encouraged fast economic growth. These included a young, well-educated, English-speaking workforce, improved infrastructure (funded by both the EC and the Irish state), an inflow of leading US enterprises (attracted by both Irish conditions and the deepening European market), a new population of Irish enterprises (free of the debilitating weaknesses of the past and open to new organizational patterns), and deregulation of the service sectors (driven by the '1992' process).

The complex interaction of domestic and international factors is clear. The common thread, the underlying transformation, is a switch from a long history in which external factors were constraining, to a new situation in which the external environment provides valuable inputs and even its undoubted constraints can be used as opportunities. It seems that European integration has transformed Ireland's relation to its international environment, and social partnership has transformed its internal ability to mediate interests and adhere to coherent strategies.

It is remarkable, but clearly no coincidence, that the opponents of one are also opponents of the other. Their opposition, negligible in policy terms but influential in academia and the media, is both to the substance of the prevailing consensus and to the idea and value of consensus itself—and, most of all, to the proposition that, in the circumstances of the past decade, these two interact. Yet those who achieved Ireland's transformation have little doubt that closing-off macroeconomic alternatives freed management, trade union and government energies for discussion of real issues that impact on competitiveness and social cohesion—corporate strategy, technical change, training, working practices, the commercialization and/or privatization of state-owned enterprises, taxation, public sector reform, local re-generation, active labor market policy—and forced all to engage in realistic discussion of change. They sense, even if they cannot say, that this approach was particularly liberating in a country whose political system tended to clientelism, whose enterprises had grown used to direct and indirect protection and whose trade union movement had developed in the British adversarial tradition.

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