

The Rise and Fall of Irish Social Partnership

*The Political Economy of Institutional
Change in European Varieties of Capitalism*

Aidan Regan



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Table of Contents

Acknowledgements.....	VII
List of Tables and Figures.....	IX
List of Abbreviations.....	XI
Abstract	XIV

Introduction: Ireland and European Economic and Monetary Union (EMU).....	1
Chapter Overview.....	18

Chapter 1: A Theory of Institutional Change in European Varieties of Capitalism

1. Introduction.....	23
2. Explaining Institutional change from Keynesianism to Neoliberalism.....	24
3. Neoclassical Economics, Critical Marxism, Comparative Political Economy.....	28
4. Rational Choice, Historical and Power-Distributional Institutionalism.....	33
5. Neo-Corporatism, Varieties of Capitalism and Centralised Wage Bargaining.....	37
6. Historical Political Approach to Comparative Political Economy.....	42
7. Conclusion.....	43

Chapter 2: Explaining the Renaissance of Social Pacts in European Industrial Relations

1. Introduction.....	44
2. Comparative Indicators on the Decline of Effective Labour Power.....	45
3. Comparative Indicators on the Rise of Corporatist Policy Making.....	49
4. Explaining the Institutionalisation of Social Partnership.....	56
5. Bringing Structures of Collective Bargaining Back In.....	60
6. Trajectories of Liberalisation in European Industrial Relations.....	63
7. Conclusion.....	65

Chapter 3: Methodology and Comparative Historical Social Science

1. Introduction	67
2. Ontology, Research Design and Case Selection.....	67
3. Causal Inference in Case Studies; Boolean Algebra and Process Tracing.....	73
4. Temporal Sequence in the Process of Institutional Change.....	76
5. Strategies of Data Collection.....	77
6. Conclusion.....	80

Chapter 4: The Emergence of Social Partnership in the Single European Market (1987-1992)

1. Introduction.....	82
2. The Coordinating Role of the State in Labour Relations.....	83
3. Confronting a Fiscal and Debt Crisis in the European Monetary System.....	85
4. NESC, Small States and Global Markets.....	89
5. The Political Factors and Negotiated Adjustment	92
6. The Political Exchange of the National Wage Agreements.....	98
7. Declining Power Resources of Irish Trade Unions.....	101
8. Conclusion.....	104

Chapter 5: The Consolidation of Social Partnership Under the Constraints of Maastricht (1993-1999)

1. Introduction.....	108
2. Confronting an Employment Crisis in the European Monetary System.....	109
3. The Constraints of Maastricht in Framing Domestic Policies.....	113
4. The Political Emergence of a Centre-Left Coalition Government.....	114
5. The Political Exchange of National Wage Agreements.....	117
6. Assessing the Employment Performance of Centralised Wage Bargaining.....	122
7. The Emergent Faustian Dilemma of Irish Social Partnership.....	129
8. Conclusion.....	130

Chapter 6: The Consolidation of Social Partnership in the Economic and Monetary Union (1999-2006)	
1. Introduction.....	132
2. Reconstituting the Welfare State in a Period of Economic Growth.....	133
3. Coordinating Social Policy in the Economic and Monetary Union.....	137
4. The Politics of Low Taxes and Increased Public Spending.....	139
5. Public Sector Pay, Inflation and Benchmarking.....	140
6. From National Wage Agreements to Network Governance.....	147
7. Social Partnership and Building State Capacity.....	150
8. Conclusion.....	153
Chapter 7: The Collapse of Social Partnership in Response to the Eurozone Crisis (2007-2010)	
1. Introduction.....	155
2. The Politics of Adjustment under the Constraints of EMU.....	156
3. The Impact of ECB Interest Rates.....	160
4. The Impact of Pro-Cyclical Fiscal Policies.....	163
5. EU Enlargement, Migrant Labour and Industrial Relations.....	166
6. The Shift from a Negotiated to a Unilateral Adjustment.....	170
7. The End of Social Partnership?	174
8. Conclusion.....	192
Conclusion: The Future Trajectory of European Industrial Relations; Hayek or Polanyi? Learning From the Irish Model of Capitalism	
1. Introduction.....	180
2. The State and Liberal Market Capitalism.....	181
3. Power Resources and Institutional Change.....	183
4. Privatised Political Exchange and Political Coalitions.....	185
5. The Political Challenge of Constraining Markets.....	187
6. A Hayekian or Polanyian Europe?	189
7. New Research Agendas.....	190
Appendix – List of Interviewees.....	192
References.....	194

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When reflecting back over this research project I am reminded of the famous remark by Karl Marx in *das Kapital*, “there is no royal road to science and only those who do not dread the fatiguing climb of its steep path have a chance of gaining its luminous summits”. Marx forgot to add that many injuries are picked up along the way and rarely does one reach the top of the summit before a desire to climb another mountain kicks in. This PhD has not brought me to the top of the summit but it has provided a useful training exercise to get started. The eurozone crisis, the explosion in income inequality and the suspension of democracy in a variety of European countries has re-ignited an intellectual flame inside all academics engaged in political economic research. I hope this PhD is the beginning of my humble contribution to a rigorous debate on the future trajectory of change underpinning democratic capitalism in Europe.

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List of Tables and Figures

Tables

Table 1.1: Characteristics of Keynesian and Neoliberal Capitalist Regimes.....	26
Table 1.2: Explaining Institutional Change from Keynesian to Neoliberalism.....	28
Table 2.1: List of Countries and Year Social Pacts Signed	51
Table 2.2: Modes of Economic Governance in European Industrial Relations.....	64
Table 2.3: Corporatism Index: Country Scores and Rankings.....	66
Table 6.2: Irish National Wage Agreements Pre-EMU.....	141
Table 6.3: Irish National Wage Agreements Post-EMU.....	142

Figures

Figure 2.1: Five Year Mean Trade Union Density in Eurozone Countries.....	45
Figure 2.2: Five Year Mean Collective Bargaining Coverage in Eurozone Countries.....	46
Figure 2.3 Trends in Wage Coordination in Eurozone Countries	46
Figure 2.4: Decline in Wage Share as a percent of GDP in Eurozone Countries.....	47
Figure 2.5: Tripartite Social Pact Agreements in Europe.....	49
Figure 2.6: Decline in Parliamentary Seats of Social Democratic Parties in Europe.....	55
Figure 4.1: Unemployment Rate in the Irish Economy.....	87
Figure 4.2: National Debt as a Percent of GDP.....	87
Figure 4.3: Percentage Change in GNP and Exchequer Balance.....	87
Figure 4.4 European Social Investment in Ireland.....	98
Figure 4.5: Real Percentage Change in Take Home Pay.....	100
Figure 4.6: Trends in Trade Union Density.....	104
Figure 4.7: Decline in Total Number of Industrial Disputes.....	110
Figure 5.1: Trends in GNP Growth and Unemployment.....	112
Figure 5.2: Trends in Debt Interest Repayments as Percent of Tax Revenue.....	112
Figure 5.3: Trends in Consumer Price Index Inflation.....	114
Figure 5.4: Trends in Interbank Interest Rate after 1986 and 1992 Devaluation.....	118
Figure 5.5: Unit Wage Costs in all Industries	118
Figure 5.6: Percentage Change in Average Earnings in all Industries.....	123
Figure 5.7: Trends in Total Employment and Labour Force in Irish Economy.....	125
Figure 5.8: Trends in Sectoral Composition of the Labour Market	126
Figure 5.9: Trends in Employment in Services.....	135

Figure 6.1a: Trends in Total Government Expenditure.....	136
Figure 6.1b: Trends in Total Government Capital Expenditure.....	136
Figure 6.2: Trends in Total Government Revenue.....	136
Figure 6.3: Trends in Total Social Protection Expenditure.....	137
Figure 6.4: Trends in Total Social Protection Expenditure by Scheme.....	137
Figure 6.5: Post-EMU Inflation in Ireland and Germany.....	143
Figure 6.6: Trends in House Price Inflation in Ireland.....	143
Figure 6.7: Post-EMU Nominal Unit Labour Costs in Ireland and Germany.....	145
Figure 7.1: Collective Bargaining Coverage in Eurozone Countries.....	157
Figure 7.2: Trends in Interbank Interest Rate, Adjusted for Inflation.....	162
Figure 7.3: Net Foreign Liabilities of Irish Banks.....	162
Figure 7.4: Trends in Construction as a Percent of Total Employment.....	163
Figure 7.5: Collapse in Total Tax Revenue after Economic Crisis.....	163
Figure 7.6: Collapse in GDP after the Economic Crisis.....	171
Figure 7.7: Increase in Unemployment Rates after the Crisis.....	171
Figure 7.8: Increase in National Debt as a Percent of GDP.....	172
Figure 7.9a: Trends in Manufacturing Unit Labour Costs Relative to OECD Average.....	175
Figure 7.9b: Trends in Total Unit Labour Costs in Ireland and the Eurozone.....	176

List of Abbreviations

ALMP	Active Labour Market Policies
ATGWU	Amalgamated Transport General Workers Unions
ABP	Area Based Partnerships
CRC	Central Review Committee
CME	Coordinated Market Economy
CPSU	Civil and Public Service Union
CGE	Competitiveness Growth and Employment
CORI	Conference of Religious of Ireland
CIF	Construction Industry Federation
CII	Confederation of Irish Industry
CIE	Corás Iompair Eireann
CEB	County Enterprise Board
CPO	Causal Process Observation
CSO	Central Statistics Office
DSO	Dataset Observation
ECB	European Central Bank
EMU	European Economic Monetary Union
ERM	European Exchange Rate Mechanism
EMS	European Monetary System
ERO	Employment Registration Order
ESRI	Economic Social Research Institute
EEC	European Economic Community
EU	European Union
EPTRS	Export Profit Tax Relief Scheme
ESB	Electricity Supply Board
FÁS	Foras Aiseanna Saothair (Training and Employment Authority)
FUE	Federated Union of Employers
FDI	Foreign Direct Investment
FF	Fianna Fáil
FG	Fine Gael
GNP	Gross National Product
GDP	Gross Domestic Product
GAIE	Gross Average Industrial Earnings
IBEC	Irish Business and Employers' Confederation
ICTU	Irish Congress of Trade Unions

ICTWSS	Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts
IDA	Industrial Development Authority
IMF	International Monetary Fund
IMPACT	Irish Municipal, Public and Civil Trade Union
IFSC	Irish Financial Services Centre
INO	Irish National Organisation for the Unemployed
INTO	Irish National Teachers Organisation
INMO	Irish Nurses and Midwives Organisation
IRN	Industrial Relations News
ILO	International Labour Organisation
JLC	Joint Labour Committee
LRC	Labour Relations Commission
LME	Liberal Market Economy
MEA	Mode of Economic Adjustment
MEG	Mode of Economic Governance
MANDATE	Union of Retail, Bar and Administrative Workers
MNC	Multinational Corporation
NAPS	National Anti-Poverty Strategy
NESC	National Economic and Social Council
NERA	National Employment Rights Authority
NDP	National Development Plan
OMC	Open Method of Coordination
OECD	Organisation for Economic Cooperation and Development
PCW	Programme for Competitiveness and Work
PESP	Programme for Economic and Social Progress
PSEU	Public Service Executive Union
PSBB	Public Service Benchmarking Body
PNR	Programme for National Recovery
P2000	Partnership 2000
PPF	Programme for Prosperity and Fairness
PD	Progressive Democrats
QCA	Qualitative Comparative Analysis
RTÉ	Raidió Teilifís Éireann
REA	Registered Employment Agreement
SIPTU	Services, Industrial, Professional and Technical Union
SUI	Seafarers Union of Ireland

SP	Sustaining Progress
T16	Towards 2016
ToC	Transformation of Capitalism
UNITE	UK and Irish Union formed after merger of AMICUS and ATGWU
VoC	Varieties of Capitalism

Abstract

Throughout the 1990's there was a renaissance of corporatist policy making in European member states. Simultaneously there was a decline in centralised wage bargaining, trade union density and collective bargaining coverage. National pacts between government, employers and labour were adopted for a variety of reasons such as entry to the EMU and generating legitimacy for unpopular welfare reform. What is most interesting about the renaissance of national pacts in Europe was that they took place in a context of a general shift toward a neoliberal public policy regime. Furthermore, they emerged in countries that supposedly lacked the necessary preconditions for corporatist political exchange: Ireland, Italy, Spain and Portugal. Using a comparative historical analysis, grounded in a theory of institutional change, this thesis traces the rise and fall of Irish social partnership.

We argue that social partnership must be analysed as a political process that led to a distinct variant of a liberal market economy. Centralised wage bargaining was a stable feature of Ireland's political economy for twenty years and the primary architect behind its construction was the state. This labour inclusive process made Ireland the paradigmatic case of liberal globalisation. The Irish state not only institutionalised a liberal free market regime but it did it through a process of social dialogue. Trade unions were not excluded from the Irish development model but central to it. All of this points to the reality that liberal market economies are politically constructed and institutionally embedded in country specific class configurations. It illustrates that the political practice of neoliberalism is qualitatively distinct from the economic idea of neoliberalism. In many ways, Ireland advanced the politics of the 'third way' long before it became popular with conservative social democrats in the UK and European Union.

In response to Eurozone crisis the Irish government internalised the constraints of EMU and pursued a unilateral orthodox adjustment and the underlying political coalition of social partnership collapsed. We conclude that variation in institutionalised power resources and not the rational efficient design of institutions to improve economic performance explains the trajectory of institutional change underpinning European industrial relations. This can only be observed by adopting a 'transformation' rather than a 'varieties' of capitalism perspective that recognises the inherently political, contingent and conflictual nature of democratic capitalist economies.

“Nothing endures but change”

Heraclitus, Diogenes Laertius, Lives of Eminent Philosophers, Book IX,
Section VIII

Introduction

Ireland and the European Economic and Monetary Union

“A theory of capitalism that recognises the pluralist, multi-dimensional and internally conflicted nature of social systems restores politics to the central place it deserves, in contrast to efficiency theories in which politics is about no more than the instrumental problem of defining and implementing the most efficient institutions for the essentially technocratic task of coordination” (Wolfgang Streeck, 2010)

The financial crisis has called into question the capacity of national sovereign democratic states to reconcile the distributional tensions that emerge from capitalist market expansion. This problem has become particularly acute for countries of the Eurozone (De Grauwe, 2010, 2011). They cannot devalue their currencies and must adjust their economies through IMF-ECB induced structural reforms in labour, wage and fiscal policy. The problem of coordinating wage, fiscal and monetary policy in the interest of employment and economic performance, or capital accumulation, is not new. It was central to the construction of different variants of national incomes policies in European political economies during the neo-corporatist Keynesian era.

But how did domestic political actors respond to the adjustment constraints of globalised variants of capitalism during the neoliberal era, and what has been the trajectory of institutional change in European industrial relations and welfare regimes? This question guides the theoretical dimension of my PhD, which is grounded on an argument that the politics of democratic capitalist change can be traced to the disorganisation and flexibilisation of institutions that enable labour to constrain capital. The decline in trade union strength and an increase in business power underpins the public policy paradigm shift from Keynesianism to neoliberalism across Europe. The role of the state in conditioning this pattern, and the diverse trajectory of change it invoked, is central to the study of comparative political economy. National labour market regulations have been flexibilised and the problem of employment resolved either through supply side reforms aimed at activation or low wage employment (Hall, 2011).

The political shift was a response to the adjustment constraints of globalisation, liberalisation, capital mobility and financialisation in general and the European Economic Monetary Union (EMU), in particular. The diverse mechanisms through which the adjustment played out, however, are endogenous to historically evolved national institutional politics. This interplay between exogenous constraints and endogenous politics explains the process, form and variation of change in a given capitalist institutional regime. Or, more precisely, in Streeck (2009, 2010) and Polanyian (1944) terms, the attempt to resolve the tension between capitalist market expansion and national democratic stability explains the trajectory of institutional change in the

study of comparative political economy. What is most interesting about the shift in European varieties of capitalism, and the decline in the institutionalised power resources of trade unions, is that it was compensated by new forms of state led social pacts and tri-partite dialogue in European industrial relations (Baccaro & Howell, 2011). Ireland stands out in this literature as a particularly challenging case given the liberal market orientation of its production regime.

The analytic approach adopted in this thesis is premised on a variant of actor centred institutionalism (Scharpf 1997, Jackson, 2010), in the study of comparative capitalism, which appreciates the historically evolved, structural and context specific constraints in shaping domestic actor strategies and preferences. But unlike most theories of purposive action in comparative political economy, it is constructed around a power distributional (Mahoney & Thelen, 2010) rather than a rational choice, historical institutional framework. The latter, most associated with the varieties of capitalism game theoretic school of analysis (Hall & Soskice, 2001), traces institutional variation to the strategies of efficiency seeking and benevolent multinational firms seeking to improve economic performance. A power distributional approach does not assume efficiency seeking actors, nor the functional design of capitalist institutions. It conceptualizes the latter as a political process of compliance, compromise and non-compliance between organised interests with unequal power resources that change over time. Economic institutions are traced to unstable political coalitions' not benevolent employers seeking efficient solutions to technical problems. Hence, it takes history, politics and capitalism seriously.

This has significant implications for how we explain the trajectory of institutional change and variation in the domestic governance of European industrial relations, in liberal market and coordinated market type economies, as will be shown in chapters 1 and 2. In these chapters we set up a debate between functional economic and historical political modes of inquiry in the study of comparative political economy. We conclude that variation in European industrial relations can be traced to institutionalised power resources. The importance of which can only be observed by adopting a transformation rather than a varieties of capitalism perspective. New variants of contemporary corporatism and centralised wage bargaining in Europe will be presented as different modes of economic governance (Crouch, 1993, Traxler, 2010a), in various democratic state traditions, to ensure social order, settle class conflict and embed democratic stability (Streeck, 1999). The economic performance effects, whilst important, are secondary to this political function of managing the distributive conflict that emerges from capitalist expansion.

Our empirical case study is grounded in a comparative historical analysis that traces the institutional origins, development and collapse of centralised wage bargaining in Ireland's political economy. We conclude that the capacity and willingness of the state to engage in a market conforming political exchange with organised economic interests, in the interest of political stability, is central to explaining the formation of corporatism in this liberal oriented economy. Ireland is a paradigmatic case of liberal globalisation. Social partnership was a strategy of the state

to manage the opportunities and constraints of this process. The outcome was a distinct trajectory of liberalisation premised on a historically specific national political coalition or mode of economic governance: the 'Irish third way' that exhausted itself over time. In this regard, it is a challenging case of politically embedded neoliberalism in the European Union.

The Irish Case

Ireland's model of social partnership prior to the Eurozone crisis was held up by policymakers across Europe as a successful form of negotiated governance, for all member states to follow. Social partnership, it was argued, involved all major societal stakeholders in the pursuit of economic and employment growth and provided the political and institutional foundations for the Celtic Tiger. A complementary relationship between national wage restraint, an unaccommodating exchange rate regime and industrial policies aimed at export led growth contributed to a particular institutional framework that provided Ireland with comparative advantage (see Teague & Donaghey, 2009). National competitiveness, for a period, was the guiding strategy and national income agreements provided the political motor to achieve this through organised socio-economic planning. It secured industrial peace, political stability and settled distributive dilemmas through coordination not conflict (Hardiman, 2002). But in 2008 the Irish domestic economy collapsed and the government subsequently pursued the largest unilateral fiscal adjustment ever experienced by a western capitalist economy (Whelan, 2011).

The Irish model concealed underlying contradictions that ultimately proved irreconcilable, particularly the institutionalisation of a volatile low tax regime in the context of a permanent increase in public sector spending. To explain the origins, development and collapse of social partnership, as a wage bargaining institution, in the pre and post EMU era, requires a historical examination of the coordinating role for the state. This state centred strategy is not captured by the domestic Irish literature on social partnership. Those who consider it as a legitimisation of neoliberalism focus on the strategy and outcome for trade unions (Allen, 1999, 2000, D'Art & Turner 2003, 2011) not a constrained strategy of the state to manage a small open economy in a single European market. In terms of the process of engagement, the focus has been on the ability of the political system to increase its capacity for problem solving (O'Donnell, 1998, 2001, 2008) not evolving mechanisms of political exchange or a changing role for the state in managing a liberal oriented market economy.

Those who come closest to examining social partnership as a strategy of the state assume an efficiency seeking objective of national competitiveness (Hardiman, 2000, 2002) rather than a political compromise based on shifting power relations. Teague & Donaghey (2009), on the other hand, argue that social partnership was part of a system of institutional complementarities that generated a period of economic growth rather than a market conforming alliance premised on a

contingent political coalition. Their use of the concept complementarity assumes efficiency seeking actors rather than conflicting interests that change over time (see Streeck, 2005). Based on a comparative historical analysis we argue that it was elite networks centred on the political executive of the state that enabled the institution to consolidate over time not economic complementarities. Access to political power, in the context of declining trade union density, was the glue rather than the coordination of wage restraint in the interest of national competitiveness.

Actor strategies and the process of political coalition formation can only be understood if contextualised against country specific and historically evolved structures of collective bargaining. This focus on the interactive effect of collective bargaining structure on actor strategies will enable us to unpack the *political coalition* and class configuration that conditioned the rise and fall of social partnership, as an institutional regime of economic governance, over time. Central to this analysis is trying to explain why the Irish state adopted a negotiated adjustment to a fiscal, debt and employment crisis in 1987 but a unilateral market response to the crisis 2008? We conclude that social partnership could not internalise the Eurozone crisis because trade unions lacked sufficient deterrent power in the labour market to be considered a social partner. The government considered them part of the problem not the solution.

The remainder of this introduction outlines the core empirical features of the Irish case, pre and post EMU, before delving into the theoretical framework in chapters 1 and 2. For the more theoretically oriented reader they can jump straight to chapter 1.

The origins of centralised wage bargaining

Social partnership was born out of a political adjustment to economic crisis in 1987 and re-instituted centralised wage bargaining in Ireland's political economy. The purpose of this was to ensure industrial stability, control inflation, cut the fiscal deficit and reap the rewards of the 1986 devaluation. State managers in the Prime Minister's office negotiated, quite unlike what Margaret Thatcher had done in the UK, a three year wage agreement with trade unions and employers as a complement to an unstable monetarist environment. Ireland had pegged its currency to the European Exchange Rate Mechanism (ERM) since 1979 but lacked the corporatist institutional foundations for a coordinated labour market that had made this monetarist framework a success for countries such as Germany and the Netherlands (Scharpf, 1988). Ireland did not have a history of coordinated wage settlements or encompassing trade union and employer associations that could strategically interact with a central bank (see Hall & Franzese 1998), nor did it have a political system willing to share public space with organised interests. This all changed after the election of Charles J Haughey as Prime Minister in 1987, who

adopted a negotiated fiscal adjustment to generate industrial stability in the public sector and develop the conditions for Ireland's entry into the Single European Market in 1992¹.

In 1989, trade union density was 55 percent. The implication was that approximately 70 percent of employees were covered by national collective bargaining (Visser, 2009). In a voluntarist industrial relations regime this provided trade unions with significant institutionalised power to be considered a 'social partner' in the organisation of Ireland's new political economy. The negotiation of the Programme for National Recovery (PNR) in 1987 and the Programme for Prosperity and Fairness (PESP) in 1990 lifted the negotiation of wage settlements for unionised companies out of the firm and into a single negotiation with the political executive of the state. In exchange for wage restraint the Irish government cut the marginal rate of tax leading to a significant increase in real take home pay for all employees (see figure 3.5). An increase in private disposable income became directly associated with the new 'social partnership' process and muted the distributional conflict of Ireland's fiscal adjustment in the late 1980's.

But the newly emergent social partnership process was more than an isolated political exchange between a new trade union leadership and a pragmatic Fianna Fáil government. It was premised on the idea of national strategic planning. In 1980, the UK government adopted a national medium term plan to improve employment and economic growth (Howell, 2005). This was driven by a strong political executive in the British state and premised on controlling the money supply through a strict monetarism. Working under the neoclassical economic assumption of rational expectations, it was assumed that trade unions and employers would internalise the monetarist signals and autonomously negotiate lower wage settlements. In practice, it was a political mechanism to tame labour and led to higher unemployment, de-industrialisation and a collapse in investment. Contrary to monetarist theory, the money supply continued to increase, inflation continued to grow and unemployment grew to record heights. Recognising the failure of monetarist scientific management, Margaret Thatcher changed course, cut public spending and deregulated finance markets as a means to technically manage the money economy.

Charles J Haughey also aimed to move beyond short termism through the introduction of medium term strategic economic policies via social partnership². The state managers behind this shift had been transferred from the 'Department of Economic Planning' to the Prime Minister's office in 1982. The strategy was not premised on a scientific monetarism that assumed employers and employees, under rational expectations, will automatically internalise monetarist constraints. It was constructed on the basis of a national incomes policy aimed at generating the institutional and political conditions for a coordinated relationship between monetary, fiscal and wage policies. But, similar to the UK, this shift in economic policy required a strong political

¹ Interview with retired Secretary General, Department of an Taoiseach (1982-1993), see appendix 2A

² Interview with retired Secretary General, Department of an Taoiseach (1982-1993), see appendix 2A

executive. The difference was that the UK governed unilaterally whilst Ireland crafted a coordinated response amongst the main organised economic interests in society.

In this regard, Irish economic actors were following the German rather than the British model of industrial relations. German policy makers adopted a strict monetarist economic policy aimed at controlling inflation but unlike the UK, it was not premised on a neoliberal political practice of excluding labour. Strict monetary policies, premised on an independent central bank, were complemented by an organised industrial relations regime that empowered trade union and employer associations to coordinate their particular interests into a public regarding interest of the German political economy (Streeck, 1997, 1999). In all three industrial relations systems the state was the prime architect. This political role for the British and Irish state in constructing distinct industrial and welfare regimes has been completely overlooked in the varieties of capitalism literature (Howell, 2005).

According to documentary evidence, Charles J Haughey modelled Irish social partnership on the willingness of the German state to directly negotiate with organised economic interests (see chapter 4). Whilst this type of coordination was never implemented at firm or sectoral level in the organisation of production (Roche, 1995, 2000, 2002), it is important to note that the idea of social partnership and tri-annual wage agreements emerged out of a preference by Irish administrative, political and trade union elites for a European style industrial relations regime. Fiscal, wage and macroeconomic policies required a negotiated approach to problem solving. Despite the institutional inheritance of a British adversarial industrial relations regime, and a Westminster style parliament, Ireland managed to develop the conditions for a variant of German inspired neo-corporatism. Much like the smaller open economies of Europe, this was centred on instituting centralised wage bargaining.

But the classical pre-conditions considered necessary for this institutional framework were supposedly non-existent in Ireland (see chapter 2). ICTU and the FUE were not encompassing associations capable of disciplining their members and there was no parliamentary social democratic party willing to share political space with organised interests (Hardiman, 1988). The absence of these conditions were compensated by a strong coordinating role for the political executive of the state, a new market conforming political exchange, premised on cuts in income tax, and the willingness of Fianna Fáil to share political space with organised economic interests. This was not the case under the previous Fine Gael coalition (see chapter 4).

These are the background conditions that launched the first period of Ireland's new political economy (1986-1992). Ireland, as a small open economy on the periphery of Europe, was operating under the exogenous constraint of the European Monetary System (EMS) of fixed exchange rates within flexible bands, in a period of growing inflation, unemployment and growing public debt across Europe. The chief executive of the state, Charles J Haughey, actively sought to adjust to this new economic monetarist environment through strategic interaction with

organised economic interests. The willingness to share political power gave rise to social partnership and the purpose was to ensure Ireland maximised the opportunities of the single European market through generating industrial stability for foreign direct investment (MacSharry & White, 2000). This direct role for the state, however, required a trade union leadership capable of acting autonomously from the immediate interest of their members but simultaneously capable of generating the political legitimacy for centralised wage agreements.

This legitimacy was achieved through the introduction of democratic ballots (Baccaro & Lim, 2007), turning the Irish trade union movement into a series of tri-annual wage referenda. The democratic process of legitimation was made possible by the underlying political exchange of national wage agreements. Trade unions promoted the national agreement and centralised wage bargaining to their members on the basis of real after tax income. It was the guarantee of an increase in real wages that enabled trade union leaders to put the national agreements to a democratic vote. The ability to influence fiscal and labour market policies, in the context of a rise in support for neoliberal political party; the Progressive Democrats (see chapter 4), empowered a newly emergent technocratic oriented trade union leadership to shift the strategy of Irish trade unionism from organised mobilisation in the labour market to social partnership with the state. In turn, this was made possible by the willingness of the leadership of Fianna Fáil, via the Prime Minister's office, to share political authority with organised interests.

The outcome was the emergence of a non-parliamentary political coalition; the Irish third way (see Colin Hay, 1999, on the background to the political economy of New Labour in Britain). The Irish Congress of Trade Unions (ICTU), given the weakness of the Irish parliamentary Labour party, became the non-parliamentary coalition partner of Fianna Fáil, who, since the foundation of the state, maintained a strong Catholic corporatist preference for accommodating trade union interests³.

This political coalition adopted a shared analysis on the need to integrate national wage agreements with fiscal and monetary policy and made possible by the National Economic and Social Council (NESC). This tri-partite forum, affiliated to the Prime Minister's office, generated the policy space for the technical definition of how to confront the collective action problem of generating employment and economic growth whilst avoiding distributive conflict (see Hastings et al, 2007). NESC enabled the leadership of ICTU, FUE and state managers to engage in the exchange of criticisable validity claims without representing the entire interest of their membership. The technical focus was aimed at reducing the national debt through industrial policies aimed at export led growth. Fiscal policies would be aimed at lowering income taxes in the interest of employment creation whilst wage costs would be held down to allow investment to grow. But the political focus was aimed at constructing a corporatist political democracy.

³ Interview with retired Secretary General, Department of the Taoiseach (2001-2010), see appendix 1A. For example, Bertie Ahern stated at a conference in Dublin on the Catholic social doctrine that "the emphasis in Catholic social teaching on the rights of labour was, to him, one of its most attractive features of the church", and central to his support for social partnership. (See Irish Times 2006b).

NESC, throughout the period of social partnership, provided an institutional analysis that differed from the neoliberal labour market prescriptions that would dominate the OECD and EU Commission from the late 1990's. It prioritised state planning and active industrial coordination to generate the conditions for employment performance. In this regard, it was heavily influenced by the corporatist political economies of the Netherlands, Austria, Sweden and Finland (Mjoset, 1992). The general point is that the origins of social partnership can be traced to a strategic response by the political executive of the state to an economic crisis. They actively sought a negotiated rather than a unilateral adjustment. Trade unions had sufficient deterrent power in the labour market to be considered a social partner and the outcome was a distinct political coalition; the Irish third way, centred on the Prime Minister's office, and a privatised political exchange.

The consolidation of centralised wage bargaining pre-EMU

By 1992, the Irish state had begun to embed its new social partnership approach to managing a rapidly changing domestic economy and provided the conditions for the second period of Ireland's new political economy (1992-1999). This, much like the first, was conditioned by exogenous constraints of the European monetary system, particularly the Maastricht criteria for entry into the Eurozone⁴. Political stability and wage restraint, in the interest of foreign direct investment (FDI), was the defining feature of social partnership and increasingly recognised as such by the main organised economic interests. The export stimulus provided by the 1992 currency devaluation and the Single European Act, was guaranteed by a further 6 years of wage restraint in the two national pacts in this period: the Programme for Competitiveness and Work (PCW) and Partnership 2000 (P2000), negotiated under a Fianna Fáil-Labour coalition in 1993, and a Fine Gael-Labour coalition in 1996. The underlying political exchange of these pacts was, much like the PNR and PESP, a reduction in marginal rates of income tax and active industrial policies aimed at sectoral employment growth. Importantly, they were premised on the state adopting an explicit 'developmental' role in the institutional coordination of the economy.

For a variety of reasons Ireland experienced what can only be described as a jobs miracle during this period. Between 1994 and 1997 economic growth increased, on average, by 8 percent per annum and employment by 25 percent. 650,000 jobs were created from 1992-1999 (O'Connell 1999). Most of these were driven by a boom in domestic demand made possible by the increase in disposable income associated with cuts in income tax. The multi-national sector was responsible for the productivity boom but not the rapid increase in job creation. Employment was driven by private market services which created 100,000 jobs, from 427,000 to 527,000, in 7 years (O'Connell, 1999). These were primarily located in the non-traded retail, business, transport

⁴ Interview with ex Labour Minister of Finance (1994-1997), see appendix 1A

and professional services in the domestic economy. Overall private sector employment grew by 32 percent whilst public service employment grew by 3.2 percent.

This employment boom became indirectly associated with the social partnership process not because of national wage restraint but because of the stability it provided to manage a rapidly growing economy. The organised economic interests began to 'sell' Ireland's model of social partnership, premised on a low tax exchange and active state developmental policies, as the Celtic equivalent to the 'Asian Tigers'. Remarkably, Ireland went from a 12 percent unemployment rate to labour shortages in less than eight years (Sweeney, 1998).

Almost all of the employment being generated occurred in the non-unionised sectors of the economy. By 1999, trade union density had decreased to 40 percent of the labour force with the implication that less and less employees were covered by the national wage agreements. The structure of collective bargaining, unlike most European countries, was still premised on a UK voluntarist model. This meant that wage agreements were not legally extendable to non-union employees and sectors of the economy but exclusive to those who are in a trade union. Union density was increasingly concentrated in the public and semi-state sector with the implication that these sectors set the headline rate for the rest of the economy.

The technical coordination of the labour market in most European countries is premised on multi-employer wage bargaining led by the unionised export sectors. This underpinned the neo-corporatist governance of Germany, Netherlands, Austria and Finland (see chapter 3). This collective bargaining structure historically acted as a constraint on the type of investment strategies available to firms. The outcome was a model of organised capitalism premised on diversified quality production (Streeck, 1991). Hence, contrary to the monetarist assumptions underpinning the UK and US neoliberal approach to industrial relations, these countries illustrated that a strong export led growth model is dependent upon a coordinated labour relations regime. A regulated labour market acted as incentive for high end investment because it constrains the short term interest of employers whilst a deregulated labour market incentivises low skilled domestic consumer oriented employment (Hall, 2010, Soskice 1990, Streeck, 1991).

By 1999 social partnership had become the default position of Irish politics and industrial relations and institutionally conditioned the strategic behaviour of trade union and employer associations (Roche, 2002). As stated previously, unlike most European industrial relations regimes, social partnership was not premised on a legal formal structure of collective bargaining. This made it dependent upon the political preference of government. The coordinating role of the state compensated for the absence of embedded collective bargaining structures at firm and sectoral level. This absence of institutional constraints on employers is a core condition in explaining the institutional reproduction of social partnership over time.

The Irish Business and Employer Confederation (IBEC) could represent the interests of multinational firms whilst negotiating with government but these firms had little or no interaction

with ICTU or the formal industrial relations institutions of the state. Unlike European employer associations, IBEC acted as a lobby group for specific business interests rather than an encompassing association organising strategies of production that would link the domestic with the export economy. ICTU, on the other hand, given the increasing concentration of trade union density in the public sector and growing resistance to unionisation amongst incoming high-tech firms (Geary & Roche 2005, Gunnigle et al 2009), were becoming a motor for the specific interests of public service unions rather than an encompassing association representing the interests of a rapidly expanding and increasingly precarious private sector labour market (see Olson, 1982).

In a period of full employment, rapid economic growth and ten years of wage restraint, distributional tensions began to emerge across the economy. But labour disputes were increasingly settled through the industrial relations institutions of the state. New industrial relations legislation, institutions and agencies began to change the playing field within which the actors operated. Strike action did break out in the health and education sectors but the exogenous constraint of Maastricht provided the political cover to control public sector pay and resist new demands from public sector unions. Social partnership was embedded as an institutional norm.

Given the constraints of Maastricht the centrist government continued with an austere approach to income, fiscal and monetary policy. This proved controversial electorally and the Fine Gael/Labour coalition was voted out of office in 1997, despite achieving the entry criteria for EMU. They were replaced by a Fianna Fáil/Progressive Democrat coalition who instituted an aggressive pro-cyclical low tax fiscal policy regime that would create, in addition to the perverse incentive of negative ECB interest rates, a colossal property boom in the domestic economy (Hardiman & Dellepiane, 2011). The general point is that in a period of economic and employment growth, access to political power, via the political executive of the state, ensured that centralised wage bargaining was kept intact. This embedded the underlying political coalition and led to the development of social partnership as an institutional regime of the state.

The consolidation of centralised wage bargaining post EMU

Domestic pro-cyclical fiscal policy choices aimed at revitalising economic growth led to the third period of Ireland's new political economy (2000-2007). Again, the distributional tension was managed through social partnership agreements: Programme for Prosperity and Fairness (PPF) in 1999 and Sustaining Progress (SP) in 2003. Ireland was now a member of the Eurozone and no longer had the exogenous constraint of Maastricht to provide political cover for austere economic policies. The stability, and political capital, that had been invested into the institution meant that the actors continued to use it as a mechanism to advance their interests. Increasingly, government policy dominated the national agreements such that it became difficult to distinguish

them from the programme for government. Social partnership, as a strategy of medium term socio-economic planning, was, in effect, official government policy. Against the background of average annual economic growth rates of 7 percent per annum, a reduction in the debt-GNP ratio to 65 percent and 270,00 jobs created in five years, the focus shifted away from economic and employment performance to redistributing resources to those who had not benefitted from the economic boom. Total expenditure on social welfare increased from €6.2bn in 1999 to €13bn in 2006⁵. Developing the welfare state was now directly associated with social partnership.

Given that Ireland had one of the highest levels of income inequality in the OECD (Nolan et al, 2000, Whelan, Nolan et al 2003, 2006, 2007), and one of the lowest social protection regimes in Europe, the attempt to redistribute economic growth was a legitimate objective. Quite unlike the cutbacks being experienced in the embedded welfare states across Europe, Ireland was engaged in a process of welfare development. This did not lead to any restructuring of the welfare state but the easier task of increasing payment rates. The payment of state pension, child care and job seekers allowance, single parent supplement amongst a whole host of other schemes were increased on an annual basis. This led to a significant reduction in those living below the poverty line, which, in 2001, was 21.9 percent of the population. By 2008, this has been decreased to 13.8 percent (Whelan, 2011)

Despite a permanent increase in social spending, the government were simultaneously cutting income taxes in every budget from 1999-2008. The tax reform agenda was initially about incentivising employers to create jobs. But, by 2005, employer social insurance contributions and marginal corporate tax rates were one of the lowest in the Eurozone and the income tax base narrowed to 50 percent of employees. Revenue was becoming increasingly reliant on domestic consumption and transaction taxes associated with an emergent property bubble (Lane, 2009). Increasing social spending and decreasing taxes was a central strategy of the state to maintain the distributional coalition underpinning social partnership. It guaranteed political stability.

Ireland's entry into the EMU meant that austere coordination of wage and fiscal policy increased rather than decreased in importance. Nominal wage growth grew, under the PPF and SP, on average, by 5 percent per annum. This increase was designed to compensate for the perverse incentive created by Ireland's entry into the EMU; a rapid spike in inflation. Irish inflation rates jumped from 2 percent per annum in 1999 to 7 percent at the end of 2000. The total pay terms of the PPF, over three years, amounted to 18 percent whilst inflation was 15.5 percent. Furthermore, house prices were increasing, on average, by 30 percent per annum (Kelly, 2010). It was not until the Irish economy collapsed in 2008 before it was recognised that a growth in the money supply associated with deregulated finance markets was a core factor in driving up inflation. This was fuelled by cheap credit flowing into the Irish banking system and subsequently lent into the real estate, property and mortgage markets, and made possible by the

⁵ Data on welfare expenditure are computed from the Department of Social Protection annual statistical annex

deregulation of European finance markets. But the willingness of government and IBEC to compensate for an increase in inflation meant that centralised wage bargaining was kept intact.

This compensating role for the state and the underlying political exchange was central to the stability of social partnership. The voluntarist flexibility of the collective bargaining structure meant that employers in the MNC sector could pay above the national headline rate whilst small firms throughout the private sector could pay significantly below it. Unlike most European countries US MNC's free-ride on the national wage bargaining framework that is led by the unionised economy. This was not a problem until it started to put wage pressure on the construction, healthcare and education sectors in the non-traded domestic economy. An overheating domestic economy went unnoticed by European policy makers given the focus on traded prices in the EMU. Domestic unit labour costs were rapidly increasing and directly associated with the controversial exercise of public sector benchmarking. This political exercise awarded, on average, an 8.9 percent increase, in addition to the national wage agreement, to all public sector workers in return for productivity increases. The purpose of benchmarking was to generate industrial stability in the aftermath of a nursing and teachers pay dispute but the outcome was to destabilise centralised wage bargaining as the process was now perceived to be an institution that represented the narrow interest of public sector insiders.

Trade union density by 2004 had collapsed to less than 36 percent, with the implication that fewer private sector employees were represented by the social partnership process (D'Art & Turner, 2003). Collective gains such as the minimum wage benefitted all employees but in general, centralised wage agreements were becoming indistinguishable from the interest of the public sector. In response, large private sector unions such as SIPTU began to seek long term strategic gains for non-union employees⁶. This was particularly important when it emerged that employers in previously owned semi-state unionised companies were actively choosing to ignore the formal industrial relations institutions of the state. In response SIPTU demanded mandatory arbitration and a legal right to collective bargaining. This culminated in the 2001 Industrial Relations and 2004 Industrial Relations and Miscellaneous Act, and central to the negotiation of Sustaining Progress in 2003. The legislation was designed to provide a mechanism for trade unions to gain recognition to represent employees in non-union firms. Ryanair challenged the legislation in the Supreme Court in 2007 and it was declared unconstitutional (Sheehan, 2008, IRN 2009, Irish Times 2007b). This was the beginning of the end of social partnership.

Private sector employment rights and non-union interests increasingly dominated the social partnership process, culminating in the social pact agreement; 'Towards 2016' in 2006. The demand for legally binding arbitration, in addition to an influx of migrant labour after EU enlargement, exposed a divergence of interest between ICTU, IBEC and the state on how to regulate an increasingly flexible labour market. The Irish trade union movement were beginning

⁶ The Service, Industrial, Professional and Technical Union, (SIPTU), is the largest trade union affiliated to ICTU. Without their support, centralised agreements would not have been possible.

to recognise the implication of their institutional weakness and the limitations of a strategy that made social partnership institutionally dependent upon the political preference of government.

The emergence of a dual labour market

In effect four different labour markets were operating in Ireland's political economy which we can separate into the unionised and non-unionised sectors. The first is the highly organised public, state and semi-state economy. These include the public sectors of health, education, policing and public administration. It also includes the semi-state or previously state owned companies of SR Technics, Eircom, Aer Lingus, Dublin Bus, ESB, Bord na Mona and Bord Gáis (Sheehan, 2008). The state and semi-state sectors are strategically important in that they provide the delivery of essential services and infrastructure to make possible private market activity. Historically, and for a variety of reasons, these sectors have dominated the Irish economy. In a developmental context where emigration was the norm, the state and public sector provided employment for graduates that would have otherwise had to emigrate to seek work (Garvin, 2004). The state remains the largest employer in the Irish economy, employing approximately 400,000 people (CSO, 2008a, 2008b, 2010). Furthermore, the public and semi-state sectors have a union density that has remained stable since 1987. In 2008 it was over 80 percent. Collective bargaining coverage is approximately 100 percent. Hence, centralised wage bargaining was explicitly bound up with these unionised sectors, most of which are high salaried professional or technical occupations (Roche, 2007, 2008).

The second labour market, although not formally segmented, is the domestic industrial, banking, construction and manufacturing sectors. These industries have been traditionally highly unionised with close links to Irish business associations. In terms of industry they include traditional bread mills, Waterford crystal and Irish sugar. They also include domestic printing, construction, electrical contracting, hoteliers, catering and a variety of allied or declining trades. Since the creation of the Labour court, under the 1946 Industrial Relations Act, many of these industries have been covered by legally binding minimum wages and industry specific pay and conditions; 'registered employment agreements (REAs) and employment regulation orders' (EROs), established and negotiated through 'joint labour committees (JLCs)'. Collectively, this unionised sector of the domestic economy is in decline but when construction is included, it employs 200,000 people. These are the sheltered sectors of the economy, traditionally covered by collective bargaining arrangements in a pluralist industrial relations regime; both in terms of management style and the process of conflict resolution (see Roche, 2002, Gunnigle et al, 2002, 2005, 2006).

Combined, these two 'unionised' labour markets operate according to the regulations and legal mechanisms of collective bargaining as laid out in the 1990 Industrial Relations Act.

This established the Labour Relations Commission (LRC), as an agency of the state, to provide a framework for the resolution of industrial disputes, and central to the mode of economic governance that emerged under Ireland's model of social partnership. It is these institutions that would become the focus of flexibilisation and deregulation in the interest of competitiveness under Ireland's IMF-ECB structural adjustment program in 2009.

The third labour market is the foreign owned multinational sector and includes a variety of multinational companies in the IT, electronics, chemical, engineering, food, healthcare, finance and pharmaceutical sectors (IRN, 2004: no. 9). Most of these export companies began to invest and construct their enterprises in Ireland from the early 1990's and in receipt of state aid grants from the Industrial Development Authority (IDA). Exports include high end manufacturing goods (with high levels of research and development capacity, particularly in chemical engineering), business and financial services. In 2010, Ireland exported over 85 percent of what was produced in the economy. Of this 85 percent, 60 percent came from the pharmaceutical and chemical sectors. Whilst some of these companies are unionised they are generally non-union. The most widely recognised MNC firms in Ireland's robust export economy include Accenture, Arvato Bertelsmann, Amazon, CITCO, MBNA, Intel, Hewlett-Packard, Siemens, Google, Pfizer, GlaxoSmithKline and a whole host of other companies. The largest growing sector, in terms of employment creation, from 2000, however, was the export of financial services⁷.

These multinational companies generate a significant source of revenue in corporate tax and contribute to Ireland's high productivity rates, but they have never employed more than 140,000 employees in the economy despite being the strategic focus of government employment policies. Importantly, these export oriented firms also include companies in receipt of state funding from Enterprise Ireland, which was established under the social partnership agreement, PCW in 1993. These are domestic Irish industries with an explicit export remit and include a variety of indigenous sectors such as food & drink, medical devices, print and packaging, electronics, media and communications. These Irish companies are predominately non-union and employ less than 80,000 people in the economy. Whilst strategically important for inward investment, marketing and export led growth; these sectors of the economy tend to employ very few people as a percentage of the overall workforce. In 2007, total employment in the Irish economy was 1,878,400. The number of those employed in the state assisted export companies was 272,053. This is less than 15 percent of total employment (Forfás, 2008).

The fourth labour market is also concentrated in the domestic economy and predominately made up of small and medium sized enterprises dependent on domestic consumer demand. This large and precarious labour market is where most jobs have been created over the past twenty years. It includes everything from hairdressing, retail, restaurants, shops, car sales and a variety of other consumer focused services. In 2008, it was estimated that the domestic small

⁷ The Irish Financial Services Centre (IFSC) was established in the same time period as the construction of social partnership. Civil servants in the Prime Ministers Department under C.J Haughey were central to its establishment.

and medium sized enterprise sector employed approximately 400,000 people and have little or no strategic interaction with the industrial relations institutions of the state. It is predominately non-union but also lacking the strategic human resource management techniques focused on quality production, or process innovation that one finds in large MNC companies. These sectors expanded after 2000 in response to a consumer driven boom in the domestic economy. It was this boom in the domestic economy that facilitated full employment to match the rapid increase in the labour force, associated with increased female participation rates.

By 2007 trade union density had collapsed to less than 20 percent of the labour force in the private sector (IRN, 2000: no. 39). It is in this context of declining trade union density and collective bargaining coverage in the private labour market and the increasing concentration in the public and semi-state sectors that one must examine the strategic orientation of the Irish trade union movement and the state to embed social partnership as a political strategy. In a context of declining power resources in the labour market and a weak Labour party in parliament, trade union leaders focused their strategy on gaining access and influencing the political executive of the state, under successive Fianna Fáil governments. This shift in strategic orientation, from the economic to the political realm, would create a Faustian dilemma for the trade union movement; how can they be considered a legitimate social partner, and an encompassing association, if they only represent employees in the public and semi-state sector?

The collapse of centralised wage bargaining and the Eurozone crisis

The negotiation of the PPF, SP and their culmination in the negotiation of a ten year framework in 2006; Towards 2016, simultaneously consolidated the strategic position of the political executive of the state, the Prime Minister's office, in coordinating public policy across state departments. This was always the strategic objective of the political architect of social partnership, Charles J Haughey and state managers in the Prime Minister's Office⁸. The corporatist policy making process, or the concertation function of social partnership, was increasingly used to build state capacity. To a certain extent this was a consequence rather than a cause of Ireland's weak parliamentary legislative system. What began as a mechanism for fiscal adjustment under the monetary constraints of ERM, evolved into a process to manage industrial relations under Maastricht, was gradually morphing into a mechanism to improve policy coordination across state departments. Unlike the consociational parliaments of Netherlands, Austria, Finland and other small open economies, the Irish parliament has remained Westminster in structure (MacCarthaigh, 2005). Despite a multiparty political system and successive coalition governments, the parliament remains adversarial and lacks any capacity to influence a government dominated by the political executive.

⁸ Interview with former Prime Minister, 1997-2008, see appendix 1A

In this regard, there was no institutional relationship between social partnership (as corporatist policy making) and the parliamentary system in the same way there was no complementary relationship between social partnership (as national wage bargaining) and firm-sectoral level corporatist coordination. It was a national institution constructed around elite networks of organised interests feeding into the political executive of the state. This centralised the strategic capacity of government to manage the democratic constraints of an increasingly globalised economy. In an ideal rational efficient world this centralisation of policy authority in the political executive would have meant the technical internalisation of the new monetary constraints of EMU. But, in a stochastic world, monetary constraints themselves proved to be the problem (Regan, 2011). This leads us to the fourth and final period of social partnership; the collapse of the Irish economy and the shift from a negotiated to a unilateral market based adjustment in response to the Eurozone crisis (2007-2010).

After 2002, interbank lending on wholesale money markets created a colossal real estate bubble in Ireland's domestic economy. By 2002 land prices in Ireland were the highest in Europe and by 2007 construction accounted for more than 20 percent of GNP (Kelly, 2009). This created a second employment boom in the Irish economy. Between 2002-2007, an additional 400,000 jobs were created. Less than two percent of these were accounted for by Ireland's export sectors. Almost all of the jobs were generated in domestic retail, construction and public services and central to generating full employment in the Irish labour market. During this period, the populist centre-right Fianna Fáil/PD coalition introduced a series of tax reliefs on the purchase and expansion of residential and commercial property. The 2003 and 2004 budgets, in particular, widened these schemes with the result that government revenue was directly linked to construction related capital investment (Gurdgiev, 2011). Government spending simultaneously rose by 11 percent during 2002-2006. Property related transaction taxes increased from 8 percent of total government revenue in 2002 to over 15 percent in 2006. This increase in spending, premised on pro-cyclical taxes, was totally inappropriate to the conditions of the EMU.

When the property bubble burst, government revenue collapsed, and the extent of the crisis was revealed (see chapter 7). Employers and government opted to internalise the liberal market policy constraint of EMU and shifted the entire burden of adjustment on to the labour market. A series of fiscal adjustments, including a public sector pay cut, was introduced after a failed attempt at negotiating an encompassing social pact. Government lacked the capacity to engage in a political exchange that would enable trade union leaders to ballot their members. The entire focus of fiscal adjustment was now concentrated on public sector pay and unit labour costs. This fundamentally changed the balance of power underpinning the political coalition of social partnership and it is this shift in the distributional coalition that collapsed the institution. Trade unions, unlike 1987, no longer had the institutionalised power resources to be considered a

legitimate social partner in Ireland's political economy. The main constituent of ICTU: public sector unions, were considered part of the problem not the solution.

Social partnership as a mechanism of economic governance was de-legitimised because it did not internalise the monetary constraints of EMU. But the government and public sector unions still have a preference for formal social dialogue on issues pertaining to industrial relations. All actors strategise to engage in negotiated compromise rather than industrial conflict. A deeper level of corporatist engagement in socio-economic planning such as the coordination of production strategies, however, depends on the ability of trade unions to wield significant deterrent power in the labour market (Traxler, 2010a). This is contingent upon on a collective bargaining regime that is absent in Ireland's liberal oriented market economy. Social partnership was dependent upon the political preference of government not the autonomous organisation of production amongst encompassing economic interests. It was a strategy of the state to embed political stability and manage the distributional constraints of a small open economy in an increasingly globalized world market. In this regard, it is a challenging case of centralised wage bargaining in the neoliberal era.

Conclusion

The adjustment to the eurozone crisis is now being driven at a transnational European level and more Hayekian than Polanyi in design (see Höpner and Schäfer, 2007). The process of monetary induced Europeanisation has removed many of the traditional policy tools available to national governments in managing the economy under conditions of crisis. Ireland never internalised this constraint. But contrary to neoclassical economic assumptions this would have required more *not* less of a role for organised economic interests in coordinating the labour market. Or, alternatively, it would require the complete liberalisation of industrial relations akin to what occurred under Reagan in the USA and Thatcher in the UK. The ECB, IMF and EU Commission are now adopting this role. In exchange for providing financial loans to pay the debt of private creditors this troika are seeking increased neoliberalisation of labour market institutions, in addition to deep cuts in public expenditure, without a corresponding strategy to increase economic and employment growth. This is the opposite of the initial state led social partnership adjustment programs. Europe, in this regard, has become a force to increase the liberalisation of Ireland's political economy.

The general observation to be drawn from the Irish case is that social partnership was not institutionally embedded in the labour market but dependent upon the political preference of government. A political exchange was required for the negotiation of national wage agreements whilst elite networks feeding into the political executive of the state consolidated the institution as a mode of economic governance. This generated a distinct political coalition that led to a historically specific trajectory of liberalisation; the Irish third way: a liberal market policy regime

built around a state commitment to generate economic growth aimed at securing business confidence for inward investment. Access to political power, in the context of weak structures of collective bargaining and a weak parliamentary Labour party, embedded ‘social partnership’ as the strategic position of Irish trade unions, not the technical coordination of wage restraint.

The Irish case also provides three theoretical contributions to the literature on comparative political economy. Firstly, the coordinating role of the state highlights the hybrid nature of liberal market economies. Ireland does not have an egalitarian variety of capitalism but it contains both developmental and liberal oriented tendencies in the organisation of labour relations. Given the central role of the state, Ireland, in many ways, is closer to the Mediterranean variety of capitalism outlined by Hancké et al (2007). Secondly, centralised wage bargaining in Ireland shows that trade unions can engage in a political exchange that is market conforming rather than social democratic in design. It is the only case of centralised wage bargaining in the neoliberal era. Thirdly, it illustrates that a strong political executive operating autonomously from parliament rather than a weak government was the condition that explains the institutionalisation of social partnership over time (see chapter 2).

Hence, the core factor in explaining the rise and fall of social partnership in the Irish case is the coordinating role of the state. This still begs the question – why? To unpack the causal process we argue that the state adopted this position to increase the strategic capacity of government to compensate for declining policy making autonomy in a globalised economy. Social partnership increased state power to embed and legitimise a market driven economy. The Irish case illustrates that neoliberalism is heavily mediated by institutional formations, political forces and complex state-society relations. This central role for politics and the state in liberal oriented market economies is not captured by the varieties of capitalism (VoC) theory. Therefore, we must disaggregate ‘neoliberalism’ if we are to understand the complexities and social forces that led to the rise and fall of Ireland’s political economy (O’Riain, 2008). To do this, we propose adopting a *transformation of capitalism* perspective that is grounded in Polanyian social theory.

We will now provide an overview of the thesis before outlining our power distributional theoretical framework on how to analyse the politics of institutional change in the study of European varieties of capitalism, before providing a comparative European industrial relations context (chapters 1-3) to the specific historic-empirical case of Ireland (chapters 4-7).

Chapter Overview

Chapter 1 probes the literature on comparative political economy and its relationship to the study of centralised wage bargaining and labour market institutions. It will outline three schools of thought: critical Marxism, neoclassical economics and comparative political economy that seek to explain the shift from a Keynesian to a neoliberal public policy paradigm in Europe. We argue

that comparative political economy is best placed to explain the variation and the trajectory of change underpinning European industrial relations, because it takes collective bargaining and context specific actor preferences and strategies seriously. But within this framework there are competing perspectives on how to explain and define institutions: historical, rational choice and power distributional. The thesis will argue in favour of a power distributional theory of institutions and subsequently use this framework to outline the benefits and shortcomings of neo-corporatist and varieties of capitalism theory. New variants of political exchange, it will be argued, are the outcome of a political strategy and conditioned by historically evolved institutional regimes of collective bargaining, not because of the institution per se but because of their impact on the power resources of organised economic interests. Hence, we need to bring a power distributional analysis back in to the study of domestic capitalist institutions.

Chapter 2 will attempt to explain the renaissance of corporatist policy making in Europe. It will illustrate, using the ICTWSS database, the European cross country trend toward the use of social pacts by government, in the context of a simultaneous decline in the effective organisational power resources of labour; trade union density, centralized wage bargaining, collective bargaining coverage, coordinated wage setting and strike action. Given this decline in the organisational power resources of European labour, it will be argued that to explain the new corporatism(s) and domestic variants of economic governance, associated with national pacts, we have to examine the strategic interest of the state and new processes of political exchange. The literature on new social pacts explains actor strategy on the basis of weak electoral governments or technocratic problem solving. Both are important but fail to appreciate the use of social pacts by the state to increase their strategic capacity to govern fiscal, labour and wage policy under the constraints of a neoliberal regime. Based on the collective bargaining literature, the chapter will outline a comparative typology of different modes of economic governance in European industrial relations before isolating the case of Ireland.

Chapter 3 is a brief methodological defence on the use of single country historical case studies. Based on the literature and typology outlined in chapter 2, Ireland will be presented as a critical case of centralised wage bargaining in the European Union. Historical time periods are selected as the optimal means to diversify the dependent variable. The case study is divided into a comparative study on the emergence, consolidation and decline of social partnership in the pre and post EMU period. The process in each case study is traced to actor strategies, in response to a given problem, within an evolving set of institutional constraints. Elaborating on the introduction, it will argue that the core explanatory variables in explaining the formation of social partnership in the Irish case are a) the coordinating role for the state b) a market conforming political exchange d) processes of elite access to government and d) voluntary and exclusive structures of collective bargaining. These factors combined to constitute a particular power configuration or political coalition; the Irish third way, which exhausted itself over time. To

explain the origins, stability and collapse of centralised wage agreements we have to examine this underlying *political coalition* supporting the institution. The causal process tracing analysis is based on forty interviews, archival documentary analysis and a variety of statistical sources.

Chapter 4 traces the emergence of social partnership, from 1987, to the coordinating role of the political executive of the state (Prime Minister), in response to a fiscal, employment and debt crisis. It was an intentional strategy by administrative elites to embed a national incomes policy to enhance the developmental prospects of Ireland's national economy in a fixed monetary regime. The endogenous political context of a decline in trade union density and an emergent neoliberal party shifted the preference of trade union leaders toward social partnership with Fianna Fáil. Access to governmental decision making was the glue that consolidated trade union strategy whilst the commitment to three years of competitive wage restraint ensured employer acceptance. The outcome was a state project to open up the political system to organised economic interests. This began a Sisyphean process of institutional change, moving Ireland from an Anglo-Irish to a Euro-Irish industrial relations regime, and a Westminster to a corporatist political democracy.

Chapter 5 traces the continued consolidation of centralised wage agreements in the pre-EMU period to the constraints of Maastricht and an attempt to solve Ireland's long standing employment problem. A new centrist government committed to cutting income taxes whilst simultaneously adopting a developmental role in job creation facilitated a strategy of wage restraint by employers. For a variety of reasons, Ireland experienced an employment boom which became directly associated with the social partnership process, even if it was not the direct cause. Access to political power, via the Prime Minister's office, in the context of a rapid decline in trade union density and a voluntarist collective bargaining regime embedded 'partnership' as the national strategy of trade unions. Employers continued with the process as it guaranteed wage restraint, significantly higher returns on capital investment and put no legal-formal constraints on the sectoral interests of US multinationals. The outcome, for a brief period, given the focus on wage management was a form of 'competitive corporatism', a concessionary trade union strategy in the interest of full employment.

Chapter 6 traces the consolidation of social partnership in the post-EMU era. In the absence of exogenous constraints the government began to use the process, not for austere economic management, but building state capacity to supplement a poorly functioning parliamentary system. Organised interests were embedded into a structured process of policy formulation in the administrative state to overcome the shortcomings of a Westminster political system. But inflationary pressures induced by the EMU put significant pressure on the national wage agreements. The government responded by slashing income taxes and instituting a pro-cyclical tax growth regime premised on real estate. There was a growing divergence of interest between ICTU and IBEC, on labour market regulation, in the context of full employment and

growing house price inflation. But similar to the emergence of social partnership, access to political power constructed around the political executive of the state generated compliance amongst the actors. The expansion of the policy process and a shift away from instrumental wage management toward expressive legitimation of government social policy led to a form of 'pluralist corporatism'.

Chapter 7 will trace the governments' decision to collapse social partnership, under conditions of crisis, to the policy constraints of EMU. After 2004 employers increasingly opted out of the voluntarist framework in search of cheap labour associated with EU expansion. In response, trade unions demanded a legal right to collective bargaining and an enhancement of legal rights for non-union workers. This was reflected in the 2006 national pact agreement; T16. But before any of the policy gains were implemented, the global financial crisis hit and Ireland's housing bubble burst. The government and employers pulled out of the process, internalised the policy constraint of EMU and shifted the entire burden of adjustment on to labour market. As an institution, the Irish variant of centralised wage bargaining was dependent upon the political preference of government and the power resources of public sector unions. This political coalition enabled social partnership to consolidate as a process in an LME context but it simultaneously meant that trade unions lacked any capacity to impose an effective institutional constraint on the strategy of employers under conditions of crisis. The low tax liberal market exchange was, in the end, a Faustian bargain for Irish trade unions.

The conclusion will argue that the Irish political economy never internalised the economic constraint of EMU. After 2000 its fiscal and wage policies were totally inappropriate to a fixed and unaccommodating monetary regime. In rational ideal choice terms, centralised wage bargaining would have technically coordinated and ensured a balanced equilibrium with a monetary regime. In power distributional terms this *cannot* be assumed. The institution was held intact by generating a distributional return for the actors. This embedded a political coalition that was fragile and contingent upon economic growth and the preference of government. The state compensated for weak collective bargaining structures at the micro level, and a neoliberal exchange premised on low taxes and access to cabinet government, in the absence of a parliamentary Labour party, ensured trade union compliance. The condition that made this possible was not weak government but a strong and centralised political executive in the state.

We will then draw some brief lessons from the Irish case, based around the theoretical framework in chapters one and two, for the study of industrial relations, political exchange and varieties of capitalism. It will be argued that the future trajectory of industrial relations in the context of a new politics of adjustment at transnational European level is definitively Hayekian rather than Polanyi in design. Whilst it is perfectly conceivable that the Irish state will facilitate centralised pay bargaining at some stage in the future, given that it is not dependent on any structural preconditions other than the political preference of government, it is highly unlikely

that it will make any difference to a broader institutional trajectory of change toward a neoliberal oriented industrial relations regime. As argued by Bacarro et al (2011), the form of social partnership type arrangements governing corporatism (s) may remain intact but their *function* has categorically shifted from one based an effective labour constraint and democratic governance to liberating the competitive process of capital accumulation, and legitimating an increasingly defunct parliamentary system.

In the absence of an institutionalised counter power or change agent we are likely to witness continued convergence of national economies toward EMU induced economic orthodoxy (or, in the words of economists; technical coordination), even if the configuration of member states fiscal, labour, wage and social policy remain divergent. The lesson for the study of comparative political economy is that variation in institutionalised power resources *not* the rational efficient design of institutions to improve economic performance explains the diversity and trajectory of change underpinning European varieties of capitalism. This can only be observed, however, by adopting a transformation of capitalism perspective that recognises the inherently political and conflictual nature of capitalist economies. We will attempt to show this in chapters one and two.

Chapter 1

A Theory of Institutional Change in European Varieties of Capitalism

Actor-Centred Institutionalism

1. Introduction

The political economic change that occurred in democratic capitalist market economies from the 1980's to the 'Great Recession' can be conceptualised as a political process of capital liberalisation, and described as a paradigm shift from Keynesianism to Neoliberalism (Hall, 1993 2011). This paradigm shift does *not* rule out institutional variation in the governance of fiscal, wage and welfare policies across European polities, nor does it imply that neoliberalism manifested itself in the same way across time and space (Hay 2004). But it does point to a general ideational and market-monetarist conforming convergence in European public policy, with significant implications for how we analyse the trajectory of change and institutional governance of state economy relations, particularly as it pertains to European industrial relations. In both the Keynesian and neoliberal public policy paradigms, national governments had to reconcile the tension between democratic distribution and economic performance (Streeck, 2011). This tension is at the core of how democratic capitalist societies evolve and can be observed in the changing political organisation, power relations and institutional coordination of macro-economic, fiscal, social, wage and monetary policies in Europe.

The structure of the chapter is as follows: firstly, we will argue that change rather than stability is the norm in capitalist societies. This can be captured by the paradigm shift from Keynesianism to neoliberalism and its transformative impact on industrial relations, the distribution of income, and political democracy. Secondly, we will probe three theoretical schools of thought; neoclassical economics, critical Marxism and comparative political economy, that seek to explain institutional change and path dependence in capitalist democracies. The thesis will adopt a comparative political economy framework as it provides the necessary analytic tools to explain variation in different European industrial relations regimes. Fourthly, we will outline competing methodological perspectives on how to explain domestic political economic institutions within comparative political economy; rational choice, historical, and power distribution. We will peg our theoretical framework to a power distributional institutionalism and use this to critically evaluate classical theories of corporatism, its evolution into varieties of capitalism and the sub-discipline of centralised wage bargaining. The chapter will conclude with

a defence of an actor centred institutional framework, grounded in a historical theory of power distributional class politics, to explain the renaissance, trajectory of change and institutional reproduction of social partnership in European industrial relations (chapter 2).

2. Explaining the Institutional Change from Keynesian to Neoliberalism

What is the institutional architecture of Keynesian and neoliberal political economies, and why did the Keynesian model collapse? This section outlines the deductive characteristics in both of these paradigms. The neoliberal approach to aggregate demand, employment determination and income distribution can be characterised as follows: economic demand comes from the free intersection of market forces and any attempt to politically control or coordinate market resources leads to inefficiencies (Kalecki, 1971, Minsky 1992). The price mechanism will allocate value and efficiently distribute economic resources such as credit money. Employment determination emerges from this natural market function. Labour and capital are factor prices, and will be bought at a price that the efficient market sets. They move up and down (i.e. nominal wage and price flexibility) because the market is efficient and responsive to exogenous shocks.

Any political interference such as wage setting, collective bargaining, trade union organisation or monopoly competition upsets the natural equilibrium and should be removed (this can only be done by force or accommodation, and therefore it requires a strong state). Income distribution is a result of price valuation. People get paid a price for their investment in human capital skills, valued by the market. The reward or return on labour and capital will distribute income in a normal efficient manner. This might lead to inequality, but reflects the resource allocation of the market and therefore it is efficient. Labour market policies are aimed at supplying the conditions to reduce costs on business, which, in a post-fordist mode of capitalist production require automatic flexibility and de-unionisation.

The neoliberal approach to monetarist and fiscal policies of the state can be characterised as follows: monetary policy should be determined by independent central banks and the primary purpose is price stability. Keeping inflation low ensures efficient and productive capital investment, as investors are certain about future price returns. This creates a less risky betting (or investment) environment. Fiscal policy, by design, is determined by elected governments; therefore it should be aggressively controlled, unlike the market, and ideally set by independent fiscal advisory councils or embedded into constitutional legislative rules for permanent austerity. Government should step away from the market, shrink and minimize its direct role. Budgets should be balanced and taxes kept at a minimum. To pay for an increased demand in public services, the state should privatize them. Governments, under no circumstance, should do what private market actors can do and never engage in deficit financed public spending. Macroeconomic policies, in effect, should be left to economic technocrats, and resource

allocation to the market. This is the public ideational policy paradigm that has governed the politics of adjustment in all Western democratic capitalist market economies since the early 1990's (Williamson 1990) and implicit in the public policies of the IMF and EU Commission.

The Keynesian approach to aggregate demand, employment determination and income distribution that preceded the neoliberal model can be characterised as follows: the market should allocate resources but this is not sufficient to ensure aggregate demand or the productive allocation of resources to generate full employment. To ensure a balance between aggregate demand and full employment requires active state management of a sub optimal market. This commitment to the non-market allocation of resources is primarily aimed at maximising the productive use of labour. Employment determination in a liberal market leads to inefficient outcomes, as human productive capital is dictated by short term market fluctuations, which are prone to boom-bust cycles (Robinson, 1976, Martin, 1975, 1984, Gordon 1990, Krugman 1999).

Wage coordination, central to the politics of inflation, is not flexible and does not respond, like other prices, to changes in supply and demand. It involves collective corporatist actors such as trade unions and large firms (Schumpeter 1928, 1950). Therefore, we have to view the labour market not through the methodological individualism of market exchange but societal bargaining power. Income determination is systemically intertwined with a political commitment to full employment, and this is achieved through activist macroeconomic policies, premised on a heavily unionised fordist mode of capitalist production, and a compensating welfare state.

The Keynesian approach to monetarist and fiscal policies of the state can be characterised as follows: monetary policy needs to be accommodating. Exchange rates need to politically adjust to the boom-bust cycles implicit in a capitalist mode of production (Keynes, 1936, Baran & Sweezy, 1966). Inflation needs to be controlled but given free collective bargaining in a democratic capitalist economy it is inevitable, and less important than maintaining full employment. Fiscal policy, in periods of economic downturn, can replace a fall in private domestic demand. When the private sector deleverages, the state should engage in deficit financed spending. This is dependent upon an international financial market that has a generalised equivalent to the money form, most notably, the gold standard. Similar to the neoliberal paradigm, Keynesianism expressed itself in a variety of ways depending on national institutional and political conditions, particularly the organisation of industrial relations. But central to both institutional architectures was the role of the state in resolving collective action problems associated with aggregate demand, wage, work and welfare policies (Hall, 1989, 2007).

The institutional architecture of the Keynesian public policy paradigm collapsed in response to a series of crisis of capital accumulation (Streeck, 2011). The main problem was inflation and public debt in a deregulated credit driven finance market. Government commitment to full employment, free collective bargaining and comprehensive social protection, generated a fiscal crisis for Keynesian welfare states (Eichengreen, 1996). In the absence of constant

economic and wage growth or flexible monetary policies to offset inflation, national governments found it increasingly difficult to fund democratic and distributional demands from citizens and workers, on the one hand, and capitalist market expansion on the other. To compensate for this fiscal crisis of the state, governments liberalised financial markets. Across Europe, debt was privatised, inflation brought down and unemployment soared, leading some to conclude that neoliberalism is best described as a form of privatised Keynesianism (Crouch, 2009).

Table 1.1 Characteristics of Keynesian and Neoliberal Capitalist Regimes

	Keynesianism	Neoliberalism
Macro-economic	State-management	Monetarism
Macro-governance	Neo-corporatism	Elite networks
Instrumental objective	Full employment	Competitiveness
Main actor(s)	State-trade unions	Business-finance
Actor relations	Political exchange	Market power
Wage setting	National incomes policy	Organised de-centralisation
Social policy	Welfare	Workfare
Fiscal policy	Deficit financed spending	Permanent austerity
Function	Social stability	Flexibilisation
Growth	Mass production	Financial markets

The gradual shift to neoliberalism across Europe was a political practice that began with the institutionalisation of the single market via the European act in 1992 (Hall, 2011). The era since then has been marked by the opening of international markets, intensified competition, reduced employment protection, increased part time and temporary employment, tightened eligibility criteria for social protection, reduced impediments to foreign direct investment, increased corporate takeovers, a shift to shareholder power in the firm, privatised public services, economic insecurity, de-industrialisation and weakened trade unions. The neoliberal era, to use the concepts of Jürgen Habermas (1983), has led to increased market penetration of the lifeworld, an aggressive process of economic market rationalisation. Or, in the more accessible language of Karl Polanyi (1944) and Wolfgang Streeck (2009), the market has liberalised itself from politically sanctioned social norms and institutional constraints associated with the Keynesian welfare state. It has become politically disorganised. But this is not to say it is less institutionally coordinated. Markets are now the dominant mechanism of economic coordination in the resolution of monetary, fiscal, social, labour and wage problems.

But how do we explain the precise process of change underpinning this shift in the organisation of contemporary European capitalism(s), in particular countries? Was it technical adjustment to exogenously induced constraints or an endogenous political process of incremental and transformative change driven by political and business interests? Furthermore, what type of

institutions condition the adjustment strategy pursued by domestic political actors in response to neoliberalism? In the interest of parsimony we can argue that there are two competing theoretical perspectives with significant implications for the study of European industrial relations. These are rational efficiency (economistic) and historical power (political) modes of explanation (see table 1.1 and 1.2). Both are premised on different epistemological and ontological assumptions of how to relate purposive rational action (agency) to institutional structure (macro) and lead to competing modes of inquiry in the study of comparative political economy. For the purpose of this analysis they point to different ways to explain the distinct trajectories of liberalisation underpinning the process of capitalist development in the European Union.

Explaining political economic change

The economistic perspective is guided by four underlying assumptions that Mark Blyth, (2011) calls **ELEN**; firstly, the economic world is assumed to be in a stable **E**quilibrium. The economy is reduced to generalized market exchange with rational actors calculating the cost and benefits of their action. Secondly, underlying causes in a perfectly stable rational system are **L**inear. If y exists in the economy it can be explained by x. All relations are causative, and modelled in game theoretic terms, thus lending itself to functionalist Parsonian analysis. Thirdly, all change in an efficient equilibrium based economic system is **E**xogenous (Minsky, 1992). Anything that disrupts market induced equilibrium such as the 1970's oil shock or the collapse of the monetary financial market in the late 2000's is external to the system. Change in an equilibrium based system cannot be endogenous as it would no longer, by definition, be rational, stable and re-equilibrating. Finally, all outcomes in a rational equilibrating economic system are **N**ormally distributed. Stability is the norm and crisis the exception. Change is a process of technical adjustment in the market to economic problems. This rational efficient theoretical framework reflects the original formulation of the varieties of capitalism theory, (hereafter VoC), in the study of comparative political economy (section 6).

The political perspective is guided by four underlying assumptions that we can call **DREP**; firstly, the economic world is premised on instability and **D**is-equilibrium. Change rather than stability is the norm, with the implication that political actors operate according to a variety of rational action frameworks, most of which are communicatively embedded, strategically framed, and premised on perpetual uncertainty. Secondly, underlying causes in an unstable economic system are not linear but premised on a configurative **R**elationship that cannot be pre-determined. Actor strategies are historically specific and evolving in response to new problems and democratic demands. Time and history are essential variables. Thirdly, crisis is internal to market systems of capitalist production and therefore **E**ndogenous. Systems are hypothesised as evolving, prone to crisis and rarely if ever in static equilibrium. Finally, economic outcomes are

not normally distributed but premised on unequal market bargaining Power resources. The conflicting nexus between production and distribution leads to a variety of collective action problems that political actors must resolve. This historical political framework reflects our transformation of capitalism theory (hereafter ToC) in the study of comparative political economy (see section 6).

We propose that any empirical study that attempts to explain how economic actors respond to the constraints of globalisation in general and the Eurozone crisis in particular requires a theory of institutional change that moves beyond functionalist assumptions of system equilibrium. To develop this argument we will probe and organise the literature on competing theories of capitalism: neoclassical economics, critical Marxist and comparative political economy. Neoclassicism provides the analytic foundations for rational efficiency theories and critical Marxist theories provide the foundations for a historical power framework. Political economy, on the other hand, is interested in the institutional variance of national regimes of capitalism. It provides the empirical space to engage in a comparative analysis with a tendency toward either functional-economistic or historical-political explanations depending on whether one adopts a rational choice or power distributional institutional framework of explanation (section 4).

Table 1.2 Explaining Institutional Change from Keynesianism to Neoliberalism

Explanation	Efficient-equilibrium	Actor-power
Objective	Technical management	Systemic contradictions
Mechanism	Coordination	Political compromise
Process	Information-knowledge	Market-power resources
Context	Timeless-universal	Historical continuities
Actors	Problem solvers	Power elites
Theory	Rational choice	Power distributional
Change	Adjustment-adaptive	Liberalisation – transformative
Ontology	Stable-equilibrating world	Unstable-crisis prone world
Epistemology	Methodological individualism	Dialectic relations

3. Neoclassical Economics, Critical Marxism and Comparative Political Economy

Neoclassical economics

Neoclassical economics is premised on an explanatory model that assumes fixed logical and deductive assumptions as to how markets function and individuals behave; the efficient market

hypothesis⁹ (see Aspromourgos, 1996) Individuals are rational calculating welfare maximisers. When left to their own devices, under conditions of full information, economic actors (individuals) will design perfectly competitive markets which are ontologically separate from politics. The hypothetical market constitutes an optimal equilibrium system to allocate resources and price formation in an economy (see Hayek, 1944, 1960, Friedman, 1977). Politics is exogenous to the market system and institutions such as collective wage bargaining are an interference that ruptures the equilibrium of labour market allocation. The normative implication is that collective bargaining produces sub optimal outcomes, and if at all possible, should be replaced by individualised employment contracts. All public policies have to be defended on the basis of state intervention to increase market efficiency. The political organisation of fiscal and social policy is generally equated with excessive taxation, public deficits, bloated public sector employment, a defence of labour market insiders and compensatory social policies that decrease the incentive to work (Keen, 2011).

There are a whole variety of nuanced and competing perspectives within this neoclassical framework (see Porter, 1996, Arnsperger & Varoufakis 2006) but broadly speaking they do not take institutions or politics seriously. It's most important contribution to the study of comparative capitalism, given its analytic foundations, is that it lends itself to econometric modelling and game theoretic reasoning. Econometrics has become a particularly important tool for identifying complex statistical trends for all social scientists whilst game theory provides a useful logical construct to assess strategic interaction (see Ostrom 1998). Political economists can use these tools, and methods of inquiry, without adopting the normative assumptions of neoclassical economics.

The analytic framework underpinning orthodox economics, however, cannot explain the political construction of centralised wage bargaining as it precludes this as inefficient by definition, given its deductive utilitarian assumptions of self-clearing labour markets (Crouch, 2000, 2005). It is an *a priori* theory of scientific management that ignores the democratic and distributional demands on the state, and collectivist organisation in general. But it is these micro theoretical assumptions of wage coordination in neoclassical theory that underpin the design of EMU and prescribed by the EU commission and IMF as to how national governments should respond to macro-economic shocks (see chapter 7). The EMU is premised on a theory of scientific monetarism. This theory assumes a complementary fit between independent central banks and individualised flexible labour markets. When confronted with a macro shock, national economies, it is assumed, will replace currency devaluations with wage devaluations and unemployment (see Eichengreen, 1997, 2006).

⁹ The term neoclassical was originally used by Thorstein Veblen (1900) to describe the work of Carl Menger (1892), then Fredrick Hayek (1944) but is now generally used as an umbrella term to describe most mainstream economic theories premised on rational expectations and general equilibrium. As a rule of thumb it excludes institutional, post-Keynesian or Marxian economics.

The policy prescriptions implicit in neoclassical theory are to make labour markets as flexible as possible so as to embed nominal price flexibility in labour costs (Calmfors, 1998, 2001). This normative prescription ignores institutions of collective bargaining and the democratic right to trade union association. For example, 80 per cent of employees in the Eurozone are covered by collective labour agreements (Visser, 2009). In individual countries this varies from 98 per cent in Slovenia and Finland to less than 44 per cent in Ireland (see chapter 2). Thus, neoclassical economics is premised on a theory of European labour market coordination that is empirically inaccurate. Any attempt to construct a national wage bargaining system will be considered inefficient, *a priori*, and all analysis will occur *ex post* as an attempt to show up this inefficiency. Coordinated labour market institutions underperform in this theory not on the basis of evidence but fixed assumptions of perfectly competitive labour markets. In the end, a neoclassical labour market is only possible if we ignore the democratic right to collective bargaining.

Neoclassicism is a deductive and normative theory of price value rather than an empirical theory of capitalist markets. It does not take institutions, collective action or politics seriously. Its analytic foundations are a pure version of the rational efficiency (economistic) framework outlined in section 2.

Critical Marxism

Unlike neoclassical economics, Marxian theories are premised on a labour theory of value and explicitly designed to illustrate the systemic contradictions of economies constructed around capitalist market expansion (Harvey, 2005, 2010). Markets are not a mechanism of efficient coordination but a means to defend private property and exploitation. Similar to neoclassical economists, Marxist theories tend to adopt fixed deductive assumptions of social action. They reduce labour market institutions, and politics in general, to a utilitarian device for capitalist reproduction. In this perspective, the economy is not composed of isolated rational calculating individuals but a conflictual relationship between those who own capital and those who sell labour. Those who own capital have fixed interests i.e. the need to generate an accumulating compound rate of growth. This surplus value is generated through what employers pay labourers for their output and what they keep as profit. Labour is a fixed homogenous entity with a shared collective identity centred on alienation from this productive output (Baran & Sweezy, 1966, Robinson 1971, 1976).

The collective preference of wage labourers, therefore, can be reduced to their alienation from productive labour. All workers whether they are in Japan, Indonesia or Italy have the same interest (re-claiming objectified labour) and this can be modelled accordingly. All trade union strategies that are not premised on a pure labour theory of value are a class compromise. Thus, collective labour agreements, or various forms of social partnership, as a trade union strategy, are

ruled out, *a priori*, because they do not represent the fixed interests of workers in a labour theory of value. It is for this reason that classical Marxists, in general, were suspicious of the historical emergence of generalist unions in the Fordist era of production. Trade unions emerged as a political response to constrain the worst effects of free labour markets through institutionalising collective bargaining. European unions and the political properties of corporatist political exchange were always embedded in the market, and in some cases, offered a mechanism to make it more efficient by rational coordination of the wage and productivity relation (Streeck, 1991). These strategies, in Marxian theory, do not represent the fixed interest of workers as they legitimise the capitalist mode of production.

The state, in the Marxist perspective, will adopt different strategies to neutralise labour in the interest of capital accumulation (Jessop, 2002, Allen, 1999, O’Hearn 2003). Fiscal policy can be considered a strategy to minimize taxes on capital and extract rents from labour; employment policies will ensure flexible hire and fire practices, wages will be forced downwards on the basis of competition whilst social policies are aimed at giving cash transfers to the unemployed to ensure their passive acquiescence with a capitalist system. All political decisions, compromises and patterns of policy making can be reduced to the exploitation of labour. There is no space for autonomous state, trade union or employer action, as everything orients around the functional need for a compound rate of growth – capital accumulation. This is a problem, although couched in very different terms, of the VoC School of analysis, which effectively reduces the state to the functional interests of business (see section 5). Thus, similar to neoclassical economists, critical Marxists are prone to a totalizing and reductionist logic of explanation. Complex social phenomena are reduced to functionalist categories and parsimonious explanatory variables: utility maximisers in a perfect market (price value) or class struggle (labour value).

The benefit of this perspective, however, is that unlike market economics it takes capitalism, power relations and history seriously (Schumpeter, 1939, Blackburn 1991, Cerny 2000, 2006). Critical Marxists are correct in highlighting the imperatives of capital accumulation as a process of crisis induced expansion. But similar to neoclassical economists they rule out institutional coordination of the market and centralised wage bargaining, *a priori*. Similar to the deductive model of an efficient free market, any outcome that falls short of a return to a pure labour theory of value is considered sub-optimal. Institutionalised power resources, such as social partnership, are deductively assumed to satisfy the self-interest of trade union leaders, whilst the state is capitalist in design rather than politically autonomous. Its analytic foundations are a pure version of the historical power (political) framework outlined in section 2.

What both neoclassical and Marxian analytic frameworks share are fixed political assumptions on actor preferences. They do not allow for an analysis of the dynamic process of institution building, strategic interaction and coordination inside capitalist market economies. Comparative political economy, on the other hand, takes institutional coordination, the state and collective bargaining seriously. The preferences of political economic actors are conditioned by nationally specific and historically evolved institutions and different strategies will emerge in response to a given set of institutional constraints and opportunities. The primary focus of this research agenda is to explain cross country institutional variation in diverse regimes of capitalism and the varied public policy responses to the adjustment constraints of international market liberalisation (Shonfield 1969, Hall 1986, Gourevitch 1986, Boyer 1990, Steinmo 1992, Thelen 1994, Pontusson 1995, Berger & Dore 1996). This began with a study of national income policies, the welfare state and the organisational capacity of employers and trade unions to autonomously organise production. It evolved into a general institutionalist study of national capitalism(s) focused on the conditions that give rise to distinct distributive and productivity regimes.

Comparative political economy, therefore, at its most basic, examines the political and social institutions underpinning economic quantitative relations (Bohle, 2009). It does not start from the assumption that the market operates free from politics but that markets are social constructs and embedded in specific institutional contexts made up of diverse actors with specific interests, and unequal power resources, in culturally defined spaces. The institutional variation between capitalist regimes is what requires explanation. In this regard, the difference between market economists and those who adopt an institutional or political economic perspective is that the latter do not reduce the economy to one mechanism of market coordination. On the contrary, they seek to explain a variety of empirical questions such as why Ireland constructed a centralised wage bargaining system premised on a labour inclusive process of social partnership, whilst the UK adopted an aggressive anti-union strategy of state neoliberalism, despite the fact that both are liberal market economies.

Comparative political economists identify actors, institutions and ideas as the core variables that explain diverse economic outcomes in different regimes of capitalism (Hall, 1996). All democratic capitalist economies, it is argued, are confronted with the problem of how to minimize inflation, generate economic growth, ensure social protection and maintain employment. Actors make decisions, develop strategies and adopt policy responses within a given set of institutional constraints. Comparative scholars seek to explain the historical processes and causal mechanisms underpinning the origins of national institutional frameworks and the impact these have on the strategic preference of actors. Explaining institutional variation in welfare and industrial relations regimes are often designed to illustrate that countries are *not*

converging on a neoliberal model. Domestic policy choices still exist (Weiss, 2003). But the adjustment constraints of EMU, the rapid liberalisation of finance markets and the declining capacity of nation-state to manage macro-economic policy in a supranational European union have increasingly called into question this narrow focus on explaining institutional variation *in-itself*.

In recognition of this, contemporary research in comparative political economy has evolved into explaining how the configuration of institutions underpinning national welfare and industrial relations regimes has changed. Streeck (2009) identifies the change in European institutions of industrial relations as an endogenous process of liberalisation, leading to a transformation of democratic capitalism(s) in the direction of neoliberalism. Hall and Soskice (2001), on the other hand consider change as a result of exogenous shocks that re-enforce divergence according to two path dependent historical modes of institutional coordination: collective bargaining (Germany) and the market (USA). Both identify the dynamic interaction between actor strategies and institutional constraints as the source of variation in diverse regimes of economic governance. Where they differ is their conceptualisation of actors and institutions. Hall and Soskice (2001) equate politics with a process of technical adjustment and change with strategic actors seeking efficient solutions to collective action problems. Streeck identifies coordination as the outcomes of a historical distributive struggle and change as a process of defection by capitalist firms from the constraints of the post-war distributive settlement.

The general point is that the study of comparative political economy has evolved from comparing national capitalism(s) to the politics of institutional change (Jackson & Deeg, 2006, 2008). Competing theoretical perspectives can be traced to different theories of institutional political science; rational choice, historical and power distributional. These analytic and epistemological frameworks lead scholars to prioritise either economic functionalist or historical political modes of social inquiry, outlined in section two, and will be referred to here as the varieties and transformation of capitalism perspectives in the study of comparative political economy. We will now examine the theoretic-analytic foundations of the three institutionalism(s).

4. Rational Choice, Historical and Power-Distributional Institutionalism

Rational Choice Institutionalism

To make any contribution to the study of comparative political economy one has to examine and get to grips with institutional theory (Hall & Taylor 1996, Thelen, 2003 Bohle, 2009). Broadly speaking we can define institutions as enduring structures of social life that pattern behaviour and shape outcomes. This thesis proposes an actor centred analysis premised on a historical political reading of institutions. Economic institutions in this perspective are premised on shifting political coalitions which, in turn, are premised on shifting market bargaining resources. It is these power

resources that condition domestic institutions of industrial relations and the type of actor strategies pursued in response to globalisation, financialisation and European market integration. The adjustment strategies available to political-economic actors are conditioned by institutional structures of country specific collective bargaining regimes not because they maintain equilibrium but because they contribute to a balance of power. Comparative political economy, whilst an advance on neoclassical and Marxian economics, is prone to comparative statics and underplays the importance of conflict, the state and capitalism in general (Coates, 2000, 2005, Howell, 2003). This is the result of an economic bias toward rational-efficiency theories of institutional coordination. The remainder of this section will show why.

The rational choice based approach to institutional science lends itself to game theoretic hypothesis testing, and can be traced to the organisational analysis of institutional economists Aoki (1984), North (1981, 1990) and Williamson (1975, 1985). Political economic institutions are designed to reduce transaction costs in the interest of economic performance and result in a process of constant re-equilibration by calculative actors. This is premised on four assumptions. Firstly, the focus is on individuals (or firms) as the micro-unit of analysis. Secondly, these are assumed to be rational utility maximisers. Thirdly, they are concerned with efficiency, optimality and equilibrium. Finally, from the perspective of social inquiry, it lends itself to mathematical modelling. Its theoretical superiority is a refined understanding of agency and intentionality. It is action-theoretic and provides a useful model to explain strategic interaction as a process of rule formation in complex bargaining episodes. Institutions are rationally designed by problem solvers to coordinate collective action problems. This makes it distinct from the analytic foundations of neoclassicism (March & Olsen, 1990).

But the process of rule formation underpinning political economic institutions are rarely recognised as specific modes of economic governance that have historically emerged amongst actors with unequal power resources. This timeless analytic model cannot accommodate the structurally evolved power constraints and underlying class forces implicit in the coordination of capitalist modes of production. Labour market institutions are designed to solve coordination problems by actors seeking equilibrium, not the outcome of political compromise. The methodological individualist assumptions are overly stylised such that all institutions can be analysed *ex post* as efficient or inefficient. Therefore, it suffers from many of the economic problems, associated with neoclassical theory, outlined in section (2). Institutions of industrial relations are modelled as an independent variable to explain economic performance. Actors are assumed to internalise external constraints. Institutional change, in this regard, is couched in efficiency theoretic terms as a functional response to exogenous shocks whereby calculative actors reinforce institutional coordination in the resolution of collective action problems.

Historical institutionalism, on the other hand, is closer to the political power framework being developed in this thesis, as it emphasises the distributional effects of economic institutions (Pierson, 2000, Mahoney & Thelen, 2010). It recognises that actor preferences, particularly labour, are historically specific and defined in relation to a given set of institutional constraints and opportunities. Trade unions emerged out of a response to unfairness in the labour market not rational calculation to coordinate economic efficiency, whilst the state is at the forefront in patterning the organisation of all political economies. In contrast to Marxian theories, that equate the functional needs of a specific capitalist mode of production with the state, historical institutional scholars highlight its autonomy in making domestic choices and conditioning actor strategies (Evans & Skocpol, 1985, Weir, 1998). Political events such as the great depression in the 1930's, the inflation crisis of the 1970's, and the financial credit crisis of the 2000's are identified as 'critical junctures'. Those who take advantage of these crises produce a pattern of action and interest politics that is institutionally reproduced overtime (Pierson, 2004). Empirical research tends to analyse periods of path dependence in between historical critical junctures.

The precise causal factors underpinning institutional reproduction, stability and change is a central debate in historical institutional scholarship (Thelen, 2003, Hay 1998, Pierson, 1993, 2004). Some explanations focus on the importance of socialised norms or culture in patterning a logic of appropriateness. These sociological perspectives analyses scripts, discourses and other normative mechanisms for socialising political economic actors into a specific mode of behaviour. We identify elite networks, class politics and the role of the state in shaping alliances and patterns of economic interests over time. This leads to a focus on embedded political coalitions operating under sticky legacies of previous historical compromises. The latter analysis has become central to scholars working in a framework that attempts to move 'beyond varieties of capitalism', and closer to the historical political mode of explanation outlined in section (2).

This historicist approach lends itself to explanations of stability oriented around path dependence but limited in its identification of a political economic change agent. The focus on institutional constraints, and actors as rule takers rather than rule makers, makes historical institutionalist prone to structural determinism (Thelen and Streeck, 2005). Recognising the uncontroversial fact that actors operate under rule like constraints and opportunities tells us very little about historical and capitalist dynamics. The observation that institutional stability today can be explained as an outcome of the past tell us nothing about the actors and power-relations underpinning institutional rules.

Therefore, in the absence of a micro theory of purposive action scholars leave themselves open to accusations of a-theoretical reasoning. This has led many political economists to integrate historical institutionalism with the analytic foundation of rational choice theory, and

underpins recent research in the VoC School of analysis. Given the equilibrium-functionalist assumptions underpinning VoC, historicist scholars are still confronted with the problem of how to explain institutional change. Streeck & Thelen (2005), attempt to do this by developing an analytic schema that identifies incremental and transformative institutional change as a process of displacement, layering, drift and conversion. The change agent can be found in the formation and evolution of country specific political coalitions (Thelen, 2012).

Power Distributional Institutionalism

These analytic categories provide the foundation for a power distributional institutionalism as they draw attention to the fact that industrial relations actors are both rule makers and creative exploiters. Rules are ambiguous and require political compliance. Change, in this perspective, is endogenous to capitalist regimes and institutions are recognised as ‘distributional instruments laden with power implications’ (Thelen and Mahoney, 2011). The specific form of an institution such as the coordination of collective bargaining, wage setting and worker co-determination may remain stable. But the social democratic function of these institutions can transform into a mechanism for liberalisation over time (Bacarro & Howell 2011). This observation has led Streeck (2009) to argue that Germany’s coordinated market economy (CME) has remained stable over time but no longer politically organised in the interest of egalitarianism. German employers have increasingly defected from the regime or re-interpreted the rules in favour of increased liberalisation. This process of change in historical institutionalism, however, is rarely explained in terms of class politics or a decline in the effective bargaining power of labour. The work by Thelen et al (2009, 2012) has led to significant advances in the study of institutional science but *not* capitalism or the politics of European industrial relations per se.

The power distributional institutionalism proposed here conceptualises “change in the form and function institutions take to shifts in the coalitional base on which these institutions rest” (Thelen, 2009). All institutions, such as centralised wage bargaining, are vulnerable to shifts in the strategic preference of the actors who underpin them. In the sphere of industrial relations, change can be traced to increased flexibilisation and liberalisation of labour markets, and made possible by the decline in the organisational power resources of labour to act as a constraint on capital. The latter is objectively measured through institutional power resources not timeless relational bargaining models of balanced equilibrium whereby actors assess their position of relative bargaining power in a procedural game theoretic negotiation (Avdagic, 2010). Focusing on historically evolved institutional power resources (or structure) provides a greater insight into the evolving class formations that underpin the politics of industrial relations (Wallerstein, 2000).

These collective institutionalised resources are historically specific and include; trade union density, bargaining coverage, wage coordination, and broadly reflect the LME-CME distinction in

the VoC theory. These will be operationalised in more detail in chapter 2. The general point is that the liberalisation of institutionalised power resources in favour of business coordination and flexibilisation, whether by deregulation, drift or conversion, explains the neoliberal trajectory of change in European industrial relations (see Baccaro & Howell, 2011, Hacker & Pierson, 2010). Therefore, to explain institutional change we have to politically analyse the actors, social forces, class dynamics, elite networks and political coalitions that underpin institutions of capitalist political economies, not their performance enhancing effects. To explain Irish social partnership one must examine the symbiotic relationship between public sector unions and an opportunistic political party; Fianna Fáil. Or, to explain the politics of financial deregulation one must examine the elite networks linking powerful financial interests in the city of London to the UK government.

Using this coalitionist framework I will now probe the specific empirical literature on the relationship between the state and industrial relations in comparative political economy: classical schools of corporatism, their evolution into varieties of capitalism and the renaissance of European social pacts. All of these analyse political economic institutions as a response to collective action problems in the governance of wage, work and welfare regimes but differ according to their functional economic or historical political modes of inquiry, with significant implications for our empirical study on European trade unions, political democracy and the changing role of the welfare state under the neoliberal public policy paradigm.

5. Classical Corporatism, Varieties of Capitalism and Centralised Wage Bargaining

Neo-corporatism

There are three strands to the neocorporatist literature which launched the first wave of comparative scholarship on analysing cross country variation in the pattern of state economy relations. Each was responding to specific problems associated with the Keynesian paradigm; incomes policy, inflation, employment and industrial policies and designed to illustrate that collective bargaining does *not* lead to poorer economic performance, as implied by neoclassical labour markets. The first school focused on the organisational structure of trade unions, employers and political parties (Schmitter 1974, Cawson, 1985, Lehbruch & Schmitter, 1982, Schmitter & Streeck, 1981). Countries with centralised, encompassing and hierarchical trade union and employer associational structures were capable of internalising wage restraint. Governments, employers and trade unions under a specific set of conditions, it was assumed, would move from a pluralist to neocorporatist industrial relations regime and design national incomes policies to complement Keynesian macroeconomic demand management. The problem with this theory was its overly deterministic pre-conditions for corporatist political democracy.

Baccaro & Simoni (2008) have shown that hierarchical organisational structures within trade unions are not a necessary precondition for centralised or coordinated wage setting. There are significantly more degrees of freedom in the *process* of corporatist policy making.

The second school focused on the power resources of labour and posited a strict relationship between leftist political parties in government and social democratic political exchange (Korpi 1980, 1983). Trade unions would exchange their market power for institutionalised social democratic gains in the parliamentary sphere. The problem with this model of institutionalised democratic socialism was that it was only applicable to Nordic political economies and a historically specific class compromise in Sweden. Corporatism, it has turned out, was not the preserve of social democrats. Furthermore, the collapse of centralised and egalitarian wage bargaining in Sweden, led by a new coalition of Swedish employers, was heralded by some as the end of centralised wage bargaining (Swenson, 1991, Iversen 1996). It certainly did not re-emerge in this egalitarian form. But, as we will see in the Irish case; nationalism and a low tax business friendly exchange can act as a functional equivalent to social democratic bargaining. The problem with the democratic class struggle model was its overly stylised structuralist preconditions considered necessary for corporatist political exchange.

The third perspective proposed a causal relationship between small open economies and market liberalisation. Corporatist industrial strategies were pursued by small states leading to two varieties of liberal and social corporatism, reflecting Netherlands, Switzerland, Sweden and Austria respectively (Katzenstein, 1985). Small open economies, it was argued, are more vulnerable to increased trade liberalisation, globalisation and changes in international political economy. This vulnerability functionally induces national governments, employers and trade unions to embed a model of social compensation to offset the risks of market uncertainty in social policy, and the pursuit of activist industrial strategies aimed at export led growth to offset problems of scale and internal demand. The outcome is an embedded national system of innovation and consensus politics, led by the state in particular. Thus, corporatism, and often overlooked in the literature, was a strategy of the state to manage a small open economy by aligning the interest of domestic actors into a shared policy objective of social and democratic stability. The problem with this particular school of analysis was that it posited a functional causal relationship between economic openness and domestic corporatism. This did not hold for other small open economies. The importance of the 'small states in global markets' thesis, however, still pertains, as we will see in the case study on Ireland.

The macro-paradigm shift to neoliberalism, the adjustment constraints of globalised capital mobility, transnational Europeanisation and financialisation has fundamentally altered the macro-economic context for all of these theories. But the heuristic of organisational structure, political exchange and state strategy still matter. This is best reflected in Crouch (1993), who overcame many of the problems in the classical corporatist literature with an innovative model of

‘generalised political exchange’. This integrated the industrial relations function of economic performance with the governance function of democratic states seeking political stability. The problem, much like the rational institutionalism outlined above, was that it was premised on a model that equated actor strategies in the pursuit of corporatist political exchange and interest intermediation with efficient economic performance. All collective action problems were reduced to strategies for economic coordination (see Traxler, 2001, for a similar analysis).

Streeck and Schmitter (1982, 1985, 1991), on the other hand, focused on corporatist associations as a distinct mode of associational governance in the political organisation of economic relations. Importantly, he traced this strategic interaction not to the functional pursuit of economic efficiency but pacifying class conflict and generating democratic stability. Corporatism, therefore, was primarily about political actors seeking to embed market relations in the interest of social order, industrial peace and conflict resolution.

Both Streeck (1982) and Crouch (1993) took variation in how European nation states shared public space with organised economic interests seriously, leading to a distinction between pluralist and corporatist political democracies. The Anglo-liberal representative parliamentary state operated an arm’s length relationship with organised economic interests, whereas the German, French and other European states adopted a strategic relationship with associational actors in the interest of a politically organised capitalist regime. Research evolved into explaining diverse national regimes of capitalism, and directly related to the historical institutionalist school of analysis. Therefore, it is closer to the historical political framework outlined in section (2).

Varieties of Capitalism

Neo-corporatism and the study of national political economies evolved into Varieties of Capitalism in the late 1990s (Hall & Soskice 2001). This opened up new research agendas premised on variation in individual firm level strategies in high end value added production. Economic institutions, constructed by multinationals, in the interest of comparative advantage leads to variation in national economic performance. Placing the firm at the centre of analysis and coordination as the source of institutional complementarities led to a dichotomous typology of coordinated market (CME) and liberal market economies (LME) that are stable, path dependent and self-reinforcing. Anything that veers away from the institutional coherence of an LME or CME is a hybrid, sub-optimal and underperforms, by definition. The general problem with this shift toward productivity regimes in comparative political economy was that it lost sight of macro politics in particular, and capitalism in general; conceptualised as an inherently dynamic and conflictual social order (Streeck, 2009). A narrow focus on the production strategies of high performance MNCs was generalised to explain everything from electoral systems to welfare states (Cusack, et al 2007, Iversen & Soskice 2006), all of which can be traced back to two different

equilibrating and self-reinforcing strategies of coordination in the resolution of collective action problems: strategic interaction in CME's and market contractual relations in LME's.

The purpose of this analysis, it must be emphasised, was to illustrate that western political economies are *not* converging on a US led liberal market model. Institutional coordination by the market or strategic interaction resolve collective action problems and can be traced to the interest of employers in reproducing qualitatively distinct national institutional ecologies in the spheres of corporate governance, industrial relations and social policy. This assumes increased divergence between the USA, UK, Ireland, New Zealand and Australia, on the one hand, and Germany, Japan, Alpine, Nordic economies on the other. There were significant additions to the theory, notably a third Mediterranean variety of capitalism, and a greater appreciation of the state, elite networks and class politics (see Hancké, Rhodes & Thatcher, 2007). All of these additions, however, maintain the argument that adjustment strategies to globalisation and various forms economic crisis will lead to a re-equilibration of qualitatively distinct LME and CME models of labour market coordination.

In this regard, VoC theorists could not capture the different trajectories of neoliberalisation taking place, driven by the aggressive deregulation of finance, product and labour markets in coordinated market economies. Nor could it account for liberal market economies with coordinating tendencies. Hybrids are ruled out by definition. Furthermore, the observation that national economies were systematically accumulating the conditions for crisis was left to critical Marxists, because they take capitalism seriously. VoC became overly revisionist with respect to the existing theories of industrial relations and welfare politics. No longer was political struggle centred on the state the source of change in democratic capitalism but rational firms seeking competitive advantage in diverse forms of institutionalised private markets¹⁰.

The source of these analytic problems can be traced to the overly stylised rational institutionalist assumptions underpinning the concept of 'coordination' in the varieties of capitalism theory, which is explicitly developed from organisational economics. It is premised on a game theoretic analytic foundation that equates all forms of change with technical re-adjustment by apolitical actors. These functionalist assumptions render invisible the exercise of class power that underlies 'coordination' in a given political economy (Howell, 2003). It for this reason that we equate the VoC with the economic framework outlined in section (2)

A power distributional analysis overcomes this bias toward economic efficiency induced stability as it analyses state economy relations politically, from the perspective of capital liberalisation and corporate business power. It does not concede formal institutions that regulate the labour market to economic efficiency theories because it is not premised on the analytic foundations of neoclassicism. Various attempts to embed markets and tame capital through employment protection law, collective labour agreements and centralised wage bargaining are the

¹⁰ This is not to deny the real differences between CME and LME type economies. The distinction provides a useful heuristic in the course of analytic writing and will be employed in this thesis.

result of distributional struggle and political agitation not the rational calculation of firms seeking equilibrium-efficiency. Thus, this perspective makes class politics explicit, particularly as it pertains to the study of European industrial relations.

The importance of this was recognised by Hancké et al in their seminal article ‘Beyond Varieties of Capitalism’ which, whilst retaining the rationalist equilibrium foundations of VoC, simultaneously recognised that to explain a political economic regime one must examine “the politics of class, interest coalitions and the state” (Hancké et al 2007, P 27) . Different modes of economic governance, in this revision, are a reflection of a politically constructed institutional matrix built in large part on coalition networks amongst political economic elites, particularly those that provide access to state power.

The debate, therefore, is whether institutions are premised on rational calculating actors seeking efficient coordination and technical solutions to collective action problems or conflicting organisational interests with unequal market bargaining resources. In the study of political science, this reflects a difference between those who trace the causal source of public policy outcomes to the median voter or organised private interests (see Hacker and Pierson, 2010).

Transformation of Capitalism

It is this political turn in VoC that makes explicit the tension between economic-functional and historical political theories of institutional change, and leads to the *transformation of capitalism* framework (ToC) proposed in this thesis. Furthermore, it brings the political relationship between the state and organised interests back in to shaping the politics of public policy. Hancké et al locate the inability of some countries to reach a strategic compromise on wage relations (i.e. employers and trade unions are incapable of reaching a technical solution to wage coordination) as an outcome of power asymmetries, class conflict, ideological division and organisational fragmentation. If these conditions exist, trade unions and employers require a strong state to compensate for their inability to reach a coordinated equilibrium. Organised interest groups in this context are strong enough to make demands on the state but incapable of coordinating their bargaining strategies in the labour market autonomously. Therefore, the state will either deregulate toward neoliberal labour markets or centralise wage bargaining. In a political analysis this is dependent on the extent of institutionalised deterrent power available to economic actors in the labour market.

That the tri-partite macropolitical relationship between national governments and organised interests was still important in explaining cross country variation in European varieties of capitalism was reflected in the new social pact literature, which emerged in response to the politics of adjustment under the EMU (Fajertag & Pochet 2000, Regini 2003, Molina & Rhodes 2002, Hassel 2003, Baccaro 2002, 2003, Hancké & Rhodes 2005, Traxler 2004 and Natali 2009).

The emergence of new forms of tripartism seem to indicate that the structural preconditions of centralised and hierarchical organisations implicit in classical theories of neocorporatism were neither necessary nor sufficient, and alternative forms of coordination can emerge. This was reflected in Ireland, Spain, Portugal, Italy and Greece. The use of social pacts in Ireland and Italy were legitimised not through hierarchical and centralised control but democratic ballots and tri-annual wage referenda. Input legitimacy compensated for the absence of output legitimacy (see Baccaro 2001, 2008). Therefore, the renaissance of macro-corporatism since 1990 constitutes an interesting example of state led institutional change in European industrial relations.

National pacts are a coordinating mechanism for strategic interaction between government, business interests and trade unions to settle distributive conflict and therefore premised on coalitional politics (Thelen, 2001, 2003 Hall & Thelen, 2009). It is this latter concept that links comparative political economy in varieties of capitalism to the political economy of social pacts. Chapter two will analyse the changing relationship between the state and organised interest relations in more detail. This will illustrate why our political historical institutionalism overcomes the shortfalls of the rational choice bargaining model adopted in Avdagic, Visser and Rhodes (2011). We take domestic politics, the state and a decline in the institutionalised power resources of labour, in the context of a transformation of European varieties of capitalism (ToC), seriously.

6. A Power-Distributional Approach to Comparative Political Economy

Corporatism(s) and industrial relations regimes have evolved and responded to the neoliberal paradigm. A comparative political economic framework that attempts to explain the trajectory of change in domestic institutional regimes of wage, labour and fiscal policy, as argued in section (2), needs an actor centred analysis. The variation, stability and trajectory of change underpinning any explanation of capitalist institutions depend on the underlying methodological and ontological assumptions of the researcher. Therefore, it matters a great deal if we adopt a power political or rational efficiency theoretical framework in explaining actor *strategies*. In the first instance, centralised wage bargaining is a dependent variable whilst actors, social forces, elite networks and political coalitions are the independent variable. In the economic perspective, centralised wage agreements are an independent variable to explain economic performance or GDP growth. Therefore, institutions of the labour market are explained by their functional contribution to economic outcomes. Institution X persists because of its contribution to objective Y, and actor strategies are premised on a Nash based equilibrium that can be modelled accordingly.

In our framework the strategic interaction is framed as a conflict between $\hat{L}(tn) \geq \hat{C}(tn)$, where L is the strength of Labour at time n is equal to or stronger than the strength of C-capital at time n. Capitalist actors are modelled less as rational utilitarian maximisers but aggressive exploiters of institutional ambiguity in the pursuit of profit. Trade unions and political

parties representing the government of the state are certainly motivated by employment and economic performance but rarely does this explain the political dynamics or generalised exchange that underpins the institutional coalition. The latter is conditioned by a configuration of contextual factors that impact upon power resources; trade union density, bargaining coverage, tripartite policy making and operationalised in more detail in section (2), chapter 2. Centralised wage bargaining is conceptualised as an institutional property of the political system, constructed by the state, to pacify and institutionalise class conflict, sustained by a general political exchange and institutionally reproduced through elite coalitions. In this regard, we place organised interests and policy development, particularly the influence of business power and the weakness of organised labour, at the centre of comparative political economy.

7. Conclusion – The Politics of European Industrial Relations in the EMU

The chapter critically evaluated the literature on comparative political economy and its relationship to the study of corporatism and centralised wage bargaining. It outlined three schools of thought; critical Marxism, neoclassical economics and comparative political economy that seek to explain the shift from a Keynesian to a neoliberal public policy paradigm in Europe. It argued that comparative political economy is best placed to explain the trajectory of change underpinning European varieties of capitalism, because it takes institutional variation and context specific actor preferences seriously. But within this framework there are three competing perspectives on how to explain and define institutions: historical, rational choice and power distributional. They differ on how to explain actor strategies underpinning the trajectory of institutional change in contemporary European capitalism(s). What they share is recognition that local institutional conditions in the labour market pattern state economy relations in all societies.

We argued in favour of a power distributional theory of institutions because it takes class politics and organised interests seriously, and used this to outline the benefits and shortcomings in the literature on neocorporatism, varieties of capitalism and new social pacts. All three fail to appreciate the changing role of the state in managing the trajectory of change in a neoliberal economy and the transformative shift toward processes of market conforming political exchange underpinning European industrial relations. It is our argument that the trajectory of institutional change is conditioned by historically evolved regimes of collective bargaining not because they contribute to technical coordination because of their political impact on power resources. Hence, we need to bring a power distributional analysis back in to the study of domestic capitalist institutions. Using this transformation of capitalism framework we will now examine the renaissance of tripartism in Europe before isolating the Irish case in the empirical study.

Chapter 2

Explaining the Renaissance of Corporatism (s) in European Industrial Relations

A Comparative Typology of Economic Governance Regimes

1. Introduction

Neoliberalism refers to the expansion of the market allocation of resources in the economy and emerged as a political response to the crisis of capital accumulation at the end of the 1970's (Harvey, 2010). This political practice took diverse forms and fundamentally altered the national political economic landscape within which trade unions operate. The process of disembedding the embedded liberalism associated with the Keynesian welfare state (Ruggie, 1982, Blyth 2002) was mediated by country specific institutions. These frame the strategic preference of actors and broadly reflect a CME-LME distinction in the architecture of contemporary European capitalism(s). Neoliberalisation is filtered through domestic institutions and this explains cross country variation in welfare and industrial relations regimes. But the transformation of capitalism perspective advanced here differs from the VoC framework in that it considers the *function* of European industrial relations to be converging on a common neoliberal trajectory (Baccaro & Howell 2011). Underpinning this change has been a rapid decline in the strength of European unions. This has a bigger impact on countries with liberal market economies. In the Eurozone, only Ireland falls into this category.

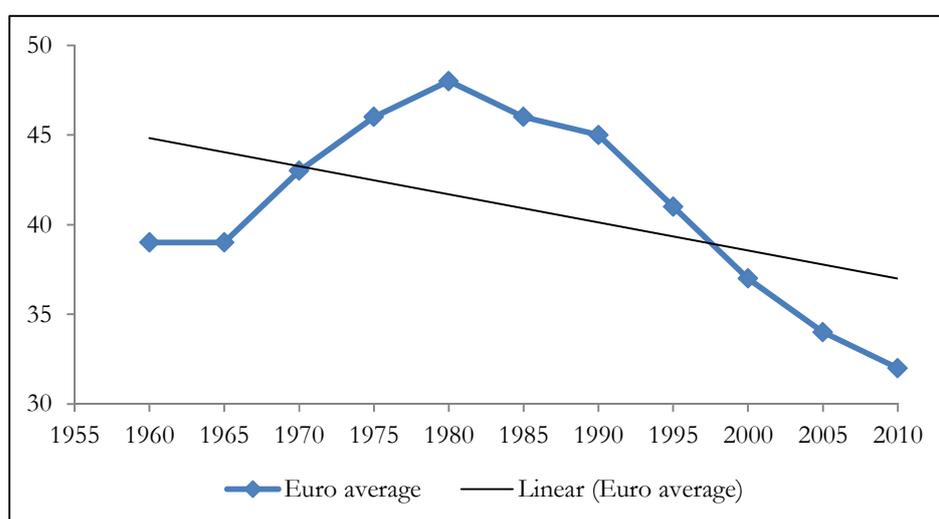
The structure of the chapter is as follows; firstly we will outline cross country comparative data from the ICTWSS database on the decline in the organisational power resources of labour and illustrate why these institutional indicators are more useful than game theoretic models of relational bargaining. This will enable us to set up a debate between those who view social pacts as a technical mode of economic adjustment (MEA) or a political mode of economic governance (MEG). Secondly we will present data on the renaissance of corporatist policy making in a variety of European countries and illustrate the limit of technocratic arguments premised on EMU induced coordination. Thirdly, we will argue that the state has an instrumental interest in coordinating wage policies in the interest of political economic stability. Fourthly, we will argue that the process of corporatist policy making is a generalised political exchange to increase state capacity and coordinate public policies beyond the interparty wrangling of parliament. Based on these two properties we will outline a typology on the relationship between the state and

organised interests in European industrial relations. The comparative typology will then isolate the case of Ireland, as the dependent variable, in the diachronic historical case study.

2. Comparative Indicators on the Decline of Effective Labour Power

Figures 2.1 2.2 and 2.3 illustrate that all countries affiliated to the European Economic and Monetary Union (EMU) have experienced a decentralisation of collective bargaining to either firm or sectoral level, decreasing trade union density and declining collective bargaining coverage (See Iversen & Soskice, 2009). This dis-organisation does *not* mean a decrease in wage or labour market coordination given the centrality of employer organisations in CMEs (Hall and Gingerich, 2004, Traxler, 2010b). As argued by Höpner (2005, 2007), the impact of globalisation on economic institutions is a case of disorganisation toward the market; it does not result in a lack of wage coordination but a decline in the social solidarity underpinning the Keynesian welfare state. Thelen (2012), advancing this argument, has shown that the trajectory of liberalisation in European labour markets has occurred through deregulation in the UK, increased dualisation in Germany and active labour market policies aimed at ‘flexicurity’ in Denmark, Netherlands and Sweden. This variation in different paths toward liberalisation reflects a difference between liberal, coordinated and egalitarian varieties of capitalism (see Palier et al 2012).

Figure 2.1 Five Year Mean Trade Union Density in Eurozone Countries (1960-2010)



Source: ICTWSS Database (Jelle Visser, 2009)

Figure 2.2 Five Year Mean Collective Bargaining Coverage in Eurozone Countries (1960-2010)

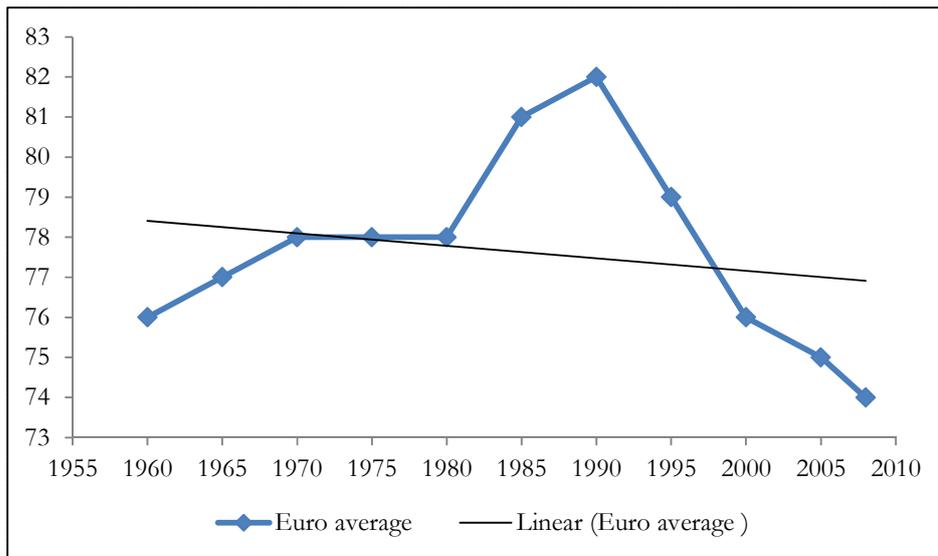
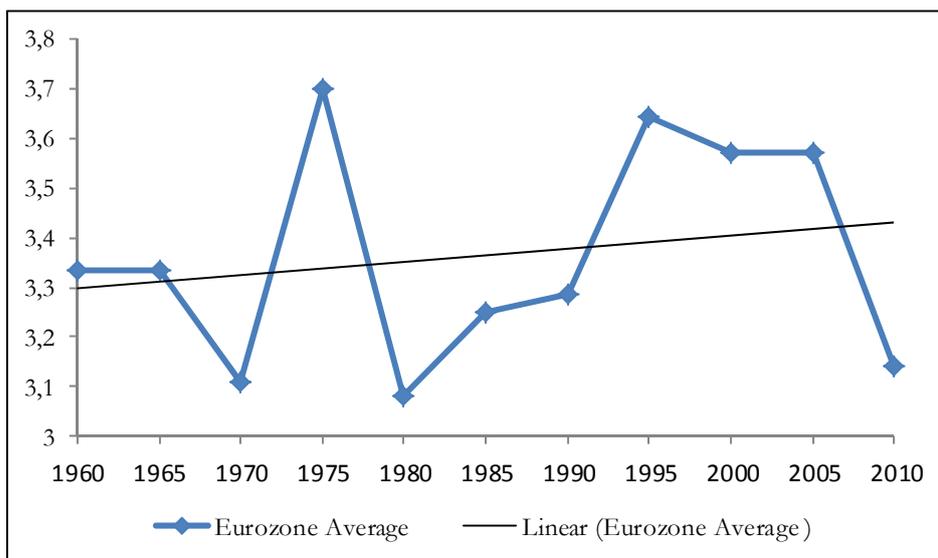


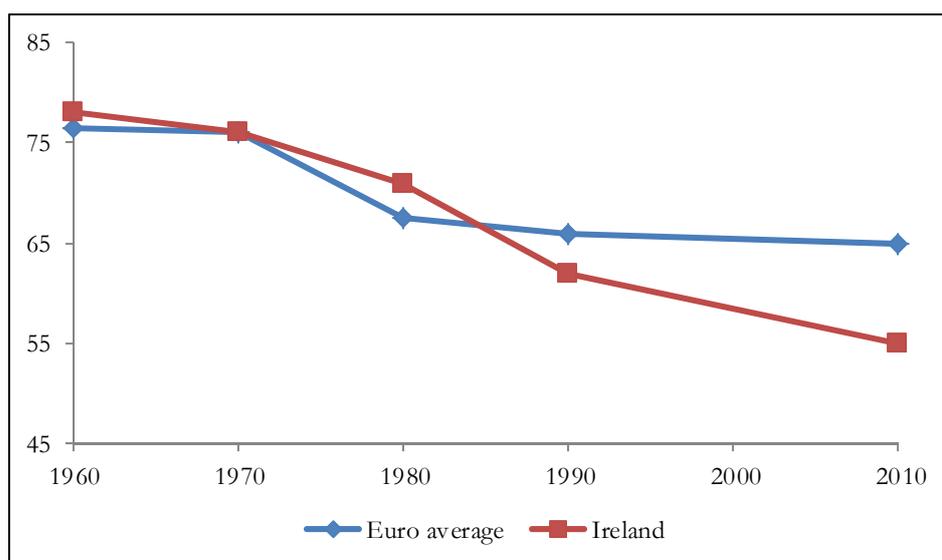
Figure 2.3: Wage Coordination in Eurozone Countries¹¹ (1960-2010)



Source: ICTWSS Database (Jelle Visser, 2009)

¹¹ ICTWSS variable WCoord: coordination of wage bargaining based on Kenworthy (2003). Ordinal scale 1-5 where 5=economy-wide bargaining, based on a) enforceable agreements between the central organisations of unions and employers affecting the entire economy or entire private sector, or on b) government imposition of a wage schedule, freeze, or ceiling; 4=mixed industry and economy-wide bargaining: a) central organisations negotiate non-enforceable central agreements (guidelines) and/or b) key unions and employers associations set pattern for the entire economy; 3=industry bargaining with no or irregular pattern setting, limited involvement of central organizations and limited freedoms for company bargaining; 2=mixed industry- and firm level bargaining, with weak enforceability of industry agreements; 1=none of the above, fragmented bargaining, mostly at company level.

Figure 2.4: The Decline in Wage Share as % of GDP in Eurozone Countries (1980-2010)



Source: EU Commission, European Economy (2010) Statistical Annex

The de-institutionalisation in all three varieties reflects a decline in union strength, a rise in market forces, and an increase in the flexibility of firms and employers to adopt business friendly strategies of adjustment. This is particularly important from the perspective of European economic governance as collective bargaining is generally recognised as the most important variable in explaining the political distinction and variation between and within LME and CME capitalist regimes (Thelen 2001). An increase in business and market coordination and a decrease in the political organisation of labour relations transforms the institutional landscape of strategic interaction. Coordinated wage setting, as can be seen in figure 2.3, has remained stable in most EMU countries and can be traced to the interest of employer associations in multi-level pattern bargaining. But the process of corporatist engagement has been decentralised from national to firm or sectoral level with the implication that trade union strategies are less political and more business oriented (Hyman, 1999, 2001, Evans 2007).

This historical decline in institutionalised power resources are a more useful indicator to assess trade union strategies than game theoretic relational bargaining models (Avdagic et al 2011) because they illustrate the changing context within which actors can engage in a political exchange with the state (see section 5)¹². A relational bargaining model is a useful mechanism to assess a specific negotiation whereby two actors are seeking to reach a deal on fiscal adjustment, welfare reform or settle a nominal wage increase. This is precisely what occurred in many countries across Europe in response to the adjustment constraints of the EMU (see section 4). But social partnership is more than a single negotiation aimed at adjustment. It is a tripartite

¹² The bargaining model of Avdagic et al is explicitly based on a negotiation between two actors; trade unions and employers. The state, therefore, is conceptualised as an 'intervening' rather than a central actor. This in itself ignores the most distinctive aspect of contemporary corporatism; the central role of the state.

process whereby the state and organised economic interests embed coordination, consensus and compromise over class conflict in labour relations. In this regard, we propose that variation in European industrial relations and centralised wage agreements be examined as distinct political modes of economic governance in democratic state traditions (MEG) rather than isolated strategies of economic adjustment aimed at policy reform (MEA), (see Crouch & Streeck, 2006)

The importance of this difference can be captured by examining the changing *function* of collective bargaining in European countries (Baccaro & Howell, 2011). This, more than any other variable, conditions actor strategies in response to market liberalisation and central to explaining variation in European varieties of capitalism. In the Netherlands, Germany, Austria and Finland industrial relations regimes are governed by collective labour agreements that are legally extendable to non-unionised firms. The settlement of pay across diverse sectors of the economy is coordinated by collective bargaining rather than the market despite the fact that trade union density rates are in decline. Sectoral based wage coordination reflects the strategy of encompassing business associations who, in the interest of industrial stability, do not want a return to direct negotiations with trade unions at firm level. This type of labour market coordination does not exist in liberal market economies. The general point is that variance in different modes of economic governance rather than mechanisms of economic adjustment underpin the political architecture of industrial relations regimes (see Visser 2005, 2006).

This wider political and institutional process governing European industrial relations is not captured by the rational choice models underpinning the literature on new social pacts (Avdagic et al 2011). Power in this perspective is operationalised in game theoretic terms whereby actor strategies are traced to deductive bargaining episodes aimed at market adjustment. The power distributional institutionalism proposed here analyses the institutional decline in unionisation rates and collective bargaining as objective indicators of increased liberalisation. This decline in institutionalised power resources conditions the strategic preference of actors underpinning new political coalitions supporting country specific industrial relations regimes. As we will see in section (4) CME's with legal formal institutions that extend collective labour agreements to the non-unionised economy embed the institutional power resource of trade unions and employers into a cross class coalition. This is not the case in liberal market economies. In these economies it is the level of deterrent power in the labour market, measured by trade union rather than employer density that underpins the strategic capacity of organised labour to be considered a social partner by the state. Only Ireland falls into this category in the EMU.

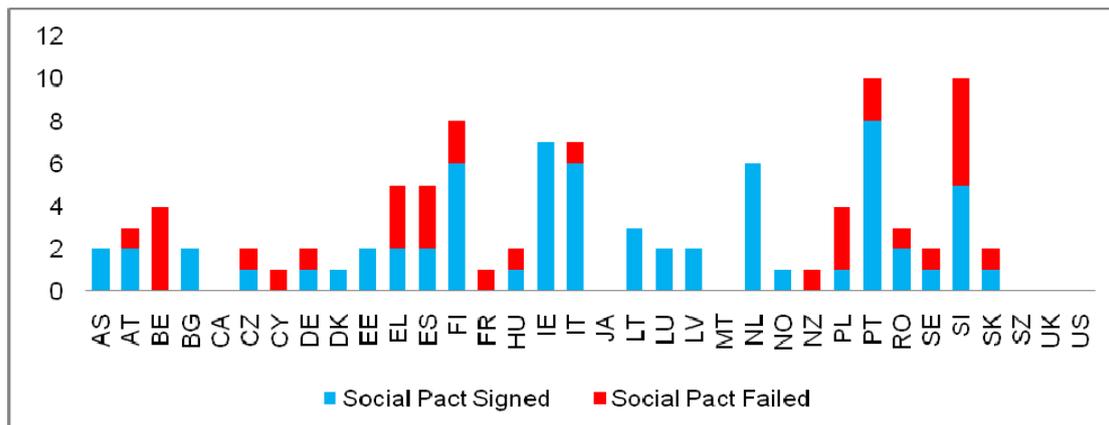
For the moment it is important to note that a general decline in trade union strength, and the impact this has on actor strategies is central to our power distributional institutional framework. Given this historical decline can we assume that the state will pursue a unilateral deregulation of the labour market in the interest of cost competitiveness and exclude organised economic interests from the process of public policy formulation?

3. Comparative Indicators on the Rise of Corporatist Policy Making

Most empirical evidence indicates that quite the opposite has occurred. Despite a decline in trade union strength across Europe there has been a simultaneous rise in government sponsored social pacts, particularly since the early 1990s (see table 2.1). Tri-partite social pacts emerge as a strategic response to collective action problems in industrial relations and consolidate as a mechanism to negotiate a national incomes policy. During the 1980s and 1990s, European governments were confronted with a variety of problems that included high levels of structural unemployment; heightened international competition and growing debt to GDP ratios (see Schmidt, 2002). In some countries (Portugal, Italy, Greece and Spain) social pacts were negotiated to satisfy entry requirements into the European Monetary Union. The functional incentive of achieving 3 per cent budget deficits induced a new ‘second wave’ of post Keynesian social pacts (see Hancké and Rhodes, 2005, Crouch 2000).

What was unique about social pacting was the strategic involvement of the state. They were not sectoral wage bargains but tri-partite public policy agreements. It was a monetarist bargain of wage moderation for fiscal restraint. The focus was on adjusting wage policy, fiscal policy and labour market policy to a new macro-economic context: European market integration and international competition. The institutionalisation of competitive oriented wage policy rather than productivity oriented wage policy can be observed in the decreasing level of labour (wage share) as a percentage of GDP across the EMU (see figure 2.4).

Figure 2.5: Tri-partite social pact agreements (1987-2007)



Source: ICTWSS Database, (Jelle Visser, 2009)

Notes: Country codes: AS (Australia), AT (Austria), BE (Belgium), CA (Canada), CZ (Czech Republic), CY (Cyprus), DE (Germany), DK (Denmark), EE (Estonia), EL (Greece), ES (Spain), FI (Finland), FR (France), HU (Hungary), IE (Ireland), IT (Italy), JA (Japan), LT (Lithuania), LU (Luxembourg), LV (Latvia), MT (Malta), NL (Netherlands), NO (Norway), NZ (New Zealand), PL (Poland), PT (Portugal), RO (Romania), SE (Sweden), SI (Slovenia), SK (Slovakia), SZ (Switzerland), UK (United Kingdom), US (United States).

None of the social pacts adopted post-1990 were premised on a wide distributional agenda of social democracy and have been conceptualised as ‘lean corporatism’, ‘supply side corporatism’ (Traxler, 2004), ‘competitive corporatism’ (Rhodes, 1997, 2002) and ‘organised decentralisation’. The overall policy objective, it is argued, is to increase national competitiveness (Ebbinghaus & Hassel, 2000; Rhodes, 1997). It is to increase the conditions for wealth creation through the coordination of wage restraint. The focus is on enterprise and market competition in public policy not social and labour market protection. Figure 2.5 illustrates the extent of social pacting in 34 countries from 1987-2007. Ireland, Finland, Italy, Netherlands, Portugal and Slovenia negotiated five or more pacts. But, only Ireland and Finland used social pacting as an institutional mechanism to negotiate a tax based incomes policy on a structured bi or tri-annual basis. This centralised wage bargain makes their tradition of social wage pacts qualitatively distinct from other European countries.

The various ways to describe and conceptualise tripartism point to a divergence between those who view corporatist policy making as a mode of economic adjustment (MEA) or a mode economic governance (MEG). Early indicators of corporatism assessed the level of involvement by organised interests in policy making and the centralisation of trade union confederations. These indicators were aimed at assessing the level of encompassingness of organised economic interests and to test the theory that the more encompassing a trade union and employer association the more likely they would internalise the costs of their actions – leading to collective wage restraint. New indicators of corporatism capture longitudinal trends in the process of concertation (Baccaro, 2011). These indicators capture both the degree of coordination in collective bargaining and the level of tri-partite involvement in macroeconomic, labour and social policies. Research supports the conclusion that despite a decline in collective bargaining and the decentralisation of wage coordination there has been a simultaneous increase in the willingness of government to engage in non-parliamentary corporatist policy making (Haman & Kelly, 2007).

The renaissance of macro-corporatism points to the fact that market based explanations of institutional change in industrial relations are underpinned by new class dynamics and political coalitions. Under a given set of conditions European governments are *more* not less willing to share their policy making prerogatives with trade unions. This is not premised on a social democratic exchange but a willingness by the state to negotiate wage moderation and welfare reform in exchange for access to influence public policy. New variants of centralised wage bargaining, in this regard, are a governance strategy of the state to manage and legitimate the distributional constraints of neoliberalism, in the interest of social order. They are a conduit to rather than a constraint upon the liberalisation of European industrial relations (Baccaro & Howell, 2011). We will now examine the precise conditions under which European governments are willing to negotiate with organised interests.

Table 2.1: Country and Year Social Pact Signed (1987-2007)

Country	Years Social pact signed
Australia	1987, 1988, 1990
Austria	1995, 1997
Bulgaria	1997, 2006
Czech Republic	1998
Denmark	1998
Estonia	1992, 1999
Finland	1991, 1995, 1998, 2001, 2003, 2005
Germany	1998
Greece	1997, 2002
Hungary	2002
Ireland	1987, 1991, 1994, 1997, 2000, 2003, 2006
Italy	1993, 1995, 1996, 1998, 2002, 2007
Lithuania	1995, 1999, 2005
Luxembourg	2001, 2006
Netherlands	1989, 1993, 1997, 2002, 2003, 2004
Norway	1993
Poland	1993
Portugal	1988, 1990, 1991, 1992, 1996, 2001, 2006, 2007
Romania	2002, 2004
Slovakia	2006
Slovenia	1994, 1995, 1996, 2003, 2007
Spain	1997, 2006
Sweden	1991

4. Explaining the Negotiation of a Social Pact

Functional Response to EMU

Recent attempts to explain the emergence of social pacts across Europe have identified external economic shocks as the key variable for their inducement. Governments negotiate with trade unions to develop a coordinated adjustment to crisis. In particular, Rhodes et al (2002) characterize social pacts as a functional response to European Monetary Union (EMU) convergence. Shifts in labour market governance were directly correlated with shifts in the macroeconomic policy regimes associated with the EMU (Hancké and Johnston 2009). Hancké and Rhodes (2005) article 'EMU and Labour Market Institutions in Europe, the Rise and Fall of National Social Pacts' is the paradigmatic example of the economic adjustment thesis (MEA) outlined in section two. The core hypothesis is that disinflation policies and fiscal consolidations

(reducing debt to GDP ratio) were a necessary precursor to achieve the requirements of the Stability and Growth Pact for entry to the EMU (Beetsma & Uhlig, 1997).

This functional incentive of pursuing fiscal consolidations induced a coordinated response amongst labour market actors in peripheral member states of the EMU: Italy, Spain, Portugal and Greece. Some countries maintained these pacts after EMU entry; those with existing exchange rates tied to the German mark, most of them, however, did not. Social pacts are therefore best understood as a functional response to exogenous economic problems. Governments engaged the socio-economic pillars of labour and capital to achieve the convergence requirements of EU monetary integration. Once this integration was achieved the incentive structure for consolidating centralised wage agreements as a mode of economic governance was absent and hence their lack of institutionalisation. But can these macro exogenous explanations account for the internal political dynamic of labour market actors? Surely the institutional arrangements and embedded political relationship between these conflicting actors will mediate whether they enter into a concerted fiscal agreement?

Hancké and Rhodes (2005) do argue that micro foundations condition the level of macro level institutionalization. These micro foundations are the pre-existing institutions of wage setting, the level of inter-firm coordination and the extent of labour market deregulation. These micro conditions are similar to the institutional conditions that mediate what ‘variety of capitalism’ (Hall and Soskice 2001) is institutionalized within a national economy. However, whilst these factors are important, they do not capture the underlying political coalitions of government, employer or trade union actors that are context specific to particular countries. Furthermore, given the soft rational choice intuitionist assumptions of exogenous explanations, grounded in the rules and regularities of historical institutionalism, this approach cannot explain institutional change over time and the endogenous political factors that make this possible. Despite this methodological limitation, Hancké and Rhodes convincingly argue that the strong external pressures of exogenous forces (EMU) and the ability to build upon micro pre-existing conditions will heavily determine the type of labour market governance that emerges within a country.

It is our argument that it is not necessary to specify EMU convergence as the inducing functional requirement of social pacts. It is sufficient to identify the impact of global market liberalisation. This can be conceptualized as a *collective action problem*. Analytically expanding the argument beyond EMU convergence to include all forms of fiscal consolidation facilitates the inclusion of social pacts outside the EU (i.e. Korea) and countries that developed social pacts prior to the EMU (Ireland). Hence, analysing social partnership as a mode of economic governance, primarily centralised wage setting, facilitates a more in-depth political understanding of how labour market actors (unions, employers and government) respond to neoliberalism by making explicit the politics of distribution underpinning the economics of labour market coordination.

EMU convergence is an interesting part of the story in the appearance and disappearance of corporatist policy making across Europe. But it tells us nothing about the domestic political coalitions underpinning institutional change in European industrial relations and welfare regimes, and why social partnership type arrangements have become institutionalised in some countries but not others. This can be traced to the overly stylized rational-economistic assumptions underpinning the analysis of Hancké et al (2005), which sidelines the political role of the state.

Political Response by Weak Governments

As illustrated in section (3) the involvement of labour and capital in the architecture of public policy has been a stable feature of European states over the past 30 years (Baccaro & Simoni 2008). The main purpose of this involvement is to negotiate national wage policy (see section 5). The reason for this can be attributed to the removal of monetary policy from countries in the EMU which increases the importance attached to fiscal and labour market policies, primarily wage setting. National wage agreements have thus become a central fiscal tool for the state to control inflation and maintain competitiveness. However, to understand this coming together of labour, capital and government it is necessary to examine the institutional context of power relations. When and how governments are willing to involve organised interests in the formation of public policy (particularly in a crisis) is a key question to understanding the endogenous political struggles that give rise to national social pacts (Hassel 2003, 2009).

Baccaro and Lim (2007) convincingly argue that policy concertation occurs with a combination of the weak and the weakened. In a period of economic crisis the combination of a weak government, moderate trade unions and organized employers provide micro conditions for the emergence of a social pact. When governments are too weak to engage in unilateral policy change they are more inclined to seek the consensus of trade unions. This increases the democratic legitimation of neoliberal reforms (Baccaro, 2011). Thus, the weak electoral position of political parties in government is a core variable in the emergence and consolidation of tripartite public policy agreements (Avdagic, Visser and Rhodes, 2011, Hamann & Kelly 2007).

The weak government thesis, in effect, is a description of the electoral volatility of coalition governments. For example, Avdagic (2010) has argued that a coordinated response to crisis via corporatist social pacts only occurred when politically weak governments were in office. When this is unpacked empirically it is equating minority coalition governments in parliament with weak governments in general. Coalition governments are the product of a particular electoral system; proportional representation. Thus, in practice, what all of these scholars are arguing is that social pacts emerge in electoral systems of proportional representation when government is confronted with a crisis. This is true. Centralised wage agreements have yet to be adopted in countries with majoritarian systems of government. But this description of an

electoral system tells us nothing about the role of organised interests groups in shaping public policy and their capacity to mobilise unequal power resources to influence economic outcomes.

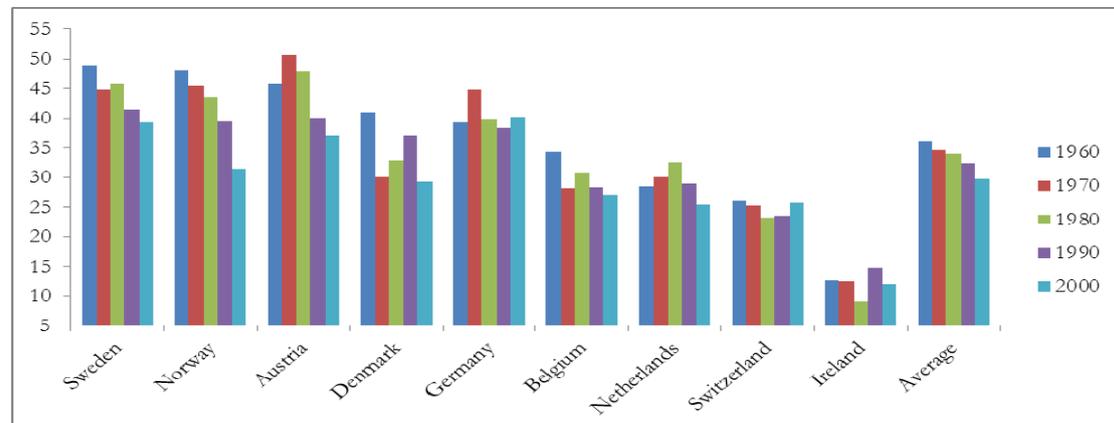
Furthermore, explanations premised on weak governments and electoral calculation does not explain why the state, in a period of economic growth, actively chooses to share its policy making prerogatives with trade unions or the changing relationship between state, employers and organised labour under the constraints of neoliberalism. This is because social pacting is conceptualised in game theoretic terms to negotiate a specific reform at a given point in time rather than an evolving mechanism of societal bargaining to integrate organised interests into the public policy formation processes of the state. It is our argument that centralised wage bargaining is aimed at managing the distributional effects of class conflict and conditioned by institutionalised power relations. Thus, state coordination of the wage relation in the interest of capitalist development is not a question of electoral weakness but *political strategy*. The more important question is what conditions enable the state to adopt corporatism as a political strategy. As we will see in the Irish case it was a strong state not a weak government that embedded social partnership as a mode of economic governance in industrial relations.

It is not that the weak government theses are wrong but they need to be contextualised against a general decline in the strategic capacity of the sovereign democratic state to autonomously manage the constraints of a neoliberal economy. Katzensteins (1985) thesis on small states in global markets provides an important theoretical heuristic for understanding government strategy in those countries where social pacts were embedded as mode of economic governance rather than pursued as an isolated strategy of economic adjustment. Small states in global markets are more exposed to sudden shifts in the international economy, and have less policy tools available to stimulate economic growth. Therefore, they have an incentive to align the interest of producer groups into a national coalition of consensus oriented domestic economic management. The capacity to construct a national coalition around a shared understanding of fiscal, wage and labour market policy, particularly in small open economies such as the Netherlands and Denmark, required a strong state not a weak government. Corporatism, as a mode of economic governance, is always a case of *ménage a trois*.

Governments in proportional rather than majoritarian political systems use corporatist policy making to increase their strategic capacity to manage industrial relations in the interest of political stability. Reading social pacts off as a functional outcome of minority governments seeking legitimation lends itself to treating social partnership as a mode of economic adjustment (MEA) rather than a mode of economic governance (MEG). This reflects the rational choice institutionalist literature underpinning the VoC framework. In a ToC framework, it is identifying the pre-conditions for the state to construct a corporatist strategy amongst conflicting interests with unequal market bargaining power, in settling questions of distribution that requires explanation. Therefore, we need to re-prioritise the procedural, historical and political dimension

of corporatist *political exchange* if we are to explain the central role of the state in shaping the bargain of centralised wage agreements in the neoliberal era.

Figure 2.6 Parliamentary Seats of Social Democratic Parties in Selected European Countries



Source: Armington et al (2007)

Democratic Legitimation

It is the strategic capacity of political parties, representing the government of the state, to engage in a political exchange with labour market actors that explain why governments adopt centralised wage agreements. This reconceptualization shifts the unit of analysis away from weak government to the strategic capacity of the state to manage labour market outcomes, in the interest of economic and employment performance, as the underlying causal factor behind government choice. In turn, this begs the question: what conditions enable trade union leaders to reach a strategic compromise and coordinate the interests of a heterogeneous labour movement, particularly in a context where all European states have experienced a decline in social democratic parties in government (see figure 2.3)?

There will always be divisions within trade union confederations on whether they should enter concerted arrangements with the state. The conflict between moderate and radical factions is an interesting story and occurred in many countries who adopted social pacts as a response to exogenous economic crises. Baccaro and Lim (2007) highlight how increased democratic procedures within trade union confederations (using Ireland and Italy as examples) favour the median voter and therefore the moderate factions. In countries where there is less internal democracy within trade unions (Korea), militant factions successfully blocked all attempts at union involvement in national policy-making. Internal democratic structures that prioritize ‘one person one vote’ replace a logic of ‘mobilization’ with a logic of ‘representation’ (Baccaro and Lim 2007). This in turn empowers the majority moderate factions within trade unions. It tends to block a more militant vanguard from monopolizing strategic decisions. In this regard, Baccaro, methodologically, goes beyond rational choice assumptions of utility maximization, and the

overly structuralist assumptions of neo-corporatism, by prioritizing the importance of democratic procedures in shaping the strategy and preference of actors.

However, this does not explain how centralised wage bargains institutionalise as a mode of economic governance over time or the underlying political coalitions that support their institutional reproduction. To do this we need to focus on the underlying *political exchange* governing the relationship (Pizzorno 1978, Crouch 1993) between organised economic interests and the state. If actors with different interests come together in an economic crisis to develop a coordinated approach to get out of the crisis, and spontaneously or intentionally design a new form of labour market governance, we need to focus on the historical process of embedding social partnership as an institutionalised power resource. There are two competing perspectives on how to explain this *process* of institutionalisation; technical problem solving premised on rational choice institutionalism or political exchange premised on power distributional institutionalism. In turn, this reflects a distinction between the varieties and transformation of capitalist perspectives outlined in chapter one.

5. Explaining the Institutionalisation of Social Partnership

Technical problem solving

Culpepper (2002, 2008) offers an insightful analysis into the formation of common knowledge creation between economic actors in the process of institutional formation. Using the example of wage bargaining institutions in Ireland and Italy he highlights the importance of shared ideas upon social action. More importantly he illustrates how powerful actors altered their material preferences in the process of institutional creation. This is made possible in periods of economic uncertainty because a dialogical process of persuasion and argumentation precedes a process of hard bargaining. It is our argument that this process of embedding a strategic consensus amongst conflicting class interests determines the constitutive rules of the game not just for the emergence of centralized wage bargaining but the consolidation of diverse regimes of European industrial relations over time.

Culpepper builds upon the rational choice literature in Varieties of Capitalism (Hall and Soskice 2001) by identifying the creation of these constitutive rules as a common knowledge event. The common knowledge event in Ireland that led to centralised wage bargaining, established a shared social fact amongst trade unions, employers and government; accepting wage restraint as a necessary trade off in the pursuit of international competitiveness. Once this social fact was agreed by trade unions, the employers could no longer use it as a basis to prefer decentralized bargaining (see Culpepper 2002, 2008). Once employers and government tied unions to a bargaining norm based on competitiveness, the institutional preferences of employers

changed. Centralized agreement became possible. Thus, the process of common knowledge creation establishes the background assumptions for future strategic negotiations. The process of this shared understanding occurs gradually, and depends upon the logic of persuasion; ‘observing how ideas become shared is like watching grass grow, a former patch of mud is suddenly green’ (Culpepper 2008, p. 9).

By virtue of their political constitution, amongst conflicting interests, centralised wage bargaining institutions require a shared technical analysis on certain fundamentals of the economy. If actors have completely divergent perspectives on the economy then peak level coordination amongst the state and organised interests becomes unlikely; as in Greece. Hence, if the trade union movement was dominated by anti-capitalists then peak level corporatism would not become embedded as a strategy. The micro-politics of trade unions, government and employers condition the possibility of them reaching a shared analysis on the mutual benefits of centralised wage bargaining. This, however, requires engaging in a dialogical process of communicative exchange that is not completely governed by the immediate interests of constituent members and requires an elite approach to technical problem solving. This is more likely to occur in periods of economic uncertainty whereby actors do not have full information about distributional outcomes.

Hall and Soskice (2001, p.12) in their introduction to *Varieties of Capitalism* state ‘deliberative institutions can provide actors in a political economy with strategic capacities they would otherwise not enjoy’. Deliberative institutions enable conflicting actors to coordinate their interests through the sharing of information. This is a rational choice version of a similar literature on social learning (see Visser and Hemerijck 1997, O’Donnell, 2004). Deliberation thickens the thin layer of common knowledge that actors have about each other’s strategic position. It incentivizes actors to cooperate and moves away from zero-sum bargaining to positive-sum problem solving. Deliberation facilitates a shared analysis that enables a problem solving approach to economic governance. Whether this deliberative process is about rational choice actors calculating how to maximize their interests, or whether it is about actors changing material preferences is less important than the empirical observation that deliberation matters for institutional policy change. It is our argument that variants of corporatist policy making enables the technical definition of policy problems whilst facilitating coordinated action amongst industrial relations actors. They supplement the parliamentary system.

The rational choice literature is useful when describing how wage bargaining institutions emerge at a point in time *not* why they persist or change over time. In periods of economic crisis there is institutional uncertainty, this uncertainty gives rise to institutional experimentation which eventually leads to consolidation. Institutional experimentation facilitates the autonomous space for technical dialogue. For Culpepper, once a shared agreement on the procedural rules of the game has been established, trade unions and employers will go back to what they do best; bargain over wages and working conditions. They do not want a return to institutional experimentation.

This is all true; however, Culpepper (2008) is assuming that actors are engaged in a process of intentional institutional design. There is an assumption that actors are engaging in a process whereby they know that the substantial outcome will lead to a wage bargaining institution. This is not necessarily the case. The continued consolidation of centralised wage bargaining into a generalized form of social partnership requires more than a once off process of negotiated adjustment (MEA). It requires building a political coalition.

The problem with the technical problem solving and information exchange perspective is that it ignores the politics of distribution and can be traced to the rational institutionalist assumptions underpinning the VoC framework of Culpepper et al (2008). Governments, if they want, can buy information from economic consultants but not political stability and the resolution of class conflict. It is this collective bargaining perspective where a power distributional institutionalism focused on the new variants of political exchange, power resources and state coordination become useful, and reflects the ToC framework proposed here.

Generalised Political Exchange and Political Coalitions

The relationship between structure and process, corporatism and concertation, instrumental and expressive governance has always remained ambiguous in the comparative political economic literature. Crouch (1993) overcame this problem with his model of generalised political exchange. Trade union, employer associations and the state would negotiate national income agreements if government were willing to share political space and invest in public consumption goods that trade unions could not achieve by free collective bargaining with employers. Overtime, this strategic interaction would become more than a negotiated market contract and organised economic interests would become embedded into public policy via corporatist networks. The outcome was a negotiated economy premised on a political exchange of wage moderation in return for increased social protection. Political exchange as a historically specific dynamic has been underplayed in the new social pact literature (Molina & Rhodes, 2002), despite being central to the consolidation of national income agreements in Ireland and Finland.

The new dynamics of political exchange reflect the changing function of centralised wage agreements and complement rather than constrain a neoliberal oriented public policy regime (Baccaro, 2011). The social democratic exchange that governed Keynesian corporatist arrangements reflected the organisational power of trade unions. Given this deterrent power in the labour market and a general rise in support for leftist political parties, national government had little option but to concede to trade union demands for social protection against market uncertainty (Shalev, 1979, Korpi, 1989). Contemporary political exchange dynamics are premised on tax based incomes policies (TBIP). Trade unions in Ireland and Finland traded wage moderation and industrial peace for reductions in the marginal rate of tax. The TBIP packages

were premised on increasing private disposable income not investing in public consumption goods. As argued by Visser (2011), tax based incomes policies work like a drug; once tried, actors always go back for more. This market conforming political exchange was central to the distributional coalition that underpinned centralised wage bargaining in Irish industrial relations.

Corporatist exchange can be traced to the political coalition underpinning centralised wage bargaining in country specific industrial relations regimes. Sweden was the classic case of solidaristic wage bargaining in the Keynesian era and premised on a political exchange that could not contain the intra-class conflict amongst blue and white collar workers. Ireland, in many ways, is the classic case of centralised wage bargaining in the neoliberal era and premised on a political exchange that satisfied union and non-union workers alike; cuts in income tax. The underlying political coalition, however, was premised on a strategic relationship between public sector unions and the political executive of the state.

The changing political exchange governing the relationship between the state and organised interests is a political *not* a technical response to an evolving tension between capitalist market expansion and national democratic stability. It is a strategy of the state to increase its capacity to manage distributive conflict, generate the conditions for capitalist stability and re-nationalise the few remaining policy tools available to government in the single European market. As argued by Hirst and Thompson (1996), the declining power of nation states as a policy making agent, in the context of globalized financial markets, has decreased the legitimating power of parliament. But this does not mean the state is powerless (Weiss, 1998, 2003). By engaging in a generalised political exchange with organised interests the state retains the scope for remaining an active centre and compensates for the declining legitimacy and function of parliament. This cannot be captured by game theoretic *processes* of negotiated reform. It requires a historical examination of the structured relationship between the nation-state and collective bargaining.

A power distributional analysis premised on the politics of cross class coalition formation locates the institutional re-production of corporatist political exchange to elite networks centered on the state in the context of a neoliberal economy that has weakened trade unions. Hence, whilst technical problem solving and procedural mechanisms aimed at legitimating policy adjustment are important in shifting actor preferences from conflict to coordination it would be naïve in the extreme to think this is not conditioned by historically evolved structures of power relations. This brings us back to the importance of domestic institutions of collective bargaining in conditioning diverse trajectories of liberalisation in European varieties of capitalism (ToC), as outlined in chapter one.

6. Bringing the Structure of Collective Bargaining Back in

National incomes policies are pursued by the state to instrumentally manage wage relations when trade unions have sufficient deterrent power in the labour market. The technical objective is to contain wages, allow productivity to grow in the interest of national competitiveness, and facilitate a growth in profit for re-investment in job creation. National wage pacts, like their Keynesian predecessors, are aimed at coordinating wages rather than using exchange rate devaluations as mechanism of cost containment. This was particularly the case in Ireland, Finland and Slovenia in the 1990's and reflects the Katzenstein argument that small open economies secure competitiveness through controlling labour costs to generate the conditions for capital accumulation and inward investment. This small state strategy of wage moderation, however, has been most successful in Germany, with the effect that it depressed domestic demand and created a series of perverse incentives for small peripheral economies of the Eurozone (see chapter 7).

As stated in section (3), only Ireland, Finland and Slovenia integrated centralised wage bargaining as part of their social pacts. This makes them qualitatively distinct from all other European countries that have pursued a corporatist pact at some stage since the early 1990's (with the exception of France and the UK).

Across Europe there are two types of collective bargaining regime and broadly reflect the LME-CME theoretical distinction. One is premised on multi-employer pattern bargaining whereby all employees are covered by an inclusive collective labour agreement, either negotiated at a decentralised level by a lead export sector (usually manufacturing) or peak level associations. The nominal wage rates agreed set a trend for the rest of the economy and extended to all employees. This can be described as a legal-formal and inclusive collective bargaining structure and generally equated with CME type industrial relations regimes. The second is premised on either firm level or national level bargaining whereby wage agreements are only extended to the unionised sectors of the economy. They are voluntary and contain no legal status. These can be described as *voluntary* and *exclusive* structures of collective bargaining and generally equated with LME type industrial relations regimes.

The legal and institutional framework of collective bargaining is the most important variable in accounting for the diverse trajectory of change in European industrial relations (Glassner & Keune, 2010, Thelen, 2012). National wage pacts, premised on peak level coordination, are particular mode of governance that can be distinguished from sectoral negotiation in wage bargaining. It is a centralised government strategy to involve organised interests in the formulation of public policy but systematically tied to the negotiation of income agreements in sheltered sectors of the economy (Traxler & Brandl 2010). In the absence of this wage setting function, social pacts are merely symbolic. They provide an expressive function that

act as a symbolic legitimisation of government policy (see Traxler, 2010a). The social pacts of Central and Eastern Europe arguably fall into this latter category (Ost, 2000).

If social pacts are a political strategy to coordinate income policy in sheltered sectors of the economy (in particular, the public and construction sectors) then it is this form of centralised wage coordination that will come under greatest pressure for downward wage flexibility under conditions of crisis. Governments faced with the requirement to cut budget deficits have very little to exchange in corporatist negotiations when public sector pay is a significant portion of general government expenditure. More importantly, if national wage agreements contained in social pacts only cover a narrow section of the economy (as is the case in Ireland but not Slovenia, Netherlands or Finland), then wage setting excludes a significant percentage of the workforce. It is this structure of inclusive and exclusive bargaining that is the strongest determinant in explaining the evolution of industrial relations regimes. Governments operating within a labour market with 'exclusive' bargaining coverage are more likely to pursue a neoliberal strategy of adjustment. They can opt out of a centralised pact agreement with little repercussion because trade unions have limited capacity to be considered a necessary political partner. Governments only have to engage with public sector unions as an employer¹³.

Coordinated wage bargaining that is inclusive across the economy confers significant bargaining power upon organised labour to resist a unilateral imposition of labour cost reductions. This multi-employer type of bargaining (as witnessed in Austria and Netherlands) confers bargaining coverage of over 90 per cent. Given this institutional structure, labour market actors are likely to use collective bargaining strategies when negotiating a cost adjustment, despite the different trajectories of liberalisation underpinning European industrial relations. It is those economies that have exclusive bargaining coverage (only Ireland, Slovakia and Estonia have collective bargaining coverage below 45 per cent in the Eurozone) that are more likely to experience a neoliberal strategy of cost adjustment. The micro-conditions in these labour markets do not act as a counter-force to European induced liberalisation. This is particularly the case when centralised wage agreements are not just exclusive to particular sectors of the economy but contain no legal requirement on employers to implement negotiated wage increases. Voluntarism complements a market based adjustment as employer associations do not encompass the majority of firms in the economy covered by national wage agreements. This makes social partnership dependent upon the strategic preference of government.

Thus, voluntary and exclusive institutions of wage setting (Ireland), as opposed to inclusive and legally binding institutions of wage setting (Finland, Netherlands and Slovenia) weaken the power resources of labour and decrease the possibility of a negotiated response to the adjustment constraints of European market integration unless trade unions are willing to engage

¹³ It is for this reason that the Irish case is all the more challenging. Traxler could not locate or understand the Irish case because of the overly structuralist assumptions underpinning his definition of corporatism. It does not provide sufficient space for politics and the autonomous interest of the state in using social partnership as a strategy to embed socio-economic stability.

in a serious form of concession bargaining that explicitly favours the interest of business. Higher levels of trade union density minimise the capacity for a neoliberal imposition of labour market cost reductions when combined with high levels of collective bargaining coverage. From the perspective of government, weak micro-conditions in the labour market make it easier for them to adopt a unilateral strategy of adjustment even if this is less effective than a negotiated adjustment based on deliberative agreement. This requires a UK style majoritarian political system. Hence, the structure of collective bargaining is central to explaining institutional variance and the trajectory of change underpinning European industrial relations.

Liberal market political economies whereby market processes act as the main incentive for economic coordination are better placed to internalise the neoliberalising effect of European market integration. In terms of member states affiliated to the EMU, it is Ireland that falls into this category. The political conditions in this economy make it easier to implement orthodox economic policies as the institutional complementarities governing labour market, fiscal and wage policy fit the monetarist assumptions underpinning the design of EMU (see chapter 1). This is not the case in Italy, Spain, Portugal or Greece where a unilateral imposition of cost reductions will be met with significantly higher levels of social and political confrontation. Hence, the Irish variant of competitive corporatism is a market conforming process premised on state coordination. The class formation and social forces underpinning this variant of centralised wage bargaining are qualitatively distinct from those that underpin the coordinated and social democratic regimes of Continental, Alpine and Nordic Europe.

The general point is that the strength and deterrent power of trade unions conditions the type of liberalisation and mode of economic governance that has become embedded in country specific European varieties of capitalism (Hacker & Pierson, 2011). Actor strategies are conditioned by institutions in the labour market not because they reduce transaction costs for employers (VoC) but because they increase or decrease the power resources available to the actors to engage as social partners (ToC). The institutions include the legal framework of wage setting, trade union density, collective bargaining coverage and the type of policy codetermination at the firm, sectoral and national levels. These power resources can be institutionalised via legal formal rules that embed actor strategies into a structured form of economic governance. In the absence of embedded legal norms and a well-developed corporatist infrastructure, a direct role for the state is required. The liberalisation of these country specific regimes of collective bargaining is central to our power distributional theoretical framework.

7. Trajectories of Liberalisation in European Industrial Relations

All of this gets back to the problem of how to define economic institutions and their impact on public policy outcomes in a given capitalist regime. To explain institutional continuity, change and path dependence requires a theory of social action that is not deterministic or functional but traced to the strategic interaction of organised interests in the battle over political choices (see chapter 1). Post-corporatist type arrangements in the neoliberal era are characterised by significantly more variance (in form) than those that emerged under the Keynesian paradigm. The defining institutional feature is contingency and a strategic dependence upon the political preference of electorally volatile governments. This is particularly the case for those countries where national wage pacts were explicitly governed by a tax based incomes policy premised on an increase in disposable income not collective investment in public consumption goods. Ireland is the clearest example of this market conforming exchange and the only liberal oriented economy to institutionalise competitive corporatism as a specific mode of economic governance in the comparative political economy literature.

The coalitionist perspective underpinning the power-distributional framework proposed in this thesis traces centralised wage bargaining to the historically specific class dynamics underpinning social partnership as an institutional regime. This moves beyond the overly stylised rationalist-functionalist (Traxler, 2004, 2010, Hancké et al 2005) and game theoretic explanations (Avdagic et al 2011) by identifying the actors who inhibit historically evolved corporatist structures and the interests they seek to pursue through them (Baccaro & Howell, 2011, Thelen, 2012). Hence, to analyse the trajectory of change underpinning European industrial relations requires a political analysis that focuses on organised interests, elite networks and power relations. This is precisely what the political coalitionist turn in the study of varieties of capitalism attempts to do.

Table 2.2: Modes of Economic Governance in European Industrial Relations

	Classical Corporatism	Competitive Corporatism				State Neoliberalism
Function	Instrumental	Instrumental		Expressive		Instrumental and Expressive
		Pact/ Consultation	Consultation	Pacts/ Consultation	Consultation	
Relation	Generalized political exchange	Incomes	Welfare reform/adjustment	Incomes	Welfare reform/adjustment	Lobbying
Economic Context	Keynesianism	Monetarism				
Markets	Quasi-closed economy	Open economy				
Political legitimation	Party competition around welfare state	Party competition around PR strategies				
Government partisanship	Leftist/social democracy	None		Social democrats/nationalist		Neoliberal
Bargaining structure	Centralised	Extensive coverage and inclusive coordinated by the peak level	Extensive bargaining coverage Inclusive coordinated by exposed sector pattern bargaining	Exclusive – single employer	Exclusive – single employer	Exclusive – single employer
Time Period	1950s-late 1970's	1980s' onwards		Post-communist transformation		1980's onward
Countries		Ireland (without the extensive coverage) and Finland	Nordic and Alpine Europe	Eastern and Central Europe		UK

Table 2.2 is an adapted typology from Traxler (2010b), and premised on the structured relationship between organised interests and the state in European industrial relations. It illustrates that liberalisation does not lead to convergence in institutional form. That is, we are not witnessing a convergence toward deregulated neoliberal industrial relations regimes akin to what occurred in the UK and USA. On the contrary, diverse regimes of collective bargaining lead domestic political actors to embed diverse strategies of economic governance premised on distinct political coalitions. All European countries have experienced a shift toward market liberalisation and an increase in organised business power. These factors are constant across time and space. But their impact is conditioned by historically evolved national employment and welfare institutional regimes. In the Netherlands, Sweden and Denmark the outcome has been a form of flexicurity whilst in Germany it has resulted in a dualised labour market. In Ireland, social partnership led to a political coalition between the unionised sectors of the economy and a pragmatic Fianna Fáil government; the Irish third way.

Our argument, therefore, is that a historical decline in the institutionalised strength of labour and the ascendancy of business power has led to *distinct* trajectories of liberalisation across diverse regimes European industrial relations. It is against this transformative background of

neoliberalisation that one must examine the role of the state and class dynamics underpinning contemporary variants of social partnership in Europe. A transformation of capitalism perspective, that takes the role of the state in industrial relations seriously, provides the necessary political framework to explain why Ireland went from being one of the least to one of the most corporatist countries in Europe (see table 2.3), as will be illustrated in the empirical case study.

8. Conclusion

This chapter attempted to explain the renaissance of corporatist policy making in Europe by establishing a debate between those who analyse social partnership as a mode of adjustment (MEA); premised on game theoretic models of power relations, and those who analyse social partnership as a mode of economic governance (MEG); premised on historical institutional models of power relations. It illustrated the European cross country trend toward government led tripartism in the context of a simultaneous decline in the organisational power resources of labour; trade union density, centralized wage bargaining, collective bargaining coverage and coordinated wage setting. This power distributional framework makes explicit the underlying politics of distribution in capitalist regimes by tracing various forms of labour market governance to a conflictual relationship between organised interests with unequal market bargaining power (ToC) rather than rational actors seeking efficient solutions to problems of economic coordination (VoC). Given the decline in the institutionalised power resources of European trade unions we argued that to explain new variants of centralised wage bargaining we have to examine the strategic interest of the *state* and new market conforming processes of *political exchange*.

The rational choice literature on new social pacts explains actor strategy on the basis of weak electoral governments or technocratic problem solving. Both are important but fail to appreciate the politics of social partnership as a mode of economic governance under an increasingly neoliberal oriented industrial relations regime. The renaissance of social partnership, to use the apt phrase of Pierson and Hacker (2011), is an indication that politics is more than an electoral spectacle but a process of organised combat between interest groups with unequal market bargaining power. This is central to our power distributional framework which traces actor strategies to historically specific political coalitions, class politics and elite networks rather than abstract game theoretic models of Nash equilibrium. We will now briefly defend the use of single country case studies and comparative historical analysis in the study of political economy before examining the rise and fall of social partnership in the Irish case study (chapters 4-7).

Table 2.3 Corporatism Index: Country Scores and Rankings

Country	1974-1989	Country	1990-2005	Country	Change in Ranking	Country	Change in Score
Belgium	2.56	Ireland	3.76	Ireland	10	Ireland	2.44
Sweden	2.04	Belgium	2.89	Italy	7	Italy	0.85
Norway	2.03	Norway	2.82	Germany	2	Norway	0.79
Austria	2.00	Finland	2.70	France	2	Finland	0.72
Finland	1.98	Italy	1.90	Finland	1	Belgium	0.32
Spain	1.90	Austria	1.84	Netherlands	1	Netherlands	0.26
Denmark	1.56	Netherlands	1.79	Canada	1	Germany	0.19
Netherlands	1.53	Germany	1.69	Norway	0	France	0.01
Australia	1.52	Denmark	1.22	US	0	US	0.00
Germany	1.50	Spain	1.13	Belgium	-1	Austria	-0.16
Ireland	1.32	Sweden	1.13	Austria	-2	Denmark	-0.34
Italy	1.05	France	0.56	Denmark	-2	Canada	-0.38
UK	0.68	Australia	0.48	UK	-2	UK	-0.68
France	0.55	Canada	0.00	Spain	-4	Spain	-0.78
Canada	0.38	UK	0.00	Australia	-4	Sweden	-0.92
US	0.00	US	0.00	Sweden	-9	Australia	-1.03

Source: Kenworthy (2003), Bacarro (2011)

Chapter 3

A Methodological Defence of Single Country Case Studies

Comparative Historical Social Science

1. Introduction

This chapter outlines the epistemological and ontological foundation of our research project. It provides a methodological defence of single country case studies whilst outlining the benefits and constraints of adopting a comparative historical analysis in the study of political economy. The structure of the chapter is as follows; firstly we will distinguish configurational case study from statistical research design. Secondly we will identify Ireland as a critical case in the study of comparative political economy. We will then argue that there are two methodological strategies to generate causal inference in a historical single country case: process tracing and comparative qualitative analysis. After detailing the logical underpinning of these two methods we will argue in favour of political process tracing in single country case studies as it allows us to identify agency and temporal sequence. The causal mechanisms underpinning the origins of an institutional regime are not the same as those that facilitate their development or collapse over time. In recognition of this we select temporal sequences as the optimal means to diversify the dependent variable. Finally we will outline the mechanisms of data collection adopted during the research; elite interviews, secondary resources, statistical and archival analysis. In conclusion we will ask whether it is possible to generalise from a single country case on Ireland in the study of comparative political economy.

2. Ontology, Research Design and Case Selection

“Concepts of social action are distinguished by how they specify coordination among goal directed actions of different participants – as the interlacing of egocentric calculations of utility, as a socially integrating consensus about norms and values instilled through socialisation or as reaching understanding (*verständigung*) in the sense of cooperative processes of interpretation” (Jürgen Habermas, 1984).

This quote by Jürgen Habermas is a critique of the dominance of functionalist reasoning in the social sciences. Functionalist reasoning is a form of methodological individualism that has its roots in the Cartesian philosophical paradigm: ‘I think therefore I am’. The term itself was coined

by Max Weber (1925) in 'Economy and Society' whereby an individual is subtracted from its social environment into a calculating ego. This abstraction enables a mechanistic conception of the world premised on atomistic subject-object relations. The functionalist conception of reason was further embedded in the social sciences by advances in evolutionary theory associated with Charles Darwin and the psychology of consciousness associated with Sigmund Freud (1923). Societies, it was argued, advance through self-preservation and functional adaptation. This is a secular form of rational design and central to contemporary economics and psychology. Human action is reduced to homo economicus (Streeck, 2010). That is, all action is premised on the self-seeking pursuit of material gain, particularly the accumulation of personal wealth. Rationality is timeless and universal.

In practice few scholars would accept this 'rootless rationalism' and even economists appreciate the historical and social constitution of human action. Its dominance persists less for its ontological realism but its methodological utility. If one assumes all human action can be reduced to rational calculation then it is possible to model and predict human activities. This is particularly the case if rational calculators are located in a hypothetical socialised environment of a free market. In competing social science disciplines there has been a greater appreciation of advances in analytic philosophy, linguistics, psychology, biology, ecology and cognitive neuroscience. What these advances illustrate is that nothing operates in isolation. There is no homo-economicus (Streeck, 1997b, 2010b), but competing coalitions of organised collectivities, the most influential being the large multinational firm (as Galbraith illustrated in the 'the New Industrial State', 1965, and Colin Crouch in the 'Strange Non-Death of Neoliberalism, 2011).

Needless to say the behavioural paradigm of rationality has been challenged by a diverse range of sociologists and philosophers from Parsons (1937), Durkheim (1893), Marx (1867), Quine (1969), Davidson (1963) and Habermas (1972, 1987). Habermas, in particular, argued that the concept of human rationality matters less for abstract philosophical reasoning but because it impacts upon how we understand social action. His argument is that we need a theory of social action that goes beyond a reduction of human intentionality to rational egotism if we are to understand how the human species constructed the complex societies within which they live. Isolated actor models cannot explain the mechanisms for coordinating action that make possible institutionalisation and social order. It is simply not possible for societies to maintain stability if it is reduced to market exchange. Hence rationality cannot be reduced to a singular functionalist assumption of mechanistic calculation. Strategic calculation and its embodiment in the rational choice theory of markets are but one form of rationality. It is a highly stylised form of rationality (consider the oft used 'bounded' pre-fix when used in the study of political science).

Habermas, similar to Aristotle in the *Nicomachean Ethics*, argues that rationality is both instrumental and communicative. Purposive action, that includes communicative rationality, is oriented around the teleological pursuit of reaching understanding, solving problems and social

integration. The instrumental sub-systems of state administration and market economies are a product of societies integrated through communicative rationality. The market is premised on a functional rationality but requires a democratic foundation of trust and social cohesion if it is to remain legitimate. In this regard, democratic institutions evolve through the communicative capacity of actors for social coordination not the rational calculation of isolated egos maximising their utility in a variety of non-cooperative games. However, what Habermas fails to appreciate is the continued relevance of institutionalised power relations between labour and capital in the constitution of historically evolved social structures. Politics always involves a conflict of interest.

The relationship between how we conceptualise rationality and purposive action is particularly important in the study of comparative political economy because it structures the framework through which we analyse industrial relations, economic and political institutions. It matters a great deal if we think corporatism (as an institution of the state to embed capitalist stability) is a result of rational-institutional design in the interest of technical efficiency or a political-strategic compromise premised on power relations. It also matters a great deal if we take the preference of actors as endogenous and malleable to institutional context or fixed in accordance with deductive assumptions of rent seeking behaviour. This latter assumption guides the model of neo-classical economics. Its greatest analytic contribution to social science is recognition that intentional human action underpins all social structures. The problem, as argued in chapter 1, is that it ignores the configuration of class interests and the complex historical process of strategic preference formation.

Our theoretical framework is premised on a critical realism (Davidson, 1994) which conceptualises rationality as multi-dimensional. This moves beyond a functionalist paradigm of economic equilibrium by focusing on communicative and instrumental rationality in historical time. Capitalist relations involve actors who constitute and are in turn constituted by institutions of the market. It is about politics and therefore it is about settling distributional questions of economic growth and democratic questions of legitimacy. The state needs the communicative input of civil society and social partnership is a mechanism to do this in a context of post-parliamentary capitalist politics (Crouch, 2004). Hence, our ontological assumptions are premised on an actor-centred historical political reading of economic institutions (Hall, 2003). But how do we align this ontology with a specific methodology aimed at causal inference in a single country case study (King et al 1994)?

Statistical and configurational case study research design

There are two types of research design in comparative political economy; statistical and configurational case studies. Both are designed to do very different things and premised on different epistemological assumptions (Mahoney, 2010). Configurational case studies tell us why a

particular outcome or event occurred in a given case. It identifies the configuration of factors that explain a particular outcome. Mahoney et al (2010) call this the causes of effect approach. Statistical studies tell us the average effect of an independent variable across diverse cases. It identifies and isolates a set of independent variables to explain a dependent variable. This can be called the effect of causes approach (Gerring, George & Bennett, Mahoney 2010). It is an inquiry into the cause of a given effect. For example, statistical oriented research designs are usually interested in explaining the effect of centralised wage bargaining as an institution on economic growth. Institutions are the independent not the dependent variable. This reflects the VoC School of analysis in comparative political economy which lends itself to a methodological strategy that analyses 'snapshots in time' rather than 'moving pictures over time' (Pierson, 2004). Holding complex historical processes constant facilitates the establishment of timeless deductive hypotheses to be tested across cases regardless of institutional context.

In a configurational case study research design more attention is paid to institutional origins, continuity and change. Institutions are the dependent variable and the researcher analyses the case as a whole to assess how political and historical factors interact in contingent ways to shape a given outcome (Rueschemeyer and Stephens, 1997). In this regard it is explicitly concerned with identifying temporal sequence and agency. This distinction between a 'causes of effect' and 'effect of causes' approach overcomes some of the futile methodological disputes in political science. More often than not researchers coming from a historical case study tradition are not interested in the same ontological phenomena as those coming from a quantitative variable oriented research tradition. This leads scholars to have very different epistemological assumptions as to what constitutes knowledge, truth and causality. Extreme quantitative scholars assume the truth is out there waiting to be positively discovered. Extreme qualitative scholars are prepared to deconstruct and reconstruct any sequence of events regardless of patterned regularities. Most comparative scholars sit somewhere in between this broad spectrum and primarily interested in probing the relationship between theory and empirical evidence.

These research traditions are usually described as qualitative or quantitative. But the renaissance and refinement of methodological tools across the political and social sciences has made such categories less and less useful. Statistical researchers have developed a myriad amount of sophisticated technical tools to measure, refine and quantify social phenomena. Comparative historical social scientists using case study methods have done likewise. The new qualitative tradition is increasingly focused on how to design social inquiry (Brady, Henry and Collier, 2004) and most debates revolve around which methodological tools best maximise *causal inference*. This is what we are primarily interested in.

In the political and social sciences there is a growing appreciation that the norms of statistical linear regression, whilst providing a powerful tool to identify correlations at a specific point in time, rarely, if ever, provide the tools to identify causal inference. Furthermore, there is a

growing appreciation that the attempt to generate deductive hypothesis that are timeless and universal not only leads to dubious social science (as Kant was oft to remind when us when examining the politics of human affairs - man is cut from crooked timber) but poor public policy decisions. This is particularly the case in the economics profession where the use of logical and hypothetical markets premised on a highly stylised assumption of rational human behaviour is increasingly called into question. Given that case study methodologies are explicitly concerned with how to identify context specific sequential processes underpinning cause-effect relations, they are well placed to take advantage of this turn away from the economic paradigm that has dominated contemporary social science for the past thirty years.

The best statistical research in comparative political economy is supplemented with case study methods to unpack the precise causal mechanisms that underpin the historical formation of complex social phenomena. Building upon an existing body of scholarship (Baccaro 2008, Kelly 2007 and Visser, 2009) this is precisely what we attempted to do in chapter two. We used existing statistical datasets to establish a comparative context for our historical case study analysis. But within the new qualitative methodological tradition there are two types of research design aimed at leveraging the capacity for causal inference: cross-case analysis and within-case analysis (Mahoney, 2004). Cross-case analyses are usually associated with a research tradition that mirrors the norms of linear regression. Within case analysis are more closely related to comparative historical social science (Mahoney & Rueschemeyer, 2003). It is this latter tradition of social science that we draw upon in designing our single country case study (see section 4). This tradition is less concerned with timeless deductive hypothesis testing but intensive case analysis and theoretically informed inquiry aimed at identifying necessary and sufficient conditions.

We will now defend our country selection (Ireland) before illustrating the difference between Boolean algebraic and process tracing methods in the study of a single country case study.

Country selection

Single country case studies do not just generate hypothesis but test theoretic propositions and offer persuasive causal explanations by examining the process of change over time (Rueschemeyer, 2003). But if we pre-select the country under examination to test our theoretical propositions have we not violated the golden rule of statistical regression i.e. pre-selection on the dependent variable? In statistical studies and cross-case analyses this rule is important as the research is designed to assess the effect of a given set of independent variables on the basis of a clearly defined hypothesis. Using Mills logic of difference and logic of similarity a set of criteria are established to avoid a biased pre-selection of the dependent variable to validate a deductively established theory. This case selection rule simply does not apply for *within* case analysis. In this

research design countries are selected precisely because the researcher wants to test competing explanations for a given outcome in the country under question. The purpose is to ‘think inside the box’ Gerring (2008) and unpack the underlying causal mechanism of a specified case.

We are primarily interested in explaining the sequence of events that led the formation, development and collapse of centralised wage bargaining in Ireland. The more important question is why existing interpretations do not provide sufficient explanations. Ireland is an exception in the comparative political economy and social pact literature. It is the only European country to re-centralise wage bargaining during the neoliberal era. This is despite the fact that it is classified as a liberal market economy lacking the supposed pre-conditions considered necessary for corporatist political exchange. Yet it was the *only* country in the European industrial relations literature to adopt a regular and routinized form of social partnership over the past twenty years; moving from a liberal to a more coordinated form of industrial relations. Furthermore, Ireland experienced exceptional economic growth rates from the mid 1990’s (the ‘Celtic Tiger’ period). With the highest economic growth rates in the OECD it went from being one of the poorest to one of the richest regions in Europe. During 2008-2010 it experienced the largest economic collapse in the OECD. Therefore it provides an interesting test case to assess the impact of boom-bust cycles on centralised institutions of wage setting.

The capacity to generalise from a single country case is undoubtedly limited (see conclusion). But given our historical institutional focus we are not primarily concerned with generalisation. We are interested in explaining the Irish case on its own terms (i.e. not assessing it on the basis of what it is not: a coordinated market economy or a UK style neoliberal economy) and drawing lessons from this specific case for the broader study of comparative political economy. One of these lessons is the central role of the state in patterning the politics of industrial relations. The second is the willingness of trade unions to engage in a market conforming exchange premised on an increase in private disposable income (via tax cuts) rather than collective investment in public consumption goods. Finally it illustrates the limitations of functional economic accounts that trace institutions to their performance effects. We show that the actors were more concerned with nurturing a national political coalition aimed at minimising distributional conflict than generating the technical-efficient coordination of wage policy in the interest of EMU induced national competitiveness.

It is worth stating that throughout the course of this research project we have presented our analysis at conferences in Washington, Berlin, Jerusalem, Geneva, Madrid, Dublin, Amsterdam and London. During every presentation the same three questions emerged; is Ireland a liberal market economy or not? Did twenty years of centralised wage bargaining make any difference to Ireland’s liberal oriented political economy? Why did it all fall apart? This convinced us that adopting an intensive historic-empirical analysis on the rise and fall of Irish social partnership (that takes both process and structure seriously) would make a larger theoretical contribution to

the literature than engaging in a less in-depth cross-case analysis with three or four countries. Ireland is a challenging and critical case that provides important insights into the politics of industrial relations in the neoliberal era. It does not refute the VoC theory but it certainly problematises some of its core assumptions, particularly the hybrid nature of state-economy relations in European varieties of capitalism (Crouch, 2005, Crouch & Streeck, 1997).

3. Causal Inference in Case Studies; Boolean Algebra and Process Tracing

“Process tracing is fundamentally different from statistical analysis because it focuses on sequential processes within a particular historical case, not on correlations of data across cases” (George & Bennett, 2004, P13)

In depth case studies as opposed to large statistical studies offer distinct inferential advantages (George and Bennett, 2005). In a single country case study there are two methodological tools to generate causal inference; Boolean algebra or qualitative comparative analysis (QCA) and mechanism/process tracing analysis. We will outline the advantages and constraints of both these approaches before defending the use of process tracing in a single country diachronic case study:

Boolean algebra

Most political and social scientists either implicitly or explicitly draw causal inferences from the norms of logic not regression (Mahoney, 2010). This is particularly obvious to anyone with a philosophy of science undergraduate training. As stated in section one; the norms of statistical regression attempt to isolate the average effect of an independent variable (effects of causes approach) on a dependent variable. It is a relationship that aims to establish some capacity for prediction and forecasting. This is quite different from inductive and deductive logic. In this type of formal reasoning the analysis proceeds along the lines of *if p then q* or *if and only if p then q*. Logical reasoning is explicitly concerned with identifying the necessary and sufficient conditions under which a certain outcome is produced (Ragin, 1987, 2000). Hence, it is closer to the grammatical underpinnings of formal language and how we observe causality in day to day events. Furthermore it is central to the mathematical computation that underpins computer science and contemporary neuroscience.

An examination of the early and late work of Ludwig Wittgenstein can help us observe the difference between regression and logical norms of causal inference. In his *Magnus Opus*, the *Tractatus Logico-Philosophicus* (1921), Wittgenstein set out to prove a logical correspondence or picture theory of truth. The purpose of this book was to establish the limitations of scientific discourse. The conclusion was that the world is a totality of facts and that “which one cannot

speak of (i.e. establish as a fact) one must remain silent”. It is a positivistic account of the social world that encourages philosophy to mirror the natural sciences. The entire treatise is written in a series of self-evident statements of fact. In a later book, *Philosophical Investigations* (1953), Wittgenstein refuted the *Tractatus*. This revision is based on a family resemblance not a direct correspondence theory of truth. Language and truth in this revision are not a logical reflection of the world but context specific to a whole variety of language games with their own rules and taken for granted meanings. People follow the rules of the game but these are not directly observable in the world.

The use of logic has become increasingly influential in the study of comparative politics. This is captured by the use of Boolean algebra which evolved out of the family resemblance theory of truth. Causal inference in this tradition is about identifying the configuration of necessary and/or sufficient conditions under which an outcome can be observed (Mahoney, 2010). These conditions are based on logical truth tables and formalised in a method called fuzzy set Qualitative Comparative Analysis (QCA). All causal factors and outcomes are coded from 0 to 1. This method is not without its problem. An example from the social pact literature will illustrate this. Avdagic (2010), using fuzzy set QCA identified ‘weak government’ as the shared factor across all countries who adopted social pacts as a response to different economic problems. It was the factor closest to the coding of ‘1’ in the QCA dataset. However, as argued in chapter 2, weak government is a description of an electoral system based on proportional representation. This tells us nothing about the politics of social pacting. It makes logical sense to code ‘weak government’ as a variable but when analysed empirically it is shown to be a relatively futile concept. Hence, the QCA method needs to be supplemented, much like statistical research, with in-depth case study analysis if it is to empirically unpack causal mechanisms.

The problem with Boolean algebra is that it attempts to mirror the norms of statistical regression. The limitations of fuzzy set theoretic approaches be traced (and often overlooked in the new qualitative political and social science literature) to the fact that the process of inferential logic is not an empirical science. Most philosophy graduates will know that if you take a set of assumptions (i.e. the earth is flat or individuals are self-seeking maximisers) it is possible to build either a logically valid argument or a mathematically sound model. But this does not mean they are empirical true. Hence many of the problems associated with QCA are similar to the use econometric models in statistics. Both are powerful tools (see Baccaro et al 2008, 2010 for an innovative application in labour market studies) but neither is based on theoretically informed historical analysis. It is for this reason that we chose not to use QCA in our study. But we do rely on the implicit logic of necessary and sufficient conditions when identifying the factors that led to the origins, development and collapse of centralised wage bargaining in the Irish case.

QCA is useful for cross-case comparisons at a single point in time whereas process tracing lends itself to comparisons over time. This brings us back to the importance of historical time in the selection of our methodology. We adopt process tracing analysis because it complements the historical institutionalist framework in the study of comparative politics, as outlined in chapters 1 and 2. It provides the tools to identify both necessary and sufficient causes within temporal sequences. It is primarily concerned with identifying the causal mechanism through which an outcome is produced (Tilly, 2001, 2006). This is because it is specifically interested in the interactive effect between agency and structure in a clearly defined temporal process. The task is to trace a political process and logically reconstruct it into a causal mechanism that may or may not lead to a generative theory to be tested across cases.

Reconstructing causal mechanisms does not mean that researchers in this tradition consider social phenomena in Newtonian mechanistic terms (Gerring, 2001, 2008). On the contrary, it is a generative mechanism that must be distinguished from covariational approaches to causation associated with logical positivism and the early Wittgenstein. Causal mechanisms are unobservable (Mayntz, 2004). They have to be conjectured by the researcher. This begs an important question – what data and empirical evidence supports the creation of an unobservable causal mechanism? The data established in process tracing can be distinguished from data used for statistical regression. Mahoney (2010) and Brady, Collier and Seawright (2004) describe this as a difference between dataset observations (DSOs) and causal process observations (CPOs). A CPO is “an insight or piece of data that provides information about context, process or mechanism, and contributes distinctive leverage in causal inference” (Brady 2004 p23). Hence a CPO reflects in-depth data collected on a particular case and generally used for the purpose of theory development.

For Mahoney (2010), process tracing contributes to causal inference through the discovery of CPOs. But this type of data does not lend itself to insertion into rectangular datasets or fuzzy set truth tables. For example, during our research project we spent a lot of time in the Prime Ministers Department. Formal and informal discussions led us to the realisation that social partnership was an indispensable part of the day to day activities of administrative staff in this office. This involved nurturing, monitoring, brokering and sustaining the political coalition underpinning social partnership. We began to realise that the political executive of the state really was the unofficial ‘Ministry of Social Partnership’. In turn this led us to examine the historical sequence of events surrounding the origins and coordinating role of state managers. It brought us to the theoretical conclusion that the core condition in the construction of centralised wage bargaining was a strong executive not a weak government. Therefore we excluded this latter factor as an explanation.

The emphasis on historical time underpinning process tracing fits our preference for adopting a comparative historical social science investigation. It draws attention to the observation that institutions such as social partnership are not simply a series of isolated wage agreements but a broader institutional regime aimed at labour market governance and political stability. But the process of social partnership as a mode of economic governance cannot be directly observed in the world even if it is empirically real.

We diversified the dependent variable (explaining the institutional origins, development and demise of centralised wage agreements) by unpacking the process into four different time periods (see section 4). The absence of cross country comparative variation is compensated by temporal variation. Therefore we are not reliant on counter-factual analysis. The process tracer is akin to a criminal detective turning up after the event searching for traces to logically reconstruct the crime scene (Mahoney 2010). Time, sequencing and agency are central. It is this temporal sequencing in the process of institutional change and continuity that we will now turn our attention toward. Subsequent to this we will explain our strategies of data collection.

4. Temporal Sequence in the Process of Institutional Change and Continuity

A comparative historical analysis differs from game theoretic models by tracing the construction of an institutional regime *over* time. There are three main rationales for adopting a diachronic analysis; social patterns once formed tend to persist (Rueschemeyer & Stephens 1997). What we observe in the present is an outcome of a historical process. The variation in liberal, conservative and egalitarian varieties of capitalism can be traced to a configuration of endogenous and country specific political conditions that have deep roots. Furthermore the timing and sequence of causal conditions have a significant impact on present day social outcomes i.e. the use of US investment to reconstruct Europe after the Second World War facilitated a period of strong economic growth that made possible the contemporary welfare state. This temporal dimension of social processes can only be addressed by adopting a small N research design that is sensitive to historical context (Rueschemeyer et al 1997).

Single country case studies can draw upon the analytic tools of historical institutionalism; temporal sequence, agency, drift, exhaustion and path dependence in explaining institutional change. In each chapter of our empirical case study (4-7) we unpack the sequence of events and causal factors leading toward a specified outcome; origins, development and demise of centralised wage bargaining as an institution. Through this inductive process we identified the importance of path dependence in shaping actor strategies. As argued by Pierson (2000), once actors choose a particular path they don't change course easily. Contingent choices made at a particular point in time (i.e. choosing a specific research topic for a PhD) culminate into a self-reinforcing process whereby to change path would require 'starting all over again'. Game-theoretic modes of inquiry

aimed at optimality, perfect competition or equilibrium will find it difficult to adequately explain these slow moving, structural and incremental processes.

But to understand continuity and change underpinning path dependence one must trace it to purposive human action. The dynamic relationship between structure and agency is configurative not linear. Few political economists would doubt this ontological observation. It is for methodological reasons they will either ignore or hold constant the impact of historically evolved institutions on country specific power relations. Institutions are difficult to accommodate in timeless linear regression models (Baccaro & Rei, 2007) that assume ergodic systems that are stable over time. But rational choice theorists and statistical methodologists are absolutely correct when they emphasise that the formation of macro processes must be traced to micro conditions. It is for this reason that we trace continuity and change to the strategic relationship between trade unions, employer associations and the state in real-historical as opposed to logical time.

We do not use a formal game theoretic analysis but adopt a relatively fixed analytic frame to organise the empirical inquiry in the case study. Each time period (reflecting each chapter) is organised around five factors. Firstly, there is a discussion of the collective action problem facing the actors in the context of European integration. Secondly, we analyse the endogenous institutional and political context framing actor strategies. Thirdly, we analyse the underlying political exchange governing the national wage agreement. Finally, we assess the effect of centralised wage bargaining on the underlying political coalition of social partnership. The configurative interaction of these factors is how we logically reconstruct the underlying causal mechanism behind the rise and fall of Irish social partnership. We approach it as a social system that is complex, structured and transformable.

Any adequate interpretation of a causal process requires a theory. This is where we return to our power distributional framework outlined in chapters 1 and 2. We argue that social partnership was a strategy of the state to adapt to the constraints and opportunities of a globalised economy. The condition that made this possible was a strong state, a market conforming political exchange and voluntarist structures of collective bargaining. The outcome was a distinct trajectory of liberalisation premised on a non-parliamentary political coalition (the Irish third way) which collapsed in response to the adjustment constraints of the Eurozone crisis.

5. Strategies of Data Collection

The discovery of causal process observations (CPOs) is categorically distinct from the coding of data set observations (DSOs). CPO's are the outcome of an in-depth and theoretically informed analysis of a case study which enhances rather than diminishes our capacity for causal inference. Unlike mathematical models, case study researchers have to get into the case and engage in an intensive historical investigation in formulating CPOs. The researcher is actively constructing

data through interviews and archival research. This generates new causal process observations (CPO) that turn out to be important or not. What distinguishes this type of research from investigative journalism is the attempt to establish causal inference. We will now briefly outline the benefits and constraints of our data collection method; elite interviews, archival research and statistical sources:

Elite interviews

Data collection on a political process that takes place behind closed doors is no easy task (Afonso, 2011). We primarily relied upon semi-structured elite interviews. In preparation for these interviews and in the formulation of our questions we used two sources; official documents such as national partnership agreements, NESC strategy reports, parliamentary debates, ICTU conference reports and newspaper records. For our newspaper records we mainly relied upon the Irish Times and Industrial Relations News (the latter was only used for chapters 6/7). We also engaged with the academic literature when formulating the issues to be prioritised in our interview questions.

We conducted 40 formal interviews between September 2009 and February 2011. The interview questions were formulated around trying to understand the conditions that led actors to pursue particular strategies in each time period; origins, development, and collapse. Interviewees were conducted with existing and previous state managers in the Department of the Taoiseach, Department of Finance, Department of Enterprise, Trade and Employment, the Department of Social Protection, previous Taoisigh, IBEC officials and government ministers. In addition we interviewed previous and existing general secretaries of ICTU, SIPTU, IMPACT, CPSU, INMO, PESU and representatives of the LRC and the Community and Voluntary Pillar.

In total we recorded over 80 hours of tape. On average the interviews lasted 1 hour 40 minutes. But some interviews were in excess of 2.5 hours. With the exception of two interviews all were digitally recorded and manually transcribed. In some instances we returned to the interviewees with specific questions based on the initial interview. We also held substantial informal discussions with political representatives, academics and journalists involved in the process. To get a sense of the political preference of trade union members we organised a voxpop questionnaire at a political demonstration in the build-up to the failed negotiations in 2009 (see chapter 7). We randomly selected 40 participants and recorded their response to a fixed questionnaire with 20 questions. The findings are not directly used in the empirical analysis but gave us an important insight into the political preference of those on the demonstration: 90 percent supported social partnership, 85 percent were public sector workers and 60 percent voted for Fianna Fáil in the previous general election.

Archival research

The process of interviewing is more art than science. To ensure the validity of our CPOs we triangulated our method with other sources of data; archives and statistical sources. We established a formal structure to align the main CPOs from our interviews with observations from newspaper reports. All significant observations were coded into a table organised around the formal analytic structure of the case study chapters. Broadly speaking we were trying to logically reconstruct actor strategies and the nature of the bargain underpinning the centralised wage agreements in each time period. Certain patterns emerged such as the role of the Central Review Committee (CRC) in the origins of social partnership, the Maastricht criteria in the development of social partnership and the conflict of interest amongst the social partners after EU enlargement.

The importance of the CRC was identified in interviews with retired civil servants in the origins of social partnership but we could not find further information about this committee in official documents or newspaper reports. The CRC was the executive wing of social partnership that monitored the implementation of the national wage agreement and reported directly to the Prime Minister. To validate our observation that this was a core factor in consolidating social partnership we were granted access to the archives in the Prime Minister's office. It was reading the minutes of the CRC meetings that led us to the conclusion that access to political power was the real glue that consolidated social partnership in the early to mid-1990s not the negotiation of pay. Discussions at CRC meetings rarely reflected the content of the negotiated social pact. They were almost entirely focused on how to use EU structural adjustment funds for public investment. Archival research in this regard is an invaluable strategy to generate and validate CPOs.

Statistical sources

In chapter two we provided a cross-country comparative context to our empirical case study. This relied upon a large dataset; the Institutional Characteristics of Trade Unions, Wages Setting and Social Pacts (ICTWSS), hosted at the Amsterdam Institute for Advanced Labour Studies (AIAS) where I have been a guest researcher and employee since September 2011. This dataset gave us invaluable information on the trends, patterns, regularities and variation across European industrial relations systems.

In assessing the macroeconomic, labour market and employment performance of Ireland we use a variety of descriptive statistics from the Irish Central Statistics Office (CSO, 2008a, 2008b, 2009, 2010), the Irish Central Bank, the National Economic and Social Council (NESC), the Department of Finance, the Department of Social Protection Statistical Annex, Forfás, the

Organisation for Economic Co-operation and Development (OECD), the International Labour Organisation (ILO), Eurostat and the EU Commission. The purpose of these descriptive statistics is to illustrate core trends and the interactive effect of centralised wage bargaining on the economic and employment performance.

None of the empirical data from our case study, when assessed in isolation, can lead to causal inference or theoretical innovation. This, as noted by Thomas Kuhn (1962), ultimately requires an unobservable spark of creativity or a fleeting moment of conceptual clarity. We relished these rare moments in the course of writing the dissertation. But for the most part, much like the real empirical world, it was a messy, uncertain and iterative process.

6. Conclusion

We conjectured the following causal mechanism to explain the rise and fall of Irish social partnership; a crisis in the late 1980's induced trade unions and government to change strategy. This was made possible by a strong state willing to share political power. The positive feedback of strong economic and employment performance embedded a political coalition premised on low taxes. This generated a distinct market conforming political exchange that was necessary for a centralised wage agreement but not sufficient on its own to institutionalise social partnership. The process of institutionalisation can be traced to elite networks feeding into the political executive of the state. When this coalition broke apart in response to the Eurozone crisis the institution collapsed. Therefore the underlying condition that explains the rise and fall of social partnership was a strong state and a weakened trade union movement. The outcome was a business friendly political coalition; the Irish third way.

But is it possible to generalise from the Irish case?

Our research objective was to establish the causal process behind the historically specific formation of a political coalition that led to a liberal variant of corporatism in a region of Europe. The capacity to generalise from this case is a secondary concern. But our empirical case does speak to three larger questions in the study of comparative capitalism. It illustrates the role of the state and historically evolved structures of collective bargaining in patterning the politics of industrial relations in the neoliberal era, a shift in the function of corporatist political exchange and the effect of the Eurozone crisis on national institutions of labour relations. Furthermore it is a robust defence of a historical and institutional approach to comparative political economic research. Actor strategies are not traced to hypothetical rational choice models aimed at equilibrium but power relations and class politics in real historical time. These issues and debates are of interest to all comparative political scholars.

To conclude and in response to the question posed in the introduction: we align our historical political ontological framework with a process tracing case study methodology aimed at identifying necessary and sufficient conditions in comparative temporal sequences. Different methodological tools reflect diverse ontological and epistemological assumptions. In recognition of this we favour an approach that respects methodological diversity. Building on the tradition of critical realism (as opposed to positivism and post-structuralism) we maintain that the purpose of social science is to uncover causal structures. But we also maintain that “empirical events are only a surface manifestation of real underlying causal forces that we cannot directly observe” (Dow, 2001). We will now tell you the causal history behind the rise and fall of Irish social partnership.

Chapter 4

The Emergence of Ireland's 'Corporatist' Political Economy (1987-1992)

The Politics of Negotiated Fiscal Adjustment in a Single European Market

1. Introduction

This chapter will seek to explain the determinant factors behind the origins and re-emergence of centralised wage bargaining in Ireland's political economy from 1987-1992. Building upon the theoretical framework, outlined in chapters one and two, it will argue that social partnership emerged as a developmental strategy by the state to tackle a debt crisis and to generate the conditions for Ireland's integration into the European single market. It increased the strategic capacity of Fianna Fáil to legitimise and generate consensus for fiscal adjustment, institutionalise wage restraint and adopt a labour inclusive employment plan that would distinguish Ireland's political economy from UK neoliberalism. The political objective was to establish industrial relations stability through a process of European style social dialogue. In exchange for this stability the government would provide trade unions with access to the policy making apparatus of the state, a reduction in income tax and active industrial policies to increase employment. Internal democratic ballots within the trade union movement legitimated this strategic shift toward national political exchange with the state. The outcome was a political coalition, between a weakened Irish Congress of Trade Unions (ICTU) and a strong Prime Minister's office, aimed at generating the conditions for a business friendly programme of national development. This coalition was market conforming, rather than social democratic, and would create a 'Faustian' dilemma for Irish trade unions: legitimising a liberal market public policy regime.

The structure of the chapter is as follows; firstly it will outline the historical role played by the Irish state in coordinating industrial relations. Secondly, it will examine the debt, employment and monetary crisis that induced a coordinated response by government to expand a fiscal adjustment into a three year national wage agreement. Thirdly, it will identify the configuration of endogenous political and organisational factors that led to a change in strategy by trade unions and employers. It will then examine the distributional bargain in the national wage-pacts negotiated during 1987-1992. It will conclude by arguing that the shift from national wage agreements into social partnership, as a mode of economic governance, can be traced to an attempt by the state to increase its strategic capacity to manage a small open economy on the

periphery of Europe. The causal mechanism behind this process was the coordinating role of the Prime Ministers Department, state managers granting a weakened trade union movement access to public policy formation and a generalized political exchange premised on income tax reductions. Exogenous constraints and endogenous political dynamics induced the actors to begin a Sisyphean process of moving from an Anglo-Irish to a Euro-Irish industrial relations regime and a pluralist to a corporatist political democracy.

2. The Historical Role of the State in Irish Labour Relations

Since the foundation of the Irish state, successive governments have sought to coordinate the behaviour of trade unions and employers to improve macroeconomic performance. This can be conceptualised as a gradual process of institutional change and adaptation to a rapidly changing European capitalist economy and polity. State coordination of wage relations coincided with active policies to embed a liberal market regime that were autonomous from the UK. Beginning with the establishment of the Labour court in 1946 and the repeal of the manufacturers act in 1956, the state has attempted to align labour politics with a macro liberal market economy. This labour inclusive strategy coincided with a variety of market expanding industrial policies such as the Exports Profit Tax Relief Scheme (EPTRS) in 1956. This began a path dependent strategy of encouraging foreign direct investment via low corporate taxes (see Barry, 1999, 2011).

During the late 1960's and 1970's the Irish state made simultaneous efforts to embed tripartite national wage agreements akin to European style corporatism. This was a strategy to improve economic performance and generate industrial stability to join the European Economic Community (EEC). Establishing centralised wage agreements was the core functional objective and reflected in a series of national wage rounds and national understandings between employers, trade unions and the state (see Hardiman, 1988, 1992, 2005). It was generally accepted by state managers that Irish trade unions and employers lacked the organizational capacity to establish an embedded form of social partnership. This lack of organization was identified as the causal factor behind the demise of the national wage agreements in 1979, the same year Ireland joined the European Exchange Rate Mechanism (ERM).

The purpose of Irish state involvement in labour relations has always been to establish a national incomes policy to increase competitiveness by ensuring wage restraint in the sheltered sectors of the economy. The absence of a social consensus amongst economic actors on the need to construct a coordinated collective bargaining system akin to other small open European economies was identified by state managers as a core factor in Ireland's developmental problems¹⁴. Establishing an institutional framework to generate consensus on the relationship between wages, competitiveness and export led growth was a central policy recommendation by

¹⁴ Interview with retired general secretary of Taoiseachs Department chair of NESC (1982-1992)

the National Economic and Social Council (NESC), a tripartite economic think tank affiliated to the Prime Ministers department, throughout the 1970's. In 1979 they published a policy paper on why the state needed a national incomes and prices policy to improve economic performance¹⁵. The core argument was that a coordinated political economic strategy, for a small open economy in the ERM, must be premised on a coherent incomes policy. The ability of the state to maximize the opportunities of Europe was premised on its capacity to reduce industrial conflict and generate social cohesion. Only centralised collective bargaining could establish such coordination and it required active state intervention in the labour market. State involvement in industrial relations, as argued in the theoretical framework in chapters 1 and 2, is about governing capitalist relations through economic institutions to establish social stability amongst organised economic interests, primarily as it pertains to the wage relation (Streeck, 1999).

Hence, social partnership as occurred from 1987 did not emerge out of nowhere. There has been a long tradition of the state using wage, tax, industrial and labour market policies to constitute the conditions for a liberal market but labour inclusive regime. Ireland had national wage agreements throughout the 1970s but they were generally considered ineffective because of the ability of trade unions to demand higher wage increases above the national benchmark at firm level. This reflected a long tradition of voluntarism in Irish collective bargaining (Roche, 2003, 2007). Voluntarism was inherited from the UK industrial relations system and generally associated with an adversarial relationship between employers and trade unions. To overcome this zero-sum adversarial relation required widening the policy agenda beyond pay. This could only occur through active state involvement in collective bargaining to align wage policy with fiscal policy. Institutionally, the tripartite tradition goes back to the 1940s and directly associated with Fianna Fáil who for a long period of Irish history regarded themselves as the 'real Irish Labour party'¹⁶ (see Ferriter, 2004). This, in addition to a strong Catholic ideology of promoting subsidiarity, meant corporatism was an evolutionary process rather than a great leap forward. What made it possible in the late 1980's was the new strategic role for the political executive of the state seeking to control wages in the interest of monetary stability.

Up until 1987 all attempts at centralised wage bargaining, in the interest of economic performance, failed. From 1980-1986 Ireland experimented with a complete separation of state-labour relations. During this period of firm level wage bargaining there was little or no interaction between trade unions, employers and the state at national level. This was primarily because Fine Gael, the main coalition partner in the government, was ideologically opposed to corporatist political exchange. Economically, it supported an orthodox liberal market approach to wage coordination and politically it supported classic pluralist assumptions of liberal democracy¹⁷. This was not case in the 1970's under successive Fianna Fáil governments. Hence, whilst an economic

¹⁵ This was rejected by ICTU at their annual conference in 1980.

¹⁶ A quote that is indirectly associated with Sean Lemass, leader of Fianna Fáil and Taoiseach (1959-1966)

¹⁷ Interview with former general secretary, Department of an Taoiseach (see interviewee A2)

crisis acted as a spur in 1987 for a re-evaluation of strategy by the actors, it was a change in government after the 1987 election that led to Ireland's first three year national wage agreement; Programme for National Recovery (PNR). To explain the configuration of endogenous political factors that induced this strategy we must first examine the scale of the exogenous economic crisis confronting the Irish state from 1980-1986.

3. Confronting a Fiscal and Employment Crisis in the European Monetary System

“The IMF were knocking at the door. Change was not an option. It was an imperative”
(Former Chair of NESC and Secretary General to Prime Minister (1982-1993))

During the late 1970's successive Fianna Fáil governments engaged in a series of pro-cyclical fiscal expansions in a context when the economy was already overheating. From 1975-1980 economic growth averaged 4.8 percent per annum and most of this growth occurred in the domestic economy. During this period the government expanded public expenditure. This experiment in reversed Keynesian policies was directly associated with a shift in economic strategy amongst senior Fianna Fáil politicians. This was embodied in a new Economic Planning department, established in 1977 by Charles J Haughey, to generate policies for employment development. The ministry was replaced by the Department of Energy in 1980 and directly associated with the fiscal policies that increased public spending in a context of macroeconomic instability (see O'Gráda and O'Rourke, 1996).

The government were expanding expenditure on social policy but lacked a secure source of revenue, associated with low employment rates, to make this sustainable. A dedicated ministry to social and economic development also conflicted with the Department of Finance which historically dominated economic policy in the Irish state. When the Department of Economic and Social Planning was wound down most of the staff were transferred to the Prime Minister's Office. From here they established a 'socio-economic' unit aimed at strategic economic development. It was from this unit, the Central Review Committee (CRC) and the National Economic and Social Council (NESC) that the strategic thinking for a new type of social partnership would emerge. We will return to this in the following section.

In 1979 Ireland joined the European Exchange Rate Mechanism (ERM) and broke its 150 year relationship with sterling. The rationale for joining the ERM was to generate the conditions for a stable monetary policy and reduce British imported inflation (see Thompson, 1996). However, the policy did not have the desired impact as Ireland's inflation rates soared ahead of the UK. Inflation peaked in 1981 at 20 percent and was the direct result of an inconsistent approach and a de-alignment of fiscal, wage and monetary policies (the same inconsistency would occur after Ireland joined the EMU, see Chapter 6). The attempt to pump prime the economy in the 1970s led to excessive borrowing in international finance markets.

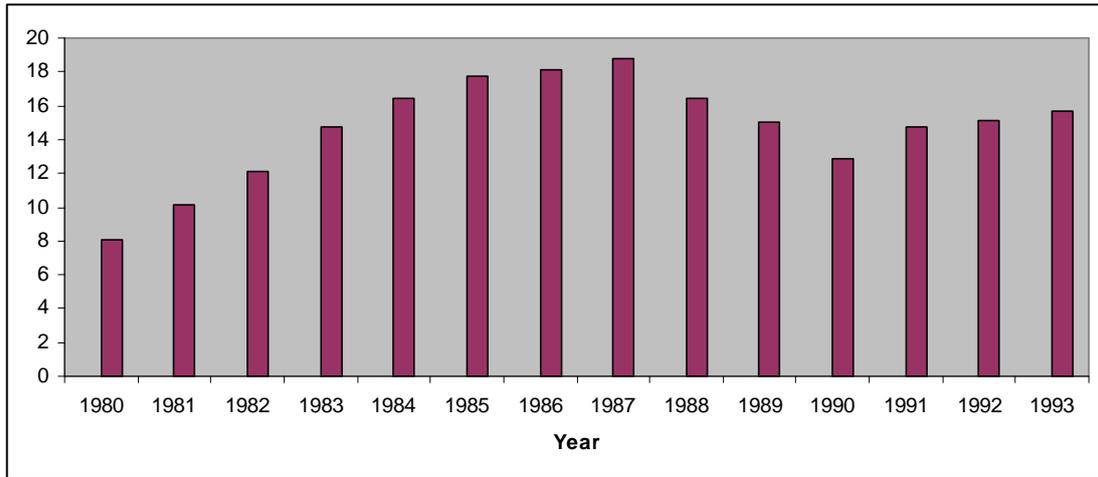
Simultaneously, there was little or no containment of wage pressures in the labour market leading to deterioration in competitiveness. Irish unions adopted an adversarial approach to pay bargaining. A growing number of industrial disputes meant that Ireland topped the OECD league chart for working days lost to strike action¹⁸. This, in addition to the oil crisis, established a public finance, unemployment and debt crisis for the Irish state.

When a newly elected Fine Gael/Labour coalition came into office in 1982 unemployment was 10.2 percent but grew to almost 18 percent by 1986. Between 1980 and 1986 there was a 220 percent increase in unemployment payments and inflation averaged 12.5 percent per annum. The growing number of those on the live register led to an increase in social expenditure from 29 percent of GDP in 1980 to 35.6 percent in 1986. Emigration was soaring with almost 35,000 people per annum leaving during this period (NESC, 1986). The economy continually contracted from 1980-1986 because of the unstable international monetary environment and growing levels of public debt. The total cost of serving national debt (denominated in domestic and foreign currencies) rose from 8.2 percent of GDP in 1980 to 12.9 percent in 1986. To finance expenditure on unemployment and debt repayments the Fine Gael coalition increased income tax. Total tax revenue as a percentage of GNP increased from 29 percent in 1980 to 36.7 percent in 1985. By 1986 those earning the average industrial wage were paying a marginal tax rate of 65.5 percent. The deflationary impact of the tax increases and a contraction in current and capital expenditure reduced national output by over 15 percent.

Given the growing interest rate on debt re-payments and a collapse in national output the debt-GNP ratio soared. By 1986 it had reached 122 percent despite a reduction in the underlying budget deficit (NESC, 1986). Hence, during the late 1970's, when Ireland should have adopted a counter-cyclical fiscal policy it adopted a pro-cyclical fiscal policy. In theory this would have made possible an alternative strategy to deal with the 1980s crisis. Instead, the Fine Gael/Labour government attempted to tax their way out of a recession. But, importantly, this increase in income tax enabled the newly elected Fianna fail government in 1987 to adopt a tax cutting strategy of fiscal expansion. This became central to the new political exchange of Irish social partnership. Figures 4.1, 4.2, and 4.3, illustrate the gravity of the unemployment, debt and economic crisis facing the state during this period.

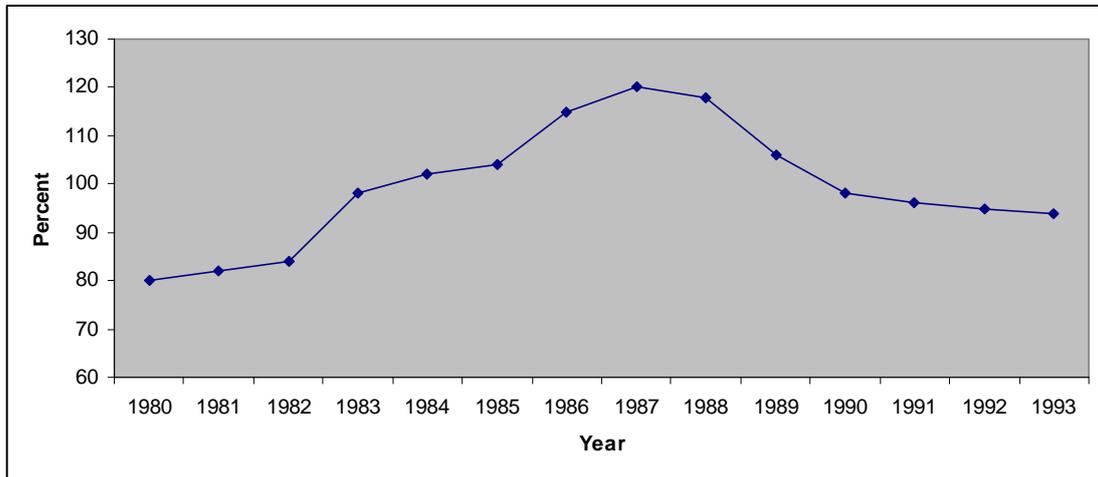
¹⁸ The craft and maintenance strike in 1969 was the bitterest dispute in Irish labour relations since the great lockout in 1918. It created a split in the Irish trade union movement and significantly conditioned the strategic thinking of a newly emergent and more 'technocratic' oriented trade union leadership (see McSharry, 2000).

Figure 4.1: ILO Unemployment Rate as % in Irish Economy 1980-1993



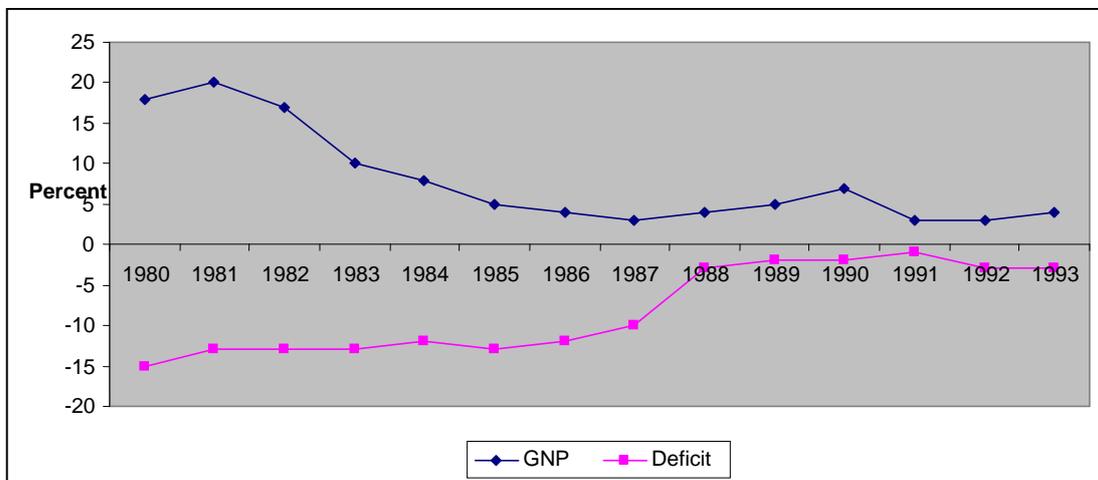
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 4.2: National Debt as % of GDP 1980-1993



Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 4.3: Percentage Change in GNP and Exchequer Balance



Source: Central Statistics Office and Department of Finance Budgetary and Economic Statistics (2011)

The contraction in the domestic economy from 1980-1986 led to a significant increase in unemployment. The absence of sustainable aggregate demand in Ireland's domestic economy has long been identified as a source of instability in Ireland's industrial development. The direct cause of this is a long history of emigration (Mjoset, 1992). During 1980-1986 the export economy, contrary to what one might expect, was relatively unaffected. In fact, despite a decline in domestic manufacturing, overall net exports from 1975-1985 remained stable (the same applies to the 2008-2010 recession, see Chapter 6). Overall industrial output declined but this was primarily due to a decrease in construction. The employment and public finance crisis was directly attributable to a collapse in domestic demand (NESC, 1986).

In this regard, Ireland's economic crisis was less a problem of tackling the budget deficit but generating the conditions for economic growth. Low growth in the domestic economy and its subsequent impact on employment in the context of an unstable European monetary regime were the main crisis facing the Irish state¹⁹. In turn, the main obstacle to growth was the high domestic interest rates being paid to finance foreign debt. During 1980-1986 exchequer borrowing decreased. But the cost of servicing the debt increased. It was this debt servicing cost, financed by higher taxes, that was crippling the Irish economy. Ireland had pegged its currency to the *Deutschmark* via the European Monetary System (EMS). The purpose of this was to establish monetary stability. But in the absence of coordinated wage setting, Irish inflation and interest rates remained persistently high (see Scharpf, 2011).

Thus, the public finance and unemployment crisis was the direct result of a contraction in economic growth which was being choked by high interest rates on debt repayments. The government responded by devaluing the currency in 1986 (a strategy that was pursued again in 1992). The rationale for this strategy was premised on the technocratic claim that to increase economic growth there must be a reduction in the interest rate on borrowing costs (Walsh, 1993, 1999). The only way to cut the interest rate was through cutting public debt. This could not be achieved through raising taxes but through a reduction in government spending. Cuts in government spending to reduce the debt were designed to decrease interest rates for business activity, generate consumer certainty and stimulate employment. This was made possible by the 1986 currency devaluation. The Fine Gael/Labour government never adopted fiscal consolidation as a strategy to complement currency devaluation because of strong opposition from public sector unions and the parliamentary Labour party. The Labour party pulled out of the Fine Gael coalition when the strategy was proposed. ICTU would subsequently emerge as the non-parliamentary coalition partner of Fianna Fáil supporting the strategy. This caused significant tension between the parliamentary and non-parliamentary labour movement.

In 1987, after the election of a minority Fianna Fáil government, Irish trade unions muted their opposition to fiscal adjustment and signed up to the above strategy in Ireland's first

¹⁹ In fact, from 1980-1985 when national debt repayments are excluded from borrowing a cost, the current account of the budget was actually in surplus.

three year national pact; Programme for National Recovery (PNR). This pact was developed in the National Economic and Social Council (NESC) and premised on their 1986 report, a Strategy for Development²⁰. The general point is that monetary instability in the ERM and a domestic fiscal and employment crisis is the first factor in a causal chain of events that would facilitate the re-emergence of centralised wage bargaining. To ensure the gains from the devaluation were not lost the government wanted to embed national wage restraint. To achieve fiscal adjustment the government needed certainty on public sector pay costs. The outcome was a corporatist political exchange premised on cuts in income tax aimed at stimulating growth in the export sectors. We will now outline the role of NESC in enabling conflicting actors reach a shared analysis of their collective action problem and pursue a negotiated corporatist rather than a unilateral neoliberal solution to crisis (the precise opposite of what would occur in 2008, see chapter 6).

4. NESC, Small States and Global Markets

“A small trading economy cannot prosper with divisive and competing interests”
(NESC, Strategy for Development, 1986)

The National Industrial Economic Council (NIEC) was established in the 1960's at the request of the Labour party in government to advise the Prime Minister on economic policy. The rationale for its establishment was to bring in new economic thinking to inform public policy development outside what was perceived to be an economically conservative civil service, particularly the department of Finance²¹. The most important document, prior to the 1986 Strategy for Development, was the 1979 Incomes and Prices Policy report (Murphy, 2000). This argued that decentralised wage bargaining and economic expansion were incompatible. Economic performance in the EMS was dependent upon industrial stability and wage coordination. The political implication of the policy recommendation was that governments should adopt a more interventionist approach to industrial relations and construct a coalition with trade unions, who had significant deterrent power in the labour market, to coordinate a national wage policy.

The NIEC evolved into the NESC during the 1970's. What is most striking about their reports during this and subsequent period is the institutional analyses adopted to explain Ireland's political economy. Throughout the 1970s, 1980's and 1990's the secretariat of the Prime Ministers department, via NESC, were acutely aware of the challenges facing the Irish economy, in the context of greater European integration, and the limits of adopting a pure neoliberal public policy response to Ireland's problems. Given the tri-partite nature of NESC, all peak level actors (Prime Minister, ICTU, Confederation of Irish Industry (CII) and Federated Union of Employers (FUE)) had access to technical analysis on the challenges facing the Irish economy. However, up

²⁰ To what extent expansionary fiscal contraction was behind Ireland's recovery after 1987 is highly suspect (see Bradley & Whelan, 1997). But, importantly, it heavily influenced the public policy discourse in 2008.

²¹ Interview with former general secretary of Department an Taoiseach. (see interviewee A4)

until 1986, it had limited political influence on the cognitive or normative framing of policy solutions. Whilst it engaged in detailed technical and institutional analysis of developmental problems facing the Irish economy it rarely resulted in policy action. Social partnership would subsequently become the political vehicle, within the contours of government policy, to implement what was formulated in the NESC (Sheehan, 1998b).

The importance of NESC during this period was that it provided a communicative space for conflicting actors to engage in a negotiated compromise based on the exchange of validity claims not power²². It enabled the leadership of trade unions and employers to engage in dialogue about technical problems of fiscal adjustment without having to represent the entire interest of their membership. For government, NESC provided a forum to generate consensus on the core challenges facing small states in global markets. Unlike most European countries Irish trade unions and employers lack the in-house technical analysis to inform their bargaining strategy (Traxler 2010a)²³. In this regard, NESC provided a forum for policy learning and constituted the rules as to what could be achieved in the bargaining arena of national pact negotiations. This process of rule formation or communicative action will be more important when we examine how social partnership evolved from a negotiated fiscal adjustment to a process of economic governance over time.

The 1986 NESC report, *Strategy for Development*, enabled the actors to reach a strategic consensus on the collective action problem they were facing. It succinctly outlined the extent of Ireland's economic problems from 1975-1985 and published prior to the 1987 general election. The 1987 pact; *Programme for National Recovery (PNR)*, turned this report into a strategic plan to be implemented by the state. It substantially increased the legitimacy and mandate of a minority Fianna Fáil government to pursue a fiscal adjustment.

The technical formula, based on a reduction in the debt-GNP ratio (Hastings et al, 2007), shifted actor strategies away from a focus on the annual budget deficit toward a long to medium term economic and employment plan, focused on reducing the overall public debt through economic growth (via active FDI industrial policies and EU structural adjustment funds). The debt-GNP ratio satisfied employers as it focused on cutting government spending to bring down domestic interest rates for business, whilst the other side of the equation, 'growing GNP', and its impact on employment creation, satisfied the interest of trade unions. This technical formula led to a consensus on the need for cuts in government spending. But it does not explain why trade unions gave their political support for three years of wage restraint and structural adjustment in the labour market in a formalised centralised wage agreement with government. As will be argued in the following section, a change in the parliamentary landscape, a political exchange premised on reducing income tax and the opportunity to influence economic policy via the Central Review

²² After 2000 the role of NESC changed from technical policy analysis to broad policy consensus formation. This can be traced to an increased role of government and the expansion of civic actors into the process of (see chapter 6)

²³ The main Austrian employer association, the *Wirtschaftskammer Österreich*, had 4615 permanent staff in 2003.

Committee (CRC), in a context of declining trade union density, facilitated this shift in trade union strategy.

Furthermore, whilst the technical debt-GNP formula was important in defining the collective action problem of the actors there was a deeper analysis in the NESC strategy that went beyond debt stabilization. This was an institutional focus on the constraints facing small states in global markets (Mjoset, 1992). The core argument was that tackling monetary and fiscal problems requires a coordinated approach to incomes policy. Those with responsibility for determining wage outcomes (employers and trade unions) were encouraged to consider the broader EMS monetary environment within which they operate. Similarly, those with responsibility for fiscal and exchange rate policy (government) were encouraged to consider and coordinate their interest with those responsible for incomes (employers and trade unions). This 'integrated' approach to monetary, fiscal and incomes policy was the core theme throughout the strategy for development (NESC, 1986). It outlined a medium term institutional framework to ensure social consensus on macroeconomic policy. This would generate the unquantifiable variable deemed necessary for national recovery; confidence. It was only through this coordinated approach that Ireland could successfully adapt to the constraints and opportunities of the single European market²⁴. In this regard, social partnership began a political process that reflected the ambivalent pressure on the state to stabilize society from markets on the one hand but to promote their institutional governance on the other (see Streeck, 2008, Hall & Thelen 2009).

Hence, NESC was the communicative space where the ICTU executive could reframe their strategic orientation toward social partnership with the state. The actors recognised the importance of coordinating the two remaining policy tools available to them in a non-accommodating exchange rate regime: wages and taxes. This technical agreement was particularly important in the context of impending European market liberalization and the proposed European Monetary Union. The alternative was accepting a unilateral orthodox neoliberal fiscal adjustment. A three year wage agreement would guarantee trade union access to government through the Prime Minister's office and the Central Review Committee (CRC). This elite and executive approach to negotiating national corporatist pacts with the state (logic of influence) however, still required legitimation from trade union members (logic of membership). This would be achieved through the adoption of democratic ballots, turning the trade union movement into a 'tri-annual wage referenda'²⁵. To what extent this shift in strategy was a 'Faustian bargain' (D'Art & Turner, 2011) that came back to haunt Irish trade unionism will be examined in later chapters. The important point to be observed is the role of NESC and policy learning in changing actor strategies. This is the second factor in the causal process.

²⁴ The introduction of the Single European Act in 1987 was central to this realisation.

²⁵ Interview former secretary general to ATGWU (later AMICUS, and UNITTE) See Interviewee A32

5. The Political Factors that Conditioned a Negotiated Response

“From the unions point of view they did not want to end up were people in Britain ended up, we were either going to be part of the solution or part of the problem, it was clear the government had no alternative” (Former General Secretary, ICTU, 1989-2001)

The strategic configuration of the political party system is a core institutional context in explaining the renaissance of national pacts across Europe (Baccaro, 2007). Political parties use social pacts as a strategy to generate extra-parliamentary support for unpopular public policy decisions (Hamann & Kelly, 2007). This is the case in isolated negotiations aimed at fiscal adjustment or welfare state reform but not applicable to the structured national development strategy that emerged from Ireland's first three year wage agreement; the Programme for National Recovery. As argued in chapter 2, the weak government thesis cannot explain social partnership as a labour inclusive strategy of economic governance. Irish governments after the general elections in 1992, 1997, 2002 and 2007 held substantial majorities in parliament but continued with national pacts as a strategy to frame and engage trade unions in the public policy process of wage determination

The stability of the Irish political party system, however, was thrown into doubt during the 1980-1986 economic crises, with three general elections in 18 months. This political instability peaked in the 1987 election where, according to Sinnott (1987), there was a dramatic change in voter behaviour. This election witnessed the emergence of an orthodox neoliberal political party; the Progressive Democrats (PDs), who received 12 percent of the first preference vote. This gave them 14 seats in parliament and made them larger than the Labour party who only won 12 seats or 6.5 percent of the first preference vote.

This political context had a significant impact on the Irish trade union movement (Hastings et al, 2007). Across the water in the UK Margaret Thatcher was engaged in a pure neoliberal reconstruction of industrial relations. Both the conservative government and the British Trade Union Congress (TUC) opposed a centralised incomes policy. Given the balance of power the outcome was a complete dismantling of British trade unionism (Howell, 2005). Margaret Thatcher had found a functional equivalent to a national incomes policy and it was via a monetarist policy of controlling the money supply. There was a genuine fear amongst trade union leaders that the Irish political system would respond to the crisis in the same way. This was particularly the case when it emerged that the Progressive Democrats held the balance of power in a minority Fianna Fáil government and the parliamentary Labour party reduced to 12 seats.

Furthermore, the outgoing anti-union Fine Gael government, under the new conservative leadership of Alan Dukes, adopted a strategy to support all government policies aimed at fiscal adjustment. This ‘Tallaght strategy’ gave Fianna Fáil a qualified parliamentary majority, akin to what the Conservatives had in the UK, to pursue a radical programme of fiscal

retrenchment. This was a clear signal by Fine Gael to Fianna Fáil that they can remove the veto power of labour (parliamentary and non-parliamentary) over fiscal and economic policy. National recovery, from the Fine Gael perspective, was being blocked by the power resources of labour in parliament and public sector unions in the state sector. In effect, they gave a *carte blanche* for Fianna Fáil to pursue a unilateral orthodox neoliberal adjustment.

However, despite having a parliamentary majority and the full backing of Fine Gael to adopt a pure neoliberal response to the crisis, the newly elected Fianna Fáil government actively sought a negotiated corporatist agreement with the Irish Congress of Trade Unions (ICTU), the Federated Union of Employers (FUE) and Confederation of Irish Industry (CII) for a three year retrenchment programme. Why would a populist centre-right political party with a parliamentary majority actively seek a negotiated response via a national pact with organised labour to tackle a fiscal and employment crisis when they could act unilaterally?

The causal process can be traced to the newly elected Prime Minister, Charles J Haughey, and his intention to craft a negotiated solution to the crisis through a coordinated economic plan via a newly empowered Prime Minister's Office. A qualified parliamentary majority would not facilitate the implementation of fiscal adjustment unless government could get support from public sector unions for industrial stability. To achieve this stability, public sector unions had to become part of a comprehensive plan for national economic recovery. Central to this was a competitive wage strategy aimed at export led growth. The construction of a national incomes policy as a complement to EMS had been a strategic priority for Charles J Haughey, since his establishment of the Department of Economic Planning in 1977. The following quote is worth reproducing to illustrate his support for centralised wage management:

"To formulate an economic plan without the wage-bargaining process built into it, to propose courses of action and hope that the trade unions will be persuaded by exhortation and admonition to fall in line is a futile exercise... To stabilise wage claims, we must channel the expectations and strength behind them towards co-operative effort to achieve economic expansion. The vehicle for that effort can only be participative economic planning, which clearly demonstrates what real growth in living standards and employment can be attained in future if wage claims are contained now. If the planning process does not permit trade union power to be exercised in developing the economic system, we must not be surprised if it seeks its own ends independently".²⁶

When a brief Fianna Fáil administration was elected in 1982 they attempted to adopt a coordinated response to the crisis with ICTU. But it was based on a government document, 'The Way Forward'. This was produced by the secretary general of the Prime Ministers department, Padraig O'hUiginn, at the request of Charles Haughey. In 1980, Charles Haughey met the German Chancellor, Helmut Schmidt, at a European Council meeting in Brussels. According to

²⁶ This quote is taken from an article by Padraig Yeates (2006). Yeates is a highly regarded journalist and author on all issues pertaining to Irish labour history.

documentary evidence, Chancellor Schmidt informed Charles Haughey that he was meeting German trade unionists to discuss wage policies in light of the changed economic circumstances in the EMS. Charles Haughey was subsequently convinced that the only way to tackle the economic crisis in Ireland was through a formal three year pact with ICTU. This had to be more than consultation. When he became Prime Minister in 1982 he established a cabinet sub-committee, with cross departmental and private sector representation, to develop a plan for Irish economic recovery. The outcome was the government document 'The Way Forward'. Pádraig Ó hUiginn drafted the report and subsequently attempted to get support from ICTU for its implementation. But they would not sign up to a budget cutting strategy or a strategic plan of which they were not involved. In the same year, the Fianna Fáil government collapsed.

When the incoming Fine Gael/Labour government was elected from 1982-1986 they chose not to adopt 'The Way Forward' as it had become associated with the previous Fianna Fáil administration. Pádraig Ó hUiginn left the Prime Minister's office but continued as chair in the NESC. It was from here that the 'Strategy for Development' was formulated. According to Pádraig Ó hUiginn, the NESC strategy, its importance previously outlined, was effectively the same document as the 'Way Forward'. Both favoured the corporatist integration of monetary, fiscal and wage policy at a national level. The communicative space in NESC however, enabled the Prime Minister and state managers to establish a negotiated agreement rather than impose government policy on trade unions. This political preference by the Prime Minister for corporatist economic management, as opposed to UK state neoliberalism, is central to explaining the shift toward centralised wage bargaining in the Irish case.

During this period there was also structural change in the organisation of ICTU. Peter Cassells was selected to occupy a newly created position of assistant secretary. This enabled the executive of ICTU to adopt a strategic perspective on the future of Irish trade unionism in a more integrated European Union. There was a growing preference amongst the ICTU executive for the corporatist structures that existed in the small European economies of Netherlands, Finland, Sweden and Austria. By 1987 the NESC had commissioned a study on the comparative institutional advantage of these countries. The research identified the national system of innovation and social consensus underpinning these economies as central to their employment performance (Mjoset, 1992). Irish trade unionists were increasingly looking to the Nordic and Alpine states of Europe rather than the UK to inform their bargaining strategy. Given the weakness of the Irish parliamentary Labour party, they focused on the largest political party in the state – Fianna Fáil. Charles J Haughey simultaneously wanted to craft a new labour inclusive political economy that was distinct from the Conservative government in the UK. The outcome was a new liberal market corporatism that was not premised on a social democratic political coalition (as had occurred in Nordic countries) but national state development.

When Fianna Fáil were re-elected in 1987 Pádraig Ó hUiginn was re-established as secretary general of the Prime Ministers Department. On his first day in office Charles Haughey organised a meeting with Pádraig Ó hUiginn and the finance minister, Ray McSharry, to inform them that “our new policy will include a commitment to a national economic plan based on the NESC strategy to be negotiated with the social partners by Mr Ó hUiginn”²⁷. This is precisely what occurred and led to Ireland's first national pact; the ‘Programme for National Recovery’ (PNR). Despite a qualified parliamentary majority, the Fianna Fáil government actively sought a negotiated consensus for a labour inclusive strategy of fiscal adjustment. This was less a case of weak government (Baccaro, 2007, Avdagic 2010) but a strategy to establish a European style corporatist system of policy making to empower the parliamentary and administrative state system to tackle a public debt and employment crisis. In this regard social partnership was an endogenous strategy, by the state, to legitimate and build capacity for national economic governance, premised on centralising the wage bargaining process, in response to exogenous turbulence in the EMS. The pre-condition that made this change in state strategy possible was a newly empowered Prime Minister’s Office and the Central Review Committee (CRC).

A Strategic Response by the Political Executive of the State

“Managing change in a small open economy is the untold story of social partnership”
(Chair of NESC and Secretary General of Prime Ministers Department, 2000-2010)

Fianna Fáil has always maintained a pragmatic relationship with the Irish trade union movement for electoral reasons²⁸. They can be described as a populist catch all party given the cross class nature of their electoral base. During the 1970's and into the mid 1980's they favoured left leaning Keynesian policies. Charles J Haughey, the political architect behind the PNR, considered himself on the left of the Fianna Fáil party²⁹. For example, in the 1980's, whilst in opposition, Charles Haughey famously stated;

"It is better to generate employment through public capital investment than to pay for unemployment through current social welfare expenditure"

This pragmatic support for Keynesian ideas followed in the tradition of Sean Lemass who, as leader of Fianna Fáil, in the 1960s, actively established formal links with trade unions to illustrate the labour credentials of the Fianna Fáil movement. This idea of Fianna Fáil representing a national movement acted as a functional equivalent to the ideas of social democracy in the origins

²⁷ Quote from Charles Haughey in a reflection he wrote on social partnership and confirmed by interview with senior civil servant at the time in an interview with the author.

²⁸ The Irish working class have historically voted Fianna Fáil even if they did not ‘objectively’ represent their interests (see Allen, 1997).

²⁹ Interview with ex prime minister (1997-2008) who maintained that this left-right divide was central to disputes within the party - the PDs were a liberal breakaway group from Fianna Fáil.

of Irish national corporatism. The evolution of Irish social partnership was based on a Nationalist Republican rather than a Social Democratic philosophy. In 1989, at an annual Fianna Fáil conference, Charles Haughey gave an elaborate speech on the relationship between Fianna Fáil, an emerging social partnership and trade unionism:

“Trade unionists subscribe to our republican political philosophy with its strong emphasis on economic development and social progress.... which has to be planned and organised. Fianna Fáil is a party which trade unionists feel at home, reflecting the aspirations of the majority of Irish people, irrespective of class.... PNR is in the tradition of trade union movements across Europe where major groups in society sit down together and devise a plan of action reconciling their particular priorities with an overall strategy for national progress³⁰”

The support of Fianna Fáil for state as opposed to class based corporatism was reflected in the establishment of a Ministry for Labour and the Department for Industry and Commerce. It was via these departments that Fianna Fáil established the Labour Court and Joint Labour Committees to fix the wages of low paid non-unionised workers. In 1990, they established the Labour Relations Commission as a mechanism to reduce strike action and promote arbitration and conciliation. But simultaneously Fianna Fáil was actively promoting the benefits of a liberalized European market and adopting business friendly industrial policies premised on low corporate tax rates. Business and labour market policies remained in what would later be called the Department of Enterprise. But the role of state led economic planning favoured by Charles Haughey, outlined in the quote above, would be transferred to the Prime Minister’s office, and expressed in the national wage agreements with trade unionists and employers.

The procedural process of cabinet government and parliament was considered ineffective by the newly elected Prime Minister to tackle the debt, fiscal and employment crisis facing the state³¹. The departmental silos of Ireland’s public administration was considered ill equipped to act decisively or in a problem solving manner (see chapter 5). It required a centralised executive to plan Irish economic recovery. Hence, to overcome the slow process of cabinet government, Charles Haughey created a powerful policy division within the Prime Ministers department to craft a new state strategy for Ireland’s political economy³². Given the parliamentary system in Ireland and the relationship between Fianna Fáil and ICTU this did not result in a presidential or Thatcherite approach to public policy. It resulted in a centralised and state led form of liberal market corporatism, driven by a chief executive in the Prime Ministers department. This labour inclusive strategy occurred simultaneously to a new role for the Prime Minister in European affairs. The Prime Minister’s office would become central to the negotiation of the single European market in 1987, the Maastricht treaty in 1992 and, more importantly, the coordination of EU structural adjustment and cohesion funds. Between 1989

³⁰ Retrieved from a document in the archives of the CRC

³¹ Interview with previous secretary general, Taoiseach Department (1982-1992).

³² Interview with ex Prime Minister (1997-2008)

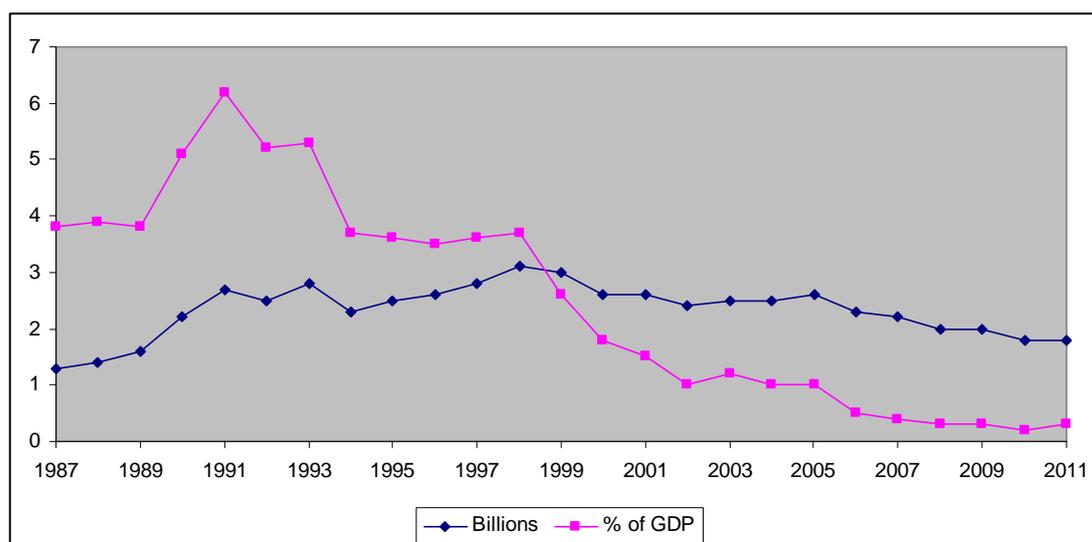
and 1994 EU structural funds available to Ireland doubled. This amounted to almost €17bn. These were designed to facilitate Ireland's entry into the single Europe market and provided the capital for a state led national development plan, centred on national partnership agreements, to improve economic and employment performance.

State managers in the Prime Ministers department were supportive of this new strategic role for their office given that many of them had transferred from the Department of Economic and Social Planning in 1977. The reason for abolishing the Department of Economic Planning in 1982 was that it conflicted with the competing role of Finance. But when Charles Haughey transferred this strategic role to the Prime Minister's office it provided the authority to operate autonomously from the 'Treasury'. This would create significant tensions within the core executive, particularly over public sector pay and reform (see chapter 5). Officials in the department of Finance resented what was colloquially termed the 'Ministry of Social Partnership', as it granted too much influence to public sector unions over tax and spend policies. But importantly, the three year national pacts that emerged under the PNR and PESP enabled the political executive to craft an autonomous policy framework from the conflictual arena of parliament and the neoliberal economic policies in the Department of Finance. The national wage agreements would enable administrative elites to incorporate the functional interests of labour and capital into a state plan for economic management. The Central Review Committee (CRC) would become the engine room of this new approach to national economic governance.

The CRC was the executive wing of social partnership and established to monitor the implementation of PNR and the PESP (the content of which will be detailed in the next section). The executive of FUE, CII, ICTU and senior government officials were represented on the committee. It was chaired by Pdraig O'hUiginn (the secretary to the Prime Minister, cabinet government and chair of the NESCC) and reported directly to the Prime Minister on a monthly basis. This authority gave it significant influence over government policy. Not only did it monitor the implementation of the PNR and PESP but provided a formal mechanism to access political power outside formal negotiations. The CRC acted as an internal equivalent to the 2008-2010 executive committee of the Troika: IMF, EU Commission and ECB. The primary difference is that the CRC was democratically accountable to cabinet government, premised on a negotiated plan with trade unions and involved an EU investment rather than an austerity package. Central to discussions at the CRC from 1989-1992 was how to use EU structural adjustment funds for national development (see figure 4.4). This was a definitive shift that moved Ireland from a liberal pluralist model of trade unions lobbying government to a corporatist one of embedding them into the governmental apparatus.

The general point is that a strong political executive rather than a weak government was the pre-condition that made this possible. This is the third factor in the causal process.

Figure 4.4: EU Social Investment in Ireland (1987-2011)



Source: Department of Finance (2011)

6. The Political Exchange of National Wage Agreements

“What we want from you is moderate pay to make us competitive. In return we will give you tax relief”

(Chair of NESC and Secretary General to Prime Minister (1982-1993))

From its genesis social partnership was a strategy aimed at developing a national incomes policy to improve economic performance, reduce strike action and embed wage restraint. The government is central to any exchange that involves fiscal policy. Thus, central to any assessment of Ireland's emerging political exchange is the distributional return to capital and labour and the input of government. The PNR and PESP embedded wage moderation in exchange for reduction in income tax³³. But the real exchange was the construction of a corporatist policy making process that provided trade unions with access to political power. The question, therefore is why employer bodies, increasingly dominated by US multinationals signed up to a centralised pay agreement?

Exchanging wage restraint for tax cuts

The employer bodies at the time included the Federated Union of Employers (FUE) and the Confederation of Irish Industry (CII). These bodies would later merge to form the Irish Business and Employers' Confederation (IBEC). Both accepted that the period of company level bargaining during 1980-1986 was beneficial for their members. It provided an opportunity for

³³ Ireland went from being one of the highest income tax countries in Europe in 1987 to one of the lowest in 1997.

management to engage with their employees at firm level to negotiate change³⁴. The negotiation of wages, however, differed markedly across sectors, particularly with the emergence of new non-union US multinational firms, most notably in the chemical and electronic sectors. Traditionally trade unions used the most productive companies in the economy to set a benchmark for wages in the less productive domestic industries. This damaged aggregate wage trends under the constraints of EMS as it created a wage inflation spiral that was not matched by productivity increases (Hardiman, 1988). In this regard, employer acceptance of the PNR and all subsequent centralised wage agreements, hinged on their capacity to guarantee wage restraint.

In 1987, the FUE and CII did not think ICTU had the authority to ensure their affiliates outside the public sector would abide by the nominally agreed wage rates negotiated at national level. The guarantee that trade unions would not demand higher percentage increases at firm level came from government. The Prime Minister convinced the FUE and CII that chasing higher pay at company level would not be an issue as the net take home pay of employees would be increased by government cuts in income tax³⁵. The government, based on the implicit recommendations of the NESC strategy, was committed to cutting income tax whilst simultaneously reducing current expenditure. Cutting income taxes and reducing the cost of labour by a decrease in the tax wedge benefited all employers. Not only would it reduce labour costs but increase disposable income for consumption in the domestic economy.

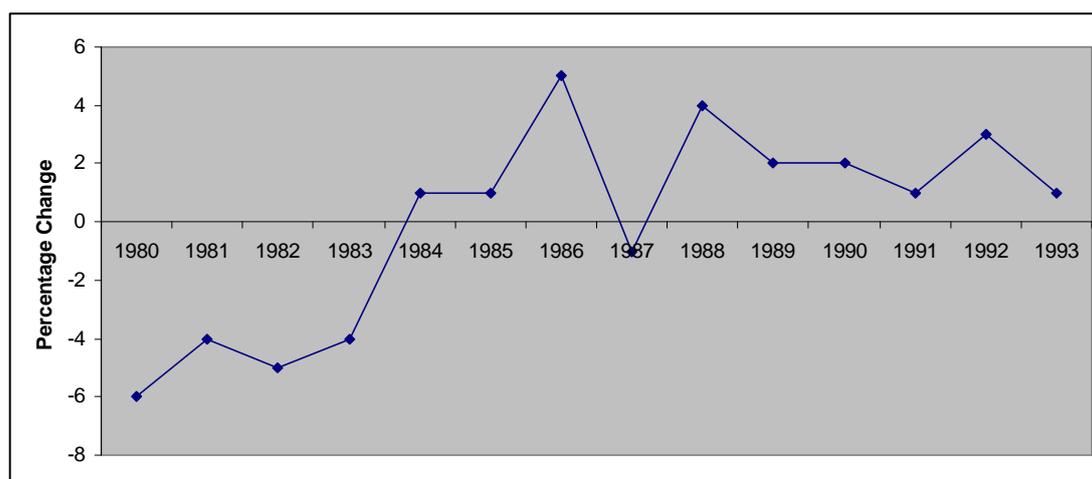
When it emerged that ICTU agreed to a 2.5 percent increase over three years, the strategic preference of the FUE and CII changed. Employers were expecting to concede approx. 4-5 percent³⁶. ICTU, however, would only agree to this level of nominal wage restraint if the government legislated for income tax reductions to the cumulative value of €225 million and introduce a standard 35 percent marginal tax rate in the national budget. The outcome was a substantial increase in real wages (see figure 4.5 below).

³⁴ This was identified as the biggest gain to company level bargaining in the interviews with employers

³⁵ Interviewee 2A

³⁶ Interview with employer involved in the negotiations (interviewee 18A)

Figure 4.5: Real Percentage Change in Take Home Pay (1980-1993)



Source: NESG, 'Strategy Into the 21st Century' (1996)

In 1987 a policy report by ICTU found that from 1980-1986 trade unions had negotiated a 73 percent increase in nominal wages but real take home pay declined by 7 percent³⁷. A combination of an increase in income tax and EMS induced inflation effectively removed any gains trade unions had made. Therefore, they had to influence the fiscal policies of the state. This, in itself, was a sufficient incentive for the ICTU executive to opt for a political exchange with government. There was also a growing acceptance amongst a technocratic trade union leadership that wage restraint was in the collective interest of their members if employers invested the surplus profit into employment creation. This focus on national competitiveness (i.e. increasing private profit for employers) would provide the cognitive and normative justification for centralised wage bargaining throughout the 1990's and guaranteed IBEC's support for centralised wage bargaining.

The problem facing trade union leaders, however, was that whilst they accepted wage restraint to increase employer profit, this was not necessarily the case for their members. Increasing take home pay through tax cuts made it easier for a trade union leadership to sell the national wage agreements through a process of democratic ballots. This process would strengthen the legitimacy of the national wage agreements and ensured all ICTU affiliates abided by collective outcomes (see Baccaro, 2010). But it created a path dependent political exchange premised on increasing disposable income through tax cuts. Over time government revenue would become dependent on pro-cyclical taxes (i.e. domestic consumption). Yet, simultaneously, a growing public sector pay bill would increase current expenditure.

This internal contradiction would manifest itself in 2008 when government revenue and social partnership collapsed (see chapter 6). The contradiction, however, was built into the institutional process from the beginning. As argued by Streeck and Thelen (2005), social arrangements can set in motion political dynamics that sow the seeds of their own destruction.

³⁷ Interviewee A21

Using the social wage to ensure democratic legitimisation

The biggest obstacle to the negotiation of the PNR was ICTU's proposal for a one hour reduction in the working week. This was resisted by both the FUE and the CII but implemented by government. It was not contained in the written agreement of the pact but central to the CRC. The one hour reduction in the working week was the main policy gain, outlined by ICTU, when the pact was put to a vote of trade union members³⁸. The PNR was initially accepted but a vote at a special delegate conference calling for withdrawal from PNR, in 1989, was narrowly defeated by 180 to 141 votes. A conflict between British and Northern Irish trade unions and those based in the Republic emerged³⁹. British based unions such as the ATGWU were ideologically opposed to a national incomes policy unless it was specifically based on a social democratic wage bargain. Public sector unions in the Republic, on the other hand, strongly supported the PNR as a mechanism to avoid a unilateral assault on the public sector. The democratic procedure established a process that would strengthen the legitimacy of national wage agreements over time. By 2000 almost every affiliated union to ICTU would ballot their members on whether to accept or reject the national agreement. This process avoided the legitimisation problems encountered by the TUC in the UK throughout the 1970's (Howell, 2005).

The PNR also contained a series of additional policies that can be conceptualised as the social wage. It explicitly committed the government to not cut social welfare, improve the family income supplement and develop a primary health care strategy. There is no detail on where government would cut expenditure (current or capital) in the pact. Fiscal adjustment was considered the responsibility of the state not the social partners. But given the guarantee to protect social welfare and public sector pay all expenditure adjustments would fall on education and healthcare. Given the no strike clause in the national agreements public sector unions in these sectors had no choice but to accept the government's prerogative. For ICTU, however, this was compensated by a commitment by Fianna Fáil to use state agencies to adopt active industrial and business friendly policies to increase employment. No such exchange occurred in the public sector 'Croke Park' agreement negotiated in response to the economic crisis in 2009.

Industrial policies aimed at employment performance

The commitment to improve employment through active state coordination is a central factor in explaining centralised wage agreements in the Irish case. Changes in labour market trends will be examined in chapter 4 where it will be shown that between 1994 and 1999 Ireland experienced an employment boom. But from 1987-1992 Ireland experienced jobless growth (Hastings et al,

³⁸ Interviewee A22

³⁹ The PNR was the last time Northern Irish unions were allowed to vote on the Republics tri-annual wage referenda.

2007). The economy improved but unemployment remained a persistent problem. To tackle this, the government committed to a whole host of sectoral development policies in manufacturing, food, agriculture, tourism and financial services. The PNR contains a variety of objectives such as the creation of 20,000 jobs per annum over ten years in the manufacturing industry. This might be considered aspirational. But from 1987-1997, total employment in the Irish labour force increased from approx. 1.1 million to 1.3 million. 200,000 jobs were created and manufacturing accounted for approximately 60 percent of this employment. In 1995, manufacturing accounted for 78 percent of full time jobs created or 7,784. During this period, much like what happened in London and New York, the government committed to making financial services central to Irish economic renewal. This led to the creation of the International Financial Services Centre (IFSC); the brainchild of Charles Haughey, senior state managers and banking elites (McCabe, 2011).

The government's strategy was to align all public policies to improve foreign direct investment. As part of this they committed to the simplification and re-organisation of industrial agencies and the establishment of two junior ministerial portfolios; trade and marketing and science and technology. The PNR and PESP outlined precise action plans on how to create job opportunities in a whole host of specific sub-sectors that include agriculture (beef, pig, sheep industry) and manufacturing (tool-making, automotive components, mechanical engineering, electronics, clothing, craft products). It also commits the government to refashioning the 'National Development Corporation' (PNR, 1987). This agency evolved into Enterprise Ireland, aimed at stimulating exports in the indigenous economy. Furthermore, both national pacts contain a variety of proposals on how to improve the efficiency and cost base of commercial state bodies that include Aer Lingus, Aer Rianta, ESB, Bord Gáis, Irish National Petroleum Corporation, Bord Na Mona, BIM, Telecom Éireann, An Post, RTE and Udaras Na Gaeltachta.

It is not possible to cover the precise details of what is proposed in all of these sectors in one chapter. The general point is that the national pacts were strategically framed as a broad public policy agreement to enhance employment. They were not premised on a pure neoliberal market agenda of structural adjustment but a pragmatic state developmentalism (O'Riain 2004)⁴⁰.

Thus from 1987 a path was created that prioritised giving workers more spending power through reductions in income tax in exchange for wage restraint and active industrial policies aimed at encouraging inward investment for job creation. In return, trade unions accepted the state would pursue a three year programme of fiscal adjustment. Its success was dependent upon economic growth. If the economy grew the conditions would be in place for a re-negotiation of a three year wage agreement in 1990. The economy did begin to recover. During the period 1987-1993 GDP increased by 36.6 percent and GNP by 33.1 percent. The EU average was 13.1 percent. This positive feedback, in addition to EU social cohesion funds and the 1992 currency devaluation, generated the conditions for embedding social partnership as a mode of economic

⁴⁰ But it must be said that the general ideational framework was neoliberal (see chapter 1) even if the practice was not.

governance. The general point is that a market conforming political exchange premised on reducing income taxes emerged during this period. This led to a significant increase in real wages and the *fourth factor* in the causal process.

7. Declining Power Resources of Trade Unions

“If you were being totally honest about it, part of the reason for going into the national agreements, to try get that level of influence, was because trade union density in the private sector was falling” (Retired General Secretary, ICTU, 1989-2001)

From 1987 trade union leaders opted to forego immediate gains to advance the specific interest of their members in the general interest of employment creation. Unlike what was occurring in the liberal market economies of the UK and the US, high levels of unemployment in Ireland were not being blamed on strong unions, over generous welfare states, too high minimum wages or excessively rigid employment protection legislation⁴¹. The analysis in NESC, that informed the framing of Irish social partnership, supported centralised wage bargaining. The fiscal adjustment was considered necessary to stabilise the national debt. But it was not the beginning of a complete neoliberal assault on the welfare state. It was a peculiar and somewhat eclectic Irish third way, neither social democratic nor neoliberal. In many ways it pre-empted the shift toward a process of social dialogue in European industrial relations and New Labour in Britain.

Over time the Irish economy would incrementally morph into a more aggressive form of neoliberalism. But, in its genesis, social partnership was a strategy by the state to adopt a labour inclusive process of capitalist development⁴². The purpose of this was to regulate actor behaviour in the interest of monetary, fiscal and wage stability in an emerging single European market. However, the support by government and employers for encompassing centralised wage agreements would ultimately depend on trade union deterrent power in the labour market; measured by trade union density and collective bargaining coverage. This is what underpins the power distributional dynamics of institutional change in capitalist political economies (see chap 1).

Figure 4.6 illustrates the trends in trade union density from 1960-1993. In 1982, the beginning of the economic crisis, trade union density was at its peak; reaching approximately 62 percent⁴³ (see Roche, 2008). This was the highest density level on record. From 1925-1980 trade union density progressively increased on an annual basis. The upward trend came to an abrupt halt with the economic recession in 1980. Between 1980 and 1988, trade unions, in net terms, lost 87,000 members. In density terms, it declined from 62 percent to 55 percent of the workforce. Trade union density increased again to 57 percent in 1990 but subsequently declined on an

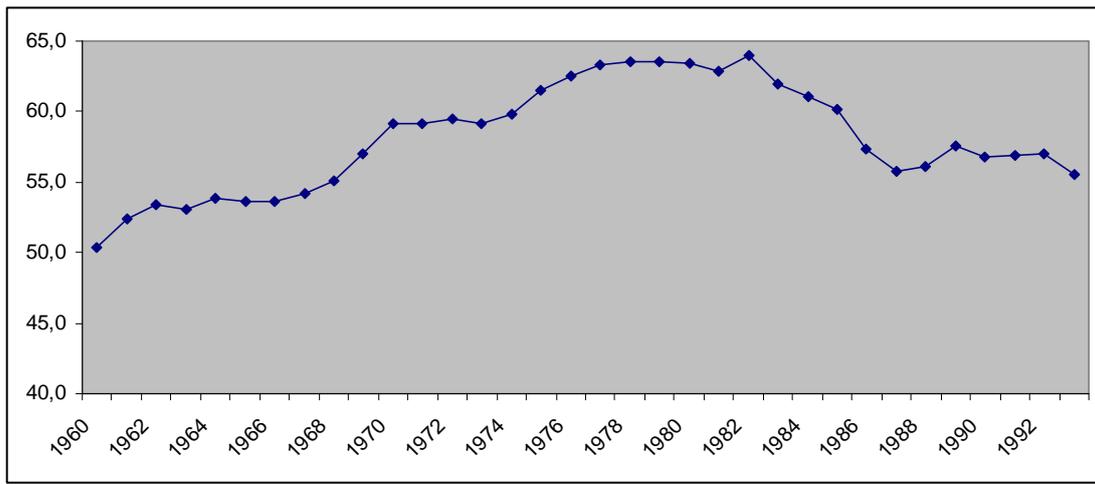
⁴¹ This was not the case in 2010. Social partnership was blamed for a loss of wage competitiveness, a bloated public sector and unsustainable social welfare payment rates, see chapter 7

⁴² It was designed to solve problems of capital accumulation (see Harvey, 2007 and Streeck, 2011).

⁴³ Measuring trade Union density, see Roche (2008) Ebbinghaus & Visser (2006) for a full explanation. This data is based on the Labour force surveys (LFS) and Quarterly National Household Survey (QNHS)

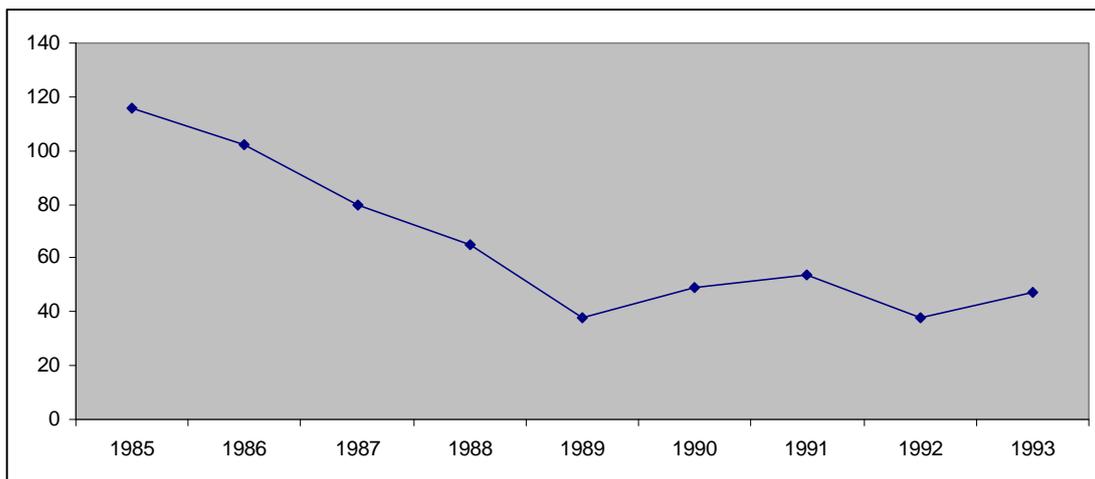
annual basis until 2010. During the financial and eurozone crisis that emerged after 2008 trade union density had declined to below 34 percent. In the private sector it had collapsed to less than 22 percent. Membership on the other hand, throughout the period of centralised wage agreements grew from approx. 458,000 to 653,000, reflecting an increase in the total employment rate (Roche, 2008). The general point is that in aggregate terms (i.e. not broken down on a sectoral basis) trade union density was at its highest level in 1980, illustrating the extent of trade union economic power in the labour market.

Figure 4.6: Trends in Trade Union Density (1960-1993)



Source: Jelle Visser, ICTWSS Database (2009)

Figure 4.7: Total Number of Industrial Disputes (1985-1993)



Source: Central Statistics Office (2008)

During 1980-1986 trade unions experienced the sharpest decline in membership since the 1920's (Roche, 2008). The decline was reflective of a broader shift across Western Europe and therefore not unique to Ireland. The changing composition of the labour market, particularly the shift toward services based employment and increased female participation rates, made it increasingly difficult to organise an expanding workforce. But organising non-union employees is particularly important in Irish industrial relations given the voluntarist structure of the collective bargaining regime. There are no legal guarantees to extend collective bargaining coverage to non-union workers. That is, in the absence of formal-legal guarantees to extend pay agreements to a specific sector or the entire economy, bargaining coverage remain exclusive to the unionised economy.

This is important because it is not density in-itself that increases the power resources of trade unions to be considered a social partner but the extent of collective bargaining coverage. Ireland does have sectoral wage agreements that are legally binding for those in traditionally low paid sectors (primarily hotels, restaurants, catering and construction). These registered employment agreements (REA) are set by the Labour Court and Joint Labour Committees (JLC) of employers and trade unions. However, centralised wage agreements in Ireland are voluntary and wage setting mechanisms flexible, meaning that social partnership puts no formal institutional constraints on employers⁴⁴ (ICTU, 1993, 2001)

Trade union density in Ireland is predominately located in the public sector. From 1980 to 2010 this has remained relatively stable at approx. 80 percent. For these sectors (administration, education, health and local services) institutional guarantees such as the right to collective bargaining have never been an issue. This is because high density levels provide sufficient collective bargaining power. Voluntarism is an advantage if public sector unions choose to use their economic power to demand greater gains from government as employer. This is not the case for the private sector. The PNR and PESP provided an opportunity for trade unions within ICTU, such as the ITGWU (later to become SIPTU), to influence what was happening in the private labour market via state legislation. It provided a national framework to influence the employment rights agenda in a voluntarist industrial relations regime. This strategy culminated in the negotiation of T16 in 2006 (see chapter 6) but its genesis were formed during this period.

ICTU recognised Ireland was experiencing an employment crisis. The industrial policies adopted by the state were aimed at increasing foreign direct investment. Ireland was preparing to join the single European market in 1992. This was going to increase US multinational investment and generate non-union employment in the labour market⁴⁵. Given the single European act and proposals for a shared monetary currency all of the emphasis was going to be on business friendly competition policy and liberalised capital markets. Hence, according to Peter Cassells, the

⁴⁴ This explains IBEC participation. US companies faced no legal, normative or formal constraints to implement the agreements or publicly contribute to their negotiation. This can only be described as a case of free-riding (see chap 2).

⁴⁵ The government gradually began to use this as a policy incentive to encourage US firms to invest in Ireland ICTU were prepared to avoid strategies of unionisation in the MNC sector if government continued with *national* partnership.

General Secretary of ICTU from 1989-2001, social partnership was a long term strategy for trade unions to;

“Get under the umbrella and influence what was happening in the private sector, to underpin it with employment rights legislation”.

To what extent this was achieved will be answered in chapter 6.

The most important outcome of the strategic adjustment under examination was institutional. It began a process that morphed centralised wage agreements into a relatively stable form of economic governance. This institutional change shifted the Irish political economy from liberal market pluralism toward European corporatist exchange. The actors were now partners in a state strategy to coordinate a political economic regime for a business friendly Europe. An increasingly autonomous ICTU leadership could negotiate technical wage deals with the state (in the context of a voluntarist collective bargaining regime) and generate legitimacy through democratic wage referendums. This emerging political coalition between a pragmatic trade union leadership, state managers and Fianna Fáil is the final factor in the causal configuration that led to the origins of centralised wage bargaining in the Irish case.

8. Conclusion

“Social partnership was born out of the necessity to build a strong Taoiseach’s department in response to the crisis” (Irish Prime Minister, 1997-2000)

Social partnership emerged as a domestic political strategy in response to an economic crisis. State managers in the Prime Ministers department crafted a non-market institution to re-nationalize wage, fiscal and social policy in the context of a flexible but unaccommodating exchange rate policy. All actors accepted the shared analysis that constructing a centralised wage agreement and generating industrial stability was necessary to improve the productive capacity of a small open economy in a single European market. Given the weak structures of collective bargaining, employers and trade unions required state intervention for a generalized corporatist political exchange to incentivize national wage coordination. Fianna Fáil, under a newly empowered political executive led by Charles Haughey, were willing to do this. The outcome was a business friendly political coalition premised on cutting income taxes in return for wage restraint. Pay was central but granting trade unions access to political power, via the Prime Ministers department and the Central Review Committee, in the absence of a parliamentary Labour party, was the real glue that enabled a shift in actor strategy. The outcome was the construction of a new state led corporatist political economy premised on European style social dialogue rather than UK neoliberalism; the Irish third way.

In conclusion, the strategic capacity of conflicting actors to adapt and respond to crisis within a given set of institutional constraints is the core factor in explaining the origins of centralised wage bargaining in the Irish case. This strategic capacity was made possible by NESC, a newly empowered Prime Ministers department crafting a business friendly political exchange, an increasingly autonomous ICTU executive in a weakened trade union movement and voluntarist structures of collective bargaining. Chapter 4 will examine the endogenous factors that led to the consolidation of centralised wage agreements (and the underlying political coalition) after the 1992 currency devaluation and subsequent preparation for European Monetary Union. Social partnership would become an institutional resource for the state to generate the necessary political stability for an embedded neoliberal economy.

Chapter 5

The Pre-EMU Consolidation of Irelands ‘Corporatist’ Political Economy (1993-1999)

The Politics of Economic Competitiveness under Constraints of Maastricht

1. Introduction

This chapter will seek to explain the determinant factors behind the consolidation of social partnership in Ireland’s political economy in the pre-EMU period. Subsequent to the negotiation of PNR and PESP there was no guarantee that the government, trade unions or employers would continue with national wage agreements. Building upon the historical analysis in chapter 4, it will be argued social partnership consolidated as a political strategy, because of state coordination and a generalized political exchange premised on improving labour market performance. The state crafted and expanded a national incomes policy to ensure that wage competitiveness was not lost after the 1992 devaluation and to generate the political stability for Irelands entry to the EMU.

For trade unions, the strategic objective was to ensure that the gains of wage restraint were invested into job creation. For employers, the objective was to generate certainty on labour costs and embed a competitive headline wage agreement for the non-union US multinational sector. A virtuous configuration of strong employment growth, European monetary constraints and a left leaning government generated the exogenous and endogenous conditions for the actors to embed social partnership as a mode of economic governance. However, the election of a centre-right government after 1997 changed the nature of the bargain underpinning the centralised wage agreements. The government began to re-direct the institution to serve new goals. An aggressive low-tax regime generated a neoliberal economic growth model premised on deregulated finance markets and real estate. This expansionary monetary policy created inflationary pressures that would lead to a conflict of interest in the post EMU period.

The structure of the chapter is as follows; firstly we will assess the collective action problem facing the actors; unemployment. Secondly, we will outline the changed political economic context within which actors were now operating; European monetary constraints and a developmental state. Thirdly, we will outline the political exchange in the Programme for Competitiveness and Work (PCW) and Partnership 2000 (P2000). Fourthly, we will assess the rapid improvement in employment that occurred from 1994-1998, and analyse whether national

wage agreements facilitated this. The chapter will conclude by arguing that social partnership was a state strategy of competitive corporatism. It was not about welfare retrenchment but a business friendly alliance aimed at supplying the economy with the labour market conditions for employment growth. National pacts generated the strategic capacity for the state to craft an Irish third way between European social democracy and UK neoliberalism. This process of economic governance was both functional adaptation to exogenous European constraints and an endogenous political strategy aimed at industrial stability. The causal mechanism of institutionalisation can be traced to the underlying political coalition and elite networks feeding into the political executive of the state.

2. Confronting an Employment Crisis in the European Monetary System

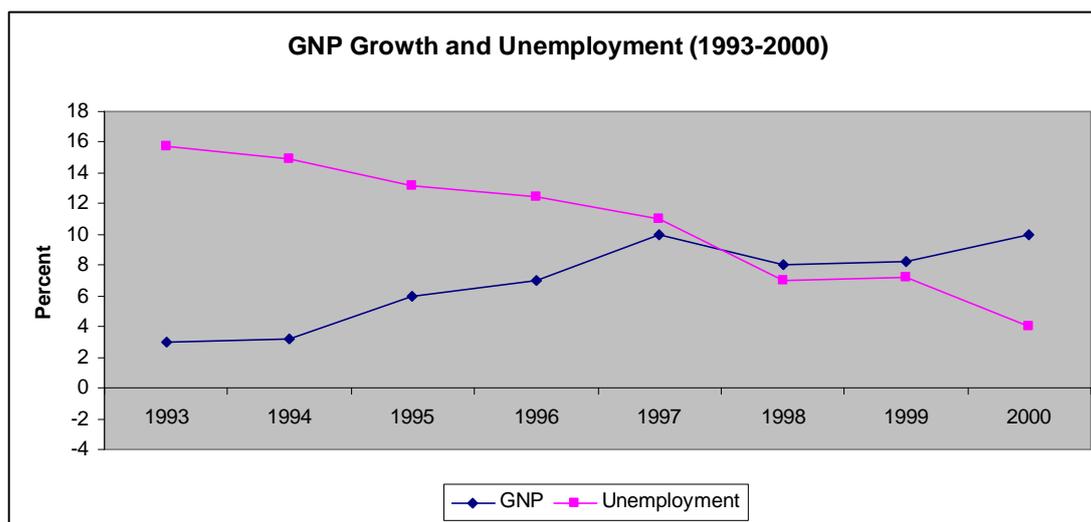
“The governments’ clear objective which led to this programme is to make work, at all levels, the cornerstone of development action” (Foreword to the Social Pact: Programme for Competitiveness and Work)

In chapter three we identified a fiscal crisis as the problem load that induced the state to seek a negotiated agreement with the peak level interests of labour and capital. The collective action problem was monetary and fiscal and framed in the NESC. The actors were primarily concerned “with economic survival” and developing a liberal market strategy for economic and social development. Between 1987-1993 economic growth rates averaged 4 percent per annum, higher than the European average (NESC, 1996). However, unemployment remained persistently high. The slowdown in emigration and an increase in female participation rates meant that the increase in the labour force was twelve times the EU average. It was not being matched by increased employment. Ireland was now experiencing jobless growth. If there was no improvement in labour market performance, the national income agreements would be considered a failure. Thus, employment was the collective action problem that framed the strategic orientation of the actors during this consolidation period. NESC was the deliberative arena that enabled ICTU, IBEC and administrative elites to establish a shared analysis on how to respond.

The NESC strategy, ‘Competitiveness, Growth and Employment’ (CGE), outlined the strategic framework that underpinned the cognitive and normative definition of the problem load facing the actors from 1994-1997. It was published in November 1993 and followed by the national wage pact; ‘Programme for Competitiveness and Work’ (PCW), in February 1994. A reduction in unemployment was identified as the overriding priority for public policy. Unemployment was twice the European community average. It was the second highest in Europe, after Spain. This is despite the fact that labour force participation rates were lower than the European average, primarily due to low female participation rates. Ireland and the Netherlands were the two remaining countries in the European community with a female participation rate of less than 40 percent (NESC, 1996). Long term unemployment was the highest in the OECD. An

increase in the labour force meant that to just maintain employment levels, an additional 25,000 jobs per annum needed to be created. An economic growth rate in excess of 6 percent per annum, from 1994-1998, was considered necessary to generate this level of employment. In this regard, the social partners in NESC agreed that a strategy for employment was ultimately a strategy for economic growth.

Figure 5.1: GNP Growth and Unemployment (1993-2000)



Source: Department of Finance Budgetary and Economic Statistics (2011)

During 1987-1990 Ireland experienced strong economic growth. This was directly associated with the 1986 devaluation and consolidated by three years of wage restraint. But from 1990-1993, the years immediately preceding the PCW, Ireland experienced sluggish growth (see figure 5.1). Labour market performance, in particular, deteriorated from 1990-1992. During this period unemployment grew, on average, by 15,300 per annum. Domestic demand, investment and consumption contracted. Investment declined by 5.3 percent and domestic demand by 0.9%. This accounts for the deterioration in economic and employment performance. The background to this was the 1992 currency crisis. The Irish currency was stuck between Germany and the UK. A crisis in the EMS pushed up German interest rates and, simultaneously, the Sterling was in rapid decline (see next section). The government responded, much like in 1986, by devaluing the currency by 8 percent (Irish Times, 1992). The outcome was a dramatic fall in interest rates (see figure 5.2 and 5.4). This, in addition to EC structural and cohesion funds, provided a significant stimulus to the economy. In 1993 EU investment amounted to 1.7 billion or 6.6 percent of GNP (NESC, 1993). In turn, this improved the balance of payment accounts. Exports remained stable. But this was not enough to sustain or create employment.

A consistent approach to wage, fiscal and monetary policy was considered necessary by NESC to ensure the gains from devaluation were not lost. Hence, government had a significant incentive to coordinate a centralised wage agreement in the interest of labour cost competitiveness.

Competitiveness in this period was initially about wage moderation but it was recognized that this would not achieve medium or long term growth. This could only occur through industrial upgrading and developing a national system of innovation (NESC, 1993). It was the latter that would ultimately improve economic and employment performance in the domestic economy. Competing on unit labour cost was considered a short term strategy to reap the gains of devaluation and increase employer profit for re-investment. The long term employment strategy was to compete with Nordic and Alpine economies on high value added quality production⁴⁶. Macroeconomic stability on labour costs was considered the central contributing factor of centralised wage bargaining to job creation (NESC, 1993). The design of a national incomes policy was to increase profit, investment and employment. Competitive corporatism, in this regard, was not a mechanism to reconfigure an institutionally embedded welfare state (Rhodes, 2002), but to generate a political coalition to improve employment performance through coordinated wage setting aimed at wage moderation⁴⁷.

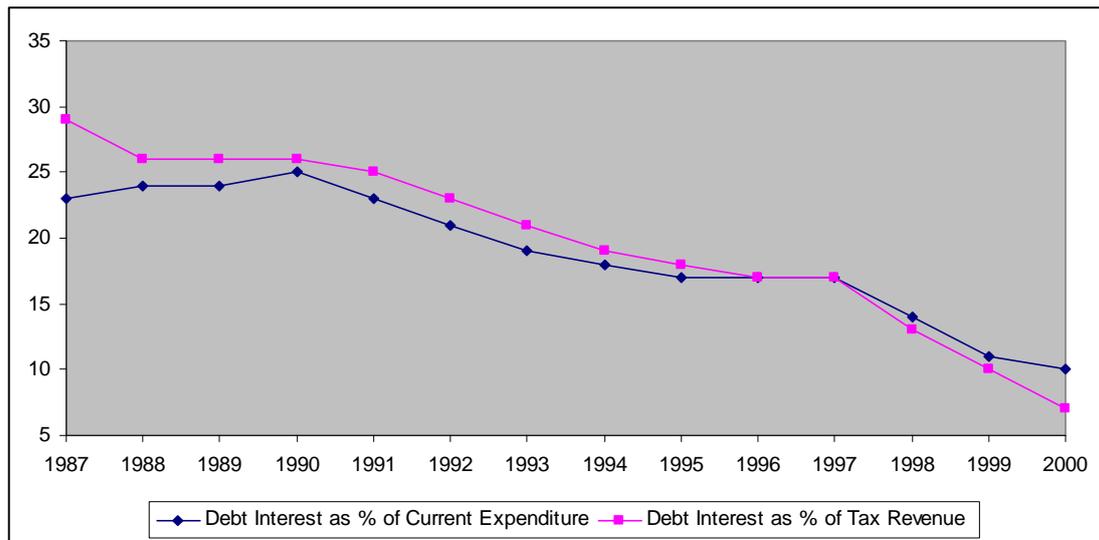
The Irish labour market during this period, similar to other European countries was undergoing a radical change (see figure 5.8). There was a continuous decline in agricultural employment and a significant rise in service based employment (ICTU, 1993). This change conditioned the strategic orientation of the actors in negotiating the national pacts. Ireland, as a late developing and peripheral economy of Europe, lacked the industrial foundation for indigenous enterprise and increasingly relied on foreign direct investment. The social partners, in NESC, recognized that globalization and Europeanisation radically reduced the scope for insulating the domestic economy from external changes in the international market. Social partnership compensated for this exogenous constraint by providing an endogenous policy framework to manage economic change and promote industrial development, premised on low taxes and liberal labour markets. Whilst exogenous change, arising from liberalized financial and capital markets in a new European monetary environment conditioned the policy constraints facing actors, NESC emphasized the fact they still had control over labour market, wage and fiscal policy. These were to be coordinated in the interest of national competitiveness.

Hence, for the emerging ‘social partners’ in NESC, the ability of Ireland to adapt to the pressures of Europeanisation was dependent upon a coordinated approach to wage and labour market policy. A centralised mechanism for wage coordination, that minimized distributional conflict, in the interest of labour market performance, was the shared analysis that embedded this strategy. By 1994, Irish trade unions, employers and state managers all accepted the orthodox economic assumption that wage restraint was necessary to generate employment. This shared analysis was made possible by the deliberative role of NESC and the *first factor* in explaining the consolidation of social partnership as a domestic process of economic governance.

⁴⁶ This broader view of competitiveness became central to the National Competitiveness Council, established in 1997, as part of P2000 to advise the Prime Minister on competitiveness policy.

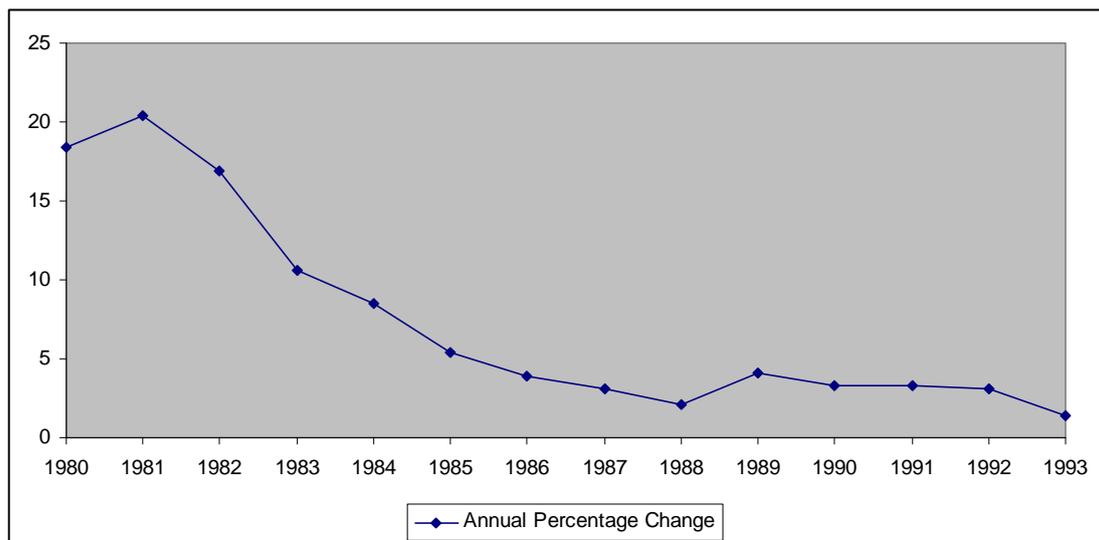
⁴⁷ This is the core theme throughout the NESC strategy documents during this period.

Figure 5.2: Debt Interest and Repayments (1987-2000)



Department of Finance Budgetary and Economic Statistics (2011)

Figure 5.3: Consumer Price Index (Inflation), 1980-1993



Source: Department of Finance Budgetary and Economic Statistics (2011)

3. The Exogenous Constraints of Maastricht in framing Domestic Policy

European monetary policy conditioned the evolution of social partnership as a process of wage setting in both the pre and post EMU period, not least because public sector pay is the primary mechanism to manage the public finances. But this functional logic is only part of the story. Europeanisation can be understood as:

‘[an] incremental process re-orienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national politics and policy-making’ (Ladrech 1994: 69)

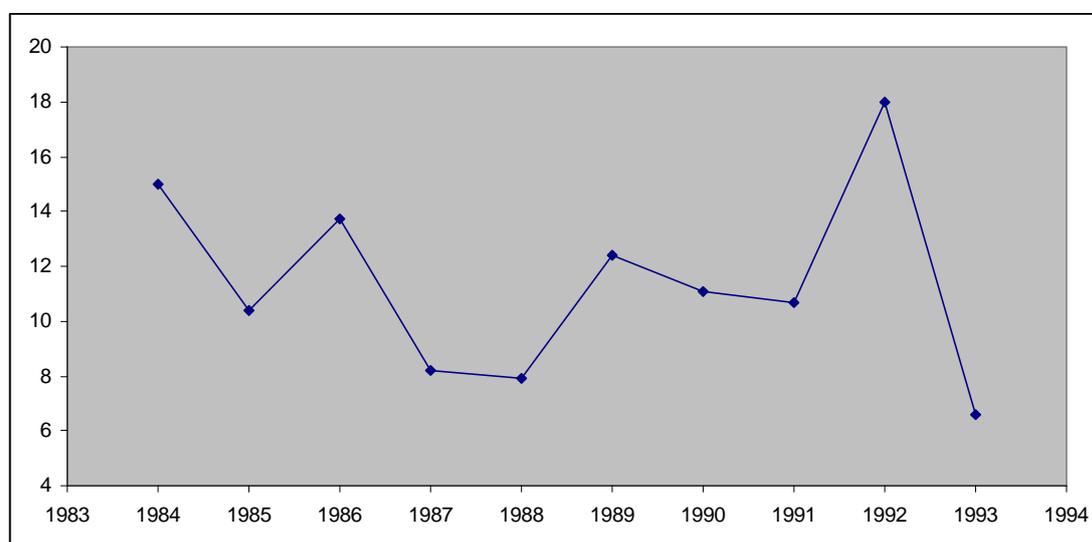
The Maastricht treaty came into force in 1993. This established a process for a shared European currency. During this period, fiscal and wage policy became central tools to satisfy the entry criteria in the Eurozone. It increased the incentive for tighter economic management. A national incomes policy, and the coordinated approach to wage, fiscal and monetary policy increased the strategic capacity of administrative elites to ensure the governments political objective of entering the EMU was achieved. In this regard we can say that ‘Europe’ was approached on a functional self-interested basis for the actors. A shared monetary framework was considered the optimal strategy for an improvement in economic and labour market performance (Yeates, 1992). The political decision to pursue a shared currency was to embed the price stability and low inflation that had emerged since 1987 (see figure 5.3). A centralised wage agreement was considered an important mechanism to ensure that the gains achieved from this price stability were not lost through a growth in labour costs. Controlling labour costs was the functional equivalent to avoiding a series of devaluations. But this wage moderation strategy at a central level expanded the social partnership process to include fiscal, exchange rate, social and labour market issues. This expansion into non-pay elements of public policy facilitated a shift toward corporatist policy making in the Irish state. Hence, a change in economic governance occurred simultaneously to a change in the transnational European monetary environment.

In 1992, the year prior to the negotiation of PCW, Ireland devalued its currency. This devaluation was not to offset domestic cost increases in wages but in response to turbulence in international money markets. The interest rates in the EMS, determined by German monetary policy, were generally considered inappropriate for the diverse domestic conditions in member states. Ireland adopted a non-accommodating exchange rate strategy but still had the flexibility to adjust to external pressures that were outside the control of domestic policy. The 1992 UK devaluation, in effect, given Irelands dependence on the UK market for exports, forced Ireland into depreciation (NESC, 1993). Ireland had adopted five years of wage restraint prior to this period - domestic costs were not the issue. In this pre-EMU period the state still had access to exchange rate adjustments. Sweden and Denmark rejected Maastricht on the basis that they

wanted to retain the capacity to respond flexibly as a small open economy to changes in international money markets. Ireland, despite adjusting its exchange rate to improve labour market performance in 1986 and 1992 opted to enter the fixed EMU regime. All future adjustments would now have to take place via internal wage devaluation. This was a clear functional incentive for the government and trade unions to adopt a national strategy to coordinate the wage setting process. To what extent social partnership, as a process of wage determination, actually internalised this constraint will be tackled in chapters 6 and 7.

The Maastricht criteria provided a real objective target to limit the demands of public sector unions and a ceiling under which the Department of Finance could negotiate public sector pay. Controlling pay in the state and semi-state sectors, not exposed to international competition, increased in importance during this period of fiscal constraint. This European monetary context is central to explaining the underlying societal bargain governing the PCW and P2000. A centralised wage agreement enabled government as employer to monitor and set pay rates between the public and private sectors in an integrated manner. This is the functional economic-pay objective of social partnership. But the other side of social partnership is the political process of economic governance. Technical economic decisions, as argued in chapter 1 and 2, are always political. The conditions that enable this to take place are endogenous to the Irish case.

Figure 5.4: Interbank Interest Rate (Before and after 1986 & 1992 devaluation)



Source: Department of Finance Budgetary and Economic Statistics (2011)

4. The Political Emergence of a Centre Left Coalition Government

The negotiation of PCW occurred under a Fianna Fáil/Labour coalition government. The PESP and PNR were, in principle, negotiated under a Fianna Fáil minority government in coalition with the liberal Progressive Democrats (PDs). However, in practice, these FF/PD minority coalitions

were dominated by the political-economic interests of senior Fianna Fáil ministers, particularly Charles J Haughey. In policy terms they were not ‘real’ coalitions per se. The Fianna Fáil/PD coalition from 1989-1992 was governed by the social pact; PESP, which according to senior civil servants at the time “effectively replaced the programme for government between Fianna Fáil and the PDs”⁴⁸. During this period, the PDs only held two of the fifteen cabinet ministerial portfolios. The PDs were a breakaway faction from Fianna Fáil and at this particular juncture did not have a fully defined neoliberal economic philosophy. They were not entirely distinct from Fianna Fáil. Their direct influence on Irish economic policy was only felt after the 1997 election. On the other hand, the PCW was negotiated under an explicit coalition government between Fianna Fáil and Labour. Their programme for government, negotiated after the 1992 election, contained an explicit strategy for job creation and economic expansion, subject to the provision of the Maastricht Treaty.

After the 1992 election Labour re-emerged as the third largest political party, winning thirty three seats in parliament. The PDs, on the other hand, only won ten seats. In the Fianna Fáil/Labour government that was formed, Labour held six senior ministerial portfolios and two junior ministries. This gave them significant influence over the direction of public policy. It was also the largest legislative parliamentary majority in the history of the Irish state (B O’Leary, 1992). The coalition negotiated a ‘Programme for a Partnership Government’, the content of which was effectively transmitted into the national pact agreement ‘Programme for Competitiveness and Work’. This programme for government made explicit it was building upon the success of the PESP. In the new programme for government, there was an explicit reference to developing the partnership approach to Irish politics and industrial relations. This coincided with the first coalition government between Fianna Fáil and Labour. A process of forming parliamentary coalitions and integrating corporatist actors into national economic governance was gradually becoming the norm in Irish politics. Thus, the consolidation of social partnership in governing Irish industrial relations coincided with a shift toward coalition governments in a Westminster style parliament. In addition, both the programme for a partnership government and the national pact embodied the core policy recommendations outlined in the EC white paper on: Growth, Competitiveness and Employment. European social policy was becoming increasingly important in framing domestic policy priorities (ICTU 1995, 1997).

The Fianna Fáil/Labour government collapsed in December 1994 and a new coalition government was formed between Fine Gael, Labour and the Democratic left. This rainbow coalition was in government from December 1994 to June 1997, and continued with the PCW. In this government Labour held seven senior ministerial portfolios, including the Department of Finance. This was Ireland’s first and last centre-left government during the period of social partnership. It was also the period that established the conditions for the employment and

⁴⁸ Interview with senior civil servant in Taoiseachs Department

productivity boom that was subsequently coined the Celtic tiger. This period of growth provided the economic conditions for social partnership to institutionalise over time. Strong growth was made possible by wage restraint, EU investment and currency devaluation, and facilitated a rapid improvement in labour market performance (see section 5).

New Actors and Political Dynamics

When the PCW expired in 1997, the centre-left government negotiated Ireland's fourth national pact; Partnership 2000. This was explicitly aimed at generating the conditions for entry into the European Monetary Union (EMU). The nominally agreed wage rate of 2.25 percent per annum, in the context of a 10 percent increase in GDP, led to significant industrial tensions in the public sector. The Labour Minister of Finance, Ruadhri Quinn, was unwilling to countenance any rate that might lead to inflationary pressures in the economy and damage Ireland's prospects for entering the EMU⁴⁹. In fact, the finance minister wanted to impose a three year wage freeze. To compensate for wage restraint, the government accepted a local bargaining clause and established a high level working group on collective bargaining rights. This led to the 2001 Industrial Relations Act and exposed a significant divergence of interest between IBEC and ICTU. The austere expenditure policies of the FG/Labour coalition, however, backfired. After the 1997 general election they were replaced by a FF/PD coalition. This government would subsequently adopt an aggressive neoliberal low tax model of economic growth that was totally inappropriate to the fiscal conditions of EMU (see chapter 5).

The actors involved in negotiating the P2000 also changed. The PCW was explicitly tripartite involving ICTU, IBEC, CIF and government⁵⁰. But during the drafting of the pact, submissions were accepted from the Irish National Organisation for the Unemployed (INOU), Conference of Major Religious Superiors, National Youth Council, National Parents Council and Combat Poverty Agency. During the deliberations of P2000 these civic actors were directly involved in negotiations (Yeates, 1996a). This expansion of actors completely changed the political dynamic and process of policy formation in the state. The specific rationale for expanding the process was to overcome the perception that social partnership was a corporatist cartel and a strategy of Fianna Fáil. Fine Gael, as argued in chapter three, have always maintained an ideological discomfort with corporatist policy making. Despite adopting a pragmatic support for centralised pay bargaining in the run up to Maastricht, they generally considered public sector unions a vested interest group rather than a functional actor in the productive economic sphere. To overcome the democratic deficit of corporatist policy making the Fine Gael government expanded the process to include a variety of civil society actors, particularly those representing

⁴⁹ Interview with the author

⁵⁰ It also involved farming organisations; IFA, ICMSA, ICOS and Macra Na Feirme. To what extent these can be considered 'labour' or 'employer' organisations is debatable. But they are not party to the wage agreement and generally only make inputs into issues pertaining to agriculture.

the unemployed. To what extent this diminished the strategic capacity of economic coordination and the policy analysis of NESC will be tackled in the next chapter.

The general point is that a change in the institutional pattern of parliamentary politics conditioned the evolution of Irish corporatism. Functional pressures to manage the employment problem within the constraints of EU monetary policy interacted with political pressures to generate stable coalition governments. This strategic uncertainty incentivized the state to actively seek extra-parliamentary support to coordinate labour market policy. The result was a re-centralisation of wage bargaining and a shift from parliament to concertation in framing and solving public policy problems. This political dynamic is the second factor in the causal process of consolidation. We will now examine the business friendly exchange underpinning the national wage agreements before assessing the impact on employment performance.

5. The Political Exchange of the National Wage Agreements

“To put competitiveness at the top of the social and economic agenda was one of our greatest achievements” (Former Director General, IBEC)

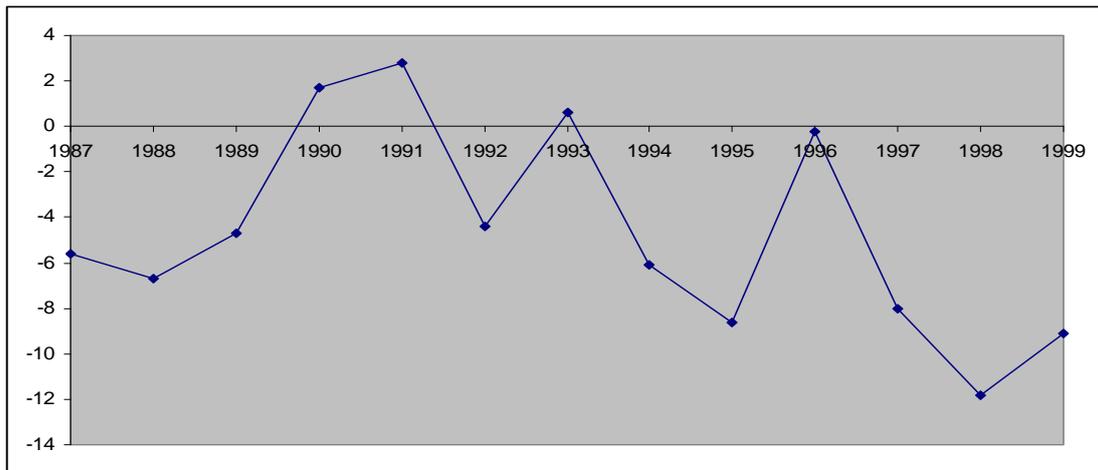
In a context where the rest of Europe was decentralizing the wage bargaining process to the sectoral level Ireland was re-centralising wage setting for unionised firms at national level⁵¹. This was part of a state plan to generate the labour cost stability for foreign direct investment in the chemical, pharmaceutical and engineering sectors. It was to generate the conditions for profit, investment and employment growth. Foreign owned multinational firms in these sectors are not party to the national wage bargaining process. But most are members of IBEC. Given the voluntarist nature of Irish wage agreements they do not have to adopt IBEC pay recommendations. Despite this, most MNC firms used the national agreements as a competitive benchmark. The labour cost certainty, and the no strike clause provided by the three year pacts, enabled the MNC sector to make long term investments in product development. In this regard, the wage agreements increased the competitiveness of the foreign owned multi-national sector (see McGuinness et al, 2008). But because that they are not party to the negotiations, they do not have to give anything in return for a political economic regime that is specifically designed to increase their profit. This can only be described as a case of free-riding (see figure 5.5).

The coordinating discourse of competitiveness, as outlined by NESC, had three main objectives; reducing labour costs, resolving distributional conflict and increasing employment within the constraints of Maastricht (NESC, 1993). These are the wage, work and welfare dimensions of competitive corporatism (Hall, 2010). During this period, the national competitiveness framework contained six variables: wage moderation, a restructuring of tax and

⁵¹ Wage setting that is de-centralised to sectoral level is still coordinated. When the pattern is set by export sectors it increases the probability of wage moderation (see chapter 2)

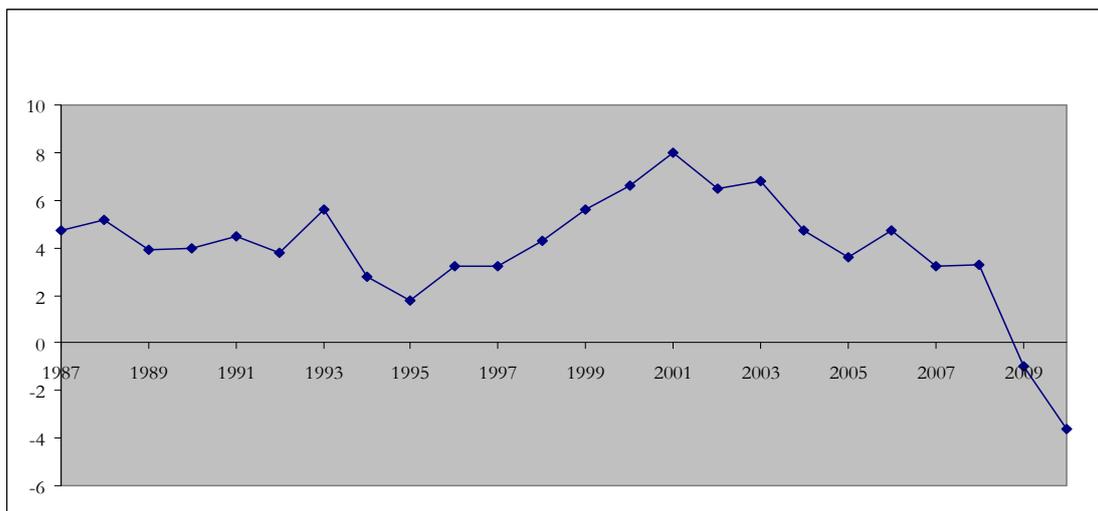
social insurance to encourage employment, a reduction in the debt-GNP ratio to improve interest rates, prudent control of the public finances, austere management of public expenditure, and enhanced efficiency in the non-traded sectors of the economy (NESC, 1993). The focus was on improving cost efficiency in the public sector to enable the traded sectors to expand. This embedded a neoliberal flexible preference for labour market coordination. But it was premised on a labour inclusive process of state development and specifically designed to increase employment.

Figure 5.5: Unit Wage Costs in all Industries (1987-2000)



Source: Tansey (1998)

Figure 5.6: Percentage Change in Average Earnings in all Industries (1987-2000)



Source: Department of Finance Budgetary and Economic Statistics (2011)

Public Sector Pay and Income Tax Reductions

In 1993, prior to the negotiation of PCW, Ireland had the highest tax wedge in the European Community (NESC, 1997). By 1999 the cost of employing labour was the cheapest in Europe (O'Hearn, 2001). Previous changes in taxation occurred via a reduction in tax bands and tax rates for wage earners. This had primarily benefited middle to high income employees. ICTU adopted a strategy to reverse this trend over the PCW and P2000. Both of these agreements contained a minimum cash increase (i.e. not a percentage rate) for the low paid. The percentage increase in the PCW was 8 percent over three years. This averaged approx. 2.5 percent per annum. The percentage increase in P2000, under the centre-left government, was 7.25 percent or approx. 2.25 percent per annum. However, it contained a 3 percent local bargaining clause in the public sector and a 2 percent clause in the private sector. In 1994, public sector pay amounted 53 percent of all net current spending. Social welfare, on the other hand, accounted for less than 27 percent. The local bargaining clause had the perverse effect of increasing public sector pay (Hastings, 2008).

The public service is a heterogeneous labour market with a variety of pay scales but generally conditioned by certain 'marker' grades. The grades of employees represented by the higher paid public service union; PSEU, in particular, became the traditional benchmark for lower grade pay claims. In decentralized wage setting, trade unions chase the percentage increase in those firms that pay the most. This 'leap frogging' results in a wage-inflationary spiral as those firms who pay the most are generally in the foreign owned multinational sectors. High labour costs are compensated by high levels of productivity. This is not the case in firms where productivity is low. The public service can be conceptualised in a similar manner. Traditionally, if nurses received a pay increase, teacher unions wanted the same, followed by the civil service, who in turn chased prison officers who followed the police force. The P2000 attempted to put an end to this process by establishing a restructuring and local bargaining clause. Specific sectors could opt for a 5 percent increase rather than a flat 3 percent increase in return for significant changes in productivity and flexibility. It did not work. Some higher grades in the health sector ended up receiving a 20 percent increase. The outcome, however, was a process to reform pay setting in the public sector by introducing the notion of 'benchmarking'. This sowed the seeds that would contribute to the collapse of centralised wage bargaining in response to crisis (see chapter 7).

Neither the PCW nor P2000 followed the recommendations of NESC on tax policy. Tax decisions throughout the period of social partnership were dictated by the political preference of government. The 1994 budget abolished a 1 percent levy on earnings, increased the standard tax rate band and decreased the marginal tax rate from 48 to 40 percent, whilst introducing tax credits related to foreign income of Irish companies (Sheehan, 1997). By 1997 the share of taxation to GDP was approx. 37.2 percent or 40.6 percent of GNP. This was below the European average. The decrease in taxation over time had occurred because of a reduction in

property and corporate taxes. NESCC (and by default, the social partners) advocated a reduction in taxes on earned income but it also recommended that this be replaced by a property tax and a reduction in tax expenditures (tax breaks). None of these recommendations were adopted by government. Taxes on earned income were radically reduced by Fianna Fáil after 1997 and replaced by a surge in indirect taxes associated with the consumption boom that was about to take off in the domestic economy (see chapter 6 for precise data). But a public policy regime committed to cutting income taxes had the effect of significantly increasing take home pay (see figure 4.6).

Generating Economic Growth to Create Jobs

The strategic objective of reducing income taxes was to generate jobs. This was complemented by sector specific proposals by the state to improve employment performance. The PCW identified the limits of adopting neoliberal approach by the state to labour market coordination. Managing wage costs in the interest of competitiveness, in return for a decrease in income tax, was the core distributional bargain for the actors. All of this was premised on a commitment by the state to take an active role in industrial development. Over time this would amount to nothing more than low corporate taxes. But at this specific juncture and in the framing of the pacts in the mid 1990's, it was about using the National Developmental Plan (NDP) and EU social funds to stimulate employment. The labour market policies complementing this strategy included a radically improved education and training system (the creation of a state training agency, FÁS), greater labour market flexibility through liberalization, targeted reduction in indirect costs of employing low skilled labour, active labour market policies (ALMP) to enhance the opportunities of the unemployed and developing non-market community based employment schemes (Yeates, 1994).

The PCW committed the government to establish a new state agency with the specific objective to revitalize Irish industry; Forbairt. The purpose of this agency was to work closely with IBEC and *An Bord Trachtála* to improve the linkages between foreign owned multinationals and indigenous enterprise. Priority was to be accorded to pharmaceuticals, healthcare, electronics, precision engineering and software companies. From 1994-1999, the National Development Plan aimed to achieve, with the support of EU funding: 11,00 gross jobs per annum in indigenous manufacturing and traded services, 2,500 jobs in food & drink, 4,500 in small businesses, 2,500 in large manufacturing, 500 from local linkages with MNC sector and 2,000 in Gaeltacht and rural industries. The government committed to establishing a specific R&D program as part of its wider Industrial Development Plan. This was based on the recently published Culliton Report. In terms of job retention, the government committed to establishing a 'Competitiveness and Employment Protection' unit in the Department of Enterprise. This was to encourage firms, in

difficulty, to avoid layoffs as a mechanism to save costs. Simultaneously, the government committed to amending the 'Protection of Employment Act, 1977', to increase formal procedures of consultation between employers and employees on the issue of collective redundancy.

In addition to these specific policies aimed at industry, there were a variety of proposals to create employment in construction, financial services, workers co-operatives, state companies and agriculture. The Public Capital Programme (PCP), in particular, was identified as a mechanism to create 9,000 jobs per annum between 1994 and 1999. The services industry employed approximately 60 percent of all employees in 1994. The social partners recognized that this sector will be the future employment engine of the economy. To maximize and coordinate this potential, a taskforce on services was to be established in the Department of Enterprise. This unit was to work closely with the Department of Tourism and Trade to establish formal linkages between the two sectors. The purpose was to expand marketing activities and create an additional 35,000 jobs in tourism. Furthermore, the government committed to establishing County Enterprise Boards (CEB) on a similar basis to the Area Based Partnership companies (ABP), established under PESP. These were to be coordinated by the social partners. The primary objective of the CEB's was to remove restrictions on the capacity of small businesses to create jobs, such as simplifying tax compliance procedures. An enterprise fund of €2.1bn was to be established over a ten year period, from 1994-2004, to provide cheap working capital at low interest rates and administered by the strategic investment bank: ICC. This was privatised, and sold to Bank of Scotland, in 2001.

The general point to be observed is the explicit commitment by government to adopt policies aimed at job retention and active industrial policies to create employment. This developmental strategy of the state was the opposite approach to what occurred after the 2008 financial crisis (see chapter 6).

Using the Social Wage to Embed Local Partnership

The primary social welfare objective, in the mid 1990's, was to reduce unemployment through active labour market interventions. To achieve this, the PCW and P2000 advocated an expansion of the area based partnership (ABP) companies established under the PESP. These area based companies were premised on developing labour market policies tailored to the specific needs of disadvantaged communities. A new framework to guide these schemes focused on non-market community based employment (see Sabel, 1996). These community employment schemes would now expand to create an additional 40,000 placements by the end of 1994. 25 percent of these placements were to be designated to those most disadvantaged by long term unemployment. It was aimed that by 1998, over 100,000 placements would be available for the long term

unemployed (from specific training, community employment and second chance schooling) with the long term intention of full integration into the labour market. Most of these schemes were abolished or amalgamated as a cost saving measure after the financial crisis in 2008. The focus shifted to neoliberal market activation.

Finally, the social partners agreed to review labour legislation and employment protection schemes, to ensure that they were not barriers to job creation and compliant with emerging EU directives. Interestingly, the PCW committed the government to enhance the wage setting mechanisms for the low paid. The Employment Rights Orders (ERO's) were to be enforced through a strengthening of the labour inspectorate and an improvement in the Joint Labour Committees (JLC)⁵². A specific clause in the pay agreement (an appendix to the national pact) committed employers to improve employee involvement at company level decision making. In addition, the PCW commits the government to introduce a 3 percent increase in the social welfare budget. Employment equality legislation was to be introduced in 1994, alongside Equal Status legislation, to combat discrimination in employment. Undoubtedly, all of these can be considered gains for the trade union movement. However, it must be recognized that the PCW contains large sections of the Programme for a Partnership (PFP) government, agreed between Fianna Fáil and Labour. Hence, it is difficult to identify a precise political exchange in the actual social pact. It was a state-led business friendly economic plan, premised on improving labour market performance and conditioned by the centre-left tendencies of the both the Irish government and the European Union at this particular juncture.

The broad societal bargain that underpinned social partnership as an institution of labour market governance, during the 1990's, was less the pay-tax exchange or neoliberalising the welfare state but active industrial policies to improve employment performance. This coordinating role for the state in economic development is the third factor in the causal process of consolidating centralised wage agreements. But if the purpose of wage restraint was to improve labour market performance then we have to assess trends in employment creation during this period. The following section draws heavily upon the data contained in an ILO report 'Astonishing success; economic growth and the labour market in Ireland', by O'Connell (1999).

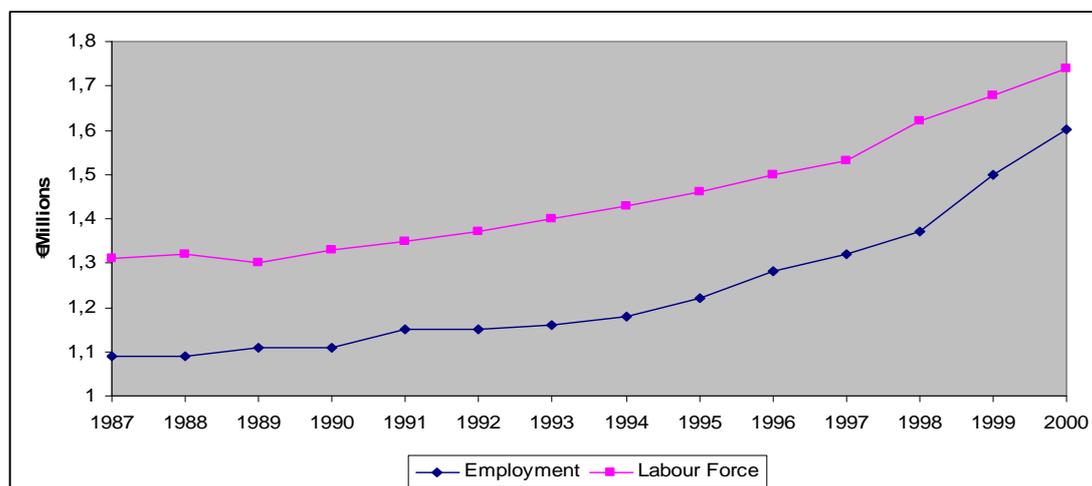
6. Assessing the Employment Performance of Centralised Wage Bargaining

What occurred from 1994-1999 can be compared to the Dutch Miracle from 1988-1995 (see Visser & Hemerijck 1995). This employment success was not based on a neoclassical growth model. It was premised on a developmental policy driven by the state and negotiated through corporatist institutions. In 1993 NESAC argued that employment needed to grow, at a minimum, by 25,000 per annum to match the increase in the labour force and to stabilize an unemployment

⁵² The response to the Eurozone crisis was an attempt to remove sectoral wage setting for the low paid as they were considered a barrier to competitiveness.

rate of 16 percent (see section one). They forecasted an economic growth rate of 4 percent per annum from 1994-1997. The economy, however, grew on average by 8 percent per annum and employment by 25 percent. By 1997, unemployment had fallen to 12 percent and by 1998 it had fallen to 8 percent (Tansey, 1998). Hence, unemployment went from being one of the highest in the EU, in 1993, to below average in 1998. This was despite the fact that the labour force grew by approx. 30,000 per annum from 1993-1997. This increase in the labour force was caused by a reduction in emigration and a surge in female participation rates. In 1993 there were 433,000 women at work in Ireland or 36 percent of total employment. By 1998 this had increased to 594,600 or 40 percent of total employment. This is an annual increase of 7 percent. Total employment from 1993-1997 increased by 197,000. Of this number, approximately 22 percent were part time jobs. Total employment from 1994-1998 increased by 28 percent or 8 percent per annum (see Tansey 1998). By all accounts this was a remarkable success.

Figure 5.7: Total Employment and Labour Force in the Irish Economy (1987-2000)



Source: Department of Finance Budgetary and Economic Statistics (2011)

There was a significant change in the sectoral composition of employment during this period. Agriculture continued to decline and by 1998 accounted for less than 10 percent of total employment. Manufacturing, contrary to what was happening elsewhere in Europe increased by 3 percent per annum. This was primarily driven by foreign direct investment and a variety of tax incentives pursued by state agencies. In 1993 the total number of full time jobs in manufacturing was 200,249. By 1998 this had grown to 234,269. This was an increase of approx. 10 percent. Irish owned manufacturing increased from 112,839 to 123,201. Foreign owned multinationals increased 88,573 to 111,068. In 1998 Irish owned companies accounted for 53 percent of total manufacturing employment whilst foreign owned multinationals accounted for 47 percent. When examined over a longer time period, one can observe significant changes in manufacturing, primarily a decline in employment in traditional unionised Irish industries such as textiles, clothing and food manufacturing. Employment in the non-unionised modern sectors such as

chemicals, computing and electronics has continuously increased (Sweeney 1998). As a share of total employment, manufacturing remained stable at 22 percent throughout the 1980's and 1990's. This MNC sector, whilst contributing to the productivity boom, does *not* account for the significant employment growth that occurred in the Irish economy (see figure 5.7).

The largest growth in employment throughout the 1990's took place in market and non-market services⁵³ (O'Connell, 1999). Internationally traded and financial services employment increased from 14,184 in 1993 to 39,688 in 1998. This percentage increase continued until the early 2000's. Irish owned internationally traded services increased by 5,219 to 12,505. Foreign owned internationally traded services, including the Irish Financial Services Centre (IFSC) component, increased from 8,096 to 27,183. These are the sectors specifically supported by state grants and tax incentives policies. The wider market services sector includes a variety of business, communications, transport, distribution and professional related activities. This is where the jobs miracle took place and driven by increased domestic consumption⁵⁴.

Total private market services employment increased by 100,000 or 427,000 to 527,000 between 1991 and 1997 (O'Connell 1999). This was approximately 40 percent of total employment. Non-market public service employment increased by 62,000 from 1991-1997. The bulk of this took place in education and healthcare. From the first social partnership agreement; PNR in 1987, to the conclusion of the fourth agreement; P2000 in 1999, overall private sector employment grew by 32 percent whilst public sector employment grew by 3.2 percent (See O'Connell, 1999 and Tansey 1998). This sectoral change coincided with a compositional change in occupational structure. In short, there was an increase in professional, managerial and service occupations and a decrease in semi and unskilled labour. The general point is that the employment boom was driven by domestic consumption and reflected a radical change in the sectoral composition of the Irish labour market (see figure 5.8 and 5.9).

There are several studies on the precise configuration of factors that enabled the employment miracle to take place (see Nolan et al, 2000). Most highlight the role of foreign direct investment, three decades of investment in education, the growing single European market, an English speaking workforce, social funds from the EU and the wage restraint implicit in the national income agreements. However, few if any analyse how these changes in the sectoral and occupational composition of employment impacted upon the distribution of income or the underlying power resources and institutional strategies available to actors in the labour market. The domestic institutional framework of social partnership was the governance process through which the actors established a social consensus on how to manage the distributional constraints of a liberal market economy. Given the growth in non-union employment, the extent to which the national wage agreements were inclusive and encompassing across the economy was

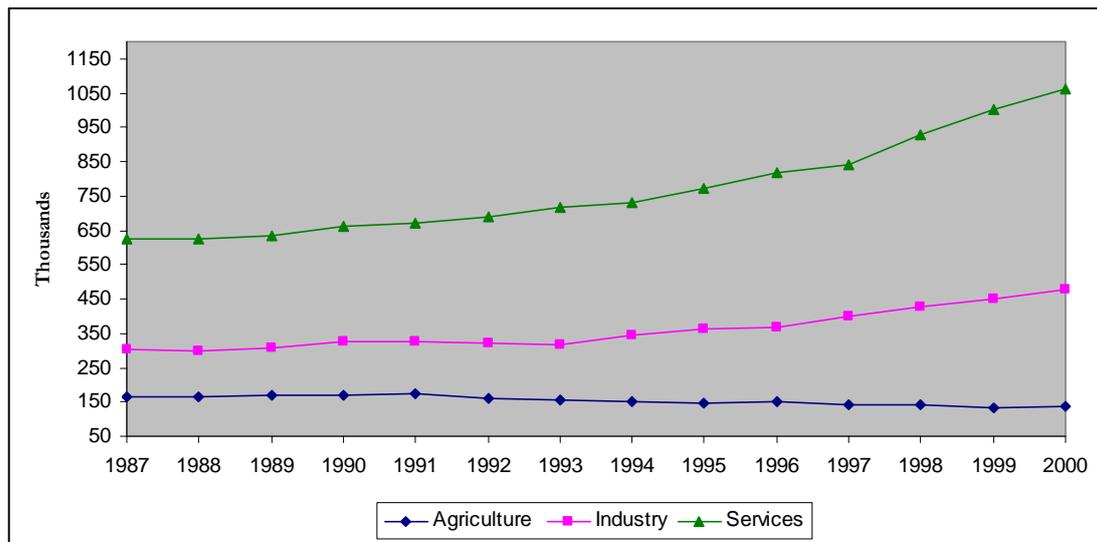
⁵³ In the 2000's it primarily took place in construction, health and education

⁵⁴In this regard, it was not giving employers more profit that created the jobs but increasing the real income of workers – through a radical restructuring of the income tax system.

diminishing. This was creating a representational gap as to who ICTU and IBEC were actually representing. A dual economy was increasingly opening up between unionised and non-unionised companies. In the absence of formal-legal extensions of collective bargaining to non-union companies or an increase in trade union density, centralised wage agreements would remain exclusive to the particular interests of the public sector (see chapter 2).

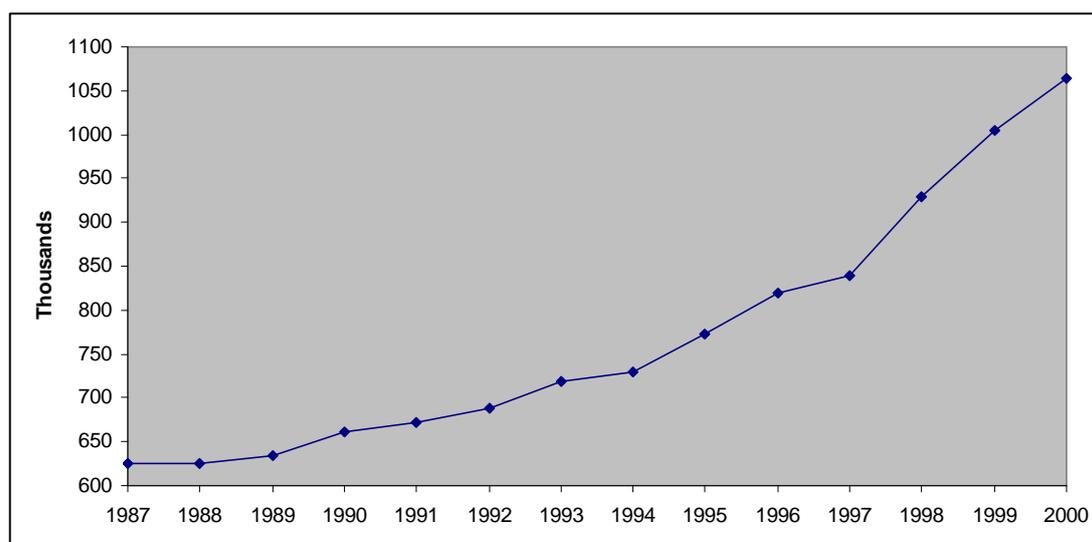
The general point, however, is that centralised wage bargaining over a twelve year period became directly associated with successful economic and employment performance. This consolidated the strategy of actors to embed social partnership as the default position of Irish politics and industrial relations. This is the fourth factor in the causal process of institutionalisation. We will now briefly examine the impact of national wage pacts, as an independent variable, on the organisational structure of IBEC, ICTU and Prime Minister’s office before concluding with some remarks on the Faustian dilemma facing Irish labour. Social partnership, it will be argued, not only reconstituted the external power relations between the peak level interests of labour-capital-state but the internal organisational structure of these actors.

Figure 5.8: Sectoral Composition of the Labour Market 1987-2011



Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 5.9: Total Employment in Services (1987-2000)



Source: Department of Finance Budgetary and Economic Statistics (2011)

Re-assessing the Organisational Conditions for Corporatist Exchange

“It was a strategy to advance the influence of working people in society. It was unquestionably the best way forward because it concentrated the power of the trade union movement in one negotiation” (General President SIPTU).

Social partnership during this period was growing two tentacles. The first was the construction of a national wage setting mechanism in the interest of economic and employment performance. The second is a by-product of this economic function and involves a shift in policy concertation; the procedural process of interest intermediation between the state and organised interest groups. The former can be conceptualised as the industrial relations dimension of pay determination and the latter a process of socio-economic governance. This is reflected in the classical literature on corporatism and concertation (see Streeck and Kenworthy 2005). Corporatism was a term used to describe the relationship between trade unions, employers and the state in functionally managing the economy. Concertation was a term used to describe the relationship between organised interest groups and the state in formulating public policy (see chapter 2). In the Irish case, the two cannot be separated. The construction of a national incomes policy, by the state, necessitated a strategy that integrated wage, fiscal, labour market and exchange rate policy into a macro-economic plan. This state led corporatist development required peak level economic actors (i.e. IBEC and ICTU) to develop the capacity to become peak level political actors in dealing with the administrative system.

The success of the national wage pacts consolidated the strategy of trade unions to coordinate their bargaining power into a single negotiation with government. This led to an internal change in the bargaining priorities of ICTU. Trade union leaders recognised that the

sectoral composition of the labour market was rapidly changing. The growth in service based employment, premised on globalising and flexible labour markets increased the precarious nature of work. To protect against this precarity trade unions needed access to the political sphere. Only formal-legislation would provide an adequate level of employment protection for non-unionised workers (see chapter 2). This led to the introduction of a national minimum wage in 2001 (see Sheehan, 1998a on IBEC resistance). It also led to a national role for ICTU in the resolution of industrial disputes, associated with worker displacement, employer disassociation from the social partnership process and concerns about a race to the bottom in labour standards (see chapter 7). This strategy of becoming a political actor at national level required the organisational capacity to act as a single voice in an increasingly diversified labour market.

In comparative European terms ICTU remains weak in both its decision making capacity and strategic resources for policy analysis. The main restructuring during this period saw the merger of affiliate unions, particularly the WUI and ITGWU, to form SIPTU. By 1995, SIPTU represented almost one third of all trade union members. No national agreement, in practice, could be adopted without their support. By the time P2000 was negotiated, social partnership was, in effect, the official policy of the SIPTU executive. The ICTU, importantly, provided a national vehicle for the leadership of large affiliated unions to adopt a public regarding stance in relation to national economic policy i.e. to adopt policies that were not in the sectoral specific interest of their members. However, whilst this unified stance was maintained in public and facilitated by ICTU, privately, there was a growing conflict between trade unions representing the low paid (notably MANDATE and CPSU) and those representing higher paid professionals and public servants (notably, the PESU and IMPACT). This tension became particularly salient when high levels of inflation emerged in the economy after Irelands adoption of the Euro (see chapter 6).

In 1995 the two employer bodies; FUE and CII merged to form IBEC. The rationale for this strategic re-organisation was to maximize what they could achieve from peak level negotiations. It also enabled employers to speak with one voice when both dealing with the government, coordinating affiliated sectoral-employer associations and resolving national industrial disputes. The adoption of tri-annual wage referenda required a mechanism for consulting member firms and seeking acceptance for final agreements. IBEC adopted a process whereby they would have regional consultations with firms to assess the percentage pay increase their members would accept. After the negotiations, they would consult members to assess whether the final percentage increase was acceptable. The final decision, however, was determined by IBEC's executive council. The main sectoral influences on IBEC's executive were the strategic interests of US based multinational firms, Irish banks and semi-state commercial companies⁵⁵. In fact, one of the main rationales for re-naming IBEC, and restructuring its

⁵⁵ The aggressive anti-union strategies of Ryanair, for example, created a lot of internal tensions within IBEC. Ryanair eventually left but were soon followed by other anti-union Irish firms who felt they were at a competitive disadvantage

priorities, was to remove the perception that employers were a union. US multinationals did not want to be associated with an employer's union whilst adopting union substitution strategies for their employees⁵⁶.

Finally, the most important actor in the coordination of national wage pacts was the political executive of the state. As argued in chapter four, the authority provided by the Prime Minister and the Central Review Committees (CRC) increased the political credibility of social partnership as a reformulated corporatist experiment. The Prime Ministers department not only coordinated social partnership as a process of interest intermediation but cabinet government (see chapter 6). These two tentacles give it significant influence over the public policy priorities of the state. The secretariat to the Prime Minister manages the legislative agenda of government and the social partnership negotiations. Centralizing social partnership in the Prime Ministers department gave ICTU and IBEC unprecedented access to access the public policy making machinery of the state. Fianna Fáil were re-elected in 1997 and would remain in government until 2008. Hence, from 1997 until the collapse of the Irish economy in 2008, social partnership became directly associated with the public policies and political governance of Fianna Fáil.

The new Prime Minister, Bertie Ahern, much like the political architect of PNR, Charles J Haughey, was committed to centralised wage bargaining. One of his first acts as Prime Minister in 1997 was to inform cabinet government and senior civil servants that “social partnership was official government policy”. All major public policy decisions would now have to take place in consultation with the social partners. This increased role for government came at a cost. It changed the dynamics of what was, up to this point, an industrial relations process (see chapter 5)⁵⁷. It was now re-directed to increase the deliberative capacity of government departments, leading to a form of network governance (see Hardiman, 2006). But the outcome was a process of institutional exhaustion (see Streeck, 2005).

Thus, the strategic capacity to deliver on the centralised wage agreements was made possible by the administrative rationalization of confederated union and employer structures during this period. In turn, this was made possible by the formal structures of social partnership itself. This reverses the classical pre-conditions considered necessary for the emergence and consolidation of centralised wage bargaining. State managers constructed a framework for a national incomes policy, which, in turn, induced peak level actors to re-structure their organizations to maximize what they could get from the negotiations with the state. Access to political power and the coordinating role of the political executive transformed the strategic behaviour of employer and trade union associations⁵⁸. The executive of large unions increasingly

to the non-union foreign owned multi-national sector. These firms were given a guarantee by industrial development agencies, such as the IDA, that they could freely operate a non-union strategy.

⁵⁶ Interview with ex executive board member of IBEC

⁵⁷In effect it evolved from a ‘competitive corporatist’ strategy into a form of ‘corporatist pluralism’ to improve the problem solving capacity of the state

⁵⁸ Interview with previous general secretary Taoiseachs Department (1997-2010)

behaved as though they were political parties in government, and focused all of their lobbying efforts on the Prime Minister. The political executive of the state was the nexus of power around which this elite network or political coalition was built and the final factor in explaining the consolidation of corporatism in the pre-EMU period.

7. The Faustian Dilemma of Irish Social Partnership

“Our preoccupation was not about shaping the agenda. The agenda was shaped by the decisions the electorate took. Our preoccupation was about trying to ensure that working people got their fair share...Social partnership, in the end, was good for workers but not for trade unions” (General President, SIPTU)

It is often said that trade unions need institutions when they are weak so build them when they are strong. This was particularly the case in the corporatist systems of small European economies such as the Netherlands, Sweden, Finland and Austria. Legal-institutional guarantees were provided to trade unions to compensate for their weakening power resources in the labour market. This included the legal extension of sectoral wage agreements to all employees, the right to free collective bargaining and constitutional guarantees to consultation on socio-economic policies. This historical embeddedness is a core factor in explaining the variation in collective bargaining regimes across Europe.

The voluntarist and exclusive nature of Ireland's wage setting framework makes it qualitatively different from structure of European industrial relations⁵⁹. In Austria, all employees are covered by sectoral wage agreements if the firm is a member of an employer association. Given that it is legally required for companies to become members of an employer association, all employees are covered by collective bargaining. In Ireland, if the wage agreements, and the outcome of Labour court decisions, were legally binding on employers, IBEC would have walked away from the process⁶⁰. This institutional flexibility complemented the neoliberal nature of Ireland's political economy and led to an incremental shift in the distribution of power away from labour toward capital (see chapter 6 for examples of increasing disassociation of employers from the process) but compensated by state coordination.

The access to influence political decision making, in the context of a booming economy and declining power resources, was the glue that consolidated a preference for social partnership by Irish trade unions. This generalised political exchange can be conceptualised as a process of building a national coalition in the interest of national economic performance. By limiting demands in the present, ICTU and IBEC ensured their policy influence over the long term

⁵⁹ The concentration of unionization in the public sector for ICTU and the focus on prioritising the interests of large MNC for IBEC was problematic as it minimised their capacity to be considered general and encompassing producer groups acting in the *collective* interest of the economy (see chapter 2).

⁶⁰ Interview with senior IBEC representative

developmental trajectory of the state. But, this influence over the political objectives of the state was conditioned by the parliamentary party system. On the one hand, the absence of a left-right partisan divide in parliament facilitated the consolidation of social partnership. But on the other, it conditioned the underlying business friendly political exchange. The success of national wage agreements created a Faustian dilemma. It embedded a normative preference for regulated conflict in the coordination of industrial relations without generating institutional guarantees to embed social partnership as legal framework of encompassing collective bargaining.

The institutional re-production of social partnership was contingent upon the political preference of government (see chapters 6&7). Yet, simultaneously, trade unions were refused a legal right to collective bargaining in an increasingly competitive and globalised labour market. This weak institutional structure and the absence of obligatory and mandatory rules meant that the government and employers could walk away from the process at any stage. Furthermore, trade unions not only legitimised but became increasingly associated with a market managerial strategy of capitalist development. They supported Ireland's entry into the EMU without a demand to embed a national system of labour market protection to insure against the possibility of a macro-economic shock (as occurred in Finland). Therefore, unlike Alpine and Nordic corporatist economies, there was no social compensation to offset the risks of market globalisation. The trade-off was political access to the policy making apparatus of the state, under the stewardship of Fianna Fáil, to tame the worst effects of an increasingly liberalised and globalised political economy.

8. Conclusion

“Modern democracy is about a series of bargaining processes⁶¹”

(Former General President, SIPTU, 1999-2004)

Social partnership consolidated as a political strategy of the state to coordinate wage restraint in response to the functional and exogenous constraints of an impending European Monetary Union. The political and endogenous configuration of factors that enabled the actors to embed this strategy of competitive corporatism can be traced to a shared analysis of their collective action problem: unemployment. This was made possible by the communicative forum of NESC. Secondly, a centre-left government pursuing the criteria of Maastricht but simultaneously sympathetic to centralised wage agreements were willing to invest in job creation. Employers were guaranteed increased profits through wage moderation and a market friendly plan to enhance national competitiveness. Thirdly, changing organisational structures within Irish trade unions enabled a technocratic leadership to negotiate national wage restraint in the interest of labour market performance. The employment boom that occurred from 1994-1998 became

⁶¹ Quote taken from interview with Pádraig Yeates in the Irish Times, March 3rd 2000

directly associated with centralised wage bargaining and wedded trade union leaders to the process. Social partnership was directly associated with political stability and economic success.

Finally, and most importantly, the coordinating role of the political executive of the state legitimised social partnership as a domestic strategy of economic governance. The underlying political coalition and elite network of employers, trade unions and administrative elites feeding into the Prime Ministers department is the core factor in explaining the institutional consolidation of Irish liberal market corporatism. This generated a distinct political trajectory of liberalisation that that we have described as the 'Irish third way'. Chapter 6 will examine the contradictions that emerged in response to the new exogenous constraints of the EMU and the domestic political factors that led to a strategic focus on social rather than wage policy in consolidating the underlying political coalition of social partnership.

Chapter 6

The Post-EMU Consolidation of Irelands ‘Corporatist’ Political Economy (1999-2006)

The Politics of Social Policy and Public Sector Pay in the EMU

1. Introduction

This chapter will seek to explain the determinant factors that embedded social partnership as the default position of Irish politics in the post-EMU period. The new monetary context of EMU constrained the strategic choices facing the actors and it was not obvious that the state or employers would continue supporting centralised wage agreements. Building on the analysis in chapter 5, it will be argued that the second tentacle of corporatism (the process of interest intermediation between the state and civil society) rather than the first (functional wage restraint aimed at economic performance) expanded during this period. This was the result of endogenous political dynamics and driven by the strategic interest of government.

The monetary constraint of EMU increased the importance attached to domestic fiscal, wage and labour market policy. This provided an additional incentive for coordinated incomes policy. However, the actors did not internalise this constraint. The strategy of the actors was to develop social policy and manage industrial disputes that had emerged after fifteen years of wage restraint. In the absence of a real political exchange the government expanded the process to include almost every aspect of public policy. Corporatism was less concerned with managing external cost competitiveness in the EMU or controlling inflation but minimising political dissent by nurturing a non-parliamentary political coalition with organised civil society. This led to a significant shift in the role and function of the Prime Minister’s office in socio-economic governance. Social partnership, driven by the political executive, was increasingly used to supplement the Irish parliamentary system with a structured form of pluralist corporatist policy making. This was informed by the Open Method of Coordination (OMC) in Europe and would lead to a process of institutional exhaustion.

The structure of the chapter is as follows: firstly we will assess the new collective action problem as perceived by the actors; developing the welfare state in the EMU. Secondly, we will outline the endogenous political economic context within which the actors were now operating;

high inflation, industrial conflict in the public sector and a neoliberal government adopting a pro-cyclical fiscal policy. Thirdly, we will argue that competitive corporatism morphed into a process of corporatist pluralism to supplement the weak problem solving capacity of the Irish state. This will be illustrated by examining the content of the 'Programme for Prosperity and Fairness' (PPF) and 'Sustaining Progress' (SP), both of which transformed the institutional context of policy formation in government. The chapter will conclude by arguing that the persistence of Irish corporatism can be explained by the distributive benefits it provided to the underlying political coalition and the coordinating role of the state. However, the inability to internalise the wage and fiscal policy constraints of EMU produced internal contradictions that would contribute to the collapse of social partnership in response to the Eurozone crisis in 2008 (chapter 7).

2. Reconstituting the Welfare State in a Period of Economic Growth

The previous chapter outlined the centrality of labour market performance in consolidating social partnership as a political coalition in the pre-EMU period. From 1998-2000, employment was still a concern for the actors. It was one of the core factors that led to the introduction of representatives for the unemployed on to the executive council of NESC. Unemployment remained below the OECD and EU average but was still 7 percent of the workforce. From 2000 onwards this rapidly decreased. By 2002 there was, in effect, full employment and by 2004, labour shortages (CSO, 2008). Unemployment fluctuated between 3-5 percent until 2008. Most of the employment creation during this period occurred in construction, healthcare and a whole variety of consumer services in the domestic economy. It was a boom in domestic demand and a growth in public services that enabled full employment to take place not an increase in exports or productivity in the foreign owned sectors.

The social partners in both the NESC deliberations and the national wage pact negotiations did not consider this a particular problem. The focus was less on developing sectoral strategies to improve the type of job creation across the labour market (as occurred in previous social pacts) but managing distributional tensions associated with the welfare state in a rapidly expanding economy. Remarkably, Ireland went from an employment crisis to labour shortages in less than ten years. A tight labour market after ten years of wage moderation inevitably led to a demand for higher wage increases. Hence, the nominally agreed annual rates after 2000 were, on average, 2 percent higher than the pre-EMU period. This, coupled with the availability of cheap credit and a decrease in income taxes, led to a rapid increase in overall disposable income. More money in the economy facilitated strong domestic growth and full employment. This, as will be illustrated in chapter 7, was the result of domestic tax choices and exogenous incentives provided by negative interest rates in the EMU. The outcome however was an asset-house price bubble.

The main problems identified by the social partners in NESC during this period was not the exogenous constraint of EMU and the inflationary pressures it had induced but tackling inequality through a reconfiguration of social services, developing a coordinated pay bargaining system for the public sector and overcoming infrastructural bottlenecks in roads, housing, healthcare, transport and childcare. The National Development Plans (NDP) became central to framing the social partnership process. Much like the EU structural adjustment funds in the 1990's, these national development plans gave trade unions and business leaders unprecedented access to influence state capital investment. Ireland entered the EMU as the fastest growing economy in Europe. The problem facing policy makers was less how to roll back the welfare state through a process of permanent austerity, as was occurring in other member states, but how to develop the welfare state and the productive capacity of the economy through infrastructural investment. This led to an increase in government expenditure (current and capital) and created inflationary pressures in what was already an overheating economy (see figure 6.1a and 6.1b).

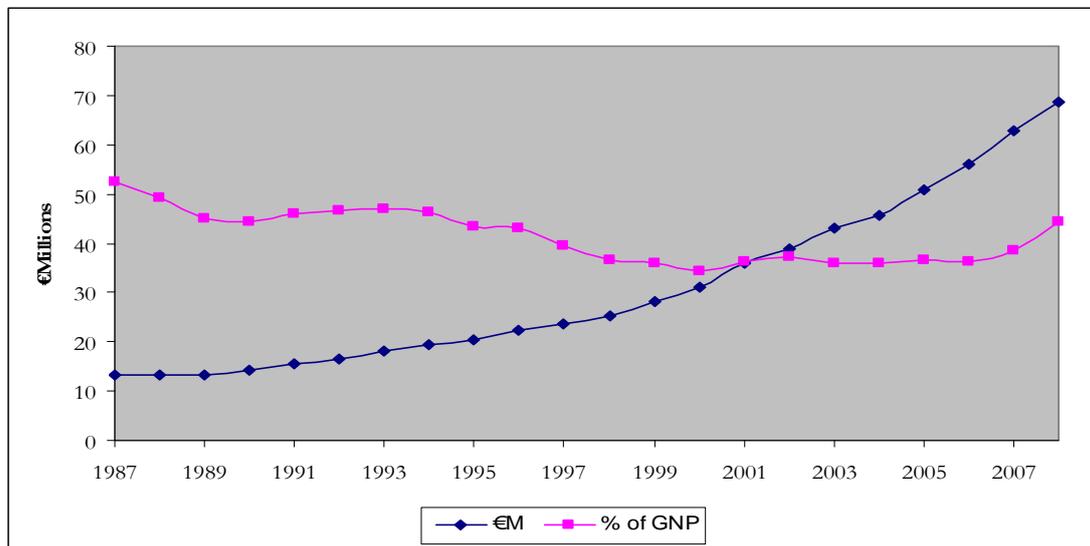
The absence of a concrete macro-economic constraint such as fiscal adjustment, reducing unemployment or achieving the Maastricht criteria meant there was no exogenous policy challenge for the social partnership process. In this regard it had to develop new endogenous political priorities and these came from government not the social partners. This was reflected in the 1999 NESC strategy report; 'Opportunities, Challenges and Capacities for Choice', that informed the negotiation of the Programme for Prosperity and Fairness (PPF) in 1999, and the 2002 report; 'An Investment in Quality; Services, Inclusion and Enterprise', that informed the negotiation of Sustaining Progress in 2003. In 2000 the social partners were negotiating a national pact against a period of economic growth that averaged 8.5 percent per annum. The debt-GNP ratio had been reduced to 65 percent, 269,000 jobs created in less than five years and inflation less than 1.5 percent⁶². Employment and economic growth were no longer the strategic objective but distributing resources to those who had not benefited from the boom. Inevitably this led to new demands from a whole variety of interest groups that had been incorporated into the increasingly pluralist social partnership process. Labour market performance was replaced by how to manage increased distributional resources/revenue as the primary 'collective action problem'. In ideal rational choice terms, the focus should have been on how to coordinate labour market and fiscal policy in the EMU (see chapter 7). But given the endogenous conditions of Ireland's political economy and the national developmental programme built into the social partnership process, this was never going to be the case.

In the context of booming government revenues (see figure 6.2) the social partners were focused on the type, level and extent of social protection required for an economy that was gradually converging on European standards of living. This policy objective was reflected in the

⁶² Within two years inflation would increase to 5 percent and quickly changed the wage bargain governing the 2003 social wage pact. The EMU, contrary to expectations increased rather than contained inflation in the Irish economy. This was being created through land and house price inflation (see chapter 7).

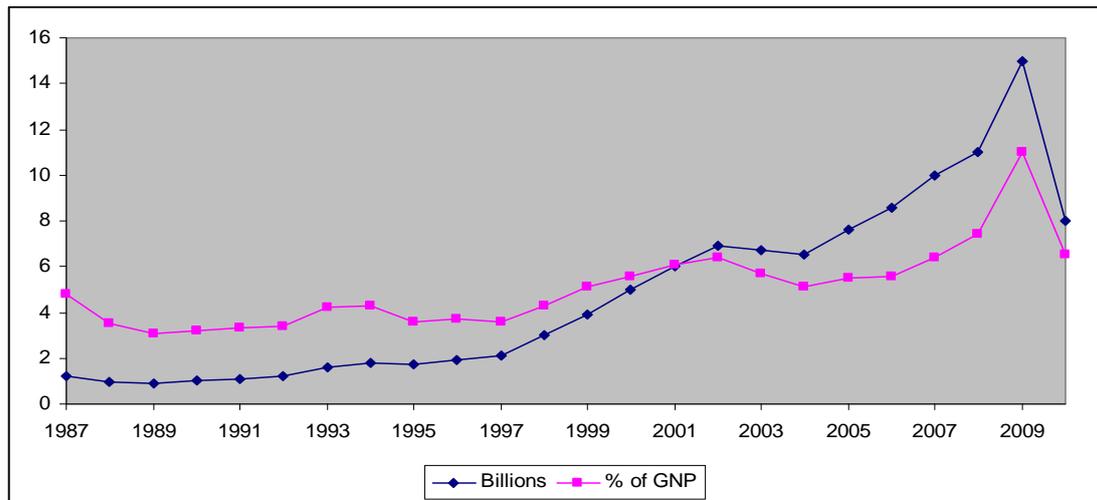
National Anti-Poverty Strategy but overtime it became a broader attempt at constructing a ‘developmental welfare state’ around the lifecycle framework (NESC, 2005). This NESC document redefined the strategic objective of the social partners to consider what a small welfare state could realistically achieve in the context of a single European market. The focus was on supply side policies and learning from the ‘flexicurity’ systems of Denmark, Netherlands and Finland. Small states, it was argued, have a narrow policy portfolio; they cannot have big macro-economic programs but can supply the conditions for individual development throughout the ‘lifecycle’; from childcare to eldercare. This shift toward social policy expanded the policy networks between government departments and civil society organisations. The focus was on developing new processes of governance and social policy not the economic constraints of EMU.

Figure 6.1a: Total Government Expenditure (1987-2008)



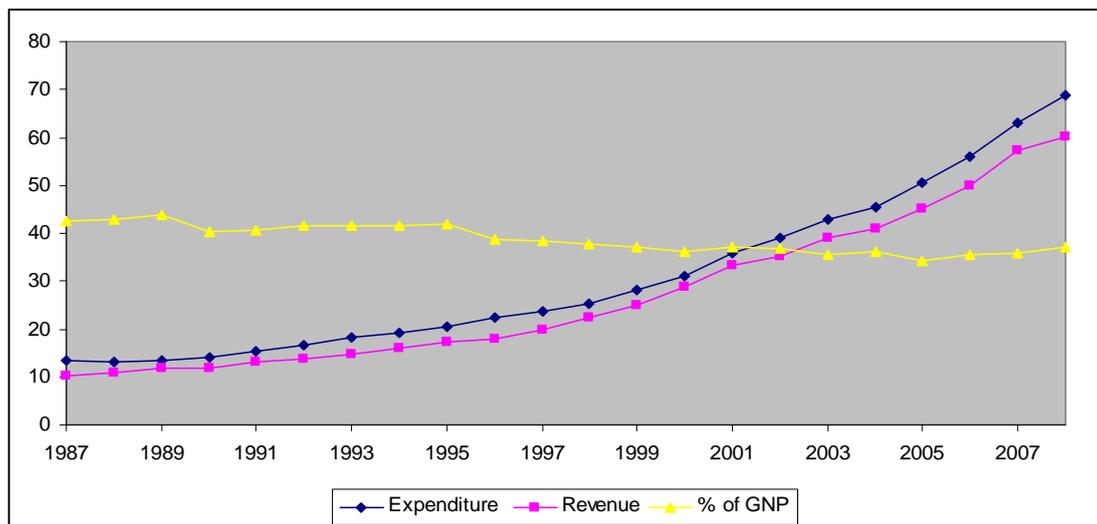
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 6.1b: Total Government-Capital Expenditure (1987-2008)



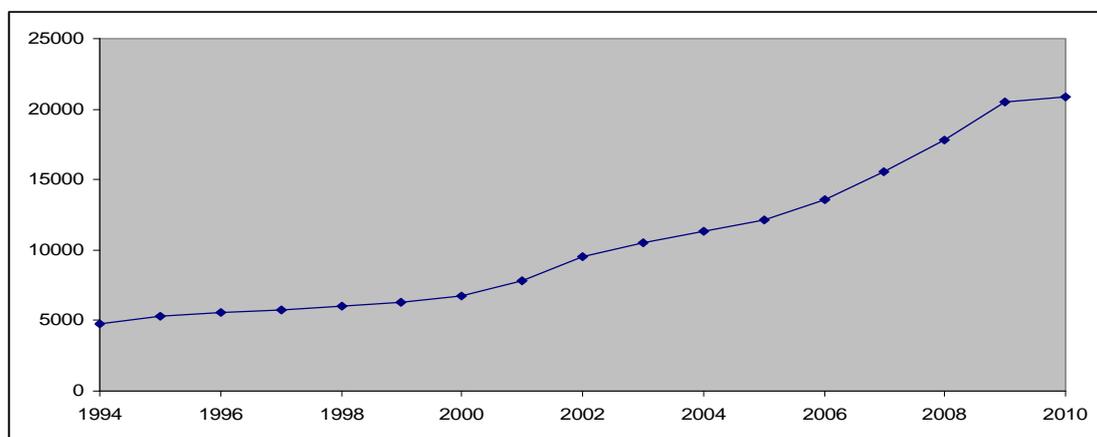
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 6.2: Total Government Revenue (1987-2008)



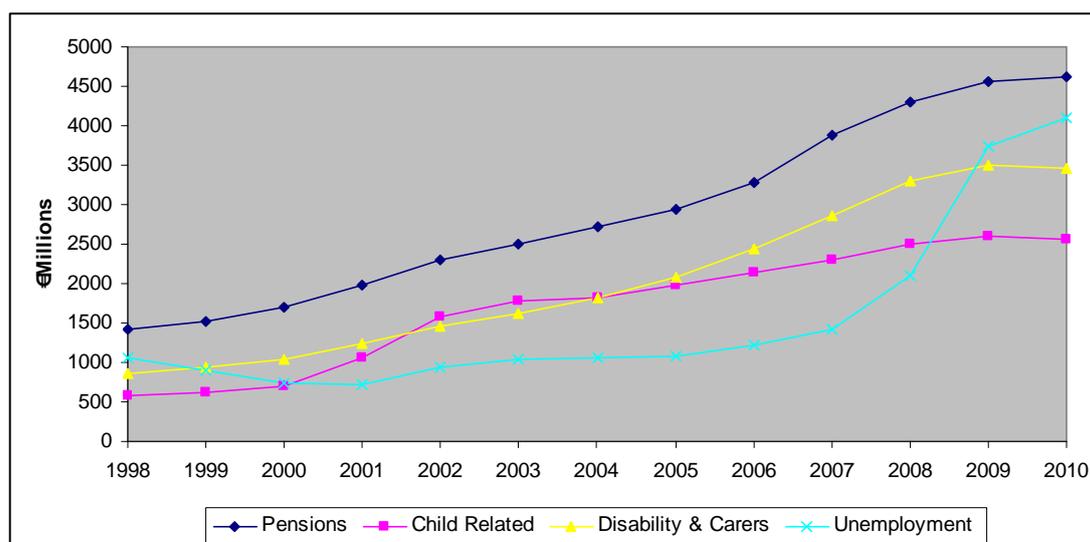
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 6.3: Total Social Welfare Expenditure, 1994-2010



Source: Department of Social Protection, Statistical Annex (2010)

Figure 6.4: Social Welfare Expenditure by Scheme (1998-2010)



Source: Department of Social Protection, Statistical Annex (2010)

3. Coordinating Social Policy in the European Monetary Union

The strategy to reform the welfare state led to an increase in social expenditure. In 1994, 15.6 percent of the population or 559,400 lived below the poverty line, measured as 60 percent of median income. By 1998 this had grown to 19.8 percent of the population or 733,194 (Layte et al 2001a & Whelan et al, 2003). By 2001 it had grown further to 21.9 percent of the population or 842,537. It is this growth in inequality that framed the bargaining strategy of the actors. Furthermore, it was an agenda driven less by ICTU, whose constituents remained focused on pay, pensions and tax cuts but the social and community pillar of social partnership. This group consisted of a variety of actors but in practice was driven by the most organised, albeit unrepresentative group; CORI (Conference of Religious Organisations in Ireland). They shifted the cognitive and normative discourse of NESC toward relative definitions of poverty. This had significant political implications as statistically it now meant that one third of households at risk of poverty were headed by someone with a job. The implication was that full employment did *not* lead to a reduction in household poverty. Furthermore, it implied that 35 percent of the population did not benefit from an increase in social welfare payments, the minimum wage or a decrease in income tax; the three strategies that satisfied the social policy objectives of ICTU in the national partnership process.

In 2003, those living below the income poverty line had decreased to 19.7 percent of the population or 783,843. By 2006 it had decreased to 17 percent or 720,766. In 2007 it had fallen to 15.8 percent and by 2008, 13.9 percent (Eurostat, 2003, 2004). This is a significantly high number in comparative EU terms but it does reflect a decrease in inequality within Ireland's political

economy over time and directly attributable to an increase in social welfare payments during this period (see Nolan, 2009). Total expenditure on social welfare increased from €6.2bn in 1999 to €13bn in 2006 (see figure 6.3). The social partnership process was a central framework through which this increase in social welfare was negotiated. An increase in social welfare payments not only satisfied the underlying distributional coalition of social partnership but the electoral constituency of a pragmatic Fianna Fáil government. In 2004 Fianna Fáil suffered a heavy electoral defeat in the local elections. This was the outcome of a perception that the economic growth associated with the ‘Celtic tiger’ was not being distributed fairly. In response to democratic public opinion, the government increased social welfare expenditure on the old age pension, disability, jobseekers benefit and children’s allowance in every budget from 2004-2007 (see figure 6.4). These increases were the direct result of government decisions and central to the distributional bargain that sustained the underlying political coalition of social partnership (see Yeates , 1996b, 1997, 1999, 2001, 2000a, IRN 1999).

The process of framing social policy objectives and keeping policy commitments on the government agenda required regular networking, consultation and lobbying between the social partners and senior civil servants. This process of concertation in the formulation of public policy commitments cannot be captured by examining social partnership as a series of isolated wage bargains (see Avdagic et al, 2011). The organisation of civic actors into pillars and the framework agreements of national pacts blurred the boundary between the administrative state and civil society. For liberal pluralists this led to policy capture by specific interest groups. But for state managers in the Prime Minister’s office, it was a new form of network governance that opened up the civil service to deliberative capacity⁶³. The social partners, through the NESC, were now focused on re-forming institutions of the welfare state to manage social change associated with unprecedented economic growth. Much like the European Lisbon agenda, the focus was on social policy not the technocratic coordination of market efficiency in the EMU.

This emphasis on redistribution is the first factor in the causal process of embedding social partnership in the post-EMU period. But it led to an irreconcilable contradiction; a permanent increase in social spending premised on a low tax regime in a fixed monetary union.

⁶³ Interview with senior civil servant in Prime Minister’s office. See interviewee A5

4. The Politics of Low Taxes and Increased Public Spending

“McCreevy had a simple philosophy which I shared; if people were working and paying less taxes then there was more stuff happening in the wider economy, which generated more jobs and therefore you needed less money for welfare and the money you had you were able to put into services” (Interview Prime Minister 1997-2007)

The political-economic priorities of Fianna Fáil governments during this period were premised on maintaining full employment through a low tax regime and a flexible labour market. On the one hand this is a straight forward neoliberal policy of economic development. But, on the other, it was premised on a broad based societal coalition formulating a plan for socio-economic development. This plan was both business and labour inclusive. It was a strategy premised on centralising the wage bargaining process, maintaining sectoral based wage setting institutions and establishing a national minimum wage. But, more importantly, it was a process that provided access for organised labour to influence the development of labour market and social policies. Whereas European governments were seeking political coalitions to support retrenchment and the liberalisation of welfare states, Ireland was engaged in a process of using the revenue generated from economic growth for social investment. Furthermore, after achieving the entry criteria of EMU, most European governments switched from a strategy of negotiating with trade unions to ad hoc policy consultation. Not only did Ireland continue with the process of national pacts and centralised wage bargaining post-EMU but embedded these as a mode of governance in the political system.

Political pragmatism and strategic opportunism defines the philosophy of Fianna Fáil coalition governments throughout this period. The absence of a clear or coherent ideological agenda meant they were willing to shift their policy preference in accordance with the median voter. And, as stated by a senior trade unionist, “the average Irish voter clearly favours low taxes⁶⁴”. Successive Fianna Fáil/PD coalitions ensured this was the case by cutting income taxes in every budget from 1999-2007. The initial policy objective of cutting income taxes was to incentivise people to take up employment and to reduce the cost on businesses to employ low income earners. But by 2005 Ireland had the lowest tax wedge and implicit corporate tax rate in the European Union. Employers were paying less social insurance than every country in the EU15. Those earning below €22,000 were taken out of the income tax net altogether. In addition to this, a whole series of tax breaks were introduced to encourage the construction of residential and commercial property. This new approach to stimulating economic growth was premised on domestic pro-cyclical policy choices by government.

In the mid 1990’s income tax reform was a legitimate objective. In 1997 single earners were entering the higher rate of tax at €12,000. According to Bertie Ahern the policy adopted by

⁶⁴ Interview with former general secretary of IMPACT. See interviewee A30

government, subsequent to the 1997 election, was to “give people back their money”⁶⁵. To compensate for a reduction in income tax, the government opted to maintain a relatively high rate of VAT. The strategy of shifting taxes from income to consumption was designed to reduce tax evasion. Ireland, similar to many Mediterranean capitalist economies, historically operated a large illegal market where tax compliance was low. Reducing activity in the illegal economy had a significant influence on the philosophy of the Fianna Fáil/PD government. Both the Finance minister; Charlie McCreevy and the Prime Minister; Bertie Ahern, believed that the only way to incentivise business activity was to lower the cost of employing labour. This created a situation whereby government revenue was increasingly dependent upon high levels of domestic consumption. Consumption taxes were considered fair as “everybody” had to pay them, regardless of their employment status. What this perspective ignored was the uneven and regressive nature of indirect taxes across the income distribution. Removing the low paid from the payment of income tax was designed to solve this distributional problem. The effect, however, was to narrow the income tax base to 50 percent of wage earners (Yeates, 2000b).

The social partners were aware that this strategy of instituting a low tax regime whilst increasing social spending was unsustainable. It was identified in successive NESC reports. What was not internalised by the social partners or the government was the impact such policies would have if a crisis emerged in the EMU or domestic consumption slowed down. The technical and quasi social-democratic policy recommendations that emerged from NESC never got past government as the political system was unprepared to go to the electorate arguing for higher taxes or to reverse pro-cyclical fiscal policies. But Ireland could no longer devalue its currency or adjust its exchange rate in response to a macro-economic shock. Therefore any adjustment would have to occur via downward pressure on labour costs and government spending. To anticipate such a scenario, wage policies needed to become more competitive and public spending more austere. This permanent austerity, however, would have made a distributional coalition impossible to sustain. And it is this low tax distributional coalition that enabled successive Irish governments to consolidate social partnership a market conforming institution of industrial relations and socio-economic governance. This is the second factor in the causal process.

5. Public Sector Pay, Inflation and Benchmarking

“Our model was slightly different from the embedded, old social Europe stuff”
(Senior civil servant in the Department of Enterprise, Trade and Employment)

Ireland’s entry into the EMU meant that the coordination of wage and fiscal policy became central to macro-economic management (see chapter 7). The entry criterion was achieved under the Fine Gael/Labour coalition and required tight fiscal restraint, particularly in relation to public

⁶⁵ Interview with author. See interviewee A1

sector pay. As shown in chapter 5, the nominally agreed wage rates in P2000 (1997-1999) averaged 2 percent per annum. This restraint put significant strain on the social partnership process. The industrial conflict it provoked amongst teaching and nursing unions conditioned the strategy of ICTU in negotiating the PPF in 1999 and SP in 2002. In the PPF wage agreement the government and IBEC conceded an annual percentage increase of 5 percent. Initially, the social partners negotiated a 3 percent increase but this was re-negotiated in 2001 after the denomination of the Irish punt into the Euro. The new currency, contrary to expectations, did not stabilise the Consumer Price Index. Inflation jumped from less than 2 percent to over 5 percent in 12 months (see figure 6.5). Unless inflation was kept under control, trade unions would end their commitment to national wage restraint (Yeates, 2000a).

In the context of full employment and growing inflation, increased tensions emerged over the distribution of income in Ireland's political economy. Lane (1999) had shown that the increase in profit going to Irish employers was the highest in Europe⁶⁶. Centralised wage agreements were identified as a causal factor behind this accumulation process. In a period of full employment the claim that an increase in profit would be reinvested into jobs was becoming increasingly difficult to maintain. Increased profit meant increased capital to recycle for private financial not strategic investment. This economic context put pressure on government and employers to accept higher wage increases. The government, in particular, were now faced with the dilemma of how to maintain fiscal and wage discipline, a necessary requirement after Ireland's entry to EMU, in a context of full employment, strong economic growth and high inflation. The response was to negotiate an 18 rather than a 36 month pay deal in 2002 and expand the national partnership process into a wider social plan. This led to a proliferation of social partner working groups, committees and forums that embedded social partnership into the policy making process of the state (see final section of this chapter). The general point, however, is that the pay terms throughout the 2000's were significantly higher than the pre-EMU period.

Table 6.2

Pay Agreements Pre-EMU			
Agreement	Pay Terms	Inflation	Real Pay Per Annum
PESP	14.5%	7.6%	2.3%
PCW	8.2%	6.8%	0.5%
P.2000	9.6%	7.1%	0.8%

⁶⁶ From the perspective of neoclassical economics this is a good thing as it is assumed employers will use the surplus for strategic investment. They don't consider the distributional or political implications.

Table 6.3

Pay Agreements Post-EMU			
Agreement	Pay Term	Inflation	Real Pay Per Annum
PPF	18%	15.9%	0.7%
SP	13.2%	7.1%	2.0%
T16	10.4%	11.1%	- 0.2%

The causal process that led to an increase in the pay terms after 1999 (see table 6.2) was not the absence of Maastricht constraints (Hancké & Johnson, 2009) but EMU induced inflation. Irish inflation averaged approx. 4.5 percent per annum during the period under discussion. In July 1999, when the PPF was approved, inflation was 1.2 percent. By July 2000 it had increased to 7 percent. This injected real difficulty into the wage bargaining process. In 2002 ICTU made inflation control a pre-requisite condition for the re-negotiation of a national wage agreement. Employees were experiencing increased costs but employers in the eurozone were unable to pass on price increases to the market. The eurozone was designed to produce uniform inflation across diverse European economies but took no account of domestic prices. It was not until the Irish economy collapsed in 2008 that interbank lending on European finance markets, made possible by EMU, was identified as a core factor in driving up inflation. The economy was being fuelled by cheap global credit coming into the Irish banking system and then lent into the housing market (see chapter 7). This growth in the money supply created the phenomenon of Irish prices rising faster than European prices.

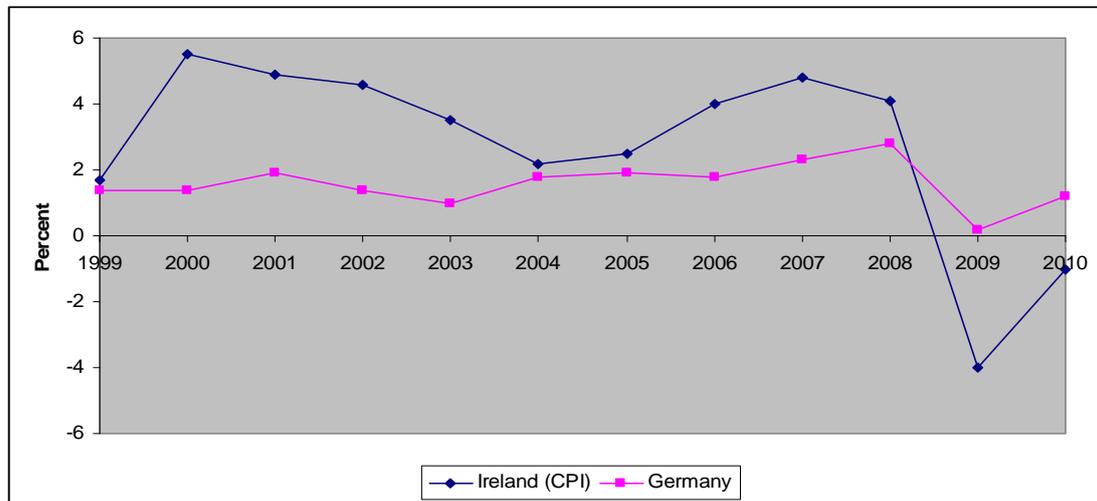
Irish house prices were increasing by almost 30 percent per annum (see figure 6.6). A rapid increase in the price of housing was considered sufficient ground in-itself to validate higher wage increases. Public sector unions were arguing that low to middle income earners such as teachers, civil servants and nurses were being priced out of the housing market. Most economic commentators, such as the ESRI, were relatively sanguine about this. Inflation was associated with international currency movements. Therefore, it was considered exogenous and outside the control of domestic policy makers. Trade unions such as the CPSU, however, contested this claim, and argued that house price inflation was the core problem⁶⁷. This could be tackled through direct intervention in the housing market. The response by the Fianna Fáil/PD government was to frontload tax breaks for those on low incomes and increases the availability of credit through a further deregulation of finance markets. Government never countenance intervening in the market to control demand but they did adopt a policy to increase housing supply through construction related tax breaks. These domestic choices generated a new

⁶⁷ As early as 1998 the CPSU argued that unless government intervened to control house prices the wage restraint-productivity bargain that governed national agreements, since 1987, would come to an end.

economic growth model premised on real estate. Centralised wage bargaining now followed monetary induced inflation.

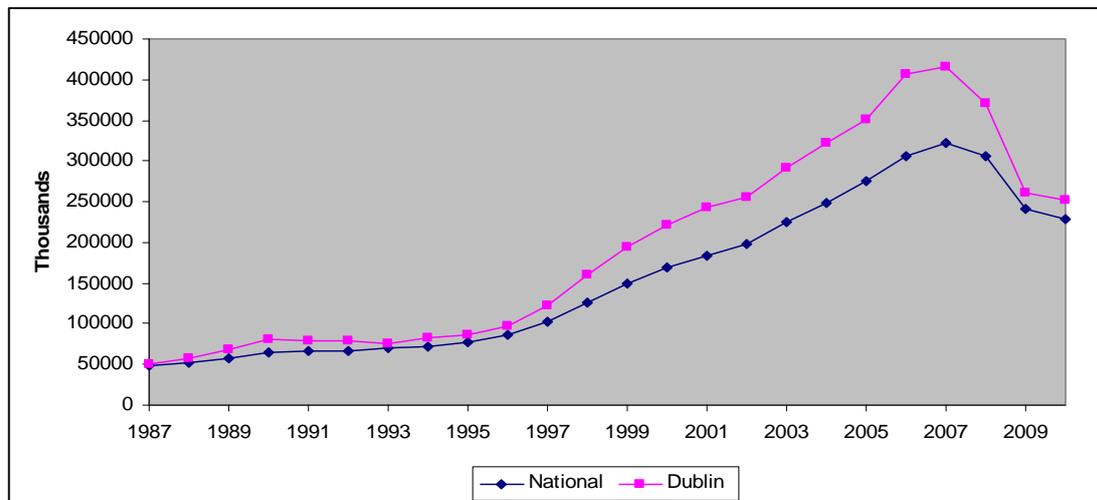
None of the actors changed their bargaining strategy in response to the EMU. The shared currency, much like the ERM, was considered an anchor for an unaccommodating exchange rate regime and a complement to a business friendly economy. The actors accepted that macroeconomic and monetary policy was outside the democratic control of the state. But there was an expectation that the state should control inflation, coordinate capital investment and improve economic performance. Hence, the willingness of government and IBEC to increase the pay terms to compensate for monetary induced inflation kept centralised wage bargaining intact. This is the third factor in consolidating social partnership in the post-EMU era.

Figure 6.5: Inflation in Ireland and Germany (1999-2010)



Source: Irish Central Bank (2010)

Figure 6.6: House Prices in Ireland (1987-2010)



Source: Department of Finance and budgetary Statistics (2011)

The Achilles Heel of Public Sector Pay

“We, in the public service, gained immensely from it”

(General Secretary of the PSEU)

Institutional and political factors are central to explaining the governance of pay deals and income trends in European political economies (see Traxler, 2004). The national wage agreements in Ireland, as stated in chapter two, are premised on voluntary-norms not legal-formal mechanisms of compliance. Furthermore, they are exclusive to the unionised (predominately public) sectors of the economy. This voluntarist collective bargaining regime provided the necessary flexibility for affiliates to IBEC, in the export and highly productive firms, to pay above the headline rate. This was not a problem until it started to put pressure on the construction, education and healthcare sectors. After 1999 public sector and craft unions began to seek equivalent increases. The use of a local bargaining clause, in P2000, became the norm rather than the exception to increase firm level pay. This put pressure on the ICTU, IBEC and government to improve the implementation of the national wage agreements. In the pre-EMU era wage drift was minimal. But by the end of 2002 Irish Industrial Relations News (IRN 18 05/01) had reported a significant increase in above the norm pay deals in construction, distribution, electronics, pharmaceuticals, food, retail, financial services and the semi-states.

The voluntary compliance and authority of ICTU, over trade union affiliates, proved robust in governing the pay deal. But the teaching and nursing strike in 1999 led to a shift in power relations. It became obvious to public sector unions that the government were willing to give significant concessions to maintain the stability of social partnership⁶⁸. The outcome of these industrial disputes and above the norm pay deals in the private sector led to the establishment of a hugely controversial exercise: ‘benchmarking’ (McGinley, 2001). A state sponsored agency, the Public Service Benchmarking Body (PSBB), analysed the differentials between public and private sector pay. Its report was delivered in 2002 and recommended awarding, on average, an 8.9 percent pay increase to all public sector workers in return for major reform and productivity increases. The payment was a political exercise to use the increase in government revenue to end long standing pay disputes and guarantee industrial stability. The body did not publish any evidence with respect to the benchmarks they used to compare public and private sector employment. Furthermore, the data was exempt from the provisions of the Freedom of Information Act (Geary, 2011). This seriously challenged the transparency and accountability of the process and de-legitimised the concept, as opposed to the payment, of benchmarking.

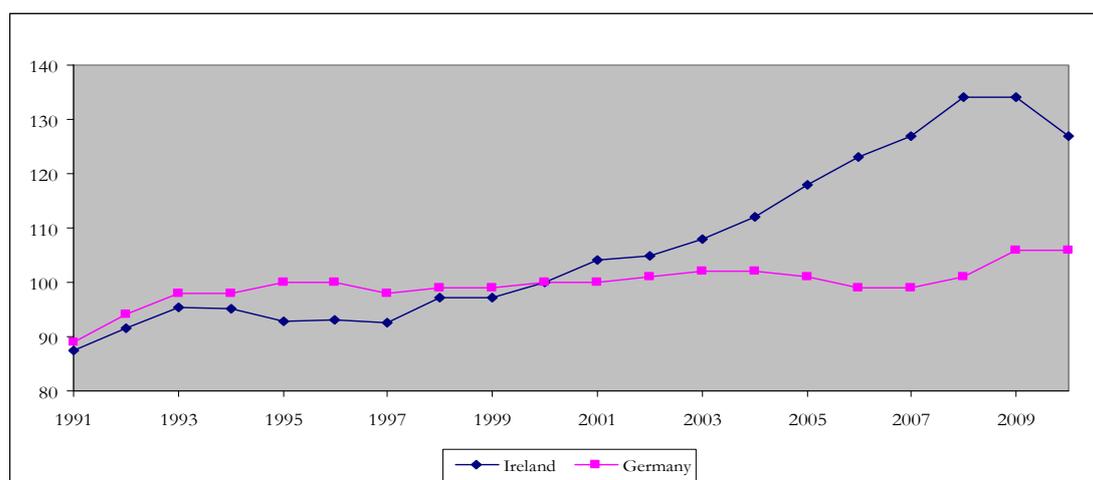
The payment of benchmarking re-centralised public sector pay determination but created a new problem for the process. Social partnership was now directly associated with delivering and implementing public sector reform. This had previously been the responsibility of the

⁶⁸ Interview with INMO official (see interviewee 36A)

Department of Finance. Managing public sector reform was now split between the Prime Ministers Department and the ministry of Finance. This had the effect of dispersing responsibility and accountability. It also created a situation whereby local sectoral reforms in health, education and the civil service were re-centralised into the national pact. Sectoral issues such as the working hours of teachers were being used to frame the national level negotiations. This led to a growing perception that social partnership was an institution to serve the narrow interest of public sector unions. Comments by a trade union leader from the Irish National Teachers Organisation (INTO) that ‘benchmarking was an ATM machine’ seemed to validate this perspective. Public sector unions, according to a senior civil servant ‘cashed the cheque without the reform’⁶⁹ and public service managers lack the expertise to implement change.

Benchmarking also created conflict between the two tentacles of social partnership; wage coordination and socio-economic governance. This reflected itself internally within the Prime Ministers department where responsibility for these functions was split between the industrial relations and socio-economic policy unit, each headed by a different assistant secretary general. The industrial relations unit was focused on public sector reform whilst the socio-economic unit was focused on delivering the social policy aspects of the national pact; healthcare, disability and the lifecycle framework. Wages, despite accounting for 80 percent of the healthcare budget, was negotiated separately to the government’s healthcare policy. An integrated dialogue on whether resources should be invested in pay or social services became increasingly disconnected. This blocked reform of the welfare state as all discussions were now focused on the easy task of increasing cash payments rather than implementing institutional change. Government, in a context of surplus resources, were increasingly using the process to buy off political dissent.

Figure 6.7: Nominal Unit Labour Costs in Ireland and Germany (1990-2010)



Source: European Commission, Statistical Annex (2010)

⁶⁹ Interview with member of the NESC executive council (see interviewee 14 and 16)

The National Implementation Body and Industrial Relations Conflict

Benchmarking had the perverse incentive of destabilising rather than stabilising social partnership as a mode of economic governance. The PPF agreed to a cumulative increase of between 18% and 21% over three years. Benchmarking added an additional 8.9% and 25%. The outcome was a sharp increase in the public sector pay bill from 2003-2006 and led to a significant increase in the public sector earnings premium. This would contribute to an emerging discourse on public sector insiders and private sector outsiders in the Irish labour market. Or, as Guy Standing (2011) puts it, 'the salariat' versus the 'precariat'. Public sector pay was now leading rather than following private sector pay norms, the total opposite of what was required in a fixed EMU regime. In addition to the final 18 percent increase during the PPF, it is estimated that benchmarking cost the exchequer €1.4bn. The 8.9 percent increase was significantly less than the 30 percent claim pursued by teaching and nursing unions but it satisfied the public service committee of ICTU, and achieved its political objective of industrial relations stability. But it completely delegitimized the functional design of a national incomes policy i.e. to control public sector pay and to coordinate a national wage policy appropriate to the fixed constraints of EMU.

There was significant shift taking place in private sector industrial relations that led to the creation of the 'National Implementation Body' (NIB), as part of Sustaining Progress in 2003 (Sheehan, 2003b). This agency was established to settle high level industrial relations disputes amongst a growing number of firms that challenged the social partnership process. The general secretary of ICTU, the secretary general to the Prime Minister and the Director of IBEC would intervene in disputes to ensure employer compliance with the industrial relations machinery of the state. An increasing number of employers were actively pursuing a strategy to ignore the Labour Court and the Labour Relations Commission (LRC). This culminated in 2004 when Independent Newsgroups, Aer Lingus and Greencore all refused to comply with Labour Court recommendations (Sheehan 2008). These unionised companies argued that they were at a disadvantage to the non-union multinational sector in implementing the rapid change required for a globalised economy.

The Irish state, in effect, was adopting a contradictory strategy; encouraging non-union employment in the FDI sector yet demanding the collective resolution of labour disputes for existing unionised companies (Sheehan 2003a, IRN, 2002a, 2005). This opened up a fault line between voluntarism and legal compliance in Irish industrial relations. Voluntarism benefitted strong public sector unions and private sector employers but it was debilitating for trade unions operating in an increasingly aggressive free labour market.

In response, SIPTU demanded mandatory arbitration and a legal right to collective bargaining as a condition to remain in national partnership with the state (IRN, 2003). This was a process that culminated in the 2001 Industrial Relations Act and the 2004 Industrial Relations

and Miscellaneous Act (Sheehan, 2005). Both were central to negotiations in Sustaining Progress and became particularly important after 2004, when unprecedented levels of inward migration put downward pressure on pay and labour conditions in construction, retail and the catering sectors (O'Sullivan & Wallace, 2011)). Barrett (2009) estimated that inward migration between 1996 and 2004 reduced wages by 7.8 percent. An expanding European labour market was being used by employers, particularly those legally associated to the JLC system, to improve their bargaining position against labour. To compensate for this increase in union hostile employer strategies the government conceded to trade union demands for an increase in employment protection (see chapter 7). The government ensured trade union compliance with the social partnership process by expanding access to the social policy making agenda of the state (next section) (Begg, 2008).

What is important to note for the moment is the impact of public sector benchmarking on social partnership. The increase in public sector pay led to a permanent increase in government spending that was premised on a pro-cyclical revenue stream that would collapse in 2008. It was totally inappropriate to the conditions of EMU and led to a significant increase in nominal unit labour costs (see figure 6.7). But it was central to maintaining the underlying political coalition, increasingly dominated by public sector unions, that embedded the Irish variant of centralised wage bargaining. This is the fourth factor in the process of consolidation. We will now examine the second tentacle of social partnership: the process of interest intermediation between state and organised interests.

6. From National Wage Agreements to Network Governance

During the negotiation of PPF and SP the non-pay elements expanded to tackle a variety of developmental problems that had emerged in a rapidly expanding economy. The overheating created a series of 'bottlenecks' in housing, transport and healthcare that required cross-departmental coordination to resolve. The PPF was constructed around five frameworks to do this; living standards and workplace environment, prosperity and economic inclusion, social inclusion and inequality, adaptation to continuing change and renewing partnership (Adshead, 2005) . These were then followed by a series of appendices on legislation and new working groups to monitor implementation. Tax policy was designed to increase take home pay by 25 percent and reduce the percentage of income earners paying the higher rate of tax from 32 to 26 percent. To ensure the low paid benefitted, the government introduced a national minimum wage that was not liable for income tax (Yeates, 2000b). These three objectives were delivered. The agreement also committed the government to commission a CSO survey on occupational pensions, establish a national pension's framework and invest in a national pension reserve fund.

The government agreed to increase the state pension to €127 (or £100) by 2002. They subsequently increased it to €135. By 2003 it had increased to €147 (see figure 6.4).

The frameworks on economic and social inclusion were constructed around the organisation of government departments. They included everything from rural transport, regulatory reform, industrial policy, housing, energy and agriculture. A series of national strategies were formulated to achieve these policy objectives. The new frameworks reflected a shift at European level, after the creation of the EMU, to 'pursue open methods of coordination' (OMC) in social policy (see Adshead, 2005). These soft methods of governance were designed to ensure coordination outside the formal constraints of legislation. At European level, they were directed toward social and employment policies whereas the legal-formal and enforceable coordination was directed toward regulating for market competition (see chapter 7). This informal process complemented the voluntary nature of Irish collective bargaining as it put no legal-political pressure on employers. It enabled them to commit to broad statements of flexicurity in social policy without having to really change their production strategies (Keune & Jepsen, 2007).

The economic inclusion framework produced a variety of task forces to re-engage the actors throughout the lifetime of the agreement on social policies that cut across government departments. This led to the creation of the Public Transport Forum, Rural Development Forum and the Housing Forum. What these policy forums provided was a mechanism for senior officials in government departments to formally interact with civil society actors. In the housing forum, representatives of construction, local authorities, the community and voluntary pillar and senior civil servants from the Department of Environment and Social Welfare were present. This provided a rare opportunity for senior policy makers from across government departments to strategically interact with one another. It opened up the space for communicative interaction and the exchange of competing validity claims. This change in process, however, should not be confused with a change in policy outcomes. Improvement in the latter was ultimately dependent upon political legislation and this is the preserve of government departments not social partnership (see Hardiman, 2006).

The framework on social inclusion and equality contained commitments on how to tackle consistent poverty, income adequacy and healthcare. The 'National Anti Poverty Strategy' (NAPS) was established as a ten year framework in 1997 but reviewed as part of the PPF in 2002. Similar to the housing forum it provided a formal mechanism for government officials to interact and coordinate policy objectives outside the hierarchy of government departments. For example, the PPF committed government to increase the social welfare payment rate to "€150 per week in 2002 terms for the lowest rates of social welfare to be met in 2007" (PPF, 2000). The politics behind this rate can be traced to the strategic interaction between the department of Finance, the Prime Minister and CORI. The social pillar adopted a negotiating position that social welfare rates should represent 30 percent of the gross average industrial wage (GAIE). But the

Department of Finance resisted any target that reflected a percentage rate of fluctuating labour market earnings. This conflict subsequently manifested itself in the PPF working group; benchmarking and indexing social welfare payments.

Charlie McCreevy, as finance minister, ignored the PPF commitments which created significant conflict between the Department of Finance, the Prime Minister's office and the social partnership process. But when Fianna Fáil lost the local elections in 2004 they changed strategy and opted to prioritise the social welfare agenda as set out in the PPF and SP. Charlie McCreevy was removed as Minister of Finance and given the position of Ireland's EU Commissioner on internal market affairs. Subsequent to this Fianna Fáil organised a conference to establish an electoral strategy for the 2006/2007 general election. The outcome was a commitment to the social targets established in the PPF. The government agreed to increase social welfare rates to 30 percent of the gross average industrial wage. These commitments were delivered in successive Fianna Fáil budgets in 2005', 2006' and 2007' (see table 6.1), and led to a significant increase in government expenditure. The point is that the actors in the social partnership process pushed the government to deliver their own policy commitments.

The Formulation of Policy through Network Governance

Under the PPF forty different working groups were established with social partner and ministerial representation. This provided a mechanism for the social pact agreement to act as tool for cross departmental policy coordination. For example, one of high profile working groups: 'Health: NAPS review', was used by the social partners to ensure the implementation of the primary healthcare strategy by government officials in the Department of Health. Section 3, subsection 10, subsection 19 of the PPF committed the government to establish four pilot primary healthcare teams as a mechanism to move toward 24 hour, seven day primary care. This commitment was inserted into the pact after formal negotiations with the community and voluntary pillar and subsequently signed off by cabinet government⁷⁰. But according to the social partners it was totally resisted by the civil servants in the Department of Health. However by 2007 one hundred primary care teams were established across the country. This can be traced to the social partners using the access provided by the framework agreements to ensure the senior policy makers in the state "implemented government policy"⁷¹.

As stated in chapter 4 the negotiation of national pacts supplemented the program for government but never contradicted it. The negotiations provided an avenue for organised interests to have a communicative input into the policy agenda. This facilitated a procedural process of engagement between civil society actors and government departments, in articulating and implementing the strategic priorities of government. In turn this shifted the governance

⁷⁰ This, in effect, makes national partnership agreements official government policy.

⁷¹ Interview with representative of Social Justice Ireland (see Interviewee A38)

process from consultation to concertation. The social pillar and ICTU could now legitimately contact the department of health and monitor progress on the implementation of the primary health care strategy as they were partners to the negotiations that established this as government policy. Senior civil servants and government ministers could no longer treat the social partners as a lobby group because what they are articulating is not an external demand but an internal government policy. This according to a senior civil servant in the Prime Ministers department “is not a threat to democracy but a full reinforcement of democratic government”. It was an institutional resource to use the economic power and moral authority of the social partners to coordinate the few remaining policy tools available to government in a globalised economy

Hence, the corporatist policy making framework provided a formal mechanism for the social partners to monitor the formulation and implementation of government policy. This process of moving the Irish polity from liberal consultation to corporatist political democracy was designed to increase the strategic capacity of the state. But it caused significant tension between the parliamentary and the corporatist arenas of policy making. The communicative process embedded a series of informal and formal elite networks in the state administrative system. By 2004 social partnership had evolved into every aspect of public policy with the effect that it blurred the distinction between the state and civil society⁷². In a Westminster parliamentary system dominated by the political executive, organised interests had more access to government decision making than opposition parties.

This expansion of the process increased the perception that social partnership was a Fianna Fáil cartel to buy off political dissent. But it was necessary to embed the political coalition of organised interests underpinning the institution, and the fifth factor in consolidating the Irish variant of corporatist policy making in the post-EMU period.

7. Social Partnership and Building State Capacity

“It was as much about building the state as it was reforming it”
(Senior Civil Servant in the Prime Minister’s Office)

The negotiation of the PPF, SP and their culmination in the negotiation of a ten year social framework in 2006 (see chapter 6) consolidated policy power in the core executive of the state. This was always the objective of the political architect behind social partnership – Charles J Haughey. The negotiation of tri-annual framework agreements established a variety of implementation and reporting mechanisms that enabled state managers in the Prime Ministers’ office, as guardians of the social pact, to monitor the policy progress of line departments. This coordinating role increased the strategic capacity and authority of the political executive. Hence,

⁷² ICTU increasingly stuck with the elongated process of formulating the government’s disability strategy because they did “not trust the relevant department to write it themselves”. (Interviewee A23)

we can conceptualise the evolution of state corporatism, during this period, as a tool by the political executive to improve cross departmental coordination. The government increasingly used the process to change the public administrative system which, according to Bertie Ahern; “would have been a long time coming from internal sources”⁷³.

Social partnership was an attempt to open the administrative system to new ideas and ‘evidence based policy making’. In this regard, it was about building state capacity. According to Bertie Ahern, the process attempted to “get new thinking in”. But this was hard to achieve “given the conservative nature of the Irish civil service”. The only way to generate support for new social policy developments was to cut across the departmental silos of Ireland’s traditional Whitehall public administration. This required a pro-active and “integrative Taoiseach’s department”, but it had the effect of creating a “whole new industry of lobbyists to take advantage of a more open system”. For the Prime Minister, this was a necessary trade off to improve policy capacity in Ireland’s public administration. To pursue a new developmental agenda (a dynamic that was built into the process from 1987, see chapter 4,) required sharing political space with organised interests. Expanding the process of social partnership led to:

“Increasing the social welfare payment rate to a percentage of the industrial wage, increasing the minimum wage, and getting the minimum wage out of the tax net..... They all came from social partnership. None of them came up from government departments”⁷⁴.

But if social partnership was expanded to bring in new ideas, information and knowledge to the political-administrative system did it actually improve the coordination of public policy across state departments? The framework agreements certainly set priorities and benchmarks for the political system and therefore brought coherence and a ‘total government’ perspective to public administration. But the implementation of public policy is the responsibility of civil servants and government ministers not the social partners. Therefore, social partnership, alongside the cabinet subcommittee system, opened up new networks of strategic interaction, coordination processes, and established new political coalitions but it did not necessarily improve policy implementation. It provided access but one should not overemphasise its actual influence. This is the preserve of the political system and dependent upon strong leadership from government ministers.

There was a quasi-functional need in the Irish political system to supplement the Westminster style of government with a structured form of policy engagement with organised interests (see O’Donnell et al 2011). To achieve this required a coordinating role for the political executive of the state. The outcome of this state led project was a process that morphed competitive corporatism into corporatist pluralism. Social partnership was responding to a weak capacity in the Irish parliament to engage in a problem solving mode of governance. In peak level

⁷³ Interview with former Prime Minister (1997-2008) Interviewee 1A

⁷⁴ Interview with former Prime Minister (1997-2008) Interviewee 1A

corporatist negotiations, all actors have an executive capacity to act whereas parliamentary parties do not. The dialogue and argumentation that takes place at the roundtable and plenary sessions are designed to result in communicative action (Lijphart, 1999). Unlike consociational parliaments in the Netherlands or Switzerland, Ireland has remained Westminster in orientation. Despite a multi-party political system and successive coalition governments, the parliament remains adversarial and lacks any capacity to influence a government dominated by the political executive. There was no formal interaction between the social partners and parliament.

Hence, there was no institutional complementarity between social partnership (as interest intermediation) and the parliamentary system in the same way there was no complementarity between social partnership (as national wage bargaining) and firm and sectoral level collective bargaining. It was a national institution constructed around the political executive of the state in a liberal market economy and a Westminster style parliament. This coordinating role for the political executive is the final and most important factor in explaining the consolidation of social partnership in the post-EMU period. The executive had the authority to carve out a process that was autonomous from cabinet government and the parliamentary system, which, in turn increased the strategic capacity of the state to manage the democratic and distributional constraints of a liberalised economy that was increasingly outside its control. As argued in chapter two, social partnership was a strategy to build state power.

Structural Tensions in Irish Social Partnership

Social partnership would not have consolidated as the default position of Irish politics in the absence of strong support by the Fianna Fáil leader, Bertie Ahern, who was Prime Minister from 1997-2008. Bertie Ahern became synonymous with the social partnership process and the strategic approach to consensus formation that underpinned it (Sheehan, 2007, 2008b). However, the period under examination produced some irreconcilable tensions that would lead to the collapse of the Irish model of capitalism (see chapter 7). The payment of benchmarking was a political decision to embed a coordinated system of pay determination for the public sector. A series of public sector disputes led the Prime Minister to seek a strategy to enhance stability in industrial relations and retain trade union commitment to social partnership. But the perception that public sector insiders were using the process for their narrow interests led to a de-legitimation of the institution.

This choice to avoid confrontation and nurture a national political coalition was a central objective of government. The state, as the central actor, invested a significant amount of political capital in the process and viewed social partnership as an institutional resource to embed industrial stability. This focus on political stability rather than efficient market coordination of

EMU induced constraints, as argued by Wolfgang Streeck (1992), is central to explaining the consolidation of state led corporatism in European industrial relations.

The second tension was the underlying economic growth model that had come to generate the revenue for an increase in public sector pay and social spending. The pro-cyclical revenue stream was completely atypical for a European capitalist economy: the income tax base had been narrowed to 50 percent of employees, the effective corporate tax rate one of the lowest in Europe and employers were paying less social insurance than any other country in the EU27. All revenue became premised on domestic consumption, particularly VAT, capital gains and property transaction taxes; all of which were directly associated with a real estate bubble (precise data in chapter 7). Social partnership, in an ideal rational efficient system, would have coordinated fiscal and wage policy to complement the exogenous constraints of EMU. But given the context and historically specific juncture under examination, this never happened. Real GDP tripled in less than 20 years whereas it remained stagnant in the rest of Europe (O’Riain, 2011).

Social partnership was premised on economic growth and the capacity of government to distribute economic resources. It was about economic distribution not permanent austerity. This path dependence did not lead to institutional change in the configuration of Ireland’s welfare state. But it did contribute to a distinct political trajectory of liberalisation in Ireland’s political economy and directly associated with the politics of Fianna Fáil. This would collapse the institution.

8. Conclusion

Ireland’s model of capitalism is hard to capture by textbook categories of neoliberalism because of the labour inclusive process of social partnership and the centralisation of national wage agreements. But this is not to deny that it did not function as a conduit to a neoliberal economy. It was a business friendly political coalition constructed around the coordination of pay for the unionised sectors of the economy. Competitive advantage was sought on the basis of low taxes and minimal financial regulation. In this regard, corporatist pluralism as it evolved in this period, can be understood as an attempt by the state to re-build and extend its own capacity to govern a rapidly expanding economy that was increasingly outside democratic control.

This state led developmental strategy, in a context of unprecedented economic resources, embedded a political coalition that was premised on increasing pay and decreasing taxes. The capacity to engage in a political exchange was absent when the social partners attempted a negotiated response to economic crisis in 2008. Given the exogenous constraints of EMU the political executive of the state pursued a unilateral and market based adjustment, leading some to conclude that twenty three years of social partnership was a case of ‘Thatcherism delayed’

(McDonough, 2010). The structural weakness of Irish trade unions and the reliance upon the political preference of government shifted the balance of power in favour of employer interests. To conclude, social partnership consolidated as the default institutional position of Irish politics and industrial relations in the post-EMU period because of the underlying political coalition centered on elite networks feeding into the political executive of the state not a technocratic alliance to rationally coordinate economic policy or manage the adjustment constraints of EMU. The coalition was made possible by a generalised political exchange premised on cuts in income tax and increasing social spending. This created a variety of irreconcilable contradictions and brings us to the final part of our empirical case study: the collapse of social partnership in response to the Eurozone crisis.

Chapter 7

The Fall of Social Partnership in Response to the Eurozone Crisis? (2006-2010)

The Politics of Industrial Relations and Fiscal Adjustment in the EMU

1. Introduction

This chapter will seek to explain the determinant factors that led to the collapse of social partnership in response to the Eurozone crisis of 2008-2010. It will trace the collapse to the exogenous policy constraint of the EMU and a shift in the underlying political coalition underpinning social partnership as an institution. The political impact of EU enlargement after 2004 shifted the process away from interest intermediation (chapter 6) and back to the coordination of industrial relations. Two high profile labour disputes; Irish Ferries and GAMA, exposed a divergence of interest amongst the actors. SIPTU began to seriously question the concept of partnership in a context where trade union density and collective bargaining coverage were in rapid decline. To compensate for weak union density SIPTU adopted a legislative strategy to increase employment protection for non-union employees. This was reflected in the T16 pact. But when the Irish economy collapsed the government shifted from a corporatist to a market led adjustment. The question, therefore, is why social partnership could not internalise the constraints of the Eurozone crisis?

The core argument is that the exogenous constraint of the EMU conditioned the strategic choices facing actors but the politics of government and changing power relations in the domestic labour market explains the demise of social partnership as an institution of industrial relations. A social pact could not be negotiated because Irish trade unions lack sufficient deterrent power in the labour market to resist the ECB, EU Commission and Irish government's neoliberal response to the crisis. The absence of formal-legal mechanisms of collective bargaining at firm and sector level, akin to corporatist economies of Netherlands, Germany and Finland, to protect wages and employment, has enabled employers and government to walk away from the process of social partnership without repercussion. Labour market institutions matter to the extent that they increase or decrease the power resources available to actors (see chapter 1). Irish social partnership was a voluntary process. This enabled it to evolve in the context of a liberal market economy. But it also meant that social partnership was dependent upon the political preference of government. When Fianna Fáil collapsed, social partnership collapsed.

The structure of the chapter is as follows; firstly we will outline the implicit labour market and fiscal policy assumptions of the EMU. Secondly we will examine how negative interest rates in the EMU and pro-cyclical tax policies combined to create a construction boom in the Irish economy. Thirdly we will show that opening up the Irish labour market to the new EU accession countries exposed a divergence of interest amongst IBEC and ICTU. Finally, we will document the collapse of the Irish economy and the failed attempt at a negotiated adjustment. The chapter will conclude by arguing that the voluntary and exclusive structure of Irish industrial relations weakened the power resources of labour and enabled the state to pursue a unilateral strategy of adjustment. In the absence of strong collective bargaining structures the institutional process was ultimately dependent upon a fragile political coalition centred on the political executive of the state.

2. The Politics of Adjustment Under the Constraints of EMU

Labour market policy

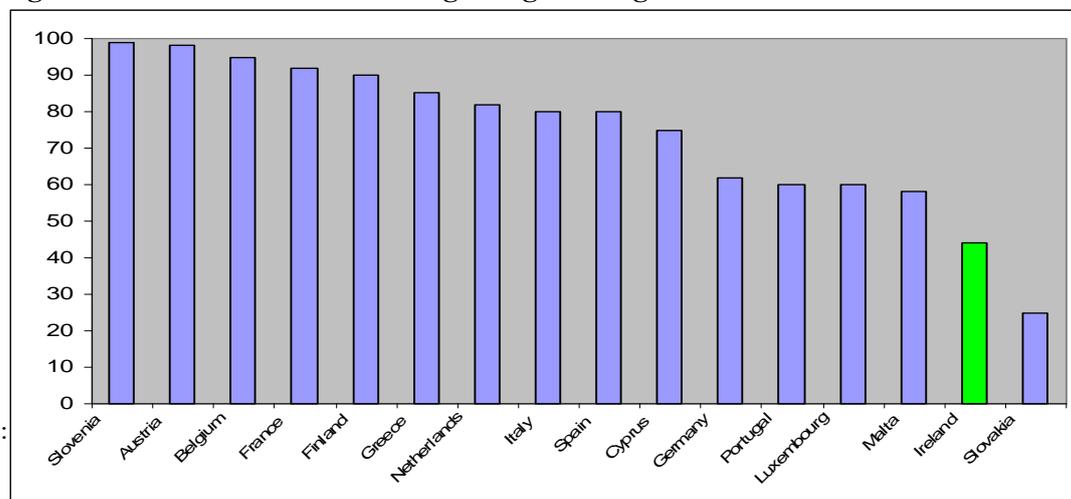
The most erroneous neo-liberal premise of the EMU is the assumption that labour market actors, particularly trade unions, either do not exist or are too weak to resist competitive downward pressure on wages. The design of Europe's shared currency is premised on the non-existence of organised labour (Crouch, 2000) and shares the neoclassical assumption that labour markets can and do operate in perfectly competitive markets. This implicit design of the monetary union assumes that if asymmetric shocks hit, national economies, regions and sectoral industries will automatically adapt through a reduction in labour costs. This reduction in labour costs is presumed to act as a functional equivalent to currency devaluations at a macro-level (see Hall and Gingerich, 2004). Currency devaluation traditionally externalised excessive endogenous labour costs to the main trading partners of a given national economy (Crouch, 2000). Devaluation acted as a cushion to avoid social dislocation when national economies became over inflated.

The assumption that the entire burden of cost adjustment can fall on labour market actors completely ignores the embedded and historically diverse institutional structures of collective bargaining in European economies. Collective bargaining and negotiated wage setting is one of the core features of coordinated market capitalism or 'social Europe'. Figure 7.1 illustrates the different levels of bargaining coverage across the eurozone. Every economy with the exception of Ireland and Slovakia has collective bargaining coverage of over 60 percent. Slovenia, Austria, Belgium, Netherlands, France, Finland, Greece, Italy and Spain all have collective bargaining coverage at 80 percent or more (see Visser, 2009). This involvement of organised labour in wage setting makes it difficult to impose downward labour cost reductions across the economy. Neither will adjustment be so extensive that it can act as the functional equivalent to

currency devaluation. Any adjustment in labour costs will be negotiated between labour market actors (at sectoral or national level) unless labour is so weak that it cannot resist a unilateral imposition of wage cuts. However, given the rigid constraints of the EMU's budget deficit requirement, government as employer may have no option but to impose a reduction in pay rates in the public sector. This is a significant problem as public employment has traditionally been a highly unionised sector.

Given the institutionally and historically evolved structure of coordinated wage setting one should not assume that organised labour markets are strategically incapable of reducing labour costs through collective bargaining. Most research indicates that those sectors most exposed to international competition have been capable of concession bargaining and internalising significant levels of wage restraint (Hancké & Johnston, 2009, Traxler & Brandl, 2010, Crouch 2000) or adopting alternative labour market policies such as short term working to reduce costs. The question, for the state, however, is under what conditions can those sectors not exposed to international trade, particular those within the public sector, do the same? This would become a significant problem for countries, under conditions of crisis, where public-sector pay bargaining is systematically associated with social pacts (Traxler 2010b), as is the case in Ireland (see chapter 2 on different varieties of competitive corporatism).

Figure 7.1: Eurozone Collective Bargaining Coverage



Source: ICTWSS Database, Jelle Visser (2009)

The Calmfors and Drifill (1988) model presented two scenarios for non-inflationary wage growth. On one side of the u-trough are self-clearing liberal markets. There is no empirical evidence to support this scenario (outside the US and UK) even if it is deduced to be the most efficient mechanism of coordinating wages (see Soskice, 1990). On the other side of the u-trough are peak level wage bargaining actors who coordinate wages at a national level. This national level coordination is required to incentivise trade unions to internalise the costs of inflationary wage agreements. As argued in chapter 2, most European countries have evolved away from national

level coordination. This led many economists to conclude that the advent of the EMU would provide an incentive for the complete de-regulation of wage setting akin to self-clearing markets. This did not occur. As illustrated by Crouch (2000) wage setting institutions evolved and adapted to new economic constraints. Most labour market actors adopted an ‘organised decentralisation’ (Austria, Germany and Sweden) of collective bargaining whilst some integrated centralised wage negotiations into national wage pacts (Ireland and Finland). Thus, whilst the new monetarist paradigm acted as a stimulus for institutions of coordinated wage setting to evolve they did not disappear. Wages and labour markets are still institutionally regulated by collective organisations. The EMU simply assumes that embedded institutions of collective bargaining do not exist or if they do, the state and employers can effectively ignore them.

Fiscal policy

The EMU was designed for a symmetric pan-European economy but operates in an asymmetric way (see Hancké & Johnston, 2009). The narrow focus on wage cost competitiveness and fiscal consolidation ignores the institutional diversity, differing problem loads and structural imbalances both across and within eurozone economies. It assumed that all eurozone economies would converge in both price and wage costs. Most of the evidence indicates, however, that post-EMU, national and regional economies increasingly diverged on these indicators (see Lane, 2009, 2011). Countries shared a monetary currency but not the corresponding institutional governance required to coordinate economic policy. Market processes alone proved to be an ineffective means of European integration (see Scharpf, 2011).

From 1999-2008, large export countries at the centre of the eurozone (Germany) continued to run current account surpluses. This surplus capital and savings was channelled into peripheral economies of the Eurozone (Ireland and Spain, in particular) creating an unnecessary oversupply of credit (facilitated by low ECB interest rates) that was channelled into a poorly regulated domestic financial market which in turn channelled the cheap credit into real estate, as will be shown in later sections. In the absence of a central government or a functional equivalent each national economy operated as though they are institutionally independent. The crisis in the sovereign bond markets that emerged in 2008, however, provided an exogenous stimulus for eurozone economies to recognise the extent of their financial interdependence and the instability of integrated European finance-capital markets. Yet the policy prescriptions adopted were oriented toward nationalistic austerity packages not coordinated strategies of collective action to tackle structural imbalances that had accumulated since 2000 (see Felipe & Kumar, 2011).

The implicit assumption and narrow guidelines of the EMU is that economic problems only emerge from budgetary indiscipline not risky and unsustainable economic behaviour in the private market (see Pissani-Ferry, 2010). The growth and stability pact was designed on the basis

that public spending is the primary problem facing national governments. The crisis that emerged in Ireland, however, was the direct result of a collapse in private investment and the associated tax revenues government had come to depend upon. Both Ireland and Spain experienced an asset price (housing) boom upon entry to the EMU. Non-fiscal asset price bubbles facilitated by cheap credit and low ECB interest rates created this problem not government spending (see next section). Or, more precisely, the problem is not labour costs and government spending but the mismanagement of private capital by private actors coupled with an unsustainable tax base. The ECB, however, operates according to average (mean) indicators of labour costs and inflation across seventeen eurozone economies. Whilst the Irish and Spanish economies were overheating internally, the ECB continued to cut interest rates to encourage higher levels of economic growth in what was perceived to be the underperforming economies of Germany and France.

Furthermore, during the period 1999-2009 it was Greece, Germany, Italy and France that regularly exceeded the 3 percent deficit requirement of the growth and stability pact. Ireland, as will be shown in later sections, went from a stable budget balance to a fiscal deficit of 14.7 percent in less than two years. Spain went from a stable budget surplus to a deficit of 10.1 percent in less than 18 months. Spain actually ran a fiscal surplus in 2005, 2006 and 2007 (EU Commission, 2010). This begs the question as to whether it is genuinely feasible to use the statistical mean of the growth and stability pact as a basis for how national economies should manage their budget deficits in an economic crisis. With the exception of Greece, all European political economies, by this 'fiscal' indicator, behaved relatively prudently in the post-EMU era.

These indicators, however, mask the type and level of government tax and spend policies specific to particular national economies. Ireland did not run a significant deficit but successive governments institutionalised an unsustainable low tax regime based around 'political budget cycles' (see M Cousins, 2007). Government revenue became reliant upon consumption and pro-cyclical taxes (i.e. stamp duty on property) that evaporated when its liquidity rich and credit fuelled housing bubble burst. Furthermore, social partnership as a market conforming bargain legitimised this process. The EMU is not designed to tackle unsustainable growth strategies of national economies or the structural composition of tax revenues. It simply assumes that government spending in-itself is the problem. Therefore, the EU commission and international rating agencies never questioned Ireland's economic growth model or its fiscal policy regime.

Thus, the narrow focus on fiscal and cost competitiveness (central to Euro-monetary policy) meant that when the crisis emerged in 2008 (see final section) it was assumed the problem load facing 'peripheral' economies of the Eurozone (Greece, Ireland, Portugal, Spain and Italy), were the same. This was not the case. The Greek problem was definitively fiscal, related to government spending and specific to its own national economy. It regularly exceeded the stability and growth pact, exaggerated government returns and manipulated statistical measures. On the other hand, Ireland and Spain regularly ran budget surpluses and institutionalised a low tax

regime that was supported by international bodies such as the IMF and the OECD. Both countries rank below the EU 27 on two policy indicators that normally impact upon budget deficits: total government expenditure as a percentage of GDP and total spending on social protection as a percentage of GDP. Total taxation as a percentage of GDP is also significantly below the EU-27. Yet, given the neoclassical assumption of the EMU both countries were encouraged to cut expenditure to tackle their deficits despite having relatively low levels of public spending as a percentage of national income.

In a stochastic world, monetary constraints have proven to be the primary collective action problem facing countries of the eurozone when confronted with an economic crisis, not fiscal deficits or wage competitiveness (see Darvas, Pissani-Ferry, and Sapir 2011, Smaghi, 2011, Armingeon & Baccaro, 2011). The eurozone assumes member states can experience deflationary spirals of unemployment, downward wage flexibility and deep cuts in government spending without a corresponding replacement for the collapse in private investment. This general European context is the first factor that must be considered when examining the background conditions to the collapse of Irish social partnership.

3. The Impact of ECB Interest Rates

The transmission effect of finance into the real economy has produced what Colin Crouch (2009) calls 'privatized Keynesianism'. This was as a response by policymakers to the decline in real wages. Demand managed Keynesianism associated with the Fordist era of production enabled the expansion of mass production with mass consumers through real wage growth. Confident, secure working class consumers were not a threat to capitalist democracy but a conduit to it. With the demise of '*les trente glorieuses*', capitalist democracies had to find new ways to combine the need for capital accumulation, mass consumer demand and social stability. Policymakers across the western world responded by opening up product, finance and labour markets to increased trade and competition. This increased flexibility in the labour market created the conundrum of how to sustain domestic demand and high levels of consumption. Countries with a strong manufacturing base such as Germany exported the problem by securing confident consumers in countries such as Ireland, UK and the USA (and emerging markets). These countries increasingly relied upon personally delivered domestic services to generate employment (see chapter 5). The problem of how to sustain a consumption economy, in an insecure flexible labour market, was resolved by increasing the availability of cheap credit.

The growth of credit markets in Ireland, the UK and USA meant that these economies became premised on debt-financed consumer spending. Thus, unlike the post-war European welfare state, individuals rather than the state took on debt to stimulate the economy. This debt

in Ireland was mostly accounted for by mortgages⁷⁵. Hence the shift from state to privatised Keynesianism. The Irish government after 2002 pursued a public policy regime to encourage house-price inflation as a means to enable households to leverage credit for consumer spending. The rapid increase in the price of land and housing were considered ‘good inflation’. Rather than focus on increasing competitiveness through productive investment or the buying and selling of goods and services, the liberal oriented Anglo-Irish-American economies began to sell houses to one another as means to increase wealth (see O’Riain, 2011).

Ireland was the only ‘liberal market economy’ (LME) to enter the Eurozone. It was the fastest growing economy to enter the European Monetary Union (EMU) and has a business model that is closer to the USA than Germany. In the pre-EMU period Ireland constructed an export economy premised on internationally traded goods and services in the Information and Communication Technology (ICT) and pharmaceutical sectors (see chapter 4). When the economy began to slow down after the dotcom bubble in 2002 a new growth model premised on cheap money emerged. Irish banks took advantage of the absence of exchange rate controls and low European Central Bank (ECB) interest rates. The government de-regulated finance and mortgage markets, and introduced a whole series of tax breaks for property construction. The outcome was a colossal house price bubble (see figure 7.3 and 7.4).

There is increasing evidence to suggest that the ECB maintained historically low interest rates in the Eurozone as a response to stagnant domestic demand in the German political economy. The sluggish German economy was a result of a decade of wage restraint (Scharpf 2011). Wage growth in the highly productive export sectors, particularly those in chemicals, engineering, steel and metal fabrication have been lower than almost every other OECD country⁷⁶. In some sectors, they have declined. But industrial output from these sectors has been growing steadily from the mid-1990s. Thus, their rate of profit has increased whilst wages have declined. Most of this profit has been recycled into the finance industry. The growth in derivatives and other complex financial products has created what Wolfgang Streeck (2011b) calls ‘money factories’. These money factories recycle and repackage financial products and make their profit not from increasing productivity or investing in the real economy but through interest rates, much like state financed bond markets. German banks, particularly Deutsche Bank, lent significant amounts of capital to Irish and Spanish banks in the post-EMU era to fund their real estate boom. This was made possible by a liberal financial regulatory regime implicit in the design of the EMU.

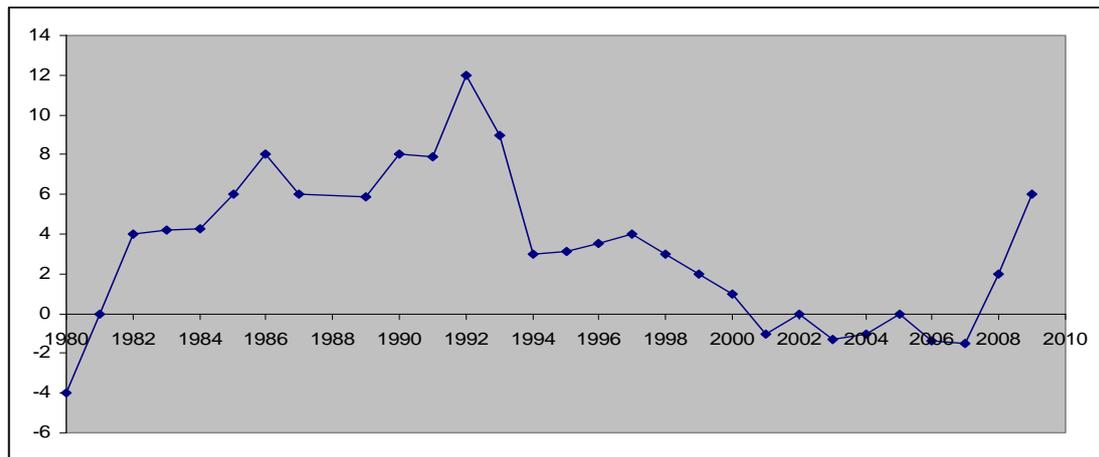
The ECB-Frankfurt interest rates were aimed at mean or average inflation levels in the Eurozone. In theory they are not targeted at specific countries. But, in practice, interest rates were kept low because of stagnant domestic demand in the German economy which was the

⁷⁵ The genealogy of the term ‘mortgage’ can be to ‘dead peasant’.

⁷⁶ The implicit orthodox economic assumptions of the OECD led them to publicly question social partnership in 2009 (see Farrelly, 2009)

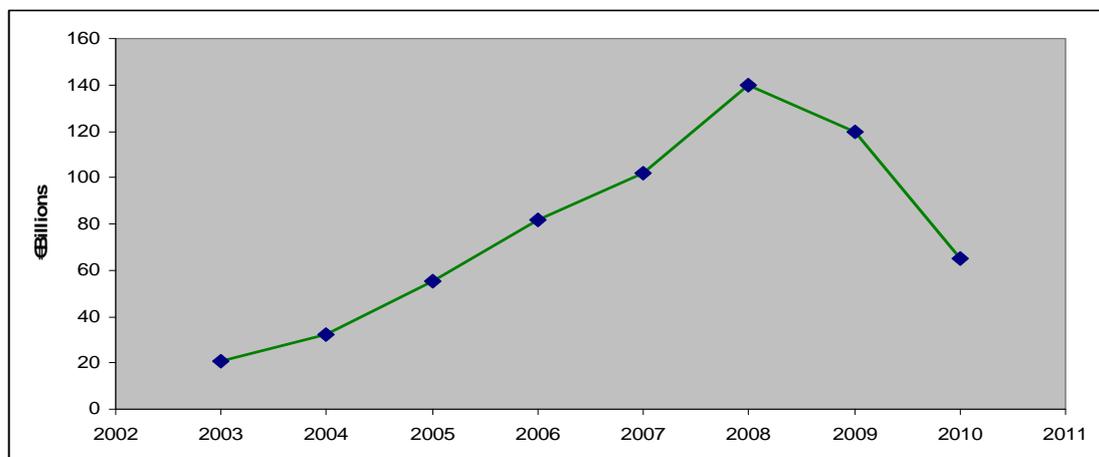
direct outcome of holding down real wage growth. The impact in Ireland and Spain was negative interest rates and an influx of cheap money into the economy (see figure 7.2). Domestic policymakers could not use monetary tools to contain inflationary pressures associated with rapidly rising house prices (which fuelled residential construction). In the context of 7 and 8 percent economic growth rates per annum, it would have been inconceivable for the Irish central bank to adopt negative interest rates. But as Colin Hay (2009) has argued, the ECB was targeting the Harmonised Index of Consumer Prices (HICP) and this index does not include house prices or mortgage repayments. The Irish Central Bank would have been targeting the domestic Consumer Price Inflation (CPI) as this is the measure used by trade unions to determine nominal wage demand. ECB policies were an exogenous factor that facilitated a construction boom in Ireland's property market. This is the second factor that must be considered when examining the background conditions to the collapse of social partnership.

Figure 7.2: Interbank Interest Rate, Adjusted for Inflation (1980-2010)



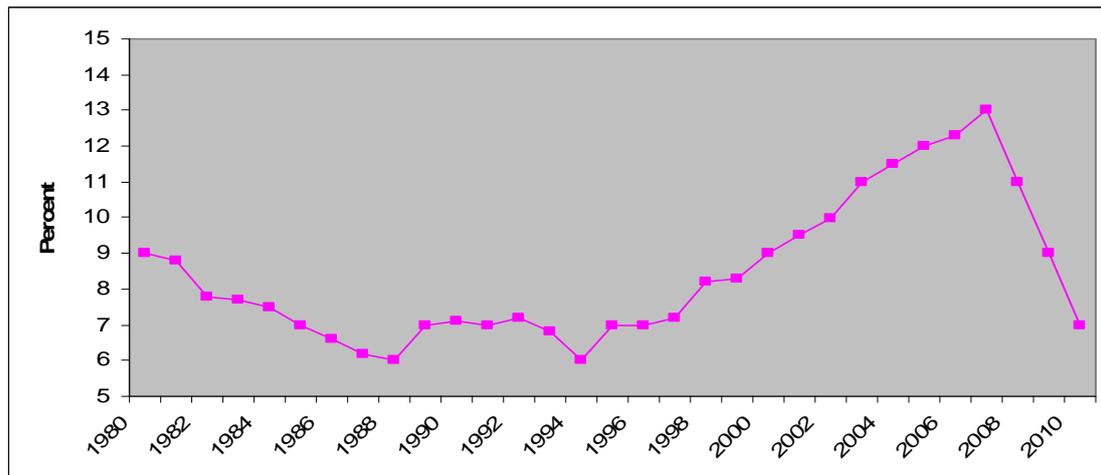
Source: Irish Central Bank (2011)

Figure 7.3: Net Foreign Liabilities of Irish Banks (2003-2010)



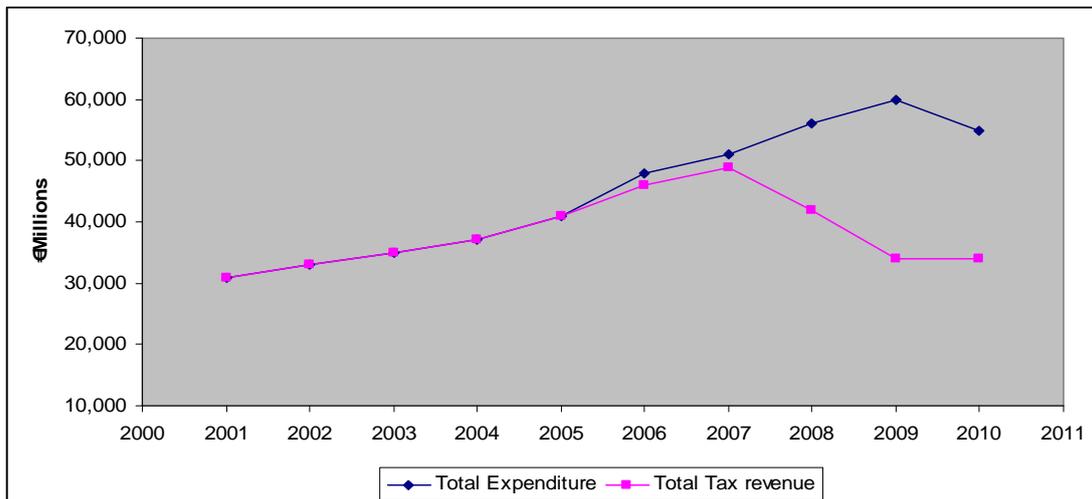
Source: Irish Central Bank (2011)

Figure 7.4: Construction as a Percent of Total Employment (1980-2010)



Source: Department of Finance and Budgetary Statistics (2011)

Figure 7.5: Total Tax Revenue and Expenditure in Ireland (2000-2010)



Source: Department of Finance and Budgetary Statistics (2011)

4. The Impact of Pro-Cyclical Fiscal Policies

In an ideal rational efficient world Ireland would have mirrored the German political economy after its entry into the EMU (see chapter 6). But given extensive historic empirical research on the diversity of institutional configurations that make up national labour, fiscal and wage policy in Europe, this was unlikely to happen. The seventeen economies that make up the Eurozone have divergent welfare and industrial relations regimes. Irish policymakers entered the Euro with a political economy that was gradually converging on European standards of living. But its expenditure on social protection and education as a percentage of GNP was significantly below the EU15 average. In addition, Ireland's physical infrastructure, a core factor in long term economic competitiveness, significantly lagged behind European standards. The largesse that was made available from the pre-EMU Celtic tiger and European Structural Adjustment funds

facilitated a massive capital expenditure programme from 2000. Capital expenditure in 2004 was double the EU15 average. The National Development Plan was the strategic mechanism through which productive investment in roads, buildings, electricity and waste sewerage took place. This investment contributed to the inflationary pressures in the Irish economy but it also generated significant employment in construction. As stated in chapter 5, whereas the rest of Europe was engaged in ‘permanent austerity’, Ireland was engaged in ‘developmental expansion’.

The unproductive investment in Ireland’s political economy occurred in the private real estate market. According to White (2010), real estate accounted for two thirds of the €477bn available for capital investment from 2000-2008. During this period bank lending tripled, rising from 60 percent of GNP in 1998 to 270 percent at the peak of the construction boom in 2007 (see figure 7.3). Real estate increased from 37 percent to 72 percent of total bank lending. It was this increase in bank lending on wholesale money markets that created the house price bubble in the Irish economy. House prices and construction employment soared (see figure 7.4). Between 1991 and 2007 house prices in Dublin increased by 490 percent. By 2006, land prices in Ireland were the highest in Europe. By 2007 almost 20 percent of GNP was accounted for by construction. This created an employment boom in craft related trades, general labourers and professions such as architecture. As stated in chapter 4 Ireland experienced a jobs miracle from 1993-2000 with 650,000 jobs created in the private service market. But this slowed down between 2000 and 2002. Unemployment remained at approx. 6 percent. Between 2002 and 2007, Ireland experienced a second employment boom with an additional 400,000 jobs created. Less than two percent of these were accounted for by Ireland’s export economy. Almost all of these jobs were created in construction, domestic retail and public services. By 2006 one in four males under the age of 25 were employed in the construction sector. Most of these were low skilled labourers.

The expansion of credit made possible by low ECB interest rates fuelled house prices which shifted the Irish economic growth model from one premised on exports (pre-EMU) to one premised on construction (post-EMU). As detailed by Norris and Coates (2010), the commercial mortgage sector was de-regulated as part of a wider process of domestic financial liberalisation. Policymakers were aware that house price inflation would lead to increased wage demands. But to tackle house price inflation the government adopted policies to increase the supply of housing (i.e. build more) rather than ‘interfere’ in the property market by managing lending criteria or controlling prices. The National Institute for Regional and Spatial Analysis (NIRSA) have described the Irish governments approach to economic policy as a ‘patchwork system of neoliberal governance’. At a Euro-macro level it involved the abolition of quantitative restrictions on credit growth, lowering bank reserve requirements, dismantling capital controls and the removal of restrictions on interest rates. At the domestic level Irish policymakers adopted pro-cyclical fiscal policies, developer rather than government led planning, light touch regulation, poor corporate governance and minimal taxation. The patchwork quilt of neoliberal governance,

however, was complicated by the existence of national social partnership, centralised pay bargaining and a relatively generous welfare safety net. Trade unions, as has been shown in this thesis thus far, were not excluded from the national governance framework but central to it.

Kelly (2010) argues that the Irish government and central bank were captured by the interests of the financial industry - a classic case of crony capitalism. This is only part of the story. Economic growth rates of 6-7 percent per annum from 2000-2007 increased government revenue and employment growth (see chapter 6). The 2002 budget, in particular, was designed to win electoral support after the economy began to slow down. The Fianna Fáil/PD government introduced a series of tax reliefs on the purchase of residential and commercial property in the 2003 and 2004 budget. Irish fiscal policy was aggressively pro-cyclical and directly linked to construction related capital investment (Gurdgiev et al 2010). The increased revenue enabled government expenditure to increase by approximately 11 percent during this period. Most of this expenditure went on an increasing social welfare payments and public sector pay (see chapter 6). This satisfied and kept intact the underlying distributional coalition of Irish social partnership, premised on centralised wage restraint in return for decreasing income taxes. As Hardiman and Dellepiane (2010) argue, the net effect of a government committed to income tax reduction was a path dependent route of sharing out growth through rising personal incomes rather than an improvement and collective investment in public services (see Kirby, 2010, 2011).

The general point is that Ireland's domestic fiscal policy regime was totally inappropriate to the conditions of a monetary union and directly associated with centralised wage bargaining. The tax to GNP ratio remained steady throughout the construction boom. But this masked a significant change in the underlying composition of the tax base. Income tax as a percentage of the total tax take declined from 37 percent in 1994 to 27 percent in 2006. In addition, the tax base was increasingly narrowed with the net effect that 50 percent of employees were taken out of the income tax net altogether. By 2007 Irish revenue was hugely dependent on domestic consumer spending (VAT and indirect taxes) and property related taxes (stamp duty on new homes). Property related taxes went from 8 percent of total tax revenue in 2002 to over 15 percent in 2006. When the property market collapsed, tax revenues plummeted (see figure 6.5). This low tax political economy was the outcome of domestic political choices by the Fianna Fáil government and legitimated by the national wage agreements. This is the third factor that must be considered when examining the background conditions to the collapse of social partnership.

5. EU Enlargement, Migrant Labour and Industrial Relations

“Part of the dilemma for trade unions was that we knew that we were on the demise. We punched above our weight relative to our membership” (General President of SIPTU)

The construction boom led to labour shortages in Ireland (Klings et al, 2009). To tackle this problem the government provided full access to Ireland’s labour market for all workers from the new accession countries after EU enlargement. Opening Ireland’s labour market to a potential labour force of 70 million workers in the absence of improving employment protection exposed a significant conflict of interest between the social partners. IBEC argued that inward migration would solve problems of labour shortages and dampen wage expectations. ICTU argued that, in the absence of strong institutions to ensure compliance with employment protection, inward migration would lead to a race to the bottom and encourage employers to ignore collective bargaining norms. Influential research organisations such as the ESRI agreed with IBEC, as did the government. But two high profile industrial relations disputes centred on migrant labour; Irish Ferries and Gama, alongside a Supreme Court ruling on the 2004 Industrial Relations Act, shifted the strategic focus of the actors. These conflicts made employment rights central to the ten year T16 national pact which would collapse in 2009.

In Search of Cheap Labour: Irish Ferries and GAMA

Between 2004 and 2008 over 380,000 migrants arrived in Ireland from the new member states (NMS) of the European Union. By 2008 migrants accounted for 15 percent of the workforce. Most of these entered sectors with significant labour shortages: agriculture, construction, hospitality and food processing. At the peak of the property boom there were 280,000 workers employed in construction. 65 percent of these worked in companies with less than 10 employees. Companies employing 50 people or more only accounted for 10 percent but their share in construction output was over 80 percent (Cremers, 2009). It is estimated that approximately 20 percent of new migrants worked in construction. Hence, it was the craft unions that were most vocal in their opposition to ‘throwing open’ the Irish labour market. Pay and conditions in the construction industry are regulated by legally binding Registered Employment Agreements (REA’s). The Construction Industry Committee of ICTU negotiates with the National Joint Industrial Council (NJIC) to set pay, pensions, health & safety, apprenticeships and training schemes for all workers. During the construction boom of 2004-2008 the implementation and monitoring of standards at company level proved problematic because of a significant increase in sub-contracting and casualisation of the workforce.

After 2004 major infrastructural projects were being carried out by subcontracted firms, bringing in temporary migrant labour from new accession countries and non-EU member states.

One company in particular; the Turkish based GAMA Construction Ireland ltd, had significant state contracts (Flynn, 2006). But as far back as 2001 SIPTU raised concerns about the ability of GAMA to undercut Irish companies and win state contracts on the basis of its lower labour costs. In 2002 building workers at the Huntstown power station threatened industrial action if GAMA did not comply with industry pay rates. In 2004 three crane drivers occupied a crane on a GAMA building site in protest over the non-payment of wages. All public contracts with GAMA stipulated that they must comply with Irish labour law and collective bargaining norms. This was considered a sufficient condition to ensure employer compliance with the social partnership process.

But in January 2005 the Socialist Party TD, Joe Higgins, used parliamentary privileges to present evidence that GAMA Ireland were:

“importing workers who do not speak English from their home base, control their passports and work permits, accommodate them in company barracks, demand 'grotesque' working hours and, incredibly, pay unskilled construction workers between €2 and €3 an hour, and skilled something over €3 an hour" (Irish Times, 2005a)

GAMA who employed 2000 workers in Ireland rejected the allegation. But it began a trade union campaign that would seriously challenge the social partnership process.

It eventually emerged that GAMA were paying significantly below the REA rate for skilled construction labour. They argued that the 800 Turkish workers employed were not liable for the REA rate as this was a collective bargaining not a legal norm. They accepted an obligation to pay the national minimum wage (NMW)⁷⁷. This, according to GAMA, was being paid. But a labour inspectorate report found a variety of fraudulent strategies were being adopted by the company that led to the significant underpayment of wages (Irish Times, 2005b). This included a complex process of transferring wages between Dutch, Turkish and Irish bank accounts. The Department of Enterprise could not issue the findings of the labour inspectorate report as GAMA received a High Court injunction on the basis of the non-legal status of the labour inspectorate process. This led to new legislation in T16 that enabled labour inspectorates to publish their investigations.

By April 2005 several hundred GAMA employees walked off building sites and marched through the streets of Dublin. In the same month Turkish based employees occupied several building sites to demand full payment of wages. The government came under increased pressure to improve labour standards. As the Labour party TD, Pat Rabbitte, revealed in parliament: “there are more dog inspectorates than labour inspectorates in this country” (Irish Times, 2005e). The GAMA dispute was just beginning to fade when another dispute in Irish Ferries broke out.

⁷⁷ The National Minimum Wage, as mentioned in chapter 6, was the result of a long lobbying campaign by ICTU. After its introduction 2001 the rate was agreed by IBEC and ICTU in the national wage agreements.

This dispute was centred on a decision by Irish Ferries to replace 543 Irish employees with temporary agency workers. The company argued that it had lost competitiveness because of French subsidies to its main competitor, Brittany Ferries. This enabled the latter company to become a low cost operator in the European market. Most of the crew who were members of the Seaman's Union of Ireland (SUI) accepted the redundancy package that led to their replacement with agency workers. Hence, IBEC fully supported the position of Irish Ferries. The dispute, however, evolved into a national campaign, led by SIPTU, to avoid a 'race to the bottom' in labour standards. This culminated in a mass demonstration of 100,000 people marching through the streets of Dublin under the banner 'equal pay for equal work'. Irish Ferries decided to break with social partnership norms by refusing to attend Labour court hearings or abide by their procedural recommendations (O'Connor, 2006).

It was this decision to ignore the voluntarist social partnership regime in Ireland that led the Prime Minister, Bertie Ahern, to publicly intervene and support the trade union position (Irish Times, 2006b). The Prime Minister made it clear that the exploitation of foreign workers and a refusal by an increasing number of employers to accept collective bargaining norms was not acceptable under social partnership. This state intervention changed IBEC's position. The dispute escalated when some seafarers occupied the engine room of an Irish Ferries ship on the day temporary agency workers were brought on board. In solidarity with the seafarers, CIE rail workers closed the Rosslare port. This direct action and the Prime Ministers intervention forced Irish Ferries to change their position and enter negotiations in the Labour Court. The outcome was higher pay and better conditions for the agency workers. Despite SUI and SIPTU members accepting the redundancy package, SIPTU achieved the political symbolism of improving the conditions for those on temporary agency contracts (Sheehan , 2008).

A Shift in Employer Strategy

The trade union concern about a race to the bottom proved correct. Employers actively developed strategies in search of cheap labour. Irish Ferries and GAMA were the two high profile disputes that received media attention. But across the labour market there was increasing evidence that social partnership was being ignored by employers. It was becoming obvious that social partnership only existed in the public sector. In 2007 the National Employment Rights Agency (NERA) was established as part of the T16 agreement. This agency carried out over 300 inspections. 63 percent of employers were found to be in breach of employment regulations such as the absence of formal contracts, excessive working hours, unlawful deductions, underpayment of the minimum wage and unpaid overtime. The NERA concluded that enforcement and compliance of employment standards is a structural problem across the labour market, particularly in construction, retail and hospitality. After the Irish Ferries dispute ICTU refused to

enter negotiations with government on the T16 national pact until they received a commitment to strengthen employment protection standards (Irish Times 2005d).

The SIPTU leadership, in particular, recognised the limits of voluntarist regime and an increasing clash of employment cultures in the Irish labour market (IRN, 2003). The demonstration effect of non-union US multinationals was influencing the strategy of domestic Irish employers. Employers, as argued in chapter 6, increasingly refused to recognise the voluntary dispute resolution agencies, a trend that was set by Independent news group in 2004. In response to a decline in organisational power resources ICTU shifted their preference from a bargaining to a rights based industrial relations regime. To stem the decline of trade union density they secured the Industrial Relations (Miscellaneous Provisions) Act 2004. This was designed to prevent the exploitation of employees in non-unionised companies by making labour court recommendations legally binding on firms who do not have employee inclusive structures of representation. However, it did not grant a legal right to collective bargaining. The Irish constitution defends the priority of private property rights and therefore grants employers the right to *not* recognise the right of trade unions. Despite this, the 2004 legislation changed the strategy of many private sector employers and their relationship to social partnership.

In 2006 ICTU proposed a new single piece of legislation rather than make amendments to existing employment protection legislation as a pre-condition for a new national pact (Irish Times, 2006b). But IBEC, CIF and the American Chamber of Commerce refused to countenance anything that would increase or change Ireland's flexible labour market (Irish Times 2007a). Despite ICTU's focus on the protection of low paid workers, the American Chamber of Commerce and the FDI sector began a national lobbying campaign to resist any change to Ireland's liberal market industrial relations regime. In response, SIPTU made a concerted effort to unionise precarious, and in particular, migrant workers. After 2004 SIPTU increased their organising budget from 5 to 15 percent of expenditure. It was this shift toward an organising campaign to increase trade union density that led the business interests of American multinationals to pressure government against any change in the legal framework. The government agreed to not grant a legal right to collective bargaining but established a National Employment Rights Agency (NERA) to enforce existing legislation (IBEC, 2003, Dobbins 2005).

In 2007 Ryanair challenged the 2004 Industrial Relations Act in the Supreme Court and won. The Supreme Court decision de-legitimised the entire process of Labour court jurisprudence. It also illustrated that a transformative shift in Irish industrial relations had taken place since the origins of social partnership in 1987 (see chapter 3). By 2011 the High Court ruled the ERO/JLC system, under the 1945 and 1990 industrial relations act, unconstitutional (O'Sullivan et al 2011). The general point is that Irish social partnership was under serious strain before the Eurozone crisis. This divergence of interest can be traced to employers defecting from Ireland's industrial relations regime and the fourth factor that must be considered when

examining the collapse of social partnership in the Irish case. It is the precise configuration of factors that led to this collapse in 2009 that we will now turn our attention toward.

6. The Shift from a Negotiated to a Unilateral Adjustment

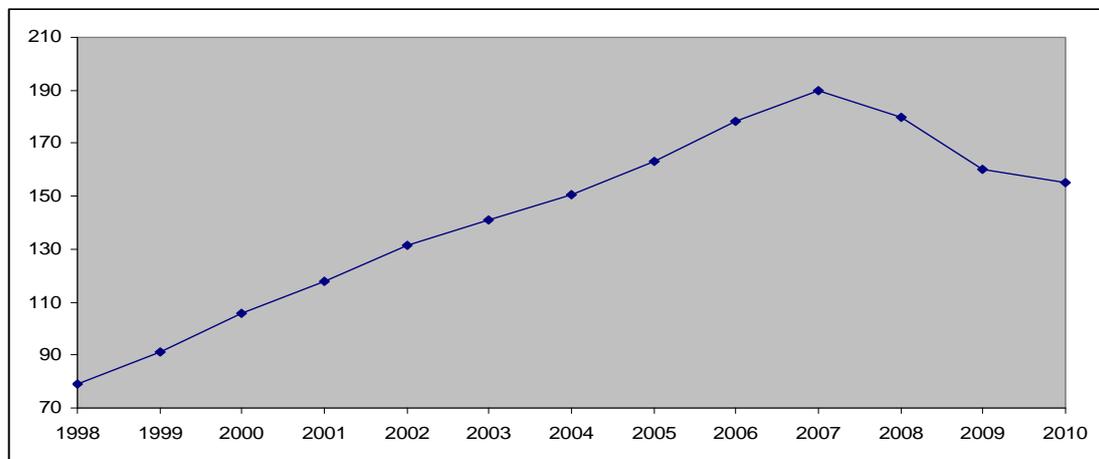
Ireland experienced a 13 percent contraction in national income between September 2008 and June 2011 and directly attributable to a collapse in the property market. The recession in Ireland, statistically, began one year earlier than the eurozone. In mid-2009, the eurozone statistically exited the recession and returned to growth (EU Commission, 2010). By 2011 Ireland had not. The OECD (2010) predicted growth would return to the Irish economy in the final quarter of 2011. Based on these optimistic forecasts the recession lasted 36 months longer than the eurozone average. During 2008-2010 Ireland's budget deficit deteriorated and by 2011 it was the largest in the EMU at 14.7 percent of GDP (32 percent when the final cost of bank bailout is included). By 2011 its public debt rose to over 110 percent of GDP and unemployment increased to 14.7 percent (see figures 7.6, 7.7 and 7.8). The increase in all of these indicators (including a contraction in national income) occurred after the introduction of three fiscal austerity packages in 2008, 2009 and 2010. When combined these amount to the largest fiscal adjustment ever experienced by a western capitalist economy (IMF, 2010).

The strategy adopted by the Irish government was to internalise the EMU constraint and target public spending and unit labour costs as a means of adjustment. In terms of wage policy, government introduced emergency legislation to override the Non-Payment of Wages Act for the public sector in the 2009 budget. This enabled government to implement a pay cut that averaged between 5 and 15 percent. It also sent a signal to the entire economy that the Non-Payment of Wages Act was not an obstacle to downward wage flexibility in labour costs. This began a competitive devaluation of wages (although the evidence for pay cuts in the private sector is negligible). In labour market policy government have introduced some measures to offset unemployment but there was no statutory support for wage subsidies or short time working. In fiscal policy most of the adjustment occurred via spending cuts rather than increased revenue. In 2009 €4.6bn was been taken out of expenditure but net government spending increased due to the surge in unemployment and expenditure on automatic stabilisers.

Despite the fiscal consolidation, the premium on government bonds increased. In 2008 the yield was 4.3 percent. In May 2010 the yield had increased to 5.9 percent. In November 2010, the government announced another €15bn austerity package to be introduced over four years. Bond yields subsequently rose to over 7 percent. Fiscal austerity did not appease international investors in finance markets and Ireland had to resort to an EU-IMF rescue package in December 2010, losing economic sovereignty (see Wolff, 2011).

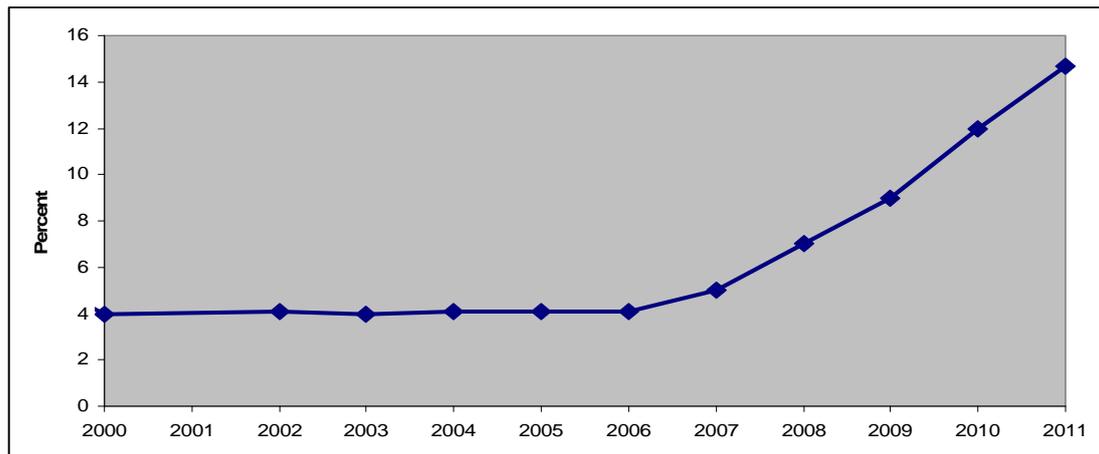
In the absence of exchange rate adjustment the Irish state adopted and internalised the constraints of the EMU in how it has responded to asymmetric shocks. Unlike 1987 it has pursued a unilateral neoliberal strategy that shifts the entire burden of adjustment on to the labour market without a corresponding investment strategy to boost the growth side of the debt-GNP equation. It was this focus on growth not austerity that enabled a negotiated fiscal adjustment in 1987 (see chapter 4). To understand the shift in government strategy we have to examine three domestic factors; a collapse in tax revenue, the absence of a political exchange and a transformative shift in the power relations underpinning Irish industrial relations. All of these factors contributed to a collapse in the underlying political coalition supporting social partnership.

Figure 7.6: The Growth and Decline of GDP (1998-2010)



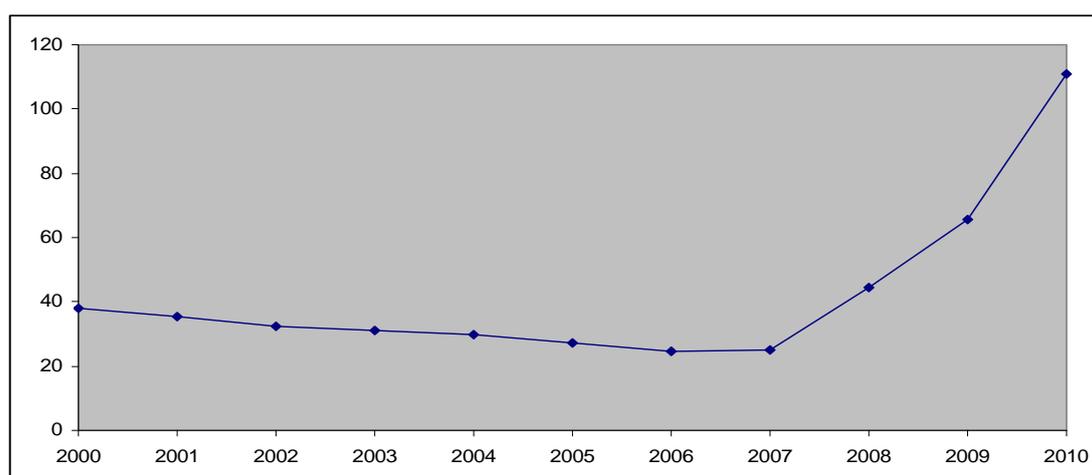
Source: Department of Finance and Budgetary Statistics (2011)

Figure 7.7: Unemployment Rate as Percent (ILO) in Irish Economy (2000-2010)



Source: Department of Finance and Budgetary Statistics (2011)

Figure 7.8: National Debt as a Percent of GDP (2000-2010)



Source: Department of Finance and Budgetary Statistics (2011)

Legitimizing Irelands low tax regime

The Irish crisis is directly related to a collapse in private investment, primarily real estate and associated tax revenues (see Burke et al, 2010). As stated previously Ireland experienced a colossal asset price bubble directly after entering the EMU. This was facilitated by domestic fiscal policy through the provision of a whole series of tax expenditures (tax allowances and reliefs) aimed at the construction sector. As a percentage of total tax revenue these schemes accounted for more than three times the EU average. By 2007 tax expenditures accounted for more lost revenue than was taken in via income tax (see Regling and Watson, 2010). As argued in chapter 6 the property related expenditures were used to incentivise multi-story car parks, hotels, holiday homes and private hospitals. Most of the schemes evolved into a major source of tax avoidance for the wealthy, constituting a major transfer of wealth from Irish citizens to a small group of wealthy individuals. Collectively, these incentives had a combined gross tax cost of €3.28 billion. The net loss to the state was around €2.2bn (Regling & Watson, 2010). These publicly provided state aids to the private sector were approved by the EU commission. The EU Commission and all the main political parties in the Irish state actively supported a low tax, pro-cyclical strategy of economic growth.

The mismanagement of private wealth can be observed in the CSO 'estimate of capital stock'. This quantifies where capital is located and invested in the Irish economy. According to White (2010) capital stock soared by 157 percent between 2000-2008 but real estate accounted for two thirds of this investment. In 2008 net capital stock was €477bn. €302.5bn went into unproductive assets whilst only €174.4bn was invested in productive activity. It is this collapse in capital investment that accounts for the contraction in the Irish economy. The vast majority of the core productive capital was not driven by private sector enterprise but state and semi-state activity: roads, schools, hospitals, gas, waterworks and waste management. Davy stockbrokers

concluded that productive private sector investment accounted for only €14.5bn from 2000-2008. This collapse in private investment is the causal factor behind the contraction in Ireland's economy but all policy prescriptions focused on labour costs and government spending; to tackle the budget deficit and improve wage competitiveness. The strategy was to pursue an internal devaluation despite NESC calling for a continuation of the National Development Plan (NDP) in the advent of a down turn in construction.

The collapse in government finances during 2008 and 2009 amounted to €17.5bn (Burke et al, 2010). This collapse in tax revenue coupled with the bank guarantee scheme resulted in a projected general government deficit of 32 percent. Figure 7.5 clearly indicates that Ireland's deficit was a tax not a spend problem. Government institutionalised a low tax regime and became overly dependent on pro-cyclical taxes associated with its asset price bubble. Public spending increased from 2000-2008 but total government expenditure as a percentage of GDP is still significantly below the eurozone average. Comparatively, Ireland is a low tax, low spend economy. Total tax revenue to the Irish exchequer in 2009 was on a par with Latvia, Romania and Lithuania (O'Donough & Dundon, 2010). Yet, social partnership as a process advocated the construction of a developmental welfare state akin to the Danish and Dutch system (see NESC, 2005). How to square the circle of a low tax economy and a developmental welfare state was one of the central contradictions of the social partnership process.

Irish trade unions and employers bear some responsibility for the unsustainable tax base. Social partnership was premised on a liberal market exchange that legitimised a policy of wage restraint in return for cuts in income tax. The latter was primarily driven by the electoral considerations of successive Fianna Fáil governments but the national pacts were the political vehicle through which a low tax strategy was legitimated. Trade unions promoted centralised wage bargaining to their members not on the basis of nominal wage increases but real take home pay after tax reductions. The public policy response to the crisis did not focus on this shared responsibility for institutionalising a low tax regime but the salaries and security of tenure for public sector employees. Public sector unions were targeted for causing a rise in government spending after the 2002 benchmarking process (see chapter 5). This enabled government and economic commentators to focus on public sector wage costs as the primary collective action problem in Ireland's political economy not its low tax regime.

7. The End of Social Partnership?

“In the negotiations in 2008 and 2009 it became obvious that there were a significant number who were quite happy to cut the umbilical cord between the trade unions and the government” (Interview with senior trade unionist on ICTU executive)

One month prior to the economic collapse the social partners negotiated a national pay agreement titled ‘towards 2016: Review and Transitional Agreement 2008/2009’. This agreed a pay pause for 11 months in the public sector and 3 months in the private sector, followed by a 6 percent increase over 18 months. It also included a continued commitment by government to improve collective bargaining rights, a national employment rights framework, public sector reform and the conclusion of an EU directive on temporary agency workers. The T16 social plan negotiated in 2006 was for ten years but the pay aspect of the agreement was to be-renegotiated every 24-36 months. The new transitional pay agreement was barely signed before the full extent of the crisis facing Ireland's economy emerged. Immediately the government signalled its intention to seek a coordinated response and discussions began in the National Economic and Social Council (NESC). This was the beginning of a 12 month process aimed at negotiating a social pact that ultimately failed (ICTU, 2009, Sheehan 2009).

Negotiations on a national pact took place throughout December 2009. Significantly, the trade union movement agreed to a reduction of €4bn in current expenditure. This agreement fundamentally shifted the balance of power away from a public investment strategy. The ICTU now had to find a strategy of taking €4bn out of current expenditure without a reduction in the rates of public sector pay. The Public Service Committee of ICTU provided a complex package aimed at public sector reform and productivity increases, particularly in the education and health sectors. Government appeared to have accepted a reduction of €4bn via short term working schemes and a transformation agenda aimed at productivity increases. The leader of IMPACT, one of the largest public sector unions, Peter McLoone, exited the talks on December 3rd 2009 and publicly announced to the media that a social pact had been completed on ‘unpaid leave’.

The government subsequently issued a statement saying the ICTU proposals did not provide an acceptable alternative to pay cuts and legislated for a second public sector pay cut. This amounted to approx. €1.3bn. Emergency legislation was introduced to override the Non-Payment of Wages Act (which makes it illegal to unilaterally cut pay without agreement). The main cuts in public sector pay are as follows: 5% on the first €30,000 salary, 7.5% on the next €40,000 salary, 10% on the next €55,000 salary. The Irish Business and Employers’ Confederation (IBEC) subsequently made the unprecedented decision to withdraw from the private sector transitional pay agreement of the 2006 social pact ‘towards 2016’. For the first time in 23 years, trade unions, employers and government were operating in the absence of a social partnership agreement. But an informal private sector accord was agreed between IBEC

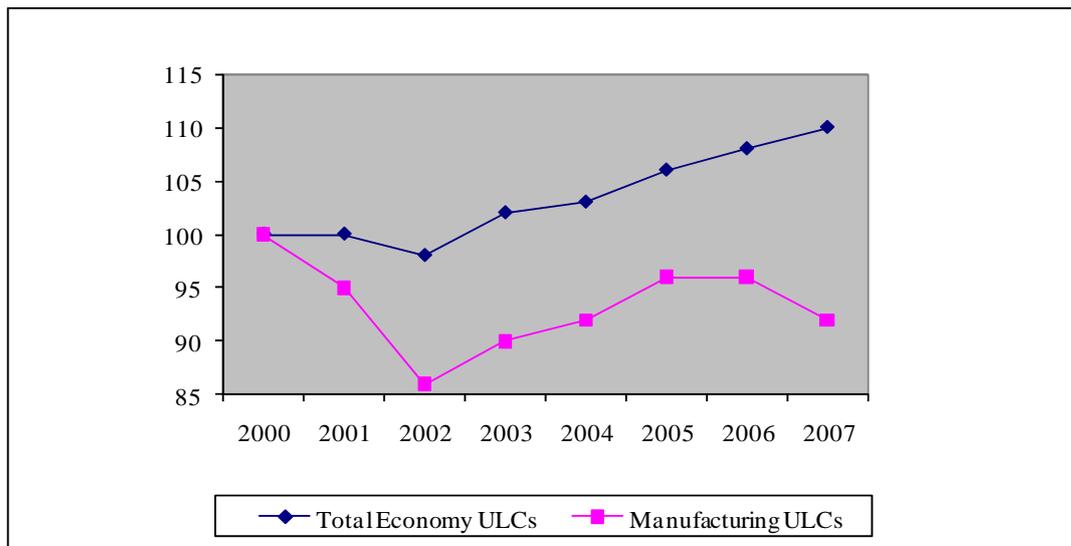
and ICTU in 2011 illustrating the willingness of both actors to engage in social dialogue aimed at minimising industrial action.

The absence of a NESC agreement

The publication of a report in September 2009 by the Economic and Social Research Institute (see McGuinness et al 2009) played a significant role in shifting the politics of labour relations to unit labour costs in the public sector. The report found that public sector workers earn, on average, more than 22 percent than their counterparts in the private sector. This is after taking into account age, experience and education. The report was central to a coordinating policy discourse that resulted in an increased politicisation of labour relations in the Irish public sphere. Whilst many economists supported its conclusions it was not without its critics. Industrial relations scholars argued that it is too simplistic to statistically compare a homogenous public sector to a homogenous private sector when there is such significant sectoral and occupational differentiation both within and across these sectors (see Geary & Murphy, 2009). This challenged not the politics of wage coordination in the sheltered sectors of the economy but the methodological complexity of measuring unit labour costs in a heterogeneous economy.

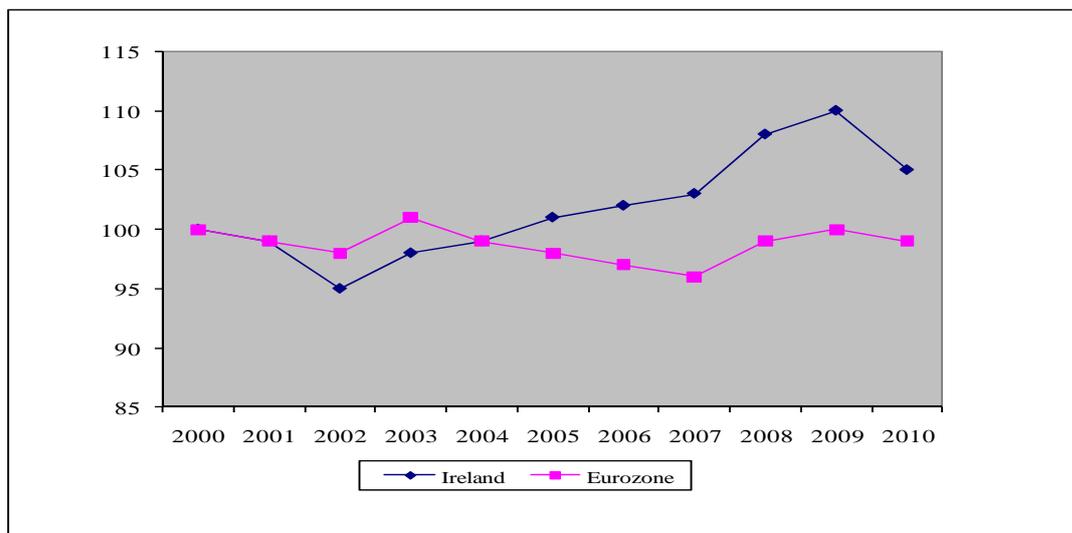
Many trade unionists argued that the 22 percent did not account for the pension levy (March 2009) or the pay cut (Dec 2009). The data was from 2006 when a wage agreement was concluded but not implemented. Others argued (Sweeney, 2009) that if government are cutting wages they need to make explicit whether it is for cost saving, competitiveness or sustaining employment. That is, many questioned the logic of cutting wages to improve national competitiveness. Furthermore, the same authors in a separate ESRI publication (2008) found that centralised wage bargaining in Ireland generated wage restraint and that many sectors in the private sector used the national wage agreements as a floor not a ceiling in their company wage negotiations (McGuinness, Kelly and O'Connell, 2009). Social partnership improved the economy wide cost competitiveness when measured in unit labour costs. The report concluded that export firms can increase their competitiveness by locating in countries with centralised wage agreements. This conclusion seems to be supported by data that analyses trends in sectoral labour costs as indicated in Figure 7.9a. This shows unit labour costs in the traded 'competitive oriented' manufacturing sectors of Ireland decreasing relative to the OECD average from 2000-2007.

Figure 7.9a: Trends in Total and Manufacturing Labour Costs Relative to OECD Average



Source: EU Commission, Statistical Annex (2010)

Figure 7.9b: Trends in Total Unit Labour Costs in Ireland and the Eurozone



Source: EU Commission, Statistical Annex (2010), EU Klems (2009)

Figure 7.9b, however, indicates that overall unit labour costs in the economy (labour costs divided by entire working population) have increased beyond the eurozone average. This is particularly the case when the public and semi-state sectors are included in the analysis. This, in turn, would support the thesis by Traxler et al (2010b) that social pacts are associated with sheltered pay bargains that do not internalise non-inflationary wage growth. The collective increase in unit labour costs supports the argument that public sector wage costs have driven up overall unit labour costs in the economy. But saving costs in the government sector is not the same as improving competitiveness across the economy. And it was the latter argument that was used in the Irish case for a collective devaluation of wages. Furthermore, labour costs chased

inflation in the Irish economy post-EMU. The causal factor behind inflation was a house price boom associated with an oversupply of cheap credit and facilitated by low ECB interest rates.

Hence, the absence of a shared analysis on the economic problem, the absence of a distributional exchange in the negotiations and a unilateral pay cut by government altered the political context within which a negotiated compromise could be reached. This is categorically different from 1987 (see chapter 4). During this crisis the government cut income taxes, devalued the currency and granted trade unions a 2 percent nominal increase in pay.

A Collapse in the Underlying Political Coalition

The shift from organising in the labour market to acting as the non-parliamentary coalition partner of Fianna Fáil came at a cost for trade unions.. The growth of non-union employment during the period of social partnership ensured trade union density and collective bargaining coverage decreased over time (Geary, 2006). In 2008, trade union density had collapsed to 22 percent in the private sector. Unlike most European systems of collective bargaining (see chapter 2) there is no legal-formal extension of negotiated wage agreements to non-union employees. It is exclusive to the unionised economy which was concentrated in the semi-state and public sectors. On the one hand this voluntarist and exclusive system of wage setting enabled social partnership to consolidate as an institution of industrial relations. It put no legal requirement on non-union Irish employers in the multinational sector. But it simultaneously removed the institutional power resources which provide trade union leaders with political access to government in the first place. The voluntarist and exclusive *structure* of collective bargaining, in the context of a neoliberal political economy, explains why the government and employers could walk away from the process with minimal repercussion.

This voluntarist and exclusive institutional framework of collective bargaining is the underlying condition that explains the rise and fall of social partnership. But it is the shift in the underlying political coalition that is the precise causal mechanism behind the demise of social partnership as a process. Social partnership could not internalise the constraint of adjustment because Fianna Fáil, and subsequently, Fine Gael, did not see it within its interest to do so. The underlying political coalition between IBEC, public sector unions and the Prime Ministers Department⁷⁸ were considered part of the problem not the solution. Given the democratic structures of ICTU it would have been impossible for them to ballot and get legitimation for a public sector pay cut. The underlying political coalition underpinning social partnership was faced with a legitimation crisis. The policy response swung back to the Department of Finance and the European Central Bank. This opened up the space for a shift toward neoliberal orthodoxy,

⁷⁸ It is crucial to note that Bertie Ahern resigned from office in August 2008, prior to the failed negotiations for a national recovery pact. In an interview with the author he was convinced that had he been in office he would have brokered a deal.

leading some to conclude that social partnership was a case of Thatcherism delayed (McDonough & Dundon 2010).

The Croke Park Agreement and Public Sector Reform

This would be too simplistic a conclusion. In 2010, the Irish government negotiated a sectoral agreement with public sector unions, locally known as the ‘Croke Park’ agreement. This guarantees no further pay cuts and aims at public sector reform through employee participation. Trade unions are guaranteed participation in public sector reform in return for a pay freeze and a reduction in employee numbers through voluntary redundancy. It is a serious form of concession bargaining but it is not a unilateral restructuring of the public sector. Furthermore, the newly elected Fine Gael/Labour coalition government in 2011 signalled their intention to continue social dialogue with the social partners via the tri-partite NESC. But the newly elected Prime Minister, Enda Kenny made it clear that the “open door access to the social partners has been closed⁷⁹”. Government was willing to adopt a labour inclusive strategy for the public sector because it is here that trade unions wield significant veto power. This contributed to a dualised labour market and a growing public discourse of insiders versus outsiders. Unlike 1987, ICTU were not considered a legitimate social partner in formulating a plan for economic recovery.

At a national level social partnership as a mechanism of governance has been delegitimized but government, employers and trade unions still have a strategic preference for social dialogue on issues pertaining to industrial relations. All actors have a political preference for consensus over conflict (Sheehan 2010b, 2010c). But a deeper level of corporatist engagement in socio-economic governance that goes beyond consultation depends on the ability of trade unions to wield significant deterrent power in the labour market. This is contingent upon an embedded institutional framework of collective bargaining that is absent in Ireland's neoliberal economy. As an institution of labour relations, it was dependent upon horizontal networks of political access to the Prime Minister's office and the strategic preference of Fianna Fáil. To what extent, therefore, Irish state corporatism as it evolved over twenty three years can be considered a collective bargaining institution or a political strategy is an open question.

Ultimately, social partnership was a strategy of the state to generate the necessary political and industrial relations stability for Ireland's adaptation to the constraints and opportunities of being a small open capitalist economy in a single European market. It was a national political coalition that increased state power to embed a distinct trajectory of liberalisation that was qualitatively different from UK neoliberalism; the Irish third way.

⁷⁹ After the negotiation of T16, Fine Gael issued a press release claiming that social partnership had replaced parliament as the forum for public policy formation.

8. Conclusion

Social partnership could not internalise the Eurozone crisis because Irish trade unions lacked sufficient deterrent power in the labour market to be considered a social partner. They are considered part of the problem not the solution. The absence of formal legal mechanisms of collective bargaining at firm and sector level, akin to corporatist economies of Netherlands, Germany and Finland, to protect wages and employment enabled employers and the state to walk away from the process without repercussion. Labour market institutions matter to the extent that they increase or decrease the power resources available to actors. Irish social partnership was a voluntary process and exclusive to the public sector. This enabled it to evolve in the context of a liberal market economy. But it also meant that corporatist policy making was dependent upon the political preference of a Fianna Fáil government, and in particular, the Prime Ministers department. The political coalition that was constructed around this office began to crumble in 2004. This process of exhaustion can be traced to a divergence of interest between the actors on how to regulate the labour market after EU enlargement which exposed the underlying conflict of interest between employers and trade unions in the labour market.

The adjustment to the eurozone crisis is now being driven at a transnational European level and more Hayekian than Polanyi in design (see Höpner and Schäfer, 2007). The process of Europeanisation removed many of the traditional policy tools available to national governments in managing the economy. This increased the importance attached to labour market and wage policy. But contrary to neoclassical assumptions this required more not less of a role for organised interests. The ability to integrate these into a national incomes policy, in the Irish case, required a coordinating role for the national political executive. But it is the ECB-EU-IMF that are now coordinating national wage, fiscal and labour market policies. In exchange for providing financial loans to pay the debt of private creditors this 'troika' are seeking increased liberalization of labour market institutions in addition to deep cuts in public expenditure without a corresponding strategy to increase economic growth and employment. In this regard we are witnessing European wide coordination. But it is technocratic not social democratic in design (Erne, 2008). This seriously calls into the question the future of Social Europe.

The following chapter will return to the theoretical lessons of Irish state corporatism for the study of comparative capitalism.

Conclusion

The Trajectory of Institutional Change in the European Union; Hayek or Polanyi?

Learning from the Irish Model of Capitalism

1. Introduction

“There are many branches and brands of neo-liberalism, but behind them stands one dominant theme: that free markets in which individuals maximize their material interests provide the best means for satisfying human aspirations, and that markets in particular are to be preferred over states and politics, which are at best inefficient and at worst threats to freedom.... But actually existing, as opposed to ideologically pure, neo-liberalism is nothing like as devoted to free markets as is claimed. It is rather devoted to the dominance of public life by the giant corporation” (Colin Crouch, 2011)

The Irish case raises a number of challenging paradoxes in the study of comparative political economy and brings us back to the question of how to analyse the politics and trajectory of institutional change in the study of European varieties of capitalism.

We have argued that social partnership must be analysed as a political process that led to a distinct variant of a liberal market economy. Centralised wage bargaining was a stable feature of Ireland’s political economy for twenty years and the primary architect behind its construction was the state. This labour inclusive process made Ireland the paradigmatic case of liberal globalisation. The Irish state not only institutionalised a liberal free market regime but it did it through a process of social dialogue. Trade unions were not excluded from the Irish development model but central to it. All of this points to the reality that liberal market economies are politically constructed and institutionally embedded in country specific class configurations. It illustrates that the political practice of neoliberalism is qualitatively distinct from the economic idea of neoliberalism. In many ways, Ireland advanced the politics of the ‘third way’ long before it became popular with conservative social democrats in the UK and European Union.

Social partnership, as an institutional regime shaped by the state, was premised on a historically specific political coalition that sought to redistribute the fruits of economic growth. The rational coordination of fiscal and wage policies in the interest of economic performance was subordinated to distributive priorities. Access to political power and a low tax market conforming political exchange, rather than the technical coordination of wage restraint in the interest of

competitiveness, explains the underlying dynamics of the process. This led to a distinct trajectory of liberal economic development that was premised on state led coordination not solidaristic public policies. The collapse of the Irish ‘Celtic Tiger’ can be traced to the reckless behaviour of private banking actors yet the entire focus of adjustment has been on the public sector and on labour market institutions. In short, the crisis has been blamed on politics not market forces and the first casualty was social partnership. Neoliberalism has emerged stronger from the Eurozone crisis and we have yet to see a new wave of social pacts to manage the politics of adjustment.

We will outline the three main themes that emerge from the Irish case for the study of comparative capitalism before returning to this paradox: the central role of the state in coordinating liberal market capitalism, the effect of domestic institutions on actor strategies, and the new politics of privatised market exchange underpinning social partnership. Returning to our power distributional theoretical framework on institutional change (as outlined in chapter 1), we will conclude that contemporary variants of corporatism and national models of capitalism can be traced to shifting political coalitions and institutionalised power resources in various democratic state traditions. This evolutionary dynamic of corporatism can only be captured by adopting a *transformation of capitalism* perspective that takes politics and history seriously.

2. The State and Liberal Market Capitalism

The first theme that emerges from the Irish model of capitalism is the central role of the state in the process of institutional change. This coordinating role for the state cannot be captured by neoclassical economic, Marxian or varieties of capitalism theory. To understand this historical role of the state we must examine the Irish case on its own terms rather than in reference to what it is not. It is not a US or UK style liberal market economy, a German coordinated market economy or a Nordic social democratic economy. The Irish variant of liberal capitalism, mediated through social partnership, was primarily a national strategy of the state to manage the opportunities and constraints of globalised market economy, and was premised on a historically specific political coalition. The condition that made social partnership possible was elite networks feeding into the political executive of the state, rather than a weak parliamentary government seeking legitimisation for neoliberal market reforms. In this regard, the core condition that made centralised wage bargaining possible was a strong state not a weak government.

Ireland lacked the supposed necessary pre-conditions considered necessary for corporatist political exchange in the Keynesian era. But administrative, trade union and political elites managed to craft an Irish variant of neocorporatism that would remain in place for twenty years in the neoliberal era. Corporatism, it has turned out, was political process rather than a functional structure. State managers in the Prime Minister’s office crafted a national incomes policy that would make Ireland qualitatively distinct from what was happening in the UK under

the Conservative government of Margaret Thatcher. In the context of declining trade union density and increasing support for a neoliberal political party, the Progressive Democrats, trade unions opted to exchange their market bargaining power for political exchange with the state. The outcome was a non-parliamentary coalition between Fianna Fáil and the Irish Congress of Trade Unions. This was the period of competitive corporatism and the developmental state.

After Ireland satisfied the conditions for entry to the Eurozone, the government instituted a new economic growth model premised on an aggressive low-tax public policy regime alongside an expansion of public spending, a combination facilitated by the extraordinarily high economic growth rates that prevailed between 1994 and 2008. Domestic policy choices, in addition to the perverse incentive of negative ECB interest rates, created a colossal domestic consumer boom that fuelled inflationary pressures in the economy. The government ensured centralised wage agreements remained intact by expanding the policy process, increasing public sector pay and improving social welfare expenditure. Increasing expenditure whilst cutting taxes proved to be a Faustian bargain. It undermined the fiscal capacity of the state to manage the impact of a macro-economic crisis, but it was central to maintaining the underlying coalition of social partnership. As the labour force expanded, trade union density and collective bargaining coverage declined. Social partnership came to be aligned more narrowly with the interests of the public sector and the political preference of successive Fianna Fáil governments. When the government collapsed so did social partnership.

In rational ideal choice terms, centralised wage bargaining would have technically coordinated and ensured a balanced equilibrium with a non-accommodating European monetary regime. In power distributional terms this *cannot* be assumed. The institutional regime was held intact by generating a distributional return for the underlying political coalition. Social partnership, as a mode of governance, was not embedded in the economy or the labour market. It was a strategy of the state to compensate for declining policy autonomy in a market driven economy. In this regard, it was about building state capacity. The state compensated for weak collective bargaining structures in the labour market by instituting a neoliberal exchange premised on low taxes and access to cabinet government. In the absence of a strong parliamentary Labour party, this strategy ensured trade union compliance.

The core actor in coordinating Ireland's liberal market economy is therefore the state. Irish liberal corporatism was not the outcome of union power; it was the outcome of state power. In this regard, it was much closer to the economic development models of small Asian states. Central to the public policy regimes of these small states are business friendly policies aimed at active integration into a global market economy. In Ireland this was initially premised on an export led growth model, but between 2000 and 2008, this evolved into a low-tax model privileging domestic consumption as a means of maintaining demand and therefore growth. Social partnership was a domestic political strategy to ensure that this market led process was

institutionally embedded, by integrating organised interests groups into the policy making arena of the state. But contrary to the Katzenstein thesis (1985) it did not lead to the construction of publicly funded programmes of social compensation. As we shall see below, the model was rather one of 'privatized' political exchange.

What does this state led process of economic development, mediated through social partnership, mean for the categorisation of Ireland's economy? Given the economic assumptions underpinning the varieties of capitalism (VoC) theory, whereby economic systems are based on efficient equilibrium, Ireland's hybrid political economy was always going to underperform. If it is to reach an optimal equilibrium it must become a pure liberal market economy. The normative implication of such systemic determinism, however, is that Ireland can never escape the trappings of neoliberalism. This not only ignores the coordinating tendencies of Ireland's history of social partnership and the complex role of the state, but it legitimises the orthodox economic assumptions that increasingly dominate Irish public policy. The same conclusion can be reached if one adopts the *a priori* assumptions of neoclassical economics and Marxian scholarship. In a neoclassical framework, centralised wage bargaining underperforms by definition as it restricts the free working of the market. In a Marxian framework, social partnership was always going to legitimise the inevitable crash of capitalism.

According to a 'transformation of capitalism' (ToC) perspective, premised on a political coalitionist theory of institutional change, what the Irish case illustrates is a historically specific and qualitatively distinct variant of liberal market globalisation, premised on a labour inclusive process of social partnership that was conditioned by the coordinating role of the state. The state was the central actor in shaping the pattern and institutional coordination of domestic industrial relations. This draws our attention to the importance of power resources in explaining the politics of institutional change (as opposed to coordination) in comparative political economy.

3. Power Resources and Institutional Change

This brings us to the second theme to emerge from the Irish case: the importance of collective bargaining structures in conditioning diverse institutional regimes of capitalism. The structure of the collective bargaining system matters because it frames the type of power resources available to labour market actors when choosing to engage in a strategy of social partnership. Corporatism is a political process rather than a rigid structure but it is framed against a broader industrial relations regime that is historically embedded (Korpi, 2006).

In the new corporatist literature all of the emphasis has been on timeless processes of negotiating the politics of reform. But all processes of negotiation take place within historically evolved structures of collective bargaining. This is the single most important factor in explaining the evolution of European industrial relations and domestic strategies of adjustment to the

employment crisis in Europe. Labour markets are an institutionalised social relationship between organised interests and rarely, if ever, come close to the hypothetical market model that underpins orthodox economic theories. The strategies pursued by employers, trade unions and the state are embedded in country specific institutions of collective bargaining not because they increase economic efficiency but because they impact on power resources. As these power resources decline, trade unions become reliant on government sponsored social dialogue to advance their interests. They lose economic power.

Hence, contrary to the varieties of capitalism theory, we identified the importance of institutionalised power relations in explaining the politics of change in European industrial relations. The decline in trade union density and collective bargaining coverage has weakened trade unions. A weakening of labour market institutions not only impacts on the type of trade-offs available to actors but increases the power of business over public policy. This decline in trade union strength is a central factor in explaining the shift from Keynesianism to neoliberalism in Europe. All comparative political economy scholars recognise the importance of domestic institutions in explaining cross country variation. The puzzle is trying to explain the dynamics and process of institutional change in diverse capitalist regimes. This is often framed as a debate between those who consider European industrial relations regimes to be converging on a neoliberal model and those who observe increased divergence.

To unpack this process of institutional change and to move beyond the convergence versus divergence debate, one must examine the social forces, institutional formations and complex state-society relations that underpin national industrial relations and welfare regimes. Central to this complexity is collective bargaining structure. Ireland has a voluntary and exclusive regime of collective bargaining which is atypical for most European political economies (see chapter 2). This means that the centralised wage bargaining process and the industrial relations institutions of the state (i.e. social partnership) are not legally binding. Not only is the entire process voluntary but it is exclusive to the unionised sectors of the economy. This voluntary and exclusive process put no legal constraint on employers in the multinational sector. Contrary to the varieties of capitalism theory this process of coordination was driven by trade unions and the state, rather than by the export-oriented sector which was dominated in Ireland by multinational firms. Unlike the Netherlands, Finland and most coordinated market economies, there was little or no incentive for employers to adopt coordinated strategies to enhance production or to link the domestic with the export economy.

The Irish trade union movement was dominated by the interests of the public and semi-state sector whilst Irish employers represented the interest of domestic manufacturing, services, banking firms, and of commercial public sector bodies. Therefore, neither IBEC nor ICTU was an encompassing organisation. The narrow reach of social partnership enabled it to evolve in the context of a broader neoliberal oriented political economy, but it eventually led to a significant

representational crisis for the actors. In the origins of centralised wage bargaining almost 70 percent of the labour force were covered by collective bargaining. By 2008 this had collapsed to less than 45 percent, the second lowest in the Eurozone after Slovakia. But the flexible nature of Irish collective bargaining enabled social partnership to evolve as a political process. Neither the state nor employers would have continued with the process if it was premised on the formal-legal extension of collective agreements to the foreign owned multinational sector. This structure is the primary factor that distinguishes Ireland's industrial relations regime from the employer-led coordinated market economies of Continental, Alpine and Nordic Europe.

In the context of a voluntarist and exclusive collective bargaining regime, which limited trade union influence over public policy, the entire process was dependent on the political preference of government, primarily the Prime Minister's office. This provided an important institutional power resource for Irish trade unions. Public policy gains such as the minimum wage, a selection of employment rights legislation and a general increase in the wage premium for unionised employees can be attributed to the social partnership process. But one should not overemphasise the influence of social partnership on the policy priorities of successive Irish governments. Social partnership always operated within the contours of the decisions taken by the electorate. It was more a case of neoliberal policy outcomes averted rather than policy gains achieved. But the important point to be observed is that social partnership was a national political institution constructed by the state and dependent upon the power resources of trade unions, not the benevolent interests of employers seeking to improve national economic performance. In this regard, a political economy can be coordinated without being solidaristic.

By prioritising the importance of collective bargaining structure one should not assume that this is a functional-structuralist interpretation of economic institutions. On the contrary, we have argued that institutions frame and condition actor strategies but they do not determine them. Corporatism is clearly not dependent on Keynesian policy making or a Fordist mode of industrial organisation. But the opportunity structure of institutions is dependent on market bargaining power. This explains the dominance of business interests in new corporatist arrangements in the neoliberal era. To explain the dynamics of this business friendly logic we must examine new processes of privatised political exchange.

4. Political Coalitions and Generalised yet 'Privatised' Political Exchange

This brings us to the third theme that emerges from the Irish case: the politics of privatised political exchange. The low tax market conforming exchange, contained the seeds that would lead to the destruction of social partnership. But it points to the fact that corporatism as a *process* is more heavily dependent on politics than on technical economic management. As argued, Ireland is a paradigmatic case of liberal market globalisation. This was a development project driven by

the state rather than private entrepreneurs in the market. Central to this was a populist commitment to a low tax economic growth machine.

Contrary to the assumptions of Molina and Rhodes (2002), corporatist concertation in the Irish case *was* premised on a generalised political exchange aimed at distributing fiscal resources. But it was aimed at increasing disposable income through a tax based incomes policy not collective investment in public services or the decommodification of employees in the labour market. The outcome was a privatised political exchange and a public policy regime that encouraged employees to privately purchase education, pension and healthcare services. Irish corporatism is categorically distinct from the renaissance of social pacting across Europe aimed at reforming the post-war welfare state. The national wage agreements were initially about trade unions trading wage restraint and industrial peace for active state developmental policies aimed at job creation. But over time the political preference of government dominated the process and came to be more narrowly focused on increasing take home pay through a reduction in income tax. This was less a case of striking a balance between competitiveness and flexibility than of using the fiscal resources of the state to buy off political dissent.

In this regard, the political logic of concertation processes in Ireland was premised on two factors: increasing real wages through low taxes and access to political power. Combined, we can call this a form of generalised political exchange. For trade union leaders the main benefit of social partnership was access to political power in the context of a weak parliamentary Labour party. For trade union members the main benefit was an increase in real take home pay. This was achieved through cuts in income tax and legitimated through the introduction of tri-annual democratic ballots within the trade union movement. Every national wage agreement from 1987 to 2009 was put to a referendum. These often evolved into a debate on the merits of social partnership as a trade union strategy, but for the most part they were narrowly focused on the pay-tax exchange. The democratic process provided the necessary legitimation for trade union leaders to actively use social partnership as an institutional resource to advance a broader agenda of social democracy. But the latter was less about strengthening skills, human capital, production strategies or company level institutions in the labour market. It was entirely focused on gaining access and trying to influence the policy making apparatus of the state. What social partnership could achieve was ultimately decided by government.

The outcome of this process was that over a period of twenty years Ireland moved closer to being a particular kind of a corporatist political democracy. Ireland moved from a situation whereby organised interests lobbied government to a situation whereby they were integrated into structured tri-annual bargaining episodes. This generalised political exchange was premised on elite networks of trade union, employer and a selection of community groups feeding into the political executive of the state. This corporatist policy making process was, in effect, the default position of Irish politics during the economic boom. It was this political coalition, premised on

shifting power resources rather than technocratic problem solving, which held the institutional regime together. The process of policy consultation did not take the form of embedded information networks as occurs in concertative democracies such as the Netherlands, Finland and Sweden. Rather, it was an attempt to compensate for the adversarial nature of Ireland's Westminster-style parliament. Social partnership, as a process of policy-making, was a response to some of the dysfunctional aspects of a parliament heavily dominated by the political executive.

But this privatised political exchange brought its own problems. Despite trade unions, state managers and community groups attempting to use the social partnership process to construct a 'developmental welfare state', this was never going to happen whilst the government were committed to a low tax economic growth model. The underlying low tax bargain that governed the national income agreements contributed to the fiscal crisis of the state. Employers' interest in efficient market solutions to economic problems were subordinated to a political project aimed at low taxes, aggressive globalisation, foreign direct investment and a flexible labour market. The government used the corporatist process to enhance its strategic capacity to govern a small open economy.

Hence, the generalised political exchange that emerged out of the national wage agreements was legitimated by the use of tri-annual wage referenda within the trade union movement and conditioned by the weak structures of collective bargaining in the labour market. The decline in trade union density and collective bargaining coverage framed the underlying political exchange of social partnership, which in turn conditioned the underlying political coalition. Central to this political coalition was a populist commitment, by successive centre-right governments, to a low tax privatised and market conforming exchange. This privatised political exchange not only legitimised but contributed toward the collapse of the Irish variant of liberal capitalism.

The general theoretical and empirical lesson is that centralised wage bargaining is not dependent on a social democratic exchange. It is possible to construct a centralised wage bargaining regime that is premised on a privatised political exchange. Over time this can evolve into a generalised process of policy-making. What made this possible in the Irish case were elite networks feeding into the state, not hierarchical, monopolistic and all-encompassing organisations.

5. The Political Challenge of Constraining Markets

Shifts in the interest and power of economic actors are central to explaining the pattern of policy making during periods of stability and crisis. What we have witnessed in the past twenty years in Ireland is a significant decline in the market bargaining power of trade unions and a significant increase in the power of multinational corporations (rather than of encompassing employer

associations). This has seriously called into the question that capacity of the democratic state to manage free market globalisation. Whilst it is perfectly conceivable that the Irish state will facilitate centralised pay bargaining at some stage in the future, given that it is not dependent on any structural preconditions other than the political preference of government, it is highly unlikely that it will make any difference to a broader institutional trajectory of change toward a neoliberal oriented industrial relations regime. As argued by Bacarro et al (2011), the form of social partnership type arrangements governing corporatism(s) may remain intact but their *function* has categorically shifted from one based an effective labour constraint and democratic governance to liberating the competitive process of capital accumulation.

The Eurozone crisis has illustrated the dominance of the financial sector over national sovereign democratic states. Prior to the global economic crisis that began in 2008, the financial sector was the closest approximation to free-market coordination, as enshrined in neoclassical economics, that had emerged in contemporary capitalist societies. Yet it has escaped relatively unscathed from the crisis. Liberal market economies championed this model of re-regulation for competition in finance markets. The outcome was not the efficient allocation of market resources but a speculative property boom. On the one hand this was driven by the exogenous impact of negative ECB interest rates and integrated European finance markets. But on the other it was driven by domestic public policy choices. Social partnership did not create this economic growth model but it was the first casualty of its collapse.

Despite a twenty year institutional tradition of social partnership the Irish government opted to pursue a unilateral adjustment in response to the crisis (see chapter 7). The focus of adjustment shifted on to public sector employment, which was central to the underlying political coalition of Irish corporatism. Given the absence of a coordinated labour market, private sector employers opted to cut employment as a first rather than a last option. In most European countries the reform strategy was to reduce working hours through collective bargaining. At transnational European level the policy discourse has been narrowly focused on improving competitiveness through removing regulations in the labour market and cutting wages. One of the primary driving forces behind this shift in the politics of adjustment is the power of ideas.

The idea that the best way to organise the economy, and the labour market in particular, is through market contractual relations has had a significant influence on how to resolve the European employment crisis, despite the fact that there is practically no empirical evidence to support this assumption. This ideological preference is strongly supported by the content of the European competitiveness pact. This is in direct contrast to the state-developmental labour market policies that consolidated social partnership in the early 1990s. Unlike the measures adopted in response to crisis after 1987, the Irish government in the late 2000s introduced a flat rate tax increase, public sector pay cuts, reduced expenditure on health, education and community welfare schemes, and cuts to public sector jobs numbering over 20,000. This

adjustment was pursued in agreement with public sector unions, but was not an encompassing social pact. Rather than advance a new solidaristic reform strategy that would broaden the appeal of public sector unions, the trade union movement pursued a strategy that was narrowly focused on defending the sectional interest of their existing members.

At the same time, the Irish government introduced tax breaks for multinational executives in the financial services sector. The objective was to entice financial managers out of London and into the IFSC in Dublin. Meanwhile, the Irish government remains tied to an extremely onerous socialization of the costs of bailing out the failed banks, since a more extensive strategy of private sector involvement has been explicitly vetoed by the European Central Bank. All of this illustrates that the 'quiet political influence' of the multinational sector, particularly those in the financial services, continues to carry far greater weight in domestic policy choices in Ireland than the theory of interest groups assumed by the neoclassical and public choice literature. This brings us back to the opening question about the triumph of failed neoliberal ideas in the conditioning the politics of economic adjustment in the European Union. Why has neoliberalism emerged more powerful after the financial crisis, and what does this say about the future trajectory of change in European varieties of capitalism?

6. A Hayekian or Polanyian Europe?

Contrary to Polanyian social theory, the early years following the global economic crisis of 2008 did not witness a double movement or change agent in Europe that would seek to re-embed the disastrous effect of financial market liberalisation. The state continued to be the main driver in shaping market outcomes and the pattern and contours of this new politics was more Hayekian than Polanyian in design. On the one hand this was driven by domestic political interests. But, on the other, it was being induced by the constraints of the European Union. The exogenous pressure of the Eurozone shifted domestic policy choices into a new multi-level bargaining realm whilst financial markets undermined the capacity of the sovereign democratic state to pursue an independent strategy of adjustment via competitive corporatism or social pacts. Two theoretical observations can be drawn from this.

Firstly, comparative political economy must move beyond the 'divergence or convergence' debate if it is to explain the new pattern of interest politics that is emerging from the global economic crisis. The dominance of financial interests fundamentally changed the character of the nation state. Europeanisation and the market constraints of EMU look set to institutionalise permanent fiscal austerity for national democratic governments. Financial firms have emerged more powerful in the aftermath of the crisis and existing neoclassical economic theories legitimise this. In practice the dominance of the finance market is the dominance of the international banks, hedge and pension funds. These are not rational actors in the sense implied

by neoclassical economic theory. The most dominant theory in comparative political economy (VoC) prioritises the efficient behaviour of the firm. It cannot critically evaluate the current crisis because the firm, in this account, is benevolent, and the underlying political coalitions that support a given institutional regime are primarily interested in the efficient coordination of the economy. This can no longer be assumed. Neoliberalism has emerged stronger from the crisis because, in practice, it reflects the political dominance of multinational corporations rather than free-flowing efficient markets.

Secondly, the institutional capacity of solidaristic public policies to offset the impact of financial market liberalisation is ultimately dependent on the social forces that underpin distinct European welfare and industrial relations regimes. If these social forces are dominated by sectoral interests pursuing over-narrow conceptions of good economic performance (e.g. ‘Business Europe’), or if they purely involve a defence of pre-existing political bargains (e.g. the manufacturing cross-class coalition of German employers and trade unions), then the outcomes will lead to less social solidarity. Institutional change aimed at social solidarity in the labour market as opposed to employer-led economic coordination will require the construction of new political coalitions capable of limiting the worst effects of market liberalisation, with appropriately designed political constraints, as assumed in Polanyian social theory. This is dependent on a set of political conditions that are historically specific to different regions of Europe. In the absence of these, particularly at a transnational European level, we are likely to witness continued state sponsored market technocracy as a response to the Eurozone crisis.

Therefore, in the short term, the future trajectory of change is likely to be more Hayekian than Polanyian in design. But whether this type of market managerialism can be democratically and politically sustained in the long term is questionable. Variation in institutionalised market bargaining power resources and *not* the rational efficient design of institutions to improve economic coordination explains the diversity and trajectory of change underpinning European varieties of capitalism. This can only be observed by adopting a transformation of capitalism perspective that recognises the inherently political and conflictual nature of capitalist economies.

7. New Research Agendas

We have not examined the precise independent effect of social partnership as a labour market institution on income distribution or wage inequality. Further research would benefit from asking whether social partnership and centralised wage bargaining regimes in particular had an effect on compressing income inequality before and after the economic crisis. To examine the precise impact of labour market institutions on the distribution of income would make a substantial contribution to an emergent body of literature in comparative political economy that is beginning to recognise the socially corrosive effect of economic inequality. It would also contribute to the

public policy debate on the Eurozone crisis that has been narrowly focused of fiscal austerity, competitiveness and de-regulated labour markets. This type of project would require a collaborative cross-country research design which integrates comparative case study with statistical methods of inquiry. This is the next stage of our research project.

Appendix A – List of Formal Interviewees

1. Prime Minister and leader of Fianna Fáil, 18-01-10, Dublin
2. Retired Secretary General, Department of an Taoiseach, 14-05-10, Dublin
3. Secretary General, Department of an Taoiseach , 26-01-11, Dublin
4. Secretary General, Department of an Taoiseach, 18-11-09, Dublin
5. Assistant Secretary, Department of an Taoiseach, 02-11-09, Dublin
6. Principal Officer, Department of an Taoiseach, Social Partnership unit, 04-11-09, Dublin
7. Principal Officer, Department of an Taoiseach, Social Partnership unit, 05-01-11, Dublin
8. Secretary General, Department of Finance, 29-10-09, Dublin
9. Assistant Secretary, Department of Finance, 18-09-09, Dublin
10. Assistant Secretary, Department of Enterprise, Trade and Employment, 17-11-09, Dublin
11. Principal Officer, Department of Enterprise, Trade and Employment, Competition Unit, 24-11-09, Dublin
12. Principal Officer, Department of Enterprise, Trade and Employment, Industrial Relations Unit, 17-11-09, Dublin
13. Assistant Secretary, Department of Social Protection, 17-05-10, Dublin
14. Director, NESC, 30-11-09, Dublin
15. Director, NESC, 28-09-10, Dublin
16. Senior Policy Analyst, NESC, 12-11-10, Dublin
17. Social Policy Analyst, NESC, 26-11-09, Dublin
18. Retired Director General, IBEC, 04-05-10, Dublin
19. Director Industrial Relations, IBEC, 18-02-2010, Dublin
20. Retired Executive Board Member, IBEC, 28-02-11, Dublin
21. Retired General Secretary, ICTU, 26-11-09, date, Dublin
22. Retired General Secretary, ICTU, 12-01-10, Dublin
23. General Secretary, ICTU, 04-10-10, Dublin
24. Economic Adviser, ICTU, 04-10-10, Dublin
25. Retired General President, SIPTU, 04-09-10, Dublin
26. General President, SIPTU, 18-10-10, Dublin
27. General President, SIPTU, 19-11-10, Dublin
28. Executive Council Member, SIPTU, 04-11-10, Dublin
29. Economic Advisor/Researcher, SIPTU, 10-06-11, Dublin
30. Retired General Secretary, IMPACT, 24-01-11, Dublin
31. General Secretary, CPSU, 05-09-10, Dublin
32. Retired General Secretary, UNITE (previously ATGWU), 08-03-11, Dublin

33. Economic Advisor, UNITE, 29-10-10, Dublin
34. General Secretary, PSEU, 29-09-10, Dublin
35. Regional Officer, TEEU, 05-11-10, Dublin
36. General Secretary, INMO, 18-10-10, Dublin
37. Chief Executive, LRC, 24-01-10, Dublin
38. Head of Social Justice Ireland, 22-04-10, Dublin
39. Retired Finance Minister, Labour Party, 14-04-10, Dublin

Appendix B – Voxpop Interviews

1. 35 interviews based on a fixed questionnaire with random selection of trade union members at ICTU protest for 'Fairer, Better Way', 06-11-09, Dublin

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Irish social partnership was the result of a historically contingent political strategy to navigate the integration of a small open economy into a globalized market, in which being able to attract and retain volatile capital was paramount. The main architect behind this strategy was the state, and the primary objective was industrial stability. At a critical juncture in 1987 the Irish government chose to adopt a labour inclusive strategy of adjustment to a fiscal crisis, the opposite of what occurred in the UK. This choice resonated with the ideational toolbox of the leading political party in power, Fianna Fáil. Given external constraints, and institutional legacies, the terms had to be such that no beneficial constraints were going to be imposed on business. Unlike other small open European countries no legal-statutory changes were introduced to institutionalise the countervailing power of trade unions. In light of these features the author argues that the outcome was broadly neoliberal in orientation. Social partnership was premised on a privatized political exchange in which wage moderation was compensated with increases in private consumption through tax reductions. It was not premised on the social democratic bargain of increasing public consumption and redistribution that occurred in classic Scandinavian corporatism. The author drives us through the various stages of social partnership pre and post EMU, from its origins as crisis management and economic development, to a subsequent phase in which government used the spoils of economic growth to buy off social dissent, to its eventual collapse in response to the Eurozone crisis. The book takes a strong stance against economistic accounts of institutional change in which actors pursue rational strategies and come up with optimal institutional designs. Drawing upon theories of institutional change in comparative political economy, it argues that economic institutions are premised on volatile political coalitions, and the main determinants of outcomes are the power resources controlled by the various actors. It is these domestic institutional resources that condition how national actors respond to the adjustment constraints of global market capitalism.