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# Lessons from the Irish Collapse: Taking an International Political Economy Approach\*

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## ABSTRACT

In analysing the causes and implications of the collapse of the Irish economy in 2008, this article takes an International Political Economy approach to examine the structures of interlinked economic and political power that help explain why economic and political leaders acted as they did. It begins by outlining the Irish model of development and identifying three key weaknesses, arguing that these were essential features of the Irish growth model. The article then argues that, more than international factors, these weaknesses help explain the nature of the Irish economic collapse. The penultimate section discusses the lessons to be learnt from the Irish case and, drawing from literature on small states, focuses on the failures of policy makers to recognise the vulnerabilities of the Irish model, and on the weaknesses of social partnership to address these vulnerabilities. Finally, conclusions are drawn that identify policies needed for dealing with the crisis.

## INTRODUCTION

Few doubt that the collapse of the Irish economy in 2008 has been one of the most severe faced by any country amid the current global financial and economic crisis. For example, the Economic and Social Research Institute (ESRI) has predicted a contraction of the Irish economy of around 14% between 2008 and 2010, which it described as being ‘by historic and international standards...a truly dramatic development’.<sup>1</sup> European Commission figures show a decline of 2.3% in Ireland’s GDP in 2008, forecast a decline of 9% for 2009 and a further decline of 2.6% in

\*This article is based on the text of a presentation to the annual conference of the Committee for International Affairs, entitled ‘International politics and the global economic crisis’, which took place at the Royal Irish Academy, Dublin, on 5 November 2009.

<sup>1</sup>Alan Barrett, Ide Kearney and Jean Goggin, *Quarterly economic commentary* (Dublin, ESRI, Spring 2009), 32.

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2010. This puts Ireland just behind the three Baltic states Estonia, Latvia and Lithuania for the depth of its economic depression over these three years, while Ireland found itself in the worst position in the EU in terms of its budget deficit. After years of running a budget surplus, the country's public finances dramatically worsened in 2008, with a deficit that reached 7.1% of GDP; the European Commission forecast in spring 2009 that this would reach 15.6% of GDP by 2010, making it impossible to know when Ireland might return to the EU limit for individual member state budget deficits of 3% of GDP. This compares to forecast deficits for 2010 of 13.6% of GDP for Latvia and 8% for Lithuania, the two next worst cases in the EU.<sup>2</sup> The IMF in mid 2009 predicted a GDP decline of about 13.5% for Ireland between 2008 and 2010, with unemployment set to reach 15.5% in 2010. It predicted a return to 2% growth as late as 2014. It concluded that Ireland 'was perhaps the most overheated of all advanced economies'<sup>3</sup> and said that the Irish crisis 'matches episodes of the most severe economic distress in post-World War II history'.<sup>4</sup> As 2010 progresses, outcomes are, broadly speaking, in line with these predictions.

The recent economic collapse has elicited a lively public debate on the reasons for such a dramatic end to Ireland's booming economy, the Celtic Tiger. From this debate has emerged a general consensus that rising costs have eroded the country's competitiveness, while over-reliance on the construction sector to provide a motor of growth, fuelled by state tax breaks, created an asset bubble that undermined the banking sector when finally it burst with the trigger of the global financial crisis. Beyond these more immediate causes of the collapse, much commentary is devoted to the failures of governance that helped fuel rising costs and the housing bubble, through clientelist policies of subsidising building developers and giving tax breaks for housing development.<sup>5</sup> While this analysis is very valid, it tends to blame the quality of the governors (both economic and political), rather than to examine the structures of power that might help explain why they acted as they did. To uncover these structures of power, one needs a broader optic that links political and economic power in a systematic way, and that brings into focus the pressures of global economic forces on national decision-makers. For this, the lenses offered by the new International Political Economy (IPE) are particularly useful,<sup>6</sup> and will inform the approach taken in this paper to analysing the Irish collapse. The paper begins by identifying what came to be known as the 'Irish model' of development, highlighting some of the key structural elements of this model. It then links these elements to the reasons for the depth and severity of the Irish collapse, before going on to draw lessons from the Irish case for other latecomers to development. Particular attention is paid to the challenges of smallness in the final section.

#### THE 'IRISH MODEL'

Although the term the 'Irish model' has come into use quite widely to describe the institutional underpinnings of the Celtic Tiger boom (more outside Ireland than within it), the concept of a political economy model or a model of development can often be quite vague. Among the most successful models we have known since the

<sup>2</sup>European Commission, *Economic forecast Spring 2009* (Brussels, 2009).

<sup>3</sup>IMF, 'Ireland: IMF Country Report No. 09/195' (Washington, DC, 2009), 5.

<sup>4</sup>IMF, 'Ireland 09/195', 28.

<sup>5</sup>See, for example, Fintan O'Toole, *Ship of fools: how stupidity and corruption sank the Celtic Tiger* (London, 2009); and Anthony Sweeney, *Banana Republic: the failure of the Irish State and how to fix it* (Dublin, 2009).

<sup>6</sup>Anthony Payne, 'The genealogy of new political economy', in Anthony Payne (ed.), *Key debates in Dublin's new political economy* (London, 2006), 1–10.

Second World War are the Nordic social democratic model and the East Asian developmental model. Indeed, the very term that came into widespread use to describe the Irish boom, the Celtic Tiger, was taken directly from the example of the East Asian tiger economies by the British economist, Kevin Gardiner, who coined it.<sup>7</sup> Yet, of course, many other models exist as the ‘varieties of capitalism’ literature has usefully highlighted.<sup>8</sup> Central to the concept of a model are the ways in which the productive economy relates to the society; what can be called the relationship of the regime of capital accumulation, whether in private or public hands, to that of distribution. Both of these key features rely centrally on the relationship of state and market and for this reason are called a political economy model. A stable model rests on what Rapley has called ‘an implied contract that binds elites and masses in bonds of mutual obligation’.<sup>9</sup> This is expressed in the widespread use of the term ‘welfare state’ to refer to different forms of such a contract that came to the fore among industrialised states during the era of national capitalism.

What interested policy-makers and observers abroad in the Irish model, particularly in regions like Central and Eastern Europe and Latin America, which had shared many of Ireland’s development problems and wanted to learn how these seemed to have been so dramatically overcome was, however, not its welfare dimensions. Viewing from a distance, they saw the Irish state as having played an active role in winning high levels of foreign investment in cutting-edge, high-tech sectors and thereby upgrading the industrial and services economy and co-ordinating policymaking between the main stakeholders through social partnership, resulting in a spectacular increase in living standards and employment. This appeared to contradict the dominant neo-liberal model being promoted by agencies like the World Bank and the IMF and to offer a new form of state-led successful development, one able to manoeuvre deftly amid the pressures and threats of globalisation. The distant observers wanted to learn more about this seemingly successful ‘Irish model’, and Irish policy-makers and academics were much in demand to explain what constituted it.

As Casey has written:

When Ireland was booming we had a more important voice in international fora. At meetings in the EU whenever structural reform was being discussed, the Irish delegation would usually be asked to explain the flexibility of our labour market or the beneficial effects of low taxation. How had we done what the rest of Europe—still in the throes of Euroclerosis—could not do?...It was heady stuff. Instead of being ignored as we were in the 1970s and 1980s, we were now the talking point and an oracle to be consulted.<sup>10</sup>

Yet, the model that from a distance seemed so successful, turned out to be much more ambiguous on closer examination. Three main weaknesses can be identified. The first relates to the model of capital accumulation, as the motor of growth did not come from capabilities developed within the economy but rather was by and large an extension of the success of the US economy, since Irish development depended on the growth and innovation generated largely by US multinationals attracted to Ireland. As Bradley has written, Ireland inverted the normal process of

<sup>7</sup>Kevin Gardiner, ‘The Irish economy: a Celtic Tiger’, *MS Euroletter*, 31 August 1994. The East Asian tiger economies are normally taken to refer to South Korea, Taiwan, Singapore and Hong Kong.

<sup>8</sup>Peter A. Hall and David Soskice, ‘An introduction to varieties of capitalism’, in Peter A. Hall and David Soskice (eds), *Varieties of capitalism: the institutional foundations of comparative advantage* (Oxford, 2001), 1–68.

<sup>9</sup>John Rapley, *Globalisation and inequality: neoliberalism’s downward spiral* (Boulder, CO, 2004), 6–7.

<sup>10</sup>Michael Casey, ‘Boom growth came too easy—now we’ll have to graft’, *Irish Times*, 8 May 2009.

development—instead of generating a wealth-building strategy for the Irish nation, the state simply adapted to the needs of the firms in the global corporate environment.<sup>11</sup> The same reflexive dependence on multinationals was shown to exist in the one area of state policy seeking to build innovative capacity in Ireland, namely state spending on R&D. While this may have some successes, it fails to build resilient capacity in the Irish economy and perpetuates the vulnerabilities that are partly responsible for the deep recession in which Ireland now finds itself.<sup>12</sup> This, then, is the first core feature of the Irish model—its regime of capital accumulation is largely a foreign one, as the capital is accumulated by foreign firms and substantial amounts of it are repatriated out of Ireland.

A second weakness of the Irish model concerns social outcomes, namely the weak links between the growth generated in the productive economy and investment in social services. While the increased living standards and improved employment opportunities generated by the Irish model benefited the lives of many, less attention was focused on the increases in relative poverty and in inequality that in fact characterised the boom years in Ireland, or on the failures to invest adequately in quality social services, especially for the most marginalised. As former taoiseach Dr Garret FitzGerald has written:

Why is it that, with a level of income higher than that of 22 of the 27 EU states, our public services fail to look after children in need or to care for the ill and the old; fail to make any serious attempt to rehabilitate our prisoners; and fail to ensure access to clean water—not to speak of failing to provide efficient competitive public transport, just to mention a few of our more obvious public service deficiencies? After all, over the past half century our political leaders were remarkably successful in securing much faster economic growth than anywhere else in Europe, moving Ireland from the poorest of the dozen countries in the northern part of Western Europe to becoming one of the richest. Given this success, why have our governments failed so miserably to deploy the vast resources thus created in such a way as to give us the kind of public services we can clearly afford and desperately need?<sup>13</sup>

There is substantial social scientific evidence to show that Ireland's economic boom disproportionately benefited new groups of technical professionals and self-employed small business entrepreneurs and that 'the bulk of Irish society has... acquiesced to [sic] the increasing gap between themselves and the rising professional and business classes'.<sup>14</sup> The Ireland of the Celtic Tiger has also been shown to have 'diverged from the European pattern of welfare effort', as the ratio of social security spending to GDP fell markedly in Ireland while it was maintained or increased in most European countries.<sup>15</sup> This raises critical issues about the weak regime of distribution that characterises the Irish model.

A third weakness of the Irish model concerns the role of the state. Examining the capability and effectiveness of the Irish state in the sphere of welfare and of

<sup>11</sup>John Bradley, 'The computer sector in Irish manufacturing: past triumphs, present strains, future challenges', *Journal of the Statistical and Social Inquiry Society of Ireland* (31) (2002), 26–73.

<sup>12</sup>Peadar Kirby, *Celtic Tiger in collapse: explaining the weaknesses of the Irish model* (Basingstoke, 2010).

<sup>13</sup>Garret FitzGerald, 'End of asset boom reveals foolishness of tax cuts', *Irish Times*, 11 October 2008.

<sup>14</sup>Séan Ó Riain and Philip J. O'Connell, 'The role of the state in growth and welfare', in Brian Nolan, Philip J. O'Connell and Christopher T. Whelan (eds), *Bust to boom? The Irish experience of growth and inequality* (Dublin, 2000), 310–39: 339.

<sup>15</sup>Ó Riain and O'Connell, 'The role of the state in growth and welfare', 331; and Peadar Kirby, *Vulnerability and violence: the impact of globalisation* (London, 2006), 28.

regulation, it can be concluded that it tended to seek low-cost solutions that weakened its effectiveness to achieve the goals it set itself.<sup>16</sup> These features of the Irish state have been actively debated between proponents of Ireland as a developmental state<sup>17</sup> or as a competition state.<sup>18</sup> From this debate, it has been concluded that while pockets of developmentalism have been evident in the Irish state, the overriding logic that can be identified in the uneven nature of its actions is one that gives priority to the maximisation of competitiveness and profitability over investment in the welfare of society.<sup>19</sup> While the state has remained a central actor in Ireland's development, what it has shaped is a deeply dualistic economy and a weak welfare state. Therefore, the state has configured both the regime of capital accumulation and the regime of distribution, in such ways that it responds much more to the needs of corporate capital rather than to the needs of its own citizens.

In these ways, therefore, the very positive picture of the Irish model that gained widespread acceptance while the Irish economy was booming needs severe modification to take account of its more ambiguous or negative features. Furthermore, it needs to be emphasised that these weaknesses are not accidental failures of the model that could be corrected, but are essential features of a growth model highly dependent on foreign investment and on a low-tax environment. These features are also deeply implicated in the swift and deep collapse of the Irish economy in 2008.

#### EXPLAINING THE IRISH COLLAPSE

While Ireland's recession mirrored what was going on in most European states and further afield, the particular causes of the Irish economic crisis were decidedly local in origin. Since the dot.com crash of 2001 had undermined the key role that the US information technology sector played in creating the Tiger boom, the Irish economy had come to be unsustainably dependent on house building and private consumption. Despite warnings from some economists and other academics, the 'feel-good' factor generated by the boom made most politicians and much of the public believe the hype that the good years would last forever. Government subsidies fuelled a frenzy of building around the country, banks lent recklessly to developers to buy land at grossly inflated prices and to customers to buy the houses and apartments built on that land at equally high prices. Being a member of the euro zone meant that interest rates in Ireland remained low, which further added to an orgy of borrowing and consumption.

Over these years, inflation rose to the highest levels in the euro zone. With state coffers awash with revenues from taxes on goods and services and on the sale and buying of property, the state reduced income taxes and taxes on capital gains, thereby seriously eroding its tax base. As long as high levels of growth continued, government tax receipts held up; as soon as growth declined, however, tax revenues slumped disastrously. As Garret FitzGerald, has written:

The idea that when the boom ended our public and social services could be maintained with such a minuscule level of income tax payments was patently

<sup>16</sup>Nigel Boyle, *FÁS and active labour market policy 1985-2004* (Dublin, 2005).

<sup>17</sup>Seán Ó Riain, *The politics of high-tech growth: developmental network states in the global economy* (Cambridge, 2004).

<sup>18</sup>Peadar Kirby, *The competition state: lessons from Ireland*, Limerick Papers in Politics and Public Administration, 1 (2009).

<sup>19</sup>Peadar Kirby and Mary Murphy, 'Ireland as a "competition state"', in Maura Adshead, Peadar Kirby and Michelle Millar (eds), *Contesting the state: lessons from the Irish case* (Manchester, 2008), 120–42.

absurd, although clearly many people fell for it—including our economically unsophisticated business community.<sup>20</sup>

Economists have made a distinction between the structural deficit in Irish state finances and the cyclical deficit; the first is due to domestic policy decisions while the second is due to the international recession.<sup>21</sup> While estimates of the size of the structural deficit vary from 6% to 10% of GDP, the Irish government accepted before the April 2009 budget that 8% of the estimated 12% of GDP budget deficit was structural;<sup>22</sup> this means that the government accept that two-thirds of the Irish collapse is the result of domestic factors.

Three characteristics that distinguish the collapse in the Irish economy mirror the weaknesses in the Irish model already identified. The first is the role that construction took on in the Irish economy from 2002 onwards. By 2006–07, at the peak of the bubble in house prices, 23% of Irish GDP was composed of construction and Ireland was building 21 housing units per 1,000 population—four and a half times as much as in Britain—and one in eight employees in the Irish economy was directly employed in construction.<sup>23</sup> This heavy dependence on construction reflected not just the poor judgement of bankers who fuelled the construction boom, but the central role played by property developers in the domestic economy, and also the failure of the economy to generate an alternative and more productive engine of growth following the collapse of the dot.com bubble. It therefore reflects structural weaknesses of the domestic economy that were not overcome with all the resources generated by the boom: indeed, government policies that helped fuel the housing boom actively diverted economic resources from more productive investment, especially in small and medium-sized enterprises (SMEs).<sup>24</sup>

The second characteristic relates to the weak regulatory role that the state played, abdicating to market players the task of regulating their own activity. Following the economic collapse, the regulatory regime of the Irish state, particularly in relation to financial services, came in for sharp criticism. It was essentially a principles-based regulatory system, under which banks and financial firms would abide by agreed codes of behaviour, rather than having these imposed on them and supervised by regulatory authorities. However, as Carswell has written, ‘the emphasis of the regulator’s focus was primarily on issues affecting consumers rather than on prudential matters such as liquidity and funding affecting the banks and their lending practices’.<sup>25</sup> Indeed, the financial regulator’s prudential director, who has the responsibility for ensuring that banks lend prudently and set aside sufficient capital to cover risks, did not sit on the regulator’s board, whereas the consumer director did. A report from the Financial Services Consultative Consumer Panel found that the collapse of the Irish financial sector was magnified by the financial regulator’s failure to control the property bubble. The report was quoted as stating: ‘We are unclear as to why the regulator did not move to dampen the bubble at an earlier stage, for instance by requiring banks to set aside more capital for riskier products’.<sup>26</sup> For

<sup>20</sup>FitzGerald, ‘End of asset boom’.

<sup>21</sup>Jim O’Leary, ‘Budget must focus on cutting structural deficit’, *Irish Times, Business This Week*, 3 April 2009.

<sup>22</sup>Stephen Collins, ‘New tax system to cover up €16bn gap “needed”’, *Irish Times*, 2 April 2009.

<sup>23</sup>Sweeney, *Banana Republic*, 23–4.

<sup>24</sup>Maura Adshead and Neil Robinson, ‘Late development and state developmentalism—never the twain? Towards a political economy of “post-Celtic Tiger” Ireland’ (paper given to the Political Studies Association annual conference, University of Manchester, 7 to 9 April 2009), 14.

<sup>25</sup>Simon Carswell, ‘Reforms spell end of light-touch era’, *Irish Times*, 19 June 2009.

<sup>26</sup>Caroline Madden, ‘Regulator “added to slump” by failing to curb property bubble’, *Irish Times*, 26 May 2009.

McManus, the problem lies in the suitability of a principles-based regulatory system for the Irish banks. He writes: ‘Light-touch regulation is low cost, because the regulator is lean and, ideally, nimble. It is also responsive to industry needs’. He adds that this form of regulation is ‘unfortunately completely unsuited to the culture of Irish banking’,<sup>27</sup> which, at least in the case of Anglo-Irish bank, was willing to circumvent the agreed rules.<sup>28</sup> Light-touch regulation and its role in the systemic collapse of the Irish banking system reflects the priorities and practices of Ireland’s competition state.

The third characteristic derives from Ireland’s low tax model, which undermined the state’s ability to build up its own capacity to innovate and regulate, as well as its room for manoeuvre once the collapse began. Ireland relies significantly more than do other EU countries on taxes on goods and services as a source of revenue; this is widely regarded as a regressive system of taxation. The trade-off associated with the boom years of the mid 1990s, when government negotiated moderate wage increases in return for reductions in personal income taxes, is reflected in a reduction in the share of income taxes from 30.7% of all tax revenue in 1997, to 26.5% in 2003. Alongside this there was a comparatively larger tax take from corporation tax and property taxes, with the former increasing from 8.5% to 12.9% over this period and the latter from 4.5% to 6.5%, a function of the booming economy.<sup>29</sup> Though the corporation tax rate is comparatively low at 12.5%, the tax base is wide and corporations declare large profits in Ireland (some of which, it is suspected, are due to transfer pricing). For example, Allen argues that the doubling of profits from US corporations declared in Ireland—from \$13.4bn in 1999 to \$26.8bn in 2002—derives not from a surge in profitable investment, but from the 1997 double taxation agreement between both countries that widened opportunities for corporations to avoid being taxed in the US.<sup>30</sup> While there are no taxes on owner-occupied private dwellings, tax is paid on their sale or purchase, and the growth in tax revenue from this source over the years of the boom reflects the large increase in property prices that took place. However, as O’Toole and Cahill commented on these data, reliance on corporation tax and property tax (stamp duty) ‘leaves the Irish economy particularly vulnerable to an economic shock’ as flows of FDI and property prices begin to fall.<sup>31</sup> This is precisely what happened when recession hit in late 2008 and the state’s revenue stream collapsed, with tax receipts of €33bn in 2009 falling from €40.7bn the previous year and being equivalent to the receipts for 2003, and the exchequer deficit growing from €12.7bn in 2008 to €24.6bn at the end of 2009.<sup>3</sup> Over the course of the boom, Ireland’s overall tax take as a percentage of GDP/GNP fell from 39.6% in 1987, which was exactly the same as that of the EU15, to 35.5% by 2003; whereas that of the EU15 had increased to 40.5% over the same period (Irish figures are for GNP, EU figures are for GDP).<sup>33</sup>

The speed and depth of the Irish collapse, therefore, directly result from key features of the Irish model. As Justin O’Brien, a professor of corporate governance in Canberra, Australia, has written:

<sup>27</sup>John McManus, ‘Patrick Neary’s departure a repudiation of our approach to regulation’, *Irish Times*, 12 January 2009.

<sup>28</sup>See Niamh Brennan, ‘Reputation of Ireland Inc is under spotlight after resignations’, *Irish Times*, 20 December 2008, 9.

<sup>29</sup>Francis O’Toole and Noel Cahill, ‘Taxation policy and reform’, in Seán Healy, Brigid Reynolds and Micheál Collins (eds), *Social policy in Ireland: principles, practice and problems* (2nd edn, Dublin, 2006), 205–22: 206.

<sup>30</sup>Kieran Allen, *The corporate takeover of Ireland* (Dublin, 2007), 83.

<sup>31</sup>O’Toole and Cahill, ‘Taxation policy and reform’, 207.

<sup>32</sup>Laura Slattery, ‘Exchequer deficit deepens by €11.9bn’, *Irish Times*, 6 January 2010.

<sup>33</sup>O’Toole and Cahill, ‘Taxation policy and reform’, 208.

The rash of banking failures reflects the deleterious combination of boardroom hubris, defective operational risk management systems and uninformed regulatory confidence. It could not have happened but for the inculcation of an ideological worldview that privileged innovation over security... While this model was most extreme in the US, its rationale was inculcated across the globe, particularly in Ireland... While it may be inopportune to engage in structural reform in the midst of a crisis, the advantages of ceding control to a self-serving, self-policing marketplace model have been falsified. Ireland has gone from poster child of globalisation to the symbol of corporate, regulatory and political failure. It is a fitting epitaph for the Celtic Tiger.<sup>34</sup>

What O'Brien draws attention to are the values and worldview that informed the various weaknesses identified above. For the Irish model was primarily a model that used the state to foster an extremely business-friendly institutional regime, abdicating the responsibility for setting public goals and ensuring that market players worked within these.

#### LESSONS FROM THE IRISH CASE

What concerns us here are the lessons that this holds for other countries, particularly those like Ireland that were latecomers to development. It was because Ireland was seen to hold lessons of successful development for these countries, particularly countries in Central and Eastern Europe and in Latin America, that it is now very important in the light of the Irish collapse to reconsider those lessons. What is to be learnt from Ireland's experience can be grouped into two distinct issues: first, the failure to recognise the vulnerabilities of international integration, and second, the failures of Ireland's corporatist process of social partnership to address these effectively. Each is dealt with separately.

##### *i) Recognising vulnerabilities*

The concept of vulnerability has come to be used as a way of capturing the distinctive impact that globalisation is having on society.<sup>35</sup> It can be defined as 'a state of high exposure to certain risks and uncertainties, in combination with a reduced ability to protect or defend oneself against those risks and uncertainties and cope with their negative consequences'.<sup>36</sup> So, for example, we can say that among the major vulnerabilities characterising society today are the vulnerabilities of our financial systems and our environment. Instead of building social and personal resilience, the global financial system has come to transmit huge risks and erode coping mechanisms in societies throughout the world, most especially those in which the market was most extensively liberalised.<sup>37</sup> With the publication of major reports in 2007 by the Intergovernmental Panel on Climate Change (IPCC), a global scientific and political consensus was finally reached on the profoundly destructive natural forces being unleashed by the high levels of carbon dioxide being released into the atmosphere by human activities, with ever more devastating social consequences. In these ways, therefore, the intense interconnections that constitute globalisation are acting to transmit risk and erode coping mechanisms in our world.<sup>38</sup>

<sup>34</sup>Justin O'Brien, 'After hubris always comes a catastrophe', *Irish Times*, 9 February 2009.

<sup>35</sup>Peadar Kirby, *Vulnerability and violence: the impact of globalisation* (London, 2006).

<sup>36</sup>United Nations, *Report on the world social situation: social vulnerability: sources and challenges*, (UN Department of Economic and Social Affairs, New York, 2003), 14.

<sup>37</sup>Andrew Gamble, *The spectre and the feast* (Basingstoke, 2009).

<sup>38</sup>UNDP, *Fighting climate change: human solidarity in a divided world*, Human Development Report 2007/2008 (Basingstoke, 2007).

While all of these forms of vulnerability are evident in Ireland, they are expressions of a more fundamental vulnerability, namely the vulnerability of the Irish model itself. In its 2003 tri-annual strategy report on Ireland's economic and social policy, the state's National Economic and Social Council (NESC) drew attention to a range of economic and social vulnerabilities that threatened the country's success. Some of these vulnerabilities derived from its small size and peripheral location, but others derived from its 'type of economic development'.<sup>39</sup> As a small and open economy, very dependent on high levels of inward investment, the NESC saw Ireland as being very vulnerable to changes in the international system and to 'extensive decline' through the out-migration of both people and enterprises.<sup>40</sup> Furthermore, its very openness makes it difficult to co-ordinate the actions of employers, unions and government; the NESC report highlighted the tensions that exist between the constant and rapid adaptation of policy, laws, regulatory regimes and structures on the one hand, and the need for a predictable long-term economic strategy and policy framework on the other. In this situation, the NESC noted in 2003, 'policy errors, such as pro-cyclical fiscal policy, will be punished severely, because of the importance of competitiveness'.<sup>41</sup> These economic characteristics 'contain undoubted social vulnerabilities', said the NESC: 'Economic openness creates the possibility of extensive decline, which can create unemployment, poverty and emigration'.<sup>42</sup> The social vulnerabilities identified by the 2003 NESC report included inequalities in opportunities, increased inequality in earnings and incomes, the emergence of 'two-tier' social services and 'expensive and slow progress on some key infrastructural developments'.<sup>43</sup> Unfortunately, there is no evidence that policy-makers paid the slightest attention to these issues during the Celtic Tiger boom. The collapse has suddenly made these economic and social vulnerabilities all the more evident.

What these point to is the vulnerability of the Irish model itself, with its high level of dependence on global flows and its weak mechanisms to build resilience. The NESC recognised that vulnerabilities arise from both international market pressures and state inadequacy, but it failed to realise that the latter is a consequence of how Ireland perceives its success in the former. In other words, central to the Irish model is a low-tax regime (which weakens state capacity), as this is seen as a central means to attract the high levels of foreign investment that have been the engine of growth for the economy. The vulnerabilities that the NESC recognises, therefore, are not accidental side-effects but central structural features of the Irish model and the central contradictions of poor social outcomes and investment amid a booming economy that characterised it.

## *ii) The failures of social partnership*

Drawing attention to these entrenched vulnerabilities, characteristic of the Irish model, echoes themes familiar in the literature on small states. As Katzenstein has written, a common feature of small states 'was the perception of vulnerability, economic and otherwise. Perceived vulnerability generated an ideology of social partnership that had acted like a glue for the corporatist politics of the small European states'.<sup>44</sup> This, he added, was the most important explanatory variable for the

<sup>39</sup>NESC, *An investment in quality: services, inclusion and enterprise* (Dublin, 2003), 133.

<sup>40</sup>NESC, *An investment in quality*, 54.

<sup>41</sup>NESC, *An investment in quality*, 54.

<sup>42</sup>NESC, *An investment in quality*, 133.

<sup>43</sup>NESC, *An investment in quality*, 151.

<sup>44</sup>Peter J. Katzenstein, 'Small states and small states revisited', *New Political Economy* 8 (1) (2003), 9–30: 11.

economic and social success of small states in his earlier book<sup>45</sup> but it was largely missed by reviewers.<sup>46</sup> In her review of how the small states literature applies to Ireland, Connaughton writes that in terms of population size, Ireland is atypical of the small state, but ‘the structural openness of the Irish economy and the significant role of trade through export-led growth as opposed to indigenous markets correspond well with the characteristics of small states’.<sup>47</sup> She adds:

The case of Ireland appears to comply with explanations that successful small states are likely to be more vulnerable to exogenous economic shocks and higher risks as their growth path is more unstable than that of larger states. The resilience to the impact of such shocks will greatly depend on a combination of endogenous resources and appropriate policies.<sup>48</sup>

For Katzenstein, the various forms of corporatist arrangements, what he calls ‘the voluntary and informal cross-issue policy coordination’<sup>49</sup> are what set small states apart from large ones and allow them to respond flexibly and successfully to the demands of a fast-changing international environment. Yet this raises challenging questions for Ireland’s form of social partnership, as it did not prove effective enough to recognise the vulnerabilities facing the Irish model and so avoid the collapse that has so undermined that model.

Just before the Irish collapse, the Danish political scientist Georg Sørensen, comparing the Irish and Danish models, drew attention to the fact that ‘the Danish model has been developed and strengthened by having to cope with several major challenges, including two world wars and the economic crisis of the 1930s’, whereas ‘the successful Irish model has not faced a real critical challenge so far; it’s been all smooth sailing in sunshine and tailwinds’.<sup>50</sup> He was not hopeful that the Irish model would prove resilient when faced with difficulties. His prediction proved prescient as various attempts throughout 2009, particularly by the trade union movement, to reach agreement with government about how to deal with the economic and financial crisis all ended in failure. The breakdown of talks in December 2009 led the general-secretary of the Irish Congress of Trade Unions, David Begg, to say that the government’s withdrawal from talks earlier that month ‘drove a stake through the heart of social partnership as a concept’.<sup>51</sup> So why has Ireland’s social partnership seemingly failed its first real test? This is perhaps the most important lesson to be learnt from the Irish case.

In his classic formulation of the role that concertative or social partnership arrangements play in small states, Katzenstein wrote that such structures ‘encourage flexibility, collaboration, and the absorption of the political consequences of economic dislocations’ and offer ‘an institutional mechanism for mobilizing the consensus necessary to live with the costs of rapid economic change’.<sup>52</sup> Yet, these are precisely what Irish social partnership failed to do. Firstly, it failed to recognise the

<sup>45</sup>Peter J. Katzenstein, *Small states in world markets: industrial policy in Europe* (New York, 1985).

<sup>46</sup>Katzenstein, ‘*Small states and small states revisited*’, 11.

<sup>47</sup>Bernadette Connaughton, ‘Symptom or remedy? Mediating characteristics of the Irish central bureaucracy and their influence on the strategic capacity of a “small” state’, *Halduskultuur–Administrative Culture* 11 (1) (2010), 113–26: 113.

<sup>48</sup>Connaughton, ‘Symptom or remedy?’, 114.

<sup>49</sup>Katzenstein, ‘*Small states and small states revisited*’, 12.

<sup>50</sup>Georg Sørensen, ‘Globalisation and development: Ireland and Denmark in comparative perspective’, lecture manuscript (University of Aarhus, 2007), 8.

<sup>51</sup>Steven Carroll and Martin Wall, ‘Unions not planning to oust government—Begg’, *Irish Times*, 17 December 2009.

<sup>52</sup>Katzenstein, ‘Small states in world markets: industrial policy in Europe’, in Christine Ingebritsen, Iver Neumann, Sieglinde Gstohl and Jessica Beyer (eds), *Small states in international relations* (Seattle, 2006), 193–217: 200–1.

dangers of the over-reliance of the economy on the construction sector and to take steps to deal with it; following the collapse, it has failed to generate the consensus necessary to deal with the challenges ahead. Analysing more closely the changing nature of the tri-annual national agreements reached in social partnership, Taylor finds that in the mid 1990s there was

a subtle, but none the less crucial, shift towards a more conservative economic outlook, one that effectively abandoned any serious pretension to the social democratic ethos that may have permeated elements of earlier agreements.<sup>53</sup>

This is consistent with the conclusion of Roche and Cradden that ‘social partnership in Ireland since 1987 can best be understood in terms of the theory of competitive corporatism’,<sup>54</sup> namely the enhancement of national competitiveness and the flexibilisation of the conditions for labour.

One of the characteristics of Irish social partnership that helps explain these outcomes is the dominance of the state. Hardiman’s work highlights the extent of this dominance. She sees social partnership essentially as a form of ‘flexible network governance...in which issues can be moved onto or off the agenda, moved up or down in priority, moved into the legislative agenda, or identified as a concern within a longer-term framework of policy development’, which thus constitutes ‘an important network of policy formation and influence’.<sup>55</sup>

Yet she also highlights the fact that ‘any prospect of a real trade-off between disposable income and improvement in social services is, for the most part, marginal to the negotiations’;<sup>56</sup> ultimately the initiative rests with government, and social partnership agreements never limit the government’s budgetary freedom. Furthermore, she finds that ‘the input of organisations representing the most disadvantaged is likely to be treated as a “residual category”, confined to securing whatever is left over after the established interests have had their say’.<sup>57</sup>

Connolly makes the same point in another way in her examination of the role of social partnership in reducing poverty. Exploring how the four policy areas of social welfare, housing, health and education as means for reducing poverty have fared in the social partnership process, she finds that ‘actual policy initiatives have been limited’ and that less emphasis has been paid to those aspects of welfare designed to lift people out of poverty.<sup>58</sup> Finding that social objectives remain vague and aspirational, she writes:

By 2003 it seemed clear that although social partnership contained strongly institutionalised ideas about both the form anti-poverty policy should take and its relationship to the state’s other policy priorities, it was not a place where such policy was formulated and discussed. The over-arching policy ideas that informed social partnership also appeared to some to constitute a straightjacket on policy reform with any increased social welfare effort effectively defined as anti-competitive in this paradigm.<sup>59</sup>

<sup>53</sup>George Taylor, *Negotiated governance and public policy in Ireland* (Manchester, 2005), 41–2.

<sup>54</sup>William K. Roche, and Terry Cradden ‘Neo-corporatism and social partnership’, in Maura Adshead and Michelle Millar (eds), *Public administration and public policy in Ireland: theory and methods*, (London, 2003) 69–87: 87.

<sup>55</sup>Niamh Hardiman, ‘Politics and social partnership: flexible network governance’, *Economic and Social Review* 37 (3) (2006), 343–74: 346–7; 349.

<sup>56</sup>Hardiman, ‘Politics and social partnership’, 349.

<sup>57</sup>Hardiman, ‘Inequality and the representation of interests’, in William Crotty and David E. Schmitt (eds), *Ireland and the politics of change* (Harlow, 1998), 122–43: 141.

<sup>58</sup>Eibhlin Connolly, ‘The institutionalisation of anti-poverty and social exclusion policy in Irish social partnership’ (research working paper January 2007, Dublin, Combat Poverty Agency), 16–17.

<sup>59</sup>Connolly, ‘Institutionalisation of anti-poverty and social exclusion policy’, 32.

She concludes that ‘incremental change will not significantly alter the place of anti-poverty policy within Irish public policy and it will require a reworking of the fundamental ideas that underpin this institutionally embedded policy regime to produce an effective response to poverty and inequality in Irish society’.<sup>60</sup>

A number of conclusions can therefore be drawn from above about how Irish social partnership contrasts with that outlined by Katzenstein. The first concerns the nature of the consensus generated. This was far from the shared consensus about the costs of rapid economic change, since it was largely a consensus engineered by the state that marginalised actors representative of labour and of organised civil society (what in Ireland is called the Community and Voluntary sector). Partly as a result of this, the state sought to buy off the acquiescence of the unions through large wage increases to public sector workers in the mid 2000s, justified through an opaque exercise in benchmarking public sector jobs with comparable private sector job categories. A second difference relates to industrial policy and, indeed, economic development policy more widely. With the major growth sectors of the Irish economy dominated by multinational companies, the dependence of the Irish growth model on these companies constituted a widely shared consensus among the social partners and the state, so that deliberations in social partnership were limited to doing nothing to undermine the conditions that were seen to attract high levels of foreign investment; the limitations imposed by this dominant macroeconomic policy paradigm also severely restricted options for social policy.

This consensus had the effect of neglecting consideration of the vulnerabilities facing the Irish economy in an ever more competitive international environment. Therefore, issues such as the appropriateness of the ‘low tax’ road to development adopted by successive governments, the role of the multinationals in the Irish economy, the capacity of the state to manage the challenges of globalisation and the insufficient investment in social provision were not the subject of real policy deliberation in social partnership. A narrow business-friendly consensus was imposed by the state and suited the employers groups, so that deliberation was reduced to relatively minor issues of concessions on social spending and rights.

## CONCLUSIONS

This paper has focused on identifying the particular nature of the ‘Irish model’ of development as a form of structured economic and political power. In drawing attention to the dominant role played by multinational investment in the Irish growth model, and the subservience of policy-makers to the needs of the multinational companies, the article has identified the limited room for manoeuvre open to policy-makers as they perceive the situation. It therefore takes the focus off the moral quality of bankers, ‘developers’ and politicians (particularly those belonging to the Fianna Fáil party), which has tended to dominate the public debate, and instead focuses on the ways in which the economic and the political interrelate and mutually constitute one another. It has been argued that this interrelation helps explain some of the distinctive features that mark out the Irish collapse from that of other European countries.

However, this analysis has implications also for attempts to put the Irish economy on a more sustainable path and to reform the political system so that it can better

<sup>60</sup>Connolly, ‘Institutionalisation of anti-poverty’, 38.

sustain a productive economy. In particular, it focuses attention on the need for more robust, deliberative policymaking fora that can generate a consensus out of a broad consideration of options now facing the Irish economy. Furthermore, it moves consideration beyond reforming the electoral system to that of encompassing the need to discuss economic governance—namely how public authority ensures that the market serves public goals; not least the goal of ensuring that the benefits of growth are adequately invested in public goods rather than being largely privatised, as happened in the Ireland of the Celtic Tiger. This has been largely missing in the Irish debate. Finally, the usefulness of drawing on the literature on small states and their distinctive vulnerabilities has been highlighted, making the case for Irish social scientists and policy-makers to pay particular attention to the variable of size.

