Bust to Boom? The Irish Experience of Growth and Inequality

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The Role of the State in Growth and Welfare

SEÁN Ó RIAIN AND
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16.1 Introduction

The Irish economy has undergone a profound transformation in the past forty years. Ireland in the 1960s was comparatively underdeveloped industrially and economically and its welfare state lagged behind developments elsewhere in Europe. By the end of the 1990s, however, after decades of advances and reversals, Ireland was being hailed a success story within the global economy. Economic growth rates in the 1990s have been among the most rapid in the world and GDP has converged with the core European economies. This economic progress has not, however, been matched by a complementary development in social rights. The expansion of the welfare state in Ireland lagged behind developments elsewhere in Europe and its main period of growth took place against a background of very difficult economic circumstances, culminating in a fiscal crisis of the state in the 1980s. The Irish welfare state might therefore be characterised as a case of interrupted development which today falls far short of the European model, as overall state and welfare spending as a percentage of GDP falls closer to US than EU levels.

Over the past four decades Ireland has pursued an uninterrupted strategy of increasing integration into the global economy. However, this imbalance between growth and distribution is not a simple story that globalisation has forced the withdrawal of the state and other social actors and promoted the rise of neo-liberalism. In fact, the most dramatic changes have occurred under the guidance of neo-corporatist social partnership institutions and the state has been deeply implicated in the entire process of managing both economic development and the welfare state.

Ireland stands then as a particularly clear and interesting example of how a highly interventionist state can promote adaptation to the internationalisation of

the economy (Katzenstein, 1984, 1985). Where core states play a critical role in generating processes of internationalisation, small states are pushed to adapt to these changing conditions. Successful adaptation may indeed depend on an active and effective state, rather than on the neo-liberal strategies prescribed by the dominant institutions of the global economy. To the extent that small states are successful in adapting to internationalisation of economic processes they create the basis for further extension of those processes – by providing new locations, labour forces and institutions that can support transnational economic processes. The Irish state has played a critical role in inserting Ireland into international economic processes, reshaping both the economy and the welfare state in the process.

16.2 State, society and the global economy

Globalisation has resulted in the weakening and even destruction of institutional buffers between national economies and global markets (Ruggie, 1982). States find themselves trying to respond to pressures from local societies and global markets simultaneously without the breathing room previously offered by controls on transnational trade, finance and production. The intensification of global processes has actually made the role of the state more important as an effective state becomes critical to promoting competitiveness within a global economy (Sassen, 1996). Some argue that this increased state role is limited to promoting economic competition and accumulation – even as the state becomes an increasingly critical enterprise association its role as a civil association diminishes (Cerny, 1995). Cerny argues that all states are now faced with the imperatives of global competition, causing a convergence around the model of the 'competition state' (Cerny, 1995). Certainly this resonates with aspects of the experience of recent years as states, both within and across national boundaries, compete to offer the greatest incentives and concessions to attract mobile investment.

Jessop's (1993) concept of the 'Schumpeterian workfare state' describes a state which combines the promotion of flexibility and innovation, oriented towards global markets, with punitive measures, such as workfare, directed towards those groups in society who fail to stake out a place in these markets. Although Jessop suggests that this kind of state may prove to be the universal mode of regulation for a Post-Fordist economy (with variations across different systems) it seems to be most advanced in the liberal states of the US and Britain, in particular the Thatcherite regime for which the analysis has been most comprehensively developed (Jessop, 1994; Peck, 1994). Liberal regimes have clearly moved in this direction, combining an intensified state promotion of markets with a more punitive relation between state and society. However, the

Schumpeterian workfare state may run into its own problems as the 'workfare' component proves insufficient to reproduce the labour force necessary for Schumpeterian innovation (Peck, 1994: 206-229).

However, these analyses go too far. Both the structure of the global economy and the space for local and national diversity are more varied and offer more opportunities than the concept of the 'competition state' allows. There remain a variety of ways of connecting to the global economy, with significantly different implications for local and national populations (Gereffi, 1994). Significant portions of economic activity are still shaped by local and national factors which are heavily influenced by national states (Weiss, 1998). Weiss argues that the role of the state remains significant both in shaping *development* outcomes and in negotiating the *distribution* of the rewards and costs of economic development.

Even in an era of globalisation, the state can still act to promote economic development by mediating connections between the local and the global and influencing how local-specific assets are mobilised within the range of opportunities available in the global economy. Despite the financial crisis of 1997/1998 in Asia, the demise of the 'developmental states' has been greatly exaggerated. Certainly, it has become much more difficult for states to take the tasks of development upon themselves through the use of public organisations. The state can continue to play a role in promoting economic development, however, by shaping the capabilities of society and the market to compete internationally. In particular the state pokes and prods domestic firms to compete in the global economy and to constantly upgrade their organisational and technical capabilities to that end.

The impact of progressive globalisation on the welfare state is believed to derive from two sources. First, the new international division of labour has led to the transfer of manufacturing employment, particularly low-skilled employment, from the advanced industrial societies to the newly industrialising economies that offer a low-wage, low-tax environment. The resulting shift in investment results in increased unemployment and falling tax revenues in the advanced societies, both of which undermine the welfare state. Second, increased international financial mobility increases the importance of policies to maintain national competitiveness and thus constrains the policy autonomy of national states, leading to a convergence towards a neo-liberal withdrawal of welfare provision (Cerny, 1995; Cox, 1993). Critics of this position, however, argue that globalisation is hardly a new phenomenon, and that while states have always been confronted by international constraints, they have retained sufficient autonomy and capacity to pursue national agendas (Hirst and Thompson, 1996; Pierson, 1998). Indeed, as Esping-Andersen (1999) notes, it was extreme vulnerability to international forces which led the small European societies to construct strong welfare regimes and protected labour markets after World War Two. In this respect Ireland shares a high degree of exposure to

international trade competition with other open societies such as Denmark or the Netherlands with highly developed welfare systems. Rhodes (1998) argues that far from convergence to a neo-liberal roll-back of the welfare state, the future direction for many European countries may be one of 'competitive corporatism'. Such a proscription appears particularly applicable to the Irish strategy adopted since 1987, prioritising competitiveness and macro-economic stability and employment creation and redistribution, but downplaying the 'equity' function of more traditional 'golden age' forms of corporatism.

Weiss is correct then to argue that the state continues to play a central role in shaping development and distribution outcomes. However, she treats each of these state roles as points on either end of a continuum of state roles, with states being classified as developmental, distributional or 'mixed' cases (Weiss, 1998: 117). We prefer to treat these two state roles as largely referring to the relatively distinct and identifiable institutional realms of industrial and economic development policy and welfare state policy. Each may have a relatively autonomous logic from the other but developments in one institutional sphere may be critical to the ability to pursue certain strategies in the other. For example, the losses of the industrial working class in development policy may be compensated for by a generous early retirement scheme on the distributional side – much as in the German case (Esping-Andersen, 1990:151). In this chapter therefore, we first outline the Irish state's roles in the spheres of development and distribution separately and then go on to relate them explicitly to one another.

If the state continues to play a significant role in shaping socio-economic outcomes within the global economy, the question remains as to how certain states are more effective in carrying out certain roles than others. Recent research has emphasised that the state cannot achieve these developmental and distributional ends in isolation but in fact depends on its relation to society for its success. In particular, effective states are characterised by 'embedded autonomy' (Evans, 1995). Such states are embedded in local social groups (usually, although not necessarily, capital) through close social or associational ties between state bureaucrats and domestic social classes, among other social groups. However, these states avoid being captured by social class interests by retaining their autonomy. For Evans, this autonomy is safeguarded by the presence of a classic 'Weberian bureaucracy' – based on meritocratic recruitment and promotion and norms of objective, procedural rationality (Evans, 1995; Evans and Rauch, 1999; Maxfield and Schneider, 1997). Of course, coherent Weberian bureaucracies are relatively rare. However, some research suggests that, under certain conditions, encompassing business associations and other associations which can monitor and sanction their members can promote a long-term developmentalist orientation to the market, even in the absence of a state which is able to enforce such an orientation

(Maxfield and Schneider, 1997: 25). In any case, the effective state is one which can pull off the delicate balancing act between the close ties to society necessary to generate 'state-society synergy' (Evans, 1996) and the 'autonomy' necessary to safeguard broader state development and distributional goals from simply becoming a function of the interests of the dominant class.

Accounts of 'successful' states often emphasise the coherence and cohesive character of the state bureaucracy as a critical element in securing state autonomy (Evans, 1995). For some, this coherence not only insulates state bureaucrats from 'capture' by dominant social interests but enables the state to impose its 'plan rationality' over the 'rationality' of the market (Johnson, 1982). However, this emphasis on the internal organisational coherence of the state is challenged by recent arguments that the state is increasingly moving towards a position as a network state, embedded in a variety of levels and types of governance institution (Castells, 1997; Ansell, 1999).

We argue that the various roles of states, particularly the developmental and distributive roles, may in fact be relatively autonomous from one another. 'Successful' states are, however, able to maintain complementarity or compatibility between these two roles. Indeed, states may be better able to manage any tensions or contradictions between the semi-autonomus roles of development and distribution if they are organisationally *less* cohesive. Therefore, 'successful' states need not be tightly coupled, cohesive organisational entities. Indeed, while a certain degree of bureaucratic coherence is essential, a more decentralised, 'loosely coupled' organisational structure may better facilitate the workings of a 'network state'. We can contrast the organisational structure of bureaucratic with flexible states, the former characterised by bureaucratic coherence compared to the more loosely co-ordinated, networked organisational structure of the latter (Ó Riain, 2000a).

Flexible state structures are characterised by significant decentralisation, close ties to social constituencies, and a high degree of flexibility in the relations between the units of the state apparatus. The internal accountability of cohesive Weberian bureaucracy is supplemented or even replaced by the external accountability of particular units of flexible states to external evaluations based on clear performance criteria. Such a state may also be better able to handle tensions between partly conflicting agendas within the state itself.

Rather than a cohesive and relatively insulated national state apparatus, the flexible state consists of a state apparatus which is deeply embedded in a 'network polity', forging socio-political alliances out of constantly shifting local, national and global components (Ansell, 1999). In transforming itself to operate within a locally and globally networked economy and polity, state governance itself is 're-scaled' as the prior privileged role of the national level gives way to a 'glocal' form of state (Brenner, 1998, 1999).

With a decentralised, flexible structure, change in any one part of the state apparatus is much easier to carry out than in a more highly integrated, bureaucratic structure. Where the bureaucratic state emphasises strategic planning and state leadership (at least in theory), the flexible state is better thought of as adaptive and responsive, evolving through learning and path-dependent evolution of institutions. Clearly these are not exclusive categories and any one state will incorporate elements of both. However, states can also be classified as more firmly within one or other of these models. We argue that the Irish state has been a relatively flexible state, especially in recent years. Its weakness has been the inability to take decisive steps out of crises or to pursue developmental or distributional goals against the resistance of powerful social groups. However, it has adapted successfully to a number of opportunities that have presented themselves at different stages of Irish development over the past forty years. In the 1990s, the adaptations undertaken in both the developmental and distributional realms complemented one another in such a way as to create a new dynamic of growth and improved living standards, within an ongoing process of integration into the global economy and increasing social polarisation.

16.3 The developmental state

Ireland experienced an economic and social crisis of enormous proportions in the 1950s, stimulating a range of changes in economic and industrial policy. At least partly in response to this crisis, industrial policy shifted dramatically between the mid-1950s and the early 1960s. After 1958 protectionist measures were eased for foreign investors and removed entirely in 1964. Full integration into the international economy has been a mantra of Irish economic policy since this period and protectionist measures were almost completely dismantled by the 1970s. The state became the key actor in attracting foreign direct investment (FDI) and creating a 'world class' location for mobile investment became a motivating policy goal for the following forty years. Among the critical elements of this locational advantage were generous tax incentives and grants, a transnational-friendly environment, a young and cooperative labour force and (later) a world class telecommunications system. The state was placed at centre stage in industrial policy by its efforts to continually upgrade these 'factors of production' and its assumption of the role of 'hunter and gatherer' of FDI.

However, this was not an inevitable, nor even particularly planned, outcome. By the time the crisis of the 1950s had prompted some action on economic and industrial policy, alternatives to concentration on attracting foreign investment had been effectively sidelined (O'Hearn, 1990). Attempting to revitalise the moribund domestic industrial sector was one option. While the state had largely viewed itself as complementing the market in the 1930s and the 1940s the then

Minister for Industry and Commerce (and later Taoiseach), Seán Lemass, became increasingly concerned with the inefficiency of protected indigenous industry. Lemass's vision was of a self-sufficient but efficient economy. To this end he made various attempts to introduce measures to support state intervention in Irish firms with a view to improving their efficiency. His efforts to form an Industrial Efficiency Bureau in 1947 failed in the face of resistance from a united domestic capitalist class and a deflationary coalition within the state headed by the Department of Finance (O'Hearn, 1990). Even so, when the Industrial Development Authority (IDA) was set up in 1956 it was initially envisaged to have two broad sets of objectives – firstly, the provision of incentives to industry (mainly Irish) to start new businesses and, secondly, a set of powers to call witnesses and investigate firms in relation to inefficiencies within the firm. Once again in the face of capitalist and Department of Finance resistance, the investigatory powers were removed from the IDA before it even began its duties. However, it should be noted that when the IDA was founded it was envisaged as an agency largely supporting indigenous industry. Political pressures to transform national institutions in order to build development upon a national system of innovation were constantly deflated by the 'safety valve' of emigration which facilitated the 'catch-all' politics of Fianna Fáil (Mjøset, 1992).

Why then did the FDI regime become so dominant within the Irish political economy? The key document said to have started the shift to export-led industrialisation – a paper called *Economic Development*, written by a senior civil servant – was in fact focused almost completely on agricultural exports. However, it did mark a shift in Department of Finance thinking towards a more expansionist agenda and a legitimation of economic planning. Furthermore, Ireland became eligible for Marshall Aid in the late 1940s and the expansionist coalition within the Irish state was anxious to use the funds to develop their agenda. However, there were a large number of conditions attached to Marshall Aid, the primary condition being a steady and significant move towards free trade. International agencies such as the IMF, dominated by the US government, pushed free trade measures through the 1950s until the restrictions on foreign investment and the tariffs and quotas around Irish industry began to weaken through the 1950s (O'Hearn, 1990; Girvin, 1989a).

It still remained unclear, however, where the firms would come from to fulfil this export-led expansion. The IDA had been left with the task of promoting new industry and soon filled this vacuum through its pursuit of foreign investment. Lemass still hoped to prod Irish-owned business into life and wanted to retain promotional capabilities within the Department of Industry and Commerce. However, he compromised with the IDA in the late 1950s, agreeing that it could focus on new industry. This effectively meant foreign investment and proved the basis of the IDA's narrow institutional focus on attracting FDI. Throughout the

1960s foreign investment grew rapidly, with foreign firms accounting for 2.3 per cent of gross output in 1960 but 15.9 per cent in 1973 (O'Malley, 1989: 102). This fuelled a period of rapid economic growth and with it the legitimacy and power within the state of the IDA.

In 1969 the IDA took on direct grant-giving powers and that same year it was restructured as a semi-state body outside the civil service but reporting to the Department of Industry and Commerce. This administrative independence and its exclusive focus on 'new' industry (mainly foreign) gave the IDA a specific corporate culture organised around a clear set of goals. It also became the centre of policy-making as the Department of Industry and Commerce became more marginalised: 'Our impression is that the Department's practice has tended more towards intervention in operational matters while devoting little attention to the strategic plans formulated by the agencies. We are not in a position to substantiate this impression, but to the extent that it may be true, it represents an inappropriate means of control' (O'Malley, Kennedy and O'Donnell, 1992: 132). Out of the adaptation to circumstances and learning through its early successes in attracting foreign investment, the IDA had taken on a strategic role in shaping industrial policy by the early 1970s. However, this outcome itself was not created by strategic planning but by adaptability and learning within these newly created arms of the state.

Through the 1970s the focus on attracting FDI was consolidated with the institutionalisation of the IDA's role as the leading strategic force in industrial policy. While the Department of Industry and Commerce had published a series of Economic Plans in the 1960s, it remained largely silent on policy issues through the 1970s and 1980s. It is noticeable that in public debates on industrial policy among the policy élites during the 1970s and early 1980s there is a clear expectation that the IDA is the body which must address these issues, with little mention of the Department of Industry and Commerce (SSISI, 1976, 1982).

Irish political and economic institutions were radically reshaped through the 1970s, in large part in pursuit of foreign investment. The structure of state finances has been transformed to greatly reduce taxes on capital and profits in an effort to attract foreign investment, leaving the state heavily reliant on revenues from personal income taxes. The education system has been transformed, largely through the creation of a large sector of the third-level education system which is oriented heavily towards business and technology. Heavy investments were made in upgrading the telecommunications system in the early 1980s.

The outcome of the institutional compromise surrounding the emergence of the FDI policy regime was to de-politicise and institutionalise the FDI regime while hyper-politicising indigenous development in the form of clientelism. The FDI regime dominated the traded sector of the economy while non-traded sectors contained primarily domestic firms and were dominated by clientelism.

Clientelism was the byword of state-business relations in sectors such as beef and property, much as it was in the polity at large (Higgins, 1982; Chubb, 1982). Agencies such as the IDA found it next to impossible to insulate themselves from political interference in these sectors. As a series of special tribunals established in the 1990s – the Beef, McCracken, Moriarty and Flood tribunals – have revealed, relationships between agriculture, construction and property development and certain politicians and public officials were of a highly dubious character (MacDonald, 1985; O'Toole, 1995). In the protected sectors extensive battles ensued in an attempt to prolong protection although these sectors ultimately had to face international competition, usually to their disadvantage (Jacobson, 1989). These sectors began to suffer in the mid-1960s, were faced with serious problems upon entry to the EEC in 1973 and collapsed during the recession of the early 1980s (O'Malley, 1981, 1989, 1992b). Before the industrial revival of recent years Irish industry had a very weak presence in the traded sectors of the economy and in some respects it could be said that no coherent policy regime existed to support potential firms which might emerge in these traded sectors.

As a result employment growth was largely stagnant through the 1970s and collapsed in the 1980s, with almost one quarter of domestic manufacturing jobs lost between 1980 and 1988. Even foreign investment suffered a downturn, with employment dropping 6.8 per cent in that period (O'Malley, 1998). The full implications of the industrial policy compromises of the 1950s were only now becoming clear. The existing industrial development regime was simply not up to the task of generating employment for a burgeoning population with significant financial problems – in fact employment was falling most disastrously as the largest demographic bulge pushed into the labour market in the 1980s.

It is important to note that this was not in itself a crisis of the FDI model. Although employment in foreign-owned firms declined in the 1980s this was still the most dynamic sector of the economy and provided the best chances of employment growth at any particular time. O'Malley (1989) argues that the TNCs did not have a damaging effect on indigenous industry even if they did not do much to stimulate indigenous development. However, this structural crisis in the Irish economy and society did point up the weaknesses of the FDI model as a model of national economic development, taken on its own as it had been for most of the 1970s.

These concerns came to a head with the publication of a report by the Telesis Consultancy Group in 1982 which was heavily critical of the prevailing model of development. Telesis were contracted by the National Economic and Social Council, a body representing the 'social partners', to carry out a study of the existing policies regarding industrial development. Telesis severely criticised the sole reliance on foreign-owned firms, arguing that 'foreign-owned industrial operations in Ireland with few exceptions do not embody the key competitive activities of the businesses in which they participate; do not employ significant numbers of skilled workers and are not significantly integrated into traded and skilled sub-supply industries in Ireland' (Telesis Consultancy Group, 1982; quoted in O'Malley, 1989: 167). Ultimately, the foreign investment-led model of development could not even begin to stem the tide of mass emigration, with an increasingly professional look to it, through the 1980s. By the late 1980s almost half of each cohort of new engineers and one quarter of computer science graduates were leaving the country within one year of graduation (HEA, various years).

The report was widely quoted in the media at the time and although a national debate could hardly be said to have ensued it did cause quite a stir within the policy community (see SSISI, 1982 for example). The IDA defended itself robustly at the time (White, 1982; *IDA News*, 1982, No.2). However, the hegemony of the FDI model and the IDA within the national policy regime was therefore somewhat shaken by the events of the early and mid-1980s. The FDI model now became one part, if still the dominant part, of industrial policy. The general tenor of policy did shift through the 1980s to take account of some of the recommendations of the Telesis Report – in the direction of greater selectivity in grant giving and a greater focus on marketing and technology and on indigenous firms (O'Malley, 1992b). A space had opened up therefore in which new models of economic development could be advanced as candidates for institutionalisation – a space which would prove vital to the institutional change underpinning the industrial change and economic boom of the 1990s.

Out of this disastrous situation came the boom of the 1990s. Looking at manufacturing industry, investment has increased by 91 per cent between 1991 and 1997.[1] This investment seems to have shifted towards 'intangible' investments as R&D spending has increased by over twice as much, 202 per cent (Breathnach, 2000). Unfortunately we have no information on other intangible investments in marketing and related business activities, which also seem likely to have expanded and which are increasingly critical sources of industrial competitiveness in technology-based sectors (Ernst and O'Connor, 1992). Manufacturing employment has expanded by 22 per cent over the period and has seen a significant degree of 'upskilling', at least as measured by occupational category. 'Administrative and technical' workers (these do not include clerical workers) have grown by 42 per cent across manufacturing, almost double the rate of general employment growth. Although output figures are relatively meaningless for certain 'entrepôt' sectors such as cola drinks and software reproduction, it is striking that output has expanded steadily across all nationalities of firms and almost all sectors. There has however been a marked sectoral shift with rapid decline in 'older' sectors such as textiles, clothing and leather, even as the 'high tech' sectors expanded rapidly. Furthermore, output per employee has been growing steadily, indicating an increased level of productivity in the Irish economy.

These figures also hold for those service sectors for which we have data for the period. Indeed, consistent with international trends, employment growth has been more rapid in most categories of service employment than in manufacturing. Over 5 years the number of persons engaged in 'all business services' expanded by 71 per cent and full-time employees by 69 per cent (CSO, 1992, 1997). This growth is even stronger in the most dynamic sub-sectors within these, such as computer services and management consulting. Employment in the less glamorous 'personal services' has also expanded rapidly, by 71 per cent, from 1993 to 1997 (CSO, 1993, 1997b). Here the expansion consists almost entirely of a boom in the employment of part-time workers. In addition therefore to the 'upgrading' of manufacturing employment, we find a polarisation in the service sector with rapid expansion in relatively well paying 'business services' sectors but often equally or more rapid expansion in poorly paying personal services and retail employment. Unfortunately the services data do not provide information on nationality of ownership of the firms in question. Overall, however, we see both an expansion and an upgrading of industry in Ireland in the 1990s – alongside the continued growth of 'entrepôt' operations which are largely based on tax avoidance (Honohan, Maître and Conroy, 1998; O'Hearn, 1998).

How then, did this remarkable turnaround occur? Certainly there were fortuitous external circumstances which Ireland was well placed to take advantage of – succeeding early and often in securing certain critical investments by US high technology firms seeking to invest in Europe prior to unification (Barry, Bradley and O'Malley, 1999: 62; Krugman, 1997; O'Hearn, 1998). However, this cannot explain the broad upgrading we have seen above across a range of sectors and firm nationalities. In fact, the state played a central role in upgrading industry and deepening Ireland's production and innovation capabilities in the 1990s.

The state had already played a central part in transforming the education system – an institutional transformation that was now paying off in terms of a plentiful supply of skilled labour. Furthermore, a reserve of emigrant professionals waited for opportunities to return, doing so in large numbers from the mid-1990s. However, in the years around and after the Telesis report, the state began to pursue a wider range of industrial development strategies. New sectors had been added to the list of target sectors – most important of which were software and financial services. The state acted to support emerging indigenous industry and to upgrade the national system of innovation in three major ways (Ó Riain, 2000a).

Firstly, it acted to define the types of involvement in the international economy that would be supported. IDA executives began to work more closely with the managers of transnational subsidiaries in Ireland to try to build up the local operations. The IDA provided valuable investment and other support in particular sub-supply sectors, such as software manual printing (Jacobson and O'Sullivan, 1994) and electronics. In industries such as software design, the state development agencies focused grant aid almost completely on companies producing software products for export – attempting to steer companies away from the 'easy' profits of labour contracting. The state acted in important ways therefore to define the character of Irish industry, without attempting to define the specific strategies to be followed by firms.

However, the state has also made more direct contributions. Its second contribution was to 'making winners'. Private capital was not a major factor in the growth of Irish industry and it is only since 1998 that private investment capital, from both domestic and foreign sources, has become abundant even in leading sectors such as software. Grant-giving became more selective, as recommended by the Culliton Report (Industrial Policy Review Group, 1992), and state agencies 'seeded' venture capital funds. The state agencies therefore promote a general company development programme through their grant-giving practices in a variety of areas including marketing, management development, training and R&D. The precise form this takes can be quite flexible depending on the company itself but the state agencies require that such efforts at company development take place. Some IDA executives had even been involved in company development in the 1980s before the policy shift had found its way into official policy.

Thirdly, the state played a critical role in the creation of a network of industry and trade associations, universities, innovation and technology centres and other fora and groups which provide an associational infrastructure for information-sharing, co-operation and innovation. While these bodies are outside the state or semi-autonomous from it, in most cases they have been founded through state initiatives and underwritten by state guarantees and funding. Nonetheless they form a distinct layer of institutional spaces and social networks between the state agencies and the companies in the industry. A diffuse state influence throughout the industry is built into the organisational structure of the institutions. These institutions are typically located within the universities; staffed by academics and industry people; usually have advisory boards containing industry, academic and state representatives; and have extensive ties to industry through consulting, information days and other activities undertaken at least partly for funding purposes. In many ways these associations and networks perform some of the integrative functions carried out within the corporation in vertically integrated, large firms.

Perhaps the earliest such institutions of relevance were founded in 1980, a time when a great deal of policy interest was focused on the impact of microelectronics on Irish industry. The National Microelectronics Research

Centre (NMRC) was founded in Cork in 1980. Its focus is on research into microelectronic technology and it works successfully with some of the more prominent electronics TNCs. The National Microelectronics Application Centre (MAC) was also founded at that time and was charged with bringing electronics to Irish industry. Based in the University of Limerick, it provides technical advice and houses up-to-date equipment for industry use. It succeeded relatively early in building connections to innovative local firms although in its early years these connections were apparently closer to the larger TNC operations (Sklair, 1988). The late 1980s were a time of institutional innovation. Most of these innovations took place under the banner of the Programmes in Advanced Technology (PATs), funded by EU Structural Funds under the Operational Programme for Industry, 1989-1993. Eolas, the agency dealing with science and technology, had made a series of proposals regarding programmes to support leading and potentially strategic technologies, including software which proved to be the most successful. During the late 1980s and early 1990s a number of institutions and programmes were founded which have received largely positive evaluations from national and international evaluators. These include Teltec Ireland, the Technology Centres, the National Software Directorate and Software PAT, the Applied Research Programme, Bio-Research Ireland and the Mentorship Program.

By defining the character of industrial strategies, implementing company development through grant aid and creating an associational infrastructure for innovation, the state has been able to contribute handsomely in the 1990s to the development of indigenous industry and the upgrading of the national system of innovation more generally. The final question that remains then is how this shift in state policy could take place. In fact, the crisis of the 1980s bore the seeds of the boom of the 1990s in that it opened up space alongside the FDI agenda for alternative industrial development strategies. The crisis stimulated a series of institutional changes that took on their own momentum as they yielded some success.

The IDA itself reorganised internally in 1988 to create two divisions that would look after foreign-owned and indigenous industry respectively. There was however a series of other state bodies which concerned themselves largely with the 'science, technology and innovation' agenda and which were mostly oriented towards indigenous industry, although their success in raising R&D spending levels for example was quite limited until the late 1980s (O'Malley, 1980: 62-63; STIAC, 1995).These included the National Science Council, founded in the late 1960s, and its successor the National Board for Science and Technology founded in 1977. In the mid-1980s science and technology policies were reorganised significantly with a new Office of Science and Technology being formed under a Minister of State (junior cabinet minister) in the Department of Industry and

Commerce. The NBST was merged with the Institute for Industrial Research and Standards in 1987 to form Eolas, a new science and technology agency. Around the same time various agencies were consolidated into one agency to deal with active labour market policy (FÁS) and into another to deal with export marketing (An Bord Tráchtála). In 1994 Forbairt, an agency focused solely on indigenous industry, was created incorporating most of the staff and functions of Eolas and the Irish Industry section of the IDA. In 1998, An Bord Tráchtála was merged into Forbairt, although under some protest from local firms which feared a loss of marketing assistance. Finally these various agencies were folded into Enterprise Ireland, which consolidated these agencies under one institutional roof. We can see therefore that there was an increasingly sustainable and autonomous institutional space available within which the indigenous development agenda could be pursued and the task of building a national system of innovation undertaken.

The new state institutions relied heavily on European Union funds for their activities. Many of the programmes undertaken in the science and technology arena were funded in large part by European Structural Funds. These funds were designated for Ireland as part of an effort to develop the peripheral regions of the EU in the face of the upcoming Single European Market in 1992. Many commentators have commented on the impact of the influx of this capital from the EU, attributing Ireland's growth to these funds. However, the Irish state had put together significant amounts of capital before without being able to develop the economy around them. What was significant about the Structural Funds was that they were the means by which a variety of new, sometimes experimental, measures could be taken without having to fight the rest of the state agencies for funding. The new development regime could develop alongside the old and did not have to challenge the old development model directly for funds and priority, except in rare cases. Furthermore, the EU funds came with significant requirements in terms of performance and outcome evaluation and accounting. While sometimes creating administrative nightmares this also helped to foster a climate where regular evaluation of policies became the norm and where clientelism was mitigated. It was not only the financial impact of the EU funds which was crucial therefore but the institutional space it facilitated for new initiatives. In this case, international funds were used to promote an indigenous development agenda.

The state, through its heavy investment in education, had meanwhile created a new class basis for an indigenous technology promotion and business expansion agenda. The state had effectively pushed the population away from the historically popular professions, using its unusual capacity to shape labour supply to disproportionately expand the number of vacancies in engineering, computer science and other technical fields through the 1980s and 1990s. The danger here was of course a massive brain drain which did indeed take place (Wickham, 1989; NESC, 1991). However, of those who stayed a number started their own companies and combined with a trickle of people from the foreign-owned sector and other organisations to form a constituency which could support the new agenda. The educational investment associated with the FDI model therefore threw up a new technical middle class which could not rely on government patronage in markets and were largely excluded from the existing professions by their education. An unintended consequence of the FDI model was therefore the creation of a social group which would ultimately come to be the foundation of an alternative model of development. Ultimately it was this new class, combining entrepreneurs and technical professionals in a new class compromise which would emerge as the socio-political force at the heart of the Irish boom in the 1990s. Their increasing profits and wages would create rising inequality even as they became firmly embedded at the heart of the Irish economy and polity.

16.4 The distributive state

The evolution of the welfare state represents another example of delayed development. The legacy at the time of political independence in 1922 combined an underdeveloped economy, full adult male suffrage, which was immediately extended to women, and a minimalist state. The inheritance included an attenuated version of British welfare institutions, including the poor relief system, an embryonic social insurance system providing unemployment and sickness compensation to manual employees, limited health and housing services, and subsidised education. Given the under-developed state of the economy, this legacy represented a comparatively precocious set of social citizenship rights relative to the low levels of national income and the tax base (O'Connell and Rottman, 1992). There were few welfare innovations in the first decade of independence under the political leadership of the conservative Cumann na nGaedheal government. The electoral success of the Fianna Fáil party, appealing to less-well-off members of society, including small farmers and business people as well as manual workers, ushered in an era of reforms. Both the coverage and adequacy of unemployment benefits were increased, new income maintenance schemes introduced, and an ambitious public housing programme implemented to clear the urban slums, particularly in Dublin.

The welfare state did expand after World War Two, following, but lagging behind, developments elsewhere in Europe. A unified Department of Social Welfare was established in 1947, taking over responsibility for the majority of social welfare schemes, and the Social Welfare Act 1952 made universal the various existing schemes of income maintenance and introduced a new

maternity allowance. Equal rates of unemployment benefit between single men and women were introduced, although married women still received lower rates. The coverage of the system remained restricted, however, and middle-class employees, the self-employed and civil servants were neither covered nor liable to pay contributions. Cousins (1995) comments that these exclusions from the system were consistent with class interests: civil servants, middle class employees in the private sector and the better-off among the self employed had lower exposure to insurable risks, while poorer members of the self-employed received social assistance from an exchequer to which they contributed little. He argues that the Irish system emerging in the 1950s remained fragmented with little commitment to interclass-solidarity, unlike the relative universalism of the system in the UK, or indeed in the Scandinavian countries. During the 1950s also, eligibility for public hospital services, formerly restricted to low-income groups, was extended to those covered by the social insurance system, as well as others on low income, although provision of a broader range of health services fell far short of universal coverage (Maguire, 1987).

In the health area, attempts at reform were discouraged by opposition from private medical practitioners and the Roman Catholic Church to an expansion of state involvement. In the 'Mother and Child Scheme' incident in 1951 the church blocked a major expansion of public health care to provide free ante- and post-natal care to mothers and free medical care to children without a means test, forcing a political crisis and the resignation of the then Minister for Health, Noel Browne. The educational system remained predominantly private, and for most of the population access to education was restricted to primary level, which was subsidised by the state.

Despite these reforms, social rights in Ireland still lagged far behind the innovations in other European countries in the post-war period. Total social expenditure actually fell from 16 per cent of GNP in 1951 to 14 per cent in 1959, a decade of economic stagnation and declining employment (O'Connell and Rottman, 1992).

The quality of social citizenship in Ireland expanded markedly during the 1960s and 1970s as services were improved and coverage of income maintenance expanded. In the income maintenance system, contributory pensions were introduced in 1961, occupational injuries benefits in 1967, retirement and invalidity pensions in 1970 (Cousins, 1995). The 1970s also saw the introduction of deserted wives allowances and benefits, lone-parents allowance, supplementary welfare allowances and the reduction of the pension age from 70 to 65. Coverage of the social insurance system was extended to all employees in 1974 and pay-related benefits were introduced.

In 1967 free second level education was announced, means-tested grants for third level education were introduced in 1968, and there was considerable expansion of third-level institutions from the 1970s onwards. Improved access to second-level education and increased provision at third level resulted in a dramatic increase in educational participation over the following three decades. These initiatives would later contribute a skilled work force to stimulate economic growth in the 1990s, although participation in third-level education has remained strongly related to social class origins. In the field of housing, a major public building programme was initiated in 1965 and output of public housing rose rapidly to the mid-1970s. Reforms in health included a reorganisation of general practitioner services in 1970 which allowed low-income individuals to attend a private practitioner of their choice, and, in 1979, the extension of eligility for free hospital services to the entire population.

By the end of the 1970s the basic structure of today's welfare state had been established. Much of the period since then has been characterised by efforts to restrain public expenditures. Before examining recent trends in the welfare state it is useful to consider the quality of social citizenship as it expanded since the 1960s. The expansion in social rights that took place during the 1960s and 1970s related to the range of contingencies against which state provision is made available, as well as the public services to which citizens are entitled as of right. The Irish experience of welfare state expansion stands in stark contrast to the Scandinavian pattern in which the expansion of social citizenship took place along two dimensions: (1) universalistic entitlements created solidarity among and between social classes; and (2) a commitment to reduction of inequalities pervaded all areas of policy, thus reinforcing the solidaristic quality of the welfare state (Myles, 1989). In Ireland the principal commitment has been to achieving solidarity, through the expansion of the coverage of the social insurance system, and through the provision of basic levels of service, but the commitment to reducing inequalities has been slight. The Irish welfare state can thus be characterised as a 'pay-related' welfare state which provides a basic minimal level of security and service on near-universal grounds to all resident citizens, but one which mixes public and private components in a manner that allows those with advantages generated in the market to supplement their social citizenship rights with their own resources (O'Connell and Rottman, 1992).

The pay-related nature of the welfare state is particularly obvious in the case of pensions. In 1960 the pension system was expanded from a means-tested provision to an insurance-based system available to manual workers and other paid employees. Insurance coverage was extended to all employees in 1974, and the self-employed incorporated in the system in 1988. The expansion of the coverage of the pension system reflects a solidaristic impetus. However, its three-tiered structure reflects its 'pay related' nature. Entitlement to non-contributory old-age pensions is subject to a means test and provides for those with a history of intermittent or marginal labour force participation. The more

generous contributory pensions form a second tier, available to all employees in the private sector as well as to the self-employed, who have a record of contributions. A third tier is formed by the combination of contributory state pensions with private and occupational pensions. Public servants, with a separate state pension system, also fall into this third tier. All three tiers benefited from increases in the real value of state pensions since the 1960s (O'Connell and Rottman, 1992), and Callan and Nolan (this volume) show that the real value of pensions continued to increase over the past two decades, by almost 58 per cent in the case of the personal rate of non-contributory pension, 53 in the case of contributory pension.

In the year 2000, the personal rate of the contributory pension, available to those with a record of contributions, exceeds that of the non-contributory pension by 12 per cent. The contributory pension forms a floor for middle-class employees, who can combine a social insurance pension with occupational pension entitlements, private pensions and savings, all subsidised through tax expenditures, to achieve a more comfortable standard of living in old age. Occupational pensions tend to be earnings related; state pensions are set at a flat rate. Those covered by occupational pensions are more likely to be in white collar rather than manual employment, to be males rather than females, and to work in large rather than small organisations. Thus, retired middle-class employees, former public servants, and middle and high income self-employed enjoy considerably enhanced incomes compared to retirees from other social classes (O'Connell and Rottman, 1992).

This pattern, whereby a universal entitlement at basic level of provision can be supplemented by private resources in a manner that reinforces market-based inequalities, can also be found in other areas of welfare state provision. In health, free hospital care, until changes in 1991, underwrote part of the cost of a stay in a private hospital ward, with the patient paying the difference between the subsidy and the actual cost. Currently, while the state provides a basic level of free hospital care to all, those with private health insurance, subsidised through tax expenditures, can avoid lengthy waiting lists for treatment. In education, a universal entitlement forms a foundation upon which parents can build by adding their own resources to obtain private education. The elimination of fees at third level, introduced in 1994, increased universalism of provision in a formal sense, but as Smyth and Hannan (this volume) show, social class inequalities in access to third-level education are pervasive and persistent over time.

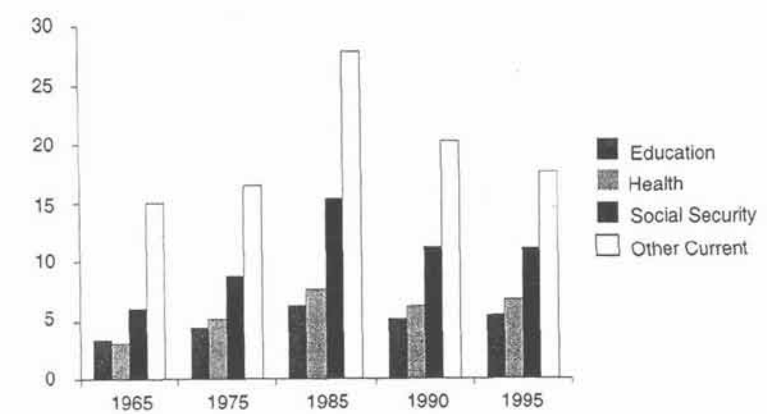
Table 16.1: Social insurance coverage, 1953-97

	Number Insured (1,000s)	per cent of Labour Force with full coverage
1953	724	51.7
1961	713	56.8
1971	808	65.5
1981	944	74.2
1991	966	72.0
1997	1,476	95.9

Source: 1953-1981: Maguire, 1987, 1991 and 1997: Department of Social Welfare, various years

Table 16.1 shows the expansion of the social insurance system from 1953 to 1997. The proportion of the labour force with full coverage expanded markedly over the 1960s and 1970s as increasing numbers of employees were included. Near universal coverage was achieved by the late 1990s, following the inclusion of the self employed in 1988 and new public servants from 1995. This reflects the strategy of inclusiveness to entitlement of basic levels of service.

Figure 16.1: The share of current government expenditure in GNP, by function, 1965-1995



Source: Central Statistics Office, various years, *National Income and Expenditure*

Figure 16.1 shows the evolution of current spending on the largest elements of social expenditure – income maintenance, health, and education – as well as other current expenditure, expressed as a proportion of GNP over the period 1965-95. There was a marked increase in total government spending from 27 per cent of GNP in 1965 to 35 per cent in 1975, followed by accelerated growth, to 57 per cent in 1985. This expansion was mirrored in each of the main areas of welfare state spending in the graph. The most rapid growth took place in social welfare payments, which increased from 6 per cent of GNP in 1965 to 9 per cent in 1975 and to 15 per cent in 1985. The growth from the mid-1970s to the mid-1980s reflected the dramatic increase in unemployment, from 85,000 in 1975 to 226,000 in 1985, peaking at 233,000 in 1987. But demands for improved services in health, and the increase in educational participation, led to marked increases in those areas also.

The dramatic growth in public spending was not matched by increases in revenue, with the result that in the mid-1980s the public finances were out of control, with high budget deficits and a burgeoning public debt. Public sector borrowing increased to 14 per cent of GNP in 1986, and fiscal imbalance has been blamed as one of the main causes of the recessionary period in the early to mid-1980s. Restoring order to the public finances was achieved by severe cutbacks in public expenditure in 1987-90. Total current spending fell by over 10 percentage points in real terms between 1987 and 1989. Total current spending fell from 57 per cent of GNP in 1985 to 42 per cent in 1990 and to just under 41 per cent in 1995.

Figure 16.2a: Welfare state expenditures in real terms (Constant 1989 values)

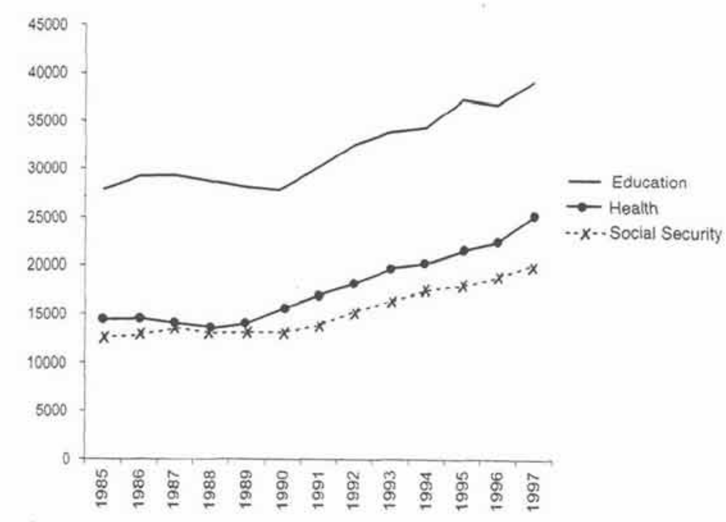
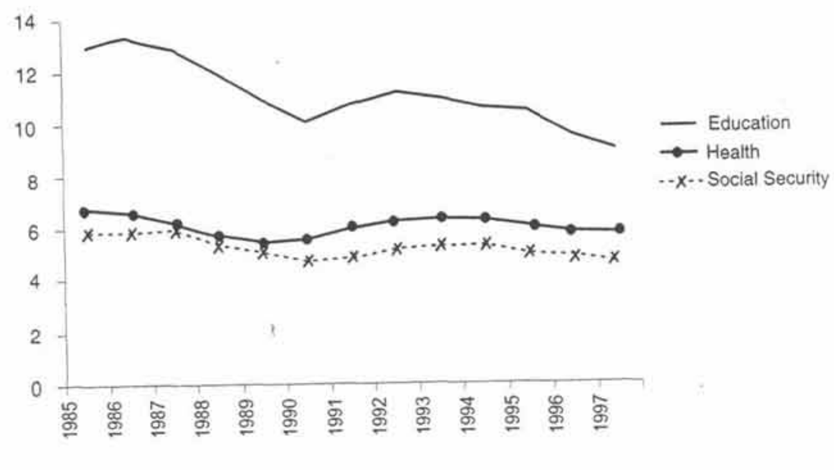


Figure 16.2b: Welfare state expenditures as a percent of GDP



Source: Central Statistics Office, various years, *National Income and Expenditure*

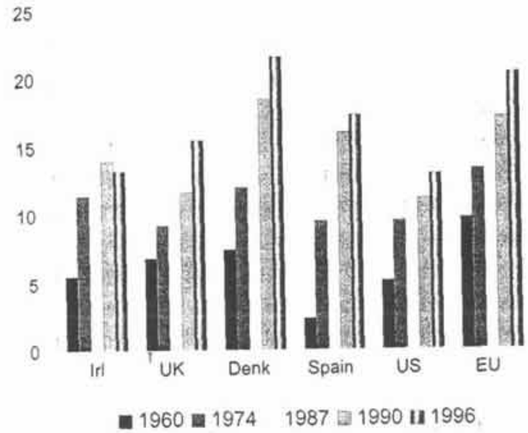
Figures 16.2a and 16.2b show total expenditures on education, health and social security in constant (1989) prices and as a percentage of GDP from 1985 to 1997. These figures allow us to trace the impact of the austerity measures introduced to recover control over the public finances in 1987 and their longer-run impact on welfare state spending. In real terms, total current expenditures fell by about 10 percentage points between 1987 and 1990. The real value of total spending on social security fell by 4 percentage points over this period. This was consistent with the commitment given to the social partners to maintain the value of income maintenance payments, and it also coincided with a brief increase in employment which resulted in lower unemployment (O'Connell, this volume).

Real spending on education fell by about 2.5 percentage points between 1987-1990, and health expenditures fell only marginally during this period. By 1991, the real value of spending in each of these areas had been restored, and real expenditure levels in health were almost 20 per cent above the level in 1987. Over the course of the 1990s, real expenditures have increased gradually in each of the main areas, with the result that in 1997 spending on health was 78 per cent greater than in 1987, spending on education was about 50 per cent greater, and social security transfers had increased by one-third in real terms over the decade. An exception to this general rule is the area of housing, where a dramatic cut-back in the public building programme took place after 1987, and where public expenditure fell from about 5 per cent of total public expenditure in 1987 to 2.5 per cent in 1990. This has led to a dramatic decline in the share of social housing in new house construction, and together with the large-scale privatisation of the existing local authority stock has resulted in the residualisation of local authority housing, which is now mainly targeted at the poor and unemployed (Fahey and Williams, this volume).

Viewed over a longer time-horizon, the austerity measures introduced in 1987 appear as an adjustment in a longer period of rising real expenditure, and it is clear that the bulk of the cuts fell in areas outside of health, education and income maintenance schemes, and that these areas of expenditure accounted for a larger share of total spending during the period of austerity. Over the decade as a whole, welfare spending increased substantially in real terms. But this was also a decade of very rapid growth in the economy. One useful way to view the amount of 'welfare effort' exerted by a society is to measure its welfare spending against its economic output, Gross Domestic Product. When measured against GDP, the decline in welfare effort in Ireland is apparent (Figure 16.2a). Social security spending fell sharply from 13 per cent of GDP in 1987 to 10 per cent in 1990 and then more gradually to 9 per cent in 1997, with a brief increase to 11 per cent in 1993 when unemployment levels increased. Spending on education fell from 6 per cent of GDP in 1987 to 4.7 per cent in 1990, increased to over 5 per cent in the mid-1990s, before declining to a level of about 4.6 per cent in 1997. Expenditure on health fell from 6 per cent in 1987 to 5.6 per cent in 1990 and has subsequently fluctuated around 6 per cent of GDP. In summary, over the past decade, as Ireland became a more prosperous society, it has spent more on the welfare state, but it has made less welfare effort.

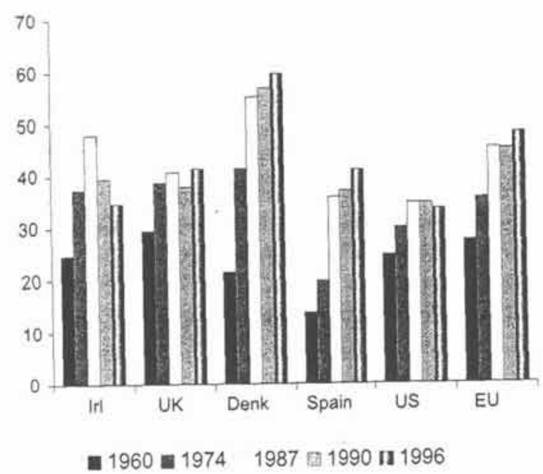
In this regard Ireland has diverged from the European pattern of increasing welfare effort. Figure 16.3a shows social security transfers as a percentage of GDP in various countries over the period from 1960-1996. From 1960 to 1987 Irish expenditures followed a trajectory that was similar to other core European countries, although until 1987, the ratio of social security spending to GDP in Ireland lagged behind the European average. After 1987, while the ratio of social security spending to GDP was maintained or increased in most European countries, they fell markedly in Ireland, from 17 per cent in 1987 to 13 per cent in 1996. By 1996, the ratio of social security spending in Ireland had converged with that in the US, 7 percentage points lower than the European average.

Figure 16.3a: Social security spending as a percent of GDP1960-96, selected countries



Source: OECD, 1999, Historical Statistics 1960-1997

Figure 16.3b: Total current government spending as a percent of GDP 1960-96, selected countries



Source: OECD, 1999, Historical Statistics 1960-1997

Figure 16.3b, which presents the ratio of total current government spending to GDP for the same countries over the same time period, shows a very similar pattern in which Irish expenditures increase strongly over the 1960-1987 period,

to the extent that the total spending ratio in Ireland exceeded the European average by 1987. This was followed by a marked decline in Ireland, but by near-stability, or increased expenditure levels in the other countries. By 1997, Irish government spending had fallen to 35 per cent of GDP, marginally higher than in the US, and 13 percentage points below the European average.

The recent history of the Irish welfare state is thus a distinctive one in which the welfare effort of the society has declined during a period of rapid economic growth and in a context of centrally-negotiated social partnership. The distinctive Irish pattern features increases in the real value of social security payments, and increases in spending on social services alongside a decline in the welfare effort of society. Underlying this apparent paradox is a continuity of the structural characteristics of the Irish welfare state established by the end of the 1970s. The 'pay-related' or two-tiered welfare state has continued to preserve social solidarity by maintaining a basic level of social citizenship rights on near-universal grounds, but allowed a mixture of public and private provision to ensure that the basic minimum of provision can be supplemented by resources generated in the market. A floor of citizenship rights has been maintained that ensure that those classes disadvantaged in the market are taken care of at a basic level of provision, and middle and higher income groups have been free to supplement that basic level of provision, by relying on their own resources and by drawing on tax expenditures.

The major changes in the social insurance system since 1987 have been, first, the incorporation of self-employed groups in the social insurance system, and new public servants in 1995, an inclusive strategy which broadens the political coalition for the welfare state, and second, the elimination of pay-related social insurance compensation in 1994, a change which emphasises the minimalist elements of universal coverage.

With regard to its response to unemployment, the Irish welfare state has departed in two important respects from a standard 'residual' or liberal welfare regime. First there has been the solidaristic commitment to maintaining and even increasing the real value of unemployment benefit and assistance payments since 1987. This is driven by the terms of the social partnership accord, and is also consistent with the catch-all nature of party politics, but it differs markedly from the radical scaling-back of welfare entitlements that has occurred in other more liberal regimes, such as Britain.

A second departure from liberalism can be found in employment policy. Liberal and conservative social policies tend to favour a passive approach to employment and to eschew active intervention to promote labour market re-entry of the unemployed (Esping-Andersen, 1999). In contrast, the Irish state has been particularly innovative over the past decade or so in bringing about a shift in the balance from passive income support to active labour market policies with temporary employment and training programmes, and in reducing unemployment/poverty traps. Ireland is a comparatively big spender on such active labour market programmes, which cover a very substantial proportion of the unemployed. In 1996, such spending accounted for about 1.7 per cent of GDP, comparable to expenditure levels in the more interventionist Scandinavian social democratic welfare states (O'Connell, 1998). In Ireland this labour market activation approach is much less a welfare-backlash type welfare-to-work strategy, and much more a social inclusion strategy to increase employability adopted under the tutelage of the EU mainstream. Punitive elements in the activation strategies have been very muted, and attempts to eliminate unemployment traps to returning to work have been more likely to pay people to go back to work rather than withdraw support if they don't (for example the sizeable Back-to-Work Allowance scheme, which provides continuation of up to 75 per cent of social welfare income after long-term unemployed people go back to work).

The evolution of the Irish welfare state can be described as a case of delayed and interrupted development. Ireland lagged behind the development of welfare states elsewhere in Europe in the aftermath of World War Two. Social rights expanded considerably over the 1960s and 1970s, and welfare expenditures climbed sharply through the early- to mid-1980s, but against a background of severe economic problems. The fiscal crisis of the state halted the growth in Irish welfare effort and the nature of social rights then in place became frozen in time. During the more recent period of very rapid economic growth, social welfare spending has increased in real terms but has fallen as a proportion of GDP. Arguably, social partnership preserved the floor of protection during the austerity period, but it has not mobilised support for an expansion of welfare effort during the economic boom. Thus, the institutions of social partnership have preserved the inequalities inherent in the welfare state of the 1980s.

16.5 Vicious and virtuous circles?

The Irish economy may not have shaken off the fundamental features that make it particularly open to the vicissitudes of the global economy. Nonetheless, Ireland has managed in the past ten years to stake out a more rewarding form of participation within that economy. However, the commitment to welfare effort, which had grown during the initial period of growth and during the crisis years of the 1980s, has been diminished; welfare effort has decreased even as national wealth has increased. This is not however a story of neo-liberal globalisation. The state has been central to each stage of the development, and under-development, of the economy and of the welfare state. This involvement has had concrete effects – both on the upgrading of local production and innovation capabilities and on the maintenance of a relatively non-punitive floor to the social welfare

system. To understand the recent Irish experience of growth with inequality within an institutional framework of social partnership it is necessary to trace how the developmental and distributive roles of the state have interacted across the past four decades. It will also be necessary to analyse the particular character of the Irish state – both its embeddedness in society through a particular form of catch-all politics and its flexible and adaptive character which has enabled it to diffuse the conflict inherent in the contradictions of the development strategy.

Table 16.2 shows the institutional developments and trends within the Irish political economy across three critical periods – the period of growth from 1960-1973, the period of crisis and contraction from 1973-1987, the period of recovery and boom from 1987-2000. It indicates the emergence of the dominant features of the Irish economy in the 1960s. A development strategy based on economic openness and particularly attracting FDI has been dominant since that period as have the populist, catch-all politics which underpinned the welfare state expansion of that era.

The 1970s saw the consolidation of each of these strategies as each became institutionalised within the state through the emergence of the IDA as the centre of industrial policy-making and the increasing significance of organised political interests in pushing for state spending. The crisis of the 1980s presented challenges to these institutions but did not necessarily destroy them. Instead a certain amount of political space emerged for the consideration of alternative and supplementary roles for the state in the economy.

Table 16.2: Institutional change in the Irish political economy

Period	Development		Distribution	
1960-1973	I	Move to attracting FDI	I	Welfare state expansion
	II	Integration into international economy		
1973-1987	III	Consolidation of FDI policy	II	Welfare state consolidation
	IV	Consideration of supplementary strategies in face of industrial contraction	III	Rapid expenditure growth
1987-2000	V	Increased focus on indigenous industry and 'deepening'	IV	Structural adjustment with social partnership
	VI	Definition of key sectors and activities		
	VII	Business development role of state agencies		
	VIII	Creating an associational infrastructure for innovation		

Into these spaces a number of new institutions emerged. Chief among these were the increasingly significant set of industrial development agencies focused on indigenous industry and on business and technological upgrading, and the social partnership institutions put in place in 1987 which set about taking on the macroeconomic and fiscal problems of the state without dismantling existing social protections.

What then was the impact of these shifting institutions? How did the institutional changes in both the developmental and distributional realms of the state interact to shape economic outcomes? Table 16.3 presents some of the major indicators of economic performance and welfare state effort across each of these periods – indicating clearly the pattern of growth, bust and boom in the Irish economy. Although marked throughout by a pragmatic, catch-all politics and a commitment to international integration the road to the current position of the Irish economy has indeed been long and winding.

Table 16.3: Economic performance and welfare effort

Period	Development		Distribution			
	Average annual GDP growth	*Average annual employment growth*	*Social security spending as per cent of GDP*		*Change in all state spending as per cent of GDP*	
			Average over period	*Annual per cent change*	*Average over period*	*Annual per cent change*
1960-1973	4.4	0.3	7.0	+7.1	29.3	+3.4
1973-1987	3.0	0.1	14.0	+3.3	45.1	+2.0
1988-1998	6.5	3.4	14.4	-2.1	39.5	-2.7

Growth

The 1960s was a period of growth and relative prosperity in Ireland, after the disaster of the 1950s. An inflow of foreign investment, first from Britain and later from the US, stimulated economic growth – even as free trade eroded the domestic industrial base. The welfare state greatly increased the pace of the expansion it had been undergoing in previous decades. During this period, the developmental and distributive roles of the state evolved relatively separately – although growth certainly helped to pay for welfare expansion and the expansion of the education system in particular would be crucial to improving the country's ability to attract foreign investment. Both the developmental and

distributive strategies had their roots in the catch-all politics through which the state was embedded in society. The state was unable or unwilling to challenge domestic capital to promote domestic industrial development or more egalitarian welfare state structures. Neither was it willing to strategically hold the global economy at bay, as the 'Asian Tigers' did. In this context, the state adapted itself to supporting the foreign investment and free trade agenda which was emerging in the Marshall Aid led post-war reconstruction in Europe. FDI filled the vacuum at the heart of Irish industrial policy and by the end of the 1960s had become institutionalised as the dominant industrial development model. Political support for the Fianna Fáil government that ruled from 1959-73 was sustained in large part by welfare state expansion. The weakness of the industrial working class and its political support for Fianna Fáil meant that this took the form of a two-tiered welfare state structure which often reinforced rather than dampened market inequalities.

Bust

This combination of developmental and distributive roles was institutionalised within the Irish state by the early 1970s but when international conditions became less favourable the underlying structural weaknesses in the Irish model were exposed. State intervention had failed to generate a momentum towards the development of an indigenous industrial capacity and a genuine 'national economy' (Mjøset, 1992). The foreign investment led model of industrial development was conspicuously failing to generate significant spin-off development effects, although quite successful in its own terms. When protectionism was finally dismantled in the late 1970s, in the context of a poor international environment, domestic industry collapsed. Furthermore, the strategy of relying on foreign investment had required tax changes that had reduced the percentage of government revenues from taxes on capital and corporations, from 2.3 per cent of GDP in 1965 to 1.2 per cent in 1985. The taxation burden on personal income increased enormously as it went from 4.3 per cent of GDP in 1965 to 11.4 per cent in 1985 (OECD, 1997). These factors combined to create enormous public pressure to increase government spending. Irish catch-all politics combined disastrously with the easy availability of international loans at the time (Stallings, 1992) to create an explosion in public spending and ballooning national debt. Ireland's industrial and trade structure ensured that most of the multiplier effects of this spending exerted themselves outside the national economy. The Irish economy's second social and economic crisis in thirty years was created in the bust of the 1980s by the vicious circle of interactions between developmental and distributive roles of the state. Adaptation in this case proved disastrous, in a situation where breaking the mould of the existing strategies was called for.

Boom

However, it was adaptation in the 1980s which subsequently led to the boom of the 1990s. The crisis of the 1980s created some institutional spaces for experimentation. The strategies of earlier periods had created two social classes which now mobilised to try and reverse the disastrous situation of the 1980s. State investment in education had created a burgeoning professional class, many of whom emigrated but enough of whom stayed behind to form a new industrial development coalition with dissident elements from the IDA and other, more marginal, state agencies. This coalition became the basis of indigenous upgrading and deepening in the 1990s. A second group of unionised workers, many in the public sector, were mobilised through the union movement to enter a series of social partnership agreements which sought to restore macroeconomic and fiscal stability by centrally negotiating wages and other distributional issues. However, these distributional negotiations were clearly cast in 'developmental' terms – focusing on the need to regain competitiveness. These two coalitions between different classes of employees, employers and sections of the state existed throughout the 1980s in an arms-length but complementary relationship. The modified industrial policy finally created the growth that could create a sustainable dynamic of development. The social partnership agreements restored the macroeconomic and fiscal stability necessary for industrial success. As Table 16.3 shows, while social security spending as a percentage of GDP increased by over 3 per cent per annum between 1973 and 1987, it subsequently fell by over 2 per cent per annum over the following decade.[2] While the terms of this accord between the state and the social partners ensured that basic levels of protection were guaranteed to those excluded from national economic recovery, the equality agenda characteristic of more traditional forms of corporatism was less evident.

These two major developmental/distributional coalitions in Ireland have held each other's ambitions in check, assisted by the structure of the Irish state. The neo-liberal impulses of the rising class of internationalised professionals are at least partly held in check in Ireland by the continuing ability of the unions to safeguard the basic social rights guaranteed (at a low level) by the universalistic elements of the Irish welfare state and by the middle class's own self-interest in maintaining the subsidies provided to them by the pay-related welfare state. The social partnership agreements have ensured that integration into the global economy has not decimated social rights. However, the agreements have also presided over a period of rising wage dispersion and weakening welfare effort. This is at least partly due to the increasing lack of voice of unions and other social actors in shaping the lead sectors of the economy. The new classes of technical professionals and self-employed small businesses largely fall outside the institutions of social partnership and have become the basis of spiralling inequality in market incomes in Ireland.

The Irish version of social partnership, which, in essence, has entailed wage moderation in exchange for tax-cuts, has meant that both tax revenues and welfare state expenditures have fallen dramatically in relation to rapidly growing national income. This raises fundamental questions about the development of social citizenship rights in Ireland. While there is growing dissatisfaction with the quality of social services, particularly in health and housing, the state appears committed to further tax cuts, a policy which must entail continued deviation from the European model. Reversing this trend would require a re-negotiation of the terms of social partnership in a manner that would entail a greater share of the fruits of growth being channelled through social rather than market wages: offering improved social services rather than tax cuts in exchange for wage moderation. However, such a shift would also raise very fundamental issues about the trade-offs between wages, taxes and competitiveness.

Clearly, through privatisation and structural adjustment, the direct role of the state in economic activity has given way substantially to the market. However, the state has played a critical role in promoting the successful market participation of the new internationalised professional class – through investment in the education system, through industrial policy that supports greater innovation and through extensive public subsidies which supplement middle class market rewards rather than diminish them. Simultaneously, the rest of Irish society has benefited over the past ten years from the combination of developmental and distributive roles played by the state. Social rights have been maintained and living standards have increased, particularly through increased employment. In the process, the bulk of Irish society has also acquiesced to the increasing gap between themselves and the rising professional and business classes. The intense battles being waged over public sector pay are evidence that those workers in a position to do so are increasingly willing to take action to redress this inequality. What seems doubtful is whether those at the lowest rung of Irish society, caught between a burgeoning service sector of casual employment and a weakening welfare effort, can mobilise the resources to at least keep up with the rest of Irish society. The Irish formula of 'solidarity without equality' may be beginning to face some of its greatest challenges.

NOTES

1 This figure and others in the following discussion are based on unpublished CSO data from the Census of Industrial Production 1991 and 1997. The data is more fully analysed in Ó Riain (2000).

2 The averages for the two periods, 14 per cent over the years 1973 to 1987 and 14.4 per cent over 1987-1997, conceal the fact that social security transfers as a percentage of GDP peaked in 1986-1987 and then declined in the later years.