Neither Boston nor Berlin: class polarisation and neo-liberalism in the Irish Republic

KIERAN ALLEN

The Celtic Tiger is dead. Between 1994 and 2000, real gross domestic product (GDP) in the Republic of Ireland grew at an annual average rate of nine per cent, taking per capita income from sixty-seven to eighty-six per cent of the European Union (EU) average by 1999.¹ In terms of conventional economics, this would seem to constitute a miracle. Growth rates for most industrial nations were sluggish in the 1990s and even the boom in the United States did not match this. The Celtic Tiger stood out as one of the fastest growing economies in the world. But the age of miracles appears to be coming to an end. 2001 started out with phenomenal rates of growth but, on 7 November, the Governor of the Central Bank of Ireland, Maurice O'Connell, proclaimed that 'the era of the Celtic Tiger is over'.² The pronouncement followed a spate of redundancies and factory closures. The government also warned that tax receipts were dropping and it might need to borrow to meet its spending targets. The housing market started to fall and even prestigious companies like Aer Lingus found themselves in extreme difficulty.

The signs of a comparatively sharp downturn are plainly visible. The dramatic announcement of the closure of the Gateway computer factory in north Dublin in 2001, with the loss of 900 jobs, was an important indicator of the turnaround. This was one of the flagship US companies in the computer industry, and the one whose factory was chosen as the location by President Clinton on his visit to Ireland in September 1998 to celebrate the commercial ties between Ireland and the United States. Yet, barely a year later, it had fallen to the growing recession affecting the information technology sector. Gateway was primarily of symbolic importance but behind the symbols there has been a major restructuring of the global high-tech sector.

Information and communications technologies account for 40 per cent of total exports from the Irish Republic, having grown at an annual average rate of twenty-three per cent between 1993 and 2000.³ This

sector is dominated by large US firms. There has been a strong pattern of agglomeration, whereby a cluster of rival US computer companies moved to Ireland to take advantage of its particular cost advantages of low tax rates, low wages and free access to EU markets.⁴ The Industrial Development Authority (IDA) has claimed that twenty-six per cent of all greenfield projects established by US firms in Europe were located in Ireland.⁵ These are mainly in computers and, to a lesser extent, in pharmaceuticals.

The Celtic Tiger differed from the Asian economies with which it has often been compared in at least one important respect. According to Bradley, the Irish state did not primarily select 'segments of indigenous industry with the objective of gaining in efficiency and capturing greater export market share' but rather it adopted 'policies designed mainly to encourage export-orientated foreign direct investment inflows'.⁶ The consequence of this strategy was that the primary impetus for growth came from a number of highly specialised sectors in which US capital was dominant. By the turn of the century, Ireland had by far the highest level of direct US investment per manufacturing worker of any country in Europe, with the capital deployed per worker being a full seven times higher than the EU average.⁷ The Celtic Tiger became an important bridge-head for US investment to capture growing segments of the European high-tech market. In the process, the Republic of Ireland became more dependent on US investment than many countries in Latin America, which has often been described as 'America's backyard'.

Yet, despite this growing dependence, there was little critical examination of the nature of the links with the United States. The dominance of neo-liberalism in Irish economics meant that the US boom of the 1990s was accepted simply as given – and as implicitly proving the benefits of deregulated markets. In reality, there were serious structural weaknesses.

The US boom

The US boom of the 1990s was much more one-sided than that of the 1960s, because it was not sustained by a pattern of rising living standards for the majority of the population. US corporations were more successful than their rivals in reducing the real wages paid to employees. The attack on living standards occurred in a variety of ways. One was through the increasing tendency to 'downsize' and replace permanent workers with 'contingent workers'. The latter are temporary employees, often hired on short-term contracts or through employment agencies. Between 1978 and 1995, the top 100 US companies laid off, on a net basis, no less than twenty-two per cent of their workforce.⁸ Employment

through temp agencies grew by 116 per cent between 1988 and 1996.⁹ Another way in which living standards were attacked was through a series of 'give-backs' – a euphemistic term for wage cuts – followed by zero pay increases. Between 1985 and 1995, the average annual increase in hourly wages in US manufacturing was the lowest among the economies of the Group of Eight (G8), averaging 0.15 per cent, compared with 2.9 per cent in Japan and 2.85 per cent in Germany. By 1995, the average hourly wage for manufacturing production workers was \$17.19 in the United States, \$23.66 in Japan and \$31.85 in Germany.¹⁰ In brief, the US boom coincided with an increased rate of exploitation. This was well expressed by Stephen Roach, the chief economist at the Morgan Stanley investment bank:

The American re-structuring model has three attributes: massive headcount reduction, real wage compression and outsized currency depreciation that took the value of the dollar down 50 percent from the early 1980s highs. And the US system of flexible labour is the glue that holds the whole thing together.¹¹

Booms that depend upon an increased degree of exploitation face a major problem. Firms can raise their profits for a period, but they encounter more difficulties selling their goods, because wages have been depressed. This problem can be overcome as long as there are higher levels of investment in capital goods or if the wealthier sections of society engage in luxury spending. But if anything creates doubts about the prospects for these high profits, there can be a very sudden downturn. The result is often a pressure for ever increasing rates of return on investment to fuel the confidence of the wealthy. However, by creating near full employment, the boom itself placed limits on how far US industrialists could continue to restrain wages and by 1997 there were signs that the median wage had begun to recover. The expectation of ever higher profits eventually clashed with the demands of US workers to see some recompense for past losses.

Conventional economists easily ignored this contradiction because the US boom was also sustained by a tremendous infusion of foreign capital. The net inflow of foreign capital increased from \$59 billion in 1990 to \$264 billion in 1997, due to the stagnation of the European and Japanese economies.¹² This influx led to lower interest rates and, consequently, to a highly stimulated stock exchange. After 1991, the share of the US economy represented by FIRE – finance, insurance and real estate – overtook that of the whole of manufacturing industry.¹³ The growth in the financial sector led to even greater pressure for higher dividend payments, which in turn were used to buy new shares and other financial derivatives. In the 1970s, dividend payments amounted to sixteen per cent of profits but by 1996 they had risen to thirty-six per cent.¹⁴

Companies also came to borrow more on the basis of their rising paper values and for a period this fuelled the boom. However, when the realisation eventually dawned that an escalation of share values did not represent real savings, there was a sharp decline in US consumer confidence. In brief, all the contradictions of the lop-sided boom came to the surface. The US economy is now suffering the hangover effects as the fraudulent culture of accounting which led to the Enron and WorldCom scandals has been revealed.

The Irish miracle

The growing dependence of the Irish economy on the United States and the underlying weakness of its boom were simply bracketed out of most commentaries on the Celtic Tiger. A myth emerged that the Irish boom would last well into the second decade of the twenty-first century. The normally cautious Economic and Social Research Institute (ESRI) set the standard for this consensus about growth. In its *Medium Term Review 1999–2005* it claimed that there would be ‘an annual average growth rate of 5.1 per cent between 2000 and 2005, falling to 4.3 per cent per annum thereafter to 2010 and to something over 3 per cent in the period 2010–2015’.¹⁵ A previous medium-term review had even claimed that ‘over the next fifteen years Ireland may establish a standard of living among the highest in Europe’.¹⁶ Paul Sweeney, the author of *The Celtic Tiger: Ireland’s Economic Miracle Explained*, was even more confident and claimed that:

The Irish miracle appears to have been built on a solid modern foundation on which a lasting edifice can be built. The foundation is good infrastructure, investment in the important capital – human beings – and a healthy demographic structure.¹⁷

This optimism about the prospects for the Irish economy was always highly ideological. In spite of their claim to be neutral and scientific, economists are usually deeply committed to the free market system. They dismiss any notion that capitalism may have inherent contradictions, which lead inevitably to business cycles. Instead, they often focus on extraneous or even psychological factors as the cause of recessions. Thus the ‘oil crisis’ is held up as the standard explanation of the global downturn which began in 1973, while the terrorist attacks on the United States on 11 September 2001 are supposedly the cause of a new downturn. (The notion that 11 September caused a global recession can be disproved by even the most cursory glance at the records. For example, on 25 August 2001, *The Economist* announced in its lead article, ‘Welcome to the first global recession of the 21st century’.¹⁸) Concepts like ‘consumer

confidence' are also treated almost as psychological irreducibles that intrude on the otherwise smooth workings of a system that brings supply and demand into equilibrium. Of course, once you adopt this perspective there is often a danger of 'talking ourselves into a recession' – hence the pressure on conventional economists to see the brighter side of things.

The predictions of a long-term boom for the Irish economy have drawn heavily on an argument about demographic factors. In 1997, National City Brokers (NCB) published *Population and Prosperity*, which has since become a groundbreaking text among stockbroker economists, who have exuded extreme optimism about the future of the Celtic Tiger. The authors of the report pointed to a number of unique features of Ireland's demographic structure that could help to sustain a boom. These were a rising population, higher educational qualifications and, crucially, a falling age dependency ratio. Their argument is worth quoting at length, as it helped forge an important consensus in elite circles:

Demographic change has played a crucial role in the strong economic performance of the past five years. The key features have been:

- The capacity of the economy for non-inflationary growth has increased as the pace of labour supply accelerated to an annual two per cent on the back of a rising population in the economically active age groups.
- The effectiveness of the workforce has been increased by higher educational attainment levels.
- Falling dependency because of the lower numbers in the younger age groups has boosted wealth....

The heightened rate of economic growth in recent years thus has a sound structural base and the demographic changes, which have their roots in the baby boom of the 1970s, will continue to have a strong influence on activity in the years ahead.¹⁹

On the basis of these demographic features, it was predicted that the Republic of Ireland would continue to grow at a rate of six per cent annually for the next five or ten years.²⁰

This argument is extremely tenuous. The notion that labour supply was the decisive factor in 'non-inflationary growth' was soon disproved by the fact that the Celtic Tiger came to top the EU inflation league soon after the NCB made its pronouncements. The increase in higher educational qualifications has been a general feature in most industrialised countries. The link between age dependency rates and the state of the economy is crude in the extreme, or at the very least highly questionable. There are other countries which have experienced more dramatic falls in their age dependency ratios than Ireland but that have not been rewarded with a boom. Turkey and Thailand, for example, have seen their age dependency rate fall from 0.8 of the working population to 0.5 in the period 1980–99, whereas in Ireland it has fallen only from 0.7 to

0.5. Similarly, the United States maintained a relatively static age dependency ratio, of 0.5, in the same period but moved from recession to sluggish growth to boom at different stages.²¹

Conventional economists often have real difficulty in understanding the sheer chaos and disruption inherent in the free market system. Even where disruptions are recognised, they are seen as aberrant features that soon give way to equilibrium. The medium-term review of the ESRI published in September 2001 provides an extraordinarily candid acknowledgement of this. In their introduction, the authors note that the ESRI envisaged two scenarios for the future – their ‘benchmark’ estimate, which projected smooth growth, and their ‘slowdown’ forecast, which assumed a more malign scenario for the world economy. When writing the report they assumed that the ‘benchmark’ estimate was the more likely scenario but then, after 11 September, they switched to assuming that ‘the slowdown scenario may be closer to reality’.²² Yet, despite their sudden ad hoc adjustment, they still assumed that the overall growth of the Celtic Tiger would remain at 4.5 per cent per annum for 2000–05, 4.7 per cent for the next five years and 2.8 per cent for the following five. In other words, almost exactly the same figures for growth that were quoted in the previous medium-term review are used, even though cognisance was now apparently being taken of a global recession!

Less blinkered commentators on the Celtic Tiger make more realistic assumptions about the outcomes for Irish capitalism. The loosening of global controls on the movement of capital and the intense drive to increase both the relative and the absolute surplus value from workers make the system more chaotic and disruptive than ever. It is not necessary to invert the optimism of conventional economists and give an unremittingly pessimistic account of the prognosis of the Irish economy. It is simply important to discard ideological assurances about the benefits of deregulated markets or quasi-nationalist notions about the uniqueness of the Irish. The Irish economy may eventually benefit from a US recovery. Or the disruptions caused by changes in the global economy, and the US economy in particular, may bring a longer period of a downturn than many had expected. The point is to recognise that there are no automatic rewards given to those who follow the nostrums of neo-liberal economists and accept a ‘downward flexibility on wages’.²³ The system is literally out of control and hence inherently more unpredictable than before.

Boston or Berlin?

The growing difficulties with the US model cast a new light on the ‘Boston or Berlin?’ debate which emerged in the last phase of the Celtic Tiger. The two cities have come to be employed as signifiers of a choice

between two apparently different models of capitalism. On the one hand, there was the supposedly dynamic, tax-cutting form of neo-liberal capitalism of the United States, which had turned in a strong record of growth in the 1990s. On the other, there was the more regulated, social market in Europe, which allegedly sought to promote the values of social justice and solidarity. Advocates of a social partnership approach preferred the more regulated model which prevailed in Europe. This led the Irish Congress of Trade Unions, the Irish Labour Party and left intellectuals such as Fintan O'Toole to link up with the wider political establishment and advocate a vote for the EU's Nice Treaty. When the electorate rejected the Nice Treaty the first time around, in 2001, it was assumed that they were not fully informed about the workings of the EU and needed to vote on the issue for a second time. The fact that the Nice Treaty helped create the legal framework for a European Rapid Reaction Force or that a growing number of EU governments were also pushing for more 'flexible' labour markets barely took the gloss off the supposedly more progressive nature of Europe.

There is an important discourse prevalent in elite circles which links Irish 'social partnership' with the European social model and even suggests that the particular experience in Ireland may add to this model. The official documentation of the EU makes considerable play about concepts such as 'social solidarity' and removing forms of 'social exclusion'.²⁴ The various Irish social partnership agreements have taken up and amplified these themes. One writer has claimed that the Irish model of social partnership is an example of a 'competitive corporatist' strategy which has much to offer Europe as a whole:

One of the futures that may prove appropriate for many European countries is that of 'competitive corporatist' social pacts which seek consensual and, in so far as is possible, an equitable adjustment of European welfare systems and labour markets. The EU is seeking to play a role in this process by encouraging a European employment pact and promoting further advances in the European social dialogue. Although such pacts may be criticised as 'national productivity coalitions' in which the power of capital is inevitably strengthened, they are certainly more desirable than unilateral neo-liberalism.²⁵

Peter Cassells, the former General Secretary of the Irish Congress of Trade Unions, made a similar point when he claimed that 'from the way we have balanced the European approach with the culture of American inward European investment, it may be that Ireland could play a leading role in modernising the European Social Model'.²⁶ Europe, it appears, is identified with positively charged key words such as 'consensus', 'solidarity' and 'partnership'. Ireland has learnt the model well and is now in a position to instruct its old teacher on how to 'modernise'.

Table 3.1 Declining economic dynamism: average annual percentage change in gross domestic product

	1960–73	1973–79	1979–90	1990–96
United States	4.0	2.6	2.4	2.1
Japan	9.2	3.5	3.9	1.6
Germany	4.3	2.4	2.1	1.7
G7	4.8	2.8	2.5	1.6

Source: R. Brenner, 'The economics of global turbulence', special issue of *New Left Review*, May–June 1998, p. 235.

The problem with this whole approach is that it focuses on secondary features of regions of the global economy to claim the existence of radically different models of capitalism. It fails to look at the underlying dynamic of the wider system of late capitalism and, therefore, is unable to distinguish between different rhetorical forms used by political elites and the actual projects they seek to promote. When these projects are examined, it soon becomes clear that Boston and Berlin have far more in common than is supposed to divide them. In brief, the notion that there is a specifically 'European model' or 'social partnership model' which offers a real alternative to neo-liberalism needs to be critically questioned.

Since the end of the golden age of capitalism in the early 1970s, the economies of both the EU and the United States have faced declining growth rates, as Table 3.1 indicates. They have also experienced more frequent recessions, greater competition on a global arena and a decline in the rate of profit from manufacturing. These changes necessitated measures to raise the levels of profits through greater state support for capital. After all, it is an axiomatic law of our present society that capital, when faced with a decline in its rate of return, seeks to reduce unit costs and receive larger amounts of 'corporate welfare' from the state.

The nature of the EU, however, meant that the political elite went about achieving these objectives in a different way than their US counterparts. The strength of social democracy in Europe compared with that in the United States meant that far greater emphasis was placed on co-opting social partners and bringing them to see the necessity and 'inevitability' of new measures. This emphasis on social partnership is virtually institutionalised in the EU, in the Protocol on Social Policy, which has created the legal basis for the so-called 'Social Dialogue'. According to Keller and Storries:

[the] new, more formalised dialogue guarantees representation of the interests of management and labour.... This means prioritising consultation, negotiations and agreements by social partners instead of legislative enactments

proposed by the Commission and adopted by the Council without the legal interference of private sector actors.²⁷

The ethos of social partnership suggests that all sectors of society must pull together to face the challenges posed by 'globalisation'. To co-opt subordinate social groupings, a distinct type of technical language is often employed, which poses social change in terms of 'inevitable transitions' and as a process which does not involve unequal amounts of pain.

Another significant factor was that much of the strength of organised workers within the EU has been concentrated in public enterprises. Europe saw a major expansion in state ownership after 1945 and even by the mid-1980s the French state owned thirteen of the twenty largest French companies.²⁸ One of the key objectives of the EU bureaucracy has been to break up these concentrations of public ownership. Often this has been expressed in terms of responding to consumer demands for greater quality of service. But, as anyone who has had the misfortune to travel on the British railway network lately can testify, there is no necessary link between privatisation and consumer satisfaction. Rather, a considerable part of the political agenda has been to undermine traditional pockets of trade union strength and pave the way to a greater 'flexibility' of labour. Some of its commissioners have been quite open about the real objectives of EU policy. Leon Brittan, for example, has stated that the objective of EU competition policy has been 'to help European capitalism become more healthy, vibrant and competitive and prevent its decline into the cosy corporatism that so much of the European left used to espouse'.²⁹

Key instruments for achieving this objective have been the transition to the single European market and the single currency. On one level, these were designed to stimulate the emergence of stronger EU companies that can compete more effectively on a global scale. But the moves to a single market and currency have also been accompanied by a shift to a greater adoption of neo-liberal economics. Far from the EU embodying the values of social solidarity, therefore, it seeks to provide a framework for national governments to carry through policies which transfer wealth back to the already privileged. This can be seen in three main areas.

First, there has been pressure to privatise, or 'liberalisation' as it is often called. Privatisation has become an openly stated objective of the EU Commission. It used a round of the General Agreement on Trade in Services (GATS) negotiations to promote a policy of privatisation around the world.³⁰ In slightly coy language, the EU Commission declared in 1995 that:

additional progress is necessary in reinforcing competition rules, reducing State aid and reducing the role of the public sector. Privatisation, to the

extent that Member states judge it compatible with their objectives, could further the progress already made in this direction.³¹

Typically, the EU provides a framework behind which national governments can seek shelter from local public and trade union pressure when pushing privatisation. By presenting the matter as one that is out of their control and 'inevitable', the political elites within member states seek to disempower ordinary people. Specifically, the EU has been the main agent to have pressed for the deregulation of the airline industry, the removal of the postal monopoly for cross-border post and for items weighing over 350 g, the granting of third-party access to electricity markets and the full-scale privatisation of the telecommunications industry.

Second, spending cuts have helped to undermine the welfare state. The EU insisted that annual budget deficits be kept to within three per cent of GDP and accumulated national debts should be no more than sixty per cent of GDP. The effect of this measure has been to encourage national governments to cut back on public spending. Sweden offers a clear example of the effects of this approach. The welfare state in Sweden continued to expand through the 1980s but then faced sharp cuts after Sweden's accession to the EU in 1995. One commentator described the effects as follows:

social and public expenditure in Sweden has been reduced in recent years. There have been cuts to benefits and eligibility rules have been tightened up. Hospitals have had to declare staff redundancies and some services for the elderly have been privatised. Charges for visits to the doctor and for prescriptions have risen enormously.³²

Third, the EU has developed an institutional structure which increasingly removes decision making from democratic pressures. The large bureaucracy in Brussels produces highly complex directives, which are virtually closed to public scrutiny. Typically, new treaties contain huge amalgams of clauses, which make public intervention in decision making even more difficult. Thus, the Nice Treaty of 2001 includes a reference to a chapter of rights, provision for the framework for an EU Rapid Reaction Force and an objective in Article 133 which calls for 'uniformity in measures of liberalisation'. Even Jurgen Habermas, who is broadly sympathetic to the EU project, has noted that:

the more policy matters are settled through intra-state negotiation, and the more important these matters are, the more political decisions are withdrawn from arenas of democratic opinion formation and will-formation.³³

All of this means that the EU should not be seen as a bulwark against the jungle capitalism of the United States. It has, rather, evolved a method

of presenting itself as ‘more progressive’ in order to co-opt significant sections of the leadership of labour organisations. However, despite indulging in rhetoric about the importance of combating ‘social exclusion’, the political project of the EU elite has been to strengthen the hand of capital against labour. Noble talk about the value of social partnership has coincided with the transfer of wealth to those who are already privileged. Indeed, social partnership has been praised as an example of the ‘competitive corporatism’ that Europe is assumed to need. The Celtic Tiger shows that one can use the rhetoric about ‘social solidarity’ while actually implementing policies which increase class polarisation.

The myth of social partnership

The phrase ‘social partnership’ has a distinctly pleasing ring to it. It implies cooperation and sharing. It suggests that all sections of society should pull together to look after the excluded. It promises a system whereby dynamic economic growth can be reconciled with a policy that advocates social justice and equity. These noble ideals are explicitly articulated in the texts of the various corporatist arrangements that have been devised in the Irish Republic over the last fifteen years. The first partnership agreement, the *Programme for National Recovery*, committed participants to ‘seek to regenerate the economy and improve the social equity of our society through their combined efforts’.³⁴ A recent agreement, the *Programme for Prosperity and Fairness*, states that ‘the core objective of the Programme is to build a fair, inclusive society in Ireland’.³⁵ So laudable are these objectives that even critics who acknowledge the growing inequality in the twenty-six counties still assert that social partnership has ensured ‘that integration into the global economy has not decimated social rights’.³⁶

However, the problem is that the rhetoric about social partnership coincides with growing social inequality. Indeed, it could be argued that it has been the very ideological success of the partnership model in co-opting potential opposition from the unions and community organisations which has facilitated the direct transfer of wealth from the majority of the population into the hands of a small elite.

Social partnership began in 1987 and since the early 1990s it coincided with the boom years of the Irish economy. Over that period living standards rose, but this is hardly remarkable. With near full employment and growing labour shortages, the bargaining position of workers had increased. This was supplemented by a huge increase in personal borrowing due to low interest rates during the boom years. In 1992, personal sector credit represented forty-two per cent of personal disposable income but by 2001 it had risen to seventy-one per cent.³⁷

Table 3.2 Adjusted wage share of the total economy in Ireland and the EU (percentage of gross domestic product at factor cost)

	1987	2000
Ireland	71.2	58.0
EU total	72.0	68.3

Source: European Commission, *The European Economy*, no. 70 (Brussels: EU Commission, 2000).

The more interesting question concerns the role social partnership played in facilitating or hindering workers getting a bigger share of the growing economy. The clear evidence suggests that workers lost out relatively, with wages falling as a proportion of the various incomes generated within the southern Irish economy. Table 3.2 shows that there is a general tendency in the EU for workers' incomes to make up a decreasing share of the total economy. However, the decline in the share going to wages is much more dramatic in the country which claims to have the strongest institutions of social partnership.

The foundation for social partnership has been restraint on wages. Virtually every other area of the economy has been deregulated. There are no controls over rents, the price of building land, house prices or the level of profits. Only wages are controlled – apparently on a ‘voluntary basis’. However, the dispute with the Association of Secondary Teachers Ireland (ASTI) in 2000 has shown that, even when a union leaves the partnership structures, the terms of these agreements are still enforced on it. If one major item of the economy is regulated in a boom while the other items are deregulated, it follows that there can only be a transfer of wealth upwards.

Irish workers have also lost out relatively because they have been poorly compensated for the increased productivity for which they have been responsible. ‘Competitive corporatism’ has meant that a premium has been placed on measures to encourage ‘flexibility’. One study of workplace innovations in Ireland found that ninety per cent of the surveyed establishments were using at least one high-performance work-organisation technique.³⁸ The Celtic Tiger has not witnessed a strong surge in investment in fixed capital and therefore labour has made an important contribution to rising productivity levels. In 1996, the EU average for wage-adjusted labour productivity was 139,000 ECUs per manufacturing worker. In the Republic of Ireland the figure was substantially higher, at 291,000 ECUs.³⁹

Supporters of social partnership often concede that there has been a rise in inequality but argue that at least existing structures have taken care of the more ‘marginalised’. The main basis for this claim is that

social partnership agreements have led to the maintenance of the real value of unemployment benefits and assistance payments since 1997. However, this is, again, to view issues in isolation. The period of social partnership has, in fact, coincided with a wider change whereby the ratio of social security spending to GDP fell markedly in Ireland. By 1996, for example, the ratio of social security spending in Ireland converged with that of the United States, seven percentage points below the European average.⁴⁰ Moreover, the small increase in benefits to the unemployed stands in contrast to the tax benefits which higher earners have gained. The Justice Commission of the Conference of Religious in Ireland (CORI) has estimated that the government widened the gap between the incomes of couples who were long-term unemployed and those of higher earners by €159 a week between 1996 and 2000.⁴¹ The irony is that, despite a period of unprecedented economic boom, the Irish Republic has slipped down the United Nations' Human Development Index, mainly because it has the second highest level of poverty in the developed world.⁴²

One of the reasons why social security spending in the Republic of Ireland fell was because of the substantial decline in the number of people out of work. The boom itself was a major factor but the Irish state also spends more on active labour market programmes than many other countries. Unlike the British model, which has relied on measures such as the Job Seekers Allowance, it is sometimes assumed that the Irish schemes do not contain any element of compulsion. Yet the level of monitoring of the unemployed, the constant interviews and reviews that offer jobs or places on 'social inclusion' schemes mean that a large degree of compulsion is involved. The Celtic Tiger was often built on a regime of low pay and there has been a constant pressure on the unemployed to take up poorly rewarded employment. The Republic of Ireland comes second only to the United States in terms of the proportion of its workforce categorised as low paid, with twenty-three per cent of the workforce earning less than two-thirds of median earnings.⁴³ The numbers of workers on fixed-term contracts is below the EU average of thirteen per cent because of the boom conditions but, nevertheless, by 2000 it had risen to nine per cent.⁴⁴ Pension coverage is falling in the private sector and this has left many to rely on a very inadequate state pension. Far from social partnership protecting 'the weak', either inside or outside the labour force, it has ensured that they lost out significantly in the booming economy.

If one of the key foundations of social partnership has been wage restraint, its other main pillar has been a consensus on cutting taxes. Traditional forms of corporatism have often been linked to a Keynesian strategy of management of the free market, with a concomitant rise in state intervention and spending. The new 'competitive corporatism' which has been in operation in the Republic of Ireland has put this process into reverse by creating a culture whereby tax cuts are increasingly

seen as the reward for participation in the partnership process. Thus, wage restraint is traded off against tax cuts and there are now even tax allowances for making union contributions! However, here again, the tax-cutting culture contains a powerful dynamic that exacerbates inequalities. This occurs for two main reasons.

First, the main beneficiaries of tax reductions are the wealthy. In 1987, the top rate of tax on companies that were not engaged in exporting manufactured goods stood at fifty per cent. By 2002, the rate had dropped to 12.5 per cent – the lowest in Europe. Capital gains tax was cut from forty per cent to twenty per cent. The social security contribution of employers at current prices had dropped from 3.2 per cent of GDP in 1988 to 2.7 per cent in 1996, the second lowest in the EU.⁴⁵ Those who have been asked to show the least restraint on their earnings have, quite simply, been awarded the greatest gains in terms of tax subsidies. This iniquitous process is illustrated most dramatically in the case of the banks. While the profits that the banks enjoy have grown astronomically, they now pay a lower proportion of tax on these than most workers.

Second, the overall effect of this cutting of taxes is that state spending is now the lowest by far in the EU. General government expenditure amounted to only 33.2 per cent of GDP, compared with an EU average of 46.2 per cent in 2000.⁴⁶ This creates severe disadvantages for poorer elements of southern Irish society, who are especially reliant upon public services. Widespread criticism has emerged, for example, over the state of the health service, which has produced growing pressure on people to take out private medical insurance. The average time spent on a waiting list is sixteen weeks for a medical cardholder but only eight weeks for someone on private insurance.⁴⁷ The main reason for this has been the systematic policy of under-funding the health service until very recently. Total health expenditure per head of population in the Irish Republic amounted to only sixty-two per cent of the EU average in 1996.⁴⁸

Social partnership has also brought about an extraordinary co-option of oppositional elements within southern Irish society. Indeed, its very efficacy arises from this facility. The mid-1990s, for example, were characterised by mounting revelations about the intricate networks which linked a small elite of business people and top politicians. It emerged that the former Taoiseach, Charles Haughey, was paid IR£5,500 a week between 1988 and 1991 from a special fund, known as the Ansbacher accounts, which were opened by top business people.⁴⁹ A subsequent report on the affair revealed that this fund was administered from an office in the headquarters of Cement Roadstone Holdings company. Almost 200 leading business people were named as being involved in the account, which was established for the purpose of tax evasion. Two government ministers, Michael Lowry and Ray Burke, resigned after it emerged that they had close financial links with business people who had a vested interest in

their decisions. These revelations provoked considerable anger and delegates at the conferences of two major unions, the Services, Industrial, Professional and Technical Union (SIPTU) and the Irish Municipal Professional and Civil Service Union (IMPACT), called for national protest demonstrations by the unions. Yet the close relationship that had developed between the political elite and the union leaders meant that these calls were simply discarded.

One of the key items of the neo-liberal agenda has been the privatisation of the state sector and the wider deregulation of the economy. This is the agenda pushed by agencies such as the Organisation for Economic Cooperation and Development (OECD), which has noted that economic liberalisation began later in Ireland than elsewhere but gathered pace in the 1980s and 1990s. It claimed that, 'by the end of 1997, Ireland was one of the less regulated OECD countries in terms of barriers to entry and entrepreneurship, market openness and labour markets'.⁵⁰ In other words, support for deregulation grew precisely as the social partnership process deepened. The OECD also noted that 'policies on privatisation have been developed in close consultation with trade unions'.⁵¹ The acceptance of privatisation is often driven by a notion that it will not follow the British example but rather there will be a distinct Irish model of privatisation, based, of course, on social solidarity. Union leaders joined the National Competitiveness Council, which, as the OECD points out, 'has promoted increased competition in energy, telecommunications, transport and many other areas of the economy'.⁵² While many British unions have expressed vigorous opposition to the Private Finance Initiatives, the union leaders in the Republic of Ireland have explicitly committed themselves to support for such schemes in the social partnership agreements. Under a framework for public-private partnership, the unions even agreed that some state employees would transfer to private companies.⁵³

Conclusions

The Celtic Tiger has been hailed as a model for developing countries because of its success in attracting multinational corporations that have engaged in an export programme. Social partnership was held to be an essential accessory to this strategy. As long as Irish society was willing to bow to the interests of capital, it was assumed that economic prosperity would continue for decades to come. The reality was that the Celtic Tiger grew in the tailspin of the US boom. It functioned as the bridgehead for US investment, which sought to capture a larger share of the markets of its European rivals. Few conventional economists examined the contradiction of the US boom because of their own ideological

support for neo-liberalism. Yet those contradictions are now emerging with a vengeance – and were clearly in evidence even before the events of 11 September 2001.

Social partnership was highly successful in co-opting potential sources of opposition to the growing inequality in the Celtic Tiger. It was linked with the wider European social model, which stresses social solidarity and presents itself as an alternative to the jungle capitalism of the United States. Yet the irony was that discourse about ‘social solidarity’ and ‘opposition to social exclusion’ was a more appropriate way of carrying through a neo-liberal project in a country with strong unions.

That neo-liberal project is best exemplified in the saga of taxes on wealth. For more than two decades, the top business people in Ireland used reserves such as the Ansbacher accounts to send their money offshore in order to evade tax. It would appear that this scheme, which was used by nearly 200 business people, was only one of about twenty or thirty. A key section of the Irish elite engaged in a criminal conspiracy to deprive the public sector of valuable resources that could have been used to alleviate the suffering of the sick or to provide better education. But, at some point, all criminals attempt to legitimise their activities and recycle their money. The Mafia do it through laundering money into respectable businesses. It appears, however, that the wealthy in the Irish Republic have simply decided to buy the loyalties of the state’s political elite, for they now legally enjoy some of the lowest rates of tax on profit and wealth in the industrialised world. Instead of shifting their money offshore, they have turned the whole island into an Atlantic tax haven. And all of this occurred while Ireland was supposed to exemplify a form of ‘social partnership’.

It seems reasonable to conclude that, far from offering a real alternative to neo-liberalism, social partnership and the wider European social model represent, in fact, political methods intended to advance the project of privatisation, deregulation and redistribution in favour of the wealthy.

Notes

- 1 OECD, *Economic Survey of Ireland 2001* (Paris: OECD, 2001), p. 23.
- 2 ‘O’Connell says era of Celtic Tiger over’, *Irish Times*, 8 November 2001.
- 3 OECD, *Ireland: Survey, June 2001* (Paris: OECD, 2001), p. 47.
- 4 P. Krugman, ‘Good news from Ireland: a geographical perspective’, in A. Gray (ed.), *International Perspectives on the Irish Economy* (Dublin: Indecon Economic Consultants, 1997).
- 5 Industrial Development Authority, *Annual Report 1998* (Dublin: IDA, 1998), p. 12.
- 6 J. Bradley, ‘The Irish economy in comparative perspective’, in B. Nolan, P. O’Connell and C. Whelan (eds), *Bust to Boom?* (Dublin: Institute of Public Administration, 2000).

- 7 F. Barry, J. Bradley and E. O'Malley, 'Indigenous and foreign industry: characteristics and performance', in F. Barry (ed.), *Understanding Ireland's Economic Growth* (London: Macmillan, 1999), p. 46.
- 8 R. Brenner, 'The economics of global turbulence', special issue of *New Left Review* (May–June 1998), p. 200.
- 9 N. Klein, *No Logo* (London: Flamingo, 2001), p. 265.
- 10 Brenner, 'The economics of global turbulence', p. 20.
- 11 'Lessons in re-structuring', *Financial Times*, 22 October 1996.
- 12 F. Moseley, 'The United States economy at the turn of the century: entering a new era of prosperity', *Capital and Class*, no. 67 (1999), p. 34.
- 13 D. Henwood, *Wall Street* (London: Verso, 1997), p. 76.
- 14 Brenner, 'The economics of global turbulence', p. 209.
- 15 D. Duffy, J. Fitzgerald, I. Kearney and D. Smyth, *Medium Term Review 1999–2005* (Dublin: ESRI, 1999), p. 64.
- 16 D. Duffy, J. Fitzgerald, I. Kearney and F. Shorthall, *Medium Term Review 1997–2003* (Dublin: ESRI, 1997), p. 109.
- 17 P. Sweeney, *The Celtic Tiger: Ireland's Economic Miracle Explained* (Dublin: Oak Tree Press, 1998), p. 15.
- 18 'A global game of dominoes', *The Economist*, 25–31 August 2001.
- 19 National City Brokers, *Population and Prosperity* (Dublin: NCB, 1997), p. 4.
- 20 *Ibid.*, p. 12.
- 21 World Bank, *World Development Indicators* (Washington, DC: World Bank, 2001), table 2.1.
- 22 D. Duffy, J. Fitzgerald, I. Kearney, J. Hore and C. MacCoille, *Medium Term Review 2001–2007* (Dublin: ESRI, 2001), p. vii.
- 23 *Ibid.*, p. 142.
- 24 See C. Cousins, 'Social exclusion in Europe', *Policy and Politics*, 26:2 (1997), pp. 127–45.
- 25 M. Rhodes, 'Defending the social contract', in D. Hine and H. Kassim (eds), *Beyond the Market* (London: Routledge, 1998), p. 52.
- 26 P. Cassells, 'Recasting the European social model', in R. O'Donnell (ed.), *Europe: The Irish Experience* (Dublin: Institute of European Affairs, 2000), p. 74.
- 27 B. Keller and B. Storries, 'The new European social dialogue: old wine in new bottles?', *Journal of European Social Policy*, 9:2 (1999), pp. 111–25.
- 28 D. Parker, *Privatisation in the European Union: Theory and Policy Perspectives* (London: Routledge, 1998), p. 10.
- 29 L. Brittan, *A Diet of Brussels* (London: Little, Brown, 2000), pp. 44–5.
- 30 'Secret documents reveal EU tough stance on global trade', *Guardian*, 17 April 2002.
- 31 European Commission, 'Broad economic guidelines', in *European Social Policy*, no. 60 (Brussels: European Commission, 1995), p. 15.
- 32 A. Gould, 'The welfare state in Sweden', *Journal of European Social Policy*, 9:2 (1999), p. 166.
- 33 J. Habermas, 'The European state and the pressures of globalisation', *New Left Review*, no. 235 (May–June 1999), p. 49.
- 34 *Programme for National Recovery* (Dublin: Government Publications, 1987), p. 5.
- 35 *Programme for Prosperity and Fairness* (Dublin: Government Publications, 2000), p. 3.
- 36 S. Ó Riain and P. O'Connell, 'The role of state in growth and welfare', in B. Nolan, P. O'Connell and C. Whelan (eds), *Bust to Boom? The Irish*

- Experience of Growth and Inequality* (Dublin: Institute of Public Administration, 2000), p. 338.
- 37 Central Bank, *Annual Report 2001* (Dublin: Central Bank, 2002), pp. 131–2.
 - 38 J. McCartney and P. Teague, 'Workplace innovations in the Republic of Ireland', *Economic and Social Review*, 28:4 (1997), pp. 381–99.
 - 39 Eurostat, *Eurostat Yearbook 2000* (Brussels: European Commission, 2000), pp. 370–1.
 - 40 O Riain and O'Connell, 'The role of the state in growth and welfare', p. 331.
 - 41 CORI Justice Commission, *Poverty Low Pay and Social Welfare* (Dublin: CORI, October 2001), p. 10.
 - 42 United Nations Development Programme, *Human Development Report 2001* (Oxford: Oxford University Press, 2001), p. 153.
 - 43 A. Barrett, T. Callan and B. Nolan, *The Earnings Distribution and the Return to Education in Ireland*, working paper no. 85 (Dublin: ESRI, June 1997), p. 8.
 - 44 European Foundation, European Industrial Relations Observatory, *Annual Review 2000* (Dublin: European Foundation, 2000), p. 34.
 - 45 European Commission, *Eurostat Yearbook 2000: A Statistical Eye on Europe* (Brussels: European Commission, 2000), p. 243.
 - 46 European Commission, *EU Economic Data Pocket Book*, no. 9 (Brussels: European Commission, 2001), p. 35.
 - 47 'GMS patients wait twice as long on hospital lists', *Irish Times*, 24 August 2001.
 - 48 European Commission, *Eurostat Yearbook 2000*, p. 81.
 - 49 *Report of the Tribunal of Inquiry (Dunnes Payments)* (McCracken tribunal) (Dublin: Stationery Office, 1997), p. 48.
 - 50 OECD, *Regulatory Reform in Ireland* (Paris: OECD, 2001), p. 27.
 - 51 *Ibid.*, p. 26.
 - 52 *Ibid.*, p. 28.
 - 53 'Government expects building costs to be static', *Irish Times*, 2 November 2001.