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The *Dutch East Indies* (or *Netherlands East Indies*; Dutch: *Nederlands-Indië*; Indonesian: *Hindia Belanda*) was a Dutch colony that became modern Indonesia following World War II. It was formed from the nationalised colonies of the Dutch

East India Company, which came under the administration of the Dutch government in 1800.

During the 19th century, Dutch possessions and hegemony were expanded, reaching their greatest territorial extent in the early 20th century. This colony which later formed modern-day Indonesia was one of the most valuable European colonies under the Dutch Empire's rule, and contributed to Dutch global prominence in spice and cash crop trade in the 19th to early 20th century. The colonial social order was based on rigid racial and social structures with a Dutch elite living separate from but linked to their native subjects. The term *Indonesia* came into use for the geographical location after 1880. In the early 20th century, local intellectuals began developing the concept of Indonesia as a nation state, and set the stage for an independence movement.

Japan's World War II occupation dismantled much of the Dutch colonial state and economy. Following the Japanese surrender in August 1945, Indonesian nationalists declared independence on Java and parts of Sumatra, which they desperately fought to secure during the subsequent Indonesian National Revolution. The Netherlands formally recognized Indonesian sovereignty at the 1949 Dutch–Indonesian Round Table Conference with the exception of the Netherlands New Guinea (Western New Guinea), which was ceded to Indonesia in 1963 under the provisions of the New York Agreement.

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Ireland and the European Economic and Monetary Union

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

(Wolfgang Streeck, 2010)

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

But how did domestic political actors respond to the adjustment constraints of globalised variants of capitalism during the neoliberal era, and what has been the trajectory of institutional change in European industrial relations and welfare regimes? This question guides the theoretical dimension of my PhD *The Rise and Fall of Irish Social Partnership – The Political Economy of Institutional Change in European Varieties of Capitalism (2012)* which is grounded on an argument that the politics of democratic capitalist change can be traced to the disorganisation and flexibilisation of institutions that enable labour to constrain capital. The decline in trade union strength and an increase in business power underpins the public policy paradigm shift from Keynesianism to neoliberalism across Europe. The role of the state in conditioning this pattern, and the diverse trajectory of change it invoked, is central to the study of comparative political economy. National labour market regulations have been flexibilised and the problem of employment resolved either through supply side reforms aimed at activation or low wage employment (Hall, 2011).

The political shift was a response to the adjustment constraints of globalisation, liberalisation, capital mobility and financialisation in general and the European Economic Monetary Union (EMU), in particular. The diverse mechanisms through which the adjustment played out, however, are endogenous to historically evolved national institutional politics. This interplay between exogenous constraints and endogenous politics explains the process, form and variation of change in a given capitalist institutional regime. Or, more precisely, in Streeck (2009, 2010) and Polanyian (1944) terms, the attempt to resolve the tension between capitalist market expansion and national democratic stability explains the trajectory of institutional change in the study of comparative political economy. What is most interesting about the shift in European varieties of capitalism, and the decline in the institutionalised power resources of trade unions, is that it was compensated by new forms of state led social pacts and tri-partite dialogue in European industrial relations (Baccaro & Howell, 2011). Ireland stands out in this literature as a particularly challenging case given the liberal market orientation of its production regime.

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

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

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

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

The Irish Case

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

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

Those who come closest to examining social partnership as a strategy of the state assume an efficiency seeking objective of national competitiveness (Hardiman, 2000, 2002) rather than a political compromise based on shifting power relations. Teague & Donaghey (2009), on the other hand, argue that social partnership was part of a system of institutional complementarities that generated a period of economic growth rather than a market conforming alliance premised on a contingent political coalition. Their use of the concept complementarity assumes efficiency seeking actors rather than conflicting interests that change over time (see Streeck, 2005). Based on a comparative historical analysis we argue that it was elite networks centred on the political executive of the state that enabled the institution to consolidate over time not economic complementarities. Access to political power, in the context of declining trade union density, was the glue rather than the coordination of wage restraint in the interest of national competitiveness.

Actor strategies and the process of political coalition formation can only be understood if contextualised against country specific and historically evolved structures of collective bargaining. This focus on the interactive effect of collective bargaining structure on actor strategies will enable us to unpack the *political coalition* and class configuration that conditioned the rise and fall of social partnership, as an institutional regime of economic governance, over time.

Central to this analysis is trying to explain why the Irish state adopted a negotiated adjustment to a fiscal, debt and employment crisis in 1987 but a unilateral market response to the crisis 2008? We conclude that social partnership could not internalise the Eurozone crisis because trade unions lacked sufficient deterrent power in the labour market to be considered a social partner. The government considered them part of the problem not the solution. The remainder of this introduction outlines the core empirical features of the Irish case, pre and post EMU.

The origins of centralised wage bargaining

Social partnership was born out of a political adjustment to economic crisis in 1987 and re-instituted centralised wage bargaining in Ireland's political economy. The purpose of this was to ensure industrial stability, control inflation, cut the fiscal deficit and reap the rewards of the 1986 devaluation. State managers in the Prime Minister's office negotiated, quite unlike what Margaret Thatcher had done in the UK, a three year wage agreement with trade unions and employers as a complement to an unstable monetarist environment. Ireland had pegged its currency to the European Exchange Rate Mechanism (ERM) since 1979 but lacked the corporatist institutional foundations for a coordinated labour market that had made this monetarist framework a success for countries such as Germany and the Netherlands (Scharpf, 1988). Ireland did not have a history of coordinated wage settlements or encompassing trade union and employer associations that could strategically interact with a central bank (see Hall & Franzese 1998), nor did it have a political system willing to share public space with organised interests. This all changed after the election of Charles J Haughey as Prime Minister in 1987, who adopted a negotiated fiscal adjustment to generate industrial stability in the public sector and develop the conditions for Irelands entry into the Single European Market in 1992.

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

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

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

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

According to documentary evidence, Charles J Haughey modelled Irish social partnership on the willingness of the German state to directly negotiate with organised economic interests. Whilst this type of coordination was never implemented at firm or sectoral level in the organisation of production (Roche, 1995, 2000, 2002), it is important to note that the idea of social partnership and tri-annual wage agreements emerged out of a preference by Irish administrative, political and trade union elites for a European style industrial relations regime.

Fiscal, wage and macroeconomic policies required a negotiated approach to problem solving. Despite the institutional inheritance of a British adversarial industrial relations regime, and a Westminister style parliament, Ireland managed to develop the conditions for a variant of German inspired neo-corporatism. Much like the smaller open economies of Europe, this was centred on instituting centralised wage bargaining. But the classical pre-conditions considered necessary for this institutional framework were supposedly non-existent in Ireland. ICTU and the FUE were not encompassing associations capable of disciplining their members and there was no parliamentary social democratic party willing to share political space with organised interests (Hardiman, 1988).

The absence of these conditions were compensated by a strong coordinating role for the political executive of the state, a new market conforming political exchange, premised on cuts in income tax, and the willingness of Fianna Fáil to share political space with organised economic interests. This was not the case under the previous Fine Gael coalition.

These are the background conditions that launched the first period of Ireland’s new political economy (1986-1992). Ireland, as a small open economy on the periphery of Europe, was operating under the exogenous constraint of the European Monetary System (EMS) of fixed exchange rates within flexible bands, in a period of growing inflation, unemployment and growing public debt across Europe. The chief executive of the state, Charles J Haughey, actively sought to adjust to this new economic monetarist environment through strategic interaction with organised economic interests. The willingness to share political power gave rise to social partnership and the purpose was to ensure Ireland maximised the opportunities of the single European market through generating industrial stability for foreign direct investment (MacSharry & White, 2000). This direct role for the state, however, required a trade union leadership capable of acting autonomously from the immediate interest of their members but simultaneously capable of generating the political legitimacy for centralised wage agreements.

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

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

This political coalition adopted a shared analysis on the need to integrate national wage agreements with fiscal and monetary policy and made possible by the

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

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

The consolidation of centralised wage bargaining pre-EMU

By 1992, the Irish state had begun to embed its new social partnership approach to managing a rapidly changing domestic economy and provided the conditions for the second period of Ireland's new political economy (1992-1999). This, much like the first, was conditioned by exogenous constraints of the European monetary system, particularly the Maastricht criteria for entry into the Eurozone. Political stability and wage restraint, in the interest of Foreign Direct Investment (FDI), was the defining feature of social partnership and increasingly recognised as such by the main organised economic interests. The export stimulus provided by the 1992 currency devaluation and the Single European Act, was guaranteed by a further 6 years of wage restraint in the two national pacts in this period: the

Programme for Competitiveness and Work (PCW) and Partnership 2000 (P2000), negotiated under a Fianna Fáil-Labour coalition in 1993, and a Fine Gael-Labour coalition in 1996. The underlying political exchange of these pacts was, much like the PNR and PESP, a reduction in marginal rates of income tax and active industrial policies aimed at sectoral employment growth. Importantly, they were premised on the state adopting an explicit 'developmental' role in the institutional coordination of the economy.

For a variety of reasons Ireland experienced what can only be described as a jobs miracle during this period. Between 1994 and 1997 economic growth increased, on average, by 8 percent per annum and employment by 25 percent. 650,000 jobs were created from 1992-1999 (O'Connell 1999). Most of these were driven by a boom in domestic demand made possible by the increase in disposable income associated with cuts in income tax. The multi-national sector was responsible for the productivity boom but not the rapid increase in job creation. Employment was driven by private market services which created 100,000 jobs, from 427,000 to 527,000, in 7 years (O'Connell, 1999). These were primarily located in the non-traded retail, business, transport and professional services in the domestic economy. Overall private sector employment grew by 32 percent whilst public service employment grew by 3.2 percent.

This employment boom became indirectly associated with the social partnership process not because of national wage restraint but because of the stability it provided to manage a rapidly growing economy. The organised economic interests began to 'sell' Ireland's model of social partnership, premised on a low tax exchange and active state developmental policies, as the Celtic equivalent to the 'Asian Tigers'. Remarkably, Ireland went from a 12 percent unemployment rate to labour shortages in less than eight years (Sweeney, 1998). Almost all of the employment being generated occurred in the non-unionised sectors of the economy. By 1999, trade union density had decreased to 40 percent of the labour force with the implication that less and less employees were covered by the national wage agreements. The structure of collective bargaining, unlike most European countries, was still premised on a UK voluntarist model. This meant that wage agreements were not legally extendable to non-union employees and sectors of the economy but exclusive to those who are in a trade union. Union density was increasingly concentrated in the public and semi-state sector with the implication that these sectors set the headline rate for the rest of the economy.

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

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

The Irish Business and Employer Confederation (IBEC) could represent the interests of multinational firms whilst negotiating with government but these firms had little or no interaction with ICTU or the formal industrial relations institutions of the state. Unlike European employer associations, IBEC acted as a lobby group for specific business interests rather than an encompassing association organising strategies of production that would link the domestic with the export economy. ICTU, on the other hand, given the increasing concentration of trade union density in the public sector and growing resistance to unionisation amongst incoming high-tech firms (Geary & Roche 2005, Gunnigle et al 2009), were becoming a motor for the specific interests of public service unions rather than an encompassing association representing the interests of a rapidly expanding and increasingly precarious private sector labour market (see Olson, 1982).

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

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

The consolidation of centralised wage bargaining post EMU

Domestic pro-cyclical fiscal policy choices aimed at revitalising economic growth led to the third period of Ireland's new political economy (2000-2007). Again, the distributional tension was managed through social partnership agreements: Programme for Prosperity and Fairness (PPF) in 1999 and Sustaining Progress (SP) in 2003. Ireland was now a member of the Eurozone and no longer had the exogenous constraint of Maastricht to provide political cover for austere economic policies. The stability, and political capital, that had been invested into the institution meant that the actors continued to use it as a mechanism to advance their interests. Increasingly, government policy dominated the national agreements such that it became difficult to distinguish them from the programme for government. Social partnership, as a strategy of medium term socio-economic planning, was, in effect, official government policy. Against the background of average annual economic growth rates of 7 percent per annum, a reduction in the debt-GNP ratio to 65 percent and 270,00 jobs created in five years, the focus shifted away from economic and employment performance to redistributing resources to those who had not benefitted from the economic boom. Total expenditure on social welfare increased from € 6.2bn in 1999 to € 13bn in 20065. Developing the welfare state was now directly associated with social partnership.

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

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

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

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

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

Private sector employment rights and non-union interests increasingly dominated the social partnership process, culminating in the social pact agreement; ‘Towards 2016’ in 2006. The demand for legally binding arbitration, in addition to an influx of migrant labour after EU enlargement, exposed a divergence of interest between ICTU, IBEC and the state on how to regulate an increasingly flexible labour market. The Irish trade union movement were beginning to recognise the implication of their institutional weakness and the limitations of a strategy that made social partnership institutionally dependent upon the political preference of government.

The emergence of a dual labour market

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

The second labour market, although not formally segmented, is the domestic industrial, banking, construction and manufacturing sectors. These industries have been traditionally highly unionised with close links to Irish business associations. In terms of industry they include traditional bread mills, Waterford crystal and Irish sugar. They also include domestic printing, construction, electrical contracting, hoteliers, catering and a variety of allied or declining trades. Since the creation of the Labour court, under the 1946 Industrial Relations Act, many of these industries have been covered by legally binding minimum wages and industry specific pay and conditions; 'registered employment agreements (REAs) and employment regulation orders' (EROs), established and negotiated through 'joint labour committees' (JLCs). Collectively, this unionised sector of the domestic economy is in decline but when construction is included, it employs 200,000 people. These are the sheltered sectors of the economy, traditionally covered by collective bargaining arrangements in a pluralist industrial relations regime; both in terms of management style and the process of conflict resolution (see Roche, 2002, Gunnigle et al, 2002, 2005, 2006). Combined, these two 'unionised' labour markets operate according to the regulations and legal mechanisms of collective bargaining as laid out in the 1990 Industrial Relations Act.

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

The third labour market is the foreign owned multinational sector and includes a variety of multinational companies in the IT, electronics, chemical, engineering, food, healthcare, finance and pharmaceutical sectors (IRN, 2004: no. 9). Most of these export companies began to invest and construct their enterprises in Ireland from the early 1990's and in receipt of state aid grants from the Industrial

Development Authority (IDA). Exports include high end manufacturing goods (with high levels of research and development capacity, particularly in chemical engineering), business and financial services. In 2010, Ireland exported over 85 percent of what was produced in the economy. Of this 85 percent, 60 percent came from the pharmaceutical and chemical sectors. Whilst some of these companies are unionised they are generally non-union. The most widely recognised MNC firms in Irelands robust export economy include Accenture, Arvato Bertelsmann, Amazon, CITCO, MBNA, Intel, Hewlett-Packard, Siemens, Google, Pfizer, GlaxoSmithKline and a whole host of other companies. The largest growing sector, in terms of employment creation, from 2000, however, was the export of financial services.

These multinational companies generate a significant source of revenue in corporate tax and contribute to Irelands high productivity rates, but they have never employed more than 140,000 employees in the economy despite being the strategic focus of government employment policies. Importantly, these export oriented firms also include companies in receipt of state funding from Enterprise Ireland, which was established under the social partnership agreement, PCW in 1993. These are domestic Irish industries with an explicit export remit and include a variety of indigenous sectors such as food & drink, medical devices, print and packaging, electronics, media and communications. These Irish companies are predominately non-union and employ less than 80,000 people in the economy. Whilst strategically important for inward investment, marketing and export led growth; these sectors of the economy tend to employ very few people as a percentage of the overall workforce. In 2007, total employment in the Irish economy was 1,878,400. The number of those employed in the state assisted export companies was 272,053. This is less than 15 percent of total employment (Forfás, 2008). The fourth labour market is also concentrated in the domestic economy and predominately made up of small and medium sized enterprises dependent on domestic consumer demand. This large and precarious labour market is where most jobs have been created over the past twenty years. It includes everything from hairdressing, retail, restaurants, shops, car sales and a variety of other consumer focused services. In 2008, it was estimated that the domestic small and medium sized enterprise sector employed approximately 400,000 people and have little or no strategic interaction with the industrial relations institutions of the state. It is predominately nonunion but also lacking the strategic human resource management techniques focused on quality production, or process innovation that one finds in large MNC companies. These sectors expanded after 2000 inresponse to a consumer driven boom in the domestic economy. It was this boom in the domestic economy that facilitated full employment to match the rapid increase in the labour force, associated with increased female participation rates.

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

The collapse of centralised wage bargaining and the Eurozone crisis

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

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

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

When the property bubble burst, government revenue collapsed, and the extent of the crisis was revealed. Employers and government opted to internalise the liberal market policy constraint of EMU and shifted the entire burden of adjustment on to the labour market. A series of fiscal adjustments, including a public sector pay cut, was introduced after a failed attempt at negotiating an encompassing social pact. Government lacked the capacity to engage in a political exchange that would enable trade union leaders to ballot their members. The entire focus of fiscal adjustment was now concentrated on public sector pay and unit labour costs.

This fundamentally changed the balance of power underpinning the political coalition of social partnership and it is this shift in the distributional coalition that collapsed the institution. Trade unions, unlike 1987, no longer had the institutionalised power resources to be considered a legitimate social partner in Ireland's political economy. The main constituent of ICTU: public sector unions, were considered part of the problem not the solution.

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

Conclusion

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

The general observation to be drawn from the Irish case is that social partnership was not institutionally embedded in the labour market but dependent upon the political preference of government. A political exchange was required for the negotiation of national wage agreements whilst elite networks feeding into the political executive of the state consolidated the institution as a mode of economic governance. This generated a distinct political coalition that led to a historically specific trajectory of liberalisation; the Irish third way: a liberal market policy regime built around a state commitment to generate economic growth aimed at securing business confidence for inward investment. Access to political power, in the context of weak structures of collective bargaining and a weak parliamentary Labour party, embedded ‘social partnership’ as the strategic position of Irish trade unions, not the technical coordination of wage restraint.

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

Hence, the core factor in explaining the rise and fall of social partnership in the Irish case is the coordinating role of the state. This still begs the question – why? To unpack the causal process we argue that the state adopted this position to increase the strategic capacity of government to compensate for declining policy making autonomy in a globalised economy.

Social partnership increased state power to embed and legitimise a market driven economy. The Irish case illustrates that neoliberalism is heavily mediated by institutional formations, political forces and complex state-society relations. This central role for politics and the state in liberal oriented market economies is not captured by the varieties of capitalism (VoC) theory. Therefore, we must disaggregate 'neoliberalism' if we are to understand the complexities and social forces that led to the rise and fall of Ireland's political economy (O'Riain, 2008). To do this, we propose adopting a *transformation of capitalism* perspective that is grounded in Polanyian social theory.

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http://aregan.wordpress.com/

Aidan Regan – *The Rise and Fall of Irish Social Partnership – The Political Economy of Institutional Change in European Varieties of Capitalism.* PhD, 2012 – University College Dublin.

Irish social partnership was the result of a historically contingent political strategy to navigate the integration of a small open economy into a globalized market, in which being able to attract and retain volatile capital was paramount. The main architect behind this strategy was the state, and the primary objective was industrial stability. At a critical juncture in 1987 the Irish government chose to adopt a labour inclusive strategy of adjustment to a fiscal crisis, the opposite of what occurred in the UK.

This choice resonated with the ideational toolbox of the leading political party in power, Fianna Fáil. Given external constraints, and institutional legacies, the terms had to be such that no beneficial constraints were going to be imposed on business. Unlike other small open European countries no legal-statutory changes were introduced to institutionalize the countervailing power of trade unions. In light of these features the author argues that the outcome was broadly neoliberal in orientation. Social partnership was premised on a privatized political exchange in which wage moderation was compensated with increases in private consumption through tax reductions. It was not premised on the social democratic bargain of increasing public consumption and redistribution that occurred in classic Scandinavian corporatism. The author drives us through the various stages of social partnership pre an post EMU, from its origins as crisis management and economic development, to a subsequent phase in which government used the spoils of economic growth to buy off social dissent, to its eventual collapse in response to the Eurozone crisis. The book takes a strong stance against economistic accounts of institutional change in which actors pursue rational strategies and come up with optimal institutional designs. Drawing upon theories of institutional change in comparative political economy, it argues that economic institutions are premised on volatile political coalitions, and the main determinants of outcomes are the power resources controlled by the various actors. It is these domestic institutional resources that condition how national actors respond to the adjustment constraints of global market capitalism.