Ireland: from economic change to institutional change

A study after the changes in the institutional characteristics of the Irish economy and its typification as a capitalist economy though the decades

Source: http://socialistunity.com/celtic-tiger-no-more/

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List of Abbreviations

CME = Coordinated Market Economy
CE = Continental European Type
EEC = European Economic Community
ERM = Exchange Rate Mechanism
FÁS = An Foras Áiseanna Saothair
FDI = Foreign Direct Investment
GDP = Gross Domestic Product
GNP = Gross National Product
ICTU – Irish Congress of Trade Unions
IDA = Industrial Development Authority
IFSC = International Financial Services Centre
ISA = Irish Stock Exchange
LME = Liberal Market Economy
MB = Market Based Type
M&A = Mergers and Acquisitions
NESC = National Economic and Social Council
NESF = National Economic and Social Forum
NWA =National Wage Agreement
OECD = Organization for Economic Co-operation and Development
OEEC = Organization European Economic Co-operation
PEE = Programme for Economic Expansion
PNR = Programme of National Recovery
TNC = Transnational Company

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1 Introduction

Ireland is one of the countries that knew a huge economic development during the last half of the 20th century. Being one of the poorest countries in Europe at the end of the 1970s, it then transformed to become the runner up for wealthiest country in Europe in 2006. In this time-frame, Ireland also 'capitalized', which means that it went from a mainly self-supporting country to an open market economy.

Many theories about types of capitalism have been formed in order to describe the various forms of economies that exist of have existed. Two influential works on types of capitalism are *Varieties of Capitalism* of Hall and Soskice and Bruno Amable's *The diversity of modern capitalism*.

Hall and Soskice label economies in their book *Varieties of Capitalism*. Their theory distinguishes two models of capitalism; the Liberal Market Economy (LME) and the Coordinated Market Economy (CME). Their criteria and typology are focused on the firm within the context of a national economy. Vice versa, they take a look at how the firm influences all aspects of an economy. Their starting point is the micro-economy and they analyze how it influences the macro-economy. They have five different areas in which they measure and explain the label which they put on an economy.[1]

Bruno Amable's starting point is more focused on the macro-economy and its influence on the micro-economy. He argues that no single developed economy can accurately be described by any model of capitalism, because these models are ideal types and often based on the economy of 1 single country. An economy of a country may possess characteristics which put them close towards one or the other model, without being fully identifiable with the model itself. He states however, that it is possible to distinguish five types of capitalism which share a number of similarities within five different institutional areas. A country can be classified to the model it has most similarities with, although it might not be the 'ideal' form of the type.[2]

These two works both place Ireland in a certain type of capitalism. Amable defines Ireland as Continental European type of economy and Hall and Soskice place Ireland in the LME category. In analyzing Ireland, the two theories only did so concentrating on a short period of time (mostly a decade) and did not look at the long-term developments of the Irish economy. When looking at the development of the Irish economy of the last 60 years, it did not go smoothly but in different stages. For this thesis, I have divided the developments into 3 stages: the economy up until 1959, the economy from 1960-1987 and the economy from 1987-2008. I am going to take a look at if the institutional characteristics of these stages can be assigned to a certain type of capitalism or if the development as a whole fits into one of the models.

[1] Hall, P. and Soskice, D., Varieties of Capitalism (New York 2001), 1-70.
[2] Amable, B. The diversity of modern capitalism (Oxford, 2003), 1-25

Just to give an indication of the changes in the Irish economy and politics, a very short overview has to be given in order to fill the reader in on a number of developments of the last decades. For example, when looking at employment, the working population figures of the 1980s show that 1.2 million people had a job, which is the same figure as that of 1922. At the end of the 20th century this number had risen to 1.8 million people, which is a huge increase in 20 years time.[3]

In the course of the 1960s, 70s and 80s the economic development was not always very stable, but this can also be said for politics. During the 1960s the political situation was quite stable, but in 1973 Fianna Fáil lost the elections and had to hand over the power to the center party Fine Gael. However, in 1977 Fianna Fáil came to power again and Ireland plunged into an economic crisis because of the policies of the party. They had to pay for their bad governance, because they lost the elections again in 1981. The political crisis continued in the first half of 1980s and in 1987 finally Fianna Fáil regained power and political stability returned.[4]

The 1990s saw an enormous economic growth. The phenomenon became known as the 'Celtic Tiger', the name taken from the 'Asian Tigers'.[5] Not only did the economy grow, but also the standards of living improved hugely. The Irish economy developed from an agricultural to a modern knowledge society, centered on the hi-tech industry and service sector. From 2002 to 2005 it was even the most globalised country of the world according to the OECD.

However, the 'golden era of Ireland' came to an end when the financial crisis hit the global economy in 2008. It was a very rude awakening for the Irish citizens, for they had experienced a high level of economic growth for over 15 years and had reaped admiration from other developing countries for Ireland had become a model for globalization and development. The crisis hit the country so hard, that they came to have the worst budget deficit of the European countries in 2010. The years after that saw a political collapse and numerous protests. Now, in 2013, the country is struggling to get back on its feet and the light at the end of the tunnel is not in sight yet.

[3] Ó Gráda, C., A rocky road : the Irish economy since the 1920s (Manchester 1997), pp 2.
[4] Ó Gráda, C., pp 31-37.
[5] Ó Gráda, C., pp 3.

1.1 Research question and approach

It is a given fact that the Irish economy changed rapidly and its change did not for nothing become known as the Celtic Tiger. In just one decade, Ireland had caught up with the rest of north-western Europe when it comes to the development of the economy and to living standards. It is also common knowledge that generally institutions change slowly. Did the institutions of Ireland keep up with the quick pace of development of the economy or were they changing at a slower speed or not changing at all?
I will take a look at if and what institutions of the Irish economy changed and in what pace they changed during the three periods which are mentioned above. For each of the periods, I will map the changes by placing Ireland's characteristics in a table and define them according to the characteristics that Amable and Hall and Soskice ascribe to the different types of capitalism.
I have chosen the theories of Hall and Soskice and Bruno Amable because they approach the analysis of an economy of a country in a different way, but also share a number of aspects in which they analyze the economy. Hall and Soskice first look at the firm itself, so more a micro-economic level, and then translate the results of the analyses to a macro-level. Amable starts off by analyzing the institutions of a country and then takes a look at their influence on firms and the economy as a whole. Amable also uses some aspects of the theory of Hall and Soskice to make his analysis.
These 2 theories both do not only give criteria for positioning an economy, but also try to explain why different forms of capitalism exist. Both also work with institutional complementarities. This term is often used when referring to goods which help to enhance sales of each other, for example bread and butter. In this case it means that two institutions are complementary if the presence or efficiency of one increases the returns from or efficiency of the other. So they are interdependent of each other and should provide a framework for a better working economy. For instance, liberal market economies like the USA tend to have institutions that sharpen market competition, such as limited financial regulation, strong antitrust law and decentralized labor markets, which create incentives for radical product innovations that enhance economic competitiveness. This set of institutions are a perfect example of an LME according to Hall and Soskice, but is also acknowledged by Amable for his market-based type of capitalism.[6]
Hall and Soskice defined the Netherlands as a CME, while Jeroen Touwen proved that the Dutch economy developed into a mixture between LME and CME during the last half of the 20th century.[7] Hall and Soskice identify Ireland as an LME, while Amable puts Ireland into the Continental European capitalism group and also states that in some cases

[6] Hall, P. and Soskice, D., 17-18.
[7] Touwen, J., 'Varieties of capitalism en de Nederlandse economie in de periode 1950-2000', Tijdschrift voor Sociale en Economische Geschiedenis 3 (2006), 73-104.

Ireland cannot be associated with any of the Anglo-Saxon countries. This while Amable's theory was published in 2003, only a couple of years after Hall and Soskice, so they seem to have different qualification criteria when it comes to the Irish economy.
For this paper, I will analyze the Irish economy according to the five institutional areas Amable mentions: product-market competition, the labor market, the financial sector, social protection, and the education system. I will also take into account the theory of Hall and Soskice, since Amable uses some criteria of this theory for his own work and also because a number of the characteristics of both theories overlap in several areas and they complement each other when it comes to explaining why an economy has developed in a specific way.
I will do this by analyzing the available material and literature on Ireland, both on paper and digital information such as the website from the European Union or the OECD.
With this analysis, I want to give an overview of the development of Irish capitalism over the decades and see what characteristics the Irish economy had during these decades.
Hall and Soskice typify Ireland as an LME and argue that LMEs should be better at adapting to new situations because the institutional complementarities support radical innovation not only in the product area, but also in strategies. Amable's CE model is partially based on the CME model of Hall and Soskice and this type supports incremental innovation. This type of innovation is important for the production of capital goods and requires the input of skilled workers and a secure work environment where employees dare to take risks in order to achieve improvements.[8]
Are the changes of Ireland's institutions in line with the economic developments? So do they change radically or do they develop in a slower pace and each time improve to get a higher quality?
Next to that, Ireland is a small country whose economy has become very dependent on foreign capital, especially when it comes to foreign bank share and Foreign Direct Investment (FDI).[9] Did the amount of foreign capital also have an effect on the development of the institutions?
First I will give an overview of the theories used for this paper and how these theories come to putting the Irish economy in a specific category. From these theories I will deduce a set of characteristics which fit each of Amable's five types of capitalism, but I will also take into account the two forms of Hall and Soskice. Both theories use a lot of complementarities in order to create their ideal types of capitalism. Most of these complementarities will not be explained in depth since both theories have several variables for each complementarity and the complementarities for the largest part lead to fairly detailed and clear characteristics for each model.

[8] Hall, P. and Soskice, D,. 38-41.
[9] OECD, Trends in Foreign Direct Investment in OECD countries, 2003, 4.

Next, a short history of the Irish economy until 1959 will be given, because according to e.g. Kirby and O'Grada[10] from that time onwards Ireland liberalized its economy. I will also take a look at what elements of capitalism Ireland had at the end of the 1950s in order to get a starting point for the analysis of the following decades.
After that, the Irish economy will be analyzed from 1959 till 1987 and from 1987 till 2008. The analysis will be made on the basis of the institutional forms and complementarities of Amable's theory, complemented by the theory of Hall and Soskice. I will analyze the development in five areas: Product market, labor market, finance, welfare and education. However, data is not abundantly available in all areas, especially for the decades up until the 1980s. All areas will be discussed as much in depth as possible in order to come to an attempt to place Ireland's characteristics into a type of capitalism.
For each period, the characteristics of Ireland will be discussed: do these characteristics all match a certain type of capitalism, or can they be assigned to multiple types? This analysis will give an overview of the development of the institutional characteristics of the Irish economy. Changes in these characteristics will also be analyzed and possible explanations will be given.
My expectation is that Ireland's economic development was not in pace with the changes in the institutional areas. Institutional complementarities should cause all areas of an economy to develop in a certain type of economy, but was this also the case for Ireland? And might this dissimilarity have had an effect on Ireland plunging into such a deep crisis? The economic crisis of the end of the first decade of the 21st century will not be discussed in depth, since this is a whole new field of discussion. However, if Ireland had adapted different strategies, could the impact of this crisis have been less severe?

[10] Kennedy, K. and Dowling, B., Economic growth in Ireland: the experience since 1947, (Dublin, 1975), 231-241 and Kirby, P., Celtic Tiger in collapse: explaining the weaknesses of the Irish model (London, 2010), 18.

2 Characteristics of capitalism analyzed

In a free market as defined by modern economists, the aspects of the market are determined by supply and demand and are not hindered by any government control, external regulation or monopolies. The opposite is the controlled or regulated market, where provision of goods or services are regulated by a government appointed body. Adam Smith was the first author who stipulated the outlines of a free market in his extensive work *The Wealth of Nations*. However, he does not define a free market as one being without any form of government regulation, the so-called *laissez faire* economy, but one in which regulation and 'freedom' are in balance.
The two theories I will use for this thesis each make a distinction between an open and controlled market, but both also make a note of the nature of an institution; it either being created and influenced by a political decision or a spontaneous reaction to a situation.[11] Both also have five categories or institutions on the basis of which they classify an economy. Hall and Soskice then come to two different types, while Amable comes to five types. They both place Ireland in a different category according to their criteria. In this chapter, both theories will be explained and also why they characterize Ireland as a specific type of economy according to their standards.

2.1 The diversity of modern capitalism

Bruno Amable states in his book that nations should not be the archetype for a model of capitalism, for within a national economy there might be several sub-levels which operate in a different way from each other and therefore do not conform to one specific type of capitalism. So defining an economy by focusing on firm-level does not give an accurate definition of an economy as a whole.[12] On the other hand, he also states that not having any criteria or specific models for types of capitalism is also almost impossible, because then there would virtually be no limits in possibilities and varieties. He analyses an economy by considering five fundamental institutional areas:
1. product-market competition and regulation; to what extent is the market regulated and are there any administrative or financial barriers?
2. The labor market; how do the industrial relations work, is there any employment protection and is wage-bargaining coordinated or centralized?
3. The financial sector; is the financial market-based or bank-based and what type of financing (foreign, shares) is most common?
4. Social protection; How is the welfare system organized? What type of risks do they cover and to what extent?

[11] Amable, 39-40 and Hall and Soskice, 4-5.
[12] Amable, B., 12-13.

5. The education system; it the system standardized of is there a large differentiation? Are they focused on general or specific skills? Here, not only vocational training is taken into account, but the educational system as a whole.

Amable also stresses the importance of complementarities. He states that these cannot only cause the institutional areas to strengthen each other, but that they can also cause one specific area to become privileged and make that area the defining factor for labeling an economy. He therefore states that all possible complementarities should be taken into account before one could come to an accurate cluster analysis. For each category he has numerous variables which he analyzes according to the principal-components method and he also makes an analysis of the characteristics and complementarities according to the cluster analysis method.[13]

With the results of these analyses, he takes a look at each institutional area and groups countries together in a cluster that share several similar characteristics in that area. After having put a country in a cluster in each of the five areas, he then takes a look at what characteristics prevail in a certain country and places it in the category with which it has most features in common. In that way, he has defined five types of capitalism of which three have about the same geo-cultural pattern; social democratic (Nordic), Asian (Korea and Japan), Mediterranean (southern European), market-based (primarily Anglophone) and Continental European (western Europe).

At certain points, Amable even goes into further diversity of certain characteristics, which makes it difficult to put a country into a group. Therefore he creates subgroups or mentions certain countries by itself or just states with which type an economy has most similarities with. For example; the market-based group has many similarities with the LME model of Hall and Soskice and contains many of the Anglo-Saxon countries. The Continental European group does not have much cultural coherence and can be split into subgroups. He considers the Netherlands and Switzerland as a mixture between the market-based and social-democratic model and also states that Norway and Ireland are also seen as intermediate countries. This would leave Austria, Belgium, France and Germany as the 'core-countries' of the Continental European model. In total he therefore sees 6 'types' op capitalism instead of the five he extensively analyses. So this leaves quite some room for discussion and further analysis.[14]

For the table 2.1 analysis, Amable has made a cluster analysis for each of his five areas. He has grouped the countries in several clusters in each area and in five steps integrates each institutional area. This in order to see if there is an early link between the countries and if a country stands out when a certain area is added into the equation. He has then put the countries in a schedule and gave each cluster a number. The numbers themselves have no meaning, but they merely state with which other countries most similarities can be found in the specific areas. For example, in the product market area,

[13] Amable, B. 20.
[14] Amable, B., 179.

Switzerland had no similarities with any of the analyzed countries and therefore has number 2, while it can be found in the same cluster as the US and the UK when looking at employment policy, so it also has number 1.

Amable indicates that in each type differences between countries can be found, but when looking at all areas combined five types of capitalism can be defined. After having made his extensive analysis, Amable sees the market-based model (from now on abbreviated as MB) as the most homogenous one when it comes to the scores in the different areas. The countries Australia, Canada, the UK and the USA all cluster together in the five areas. When looking at the other types, the clustering is less visible as can be seen in table 2.1.

Table 2.1: Cluster analysis of the five types of capitalism

Capitalism type	**Cluster**	**P**[15]	**PE**	**PEF**	**PEFW**	**PEFWE**
Market-based capitalism	Australia	1	1	1	1	1
	Canada	1	1	1	1	1
	United Kingdom	1	1	1	1	1
	USA	1	1	1	1	1
Continental European capitalism	Switzerland	2	1	2	2	3
	Netherlands	3	2	2	2	3
	Ireland	***3***	***2***	***3***	***3***	***4***
	Norway	4	5	4	4	4
Social Democratic	Denmark	2	2	3	5	5
	Sweden	3	2	3	5	5
Asian	Japan	3	3	5	6	2
	Korea	5	3	5	6	2
Mediterranean	Greece	6	5	7	7	6
	Spain	6	4	6	7	6

Source: Bruno Amable, 173.

For this thesis, the categories Continental European and Market-Based are most relevant, for Amable states Ireland to be in the Continental European capitalism group, while Hall and Soskice define Ireland as an LME, on which the market-based type of Amable is founded. What characteristics do these types have and why does Amable place Ireland in the Continental European group at the start of the 21st century?

In the Continental European type the product markets are fairly competitive and mildly regulated; while in the market-based type the market is deregulated and very competitive. There are low barriers for starting a new business and little administrative regulation and state control.

When it comes to the labor markets, the market in the MB type is very flexible. This means that employment protection is low, wages are flexible and firing someone is easy.

[15] P represents Product and Labor Markets; PE : Product and labor markets, and employment policy; PEF: Product and labor markets, employment policy, and financial sector; PEFW: Product and labor markets, employment policy, financial sector, and welfare; PEFWE: Product and labor markets, employment policy, financial sector, welfare, and education systems

In the CE type markets are coordinated; the degree of employment protection varies however.
The finance area also differs for these two types. In the MB type the financial system is based on the market and 'distant' corporate governance is common. The financial (stock exchange) markets and are large and venture capital takes up a large part of the GDP. The financial system of the CE type is based on financial institutions and firms are also controlled by them.
For the Welfare state Amable uses the three types which Espen-Andersen (1990) distinguishes: the Corporatist, Liberalist and Social/Democratic type.[16] The welfare provisions in the MB type are liberal which means they are of a residual nature, while in the CE type has a corporatist style.
Education is also differently arranged. In MB capitalism tertiary education is competitive and knows high enrolment rates, while there is no homogenous standard when it comes to first and secondary education. In a CE economy, the education system is public and has a high degree of standardization. The emphasis is on secondary education.
These characteristics are quite general and might differ per country in each cluster, but the coordinating term can be applied to most variations in each cluster.

2.2 Labeling Ireland: Amable

As previously mentioned by Amable and as can be seen in table 2.1, Ireland does (or did) not fit the bill entirely in the late 20th and early 21st century when it comes to the characteristics of a CE country, but, just like the Netherlands and Switzerland, is put into that category.
Amable mentions Ireland in each of the five areas and explains what characteristics Ireland has in each institutional area and also takes a look at each variable in the specific area quite extensively.[17]
In the area of Product market competition, Ireland has a lot of similarities with the other Anglo-Saxon (or Anglophone) countries. It does not seem to have any regulating characteristics for it has very low values for administrative burdens, public ownership and state-control. These variables add up and open the product market for competition. Here it therefore could be placed in the market-based type instead of the Continental European type.
For the labor market area the most important variables are wage-bargaining coordination, centralization and corporation, union density, and industrial relations. The union density in Ireland is quite high compared to the other Anglophone countries and wage-bargaining is also coordinated. Policy-making is based on a trip-partite basis,

[16] Amable, 18-19
[17] For the description of the institutional areas of Ireland I used chapter 4 of Bruno Amable's book, p. 115-170.

which means that the government, unions and employers negotiate and draw up agreements and this indicates that industrial relations are corporative. Ireland also has active labor policies, which are government programs designed to help the unemployed find work. Even though the State has a considerable influence on the labor market, it does not have a high level of employment protection compared to other northern European countries. When it comes to the clusters of the variables Ireland can mostly be found in a cluster along with other countries which are classified as the CE type, so overall Ireland fits this type best for the labor market area.

Ireland's financial sector is largely dependent on foreign capital and has many foreign banks. It does not really fit into a market-based system, nor into the bank-based system, so Amable does not categorize Ireland into any of the five types.

The welfare-state area is a hard one to cluster according to Amable, because each country has different rules and policies in different areas of the welfare system. Ireland does not have a very developed public-welfare system compared to countries like the Netherlands and the Scandinavian countries and is positioned right in between the other Anglophone countries in this aspect. However, although Ireland has a private-based welfare system and is typed as a liberal type in other literature[18], they do have a considerable welfare budget compared to the US or Canada.

When it comes to the final category of education, the Irish system is closely related to other European continental economies when it comes to having a strong public education system which has a strong emphasis on secondary education, but there is a large differentiation in tertiary education. The importance of life-long learning is not very high; therefore vocational training can be classified as quite weak. When a company decides to take an active role in training, financial incentives are provided to companies not just for vocational training, but also in order to create a certain standard for the supply in training. According to Amable, all these characteristics show that Ireland again cannot be placed into one specific category in all five areas, but overall has most similarities with the Continental European type.

[18] Amable, B.,154-159.

2.3 Varieties of Capitalism

The theory of Hall and Soskice has been designed in order to analyze an economy by starting at the firm instead of at a sector or economy as a whole. The company is the central actor in an economy. Company strategy is not merely shaped by a legal system or specific government policies, but also by informal rules and knowledge acquired through history. They analyze how firms solve their coordinating problems in five institutional areas which are:

1. Industrial relations; what is the attitude towards unions and the government when it comes to negotiations about wages, productivity and working conditions:
2. Vocational training and education; to what extent do firms invest in vocational education and training their staff?
3. Corporate governance; in what way is the firm managed (in whose interest is the company run: the stakeholders or shareholders, this also relates to the labor market?) and how does a company attract capital (via shareholders or bank loans)?
4. Inter-firm relations; what is the relationship between the firm and its suppliers and clients. In other words: do companies share information, do they work together or share their activities?
5. Employees; are the employees involved in decision making and is information and communication open or more restrained?[19]

These institutional areas are areas in which rules, formal or informal, are generally followed by the actors and these rules then in turn influence the political economy as a whole. The institutional areas complement each other and Hall and Soskice therefore predict differences in corporate strategies across nations. These differences push a nation towards a particular type of capitalism.[20]

Hall and Soskice recognize two types of capitalism; The Liberal Market Economy and the Coordinated Market Economy. In their book they analyze the larger OECD countries and label them according to their criteria.

In an ideal LME, the firms use the market or hierarchies in order to coordinate institutional areas and this therefore not only stimulates the selling of goods, but also of non-tangible things such as education, skills and information. The emphasis is on competition and short term profit. This can lead to efficiency, but can also lead to distrust among companies and organizations. Other characteristics such as neoliberal policies, radical innovation and new sectors of the economy are mostly subscribed to Anglophone countries.

In an ideal CME, the relationships between companies are not fully determined by supply and demand and there is more strategic interaction, which means that information is shared and cooperation is more common. This form is linked to social democracy,

[19] Hall, P. and Soskice, D., 6-7.
[20] Hall, P. and Soskice, D., 15.

incremental innovation, declining economic sectors and non-Anglophonic countries.[21] The archetype of an LME is the American economy, while for the CME this is Germany. They also make note of a possibility for a third type; the so-called Mediterranean economy, which is marked by a large agrarian sector and non-complementary institutions within the different spheres. This specific type is not further explored in the book though.[22]

It has to be said that the characteristics of the five areas are not defined very specifically and that an economy can therefore conform to both types of economy in an institutional area. Nevertheless they are a good starting point and tool to analyze an economy for they provide a framework for an analysis. Especially because they also take a look at how firms behave in these institutional areas. So how do firms coordinate their relationships internally as well as externally? And what effect does this have on an economy as a whole? In a liberal market, firms do this primarily via hierarchy and competitive market arrangements. In a coordinated market, firms are more dependent on non-market relationships when coordinating their internal and external connections, but also when they structure their core competencies.[23]

Next to the five areas, Hall and Soskice also use institutional complementarities. These strengthen the position of an economy as they logically 'push' the economy either towards an LME or a CME. These areas and complementarities can be represented in a diagram as is done in Table 2.2. The main characteristics of the LME and CME are assigned to four coordinating categories which are the institutional complementarities. These categories hold (a part of) one or more of the institutional areas.

Table 2.2: Schematic overview of Institutional Complementarities of Hall and Soskice

	Liberal Market Economies	**Coordinated Market Economies**
Corporate governance & finance	'Arms-length' rules[24], shareholder's interest, equity finance	'Insider' rules, stakeholders interest is high, bank finance
Labor market organization (industrial relations, employees)	Decentralized, low union density; high labor mobility	Centralized, high union density; low labor mobility
Product market competition (inter-firm relations)	Arms-length relations, strict competition enforcement	Inter-firm cooperation, relational contracting
Social protection and training (industrial relations, vocational training and employees)	Few restrictions on hiring and firing, investment in general skills	Stringent restrictions on hiring and firing, investment in firm specific skills

[21] Hall, P. and Soskice, D., 37-44.
[22] Hall, P. and Soskice, D., 21.
[23] Hall, P. and Soskice, D., 8-9.
[24] The 'arms-length' rules mean that (transfer) prices are established by market value and that, when it comes to relations, they maintain a business relationship or conduct transactions as though dealing with an independent third party, even if this is not the case.

2.4 Labeling Ireland: Hall and Soskice

When it comes to 'labeling' Ireland, Hall and Soskice categorized this economy as an LME at the end of the 1990s. Ireland is an Anglo-Saxon country and since the stereotype LME is an Anglo-Saxon country (the USA), it is easy to put Ireland into that category as well. Hall and Soskice give an explanation for some of their criteria or figures for the Irish economy, but they do not mention the position of Ireland specifically for each area. For the areas in which Ireland is not specifically mentioned I will just mention the characteristics an LME had and I will not try to describe or explain why Hall and Soskice place Ireland in the LME type. I will not give any figures, but merely a global description of Ireland's position in the areas and institutional complementarities according to the theory.

The first of the categories on which they base their classification, corporate governance and finance, shows how companies are governed and in what way or to what extent one should give account for its actions to (external) stakeholders. It also shows how companies finance their businesses. In an LME, the financing of projects relies more on equity and bonds capital than on bank loans. The relationship between investors and firms is usually a public one, which means that investors get their information from publicly available sources and not from inside the company. External monitoring bodies are not as existent or powerful as in a coordinated economy and therefore shareholders can run high risks.[25] However, the firm is run with the shareholder's interest in mind, so the short-term profit is more important than long-term security. Hall and Soskice place Ireland in the same category as the other Anglo-Saxon countries in this area.

The next subject is labor market organization, which shows how bargaining over wages and working conditions is organized. This sphere's focus is on wage and productivity levels that condition the success of the firm and on rates of unemployment or inflation in the economy as a whole. When it comes to coordinated wage-bargaining, Ireland is placed alongside the US and the UK. Wage-bargaining is not coordinated per industry and therefore more decentralized than in most European countries and that puts Ireland in the LME type.

When it comes to inter-firm relations or product market organization, Ireland also tends to be an LME. The main reason which can be found in Hall and Soskice is that the ratio of scientific citation is high. This ratio is used as an indicator of radical innovations; the higher the ratio, the more firms are engaged in radical innovation strategies. When a company patents something 'new', it also means that other companies cannot use this idea for free, but have to buy a license. This way, innovative companies can earn more and this is again an incentive to be 'innovative in inventing'. It also increases competition.

[25] Hall, P. and Soskice, D., 280-281.

Lastly, the category 'social protection and training' is analyzed. When employment protection is taken into account, Ireland is also in the same area as other Anglo-Saxon countries. Although Ireland scores remarkable higher than the US and the UK, its score is nowhere near countries like the Netherlands or Germany.[26] In the case of vocational training, Ireland also fits the bill of an LME. Ireland has a general skills profile and scores weak on vocational training, just like the other Anglo-Saxon countries. This means that firms and employees are not easily prepared to invest in specific skills and the number of years someone works for one company tends to be low.
Although Ireland's case has not been explained in all areas, most of the characteristics of an LME as described in Hall and Soskice seem to fit Ireland's economy. However, all characteristics and categories will be examined more in depth in chapter 3, 4 and 5 in order to see if, when all points are covered, Ireland has been or is still a good example of an LME.

2.5 Using the models: Analyzing Ireland

As already mentioned, Amable and Hall and Soskice each put Ireland's economy in a different category. In Hall and Soskice the firm is at the center of the analysis and it focuses on 5 areas of which the characteristics are based on primarily long-term developments. Amable focuses more on the economy as a whole and also uses 5 institutional areas of which most are similar or have overlap with to the ones of Hall and Soskice. The difference is that Amable sees institutional complementarities as forms of interaction which can either enhance, but also mitigate the influence or dominance of an area or complementarity over time. These institutions are the outcome of a political and economic process, not just a fixed form. Amable uses Hall and Soskice's LME theory to describe the characteristics of his market-based type; competitive markets, little coordination of centralization for wage bargaining, weak unions, deregulation of the product market, investments in high-tech industries and a flexible labor market. He also uses characteristics of the CME to describe his other types. For the other four types he uses the elements of a regulated to coordinated product market, the power and density of unions, regulating and coordinating elements of the labor market and the level of vocational training.[27] He also makes recommendations on how to improve or apply the overall theory of Hall and Soskice by suggesting that by not placing the firm on the foreground, more diversity in institutions can be found and therefore a better distinction of economies can be made.[28] In Hall and Soskice, the authors also mention different approaches of making an analysis. All these analyses more or less use the same

[26] Estevez-Abe, Iversen and Soskice in Varieties of Capitalism, 168. and http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm
[27] Amable, B.,14, 16-17
[28] Amable, B.,14.

background literature, which is not surprising since both theories were first published at the start of the 21st century. As stated, Hall and Soskice focus more on firms, but I want to take a look at the economy as a whole, so more at a macro-level as Amable does. I will therefore take a look at the economy of Ireland from the 1960s onwards and for each decade I will make an analysis according to the five areas Amable uses, with some additions from Hall and Soskice.
I will use the five types of capitalism Amable uses to typify Ireland. I will also use Amable's characteristics of these types including the additions of Hall and Soskice that Amable already used in his analyses. I have also added other characteristics of the theory Hall and Soskice. In the labor product category I have added the 'shareholder's and stakeholder's interest' element, for this shows the relation between firms and other institutions. Each type has a set of 'typical' characteristics, which sometimes refer to the ideal country type, but are mostly adjusted to the general characteristics of the countries that are categorized in the type. An overview can be found in table 2.3 on page 21.
In the 1960s, does Ireland for example have the characteristics of a market-based economy when it comes to the labor market or does is tend to be more of a social-democratic economy?
I will take a look at the product market; are there any government regulations on participating in or entering the market or does firm-competition dominate the market?
For the labor market I will take a look at the influence and positions of unions, how wage-bargaining is arranged and how or if the government is involved in for example employment protection or working conditions. In other words; what are the industrial relations and is there (any) government control?
I will also take a look at the social welfare provisions of Ireland. Are these arranged by the government or mainly under the control of private institutions? What kinds of benefits are there and what is the public expenditure rate on welfare?
When it comes to finance, the nature of the financial market is analyzed. Is the system bank-based or market-based and is there any form of control by the government or other bodies? Is the financial market well-developed or not? This also reflects on the way firms attract capital and how a firm is managed. Does the firm put the interest of stakeholders or shareholders first? So is corporate government a matter of arms-length of insiders' rule?
Lastly, education is seen as a major factor that influences an economy. Does Ireland have a standardized system or is there large differentiation? Also, to what extent is vocational training of any importance in the educational system?
These factors should provide a clear picture of where Ireland stands in each decade when it comes to being a certain type of economy, or if Ireland can be assigned to a certain type of capitalism. The characteristics will be explained more in dept when necessary.

Table 2.3 The five types and their main characteristics

Types and areas	**Market based**	**Continental European**	**Social Democratic**	**Mediterranean**	**Asian**
Product market	Little control and few limitations from government, price competition	Moderately competitive, regulation in some sectors, involvement public authorities	High involvement of State, high degree of coordination	Involvement of state, public sector is large, limitations and regulations, moderate protection	Protection against foreign competition, involvement of state
Labor market	Low employment protection, decentralized wage-bargaining, unions relatively weak, no active employment policies, shareholders' interest	Relatively high employment protection, active employment policies, moderately strong unions, wage-bargaining coordinated (sometimes conflicting industrial relations), stakeholders' interest	Regulated, strong unions, coordinated/centralized wage-bargaining, corporative industrial relations, moderate employment protection, stakeholders' interest	Dualism in protection, conflicts in industrial relations, centralized wage-bargaining	Large cooperation based employment protection, cooperative industrial relations, decentralized wage-bargaining, regulated
Finance (corporate governance)	Protection of shareholders (public information system, no insiders trade), low ownership concertation, short-term emphasis, large and active financial markets, institutional investors, active market for M&A, venture capital	Importance financial institutions and insurance companies, low corporate control, long-term financing, moderate venture capital, bank funding, average sophistication of financial markets; almost no market for M&A	Bank-based system, high share institutional investors, low sophistication of financial markets; almost no market for M&A	Bank-based, ownership concentration, little conformity corporate governance standards, low sophistication of financial markets; almost no market for M&A	Low protection external shareholders, limited banking concentration and venture capital
Social protection and Welfare	Weak social protection, mostly residual nature. Low involvement state; liberal model	High degree of social protection, corporatist model; work-oriented, contribution financed, involvement of state.	High involvement of state and level of social protection, universalist model, high importance welfare state	Limited welfare state, moderate protection, high involvement state, expenditure mainly on pensions	Low level of social protection, low public social expenditures
Education	Low public expenditures, low standardization, weak vocational training, focus on general skills, high enrolment rates tertiary education	High level of public expenditure and standardization, vocational training is strong, specific skills	High public expenditure rates on all levels, strong vocational training, specific skills	Low public expenditure, low enrolment rates, weak tertiary education, weak vocational training	Private tertiary education system, focus on secondary education, vocational training at company level, focus on specific skills

3 The road to development

For understanding the developments of the Irish economy during the last quarter of the 20th century and into the 21st century, one should have a certain knowledge of the economy before this time. It is important to see the recent developments against the backdrop of the phases the Irish economy went through in the past.
The island on which the Republic of Ireland is located consists of 32 counties of which the 6 counties of Ulster form Northern Ireland and the 26 remaining counties belong to the Republic of Ireland. The island has a long history, but for this paper the relevant period will be from the mid-19th century onwards. Although the now Republic of Ireland gained independence from the United Kingdom in 1922, the 26 counties of Ireland have a different (economic) history than the 6 countries that make up northern Ireland. From the Industrial Revolution onwards, the northern counties experienced industrial growth, while the South stayed mainly agriculturally focused for several decades and saw quite a different development in living standards and economic growth.
The last 150 years of the economic development of Ireland can be roughly divided into a 4 periods; rural Ireland, the protectionist era, the march towards a modern economy and the Celtic Tiger period (not taking into account the credit crunch). And although scholars disagree about what exact year marked the change towards a modern economy, they do agree that from the 1960s onwards the nature of the Irish economy had started to change and that the path for development and economic growth was laid.
In this chapter, the history until 1959 will be discussed. This because until then the Irish economy grew very little and was mostly based on agriculture. Also in that year, after being at the helm for over 30 years, Éamon de Valera was replaced by Seán Lemass as president of the Fianna Fáil party. In the same year Éamon de Valera was chosen as the third president of Ireland and he is seen as the father of modern Ireland for his politics brought foreign investment and industrial growth to Ireland.[29]
The political system of Ireland is officially a multi-party system in which 2 or more parties form a coalition government. In practice however, Ireland resembles a two-party system, for Fianna Fáil and Fine Gael have taken turns in being the largest party since the 1930s. They often enjoyed majority support by themselves and only after a couple of elections a coalition had to be formed in order to have a cabinet with majority support. Since the mid-1950s, only two other parties have taken place in a coalition government; the Labour party and more recently the Progressive Democrats.
The legal system of Ireland is based on common law, which meant that decisions and judgments are based on previous decisions or customary law and not on what it stated in a written law or regulation as in civil law countries. Judges therefore play an important role in these decisions and have more freedom than in civil law systems.

[29] Kirby, P., 19-20.

3.1 Ireland: The rural economy and independence

The Great Famine, which lasted from 1845-1851, shook Ireland on its foundations. Historians agree that the number of mortalities during that period is about 1.1 million people. Moreover, in the same period about 1 million Irish emigrated and with these numbers, the population had declined from about 8.5 million to less than 6.5 million people and declined even further the following decades.[30]
Because of this, the whole demographic structure of Ireland changed. At the start of the 20th century the rural communities had changed from a densely populated region full of poor laborers and self-supporting farms into a thinly peopled, conservative and land-owning family-farm oriented region. The economy of the region was largely dependent on this sector. About half of the labor force was employed in agriculture and although much of the produce was for domestic use, the main export products all were derived from agriculture.[31] The living standards in the first decade of the 20th century were comparable to the rest of Europe, but this was mainly because of the large decline of the population and the emigration of the poorer part of society.[32]
In June 1922, Ireland was the first colony to become independent from Britain since the independence of the USA in 1776. A civil war between the two opposing groups over the Anglo-Irish treaty followed. In April 1923, the National Army, or Free State Army, was heavily supported by Britain and defeated the Irish National Army (IRA) and a more or less stable system of governance was established in the Irish Free State. The government decided on a cautious policy of continuing to focus on Ireland's main sector: agriculture. Industrialization was more or less shunned and development in that sector was therefore neglected. The conservative Cumann na nGaedheal government, lead by William T. Cosgrave, hoped for a dynamic agricultural sector specialized in livestock and dairying.[33] Politics were aimed at reforming and improving the agricultural sector and also at trying to cut back on the fiscal debt which had grown during the civil war. But the cutbacks did not have the desired effect and left especially the small farmers in the cold. The 1920s were a time of little economic growth and unemployment and financial worries increased. Because of all this, population had decreased even further and reached a stable amount of roughly 3 million people in 1929. This amount would stay the same for four decades.[34] Because of the bad economic situation and ineffective policies, the Cumann na nGaedheal party was losing votes and it lost the elections of 1932 to Fianna Fáil. The enigmatic leader of Fianna Fáil, Éamon de Valera, was seen as 'the representative of the plain people' who would get rid of the complacencies and privileges that were implemented by the Cosgrave government.

[30] Kelleher, M., The Irish Famine: History and Representation in 'Palgrave Advances in Irish History', McAuliffe, M., ed. a.o. (London, 2009), 84.
[31] Kirby, P., 16.
[32] Sweeney, P., 5.
[33] Ó Gráda, C., pp 4-5.
[34] Kirby, P., 14.

3.2 1932 till the end of the 1950s: Protectionism and self-sufficiency

The first years of the 1930s were grim because of the Great Depression that had hit the world. The globalization that had just started up again after World War One came to a halt. The new government had almost no choice but to adopt the worldwide trend of protectionism and self-sufficiency. Fianna Fáil wanted the agricultural sector to switch from livestock to tillage and aimed at creating an indigenous manufacturing sector. Import tariffs were implemented in order to boost industrial employment and to induce so-called economic-nationalism. With that, the government controlled and coordinated much of the product market. This kind of policy is nowadays referred to as Import Substitution Industrialization (ISI) and is an inward looking form of economic politics. It is often used for describing the economic policies of Latin America after the Great Depression, so Ireland took on the same strategy as 'developing counties' at that time.
In the second half of the 19th century Britain and Ireland had instated five Land Acts. These acts were meant to protect farmers in Ireland and stimulate long-term agriculture. Ireland had to reimburse the money that Britain spent on these Land Acts in the form of land annuities. Ireland had paid Britain for years when the Fianna Fáil government decided that the Irish Free State no longer had any outstanding debts. This because in the London Agreement of 1925 it was agreed that Ireland was relieved from contributions to the public debt and Fianna Fáil felt that the land annuities were part of these contributions and stopped paying them to Britain.
This resulted in several duties and tariffs being imposed by both sides and eventually evoked the Anglo-Irish trade war of 1932 till 1938. The dispute was brought to an end by the Anglo-Irish Agreement Act of 1938. The agreement was quite generous towards Ireland, but many farmers were hurt by the trade war and had difficulties keeping their heads above the water.[35] One positive side effect of the war was that farmers had to diversify their produce because of the strict tariffs on cattle. However, when the British market opened again, the traditional products came back and any agricultural innovation that had developed was scaled down again.[36]
The industry that was set up during those years was also small and still in its infancy, so it could not provide stable employment or output. The government tried to protect the industry by implementing the Control of Manufactures Acts. This meant that no 'foreign' firms could set up in Ireland without paying tariffs or complying with quotas.
The years of the Second World War became known as the 'Emergency' years. Ireland was neutral during the war and president Eamon de Valera adapted an isolationist strategy in order to remain neutral. During these years agricultural output stayed at about the same level even with the lack of raw materials, showing how little the sector used industrialized means and how dependent it was on land and manpower. The

[35] Ó Gráda, C., 5-7.
[36] Kirby, P., 2002, 16-17.

demand for labor did not increase, however, and actual wages decreased compared to other countries in Europe and Britain. Emigration to especially Britain and Northern Ireland was high in those years, showing the actual situation the economy was in.[37]
In 1943, the Irish Central bank was founded, but it would only have a limited role until way into the 1960s. This because it was not given custody of the cash reserves of the commercial banks and Ireland's external monetary reserves were largely held as external assets of the commercial banks. Furthermore, the Bank of Ireland remained the bank of the government. So this really limited the options of the Bank in having any independent monetary policy and it was in effect nothing more than a currency board.
The years after World War Two saw some recovery. Consumption increased and all sectors shared in the upturn. The industrial sector recovered quickly, but remained focused on providing the home market and as a result little variety could be found in the goods being exported. Drink and confection such as tweed and woolen goods were mostly exported, but besides that the list of exported produce and goods was very short. Agriculture had been a stable factor during the war, but saw a huge decline in 1946 and 1947. The recovery of the following years was not enough to reach the level of 1945 again.[38] Because Britain could also not meet the demand of the Irish population, more and more was imported from the US.
The Marshall Plan saw to investments in Ireland, although the dollars were looked at with scrutiny and were not allocated to their full use.[39] In order to receive these investments Ireland had to become a member of the Organization for European Economic Co-operation (OEEC) when it was established in 1948. That same year, the Irish Free State became the Republic of Ireland. With this, any bonds with a monarchy were broken and Ireland was no longer part of the British Commonwealth. However, while other countries opened up their markets, Ireland kept its inward-looking policies and with that its market closed.
These years saw an expansion of the social insurance system, especially when it came to health care. However, state intervention and centralization was not implemented extensively because of the Catholic teachings and values the Irish society supported. Any state interference was mistrusted because the Church would take care of the poor and would provide services like education and other benefits. In other fields the government was able to book some progress such as putting up a social housing scheme, but in others the conditions stayed the same.[40]
So even with the Marshall Plan and a worldwide booming economy, Ireland remained very isolated and did not open up trade after World War Two. The government took some outward-looking policy measures, such as founding the Industrial Development

[37] Ó Gráda, C., 18.
[38] Kennedy, K. and Dowling, B., Economic growth in Ireland: the experience since 1947, (Dublin, 1975), 5-6.
[39] Ó Gráda, C., 25.
[40] Maguire, M. in Flora, P. (ed.), Growth to limits 2: Germany, United Kingdom, Ireland, Italy, (Berlin, 1986), 247.

Authority (IDA) in 1950. It was a semi-state agency and part of the Department of Industry and Commerce whose aim was to promote industrial development and to attract foreign industry. The trade deficit at that time was so large however, that these measures did not have a significant direct effect. Another measure the government took was creating the Public Capital Programme. This was introduced in order to stimulate economic expansion, but it had also limited effect on the short-term as the emphasis was on long-term social and industrial investments. It simply seemed as if Ireland missed the boat on the chance to develop as an economy directly after the War and this caused the Irish economy to grow very little in the 1950s.[41]

At the start of the 1950s, Ireland had to cope with big deficits and the government adopted several panic fiscal measures in order to fix the problem. These measures included increased taxes and reduced subsidies and meant a big dent in the confidence in the economy. Overall the 1950s had an atmosphere of gloom and doom and this mood set the tone for the start of the 1960s. In 1961, the employment reached its lowest level since WWII. However, the awareness about the Irish economy in the context of other nations in Western Europe had grown. This sentiment was reflected in various media and was uttered by many members of the public. A good example of the public awareness is the cartoon below, which was posted in the *Dublin Opinion* of July 1959.

Together with that awareness, something also changed for the years after that the economy grew consistently. Many suggestions about the causes of this sudden change have been made, but there is no consensus as to why it happened. It might have been the change of leaderships as Seán Lemass replaced de Valera as Taoiseach (head of the

[41] Sweeney, P., 6.

government) and the change of leadership in the other Irish parties. It also could have been the fact that the substantial investments made during the previous decades finally began to pay off. Lastly, policies to liberalize of trade were implemented and this might have been the actual boost that the economy needed.

The policies of the government were very inward-oriented for a long time, but at the end of the 1950s, Ireland was more or less forced to adopt a more liberal approach because of the OEEC (Organization European Economic Co-operation) demands. So the government implemented a new strategy that was more focused on Export-led Industrialization (ELI). One of these policies was the Programme for Economic Expansion (PEE) which was announced in 1958. Ireland recognized that it had to put in extra effort in order not to lag behind Europe when it came to living standards and output, so these needed to be improved and increased. They also acknowledged that the unemployment and migration level was too high and that this had to come to a halt. The last goal of this program was that Ireland had to attract more private firms, being either foreign or indigenous, and with that attract investments and become more competitive in the industrial area. This last aim was set with an eye on a probable membership in EFTA (European Free Trade Association), whose establishment was initiated by Great Britain as a reaction to the European Economic Community.[42] These measures were announced in 1958, but implemented in 1959.

With the Programme restrictions on foreign investment would be removed and grants would be rewarded to foreign companies who settled in Ireland.[43] This led to a lot of protest, for it seemed as if the indigenous industry would be forgotten. Protest was ignored, however, as Ireland had set the goal to open itself for a deregulated product market. Although the government had announced that control and limitations would be decreased, public authority involvement remained still very much present since the government set up controlling bodies, such as the IDA and the Industrial Credit Company. The government's main aim was to stimulate exports manufactured goods and the government therefore mainly aimed at industrial foreign companies to come to Ireland and enhance Ireland's competitiveness.[44]

After Ireland had become independent, state companies were set up as a reaction of finally having control over its own economy and policies. The first 'commercial state company´ that was set up was the Dairy Disposal Company in 1927. After that, other companies in different sectors followed such as the Electricity Supply Board and the Agricultural Credit Corporation. The crisis at the start of the 1930s only spurred this trend.[45] In the first five decades of the 20th century, state-controlled or state-owned enterprises provided the Irish society with services and goods which the private sector

[42] Long, F., 'Foreign direct investment in an underdeveloped European economy-The Republic of Ireland', World Development, 4-1 (1976), 60.
[43] O'Hearn, D. 131-132.
[44] Long, F., 61.
[45] Barrett, S., 'Privatisation in Ireland', 4-5.

seemed to be unable to offer. This meant that the private sector was either not being able to offer it at all or at an acceptable cost. So it was felt that the state-owned companies were the major drivers of the economy and if everything else failed, these companies would be a stable factor. The government was a pro-active body which was engaged with the economy.[46]

In the product market area, the announcement of removing restrictions fits the Market Based type, but government involvement was still quite high and regulation occurred in several sectors such as the agricultural and energy sector. This fits more into the CE (Continental European) and SD (Social Democratic) type while the tendency towards protectionism fits the Asian type as can be seen in table 3.1.

At the end of the 1950s, unions unified in the Irish Congress of Trade Unions (ICTU). At that time, union membership was high and unions were quite influential, but collective wage-bargaining was still the norm. Employment protection legislation did not exist on a large scale, but unions provided support and a form of protection. Strikes were quite common, which indicates conflicts in industrial relationships. In this area Ireland seems to have most similarities with the CE type.

When it comes to Welfare and social protection, Ireland fits the Mediterranean type. Because although there had been an increase in welfare provisions, such as an extension of the unemployment insurance scheme and public hospital service becoming available to 85% of the population, the social expenditure still was only 15% of the GDP and over 50% of social expenditure was spent on pensions.[47]

Most of the Irish capital was provided by Irish companies and the Irish commercial banks. These banks had good relationships with each other and even had formed an informal cartel, which influenced the rates.[48] Dublin had become the main financial centre, but wasn't highly developed and the Central Bank had little control or power. One could say that here Ireland fits the Mediterranean type, for the Irish financial market was also not yet highly developed and this is often associated with Mediterranean countries.

The education system in Ireland was largely differentiated, with the exception of primary education which was in the hands of the Catholic Church. The state contributed to the costs of secondary schools, which were all in private hands, except for a number of vocational centers which provided training mainly in practical subjects such as carpentry and bricklaying. The focus of secondary education was on academic skills, so vocational training was weak.[49] It had low enrolment rates and tertiary education was weak as well. In this area, Ireland has again most similarities with the modern Mediterranean type.

All in all, at the end of the 1950s, Ireland had most similarities with the Mediterranean type of capitalism, but also had a couple of aspects from the Continental European type.

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[46] Collins, N., 'Re-imagining regulation for democratic political systems: lessons from Ireland' Journal of Comparative Politics, 3-1 (2010), 21-43.

[47] Flora, P. (ed.), 248 and 255-256.

[48] O'Grada, C., 176.

[49] Flora, P. (ed.), 246.

It was, compared to its European 'neighbors', still very much an underdeveloped country whose economy was largely influenced by governmental policies and which lagged behind on several aspects of economic and industrial aspects.

Table 3.1 Characteristics of Ireland at the end of the 1950s

Area	**Characteristics**	**Type of Capitalism**
Product Market	Involvement State and public authorities, regulation in some sectors. Moderate to strong protection against foreign competition	CE/SD Asian
Labor Market	Strong unions, coordinated wage-bargaining, conflicting industrial relationships.	CE
Finance (Corporate Governance)	Low sophistication of financial market, bank-based	Mediterranean
Social Protection and Welfare	Limited welfare state, expenditure mainly on pensions	Mediterranean
Education	Low enrolment rates (especially in tertiary education), low public expenditure, weak vocational training	Mediterranean

4 Ireland transformed: advancing towards a developed economy

The foundation for economic change was laid in the 1950s, but the effect of these measures became apparent in the 1960s. The economic policies were further reformed and the economy saw various stages of liberalization during the next couple of decades. From 1960 till 1987, the steps towards a modern economy were taken and from 1987 onwards the benefits were reaped. In this chapter, the developments of these two periods will be described chronologically. After that, the development of will analyzed according to the five areas and characteristics of Amable's five types of capitalism.

4.1 Development towards a modern economy

During the 1960s the benefits of the Programme for Economic Expansion became apparent and a number of structural changes became noticeable and further implementation of more outward-looking polices took place.
One of these structural changes was the increase of Ireland's GNP. In ten years it increased by almost 50% and over three-quarters of this percentage could be ascribed to foreign investment.[50] In the 1960s, employment and output per sector also changed. The share of employment in agriculture dropped considerably and this fall was matched by a corresponding rise in the shares of industrial and services employment. In 1960, the output of agriculture was about 55% of the total output and industry contributed about 35%. In 1970 industry was the main export sector with 55% and agriculture contributed only 40%.[51] This was of course not a unique feature to Ireland since it was a worldwide phenomenon, but in Ireland the overall employment rate dropped, whereas in other countries the shift went hand in hand with increasing employment.[52] Next to these transformations, several other changes occurred such as an increase in agricultural output and the reduction of emigration.
Ireland finally seemed to go from an inward-looking country to a more outward-looking one. The new and more outward-looking strategy which Ireland adopted was based on three elements. This first one was using grants and tax concessions to encourage export-oriented production. The second element entailed the attraction of foreign investment and firms which would result in an expansion in industry and lastly, the protectionism policy was dismantled.[53]
One of the most striking aspects of the 1959 Programme was that all official control over foreign ownership was lifted. The Irish government gave grants to newly established businesses and export tax relief also was further increased. One of these tax relief

[50] Long, F., 69.
[51] Long, F., 69.
[52] Kennedy, K. and Dowling, B., 11-12.
[53] Kirby, P., 2002, 18.

measures was the establishment of the world's tax-free zone at Shannon. These incentives were meant to attract foreign business and capital. A number of institutions, such as the previously mentioned IDA, were set up by the government in order to promote this industrial expansion by foreign companies. These institutions did not interfere with the companies' location policies, but they were mostly there to assist and promote. So the attraction of foreign businesses and foreign direct investment (FDI) was largely *liassez-faire*.[54]

It was hoped that these foreign businesses would stimulate and complement the (existing) Irish industries and increase the competitive advantage of Ireland. Ireland would become the intermediate station for companies from the US and the European continent who wanted to expand their business to the other side of the ocean. Further into the 1960s, Ireland lowered its import tariffs and eventually joined the General Agreement on Tariffs and Trade in 1967. Next to that, with the Anglo-Irish Trade Agreement of 1965 even more obstacles to free trade were removed. All in all, administrative and financial barriers were reduced and the market became less regulated.

This outward looking strategy appeared to be successful, because at the end of the 1960s over 350 foreign companies had set up and the path to free-trade competition seemed fully opened. Most of the jobs that the companies provided were low to medium-skilled manufacturing jobs. These aspects also merge with the area of the financial sector, for a number of the newly attracted firms were foreign banks. The Central Bank was present, but it exercised little control over the reserves of the commercial banks.[55] There was increasing competition in the commercial banking sector; however, in the clearing bank sector competition was very limited since the sector had armed itself against foreign takeovers and had decreased the number of clearing banks from eight to four. Ireland's economy became a bit more dependent on foreign capital, but the two major banking groups (the Bank of Ireland Group and the Allied Irish Banks group) were still by far the most influential players in the market.[56]

The fiscal policy of the Irish government also changed as public spending and government interference increased. This mainly in the areas of education and social services but, as already mentioned, also comprised the allocation of grants to the private sector. In 1966, the OECD published a report in which they stated the importance of education for the future of the Irish economy and society. In 1967, the state paid for all secondary schooling and transportation to school. This meant that everyone had an equal opportunity in obtaining a high school diploma and with that came a rapid rise in the level of education.[57] The state also set up comprehensive schools in regions where secondary schools were not adequately available. The objective of secondary education

[54] Long, F., 61.
[55] Kennedy, K. and Dowling, B., 191-192.
[56] http://www.finance.gov.ie/viewdoc.asp?docid=808#ch4 (May 2013).
[57] O'Hearn, D., The Atlantic Economy: Britain, the US and Ireland (Manchester, 2001), 181.

was learning general skills, for vocational skills could be learned on the job after leaving secondary school. Next to the 'regular academic' secondary schools, there were vocational schools, but these were for the 'students with low academic ability' and were not held in high regard.[58] Primary education remained the domain of the Catholic Church.

During the 1960s, the Catholic Church also changed its attitude towards state influence in the welfare state, as they began to put the emphasis on more adequate welfare provisions instead of on limited State power and control. As a result, actual social welfare expenditure increased in all fields. But when looking at expenditure as a percentage of the GDP, health expenditure rose from 20 to 25%, while income maintenance dropped from 42 to 35%.[59] The welfare provisions remained of a residual nature and one could not speak of actual social protection. Those in real need were entitled to welfare and the Church still played a larger role in the distribution of welfare than the State.

The 1960s were stormy times when it came to industrial relations. Trade union membership was high and although unions were not organized well, they were relatively powerful. Before 1960, old-fashioned collective bargaining was normal, but it was not centralized. Each sector worked on the base of voluntarism and employment protection was also more aimed at a sector as a whole than on the individual employee. In 1959 unions in Ireland had united in the Irish Congress of Trade Unions and that year the Federation Union of Employers was also strengthened. This would stimulate more coordinated wage-bargaining. This strategy was also part of the PEE, since more employment and the development of the industrial sector was more important than wage conflict, so more centralized wage bargaining was advisable. The National Wage Recommendation of 1964-66 did not have the desired effect however, and trade unions became suspicious when it came to the government exercising statutory control over wages and prices. These suspicions even caused major rounds of strikes at the end of the 1960s.[60]

The next decade was a turbulent period in both political and economical sense. After having ruled for almost 16 years, Fianna Fáil lost the elections to Fine Gael in 1973. But in order for Fine Gael to have a majority in parliament, a coalition government had to be formed with the Labour Party. 1973 was also the start of the world-wide oil crisis and the year in which Ireland was accepted to the EEC (European Economic Community).

The Economic Expansion strategy had already paid off, for at the start of the 1970s manufacturing exports exceeded those of agriculture and almost 30 percent of all companies were foreign. Among these companies were several major multinationals such as Johnson & Johnson and Philips, but there were also numerous small companies

[58] Tuohy, D., 'Developments in vocational education in Ireland', 105.
[59] Flora, P. (ed.), 250-254.
[60] Ó Gráda, C., 100.

which hoped to grow and develop in a 'competitive environment'.[61] The outward policies continued in the 1970s. With Ireland's entry to the EEC, it agreed to establish free trade with member countries for a five-year period. Ireland also had a good competitive advantage since wages were comparatively low and this attracted even more foreign companies and this also had a positive effect on rural Ireland, for the population grew again after decades of decline.

The government believed that growth was more important than stability and so public expense and with that the budget deficit kept increasing. Their answer to the oil crisis was to spend more and this seemed to avert the crisis from hitting Ireland too hard. Foreign capital investments kept growing rapidly during that decade, so the oil crisis did not seem to have an effect on the Irish economy in this regard.[62]

This outward strategy also had a downturn. The product market knew little regulation and barriers and foreign companies enjoyed several advantages. While overall Irish exports grew, the older, indigenous Irish firms did not have any of the advantages and many of them did not survive. Wages went up as a result of the political strategy and the indigenous exports became too expensive. In combination with growing consumer demand, imports increased. Ireland had mostly clothed itself in 1960, but almost two decades later imports had taken over virtually every category of manufactured goods and accounted for more than three-quarters of all clothing.[63]

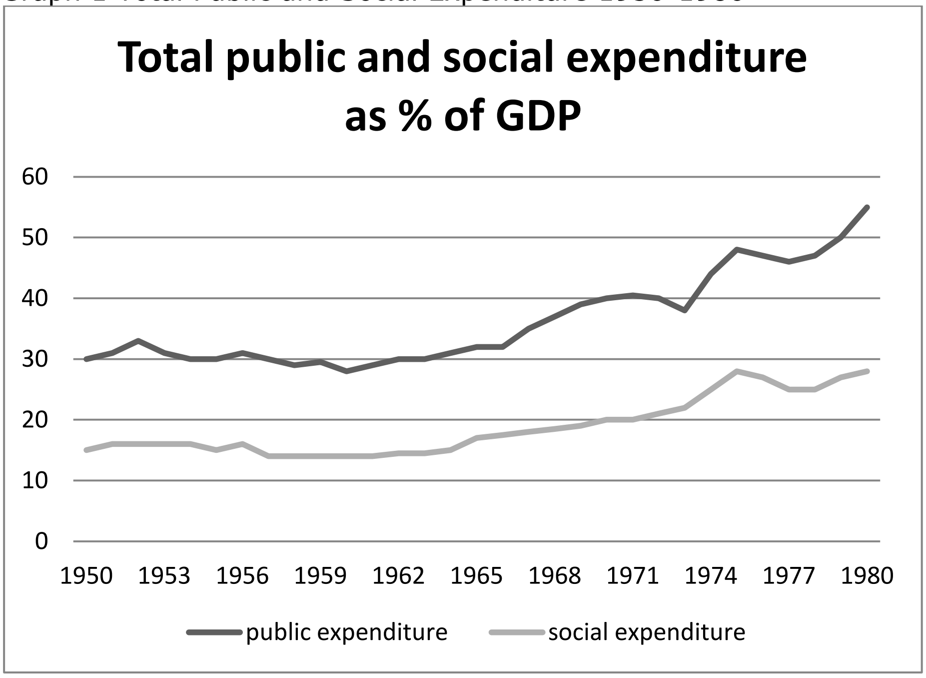
The indigenous companies simply could not compete with the foreign companies. Where before large enterprises were family run and an actual family-firm bourgeoisie existed, now the new firm owner was either a young entrepreneur who set up a small company, or a foreigner who was the CEO of a large transnational company. Jobs were lost in de large urban centers because of the dwindling indigenous sector, but the government reacted by creating jobs in the public sector to make up for the losses.[64]

The increase of government spending also had other effects. One was a shift in employment for at the end of the 1970s about a third of the workforce had employment in the public sector, while this only was about 17 percent in 1960. Another effect was the extension of the social welfare system. Some of the employment-welfare measures were not totally voluntarily though, because EEC regulations required Ireland to implement them. Nevertheless, many measures such as the lone parent allowance were an actual expansion of the social protection system. In 1971, the government introduced employee contributions towards health services. This was another shift in implementing social security taxes instead of paying for social welfare from general revenues. At the end of the 1970s, over 55 percent of social expenditure came from the employers, about 20 percent was contributed by the government and the rest came from the insured

[61] Long, F., 66.
[62] O'Hearn, D., 142-143.
[63] Kennedy, K. and Dowling, B., 97-98.
[64] Kirby, P., 21.

population. The government then also implemented a fully earnings-related contribution system instead of the flat rate that had existed before.[65]
The rise in public expenditure that was already visible in the 1960s continued with an even stronger curve in the 1970s as can be seen in graph 1.[66]

Graph 1 Total Public and Social Expenditure 1950-1980



Source: Flora, p., ed, 248

In the 1970s, the Irish government really made an effort in implementing a system that resembled the systems of the other northern European countries, but it was by far not fully developed yet.
In 1969 and 1970, the IDA was enlarged and reorganized. They still were state-funded, but were now separated from the Department of Industry and Commerce and got their own board and more operating freedoms. One of their main objectives was to disperse industries, as at that time most of the employment and industries could be found in and around Dublin. They also went to work more critically when it came to promoting types of industries. So (semi-)state intervention increased in this sector, and in the energy and transportation sector the state still funded or controlled most companies and regions.
The Irish economy also proved not to be bank-dependent at the start of the decade. In the middle of the previous decade, the banks in Ireland merged into two large bank groups (Bank of Ireland Group and Allied Irish Banks Group). Major banks had known very little competition until then and interest rates were set with arrangements. With that, industrial relations in Irish banking had often been fraught since banking services had been restricted on several occasions since the 1950s. In 1970, all major banks were closed down for six months because they refused to agree on a pay increase for their

[65] Flora, P. (ed.), 270-284.
[66] Flora, P. (ed.), 246-251.

employees. This meant that the economy could only make direct use of 20 percent of its normal money supply, but nevertheless the monthly retail sales were hardly affected, which indicates a solid trust in the short-term economic activity.[67]

The 1970s also saw a number of other monetary changes. In 1971, decimalization of the currency came into effect, but the Irish currency was still closely connected to the Pound Sterling of Great Britain. That same year the Central Bank Act became effective. This meant that anyone (being a person or a bank) first had to apply for a license before they were allowed to execute any banking activities. The Central Bank was the only institution who could issue such licenses and the newly set up credit institutions had to go through an assessment procedure before a license would be granted. The Central Bank then saw to it that the institutions would comply with all relevant legislation. This did not mean that every credit institution had a license, because institutions such as State-owned banks and savings banks were exempt from this policy.

The government also started to borrow more money from foreign institutions as the expenses increased and this made the share of foreign debt increase heavily.[68]

The Irish Stock Exchange (ISA) had been in existence since 1793 and was a private company limited by guarantee, but in 1973 it merged with other stock exchanges in Ireland and Britain and became the International Stock Exchange of Great Britain and Ireland. As a result, the financial market started to develop and also got a more 'international face'. This also caused several foreign banks to set up a subsidiary in Ireland in the later 1970s. However, the development had only just started and only a limited number of companies were listed and no new companies were allowed to the stock exchange.

Also, in 1979 the EU introduced the Exchange Rate Mechanism (ERM) as part of the European Monetary System (EMS). For Ireland to participate in the ERM, it had to break the Irish pound's parity with the pound sterling because it was not an ERM currency and Great Britain decided not to join the ERM. This ended the interest rate arrangements and also sparked competition not only amongst the existing banks, but also from other institutions. However, the Central Bank introduced exchange control regulations in order to protect the Irish pound. This limited capital transactions outside the Sterling area and with that it put restrictions on the amount of foreign capital that could be invested in Ireland.[69]

The Mergers, Takeovers and Monopolies (Control) Act of 1978 meant that mergers and acquisitions (M&A) had to be approved by the Minister for Enterprise, Trade and Employment. Holders of a banking license were exempted from this Act, however, except when the proposed merger or takeover involved a non-licensed company or represented 'common good'. This meant that the State still had control over activities of

[67] O'Grada, C., 177.
[68] OECD Economic Surveys 1988 - 2000: Ireland, http://dx.doi.org.proxy.library.uu.nl/10.1787/19990324, 64.
[69] Bielenberg, A. and Ryan, R., 41

companies, but that its role in the financial sector was still not fully defined at the end of the 1970s.

In 1969, strikes by transport and electricity maintenance men caused the wage-bargaining to become central again through the National Wage Agreements (NWA) of 1970-1978. Until 1975, these agreements were on a bipartite basis, but after that year government played a more active role for a couple of years, being it just on a low level instead of being truly engaged in the process. Wage bargaining was not fully centralized, for in many aspects there was a lot of room for implementing one's own interpretation of the agreement. The system was based on voluntarism, so on 'national' level there was cooperation, but on firm level it was still the choice of the employer to actively involve employees in policies concerning conditions of employment. With the establishment of the National Economic and Social Council (NESC), an incentive was given to bringing different perspectives together from the government, business and employers' organizations, unions and other organizations such as environmental and agricultural groups.

In 1977, the Unfair Dismissals Act also caused industrial relations to calm down a bit. For the first time, rules and regulations for individual and collective employment protection were drawn up. The government also responded to the growing unemployment rate by introducing several schemes such as the Community Workshops and the Environment Improvement Scheme. This also had an effect on the Welfare system, for unemployed were more or less 'protected' against long-term unemployment by these schemes.

In a number of state enterprise works councils were established, but the councils only had an advisory task on broad corporate policies and did not have any power to directly address actual workers' issues. So this experiment with giving employees a voice was not really successful.[70]

In 1979 the government negotiated with the employers and unions and the outcome was the first National Understanding for Economic and Social Development plan. It recognized the trade-off between pay and employment levels and tax and social welfare concessions became an explicit part of the package. It was seen as the successor of the National Wage Agreements.

The first primary-school curriculum was set up in 1971 and this was the first attempt in homogenizing the level of primary education. During this decade, the government took measures in an attempt to rationalize secondary education and set up more tertiary education institutions. The National Council for Educational Awards (NCEA) became the institution which would grant certificates and also financial aid to students who wanted to attend Technical Colleges. The students with the certificates would be exempted from either the first year of university or could obtain a Bachelor's Degree via a special program. These awards were not statutory for most of the decade, but became so in

[70] Salamon, M., Industrial Relations: Theory and Practice, (Harlow, 4th ed. 2000), 377.

1979. In secondary education, the government strived to break down the separation between vocational and academic education and promoted teaching practical skills. The government even expanded the applied sciences education sector, especially in the technological sector. This approach succeeded only partially, so vocational education and training was still quite weak at the start of the 1980s, but education was more standardized and was higher on the political agenda than ever before.[71]

The entry to the EEC meant improved living standards and good prospects also lifted spirits. The outlook of free trade and a very favorable tax climate attracted a lot of foreign companies, especially from the US. Ireland became even more dependent on foreign investment. Foreign industry dominated large-scale manufacturing while the indigenous industry mainly existed out of tiny firms. So it seems that, although Ireland had become more independent from the British market, they now had become dependent on another foreign market; the US.[72]

At the end of the 1970s, cracks in the system/strategy became visible with the large number of struggling Irish firms and rising unemployment. The budget deficit as a percentage of the GDP had also hugely increased in the 1970s as can be seen in Graph 2 on page 39. However, at the end of the decade there were no signs of any successful attempts to restrain the deficit.

So the government tried to adapt to the new openness of the market, not necessarily by controlling it, but it certainly tried to exercise influence on the labor and product market with its fiscal policy by for example the National Understanding plan.

During these two decades, Ireland took large steps in order to reform its economy. Looking at the product market, Ireland reduced government control and limitations and as a result competition was fierce. Especially for the indigenous firms, since the government’s incentives had attracted many foreign companies and gave these companies an advantage by awarding grants and imposing low tax rates.

The foreign companies made high levels of profit compared to the indigenous firms and a number of sectors also saw investments coming their way. The foreign firms did focus most on earning profit however and were therefore still mainly interested in the short-term effects. Government influence still remained present through bodies like the IDA and in several sectors the government controlled the market by owning most companies in that sector.

In the labor market the government became an important player by achieving centralized bargaining and by having active employment policies. Trade unions were quite powerful and together with other institutions and organizations they tried to create cooperative industrial relations and interpreted and applied employment protection

[71] Flora, P. (ed.), 265 and 315.

[72] O’Hearn, D., 148.

statutes.[73] One point that has to be taken into account though is the fact that the NWAs were not all actual legislation and therefore not fully executed and controlled by the government. Inside the company the shareholder(s) and employer had a much stronger voice than the stakeholder (employees/government).

Here a complementarity comes into play, because the active employment policies are a part of the labor market area, but also had al large influence on the social welfare, so this part has to be taken into account here when categorizing Ireland. The Irish government put real effort in the welfare state, especially in the 1970s, and the overall real benefit level rose. And although it did not match the level of the welfare state provisions in the Continental European countries, the Irish social security system was now much more developed than two decades before. The labor policies meant that the unemployed were protected to a certain extent because huge efforts were put into getting them back to work and getting them above benefits income level.

Here Ireland stared to move away from the Mediterranean type. The government did not interfere with company policies of the newly set up firm, but State influence was still very much present, so in the product market regulation became less and moved a bit towards the CE type.

The financial sector as a whole was undergoing a transformation, but the outcome of this transformation did not become apparent until the late 1980s.

Education also developed in these years. Secondary education became standardized and attention was given to tertiary education. An attempt to improve vocational training was also made, but the focus on academic and general skills remained.

All in all, many of Ireland’s institutions were in the process of development and both politically and economically Ireland started to move towards a modern north-eastern European economy.

4.2 Towards the Breaking Point

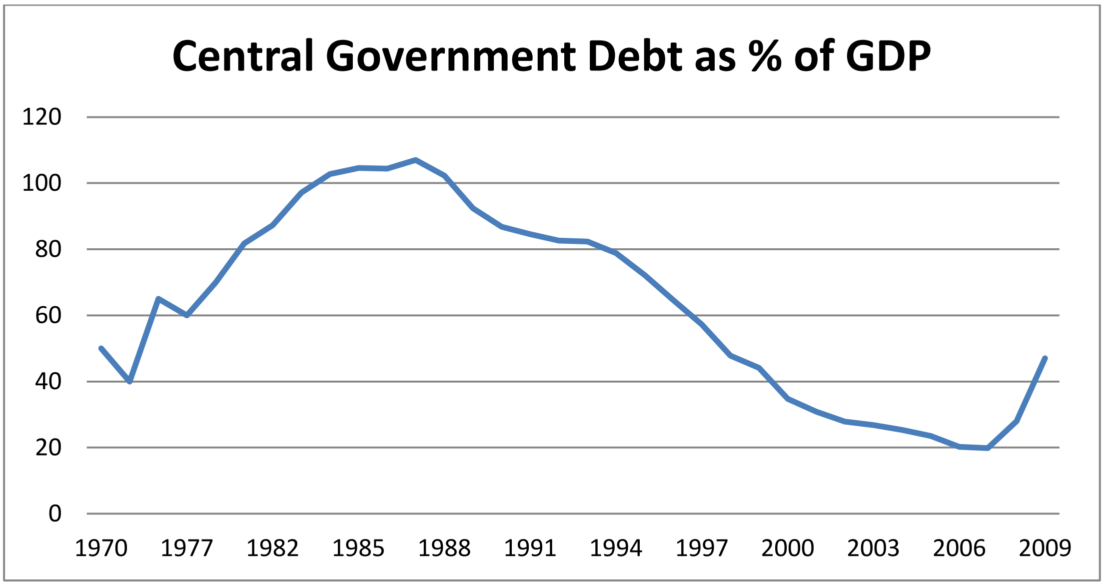
The previous decades were all about finding ways to grow and increase and stabilize prosperity, but this changed when the whole world plunged into a crisis at the start of the 1980s. The crisis was sparked by the second oil crisis of 1979. Ireland was hit extra hard by the economic downturn. Government spending had kept increasing during the previous decades and several critics had already warned about the effects of the large deficit and the dependence on foreign capital. In the 1980s, it became apparent that their warnings had not come from thin air. The looming crisis finally erupted and the atmosphere in Ireland was comparable to the one which existed in the 1950s. As a

[73] Prondzynski, F., von, in Ferner, A., and Hyman, R., Industrial relations in the new Europe, (Oxford, 1992), 76-77.

result, many people who became unemployed and students who had just earned their college degree emigrated.

The late 1970s and the start of the 1980s were also turbulent times in politics; in 1977 Fine Gael lost the elections again to Fianna Fáil and in 1981 and 1982 there were 3 general elections, each with a different outcome as to which party became the largest. Fine Gael finally trumped in November 1982 and would stay in power until 1987, when it lost the elections again to Fianna Fáil. The political turmoil had also caused an even further increase of the budget deficit as a percentage of the GDP as can be seen in graph 2.

Graph 2 Central Government Dept 1970-2010



Source: CSO (1970 – 1980), OECD (1980-2010)

The government(s) tried to implement all kinds of reforms, but because of the turbulent political times, many of these initiatives and ideas failed or support by politicians was withdrawn and the measures were not implemented. For example in 1980, another National Understanding was formed, but this was met with skepticism for it did not have majority support. When it expired just one year later, no further agreement proved possible. Another example is that of the launch of a second reform program through publication of a White Paper: *Serving the Country Better*. Its aim was to introduce new public management concepts and policy tools. More decentralization, improved budgetary management and greater mobility across departments of top level administrators were advocated.[74] Unfortunately, most of the goals the government(s) set were not met or were even disposed of when the next government took office.

During these years, the industrial policy was also frequently questioned by economists and politicians. This because foreign firms were still being attracted, but little was done

[74] OECD, Regulatory reform in Ireland, (2001), 11.

about the waning indigenous industry. The main concern was that Ireland would become a branch plant economy. This means that the foreign owners of the firms are mainly concerned about the effects of their work on their home-country and making a profit, but that they do not care about the effect of the firm on the welfare of the people who live in the country/vicinity of the firm.
The call for privatization already existed in the 1970s and became stronger during the following decade. This because the public saw that state-owned companies were not as profitable as thought and also saw a growth in expenses which had to be paid by the taxpayers. However, state-owned companies were long seen as a form of nationalism because of the protectionist strategy that Ireland long had had and therefore had to be hold on to. And although the government had liquidated the Irish Shipping Company in 1984, the willingness of the government to sell other loss-making state-companies was not yet there during the mid-80s.[75]
The dependence on foreign capital (FDI) became apparent when the crisis hit. Transnational companies (TNCs) had been repatriating their profits and in the 1980s, almost half of the profits made in Ireland were re-invested in the there-based company. A considerable part of these TNCs were active in the computer, electronics and pharmaceutical business. Local businesses did not seem to profit from these investments however, as the TNCs imported materials instead of buying them from the indigenous firms.[76]
The re-evaluation of the industrial policy was initialized by the Telesis Report of 1982 in which the importance of the whole industrial sector was emphasized instead of just the export component. Reaction was not immediate however. It was not until 1985 that the IDA started to see that local recourses and materials were there, but not necessarily used by the TNCs. They then launched the 'National Linkages Programme' in order to stimulate foreign companies to get their materials and services from local companies. In that way, the indigenous industry would keep pace or catch up with the foreign companies.[77] This was again not in the form of legislation, but in the form of providing several incentives in order to enhance cooperation. This had some result, because from then on the indigenous industry showed more dynamism. And although there was some success, the transformation was not as far-reaching as hoped. According to OECD figures, in 1987, multinationals accounted for 43 percent of employment and 65 percent of the net output of the Irish manufacturing sector. The dependence on foreign capital became more and more apparent and so did the dualism between the foreign and indigenous industry.
Overall, there was very little regulation for (foreign) entrepreneurs and investors and competition in most sectors increased. But in sectors such as in banking and financial

[75] Barret, S., 14.
[76] O'Hearn, D., 149.
[77] O'Hearn, D., 150-153.

services and for the establishment of insurance companies, there were reciprocity considerations. Also, direct investment in air transport, the fishing industry and agriculture were restricted. Permission had to be granted by commissions before any investments could be done.[78]

Despite the economic downturn, education took an increasing share in government expenditure. Although here cutbacks were made as well, education was not as severely cut as many other sectors. In 1980, a white paper was published which expressed the concern about the higher education provision not matching the labor market needs. Up until then, the focus had always been on agricultural and manufacturing skills and jobs. With the arrival of foreign companies in different sectors, focus shifted to projects in the engineering sector.[79] The government took the report seriously and started to invest in tertiary education and especially in technology and engineering education. From the mid-1985, the number of people in tertiary education started to rise, but the overall level of education in Ireland remained below the EU and OECD averages except in engineering and technology. The emphasis of secondary education was still mainly on the academic skills and not so much on the vocational skills. But in post-secondary education, the interest for vocational skills slowly started to grow.[80]

While secondary education was standardized, primary education remained in the hands of the Catholic Church. There were official curriculum standards, but it was left to the church authorities to implement them so an actual standard in primary education was not in place.

Employers had always kept pressing for decentralization of wage-bargaining. Because the government was not able to meet the expectations of the second National Understanding, it was discontinued and centralized agreements were absent for most of the 1980s. During that period, all parties felt that legal regulation should be avoided and participating in agreements should be voluntary. As a result, existing regulating laws were avoided and alternative regulatory frameworks which were based on central bargaining were also accepted. Next tot that, because of the lack of influence of the unions on government policy making and the loss of confidence in the economy, trade union membership dropped in the first half of the 1980s and they became less influential than during the previous decades. The focus of the unions remained more on ‘protecting’ their members by favoring active government policies in order to create employment and tax reduction for workers.[81]

[78] OECD, Reviews of foreign direct investment: Ireland, 1994, 25.
[79] O’Hearn, D., 181.
[80] Tuohy, D., 107.
[81] Bielenberg, A. and Ryan, R., An Economic History of Ireland Since Independence, (London, 2013), 37-38

Mid-1980s, the product market was wide open since (foreign) investments were stimulated, sectors like the healthcare and aviation were (partially) deregulated and therefore open to competition and there were little government limitations. This all certainly fits the market type. On the other hand, in many sectors, such as the energy and transportation sector, the government still held power. The IDA, although officially independent, also had influence on the investments and establishments of companies.[82] These characteristics match the Continental European type.

When it comes to the financial area, the characteristics also underwent some changes. The main change was that of the huge increase in foreign direct investment, which was 23% of the GDP during the 1980s.[83] These investments can be seen as venture capital and this fits the Market-based model. However, most of the characteristics of the Irish economy still fit the Mediterranean type of capitalism for ownership concentration was high, minority shareholder protection was weak, Mergers and Acquisitions were regulated and the financial market was not very sophisticated.[84]

In the labor market the government played an important role because of the active employment policies. This fits the CE type. Although trade unions were officially a member of the ICTU (Irish Congress of trade Unions), the organization had little control over the individual behavior of unions. So the organization did not have much general influence, but trade unions remained fairly influential within their sectors. This also matches the CE model. With the absence of national agreements, employers created their own rules and regulations and often negotiated individually with the trade unions on wage-bargaining and employment protection. Since the focus of the unions was not on protecting employers against dismissal and they did not favored labor laws, employment protection was low.[85] This characteristic matches the market-based type. Here a complementarity comes into play, because the active employment policies are a part of the labor market area, but also had al large influence on the social welfare, so this part has to be taken into account here when categorizing Ireland. The Irish government put real effort in the welfare state, especially in the 1970s, and the overall real benefit level had risen together with public expenditure on welfare. Pensions remained the main source of social expenditure.[86] And although it did not match the level of the welfare state provisions in the Continental European countries, the Irish social security system was now much more developed than ever before. The active labor policies meant that the unemployed were protected to a certain extent because huge efforts were put into getting them back to work and getting them above benefits income level. Social protection was therefore work-oriented which also fits into the CE model.

[82] Hill, J., Halpin, B., 'The Role of Active Labour Market Programmes in Employment Policy' http://mpra.ub.uni-muenchen.de/10498/ (June 2008), 6-9.
[83] OECD, Trends in Foreign Direct Investment in OECD countries, (2003), 4.
[84] OECD Economic Surveys 1988: Ireland, http://dx.doi.org.proxy.library.uu.nl/10.1787/19990324
[85] Prondzynski, F., von, in Ferner, A., and Hyman, R., Industrial relations in the new Europe, (Oxford 1992), 76-77.
[86] Flora, P. (ed.), 255.

Education also developed in these years and became a mix between the market-based and the CE model. Secondary education became standardized and attention was given to tertiary education which made enrolment rates increase. The government had also put effort in improving vocational training in certain sectors. Regional Technical Colleges (later Institutes of Technology) had already been set up, but now were expanded and aimed at providing stronger technical and more vocational education. The universities and most of the secondary schools would stay focused on the more academic side. The level of expenditure had risen, but this rise was market driven as the government stimulated students to get a degree in technology and engineering which fitted market demand. This feature is a mix between the CE and market-based type.
Ireland's type of capitalism had definitely changed from the end of the 1950s. In the middle of the 1980s it had developed characteristics of the Market-based and the CE type, but in the Finance and Welfare area still kept characteristics of the Mediterranean type.

Table 4.1 Characteristics of Ireland mid-1980s

Area	**Characteristics**	**Type of Capitalism**
Product Market	Little government control and few regulations Regulation in some sectors, involvement public authorities	Market-based CE
Labor Market	Decentralized wage-bargaining, low employment protection, stakeholders' interest Active employment policies, moderately strong unions	Market based CE
Finance (Corporate Governance)	Venture capital High ownership concentration, low sophistication of financial market, almost no market for M&A	Market-based Mediterranean
Social Protection and Welfare	Moderate protection, expenditure mostly on pensions Involvement state, work-oriented	Mediterranean CE
Education	Standardization Moderate (specific) public expenditure, moderate vocational training Focus on general skills in secondary and academic education	CE Market-based

5 The Celtic Tiger and beyond

5.1 Transforming into the Celtic Tiger

The 1990s became known as the Celtic Tiger years. Numerous scholars have discussed this decade recently in papers and books and therefore data about this decade is much more available than for any of the other decades. The establishment of the European Union in 1992 means that 'international data' is also available in abundance. This makes it in many ways easier to analyze Ireland in this decade. On the other hand, these sources are not all in agreement with each other and explain the same information in a different way. A subject which they are in agreement about is that of the fact that Ireland's government had become a supporter of neoliberal ideas during the 1990s and that its strategy from then on was fully focused on promoting a free market.

The starting date of the 'Celtic Tiger' period is usually set at 1987. This because the economic and political insecurity and recession started to take a turn when Fianna Fáil came back to power again. The NESC had published the 'Strategy for Development 1986-1990' report and it strongly insisted on implementing severe cutbacks and other measures in order to get the fiscal policies and budget deficit back on track again. It won the support from unions, employers, the agricultural sector and, probably most important of all, from the opposition party Fine Gael. It set goals for maximum basic pay increases, tight control on inflation, government debt reduction and the unemployment rate. The size of the government would also be reduced. This also meant that a number of government agencies were abolished and more room was given to private companies in sectors such as health care and civil aviation (airlines).

The choice for 1987 as the year of the start of the Celtic tiger period was also because of the implementation of the Programme of National Recovery (PNR). The plan can be compared to the National Understandings of the 1980s, but now there was majority support. It entailed subjects such as coordinated wage bargaining, fixed working hours and employment protection. This plan would be the start of a series of three-year 'wage and policy agreements'.

With the PNR the government succeeded in getting a grip on more centralized bargaining again. The unions also regained some of their former glory and influence since they were once again part of the negotiating table. General guidelines for pay, a reduction in hours, employment protection for regular, full time workers (although implemented through local bargaining) and targets for government economic and social policies were set up. Note that most of the agreements were guidelines and that it was not actual labor protection legislation, but nevertheless a form of protection was given to 'regular employment'.[87] The government also continued stimulating worker

[87] Salamon, M., 291.

participation in decision making, but it was still not very successful.[88]
The PNR was a new approach to achieving cooperative industrial relations for the negotiations were based on a tripartite level, which meant that employers, employees, unions and the government were all represented and therefore all had a say in the development process of the program. The parties next to the government were largely represented by the ICTU and other small, independent unions, the Federation of Irish Employers and the Confederation of Irish Industry. The latter were representatives of their member companies who had a collective negotiating license. This was therefore not just on national level, but very much so on local and even firm level. Responsibility was also distributed to lower levels. There was a form of control and regulation from the national government on the general goals of the program had to be adhered to, but the local governments were given the power to decide on what was best for their region when it came to the details on how to achieve these goals. This system became known as social partnership and would be the standard for the future. The system was based on voluntarism and not on legislation. It caused the familiar distinctions between public and private, national and local and being a representative or participative democracy to blur.[89] It would become an example for other countries, as this system was seen as one of the aspects that caused the economy of Ireland to surge in the next decade.
Although some saw the PNR as a tool for the government to achieve labor and product market control again (and essentially it was), it was not just a mere practice of government control. It was based on multiple parties working together on different levels and one has to keep in mind that most parts of the agreement were guidelines and not strict rules that had to be adhered to.[90]
The government also kept fighting unemployment by having active labor policies and implementing employment. One of these schemes was the establishment of An Foras Áiseanna Saothair (FÁS) in 1987. This state agency's task was to assist those who were looking for a job and soon became an institution that was renowned for its accomplishments and was the government's help and stay when there were employment problems. During the last years of the decade, public expenditure on labor policies was with 2% of the GDP at the same level of that of other high-spending northern European countries like the Netherlands.[91]
Although several of the drastic political measures were successful from the moment that they were implemented, the goals in unemployment reduction were not met. In 1987, the unemployment rate had risen to 18% and was the highest in Irish history. Although this number slowly dropped in the following years, it increased again at the start of the 1990s.[92] The number of people emigrating also continued to be high.

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[88] Prondzynski, F., 71.
[89] Kirby, P., 39-40
[90] Prondzynski, F., von, 80-81.
[91] Kirby, 134.
[92] The World Bank, http://databank.worldbank.org/data/views/reports/chart.aspx

This deterioration is most attributed to the weak competitive position Ireland had when they joined the ERM and the exchange rate control measures that were taken by the Central Bank in order to protect the value of the Irish pound. With the PNR, the government had succeeded in implementing wage-restraint, but because of the protected exchange rate of the Irish pound, wages were high compared to other European countries. When the exchange control measures were lifted in 1992, the Irish pound devaluated and this improved Ireland's competitive position in the labor market.[93]
As already stated, the effects for the citizens of the Programme of National Recovery were not immediate and it was a three year program, so at the start of the new decade new negotiations took place for a new strategy. These negotiations were initiated by the ICTU (Irish Congress of Trade Unions) as they had called for tripartite national negotiations about a long-term strategy.
In 1991, the Programme for Economic and Social Progress was implemented and it contained a ten-year strategy for both the economy and industrial relations. It continued the policy of seeking moderate pay increases and developments in economic and social policy (such as encouraging developments in employee involvement). The broad strategic goal was 'to develop a modern, efficient market economy with an innate capacity of a developed social conscience.'[94] Just as the agreements made in the PNR, most of the measures of the new program were left up to the social partners to implement, but the government saw to the implementation of specific measures such as the unfair dismissals law and the all-across-the-board ten percent corporate tax rate. Another important part of the agreement was that employee involvement in firms was strongly encouraged.
The long-term strategies of the first two programs were therefore more or less continued in the next three-year Programme for Competitiveness and Work of 1994. Part of the Programme was that for the first time a difference would be made between private and public provisions. Other active labor market policies were also part of the agreement and expenditures on government programs in this area exceeded those of most of the other European countries. A number of employment protection measures for e.g. part-time workers were also implemented, but compared to the most European countries employment protection was still low. This because the regulations and measures were more on working hours and policies concerning conditions of employment than on actual job security.[95] Involvement from other groups was also stimulated by the establishment of the National Economic and Social Forum (NESF), which would be the representative for bodies like the Combat Poverty group.

[93] Bielenberg, A. and Ryan, R., 41
[94] Department of the Taoiseach, Programme of Economic and Social Progress, 5.
[95] OECD Economic Surveys: Ireland, 1997, 79-89.

From 1993 onwards, the Celtic Tiger really emerged and the unemployment rate dropped from 15.6% in 1993 to 10.2% in 1997.[96] While business taxes had been lowered and more employment had been created, the actual wages did not go up much in that period. Employees with an income just below or on the average industrial wage saw their average tax rate increase by 3% in the years leading up to the Celtic Tiger. This while the employees with an income well over the average industrial wage saw their tax rate decrease by almost 5%.[97]

In 1997, the Partnership 2000 for Inclusion, Employment and Competitiveness was agreed upon. This agreement was drawn up not only by the regular social partners, but this time also other 'civil' groups were represented by the NESF. One of its main objectives was to tailor the partnership model to sector and enterprise level, so less general and more applicable to individual companies. The (semi-state) institution National Centre for Partnership and Performance was set up in order to stimulate firm partnerships in order to create more innovation and competitiveness. It also involved lowering tax rates in exchange for even more moderate wage increases.[98]

But the three-year agreements were not the only new approach of the government towards becoming a stable and well performing economy. From 1987 onwards, several institutional changes took place and the Irish economy transformed completely.

During the first half of the 1990s, the government instituted a number of changes in order to 'get more value for money'.[99] One major change was the merger of the Department of Industry and Commerce and the Department of Employment into a new Department of Enterprise and Employment which would formulate and implement industrial policies. Another change was that the IDA got more power and government control was even more lifted. They attracted companies by awarding grants which were directly paid by the Irish government. In this way, the IDA 'bought' several companies and made them settle in Ireland and at the same time stimulate the indigenous industry. The IDA was empowered to make sure that a company that applied for a grant would meet all legal conditions and obligations before grant payments were made. They could also decide to revoke grants if certain conditions were broken, but this seldom happened.[100] As a result, especially US companies started to move in even more because of these grants and the favorable tax system.

Another change was the establishment of Forfás by the government. It became the national policy advisory board for enterprise, trade, science, technology and innovation and would concentrate on linking the indigenous industry to the foreign companies and with that stimulate the development of the Irish industry. These incentives caused a new sector to emerge in Ireland: the software industry. It became one of the biggest success

[96] The World Bank, http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?page=1
[97] Kirby, 63.
[98] Kirby, 63.
[99] OECD, Reviews of foreign direct investment: Ireland, 1994, 28.
[100] OECD, Reviews of foreign direct investment: Ireland, 1994, 29-30.

stories of the Irish economy. However, again this initiative was only partly successful and a marked dualism remained between the indigenous and foreign industry.[101]
During the first half of the decade, state enterprises played an important role in Ireland. The state was active in the steel, transport and financial sector. Postal services, telecommunications services, energy and railways were all public monopolies. The government did not consider privatization, which was in contrast to most other countries in Europe. This view changed a bit in the 1980s with e.g. the deregulation of the Irish airlines, but completely turned around in the 1990s. The Irish state exited from food, telecommunications, shipping, the banking sector and more.[102] Especially the privatization of the telecom sector meant a huge increase in competitiveness and the sector became open for takeovers. However, in sectors such as energy and railways, the government stuck to its public ownership. Also, the government set up (semi) state-bodies that would see to the implementing of regulations in certain, previously released sectors, which were aimed at banning or restrict new entrants.[103]
In the 1990s, the Irish market was (on paper) a model for a market-based economy due to the extension of privatization and even more competition stimulating measures from the IDA and the IFSC. And although officially there was some government control, this was seldom executed. Having a well-educated and young population only increased the competitiveness in the product market, for if high-quality products can be produced cheaply, companies will be drawn to your country and bring investments for innovation. The official barriers to entrepreneurship in Ireland were low, but the OECD saw an issue in its review report of 2001. It stated that legislative decisions were not always properly communicated to 'outsiders' and that the information flow was closed. This means that those who did not take part in the negotiations or discussions about legislative measures were ill informed and this was seen as a barrier for entering the product market. Ireland's ranking in the OECD product market regulation chart of 1998 is therefore on the same level as e.g. the Netherlands and Denmark and Ireland scores considerably higher than the US and the UK.[104]

In 1987 the International Financial Services Centre (IFSC) in Dublin was established in order to attract foreign investment in the financial service sector (and with that the establishment of foreign companies in the center). Its most important objective however was to create a broad-based and well-regulated financial services industry, which would create sustainable jobs.
When a company wished to open a branch in the IFSC, they applied to the IDA and the IDA then helped to establish the company. The Central Bank has been the regulatory authority of many of the activities of the IFSC and the Department of Finance has had

[101] Kirby, 151.
[102] Barrett, S., 18-19.
[103] Barrett, S., 20.
[104] OECD, Regulatory reform in Ireland, (2001), 14-15 and http://stats.oecd.org/Index.aspx?QueryId=28994.

the sole power to issue licenses to operate in the IFSC. However, other services have been generally permitted to operate under a self-regulatory framework and are still just monitored by the Central Bank. This also caused the number of institutional investors to grow rapidly. In order to avoid so-called brass-plate presence, companies which were licensed by the IFCS were brought within the same tax regime as all industries operating in Ireland. New companies also had to comply with regulations on employment creation and location requirements.[105]

The financial market itself became more deregulated, but nevertheless legal enforcement in the financial sector was still quite strong. This partially because of the Single European Act which Ireland had ratified in 1987. The act was set up in order to create a single European financial market in 1992. With this, the interest rate arrangement that the four clearing banks had came to an end and the banking sector saw an increase in (foreign) competition. The Central Bank Act of 1989 also meant that large mergers or acquisitions (M&A) had to be approved by the Minister of Finance and by this an active market was restrained.

In 1993, the exchange controls were abolished and the major Irish banks were discouraged in maintaining their collective setting of interest rates. The next couple of years saw even more deregulation, with for example the ease of the regulations for M&A. By the end of the decade, the banking sector became one of the most deregulated sectors of the economy.[106]

The next major change in the financial area was the autonomization of the Irish Stock Exchange (ISE) in 1995. The autonomization made the financial market become more developed and active then it ever was before, since the Exchange did not have to comply with British law and supervision anymore. The IFSC is still the regulatory authority of the ISE and has applied the Listing Rules which are in the so-called 'Purple Book'. Large financial organizations were still excluded from the Exchange because of the Central Bank Act of 1989. The openness towards foreign companies Ireland had created for its product market was now extended to the financial market. Nevertheless, the importance of the equity market when it came to percentage of the GNP or the number of listed companies (about 50 in the mid-90s) was by far not as large as in the US or the UK at the end of the decade.[107]

As already mentioned, the Irish government had active labor policies and this also had an influence on the welfare area. During the 1990s, the Irish employment agency FÁS was very successful in raking in EU subsidies and as a result the number of unemployment schemes grew and FÁS became more and more influential. The most

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[105] Kirby, 159-160.
[106] Bielenberg, A. and Ryan, R, 40 and Department Of Finance - Government of Ireland http://www.finance.gov.ie/viewdoc.asp?docid=808#ch4
[107] Leuz, C., Nanda D., Wysocki P., 'Earnings management and investor protection: an international comparison', Journal of Financial Economics 69 (2003), 517.

influential one was the Community Employment scheme. Because of the growing number of unemployment schemes in combination with the economic boom, people who were long-term unemployed found a job and at the height of the boom there even was a shortage of workers.

Ireland's level of expenditure on welfare therefore was still quite high at the start of the 1990s, but the percentage of the GDP decreased rapidly because Fianna Fáil made cut backs in order to decrease government debt. When the economy picked up, the number of unemployment payments also decreased automatically.

From 1997, the number of employment schemes decreased and the nature of the schemes also changed, but the scale of the schemes increased. When they were first focused on providing people a job, now they were seen as means for making sure that people stayed in their job via specific skills-training or by giving subsidies to companies who employed long-term unemployed. Also, several benefits were cut as an incentive for (long-term) unemployed to find a job again. The benefits were reduced to only those who had to get by from an income substantially beneath the poverty line.[108]

While benefits such as pensions or basic healthcare became available for every Irish citizen, they were only of a minimum level and additional income had to come from private spending such as built up pension at a company or an insurance policy. Public and private hospitals had already existed next to each other for a long time, but now every citizen could go to a public hospital without having to pay for basic care. Comprehensive healthcare however was still only available to those with insurance.[109]

The cutback on social benefits also meant that the gap between those with income from labor and those living on benefits started to grow. This resulted in a growth of people living in poverty, because the wages of the lower income groups did not grow as much as those of the higher incomes and the government share of the total income of households decreased. Next to that, tax cuts were not applied on lower and middle incomes only, but across the board, which caused the group that profited most were the higher incomes. This caused an even more unequal income distribution.[110]

In education, the government's goal was to tend to market demand with providing skilled and educated prospective employees and attention was given to tertiary education and vocational training.

At the end of 1989, the Leaving Certificate Vocational Programme was introduced. This program was meant for students who did not go onto tertiary education and would provide them with extra vocational skills. This would prepare the students for the specific demands of the labor market as more mid- and higher level jobs became available through the foreign investments in the technology and engineering sector. Although the

[108] Schäfer, M., 'The Irish welfare state: Closer to Boston than Berlin?', Socheolas 1(2009), 116.
[109] Kirby, P., 131-133.
[110] Kirby, P., 54-55.

program was successful and vocational training was more present than ever, the focus of secondary education remained academic. Nevertheless, the number of students that graduated from tertiary education, had received post-secondary education or had received vocational education in the form of practical skill courses or internships rose. Participation in tertiary education had already made a spurt in the 1980s and this continued in the 1990s. In 1970, about 3 percent of people between 25 and 34 had a third-level qualification and this number rose to 27 percent in 1999.[111] Also, FÁS together with the Department of Education had introduced a new apprentice system in the technology sector. With this system, more students would do an apprenticeship during their studies at the Regional Institutes of Technology and with that acquire practical skills and vocational training. The level of vocational training which was offered on the work floor by jointly the employer and the education system was even above EU average.[112]

Halfway through the decade, Ireland had a surplus of young, highly educated, low wage workers. This made the country very attractive for foreign companies and especially the US computing firms found their way to Ireland. Foreign chemicals, computers, and electrical engineering accounted for more than 40 per cent of Irish economic growth in the 1990s.[113] During the 1980s, total FDI accounted for 23% of the GDP. At the end of the 1990s, this percentage had increased to 63%. In no other OECD country the percentage was this high.[114]

5.2 Continuing the chosen path

During the Celtic Tiger years it seemed that Ireland was finally catching up with the rest of the western European countries when it came to living standards and economic development. It was no longer a so-called developmental state, but it had developed into a high-tech industrial society. When 9/11 shook the world, the world economy plummeted in a short crisis. Also in Ireland this was felt, but the economy soon recovered and it seemed that the 'Celtic Tiger' could not be stopped. Government debt also kept declining just as the unemployment rate which in 2005 was at its lowest peak of only 4.3%.[115] So why change course of action?

However, already at the very start of the new millennium critics saw cracks in the perfect system that Ireland seemed to have set up, but 9/11 made them even more pessimistic. Even in the OECD report of 2000, recommendations for changes were made in order to maintain the growth and sound state of the Irish economy. Ireland did not

[111] Kirby, P., 45-46.
[112] OECD, Economic Surveys Ireland, 1995, 84.
[113] Kirby, P., 92.
[114] OECD, Trends in Foreign Direct Investment in OECD countries, (2003), 4.
[115] The World Bank, http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?page=1

adhere to most of the criticism and mostly continued to follow the course of the previous decade.

The privatization wave had already started during the Celtic Tiger period and continued in the new millennium. At the start of the decade, the government privatized a number of large companies with the most striking one being AerLingus, but in economically influential industries such as energy and railways the State remained the sole owner. On entering the Eurozone, product market regulation decreased even more as investment and trade barriers were further lifted. And although Ireland had already had a competitive product market, for a long time it was on the same level as e.g. the Netherlands and scored higher than the other Anglo-Saxon countries. The Irish government therefore took to heart the criticism that the OECD had uttered at the start of the decade and they improved the communication about the legislation and decision making processes. In the 21st century, Ireland, together with the other Anglo-Saxon countries, became one of the countries with least State control and regulation according to OECD statistics.[116] Most of the characteristics of the Irish economy completely fit the market-based type of capitalism, with the exception of state-ownership remaining present in certain sectors.

The labor market situation did not change much compared to the previous decade. The Partnership 2000 program expired in 2001 and after that two more three-year agreements were signed before the 2006 'Towards 2016' plan, which is a ten-year strategy. So the social partnership structure which had developed in the previous decade continued in the new millennium. Wage-bargaining remained coordinated and guidelines for the public and private sector remained in place. Employment protection never had been high on the agenda during the Celtic tiger years and this also did not change in the new decade.

Both the Community Employment and the Apprenticeship scheme of FÁS had proven to be greatly successful, but both needed remodeling in order to fit the new economy. Jobs were now affluent and in the IT sector employers more skilled. But the number of long-term unemployed did not decrease as much as hoped and it was felt that the programs had focused too much on younger people and did nothing about unemployment amongst older age groups. After a period of criticism and casting doubt upon the necessity of FÁS, the organization reorganized. In 2001, it introduced a new two-tier Community Employment scheme, which focused on including the older age groups and it would set the tone for the rest of the decade. Both integrating the long-term employed into the workforce and training people in getting the skills needed for the economy were among the main objectives of the program. With these successful schemes, FÁS had become one of the pace setting institutions of the country and it was almost impossible to

[116] OECD Statistics, http://stats.oecd.org/BrandedView.aspx?oecd_bv_id=pmr-data-en&doi=data-00593-en

imagine a labor market without FÁS.[117] In 2001, Ireland ranked 6th of the OECD countries when it came to Active Labor Policy spending. And although spending decreased the following years it still remained above OECD average.[118]
Looking at the characteristics of the Irish labor market, they are a mix between the market-based and the CE type just like they were at the end of the 1980s. However, Ireland moves a bit more towards the CE type, because wage-bargaining is coordinated and with the social partnership system, shareholders' interest is increased.
In the 1990s, the active financial market and high amount of institutional investors did not mean that Ireland was a typical market-based country when it came to finance. Leuz et al. (2003) made an international comparison of corporate governance and shareholder protection and his research is based on the work of several other scholars and also on accounting data from 1990 to 1998 for over 8,000 firms from 31 countries.[119] He puts Ireland in the same category as e.g. the Netherlands and Germany. This means that they are insider economies with less developed stock markets, concentrated ownership weak investor rights and strong legal enforcement. Indeed, the ISE became autonomous, but ownership concentration was still high and could be compared to the rates of the north-eastern European countries, with the exception of the banking sector. The rate of minority shareholders protection was quite high though and in this perspective Ireland matches the other Anglo-Saxon countries. But at the end of the decade, the International Financial Services Centre (IFSC) eliminated several regulatory measures for companies such as location requirements and employment commitments. Furthermore, legislation on mergers and acquisitions became less rigid and especially more (foreign) acquisitions were made. By 2005, over 450 international financial service firms were operating in Dublin along with 700 other IFSC-licensed firms who acted through third-party intermediaries. Over 80 percent of these firms were non-Irish and the total IFSC company-employment was 20% of all those employed in the financial services industry.[120] The number of companies listed on the ISE grew, but one still could not speak of a highly developed stock market and ownership concentration remained relatively high. One could speak however of a large and sophisticated financial service market, since the service sector had overtaken manufacturing as the principal export sector of the Irish economy. The services exported were mainly in the insurance and financial fields. Institutional investors became an important part of the financial sector, since they invested in construction. This stimulated the construction boom and caused over 13% of the workforce to be employed in the construction industry in 2006.[121]
In this area, Ireland had completely moved away from the Mediterranean type of capitalism and developed more characteristics of CE and the market-based type.

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[117] Boyle, N., 'FAS and Active Labour Market Policy 1985-2004', Studies in Public Policy, 17, (2005), 110-111.
[118] Please visit http://stats.oecd.org/Index.aspx?DatasetCode=LMPEXP for an extensive overview.
[119] Leuz, C., 507.
[120] Kirby, P., 2008, 17.
[121] Kirby, P., 2008, 16.

The social security system had been stripped during the previous decade and although unemployment had dropped, the number of people living in poverty or likely to being reduced to poverty had increased. From 1994 to 2001, the percentage of households that had 40% of the average income had increased from 5 to 10%.[122]
In 2000 the government presented plans to 'fight' inequality by launching the National Development Plan. It comprised a huge investment plan of which the main objectives were to continue sustainable national economic and employment growth, consolidate and improve Ireland's international competitiveness, foster balanced regional development and promote social inclusion. This would stimulate the continuation of the growth of the Irish economy and make an effort in reducing the poverty. In reality the social security levels stayed low, because incentives were mainly given in order to find work. Expenditures as part of the GNP dropped from 11% in 1995 to almost 9% in 2005.[123] Ireland moved towards the market-based type in this area, with the exception of the active labor policies, which fit the work-oriented characteristic of the CE model.
In the education area, Ireland kept a moderately high level of expenditure and also high enrolment rates. No actual changes took place compared to the Celtic Tiger years. Ireland therefore has most characteristics of the CE mode, but also has similarities with the market-based model.

Table 4.2 Characteristics of Ireland mid-2000

Area	Characteristics	Type of Capitalism
Product Market	Little control and few limitations, price competition Regulation in some sectors	Market-based CE
Labor Market	Low employment protection Active employment policies, coordinated wage-bargaining, moderately strong unions, shareholders' interest	Market-based CE
Finance (Corporate Governance)	Venture capital, moderately active market for acquisitions, institutional investors Importance financial institutions and insurance companies, average sophistication of financial market	Market-based CE
Social Protection and Welfare	Weak social welfare protection, mostly residual nature Work -oriented	Market-based CE
Education	Moderately high public level of expenditure and standardization, moderately strong vocational training High enrolment rates tertiary education, focus general skills in secondary and academic education	CE Market-based

[122] Kirby, 2008, 19.
[123] Kirby, 2008, 16-18.

6 The Irish development: A true transformation?

6.1 Typifying the Development of the Celtic Tiger

The Irish story is one that intrigues many people and the Celtic Tiger phenomenon has been described and explained in many articles and books.
In literature, Ireland's development has often been compared to that of developing countries and the rise of the Asian Tigers. Many similarities can been found and according to scholars, for example O'Hearn, Ireland's development can be best categorized as a Newly Industrialized Country and can learn from or be a lesson for other countries in East Asia and Latin America. Just like other developing economies, Ireland has been also described as a dualist country, since the gap between the indigenous traditional subsistence sectors (such as agriculture) and the modern capital intensive industry grew larger over the years.
When it comes to general economic development, these scholars certainly have a point when they saw Ireland as a developing country before the Celtic Tiger period. The northern European countries were much more prosperous and advanced in most areas and even the Mediterranean countries were ahead of Ireland on several points. But analyzing the general economic development was not the objective of this paper.
When it comes to the five areas of the capitalist types, it is a different story. Because Ireland had many similarities with the Mediterranean type at the end of the 1950s and was not linked with 'developing countries' in this perspective. Actual data on many areas was hard to come by for the first couple of decades, so I had to use the descriptions and data of other scholars and had to frame these into the characteristics of the five types of capitalism.
For the 80s and 90s, data sometimes was so in abundance that is was sometimes difficult to see the wood for the trees. Or in other areas, conditions and characteristics of Ireland were hard to compare with any country and it was therefore also hard to develop a clear layout for the Irish economy. Nevertheless I have made an attempt to give a clear overview of the characteristics of the Irish economy.
When you summarize the characteristics of the decades, the characteristics of the Irish economy in most of the five areas changed strongly. Ireland started out as a rural-based economy and remained protectionist and inward looking for the first half of the 20th century and it had most similarities with the Mediterranean countries. Mid-1980s, Ireland overall had moved away from the Mediterranean type and had developed characteristics of the CE and market-based model. Especially at the end of the 1980s a number of crucial changes took place and caused Ireland's characteristics again to shift from one type to another in most areas. Ireland's policies did not change much in the 21st century,

though in the product market area more deregulation took place. But the overall course stayed the same

Up until the 1980s, data was available but not as much as for the Celtic Tiger years. The types of capitalism theories and discussion were also not yet published in bulk and Ireland had not really been categorized. Some scholars describe areas or types of capitalism, but do not fully categorize Ireland. The Celtic Tiger Years were the years of which data was most available and for that period Ireland has been categorized by many scholars. What struck me when reading the material was that many scholars admit that Ireland's modern economy has features that do not match standard descriptions of types of capitalism. Nevertheless, they still place Ireland in a category because overall the country has most similarities with that type. That while some of the most influential characteristics did not match the type, but all the minor ones did and so they categorize Ireland according to that.

For example, both Robert Franzese and Hall and Gingerich show that Ireland is in the same score region in most categories as other Anglo-Saxon countries, especially then looking at the labor and financial market and they place Ireland therefore in the LME category. They do not actually provide a huge variety of data for Ireland, but simply mention Ireland as being in the same category and Ireland pops up in comparative country lists. So it is hard to see the train of thought behind the categorization of Ireland in these two works.[124]

Also, when looking at the figures Siaroff provides us on these same areas, Ireland is not in line with these countries on several points which have to do with wage-bargaining and low ownership concentration. Ireland does not have such high scores as the European continental countries, but is also not in the same level as the Anglo-Saxon countries. He also defines Ireland as somewhat corporatist and not as pluralist.[125]

The above example already proves that Ireland does not match the market-based type when it comes to the labor market, for an element such as coordinated/central wage-bargaining fits in the Social Democratic type. Also, the relative high concentration of ownership in the financial area does not fit the market-based type, but tends towards the CE type.

During the decades Ireland's economy moved away from a Mediterranean economy and developed characteristics of the Continental European and market-based type.

In the last twenty years, Ireland has moved more towards the market-based type, but its economy also kept specific CE characteristics in all institutional areas that distinguish it from a typical market-based economy.

[124] Franzese, R. in Varieties of Capitalism, p. 114 and Hall and Gingrich, 14 and 16.
[125] Sairoff, A., 'Corporatism in 24 industrial democracies: Meaning and measurement', European Journal of Political Research 365 (1999), 184-185.

6.2 Analyzing the Institutional Changes

Ireland's economy might have changed rapidly, but this was not the case in all institutional areas. These changes occurred in over 50 years, while the largest transformation in economic development took place in less than a decade.
Up until 1987, the changes in the institutional areas largely kept pace with the economic developments and were of an incremental nature. Both the economy and the changes were characterized by ups and downs and the government mostly reacted to the economic situation instead of actually anticipating on it.
Ireland saw that it was not able to support itself and slowly let go off protectionism during the 1960s and foreign investment was stimulated by having low corporate taxes and awarding grants to establishing companies. However, the IDA decided how and where to invest and the government remained in control in sectors such as energy and telecom. And while the overall economic growth was not spectacular, progress was achieved in areas such as food-export and the manufacturing growth rate. When unemployment rose, the government reacted by implementing active employment and labor policies.
When entering the EEC, Ireland also was compelled to further develop the social protection system and steps towards a modern welfare state were made. While the financial market continued to be little developed, education received more attention and the number of people with an advanced level of education grew. Ireland slowly moved towards a modern north-western European economy.
However, as a result of the oil-crisis government debt and spending had risen dramatically during 1980s and the government seemed to have no other choice but to take matters in hand in order to divert the mounting crisis.
After 1987, the economy changed much faster than the institutions. The first few years, economic growth was not spectacular with an average of 3.6% of GNP, but this average percentage doubled on 1993 till 2000. The unemployment rate dropped by 10% in just 6 years and government expenditure was cut back severely.[126] In the new millennium, the growth rate declined a bit, but Ireland was still steaming ahead.

In the five areas, the Celtic Tiger changed in some perspectives, but also maintained many of the same characteristics that it had at the end of the 1980s. Yes, in most areas a couple of characteristics changed, but when looking at the overall position of the Irish economy one cannot speak of an actual institutional transformation.
Ireland strived to be a very open country with a very open product and financial market, but still had elements of regulation. Not from the market itself, but from non-market actors such as the IDA and the IFSC. The IDA and the IFSC both had always had a huge

[126] Kirby, P. (2008), 12-13.

impact on the development of the Irish economy. These two organizations had become hugely powerful and became institutions within the institutional areas themselves. Both had influence on what companies entered the market and in what type of market and this is a form of coordination. But in a coordinated environment, there is also a form of control and although both institutions in theory were controlling bodies, in practice this was not the case. For decades, they brought in 'new blood' but did not check if that blood matched the blood type of the country. As a result, investments and companies clustered in sectors such as technology and insurance, but there was little investment in the indigenous industry. With that, the foreign companies did not invest in Ireland itself, but merely in their own assets. When the economy collapsed, this became painfully apparent how dependent Ireland was on foreign capital and that the Irish economy was not able to pay its way.
It is clear that Ireland is very good at creating institutions within institutional areas, for with establishing FÁS it created another institution in institutional areas, namely within both the labor market area and the welfare area. FÁS was in charge of the labor policies of Ireland and successfully helped tens of thousands of unemployed to find a job. Indeed, this organization was very successful in creating jobs, but could not take away the inequality within Irish society. The actual social protection system of Ireland has always been weak and has been mostly targeted on labor policies. This not only has created a large gap between the working and not-working population, but also created overall inequality. In areas such as social housing and healthcare, government expenditure was low and shortages in affordable (social) housing and accessible comprehensive healthcare was not available for the lower income groups.
The people that were unemployed during and after the Celtic Tiger years were mainly low-educated and low-skilled people. The schemes of FÁS were mainly aimed at these people. Indeed, it may have helped these people to find a job, but these were often low-paid and skilled jobs and did not improve the economic position of these people much. FÁS was a great solution for short-term problems but covered up the long-term problems. FÁS also raked in EU subsidies and therefore the government saw no necessity in changing welfare or labor politics, since government social expenditure and unemployment was low.

During the decades, scholars and politicians have criticized the social structure and the dualism and they urged the government to implement changes. However, the elements for institutional change simply were not there.
Fianna Fáil has been the governing party for the majority of the time. Yes, they have implemented radical measures on occasion, but a political party never changes its political standpoint radically because it will lose the votes of its supporters. So how can a

political party which has been in government for numerous years radically change the course of a country?
The biggest achievement from Fianna Fáil was the implementation Program of National Recovery in 1987. This brought along the famous partnership system and increased Ireland's competitive position by having low wages, little product market regulation and corporate low taxes. But the 20 years after that, their line of approach remained largely the same. Foreign Direct Investment was stimulated and government regulation and control were further decreased.
The other element that prevented the institutional areas from changing radically is that of the many organizations and bodies that existed within the institutional areas.
It is a well-known fact that institutions do not change rapidly. Every country has well-established institutions that influence society and Ireland is of course no exception. The Catholic Church and the Common Law system are deeply imbedded into the Irish culture. However, one can also create institutions and these can also become very powerful and influential in a short period of time and this is exactly what Ireland did.
As mentioned earlier, a liberal economy should be better at adapting to a changing environment and with that institutions should not be afraid to innovate. Especially after 1987, Ireland strived to become a liberal economy. While it seems as if the Irish state had given up 'protectionism and control' and had become a liberal economy during the Celtic Tiger years, in reality they held on to control via the numerous (semi-) governmental organizations and bodies that had been set up, especially after 1987. These bodies quickly became well-established and developed into influential institutions. While the nature of the institutional area might have changed because of the market conditions, the organizations and bodies caused the approach towards these areas to be inflexible. These institutions, such as the IFSC, IDA and FÁS, were not keen on parting with their influence in these areas, because with that they would endanger their own existence.
So the nature of the economy changed really quickly, but the institutional approach towards the economy did not. It seems as if Ireland had created too many institutions in the institutional areas and that prevented Ireland from being a truly 'liberal' economy that could react adequately to challenges that can unexpectedly turn up in a global economy.

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