The Life and Death of Irish Social Partnership: Lessons for Social Pacts

Paul Teague\textsuperscript{a} and Jimmy Donaghey\textsuperscript{b}

\textsuperscript{a}Queen’s University Management School, Queen’s University, Belfast, United Kingdom;  
\textsuperscript{b}Warwick Business School, University of Warwick, Coventry, United Kingdom;

Corresponding Author: Jimmy Donaghey, Industrial Relations Research Unit, OHRM, Warwick Business School, University of Warwick, Coventry, CV4 7AL.  
jimmy.donaghey@wbs.ac.uk

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Abstract

From 1987-2009, Irish social partnership operated as a national framework for industrial relations. The contribution of the paper is twofold. We seek to link the institutional dynamics of social partnership with the Régulation School’s notions of modes of accumulation and regimes of régulation. This framework is used to explain the rise and fall of social partnership in Ireland. We argue that the regime of social partnership in Ireland can be divided into two distinct periods. In the first, social partnership contributed positively to a benign productivity-led mode of accumulation. In the second, it lost its economic functionality due mostly to financialization taking a grip in the Irish economy. The conclusion is that social partnership had both positive and negative features, but it is unlikely to be repeated in the foreseeable future, at least not in Ireland.

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\textsuperscript{*} Corresponding author. Email: jimmy.donaghey@wbs.ac.uk
**Introduction**

Without any formal death notice, the national régime of social partnership in Ireland quietly passed away in 2009. For about 22 years, this régime was the institutional scaffolding for the Irish labour market, guiding wage formation and influencing the conduct of industrial relations. Despite its long duration, the Irish model of social partnership was something of an enigma as it appeared to defy most of the literature on the institutional preconditions for national concordation on wage bargaining: Ireland, with its strong Anglo-Saxon industrial relations traditions, seemed ill-suited to mimicking north European forms of neo-corporatism. Perhaps because it was out of kilter, little consensus exists, even after two decades, about how to characterise the regime and assess its contribution to economic and social policy making. Thus, the purpose of this paper is to chart the rise, survival and unravelling of Irish social partnership. To develop the argument, the paper draws on previously published work, interviews with policy actors and publicly available data. The paper is organised as follows: the first section outlines the main schools of interpretation of the Irish social partnership phenomenon; the second section details the approach of the Regulation School and why it is relevant to understanding Irish social partnership; the third outlines the key features of the rise and fall of social partnership; the following section assesses the future of employment relations in Ireland in the absence of social partnership.

**Understanding Irish social partnership**

The system of social partnership that existed in Ireland from 1987-2009 can be seen as a national variant of the social pacts that emerged in many European countries from the late 1980s onwards. These social pact regimes took a variety of institutional forms, both formal and informal, and functioned in quite different ways, although most sought to guide, if not control, wage-setting through tripartite deals. Some considered these pacts as simply the continuation of the corporatist mode of governance, pioneered in Scandinavia in the 1950s, and imitated by other European countries in the 1970s. But this view has been very much the exception as many commentaries arrived at the view that social pacts were only a distant relative to old-style corporatism. New social pacts were not considered to be institutionally anchored in monopolistic trade union and employers’ organisations, with the authority to formulate collective strategies, negotiate collective obligations and police collective agreements. Social pacts have been viewed as thinner institutional arrangements, pale
shadows of the productivity and distributional coalitions that were so central to corporatism genuinely integrating equity and efficiency.  

As a result, social pacts are commonly seen as ‘competitive corporatism’ as they were deemed to possess only marginal social agendas, focusing more on national economic and competitive priorities. Accordingly, an influential view is that Irish social partnership is best described as a form of competitive corporatism. Roche develops this argument most cogently in arguing that while new public policies and institutional relationships were created, the main thrust of social partnership was to improve organizational and economic performance. This view is broadly persuasive: if it has one weakness it is that it gives insufficient recognition to the employment growth that happened in Ireland during the social partnership years, although as we will see artificially so in the early 2000s. With the labour market doubling in size during 1996-2006, high levels of employment growth ensured that unemployment and, to a lesser extent, poverty was avoided.

A different, more positive, view considered Irish partnership as representing a shift towards a ‘new governance’ form of decision-making based on deliberation and consensus-making. This argument rests on two pillars. First, social partnership departed from traditional corporatism as it did not simply involve trade union and employer organisations, but also included a wide number of civic associations. Second, deliberative problem-solving rather than instrumental bargaining was used to forge shared understandings between Government, business and civil society about how to govern Ireland effectively and fairly. Although interesting, the Achilles Heel of this interpretation is that it proved consistently difficult to create and sustain deliberative problem-solving arrangements under national social partnership. For example, in the late nineties Government set up about 65 working groups involving trade unions, employers, Government officials and where appropriate other civic organisations to develop new polices on a wide range of economic and social policies, ranging from pensions to childcare facilities. But very few of these working groups succeeded in developing concrete policy initiatives. As a result, within the space of a few years this experiment was abandoned. Overall, the lack of identifiable policy outcomes from these deliberative policy-making processes calls into question the view of social partnership as a successful system of new governance.

While the competitive corporatist and new governance perspectives are incomplete in several important respects, neither can be dismissed out of hand. In fact, any account that fails to acknowledge the co-existence of these two functions/tendencies runs the danger of
developing only a partial account of Irish social partnership. To some extent, this assessment corresponds with Rhodes’ observation that across Europe national social pacts displayed idiosyncratic institutional characteristics in response to different national opportunity and incentive structures.\textsuperscript{15} This paper suggests that the distinctiveness of Irish social partnership can only be understood by viewing them as part of two contrasting modes of régulation and regimes of accumulation that prevailed in the country during 1987-2009. In the first period, social partnership interacted with two other key features of Irish political economy - economic openness and a minimal welfare state – to trigger a phase of benign growth from 1987 to about 2000. In the second period, from 2000 onwards, when the logic of financialization drove the Irish economy, social partnership played a relatively marginal role in economic governance. Instead, it was swept along by the tide of excessive borrowing and lending that reigned in the country and was one of the casualties when the crash happened.

It needs pointing out that throughout the social partnership years, there were a number of analysts who were consistently critical of the system. Probably its most trenchant critic was Allen who viewed social partnership as a top-down mechanism for containing worker demands that was policed by union bureaucracies.\textsuperscript{16} In his own words: “social partnership promotes an ethos of class collaboration and a co-option of union leaders into the agenda of employers. It demobilises workplace unionism by ensnaring it in a web of procedural agreements and detailed productivity concessions that have been dictated from above.”\textsuperscript{17} D’Art and Turner deliver more targeted criticisms of social partnership for failing to produce meaningful new legislation to promote core labour rights, particularly in relation to trade union recognition procedures in Ireland: they highlight the paradox of unions facing significant hurdles when seeking recognition at the workplace while at the same time, senior union official enjoyed high levels of access at élite levels.\textsuperscript{18} Gunnigle and colleagues were also critical of social partnership for not overseeing a strengthening of trade union recognition rights.\textsuperscript{19} Our main problem with this analysis is that, with the exception of the Ghent system countries, it ignores the context of declining union density across Europe and it is unlikely that such legislation would have led to significant upsurges in Irish union membership, particularly when one looks at the UK experience of statutory union recognition.\textsuperscript{20}

\textbf{Interpreting Irish social partnership}
As outlined above, various theoretical lenses have been employed to understand Irish social partnership, but we consider the Réglution School (RS) the most informative. The two overarching concepts of the framework are the accumulation regime and the mode of régulation. The accumulation regime comprises the productive system, but views it in a dynamic context, as following a certain growth path linked to a given technological trajectory. The mode of régulation consists of an assembly of institutions (sometimes ‘structural forms’ or ‘mediations’) which act to guide and stabilize the accumulation process. Thus, the distinction is in some ways analogous to a transition from micro to macro or from base to superstructure. The employment relationship plays a central role in most of the writings of the RS as it is considered both a key component of the accumulation regime (as a factor of production) and régulation mode (through the codification of industrial relations systems). There is no guarantee of conformity between accumulation possibilities and the actual régulation mode, the emergence of institutional forms that can release production potentials is a historical contingency. For example, the RS interprets the Great Depression of the 1930s as arising from the failure of an out-dated (‘competitive’) regulation mode to control the newly emerging (‘intensive’ or ‘Fordist’) patterns of production.

The RS is most renowned for its account of the long post-war prosperity of Western economies, what the French call les trente glorieuses. Its core argument for this period will not be rehearsed here: it is sufficient to say that the RS views the coordinating capacities of market processes with deep scepticism. Two themes have emerged in the literature in recent years that are germane to our analysis: one is the idea of institutional fixes and the other is financialization as a regime of accumulation. Jessop considers institutional fixes to be norms, institutions, organizational forms that (temporarily) stabilize an accumulation regime. Behind the idea of institutional fixes is the argument that the interaction between accumulation regimes and modes of regulation can take a variety of forms in different places and evolve over time: institutional fixes are both spatial and temporal. Sometimes institutional fixes ensure that a mode of regulation and a regime of accumulation are fully aligned, if not symbiotic. But this complementarity is not automatic: modes of regulation and regimes of accumulation can be misaligned in the absence of an institutional fix. The ebb and flow of institutional fixes can either be driven by endogenous changes to a particular productive structure or to prevailing governing institutions or by exogenous developments that are usually global in character.
Finance

Financialization as an alternative regime to Fordism, or to use the more fashionable term, Atlantic Fordism, is receiving considerable attention from *régulationnistes*. Financialization is a process that elevates the significance of the financial sector relative to the real economy where, as Froud et al highlight, financial leverage is used to boost consumption rather than income increases. Under Fordism, the RS viewed finance as playing a relatively subordinate role in the institutional fix synchronizing mass production and mass consumption. However, this view has been turned upside down in recent RS literature. In particular, the relaxation of financial regulations, mostly in the USA and UK, during the eighties has been seen as creating integrated global money markets. Global finance led to the proliferation and spread of a battery of financial innovations (derivatives, swaps, securitization and so on), which together were so powerful that a new regime of accumulation was the result: financialization. The emergence of financialization has had three key effects. First, shareholder value became the guiding principle of corporate decision-making, with all the consequences that followed in terms of outsourcing, executive compensation and economic inequality. Second, it dislodged the codification of the wage relationship and productivity coalitions as the central feature of a mode of *régulation*. Under financialization, the social and institutional conditions for sustaining orderly wage bargains fragment as many employees hold significant amounts of financial assets: ownership of marketable capital assets (e.g. houses) becomes as important to household wealth as income earned from salaries. As a result, the imperative of connecting wages to underlying economic conditions weakens. Thirdly, financialization reduces the autonomy of national modes of *régulation*. The distinctive features of financialization are that it is genuinely global and mobile, which makes the domestic institutional fix necessary to capture its full benefits, little to do with creating an idiosyncratic ensemble of interlocking institutions. Instead, it is more about how far a country is willing (or able) to follow the relatively standardized institutional prescription of financial deregulation, light supervision regimes and creating a business environment that permits banks to operate unencumbered. It is for this reason that financialization and neo-liberalism are so often seen as intertwined. We believe that the concepts of financialization and institutional fixes can be usefully employed to assess the rise and demise of social partnership in Ireland.
The rise and fall of Irish social partnership

When first established, the new independent Ireland strove for self-sufficiency under the centre-right de Valera governments, which dominated from 1932-1959. A twin-tracked approach of increasing tillage in agriculture and import substituting industrialisation was pursued. Companies producing in Ireland were legally obliged to be more than fifty per cent Irish owned. For Ireland, this form of industrialisation was always going to be precarious as it did not have the natural resources to sustain a closed, self-sufficient economy. The result, as Mjoset highlights, was less dependence on foreign goods, but more dependence on foreign raw materials. Despite the fault-lines, the policy of more or less economic autarky continued until the late 1950s when it was abandoned. Under the Lemass governments (1959-1966), economic policy shifted from “striving for self-sufficiency” to pursuing economic openness.

A seminal report of 1958, entitled Economic Development, under the guiding hand of T.K. Whittaker, the Secretary to the Department of Finance, argued for the opening up of the Irish economy through attracting inward investment and joining the European Economic Community (EEC). In the wake of this report, a new economic development plan was adopted, which introduced capital grants and tax concessions to encourage export-led manufacturing growth, dismantled import levies and perhaps most importantly established the Industrial Development Authority (IDA) to attract foreign firms to Ireland. This was a decisive moment in the economic history of Ireland as it marked the end of protectionist Ireland and beginning of a new development model centred on economic openness, which continues today.

Attracting foreign direct investment and encouraging deeper European economic integration, did much to change the structure of the Irish economy. By the mid-1980s, a large foreign-owned sector had emerged in the Irish economy. Multinationals were producing about two-thirds of all manufacturing output. Whereas employment in domestic manufacturing firms fell by 19 per cent between 1975 and 1987, it increased by about 27 per cent in the foreign manufacturing sector during the same period. Multinationals played an important role in diversifying the Irish industrial base: many domestic firms were concentrated in low value-added sectors, but the arrival of large numbers of pharmaceutical, electronic and software companies from abroad significantly increased the size of high-tech sectors in the Irish economy. European economic integration accelerated this process of industrial modernisation. After Ireland joined the EEC in 1973, many domestic firms in
mature industries found it difficult to compete in the new market environment. It is estimated that deeper trade integration with Europe resulted in about 20 per cent of domestically owned manufacturing firms going out of business.\(^{36}\)

Thus, by the mid-eighties the Irish economy had gone through considerable modernisation and restructuring, but crucially these changes did not lead to any noticeable economic convergence with the rest of Europe. In 1970, Irish GNP per head was roughly 64 per cent of the EU average while in 1986 it was 67 per cent: industrial modernisation was occurring without economic catch-up. The painful lesson was that economic openness on its own was not triggering a process of economic convergence, which suggests that the institutional fix between the economic openness programme and the governance structure of the domestic economy were not fully aligned.\(^{37}\) Ireland had radically overhauled its economic development model, but failed to upgrade its domestic policy structures. This deficiency emerged fully when the country was adversely hit by the oil price increases of the early 1970s. For the most part, the response of the Irish authorities was to follow a naïve Keynesian response, spending more over the next decade to stimulate economic growth and employment.\(^{38}\) By the mid-1980s, government debt had reached over 110 per cent of GDP. Thus just when multinationals were transforming the industrial base, the authorities were driving the macro-economy of Ireland into the abyss.

Finally, it was realised that deficit spending was unsustainable and that the time had come to take remedial action. A policy of retrenchment was introduced with income tax rates increasing to 48 per cent (in 1973 the rate had been 33 per cent), but the resulting increase in revenue was not enough to cover public expenditure. As a result public finances, continued to deteriorate.\(^{39}\) Reigning in public debt proved stubbornly difficult in the first part of the eighties: austere budgets would be introduced to stabilize public finances, but the national debt only continued to increase. By 1987, Government debt had reached 116 per cent of GDP, unemployment peaked at 16.8 per cent and 30,000 people were leaving the country each year. The economic outlook was bleak when in 1987, a new government was elected and it adopted a new approach to restore macroeconomic stability, which involved the introduction of a number of institutional innovations, including the creation of a regime of social partnership.\(^{40}\) When first established, the social partnership arrangements had two main functions: one was to moderate wage increases and the other was to maintain an orderly system of industrial relations. The emergence of social partnership can be seen as creating a
new institutional fix for the Irish economy. The next section tracks the emergence of tripartite social partnership in Ireland.

**The emergence of social partnership and the Irish boom**

Historically, the key organising principle of the Irish system of collective bargaining was voluntarism, based on free collective bargaining on the one hand and relative legal abstention on the other. It was not until World War II that government first moved seriously to shape employment relations behaviour with the introduction of a national statutory wage freeze. These pay controls were relaxed after the war and in its place emerged an uncoordinated system of sectoral pattern bargaining, known as the “Wage Rounds”. At first, informal pattern bargaining worked reasonably well, but then came under sustained pressure during the 1960s. The incidence of industrial unrest reached unprecedented levels, which appeared to question whether employers and trade unions left to their own devices could peacefully conclude collective agreements. By the end of the 1960s, it became apparent that the country needed a more coherent system of bargaining.

From 1970-1981, attempts at creating a centralised system of wage determination were pursued in Ireland. Between 1970-74, the Federated Union of Employers and the Irish Congress of Trade Unions (ICTU) concluded bipartite wage agreements, but then the government got involved as a third party that led to tripartite wage agreements between 1974 and 1978. From 1970-1978 these agreements were narrow incomes policies - there was little co-ordination of economic policy outside wages. However, in the face of mounting economic difficulties, the national agreements between 1979 and 1981, known as National Understandings, took on a wider focus. These deals were an attempt to introduce corporatist employment relations into Ireland, but, as both Roche and Hardiman show, domestic industrial relations institutional structures were simply not geared up to function in a corporatist manner. In particular, weak links between the peak organisations of employers and trade unions and their members meant that they were unable to police agreements. As a result, rather than producing stability, the period of the National Understandings was characterised by frequent industrial action.

Inability to produce a stable employment relations environment led to the National Understandings breaking down in 1981. A Fine Gael-Labour, in essence Christian Democrat-social democrat, coalition government, pursuing relatively orthodox austerity policies,
reigned between 1982-1987. It allowed free collective bargaining to return to the private sector, but maintained national level public sector collective bargaining as a part of its strategy to keep a lid on public expenditure. By the time the coalition broke down in early 1987, the Irish economy was in a mess. The country was on the verge of national bankruptcy with a debt of 117% of GDP and unemployment standing at 16.8%. An important development occurred in 1986 with the publication of the tripartite National Economic and Social Council’s report, ‘A Strategy for Development: 1986-1990’, which called for strict control of wage increases and inflation alongside changes in social conditions. Without explicitly backing social partnership, all the social partners were signalling commitment to a common plan for economic development.

The centre-right party, Fianna Fail, fought the 1987 general election campaign with the formation of a national consensus constituting, the central plank of their economic policy. The election result placed Fianna Fail in a position to form a minority government supported by a number of independent T.Ds. Within weeks of taking control, Fianna Fail initiated a tripartite process which resulted in the Programme for National Recovery, being signed in October 1987. Echoing the National Understandings of 1979-1981, unions welcomed this initiative as they were keen to reposition themselves as a constructive force in the Irish economy: Irish unions were extremely concerned about the industrial relations policies of the UK Thatcher Government travelling across the Irish Sea. With government and unions strongly supporting a partnership approach to economic and social policy-making, employers found it difficult to turn their back on the initiative. As a result, all three endorsed the Programme for National Recovery (PNR) in 1987.

In hindsight, 1987 was a watershed moment in Irish political economy: it was a time where trade unions, employer organizations and government decided to adopt behaviour more in line with concerted forms of industrial relations action. National social partnership was to become a key component of a new institutional fix for the Irish economy. Very quickly, it blended with and supported the core economic policy of successive Governments of deepening economic openness. A new economic governance regime had been created and the impact was immediate and remarkable: economic growth started soaring, unemployment started to tumble and living standards were significantly augmented. Figure 1 sets out the institutional fix that drove the economic boom. At its centre were positive interactions between three key features of Irish political economy; economic openness, a minimal welfare state and social partnership.
These interactions helped trigger the phenomenal increase in economic and employment growth at the start of the 1990s. Greater numbers at work increased economic prosperity, although it did not reduce the significant distribution of income between rich and poor. Nevertheless, greater prosperity meant that there was no real demand to change, at least not radically, the established lean welfare system. Under social partnership areas of public investment, such as childcare provisions, were not significantly enhanced. At the same time, even though welfare transfer payment increases were linked to national wage agreements rather than price rises, it needs to be stressed that the level of benefits relative to those existing in the UK, and more importantly, relative to the median wage in Ireland was high: Ireland had a lean welfare system in terms of what it set out to do, but high levels of benefits in comparative terms. As a result, little pressure was placed on the social partnership system to enact more interventionist social policies. The absence of a comprehensive welfare system meant that the country could maintain its policy of using low corporate tax rates to attract multinationals, as well as reducing personal income tax levels and raising earnings thresholds to increase the take home pay workers.

(Figure 1)

Thus, the institutional dynamics of the mode of regulation, developed to guide economic openness in Ireland, triggered a phenomenal productivity-led period of economic growth during the 1990s. Social partnership contributed to the boom by advancing the openness of the Irish economy through maintaining a regime of wage moderation. During the 1990s real wages increased continuously, but the rate of increase was far below the rate of productivity growth. Even allowing for such practices as transfer pricing by multinationals, which inflate output and hence productivity figures, productivity increases clearly outstripped wage increases during this period. Thus, while real wages were rising, unit labour costs were falling. Certainly, falling unit labour costs leads to the share of wages in national income falling and the share for profits rising, but the regime of wage moderation was advantageous for Ireland, a small open economy.

First, by ensuring wages increased moderately, social partnership ensured that the country remained attractive for multinationals. In absence of the national wage agreements, pay levels and increases in the highly-profitable foreign-owned sector would have been higher. Throughout the nineties, preserving the integrity of Ireland as a warm house for
foreign investment was consistently supported by employers and trade unions alike. Secondly, national social agreements made a positive contribution to Ireland’s entry into and membership of European monetary union. In the 1990s, price stability and sound public finances were the core goals of macroeconomic policy in most member states as they sought entry into the single currency club. Social partnership functioned to support Ireland’s application for monetary union membership. Various national wage agreements, most notably The Programme for Competitive and Work, which ran from 1993-1996, and Partnership 2000, covering the years 1996-2000, explicitly stated that pay settlements had to be consistent with the Maastricht criteria for joining European monetary union, which was fully realised. More widely, by promoting orderly industrial relations behaviour, social partnership enhanced the country’s reputation as a credible monetary union member. Economically, the real wage depreciation induced by social partnership placed the country in a highly advantageous competitiveness position vis-à-vis other Eurozone member states.

Thus, during the nineties, social partnership contributed to a ‘catch-up’ growth regime more in economic than social terms, by creating a wage bargaining system that, in the language of New Keynesian economics, internalized the negative externalities associated with pay setting. On this view, aligning wage formation with overall macro-economic objectives and conditions is far from automatic. It requires the wage bargaining system to be highly coordinated. During the 1990s social partnership mostly operated in this manner. The big question was why did trade unions support wage moderation when they could have used boom economic times to secure higher wages for their members? First of all, trade unions calculated that social partnership not only gave them a certain level of policy influence with government, but also a special public status, which made a Thatcher-like assault akin to that which happened in the UK a remote possibility. Secondly, Irish trade unions were clearly of the view that the interests of organised labour were best served by the ‘logic of representation’ and not by the ‘logic of mobilisation’, though there were some organising initiatives. Thirdly, national wage agreements secured real wage increases higher than most other workers in Europe. With rising prosperity, trade unions faced no pressure to defect from social partnership. Fourthly, government intervention to raise tax thresholds and reduce income tax rates further boosted real take home pay. Finally, the employment boom the country was experiencing at the time effectively tied trade unions to social partnership as it would have been widely deemed cavalier to have adopted any alternative strategy.
This is not to say that trade unions were universally supportive. A number of unions consistently opposed social partnership: for example MANDATE, the major retail sector union in Ireland, consistently opposed social partnership on the basis that it did not do enough for low paid workers; the Amalgamated Transport and General Workers’ Union consistently opposed it on ideological grounds; and the Guinness Staff Association opposed it on the basis that higher wage rises could have been secured from multinational employers. In addition, some unions opposed social partnership at various points for strategic reasons; for example the Association of Secondary Teachers of Ireland (ASTI) opposed the clause in the 2000 social partnership agreement to “Benchmark” public sector pay. Yet, such opposition never threatened the system. While member ballots were not universal at the start, a convention emerged of unions balloting members on whether to accept or reject an agreement. These unions then cast all their votes “for” or “against” the agreements at ICTU “Special Delegate Conferences”. These delegate conferences produced decisive votes in favour of social partnership agreements. All unions from 1987-2007 subsequently abided by the majority decision with the brief exception of the ASTI who withdrew from the ICTU and embarked on a programme of industrial action in opposition to partnership.

Thus, social partnership was an integral part of the growth regime that was widely regarded as virtuous. The country experienced high levels of growth, at least in comparison to its European counterparts. The arrival of significant amounts of foreign direct investment, mostly from the USA, acted as a platform for a boost in productivity and a huge surge in exports. Improved performance in the tradable sector led to increased employment, which in turn generated additional domestic demand that caused an expansion in the non-tradable sector. Social partnership ensured this virtuous circle of growth did not get out of hand by moderating pay settlements and ensuring orderly industrial relations. In a sense, during the 1990s Ireland displayed all the symptoms of classical ‘catch-up’ economics: greater integration into the European economy, new physical and human capital, and more sophisticated social and institutional capabilities, particularly in the form of social partnership, allowed it to enjoy higher growth rates than in its European partners. As a result, a convergence process was triggered that allowed it to close the gap between itself and northern Europe.

The marginalisation of social partnership
By the late nineties, Irish living standards had more or less caught up with the richer parts of Europe. At this stage, the most prudent macro-economic course would have been to guide a soft landing to avoid economic overheating. But this option was never really implemented because of the emergence of two relatively independent developments that combined to alter the functioning of the social partnership regime. The first was Ireland’s adoption of the Euro in 1999 which meant that the core goals of Irish macro-economic policy in the 1990s had been secured. As a result, complying with the Maastricht Treaty fiscal convergence criteria ceased operating as a hard constraint on the social partnership process. Inside the single currency club, the issues of budgetary discipline and wage competitiveness did not disappear, but the sanctions for not meeting targets in these areas were not so far-reaching: the Maastricht rules became soft institutional constraints. In other words, the adoption of the Euro effectively changed the mode of régulation in Ireland by creating a laxer macro-economic environment for wage setting under Irish social partnership.

At the same time as Ireland was adopting the Euro, financialization was reaching full bloom as a global regime of accumulation. In hindsight, it is evident that Irish governments were making domestic institutional adaptations to lock the country into this global regime. A new financial centre was created in Dublin, which more or less mimicked the operating rules of the City of London. Financial regulations were either softened or implemented lightly. Even though the foreign owned sector remained important for the Irish economy, financialization in the early 2000s became its central driver. Under financialization, Irish banks gained easy access to international credit markets, which allowed them to lend unprecedented amounts of cheap money during 2001-2007. At the start of the period, Irish banks were not out of line with banking practice elsewhere in lending about 60 per cent of GNP, but by the end of the period they had made loans that amounted to about 250 per cent. The effect of lending money on such a scale in a short period of time is not only to produce huge amounts of indebtedness, but also to generate massive, immediate increases in demand, which in turn runs the danger of triggering asset price inflation.

The huge surge in borrowing during 2001-2007 led to a boom in housing and commercial property prices. The result was construction replacing inward investment as the main economic driver. Within a few years, income from house building increased from 5% to 15% of GDP; when other forms of construction are factored in, the sector constituted about 22% of national income in 2007, about 2.5 the level which would be expected in an advanced economy. During the first part of the 2000s, about 80 per cent of net new jobs were created in
the construction sector. Outwardly, the creation of this real estate speculative bubble gave the impression that nothing had changed – employment and economic growth were still impressive - but the underlying dynamics of the economy – the regime of accumulation - had been radically altered.

In generating an unsustainable boom, financialization had an adverse effect on the social partnership regime. A by-product of asset price inflation, particularly when it is economy-wide, is normally a price-wage spiral, which has an adverse effect on economic expectations of employees. On the one hand, employees want to ensure that they do not lose out in the economic boom and thus seek to enlarge their economic assets in one form or another. On the other hand, in an effort to keep up with rising prices, employees and their representatives shun demands for moderation and put upward pressure on wages. Trade unions, to retain credibility with their members, were obliged to push for national wage agreements that sanctioned large increases in pay for both public and private sector workers. Thus, although the institutions of social partnership remained the same, it functioned in a quite different way during the financialization period.

The positive macro-economic role played by national social partnership during the preceding decade was pushed to the margins: the imperative of tying wages to the Maastricht fiscal rules had weakened and the need to moderate wage claims to improve Ireland’s locational advantages as a place for inward investment started to play second fiddle to concerns that wage levels should not fall too far behind spiralling cost of living increases, particularly escalating property prices. Thus, for example, a public sector benchmarking exercise, established under the 2003 agreement, the Programme for Prosperity and Fairness, which involved comparing pay for particular public sector jobs with notionally similar jobs in the private sector, led to large wage increases for the majority of public sector employees – with some doing notably better than others. Most private sector employees did not obtain similarly generous pay hikes, but they did receive significant increases. Financialization had captured the social partnership process.

Membership of the Euro made it easier to conclude higher wage deals. If Ireland had possessed its own currency, the Irish central bank would have probably responded to large pay settlements by either engineering an appreciation of the exchange rate or a rise in interest rates. But this sanctioning effect was removed on entry into the Eurozone and the monetary stance of European Central Bank was not going to be influenced by developments in Ireland, given its tiny contribution to the overall Eurozone economy. In other words, Eurozone
membership compounded the problem by removing the institutional constraints that could have steered the social partnership process along the pathway of wage moderation. The emergence of disorderly wage bargaining soon showed up in poor macro-economic performance. In particular as Figure 2 shows, wage increases were far outstripping productivity increases in Ireland relative to what was happening in Germany, the bulwark of the European economy. Effectively, Ireland’s competitive position within the Eurozone was deteriorating, with many holding social partnership responsible for the unfolding negative economic trends: unions were accused of seeking excessively high wages, and employers and government of being spineless for not facing down these demands. Employers started to become less committed to social partnership as the economic benefits arising from the process had all but disappeared. In other words, financialization, by altering the regime of accumulation and the mode of regulation in Ireland, undermined the credibility of the social partnership regime: these seeds of disenchantment with social partnership were to bloom fully in the aftermath of the economic crisis.

(Figure 2)

The crisis and the breakdown of social partnership
The worldwide financial crisis of 2008 brought economic profligacy in Ireland to a shuddering halt. Almost overnight, Irish economic performance nosedived. From 2007-2009, GDP declined by about 17%, the deepest and quickest economic contraction experienced by any country since the Great Depression, and unemployment increased from about 4% to over 13%. But more alarmingly, the bursting of the credit bubble economy triggered a massive banking crisis as large losses started to appear on balance sheets. Banks were caught between a rock and a hard place: whereas the expected revenues from domestic construction-related activities had evaporated as highly speculative real estate loans collapsed in value, the prevailing chaos on international money markets caused alternative sources of funding to dry up.

With many banks heavily loaded with bad assets and with limited access to liquidity, the Irish Government faced an excruciating dilemma: either allow some banks go to the wall or use taxpayers money to try and rescue the banks. In the end, it followed the rescue route. In 2008, the Government provided a two-year guarantee on bank liabilities to address their liquidity crisis. The following year, in an additional move, the Government declared that it
would act as guarantor for a scheme intended to allow Irish banks to raise capital by issuing bonds. But these measures alone did not solve the problem and a series of additional moves were needed to stabilize the situation. Effectively, Governments had to nationalise some banks and commit immense amounts of taxpayers’ money to stave off financial meltdown. But in its endeavours to bail out the banks, the Government created a fiscal crisis on top of a financial crisis: rescuing the banks led to the Irish public debt-GDP ratio rocketing to 115% in 2011 from below 40% in 2008.

In 2009 and 2010, the government introduced a battery of austerity measures to improve the fiscal position. Public expenditure programmes were cut as were the pay and pensions of public sector employees. Taxes were increased across the board, though increasingly with rising unemployment this burden was falling on a decreasing number of citizens. The Irish policy elite calculated that pursuing fiscal rectitude would maintain the Irish international reputation as an open, business-friendly responsible country. The international money markets were not persuaded as the view gathered ground that the Irish Government had fiscally over-reached itself in its endeavours to avoid a banking collapse. As a result, during 2010, the Irish financial crisis was transformed into a sovereign debt problem. In the end, addressing the financial crisis proved too costly for the Irish Government. So in November 2010, it requested financial assistance from the EU and IMF. After detailed negotiations, a comprehensive policy package was put in place to provide Ireland with funds to break the pernicious interactions between the fiscal and financial crises and restore economic stability.

With the onset of the crisis, social partnership and the associated consensus-building approach to economic policy were sidelined. The commitment of employers and, to a lesser extent, Government to the process had been on the wane from about 2005, but it more or less evaporated with the onset of the recession. As a result, when it came to negotiating a new national social agreement in 2008 only trade unions displayed any enthusiasm for a deal. Yet after more than six months of negotiations, and against all the odds, a new pay agreement was signed in September 2008, but it was only an interim agreement covering twenty one months, rather than the previous norm of three years. The basic terms were 6% over 21 months with a 3 month private sector pay freeze and an 11 month pay freeze in the public sector, with an additional 0.5% for low paid workers. The agreement drew the strongest support from unions of any of the agreements, with the special delegate conference voting to accept by 305 votes
to 36. Although the agreement was formally adopted, employers and government had effectively lost interest in making social partnership work in practice. Government started to make cutbacks to public sector pay and conditions without consulting the relevant trade unions, a practice that would have been unfathomable in the heyday of social partnership. In the private sector, it soon became apparent that firms would not be able to meet the pay increase commitments set out in the agreement such was the severity of the economic crisis. After protracted efforts to salvage the agreement by negotiating downwards its commitments, the Irish Business and Employers’ Confederation (IBEC) gave up and formally withdrew in January 2010 from the machinery of social partnership. Trade unions found it increasingly difficult to influence events. An attempt by the Irish Congress of Trade Unions to get the Government to introduce a social solidarity pact, which would involve unions agreeing to a combination of wage and public expenditure cuts alongside tax increases in return for a concerted government programme on employment creation, came to nothing. Efforts at mobilising opposition to the Government’s austerity programme in the form of a general public sector strike also came to nothing as it was obliged to call off a proposed day of action due to lukewarm support for individual unions, with some union not voting for action.

Although the social partnership regime had ended, all the parties were anxious to avoid disorderly industrial relations emerging in the country. Thus, ICTU and IBEC agreed to establish a “High level” group to encourage orderly collectively bargaining in the private sector and to assist in the early resolution industrial disputes when they did occur. Meantime the government negotiated centralised public sector agreements with trade unions, the first known as the Croke Park Agreement and the second as the Haddington Road Agreement. The purpose of these agreements was to enact public sector retrenchment through dialogue and consensus. Under the Croke Park Agreement, the trade unions accepted a four-year pay freeze and a major ‘transformation’ programme aimed at bringing about public sector productivity improvements and efficiencies in return for agreements on no compulsory redundancies. The Croke Park Agreement was a major achievement for it averted, at least in the short-term, the prospect for industrial, even wider civil, unrest. Moreover, it meant that the cuts in public sector activity demanded by the International Monetary Fund, which by now had entered Ireland, would not be imposed unilaterally, but would be subject to negotiations. The Haddington Road Agreement signed in June 2013 and set to run until 2016, was harder to get adopted as initially it was rejected by unions. But after some hard
bargaining, agreement was reached which involved more austerity: an increase in the working week by two hours, freezes on increments ranging from three to twelve months over the agreement’s lifetime and pay cuts between 5% and 10% for those earning over €65,000.

**Looking back at social partnership**

Some valedictories have appeared about national social partnership in Ireland since its collapse in 2009. D’Art and Turner argue that trade unions should not be overly concerned about its end. National social partnership is criticised for its failure to (1) improve trade union rights, most notably its inability to introduce a meaningful statutory trade union recognition mechanism; (2) enact stronger workplace democracy provisions; (3) ensure greater trade union influence in national policy-making. Similarly, McDonough and Dundon, argue that social partnership led to increased bureaucratisation of trade unions, and the weakening of employee representation at the workplace. They suggest the present economic crisis has exposed the argument that social partnership locked trade unions into dense national public policy-making networks as a myth. Overall, the thrust of these two post-mortems is that since social partnership was not particularly employee-friendly, trade unions should not mourn its passing.

These assessments may be too harsh. The analysis of this paper shows that during the nineties, social partnership played an important role in the mode of *regulation* that first stabilized economic conditions and then presided over a sustained period of economic convergence. For sure, the character of the institutional fix created in Ireland was quite different from those existing in north European corporatist countries. Whereas, these corporatist regimes generated what Streeck describes as ‘beneficial constraints’, Irish social partnership never really did so. Thus, for example, a key feature of north European style corporatism was the establishment of economic citizenship regimes that integrated workers and their representatives through bodies like works councils or worker managed social insurance systems. After a decade of social partnership, its failure to become embedded at the enterprise level became a key policy concern and with much fanfare the National Centre for Partnership was launched in 1996 to foster enterprise level partnership. Despite a subsequent decade of public policy initiatives through the NCP and its successor the National Centre for Partnership and Performance, enterprise partnership never became a key feature of Irish organisational life.
Moreover, the social partnership played little role in institutionally organizing the supply-side of the economy, which is seen as a defining feature of coordinated market economies. From the beginning, the unwritten modus operandi for Irish social partnership was to work within the confines of the country’s development model, economic openness. Thus, Ireland’s mode of regulation and the role of social partnership in it were quite distinctive. Because it did not generate ‘beneficial constraints’ or elaborate supply-side institutional structure, Irish social partnership was a fragile institutional fix. As a result, it was easily marginalized when the logic of financialization took hold in the regime of accumulation. Financialization was consistent with the Irish development model of economic openness and could co-exist with the country modernising through the attraction of inward investment. But it did not need a social partnership regime to allow it to function properly. Thus, as financialization took a stronger grip, so the connections between the regime of accumulation and the mode of régulation weakened. With the institutional fix that held the two together in the 1990s dissolving, social partnership lost its economic functionality and started to operate in a disorderly manner. Once this occurred it was virtually inevitable that at least some of its constituents would become disillusioned. And because it was only weakly institutionally embedded, the costs of walking away from social partnership were not high.

Overall, it would be unbalanced to be too critical of social partnership as the regime did have positive features. First, although social partnership did not introduce any fully fledged model of deliberative democracy, it nevertheless gave institutional expression to the view that economic and social democracy should not be confined to the institutions of representative democracy. National social partnership gave trade unions and employers influence over the direction of public policy in return for wage moderation, standing in defiance of classical pluralist democratic theory which argues representative government must be supreme and interest groups should not be given special status within the polity. Second, social partnership gave legitimacy to the notion of incorporating people into working life through collective institutions and now in its absence there is no national institutional process in the labour market performing the important ‘perceptorial role’ of promoting the incorporation of people into working life through collective processes. Third, as the critics suggest social partnership may not have enhanced the fortunes of trade unions to the extent they would have wanted, but its collapse has hardly opened new opportunities for renewal: trade unions continue to face difficult strategic choices about how best to secure their
interests in the future. Fourth, with the collapse of social partnership, it is almost certain that the mode of régulation in Ireland will operate without any institutional process to conclude national social compromises between capital and labour. Thus overall it may be prudent to adopt a more measured view of the social partnership regime in Ireland, suggesting that it had both negative and positive features.

**Conclusions**

Social partnership was born in Ireland in 1987 in the midst of economic crisis. Ironically, it was another economic crisis that led to its collapse. In this paper, we use the theoretical framework of the French of Régulation School to chart the role performed by national social partnership regime during its twenty-two years of existence. This approach allows us to highlight the quite contrasting roles played by social partnership in two quite distinct economic growth regimes. For its first thirteen years, social partnership was an integral institutional element of a mode of régulation that helped produce a period of sustained productivity-led growth. However, this mode of régulation fragmented when financialization became the locomotive for the Irish economy. In this period, social partnership lost its ability to internalize the negative externalities that arise from wage setting, becoming enmeshed in a classic wage-price spiral. Having lost its economic functionality, it became relatively easy for employers and government to walk away from the arrangement when the economic crisis started.
Figure 1. Social Partnership and Institutional Complementarity in Ireland pre-2000
Figure 2. Wage and productivity increases, Ireland and Germany compared
Source: OECD Economic Outlook, statistical annex, indexed to 1992, 1992=100

Notes


2. Schmitter and Grote, “The corporatist Sisyphus”.


4. Baccaro, “What is Alive and What is Dead”.
6. Rhodes, A future of competitive corporatism; Regini, Uncertain Boundaries.
7. Roche, “Social partnership in Ireland”.
11. Baccaro, “Civil society meets the state”; O’Donnell and Thomas, “Ireland in the 1990s”.
12. Hardiman, “Politics and social partnership”.
15. Rhodes, “The role of social pacts”.
18. D’Art and Turner, Union recognition and partnership; Union recognition in Ireland; Irish unions under social partnership
23. Jessop, “Revisiting the Regulation approach”.
25. Froud et al., “The Failure of Failure Finance”.
27. Boyer, “From shareholder value to CEO power”.


30. Ibid.

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32. Mjoset, *Ireland in comparative perspective*.

33. Barry, “Foreign investment”.


35. Fitzgerald, “Understanding Ireland’s economic success”.


37. Fitzgerald, “Understanding Ireland’s economic success”.

38. Mac Sharry and White, *The making of the Celtic tiger*.


40. Teague and Donaghey, “Irish experiment in social partnership”.

41. McCarthy, *The Decade of upheaval*.

42. Hardiman, *Pay, politics, and economic performance*.


44. NESC, *A Strategy for Development*.

45. Fianna Fail, 1987 Election Manifesto.

46. Trade union interviewees consistently reiterated this point. The threat was felt particularly pertinent due to the emergence of a new political party in the late 1980s – The Progressive Democrats – who espoused a vigorously neoliberal ideology.

47. Mac Sharry and White, *The making of the Celtic tiger*.

48. Teague and Donaghey, “Why has Irish social partnership survived?”.


25
50. Hassel, *Wage setting, social pacts*.

51. Honohan and Walsh, “Catching the Irish Hare”; Blanchard, “Comment on Catching the Irish Hare”.

52. Turner et al., “Organising Methods and member recruitment”.

53. Baccaro and Simoni, “Centralized wage bargaining”.

54. Blanchard, “Comment on Catching the Irish Hare”.


56. Iversen, “Wage bargaining, central bank independence”.


58. D’Art and Turner, “Irish unions under social partnership”.

59. McDonough and Dundon, “Thatcherism Delayed?”.

60. Streeck, “Beneficial constraints”.

61. Gunnigle, “More rhetoric than reality”.

62. Roche and Teague, “Successful but unappealing”.

63. Hall and Soskice, *Varieties of Capitalism*.

64. Teague and Donaghey, “Social partnership and democratic legitimacy”.

65. Offe, “Designing Institutions”.
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