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The Political Economy of Social Pacts in the EMU: Irish Liberal Market Corporatism in Crisis

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The economic crisis is a collective action problem. In the absence of currency devaluations, eurozone governments are faced with the painful social process of wage devaluations. This paper examines the strategic choices facing the government and organised labour in how they respond to this problem. It will argue that the European Monetary Union contains an implicit neoclassical assumption that labour markets will automatically adjust to downward wage flexibility. This ignores the politics of collective bargaining. Labour relations systems are the most regulated of all markets. Based on this institutional embeddedness, the paper will outline a typology of political choices facing national governments: neoliberal market adjustment, national or sectoral concertation and euro-coordination. Institutional pre-conditions of collective bargaining mediate what strategy governments adopt. It will subsequently examine the case of Ireland that tried and failed to negotiate a national pact in 2009. Social partnership was a central institution of Ireland's political economy for 20 years but could not internalise the adjustment constraints of the current crisis. The voluntary and exclusive nature of Ireland's corporatist wage pacts weakened the power resources of labour and enabled the government to pursue a neoliberal strategy of adjustment. As an institution, it was dependent upon the political executive of the state.

Keywords: social pacting, corporatism, EMU, trade unions, comparative capitalism

Introduction

After 15 years of economic growth, the Irish government and trade unions are faced with an unprecedented economic, employment and debt crisis. The politics of austerity implicit in the design of European Monetary Union (EMU) assumes that economic adjustment can and should take place via downward pressure on wages and public spending. This is reflected in the policy prescriptions of the 'Euro plus pact' and the terms and conditions of the European Central Bank

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(ECB)–International Monetary Fund (IMF) economic adjustment programme. These conditions constrain the strategic choices facing actors at the national level. Ireland is assumed to have a competitiveness problem in its labour market and, therefore, all policy prescriptions have focused on unit labour costs and institutions of wage setting. However, the primary problem in the Irish political economy is a collapse in taxation, investment and the socialization of private bank debt. The policy response has been deep cuts in public expenditure amounting to 13 per cent of GDP, representing the largest budgetary adjustment seen anywhere in the advanced economic world (see International Monetary Fund 2010, Whelan 2011). The outcomes are a deflating domestic economy and the rising levels of unemployment. For 23 years, Irish trade unions opted to exchange their market power for political exchange with the state via the institution of 'social partnership'. This was the Irish 'third way'. It was a market-conforming alliance constructed by administrative elites in the Prime Ministers department to manage the constraints of euro-globalisation. The exchange was the construction of social partnership itself. The puzzle, therefore, is why social partnership as a form of corporatist policy-making could not internalise the constraints of the 'great recession'.

An attempt to negotiate a social pact in 2009 failed. The government acted unilaterally by introducing a series of fiscal adjustment policies including two public sector pay cuts. The core argument of this paper is that the exogenous constraint of the EMU is conditioning the strategic choices facing actors, but the politics of government and changing power relations in the domestic labour market explains the demise of social partnership as an institution of industrial relations. A social pact could not be negotiated because Irish trade unions lack sufficient deterrent power in the labour market to resist the ECB, European Union (EU) Commission and Irish government's neoliberal response to the crisis. The absence of formal-legal mechanisms of collective bargaining at the firm and sector levels, akin to corporatist economies of Netherlands, Germany and Finland, to protect wages and employment has enabled employers and government to walk away from the process of social partnership without repercussion. Labour market institutions matter to the extent that they increase or decrease the power resources available to actors (see Korpi 2006). Irish social partnership was a voluntary process. This enabled it to evolve in the context of a liberal market economy. But it also meant that 'corporatist policy-making' was dependent upon the political preference of government and, in particular, the Prime Ministers department.

The structure of this paper is as follows. The first section will analyse under what conditions the labour market actors adopt social pacts as a political strategy of adjustment to economic crisis. It will outline the collective action problem facing economies of the eurozone and deconstruct the implicit liberal market and fiscal policy assumptions in the design of EMU. The second section will present three typologies of strategic action facing governments in how they respond to the eurozone crisis: neoliberalism, national or sectoral concertation and euro-coordination. The third section will argue that institutions of collective bargaining and labour relations condition the public policy response by the government. Micro-conditions of trade union density, collective bargaining coverage, institutions of wage setting and tri-partite socio-economic councils are embedded institutions that condition power relations among the actors. These institutions explain the variation in how national governments in the EMU respond to crisis. The final section will apply a theoretic–analytic frame to the case of Ireland, illustrating how institutional power resources condition political choices. A national social pact could not be negotiated because the underlying political coalition supporting the institution is considered part of the problem and not the solution.

The re-emergence of corporatist social pacts in Europe

Tri-partite social pacts emerge as a strategic response to collective action problems in labour relations and consolidate as a mechanism to negotiate income policy. During the 1980s and 1990s, the problem load facing European governments included high levels of structural unemployment, heightened international competition and growing debt to GDP ratios (see Schmidt 2002). In some countries (Portugal, Italy, Greece and Spain), social pacts were negotiated to satisfy entry requirements into the EMU. The functional incentive of achieving 3 per cent budget deficits induced a new 'second wave' of post-Keynesian social pacts (see Hancké and Rhodes 2005). What was unique about social pacting was the strategic involvement of the government. They were not sectoral wage bargains but tri-partite public policy agreements. It was a monetarist bargain of wage moderation for fiscal restraint. The focus was on adjusting wage policy,

TABLE 1. Adjusted wage share in the eurozone (and USA and UK) as percent of GDP (1960–2010)

Country	1960–1970	1971–1980	1981–1990	1991–2000	2001–2010
Slovenia					72
Portugal	74.8	84.4	67.4	70.2	71.3
Belgium	63.7	70.4	70.6	70.8	69.3
Cyprus					66
Netherlands	67.8	73.8	69.2	67.5	65.9
France	73.8	73.9	72.2	67.2	65.9
Austria	79.8	80.3	76	71.4	65.3
Denmark	67.8	70.4	67.4	66.4	63.9
Finland	75	72.8	71.7	66.5	63
Italy	72.5	72.2	68.7	64.6	62.5
Spain	70.4	72.3	68.3	66.8	62.3
Greece	81.4	65.6	68.1	62.5	60.7
Malta					58.1
Luxembourg	51.4	58.5	59	57.3	55.7
Ireland	78	76	71.4	62.4	55.7
Slovakia					47.5
Euro-16					64.3
EU-27					64.2
UK	72.9	74.3	72.8	71.9	70.9
USA	70	69.9	68.3	67.1	65.2

Source: EU Commission, European Economy (2009) Statistical Annex.

fiscal policy and labour market policy to a new macro-economic context: European market integration and international competition. The institutionalisation of competition-oriented wage policy rather than of productivity-oriented wage policy can be observed in the decreasing level of labour (wage share) as a percentage of GDP across the EMU (Table 1).

None of the social pacts adopted post-1990 were premised on a wide distributional agenda of social democracy and have been conceptualised as 'lean corporatism', 'supply-side corporatism' (Traxler 2004), 'competitive corporatism' (Rhodes 2002) and 'organised decentralisation'. The overall policy objective, it is argued, is to increase national competitiveness (Rhodes 1997, Ebbinghaus and Hassel 2000) and to increase the conditions for wealth creation through the coordination of wage restraint. The focus is on enterprise and market competition in public policy and not on social and labour market protection. Figure 1 illustrates the extent of social pacting in 34 countries from 1987 to 2007. Ireland, Finland, Italy, Netherlands, Portugal and Slovenia negotiated five or more pacts. But only Ireland and Finland used social pacting as an institutional mechanism to negotiate a national incomes policy on a structured bi-annual or tri-annual basis. In the Irish case, what became instituted was a form of embedded neoliberalism. An institution premised on a political compromise between state–labour–capital in the management of a small open economy. It was less a case of welfare state 'adjustment' but a strategy of the state to generate the domestic capacity to manage distributional tensions in a neoliberal economy. The objective was political stability not economic competitiveness. In this regard, examining the Irish case as a series of isolated 'wage bargains' (see Table 2) reveals very little about the changing process of state-led socio-economic governance.

From its inception in 1987, Irish social partnership was a strategy of the state to manage the industrial relations process in response to an economic crisis (see Hastings *et al*. 2007). Administrative elites in the Prime Ministers department

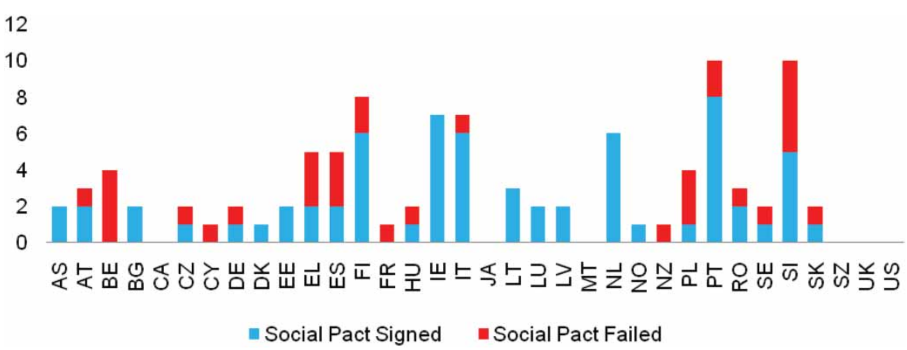

FIGURE 1. Tri-partite social pact agreements (1987–2007) *Source*: ICTWSS database, Visser (2009). *Notes*: Country codes: AS, Australia; AT, Austria; BE, Belgium; CA, Canada; CZ, Czech Republic; CY, Cyprus; DE, Germany; DK, Denmark; EE, Estonia; EL, Greece; ES, Spain; FI, Finland; FR, France; HU, Hungary; IE, Ireland; IT, Italy; JA, Japan; LT, Lithuania; LU, Luxembourg; LV, Latvia; MT, Malta; NL, Netherlands; NO, Norway; NZ, New Zealand; PL, Poland; PT, Portugal; RO, Romania; SE, Sweden; SI, Slovenia; SK, Slovakia; SZ, Switzerland; UK, United Kingdom; and US, United States.

TABLE 2. Country and year social pact signed (1987–2007)

Country	Years: social pact signed (1987–2007)
Australia	1987, 1988 and 1990
Austria	1995 and 1997
Bulgaria	1997 and 2006
Czech Republic	1998
Denmark	1998
Estonia	1992 and 1999
Finland	1991, 1995, 1998, 2001, 2003 and 2005
Germany	1998
Greece	1997 and 2002
Hungary	2002
Ireland	1987, 1991, 1994, 1997, 2000, 2003 and 2006
Italy	1993, 1995, 1996, 1998, 2002 and 2007
Lithuania	1995, 1999 and 2005
Luxembourg	2001 and 2006
Netherlands	1989, 1993, 1997, 2002, 2003 and 2004
Norway	1993
Poland	1993
Portugal	1988, 1990, 1991, 1992, 1996, 2001, 2006 and 2007
Romania	2002 and 2004
Slovakia	2006
Slovenia	1994, 1995, 1996, 2003 and 2007
Spain	1997 and 2006
Sweden	1991

Source: ICTWSS Database, Visser (2009).

crafted a national incomes policy via the National Economic and Social Council (NESC) to coordinate the industrial relations process in the interest of capitalist-state development. In a context of weakening power resources in the labour market and a weak Labour Party in the parliament, Irish trade union leaders opted to exchange their market power for direct access to cabinet government. The trade-off was the construction of corporatist policy-making itself. This exchange was not premised on social democracy but on a market-conforming alliance. Whereas the UK attempted to solve the 'wage' problem through a unilateral state strategy of neoliberalism, the Irish government opted for an inclusive corporatist strategy of social partnership. Both required a strong role for the core executive in the administrative state. The political pre-condition that made this possible was not a 'weak government' (see Baccaro and Simoni 2008, Avdagic 2010) but a 'strong executive' with the capacity to act autonomously from the parliament (see Lijphart 1999).

This state-centred strategy is not captured by the domestic literature on Irish social partnership. Those who consider it a legitimation of neoliberalism focus on the strategy and outcome for trade unions (Allen 2000; D'Art and Turner 2011) and not on a constrained strategy of the state to manage a small open economy in a single European market. In terms of the process of engagement, the focus has been on the ability of the political system to increase its capacity for problem solving (O'Donnell 2008) and not on a changing role for the state in managing a liberal oriented market economy. Those who come closest to examining social partnership as a strategy of the state assume an efficiency-seeking objective of 'national competitiveness' (Hardiman 2000, 2002) rather than a political compromise based on shifting power relations. Teague and Donaghey (2009), on the other hand, argued that social partnership was part of a system of institutional complementarities that generated a period of economic growth rather than a market-conforming alliance premised on contingent political coalition. Their use of the concept 'complementarity' assumes efficiency-seeking actors rather than conflicting interests that change over time (see Streeck 2005). In the Irish case, it was elite networks centred on the political executive of the state that enabled the institution to consolidate over time, not systemic complementarities. Access to political power was the glue not the coordination of wage restraint (see Regan 2011).

This paper does not engage in the nuanced debates on the role of social partnership in enabling the Irish state to adapt to globalisation (see O'Riain 2008, Kirby and Murphy 2011) but asks what institutional conditions determine and constrain the strategic choice of actors in adopting a negotiated response to the current European economic crisis. This question is particularly important for economies of the eurozone that are currently experiencing a governance crisis in how to manage downward flexibility in labour costs, unemployment and public debt. Eurozone economies do not have recourse to currency devaluations but must meet the 3 per cent deficit requirement of the EMU growth and stability pact. In the absence of devaluation or a restructuring of debt, labour market actors are faced with the painful social process of downward labour cost reductions and reduced public spending, despite institutionalising wage restraint in their collective bargains since the inception of the Maastricht treaty (see Erne 2008). Thus, the crisis has generated a new collective action problem for national governments operating within the constraints of the EMU. Can corporatist social pacts as a domestic process of consensus formation internalise this constraint or will the crisis induce a unilateral state strategy of adjustment? If so, what does this say about the future diversity of European varieties of capitalism (see Hay 2004, Crouch 2006)?

The implicit liberal market assumptions of the EMU

Labour market policy

The most erroneous neoliberal premise of the EMU is the assumption that labour market actors, particularly trade unions, either do not exist or are too weak to resist competitive downward pressure on wages. The design of Europe's shared currency is premised on the non-existence of organised labour (Crouch 2000) and shares the neoclassical assumption that labour markets can and do operate in perfectly competitive markets. This implicit design of the monetary union assumes that if asymmetric shocks hit, national economies, regions and sectoral industries will automatically adapt through a reduction in labour costs. This reduction in labour costs is presumed to act as a functional equivalent to currency devaluations at a macro-level (see Hall and Gingerich 2004). Currency devaluation traditionally externalised excessive endogenous labour costs to the main trading partners of a given national economy (Crouch 2000). Devaluation acted as a cushion to avoid social dislocation when national economies became over inflated.

The assumption that the entire burden of cost adjustment can fall on labour market actors completely ignores the embedded and historically diverse institutional structures of collective bargaining in European economies. Collective bargaining and negotiated wage setting is one of the core features of coordinated market capitalism or 'social Europe'. Figure 2 illustrates the different levels of bargaining coverage across the eurozone. Every economy with the exception of Ireland and Slovakia has collective bargaining coverage of over 60 per cent. Slovenia, Austria, Belgium, Netherlands, France, Finland, Greece, Italy and Spain all have collective bargaining coverage at 80 per cent or more (see Visser 2009). This involvement of organised labour in wage setting makes it difficult to impose downward labour cost reductions across the economy. Neither will adjustment be so extensive that it can act as the functional equivalent to currency devaluation. Any adjustment in labour costs will be negotiated between labour market actors (at sectoral or national level) unless labour is so weak that it cannot resist a unilateral imposition of wage cuts. However, given the rigid constraints of the EMU's budget deficit requirement, the government as an employer may have no option but to impose a reduction in pay rates in the public sector. This is a significant problem as public employment has traditionally been a highly unionised sector.

Given the institutionally and historically evolved structure of coordinated wage setting, one should not assume that organised labour markets are strategically incapable of reducing labour costs through collective bargaining. Most research indicates that those sectors most exposed to international competition have been capable of concession bargaining and internalising significant levels of wage restraint (Crouch 2000, Hancké and Johnston 2009, Traxler and Brandl 2010) or adopting alternative labour market policies such as short-term working to

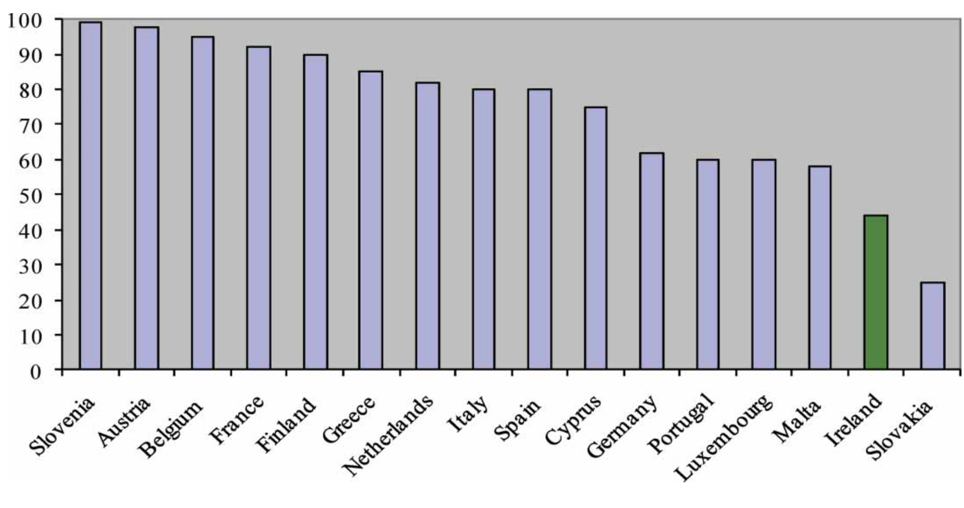

FIGURE 2. Eurozone collective bargaining coverage (2008)
Source: ICTWSS database, Visser (2009).

reduce costs. The question, for governments, however, is under what conditions can those sectors not exposed to international trade, particular those within the public sector, do the same? This will become a significant problem for countries where public sector pay bargaining is systematically associated with social pacting (Traxler 2010), as is the case in Ireland.

The Calmfors and Driffill (1988) model presented two scenarios for non-inflationary wage growth. On the one side of the u-trough are the self-clearing liberal markets. There is no empirical evidence to support this scenario (outside the USA and UK) even if it is deduced to be the most efficient mechanism of coordinating wages (see Soskice 1990). On the other side of the u-trough are the peak-level wage-bargaining actors who coordinate wages at a national level. This national-level coordination is required to incentivise trade unions to internalise the costs of inflationary wage agreements. Most corporatist economies, however, have evolved away from national-level coordination. This led many economists to conclude that the advent of the EMU would provide an incentive for the complete de-regulation of wage setting akin to self-clearing markets. This did not occur. As illustrated by Crouch (2000), wage-setting institutions evolved and adapted to new economic constraints. Most labour market actors adopted an ‘organised decentralisation’ (Austria, Germany and Sweden) of collective bargaining, while some integrated centralised wage negotiations into social pacts (Ireland and Finland). Thus, while the new monetarist paradigm acted as a stimulus for institutions of coordinated wage setting to evolve, they did not disappear. Wages and labour markets are still institutionally regulated by collective organisations. The EMU simply assumes that embedded institutions of collective bargaining do not exist, or if they do, national governments and employers can effectively ignore them.

Fiscal policy

The EMU is designed for a symmetric pan-European economy but operates in an asymmetric way (see Hancké and Johnston 2009). The narrow focus on wage cost competitiveness and fiscal consolidation ignores the institutional diversity, differing problem loads and structural imbalances both across and within eurozone economies. It assumes that all eurozone economies will converge in both price and wage costs. Most of the evidence indicates, however, that post-EMU, national and regional economies increasingly diverged on these indicators (see Lane 2009). Countries shared a monetary currency but not the corresponding institutional governance required to coordinate economic policy. Market processes alone have proved to be an ineffective means of economic integration.

From 1999 to 2008, large export countries at the centre of the eurozone (Germany) continued to run current account surpluses. These surplus capital and savings were channelled into peripheral economies of the eurozone (Ireland and Spain, in particular), creating an unnecessary oversupply of credit (facilitated by low ECB interest rates) that was channelled into a poorly regulated domestic financial market which, in turn, channelled the cheap credit into real estate, as will be shown in the case study on Ireland. This structural divergence cannot be accommodated by monetary policy alone. In the absence of a central government or a functional equivalent, each national economy will continue to operate as though it is institutionally independent. The crisis in the sovereign bond markets, however, has provided an exogenous stimulus for eurozone economies to recognise the extent of their financial interdependence and the instability of integrated finance-capital markets. Yet the policy prescriptions being adopted are oriented towards nationalistic austerity packages and not towards coordinated strategies of collective action to tackle structural imbalances (see Felipe and Kumar 2011).

Secondly, the implicit assumption and narrow guidelines of the EMU are that economic problems only emerge from budgetary indiscipline and not from risky and unsustainable economic behaviour in the private market (see Pisani-Ferry 2010). The growth and stability pact was designed on the basis that public spending is the primary problem facing national governments. The crisis in Spain and Ireland, however, is the direct result of a collapse in private investment and the associated tax revenues government had come to depend upon. Both Ireland and Spain experienced an asset price (housing) boom upon entry into the EMU. Non-fiscal asset price bubbles facilitated by cheap credit and low ECB interest rates created the problem in Spain and Ireland and not government spending. Or, more precisely, the problem is not labour costs and government spending but the mismanagement of private capital by private actors coupled with an unsustainable tax base. The ECB, however, operates according to average (mean) indicators of labour costs and inflation across 17 eurozone economies. Thus, while the Irish and Spanish economies were overheating internally, the ECB continued to cut interest rates to encourage higher levels of economic growth in what was perceived to be the underperforming economies of Germany and France.

Furthermore, during the period 1999–2009, it was Greece, Germany, Italy and France that regularly exceeded the 3 per cent deficit requirement of the growth and stability pact. Ireland, on the other hand, went from a stable budget balance to a fiscal deficit of 14.7 per cent in less than two years. Spain went from a stable budget surplus to a deficit of 10.1 per cent in less than 18 months. Spain actually ran a fiscal surplus in 2005, 2006 and 2007 (European Commission 2010). This begs the question as to whether it is genuinely feasible to use the statistical mean of the growth and stability pact as a basis for how national economies should manage their budget deficits in an economic crisis. With the exception of Greece, most ‘peripheral’ economies, by this ‘fiscal’ indicator, behaved relatively prudently.

These indicators, however, mask the type and level of government tax and spend policies specific to particular national economies. Ireland did not run a significant deficit but successive governments institutionalised an unsustainable low-tax regime based around ‘political budget cycles’ (see Cousins 2007). Government revenue became reliant upon consumption and pro-cyclical taxes (that is, stamp duty on property) that evaporated when its liquidity-rich and credit-fuelled housing bubble burst. Furthermore, social partnership as a market-conforming alliance legitimised this process. The EMU is not designed to tackle unsustainable growth strategies of national economies or the structural composition of tax revenues. It simply assumes that government spending in itself is the problem.

Thus, the narrow focus on fiscal and cost competitiveness (central to monetary policy) assumes that the problem load facing peripheral economies of the eurozone (Greece, Ireland, Portugal, Spain and Italy) is the same. This is not the case. The Greek problem is definitively fiscal, related to government spending and specific to its own national economy. It regularly exceeded the stability and growth pact, exaggerated government returns and manipulated statistical measures. On the other hand, Ireland and Spain regularly ran budget surpluses and institutionalised a low-tax regime that was supported by international bodies such as the IMF and the OECD. Both countries rank below the EU-27 on two policy indicators that normally impact upon budget deficits: total government expenditure as a percentage of GDP and total spending on social protection as a percentage of GDP. Total taxation as a percentage of GDP is also significantly below the EU-27.[1] Yet, given the neoclassical assumption of the EMU, both countries are being encouraged to cut expenditure to tackle their deficits despite having relatively low levels of public spending as a percentage of national income.

In a stochastic world, monetary constraints are the problems facing peripheral economies of the eurozone, not fiscal deficits (Darvas *et al*. 2011). The eurozone assumes that peripheral economies can experience deflationary spirals of unemployment, downward wage flexibility and deep cuts in government spending without a corresponding replacement for the collapse in private investment.

Three strategic choices facing national governments

The exogenous policy constraint of the EMU defines the range of possible actions available to the government in how to tackle labour market, wage and fiscal policy problems, but domestic choices still exist. This paper proposes that three broad strategies are available to the government but mediated by the endogenous institutions of industrial relations governing labour market regimes. The political choices are neoliberalism, neo-institutional concertation and euro-coordination. These are deductive strategic-action typologies conditioned by a given set of institutional constraints. In theory, a combination of all three can exist simultaneously. But given the constraints and neoclassical design of the EMU, this paper hypothesises that governments in peripheral economies of the eurozone will opt for neoliberal fiscal consolidation while labour market adjustments will occur at the sectoral level if collective bargaining coverage and trade union density extend significantly beyond the public sector. Fiscal, wage and labour market policies will become increasingly disconnected. This minimises the capacity for a political adjustment strategy via a national social pact. In turn, it illustrates the contingent nature of social pacting as an institution of industrial relations.

Neoliberal market strategy

This strategy will be pursued by the government in opposition to organised labour. Therefore, the primary actors are political parties representing the government of the state supported by employers at company level. The indicators for a neoliberal strategy include the following: in *labour market policy*, the government attempts to reduce the minimum wage and other statutory mechanisms to protect the lower paid. The crisis is used as an opportunity to unilaterally de-regulate labour market institutions. Rigidities in the labour market are presented as an obstacle to private sector employment. In *wage policy*, the government will legislate for a pay cut in the public sector. This is designed to set a precedent for a collective devaluation of wages across the economy. The policy discourse is primarily focused on unit labour costs as the measure of cost competitiveness. Reducing wages rather than increasing productivity is chosen as the first option in cost adjustment. Statutory redundancies, layoffs and reduced employment are pursued by employers, not short-term working. The government provides minimal support for collective bargaining and job creation. In *fiscal policy*, the government opts for public expenditure cuts rather than a collective increase in taxation as the primary means of fiscal consolidation. There is minimal attempt to redesign the tax system and budget cuts target social welfare and benefits in kind. The legitimating policy discourse is primarily focused on generous welfare payments and excessive 'public sector' spending.

National and sectoral concertation strategy

This is a concerted strategy of codetermination by the government, employers and trade unions aimed at coordinating a collective bargaining response to the crisis. It can take the form of a tri-partite national social pact or a bipartite sectoral bargain sponsored by the government. Throughout Europe, there have been a variety of anti-crisis tri-partite policy packages, but none have taken the form of a coordinated social pact. Most negotiated responses to the crisis have taken place at the regional or sectoral level, not at the national level (see Pochet and Natali 2010). Slovenia, Germany, Austria, Netherlands, Poland, Bulgaria and Hungary among other countries have introduced legal provisions for statutory short-term working schemes. Negotiated responses whereby state actors participate with organised labour and employers at inter-sectoral level have the character of tri-partite coordination (see Glassner and Keune 2010). They are strategies of national (inter-sectoral) concertation. In this regard, the new wave of social pacting may be coordinated at the sectoral not national level, accelerating the process of organised decentralisation in collective bargaining (Glassner and Keune 2010).

In *labour market policy*, the government and labour unions coordinate a variety of measures such as wage subsidies to minimise unemployment. The government adopts specific policies aimed at job creation and uses public funds to support private sector investment. These public policy programmes are strategically linked to wage policies aimed at maintaining income. *Wage policies* are designed to reduce collective working time or increase productivity. Unit labour costs are pushed downwards but not on the basis of pay cuts. The government designs social protection schemes in conjunction with social partners to allow for partial unemployment. Thus, wage and labour market policies are codetermined by all economic actors, using public funds to minimise unemployment and enhance job creation. Statutory redundancies are not pursued as the first option by employers and labour legislation remains intact, aimed at protecting employment rights but allowing company-level flexibility. *In fiscal policy*, the government pursues a variety of austerity measures to consolidate and contain public spending. Revenue-raising schemes are balanced with spending cuts. Fiscal tightening is considered a means to an end, supported by public investment aimed at growing national income. The legitimating policy discourse is not focused on excessive public spending but on prudential management, growth and regulation. It is focused on national or sectoral competitiveness.

Euro-coordination strategy

The third political choice is euro-coordination. This is a coordinated strategy between the centre (Germany, France, Netherlands, Finland and Austria) and periphery (Ireland, Portugal, Greece and Spain) aimed at fiscal tightening programmes with public policy interventions to improve growth. It proposes *pan-European wage*, *fiscal and labour market coordination* as an alternative to national austerity packages. It involves transnational cooperation aimed at balancing fiscal austerity with economic expansion to stem the rise of unemployment. Actors intentionally strategise to avoid a beggar-thy-neighbour policy of competitive cost reductions. Actors coordinate their transnational interests to increase the collective growth prospects of the eurozone and provide a collective buffer to speculative trends in sovereign bond markets. In response to converging currency markets, governments pursue transnational coordination in fiscal policy, while trade unions pursue cross-border coordination in wage and labour market policies. Fiscal tightening is coordinated to avoid a downward deflationary spiral both within and across eurozone economies.

In this regard, national strategies of labour cost reduction and fiscal consolidation are designed with a larger macro-economic context in mind. This larger macro-economic context is aimed at public investment to balance national measures of fiscal austerity. Central economies of the eurozone with large current account surpluses (primarily Germany) accept greater inflation, increase domestic wages and design policies to stimulate internal demand. In effect, national governments strategise on the basis of a federal economic union. National governments strategise on the basis that each economy is structurally interdependent, the whole being greater than the sum of its parts. What Europe lacks, however, is a coordinated public sphere capable of generating a legitimating transnational policy discourse. It lacks a transnational political actor.

The European Economic Recovery Plan began a series of proposals for stimulus, but they were designed on the basis of national not European interest. Of the 590 national measures reported by the euro area member states, 22 per cent were geared towards boosting purchasing power of households, 25 per cent to buttress investment, 32 per cent to sectoral or company support and 21 per cent to improve functioning of labour markets (European Commission 2010). These public investment supports are now being reduced. The policy focus has shifted back to cutting deficits and effective monitoring of national budgetary policies. If monetarist orthodoxy fails and deficit countries in the periphery (Ireland, Spain, Portugal and Greece[2]) are indefinitely pushed out of financial bond markets, eurozone governments may be forced into adopting a coordinated strategy. In this regard, transnational macro-economic governance may occur not through political strategy but through functional necessity (see Bini Smaghi 2011). Actors may be confronted with the choice: expand the institutional coordination of economic policy in euro-governance or leave the common currency. Table 3 outlines a typology of stylised strategic choices facing economic actors under the institutional

TABLE 3. Actors' strategies leading to three types of institutional responses

	Neoliberal	Neo-corporatist	Euro-coordination
Main actor	Government	Social partners	Federal coordination
Labour market policy	Unemployment	Wage subsidies – job creation	Employment subsidies
Wage policy	Pay cuts	Short-term working	Euro wage bargaining
Fiscal policy	Expenditure cuts	Balanced austerity	Public investment – stimulus
Level	National – company	National – sectoral	Transnational – sectoral
Ideational discourse	Bloated public sector	Market intervention	Euro-coordination
Countries	Ireland, Portugal, Spain, Greece, UK	Austria, Netherlands, Slovenia, Belgium and Germany	Europe 2020 – Policy document

constraints of the EMU. This paper will now argue that domestic policy choices are conditioned by the national institutional frameworks of collective bargaining in industrial relations. This will illustrate the political ease with which the Irish government could shift from a negotiated to a unilateral neoliberal market response.

The domestic intuitions of collective bargaining that condition national strategies

The social action strategies available to political–economic actors are embedded in institutional structures of country-specific industrial relations. Structures of collective bargaining impact upon government choice as they determine the power resources available to organised labour. Labour markets, in this regard, are an institutionalised social relationship between organised interests. An economy with 80 per cent trade union density and 100 per cent bargaining coverage will not have a competitive wage devaluation imposed upon it (Table 4). Any cost reductions will occur via a negotiated agreement. Thus, the endogenous institutions of wage setting and labour relations diffuse the liberalising effects of sharing a common currency. They condition the public policy response to exogenous collective action problems. This is reflective of the political economy literature that prioritises the importance of historical and sociologically evolved institutions in explaining variation in European varieties of capitalism. Hall and Soskice (2001) prioritised the interests of firms in the value-added sectors of the economy to explain the difference between liberal and coordinated market economies. Streeck (2009), however, emphasised the importance of conflict and politics in explaining capitalism as a historically specific social order. Both recognised the importance of politically evolved institutions in explaining cross-country variation but differed on how to explain the evolutionary process of institutional change.

TABLE 4. Trade union density in eurozone countries (1960–2008)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2008
Finland	32	38	51	65	70	69	72	80	75	72	71
Cyprus					70	70	70	71	70	65	62
Malta					45	49	57	54	57	56	57
Belgium	42	40	42	52	54	52	54	56	49	53	54
Slovenia					69	69	69	43	42	41	41
Luxembourg			47	46	49	50	44	42	42	40	40
Ireland	50	54	59	62	63	60	57	52	41	37	35
Italy	25	25	37	48	50	43	39	38	35	34	33
Austria	68	66	63	59	57	52	47	41	36	33	32
Slovakia					75	75	75	50	36	26	24
Netherlands	40	37	36	38	35	28	24	25	23	22	21
Spain				36	39	38	37	34	29	24	23
Germany	35	33	32	35	35	35	31	29	25	22	20
Portugal					60	47	28	24	19	19	18
Greece				45	19	10	12	16	17	15	15
France	20	19	22	22	18	13	10	9	8	8	8

ICTWSS Database, Visser (2009).

In terms of corporatism, Bacarro and Simoni (2008) have shown that between 1974 and 2005 there has been a growth and not a reversal in government willingness to share its policy-making prerogatives with organised labour. Social pacting is an evolutionary form of this structured interest intermediation. For this strategy to operate, the benefits of cooperation from each actor's perspective must outweigh the costs. Trade unions must have significant deterrent power so that excluding them from government decisions would result in negative externalities. Deterrent power is determined by 'structure of collective bargaining and how much it equips the bargaining parties with a sufficient hold on the labour market' (Traxler 2010, p. 55). For example, if trade unions and employers co-manage social insurance funds, the government systematically requires their support to implement policy reform in this area (see Visser and Hemerijck 1997). Thus, strategic choice (neoliberal, corporatist or euro-coordination) is conditioned by institutions in the labour market not because of the institution *per se* but because of the extent to which it increases or decreases the power resources available to the actors to engage as 'social partners'. The institutions include the legal and institutional framework of wage setting, trade union density, collective bargaining coverage and the type of policy codetermination at the firm, sectoral and national levels.

The legal and institutional framework of collective bargaining is the most important variable in accounting for the diversity of responses to the economic crisis across Europe (Glassner and Keune 2010). It is also the most important variable in accounting for the variety of social pacts that have emerged under the liberal economic constraints of the EU. Social pacting is a particular mode of governance that can be distinguished from sectoral negotiation in wage bargaining. It is a government-led tri-partite strategy to involve organised interests in the formulation of public policy but systematically tied to the negotiation of income agreements in sheltered sectors of the economy (Traxler and Brandl 2010). In the absence of this wage-setting function, social pacts are merely symbolic. They provide an 'expressive' function that acts as a symbolic legitimation of government policy (see Traxler 2010). The social pacts of Central and Eastern Europe arguably fall into the latter category.

If social pacts are a political strategy to coordinate income policy in sheltered sectors of the economy (in particular, the public and construction sectors), then it is this form of centralised wage coordination that will come under greatest pressure for downward wage flexibility. Governments faced with the requirement to cut budget deficits have very little to exchange in corporatist negotiations when public sector pay is a significant portion of general government expenditure. But, more importantly, if national wage agreements contained in social pacts only cover a narrow section of the economy (as is the case in Ireland but not in Slovenia, Netherlands or Finland), then wage setting excludes a significant percentage of the workforce. For Traxler (2010), it is this structure of 'inclusive' and 'exclusive' bargaining that is the strongest determinant of concertation strategies. Governments operating within a labour market with 'exclusive' bargaining are more likely to pursue a neoliberal strategy of adjustment. They can opt out of a social pact with little repercussion because trade unions have limited capacity to be considered a necessary political partner. Governments only have to engage with public sector unions as an employer.

Coordinated wage bargaining that is inclusive across the economy confers significant bargaining power upon organised labour to resist a unilateral imposition of labour cost reductions. This multi-employer type of bargaining (as witnessed in Austria and Netherlands) confers bargaining coverage of over 90 per cent. Given this institutional structure, labour market actors are likely to use collective bargaining strategies when negotiating a cost adjustment, despite the neoliberal design of the EMU. In this regard, it is those economies that have exclusive bargaining coverage (only Ireland and Slovakia have collective bargaining coverage below 45 per cent in the eurozone) that are more likely to experience a neoliberal strategy of cost adjustment. The micro-conditions in these labour markets do not act as a counter-force to asymmetric macro-economic shocks. This is particularly the case when negotiated wage agreements are not just exclusive to particular sectors of the economy but contain no legal requirement on employers to implement negotiated wage increases. This voluntarist dimension complements a market-based adjustment rather than collective bargaining strategies. Employer associations do not encompass the majority of firms in the economy covered by national wage agreements. This makes national ‘corporatism’ dependent upon the political executive of the state.

Thus, voluntary and exclusive institutions of wage setting (Ireland), as opposed to inclusive and legally binding institutions of wage setting (Finland, Netherlands and Slovenia), weaken the power resources of labour and decrease the possibility of a negotiated response to the economic crisis. Higher levels of trade union density minimise the capacity for a neoliberal imposition of labour market cost reductions when combined with high levels of collective bargaining coverage. From the perspective of governments, weak micro-conditions in the labour market make it easier for them to adopt a unilateral strategy of adjustment even if this is less effective than a negotiated adjustment based on deliberative agreement.

In this regard, liberal market political economies (where market processes act as the main incentive for economic coordination) are better placed to internalise macro-economic shocks in the eurozone. In terms of peripheral economies of the EMU, it is Ireland that falls into this category. The political conditions in this economy make it easier to implement orthodox economic policies as the institutional complementarities governing labour market, fiscal and wage policies fit the neoliberal design of the EMU. This is not the case in Italy, Spain, Portugal or Greece, where a unilateral imposition of cost reductions (given inclusive bargaining structures) will be met with significantly higher levels of social and political confrontation. Thus, Irish ‘liberal market’ corporatism is a market-conforming process premised on state support rather than an embedded form of economic governance or corporatist democracy.

Neo-corporatist responses at a national level require ‘shared understandings’ to enable a bargained compromise. National governments that provide institutional mechanisms for ‘social partners’ to engage in policy analysis, communicative interaction and codetermination in public policy increase the propensity for conflicting actors to reach agreement on their ‘collective action problem’. This increases their strategic capacity to engage in a coordinated response. If a shared normative and cognitive agreement can be established among actors (on how to tackle public debt, budget deficits and unemployment), it increases the probability of negotiating a social pact (see Regan 2010). This is a necessary condition in explaining the consolidation of liberal market corporatism via social pacting in Ireland from 1987 to 2008 but absent when the social partners attempted to negotiate a social pact in 2009. The social partners identified a 'five-part crisis' (see National Economic and Social Council 2009) but could not reach agreement on whether Ireland had a 'competitiveness' problem measured in unit labour costs.

Case study: Irish liberal market corporatism in crisis

The inability of social partnership to internalise the constraints of the economic crisis

Ireland, as a regional economy of the eurozone, experienced a 13 per cent contraction in national income between September 2008 and June 2011. The recession in Ireland, statistically, began one year earlier than that in the eurozone. In mid-2009, the eurozone statistically exited the recession and returned to growth (European Commission 2010). By 2011, Ireland had not. The OECD forecast that growth will return to the Irish economy in the final quarter of 2011. Based on these optimistic forecasts, the recession will have lasted 36 months longer than the eurozone average. During this period, Ireland's budget deficit deteriorated and is currently the largest in the EMU, at 14.7 per cent of GDP (32 per cent when the final cost of bank bailout is included). Its public debt is just over 110 per cent of GDP and unemployment is 14.7 per cent (see Figure 3). The increase in all of these indicators (including a contraction in national income) occurred after the introduction of three fiscal austerity packages in 2008, 2009 and 2010.

The strategy adopted by the Irish government was to target public spending and unit labour costs as a means of adjustment. In terms of *wage policy*, the government introduced emergency legislation to override the Non-Payment of Wages Act for the public sector in the 2009 budget. This enabled the government to implement a pay cut that averaged between 5 and 15 per cent. It also sent a

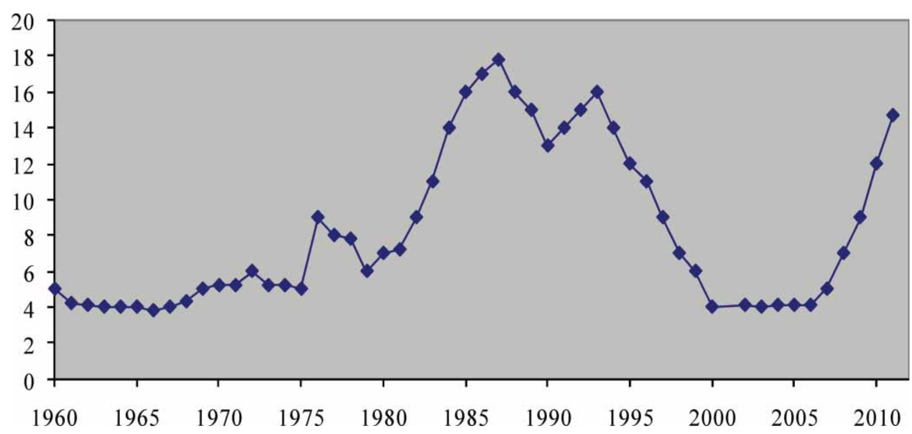

FIGURE 3. Unemployment rate (% ILO) 1960–2011.
Source: CSO

signal to the entire economy that the Non-Payment of Wages Act was not an obstacle to downward wage flexibility in labour costs. This began a competitive devaluation of wages (although the evidence for pay cuts in the private sector is negligible). In *labour market policy*, the government has introduced some measures to offset unemployment, but there has been no statutory support for wage subsidies or short-time working. In *fiscal policy*, most of the adjustment has occurred via spending cuts rather than via increased revenue. In 2009, €4.6 billion was taken out of expenditure, but net government spending had actually increased due to the surge in unemployment and expenditure on automatic stabilisers. Despite the fiscal consolidation, the premium on government bonds increased. In 2008, the yield was 4.3 per cent. In May 2010, the yield had increased to 5.9 per cent. In November 2010, the government announced another €15 billion austerity package to be introduced over four years. Bond yields subsequently rose to over 7 per cent. Fiscal austerity did not appease international investors in finance markets and Ireland had to resort to an EU–IMF rescue package in December 2010 (see Wolff 2011).

Ireland has adopted and internalised the constraints of the EMU in how it has responded to asymmetric shocks. According to the indicators outlined in Table 3, it has pursued a neoliberal strategy that shifts the entire burden of adjustment on to labour market actors without a corresponding investment strategy to boost economic growth. According to the design of the EMU, it is acting most rationally. This shift to economic orthodoxy has occurred despite the negotiation of seven social pacts between 1987 and 2008. The question, therefore, is why a negotiated response has not been pursued? To understand the conditions which led to this shift in strategic orientation, one has to examine the background to the collective action problem (collapse in tax revenue), the negotiating process in bargaining a social pact (political exchange and shared agreement), the shift in power relations and the institutional framework of Ireland's liberal labour market. All of these factors contributed to a collapse in the underlying political coalition supporting social partnership.

Legitimating Ireland's low-tax regime. Ireland's crisis is directly related to a collapse in private investment, primarily real estate and associated tax revenues (see Burke *et al*. 2010). Ireland experienced a colossal asset price bubble from 2000, directly after entering the EMU. This was facilitated by domestic macroeconomic policy through the provision of a whole series of tax expenditures (tax allowances and reliefs) aimed at the construction sector. As a percentage of total tax revenue, these schemes accounted for more than three times the EU average. By 2007, tax expenditures accounted for more lost revenue than was taken in via income tax (see Regling and Watson 2010). The property-related expenditures were used to incentivise multi-story car parks, hotels, holiday homes and private hospitals. Most of the schemes evolved into a major source of tax avoidance for the wealthy, constituting a major transfer of wealth from Irish citizens to a small group of wealthy individuals. Collectively, these incentives had a combined gross tax cost of €3.28 billion. The net loss to the state was around €2.2 billion (Regling and Watson 2010). These publicly provided state aids to the private sector were approved by the EU Commission. Thus, the

EU Commission and all the main political parties in the Irish state actively supported this low-tax, pro-cyclical strategy of economic growth.

The mismanagement of private wealth can be observed in the Central Statistics Office (CSO) 'estimate of capital stock'. This quantifies where capital is located and invested in the Irish economy. According to White (2010), capital stock soared by 157 per cent between 2000 and 2008, but real estate accounted for two-thirds of this investment. In 2008, net capital stock was €477 billion. In total, €302.5 billion went into unproductive assets, while only €174.4 billion was invested in productive activity. It is this collapse in capital investment that accounts for the contraction in the Irish economy. The vast majority of the 'core productive capital' was not driven by private sector enterprise but by state and semi-state activity: roads, schools, hospitals, gas, waterworks and waste management. Davy stockbrokers concluded that productive private sector investment accounted for only €14.5 billion from 2000 to 2008. This collapse in private investment is the causal factor behind the contraction in Ireland's economy, but all policy prescriptions have focused on labour costs and government spending to tackle the budget deficit and improve wage competitiveness. The focus is on an internal devaluation.

The collapse in government finances during 2008 and 2009 amounted to €17.5 billion (Burke *et al*. 2010). This collapse in tax revenue coupled with the bank guarantee scheme has resulted in a projected general government deficit of 32 per cent. Figures 4 and 5 clearly indicate that Ireland's deficit is a tax not a spend problem. The government institutionalised a low-tax regime and became overly dependent on pro-cyclical taxes associated with its asset price bubble. Public spending increased from 2000 to 2008, but total government expenditure as a percentage of GDP is still significantly below the eurozone average. Comparatively, Ireland is a low-tax, low-spend economy. Total tax revenue to the Irish exchequer is on a par with Latvia, Romania and Lithuania (McDonough

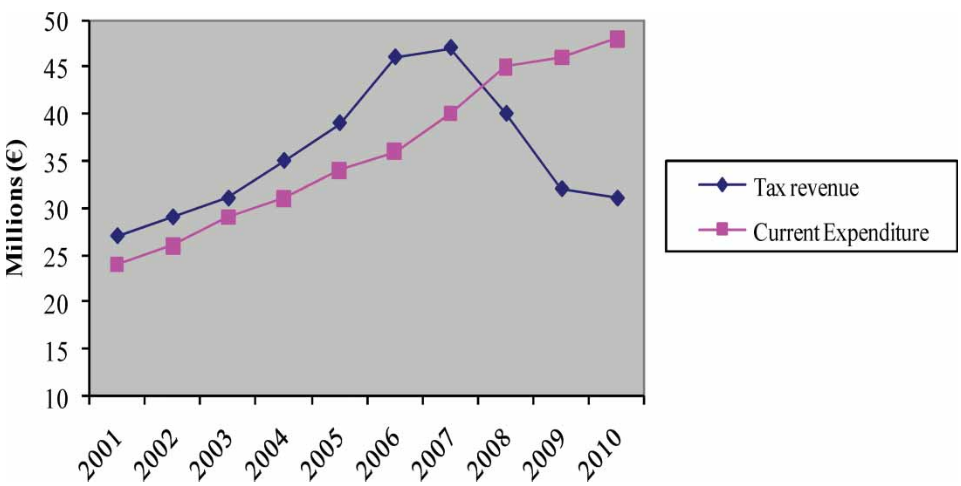

FIGURE 4. Tax and current expenditure in Ireland (2001–2010)
Source: CSO National Accounts.

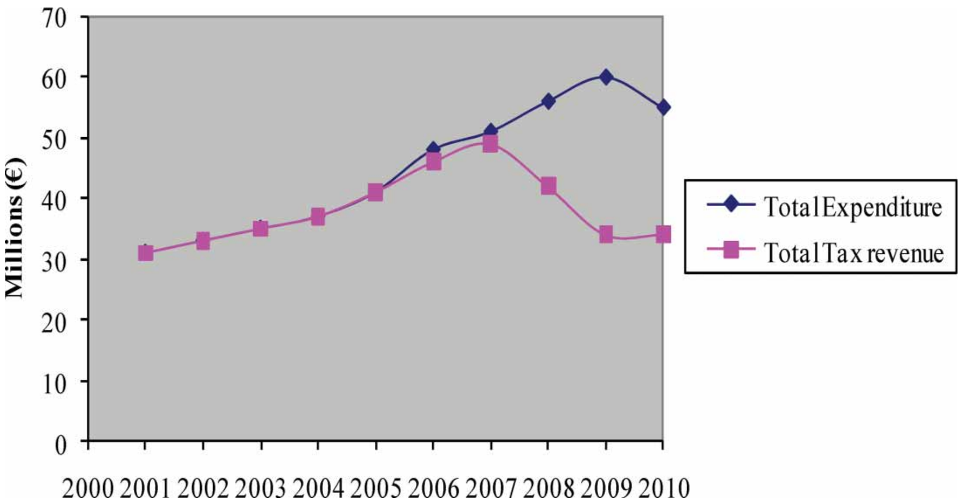

FIGURE 5. Total revenue and total expenditure in Ireland (2001–2010)
Source: CSO National Accounts.

and Dundon 2010). Yet, social partnership as a process advocated the construction of a developmental welfare state akin to the Danish and Dutch system (see National Economic and Social Council 2005). How to square the circle of a low-tax economy and a developmental welfare state was one of the central contradictions of the social partnership process.

In addition, Irish social partnership bears some responsibility for the unsustainable tax base. The liberal market corporatist arrangement legitimised a policy of wage restraint in return for cuts in income tax. The latter was primarily driven by the electoral considerations of successive centre right governments, but the social pacts were the political vehicle through which a low-tax strategy was legitimated. Trade unions could sell the 'deal' to their members not on the basis of nominal wage increases but on that of real take-home pay after tax reductions. The public policy response to the crisis did not focus on this shared responsibility for institutionalising a low-tax regime but on the salaries and security of tenure for public sector employees. Public sector unions were targeted for causing a rise in government spending through excessive wage demands. This enabled government and economic commentators to focus on wage costs as the primary collective action problem in Ireland's political economy, not on its low-tax regime.

The absence of a distributional outcome in social pact negotiations. In September 2008, Ireland's social partners negotiated a national pay agreement titled 'Towards 2016: Review and Transitional Agreement 2008/2009'. This agreed a pay pause for 11 months in the public sector and for three months in the private sector, followed by a 6 per cent increase over 18 months. It also included a commitment on collective bargaining rights, a national employment rights framework, public sector reform and the conclusion of an EU directive on temporary agency workers. The social pact was a 10-year agreement negotiated in 2006. But the pay aspect of the agreement was to be renegotiated every 24–36 months. The new transitional pay agreement was barely signed before the full extent of the crisis facing Ireland's economy emerged. Immediately the government signalled its intention to seek a coordinated response and discussions began in the NESC.[3] This was the beginning of a 12-month process aimed at negotiating a social pact that ultimately failed.

Negotiations on a national pact took place throughout December 2009. Significantly, the trade union movement agreed to a reduction of €4 billion in current expenditure. This agreement fundamentally shifted the balance of power away from a public investment strategy. The Irish Congress of Trade Unions (ICTU) now had to find a strategy of taking €4 billion out of current expenditure without a reduction in the rates of public sector pay. The Public Service Committee of ICTU in return provided a complex package of public sector reform and productivity increases, particularly in the education and health sectors. Government appeared to have accepted a reduction of €4 billion via short-term working schemes and a 'transformation agenda' aimed at productivity increases. The leader of Irish Municipal, Public and Civil Trade Union (IMPACT), one of the largest public sector unions, Peter McLoone, exited the talks on 3 December and publicly announced to the media that a social pact had been completed on 'unpaid leave'.

The government subsequently issued a statement saying that the ICTU proposals did not provide an acceptable alternative to pay cuts and legislated for a second public sector pay cut. This amounted to approximately €1.3 billion. Emergency legislation was introduced to override the Non-Payment of Wages Act (which makes it illegal to unilaterally cut pay without agreement). The main cuts in public sector pay are as follows: 5 per cent on the first €30,000 salary, 7.5 per cent on the next €40,000 salary and 10 per cent on the next €55,000 salary. The Irish Business and Employers Confederation (IBEC) subsequently made the unprecedented decision to withdraw from the private sector transitional pay agreement of the 2006 social pact 'towards 2016'. For the first time in 23 years, trade unions, employers and government were operating in the absence of a national partnership agreement. However, an informal private sector accord was agreed between IBEC and ICTU in 2011, illustrating the willingness of both actors to engage in 'social dialogue' aimed at minimising industrial action.

The absence of a shared agreement on macro-economic problem load. The publication of a report in September 2009 by the Economic and Social Research Institute (ESRI) (see Kelly *et al.* 2009a) played a significant role in shifting the politics of labour relations to unit labour costs in the public sector. The report found that public sector workers earn, on average, more than 22 per cent than their counterparts in the private sector. This is after taking into account age, experience and education. The report was central to a coordinating policy discourse that resulted in an increased politicisation of labour relations in the Irish public sphere. While many economists supported its conclusions, it was not without its critics. Industrial relations scholars argued that it is too simplistic to statistically compare a homogenous public sector to a homogenous private sector when there is such significant sectoral and occupational differentiation both within and across these sectors (see Geary and Murphy 2009). This challenged not the politics of wage coordination in the sheltered sectors of the economy but the methodological complexity of measuring unit labour costs in a heterogeneous economy.

Many trade unionists argued that the 22 per cent did not account for the pension levy (March 2009) or the pay cut (December 2009). The data were from 2006 when a wage agreement was concluded but not implemented. Others argued (Sweeney 2009) that if the government is cutting wages, it needs to make explicit whether it is for cost saving, competitiveness or sustaining employment. That is, many questioned the logic of cutting wages to improve national competitiveness. Furthermore, the same authors in a separate publication found that centralised wage bargaining in Ireland generated wage restraint and that many sectors in the private sector used the national wage agreements as a floor and not as a ceiling in their company wage negotiations (Kelly *et al.* 2009b). Social partnership improved the economy-wide cost competitiveness when measured in unit labour costs. This conclusion seems to be supported by data that analyse trends in sectoral labour costs as indicated in Figure 6. This shows unit labour costs in the traded 'competitiveness- oriented' manufacturing sectors decreasing relative to the OECD average from 2000 to 2007.

Figure 7, however, indicates that overall unit labour costs in the economy (labour costs divided by entire working population) have increased beyond the eurozone average. This is particularly the case when the public and semi-state sectors are included in the analysis. This, in turn, would support the thesis by Traxler and Brandl (2010) that social pacts are associated with sheltered pay bargains that do not internalise non-inflationary wage growth. The collective increase in unit labour costs supports the argument that public sector wage costs have driven up overall unit labour costs in the economy. But saving costs in the government sector is not the same as improving competitiveness across the economy. And it was the latter argument that has been used in the Irish case for a collective devaluation of wages. Furthermore, labour costs chased inflation in the Irish economy post-

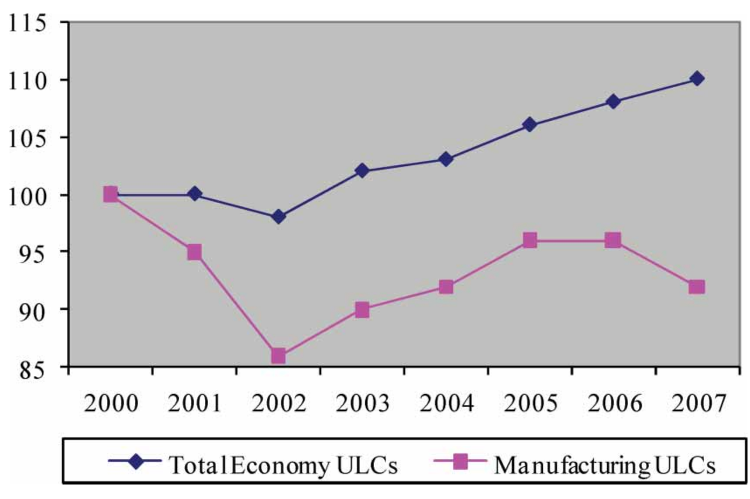

FIGURE 6. Trends in total and manufacturing unit labour costs relative to OECD average (2000–2007)
Source: EU Klems Database (2009).

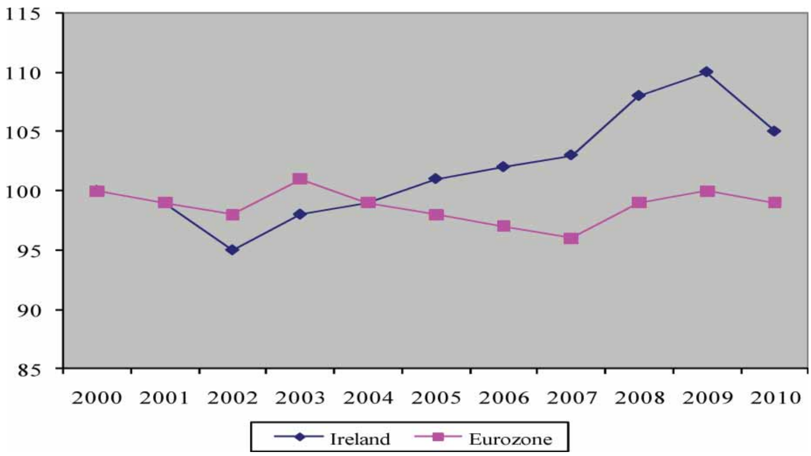

FIGURE 7. Changes in total unit labour costs in Ireland and eurozone (2000–2009)
Source: EU Commission, Statistical Annex (2010).

EMU. The causal factor behind inflation was a housing boom and the oversupply of cheap credit, facilitated by low ECB interest rates. Thus, the absence of a shared agreement on the economic problem, the absence of a distributional outcome in the negotiations and a unilateral pay cut by government altered the political context within which a negotiated compromise could be reached.

Shifting power relations and the demise of liberal market corporatism. The shift from the economic to the political realm came at a cost for trade unions as institutions. The growth of non-union employment during the period of social partnership ensured that trade union density and collective bargaining coverage decreased over time. Unlike most European systems of collective bargaining, there is no legal-formal extension of negotiated wage agreements to non-union employees. It is exclusive to the unionised economy which was concentrated in the semi-state and public sectors. On the one hand, this 'voluntarist' and 'exclusive' system of wage setting enabled social partnership to consolidate as an institution of industrial relations. It put no legal requirement on non-union Irish employers in the multi-national sector. But it simultaneously removed the institutional power resources which provide trade union leaders with political access to government in the first place. The voluntarist and exclusive nature of wage setting, in the context of a neoliberal political economy, explains why the government and employers could walk away from the process with minimal repercussion.

This combination of a '*strong executive*' in the political system and '*voluntarist and exclusive*' institutions of collective bargaining is the underlying condition that explains the rise and fall of Irish corporatism. But it is the political shift in the underlying social coalition that is the 'causal' factor behind the demise of social partnership as a process. Social partnership could not internalise the constraint of adjustment because the government did not see it within its interest to do so. The underlying political coalition between large employers, public sector unions and the Prime Ministers department has eroded. Corporatist policy-making and the underlying social coalition supporting it are now facing a legitimation crisis. The policy response is being determined by the Department of Finance and the ECB. This has opened up the space for a shift towards neoliberal orthodoxy, leading some to conclude that social partnership in Ireland's political economy was a case of 'Thatcherism delayed' (McDonough and Dundon 2010).

This would be too simplistic a conclusion. In 2010, the Irish government negotiated a sectoral agreement with public sector unions, locally known as the 'Croke Park' agreement. This guarantees no further pay cuts and aims at public sector reform through employee participation. Trade unions are guaranteed participation in public sector reform in return for a pay freeze and a reduction in employee numbers through voluntary redundancy. It is a serious form of concession bargaining, but it is not a unilateral restructuring of the public sector. Furthermore, the newly elected government has signalled its intention to continue 'social dialogue' with the social partners via the tri-partite NESC.

Thus, social partnership as a mechanism of governance has been de-legitimised, but government, employers and trade unions still desire formal social dialogue on issues pertaining to industrial relations. All actors have a political preference for consensus over conflict. A deeper level of corporatist engagement in socio-economic governance depends on the ability of trade unions to wield significant deterrent power in the labour market. This is contingent upon on an embedded institutional framework that is absent in Ireland's liberal oriented market economy. As an institution, it was dependent upon the political executive of the state. To what extent, therefore, Irish 'liberal market corporatism' can be considered a political economic 'institution' or a 'political compromise' is an open question. Ultimately, it was a strategy of the state to adjust to the constraints of being a small open economy in a euro-global market.

The adjustment to the eurozone crisis is now being driven at a transnational European level and more Hayekian than Polanyi in design (see Höpner and Schäfer 2007). The process of Europeanisation removed many of the traditional policy tools available to national governments in managing the economy. This increased the importance attached to fiscal, labour market and wage policies. But contrary to neoclassical assumptions, this required more not less of a role for the state. The ability to integrate these policy domains into a national incomes policy, in the Irish case, required a coordinating role for the national political executive. But it is the ECB, IMF and EU Commission that are now coordinating national wage, fiscal and labour market policies. In exchange for providing financial loans to pay the debt of private creditors, this 'troika' are seeking increased liberalisation of labour market institutions in addition to deep cuts in public expenditure without a corresponding strategy to increase economic growth and employment. In this regard, we are witnessing European wide coordination to the crisis. But it is technocratic not democratic in design. This seriously calls into question the future of 'social Europe'.

Conclusion

This paper, using Ireland as a case study in a comparative European context, has argued that the eurozone is facing a new collective action problem in how national governments manage the politics of adjustment when confronted with a public debt, unemployment and budget deficit crisis. The main problem facing peripheral economies of the eurozone is the policy constraint of the EMU which shifts the entire burden of adjustment on to labour costs and public spending. Based on this exogenous constraint, it was deduced that three adjustment strategies are available to government: neoliberal, national or sectoral concertation and euro-coordination. Ireland has shifted from a tradition of negotiated social pacts to an orthodox liberal market approach because it lacks the embedded collective bargaining institutions at a micro-level to resist a change in government policy. Trade unions lack sufficient deterrent power in the labour market to act as a counter-force to neoliberal capitalism. In turn, the Irish government has internalised the constraints of the EMU and adopted a market-led rather than a market-negotiated adjustment to the crisis. In this regard, Ireland best fits the ideal 'self-clearing market' implicit in the design of the EMU. Social partnership was not a durable form of corporatist democracy but a strategy to embed a market-conforming alliance in Ireland's political economy in response to the constraints of euro-globalisation.

Notes

1. Ireland is below the EU-27 average when measured in GDP and GNP. This difference is important in the Irish context as transfer pricing by US multinational in the Irish economy exaggerates growth in GDP.
2. Spain, Ireland and Portugal are the countries that adopted 'social pacts' in the absence of the supposed necessary pre-conditions for corporatism. What they all lack are the corporatist micro-foundations for autonomous coordination of wage setting between employers and trade unions. Hence, the coordinating role played by the state (see Molina and Rhodes (2007)).
3. The NESC is an agency of the Prime Ministers department that has produced a strategy document prior to the negotiation of all seven of Ireland's social pacts. The Prime Ministers department facilitates the negotiation of social pact agreements and an important causal factor in explaining the consolidation of liberal corporatism over time in the Irish case (see Regan (2010)).

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