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The Comparative Political Economy of Growth Models: Explaining the Continuity of FDI-Led Growth in Ireland and Hungary*

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Abstract

This article argues that the quiet politics of informal business-state interaction explains the political determinants of growth regimes. Building on the business power literature within the study of comparative capitalism, it shows that the noisy politics of elections often leads to changes of government but rarely to fundamental changes in the growth regime. Rather, growth models can be traced to the interactions and interests of dominant corporations within a country and its policymaking elites. The argument is developed through a comparative case study research design, using the case of foreign direct investment–led (FDI-led) growth in Ireland and Hungary. FDI-led growth regimes are a universe of cases that rely on state-led industrial and enterprise policies targeting the capital investment of foreign-owned multinational firms. Despite periods of noisy electoral politics challenging basic tenets of the FDI-led growth model in both Hungary and Ireland, the continuity of FDI-oriented growth is traced to the corporate politics of business-state elite deals.

Keywords

comparative capitalism, growth models, business power, quiet politics, Ireland, Hungary

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Economic crises often bring about remarkable political and economic changes. Crises are moments for critical choices, when established institutions and policies collapse and alternatives are tested.[1] The Great Depression sounded the death knell for economic liberalism. The victorious alternative, Keynesianism, saw itself discredited half a century later, when the end of Fordism and the oil crisis undermined its foundations and brought a new version of economic liberalism—neoliberalism—to the fore. On one level, the Great Financial Crisis is no different. It seems to have ushered in a period of political instability and the ascent of right-wing political forces promoting economic nationalism. At the same time, however, despite political turmoil and the noisy politics of right-wing populism, there is remarkable continuity in the basic economic growth models that countries are pursuing. From the perspective of comparative political economy, Germany has not changed its export-oriented model substantively, and the United States under Trump and Brexit-torn Britain seem to rely as much on their financial sectors as before the crisis.

This article analyzes the continuity of underlying growth models amid political turbulence and electoral change. To that end, we explore the puzzling continuity of foreign direct investment–led (FDI-led) growth in two European countries that were hard hit by the Great Financial Crisis: Ireland and Hungary. Both countries embarked on an FDI-led growth trajectory in the decades prior to the crisis and have experienced a partial change toward more financialized consumption—reflected in their housing booms during the 2000s. The deep crisis brought about political instability and, in the Hungarian case, a partial regime change and outright economic nationalist rhetoric. Yet, the deep crises and political upheaval notwithstanding, the major tenets of FDI-led growth have been sustained, nurtured, and expanded. Ireland continues to rely on inward FDI from the United States, and Hungary continues to rely on FDI from Germany. What explains this continuity, and what are the political mechanisms underpinning it?

Addressing these questions, the article seeks to contribute to current debates in comparative political economy, which is increasingly focused on trying to explain the political determinants of growth models, or national varieties of capitalism. The dominant approach is the electoral perspective, whereby policy choices are traced to changing demands among the electorate. Our major contention is that while the "constrained partisanship approach" is powerful in explaining the noisy politics of social policy reform and the welfare state,[2] it has much less to say on industrial and enterprise policy.[3] Industrial and enterprise policies aimed at capital investment are constitutive of national growth models, and these policies are rarely if ever discussed within the domain of noisy electoral politics. In order to explain the continuity in industrial and enterprise policies, we turn to the literature on business power. Specifically, we test the argument that the policy bargains underpinning industrial policy can be traced to what Pepper D. Culpepper calls the "quiet politics" of business elites and the state.[4] To put it differently, major ingredients of growth models never make it to the electoral arena but remain in the informal realm of business-state interaction.

The remainder of the article is structured as follows. First, we engage the theoretical debate on the comparative politics of advanced capitalism and make the case for a business power perspective in explaining the political determinants of growth regimes. Second, we specify more concretely the universe of cases we are examining: FDI-led growth regimes in Ireland and Central Europe, where the role of the state and industrial-enterprise policy is central. We also discuss our research design. Third, we test our causal mechanism for how business and state elites shape growth, applying a process tracing analysis of both countries. The final section concludes.

Explaining Growth Models: Electorates and Business Power

Recent years have seen two important advances in comparative political economy (CPE). On the one hand, a new wave of scholarship investigating growth models has tried to overcome some of the shortcomings affecting the classical varieties of capitalism (VoC) approach: its static character, institutional focus, supply-side bias, and quest for microfoundations.[5] Building eclectically on diverse, heterodox, and post-Keynesian scholarship, this new perspective seeks to understand the demand drivers of growth underpinning the structure of the macroeconomy. The framework allows for multiple growth models, depending on the relative importance of different components of aggregate demand (income growth). However, as outlined recently by a number of authors, the central distinction is the extent to which countries secure income growth through household and government consumption and/or net exports.[6] The growth model perspective does not necessarily contradict the major tenets of VoC but rather aims at refocusing CPE research on structural macro variables.

The second, closely related advance in CPE is a focus on the political determinants of growth regimes and national models of capitalism. Growth models do not emerge out of thin air. Rather, they are a product of those strategies that key actors—governments, producer groups, and business elites—pursue to secure investment and profitability and, in turn, income and employment growth. Thus, it is crucial to understand the political coalitions that underpin an existing growth model, the conflicts that arise, and the power that specific societal groups exercise in the respective model. It is precisely this debate, which spans the boundaries of CPE and international political economy (IPE), that our article speaks to. Currently, there are three understandings of how political conflict shapes national growth regimes.[7]

The first perspective stresses electoral politics.[8] Focusing on the transformation of welfare states in advanced capitalist democracies, this perspective argues that globalization and technological change have transformed the labor market, with the implication that different occupational classes have developed distinct socioeconomic and sociocultural preferences. Some groups prefer governments to prioritize social investment and economic and cultural liberalism, while others look for traditional social

protection and security against the worst effects of globalization.[9] Governments have to acknowledge the preferences of different occupational classes, but they are also constrained by past choices and coalition compromises in how responsive they can be to voters. This perspective has gained traction in analyzing welfare reforms and their impact on economic growth.[10] However, this approach assumes existing growth models rather than explain their political underpinning. In this perspective, an existing configuration of national capitalism leads to specific forms of social stratification and conflict lines. These conflicts play out in the labor market and social policies. Our argument is that while the focus on social policy is important in understanding contemporary capitalism, it cannot be automatically equated with industrial and enterprise policies that directly affect capital investment, economic geography, innovation, and income and employment growth.

A second perspective identifies the role of organized interests and producer groups. This perspective has a long tradition in both CPE and IPE and was previously most concerned with the politics of organized labor and business associations. It has been successful in explaining the diversity of welfare states, industrial relations, macroeconomic policies, and countries' success in international markets.[11] However, the decline of organized labor in recent decades has also shed some doubt on the power of this variable to explain continuity and change in those crucial institutions of comparative capitalism. In response, a more recent approach postulates the significance of social blocs—understood as hegemonic cross-class political coalitions—in reproducing the durability and continuity of growth regimes.[12]

The social bloc perspective is a structuralist theory that traces the politics of capitalist development to dominant sectoral conflicts within the political economy. Different hegemonic blocs are conceived as relatively stable across time, such as the embedded coalition of unions and employers in supporting the macroeconomic policy regime in Germany. Crucially, it is argued that power is exercised through producer groups, not the electorate. In terms of outcomes, the social bloc perspective is mostly concerned with macroeconomic policies that underpin a given growth model. However, it is not exactly clear how the social bloc exercises its power over government or what type of strategies business actors pursue to advance their interests. Furthermore, this perspective leaves out the importance of global multinational corporations as political actors in their own right.

The third perspective focuses on the strategic interaction of business and political elites. While sharing with the producer group and electoral perspective a concern for the structural power of business, this approach goes beyond structures by empirically studying the political and instrumental strategies that corporate managers in the business and policymaking community pursue to advance their interests.[13] It stresses the reciprocal and mutual dependency between business and state interests, and it treats business power as a variable that varies cross-nationally and over time. Private business interests, it is argued, require government to legislate for pro-market reforms, while governments require capital investment for income and employment growth. Furthermore, ontologically, this perspective starts from the observation that corporate power is increasingly exercised at the global level. This perspective is

Table 1. The Governance Space of Democratic Politics in Advanced Capitalist Countries.

	Informal Rules	Formal Rules
High salience	*Social partner bargaining* Actors: employer and labor associations Issues: income policies, competitiveness, welfare Power resources: public opinion and the "shadow of hierarchy"	*Partisan contestation ("noisy politics")* Actors: political parties Issues: e.g., welfare and fiscal policies Power resources: legislative seats and public support
Low salience	*Private interest governance ("quiet politics")* Actors: business and state elites Issues: industrial policies (e.g., R&D, technology, investment incentives, corporate tax) Power resources: structural & instrumental power, finance, expertise	*Bureaucratic network negotiation* Actors: policy networks around issue areas Issues: e.g., regulatory policies, monetary policies Power resources: expertise

Source: Adapted from Pepper D. Culpepper, *Quiet Politics and Business Power: Corporate Control in Europe and Japan* (Cambridge: Cambridge University Press, 2010), 181.

part of a much longer tradition in political science that argues that corporate and political elites are the core actors shaping country-specific trajectories of capitalist development.[14]

The main advance of the business power approach over the electoral or producer group approach is that it opens the black box of policymaking in advanced capitalist democracies by systematically distinguishing the political arenas in which policymaking takes place. Thus, Culpepper argues that the democratic governance space differs by the degree of institutionalization and the salience of a policy issue.[15] Electoral politics plays out in a highly institutionalized arena, where salient policy issues—such as fiscal, social, and labor market policies—are being decided. This is the arena of noisy politics. A second political arena also concerns highly salient policy issues that take place in the less institutionalized context of bargaining between organized interests and the state. This arena is the focus of CPE approaches that stress the role of producer coalitions in the politics of growth regimes.

Two policy arenas, however, deal with issues of low political salience. One is that of bureaucratic policy networks. Much of contemporary regulatory policymaking in the EU and the United States takes place in this arena. Finally, for the purpose of our argument, the most important arena is that of private interest governance, where the quiet politics of elite state-business interaction prevails. It is here that most policies concerning private capital investment are informally bargained (i.e., not formally negotiated). The deals struck in this arena concern issues that have low salience, and they take place in the informal realm of elite persuasion. Such deals rarely make it to the public domain or feature in election debates. Our argument is that it is in this arena where industrial and enterprise policy manifests itself. Table 1 summarizes this governance space of democratic politics.

Multinational Corporations, Industrial Policy, and Quiet Politics

There are three reasons why we think the quiet politics of business-state elite interaction, rather than organized interests or voter preferences, is increasingly important to understanding the political foundations of growth regimes. First, the economic deregulation, liberalization, and internationalization (globalization) of the past few decades have led to an increasing concentration of business ownership that often transcends national boundaries. Today, typically a handful of gigantic firms determine the basic economic outlook of a country—such as Volkswagen, BMW, Mercedes (and Deutsche Bank) in Germany or Goldman Sachs, Amazon, and Google in the United States. This is even more true in smaller countries dependent on capital inflow. As an example, Audi Hungaria is one of the biggest investors, exporters, employers, and integrators of the supplier chain in Hungary, and in Ireland, the top ten multinational corporations (MNCs) account for almost 50 percent of all corporate tax receipts. Global MNCs are central to shaping capital flows; they secure their dominance through intellectual property rights agreements, which have become central to international trade agreements.[16]

Second, and closely related to this global footprint, these corporations have emancipated themselves from domestic organized interest groups. They do not need to take part in national or sectoral rounds of collective bargaining, and they do not need to go through domestic business organizations to make their voices heard. Rather, because of their importance, they have the direct ear of the government and expend extensive resources in lobbying policy and legislative actors. Large capital-intensive firms and multinational companies typically offer much better wages and working conditions than their smaller, labor intensive, and local counterparts. If wages are not set unilaterally, they rely on firm-level bargaining. Third, big multinationals also have the resources to appeal to multiple levels of governance and play them against each other. This is arguably most obvious in the European case, where big companies use their access to European and national policymaking strategically to achieve their aims.[17] The international focus is all the more obvious when one takes into consideration the global supply chains these firms construct. Alphabet, the parent company of Google, for example, has over 200 subsidiary firms in multiple jurisdictions across the globe.

The increasing power of large corporations, for the most part multinational, in contemporary capitalism can be conceptualized as "structural power" over politics, whereby firms by their sheer size and significance make governments comply with their priorities.[18] As Culpepper argues, the strategies that business actors pursue to advance their interests are heavily influenced by the market within which they operate.[19] According to that argument, global firms that can easily exit the domestic market have structural power over politics, whereas firms that operate only in smaller domestic markets are more dependent on government and need to build an instrumental alliance with administrative officials and party elites. In the globally traded market, large MNC exporting firms can move their markets and supply chains, whereas large domestic utility firms in the nontraded sector cannot, leading to distinct political and producer group alliances. Large tech firms such as Microsoft, Amazon, Facebook, Google, and Apple, in addition to global financial service firms, have more economic resources at their disposable than many European governments.

However, there is a good argument to be made that most global firms are more dependent on national governments than the structural power perspective would often assume. This is especially true for global firms that invest heavily in new greenfield sites in host countries. The requirements and demands that underpin such capital investment call for intense planning and discussion with host countries' governments. These investments create sunk costs, making the firm less mobile, particularly in high-tech manufacturing.[20] In addition, MNCs still compete on global markets and therefore need governments to provide them with a "competitive edge" in the forms of regulation, skill formation, and favorable corporate tax policies. We therefore expect that the industrial and enterprise policy bargains struck between state elites, investors, and executives of leading corporations play a crucial role in shaping the strategies that underlie country-specific growth models. In this perspective, national growth regimes result from the political and market strategies that global multinational firms pursue; the relative size, number, significance, and sectoral coherence of lead firms; and their interaction with state elites.

On this basis, and in line with established theories in IPE, we think it is reasonable to assume that export-oriented firms are more interested in policies that foster liberalization, whereas domestically oriented firms will bargain for the protection of their domestic markets.[21] In a country with few big firms and many small enterprises, interests are likely to be more organized, either formally in producer group organizations or informally through family ties and networks of patronage, whereas in countries with few giant firms, such organization is not needed. This pattern is directly observable in Italy, for example, where there is growing divergence between what small micro firms in the domestic nontraded sectors want vis-à-vis large firms who want to globalize their production strategies.[22] In countries with sectoral differences among leading firms, different growth coalitions and possibly incoherent policies are possible, whereas in countries where most lead firms cluster in the same strategic sector, policies will be more coherent. In small countries, it is typical for governments to secure the engine of growth through specializing in one lead sector.

Our focus on (global) corporations and business-state elites does not mean, however, that electoral politics are unimportant in determining a country's growth path. Rather, we consider our focus complementary to the electoral and producer group perspective. For instance, a country with more large high-tech firms is likely to experience occupational upgrading, which in turn generates more "business finance" and "sociocultural" professional voters, who will voice their preferences over the welfare state. Equally, a country with more micro firms focused on the domestic market is more likely to create more precarious workers and an expansive "petite bourgeoisie," who are likely to hold social protectionist policy preferences. What we are interested in, however, are the quiet political bargains between multinational corporations and the state that increasingly shape the engine of capitalist development: capital investment, innovation, market liberalization, digital regulation, and corporate taxation. These policy choices increasingly underpin a country's industrial-enterprise policy regime, and unlike the politics of welfare state reform, they are fundamentally determined outside the noisy politics of elections.

Further, industrial-enterprise policy bargains are hard to change, as lead firms, their production profiles, and the institutions that surround firm-state negotiations rarely

change after an election. However, they clearly have distributional consequences and produce winners and losers among other companies and social groups. These broader social and economic groups do not just stand idly by but express their voice in elections, through organizations, or through other formal and informal networks. This is where the politics of coalition building stressed by electoral and producer group perspectives comes in. We differ from these perspectives in submitting that under the same growth model, different coalitions can be forged. Thus, it is not a foregone conclusion that in export-oriented growth models a cross-class coalition between business and labor for competitive wages emerges and stays put. A country can embark on a long-term export-oriented trajectory while also (frequently) changing the relative weight of more consumption-oriented economic sectors. This is so because, while features of the growth model that explain the engine of growth tend to be sticky, political parties must anchor themselves in broader society and build alliances among a wider swath of voters and interest groups. We should not then be surprised that the ebb and flow of electoral politics often leads to a boom in government spending and a shift in certain social policy priorities.

In short, this article makes one core claim that contributes to the study of comparative and international political economy: industrial and enterprise policies aimed at capital investment are constitutive of national growth models, and these policies are rarely if ever discussed within the domain of noisy electoral politics. They take place within the quiet and informal politics of elite business-state interactions. When they are drawn into the open noisy politics of contestation, they may change the growth regime, but only in a limited way. We will now show this by examining two typical and most different cases of FDI-led growth—Ireland and Hungary.

Research Design: FDI-Led Growth in Hungary and Ireland

In order to test our argument, we will analyze two cases that have embarked on the path of FDI-led growth since the 1980s: Hungary and Ireland. FDI-led growth models are particular cases of export-oriented growth, because the major exporting firms are foreign-owned. This is typically the case in small and late-developing countries, which rely on foreign investment to modernize their industry. The recent wave of globalization of production has led to a proliferation of this type of growth model, as it allows small, semiperipheral states to occupy "a strategic position somewhere along the complex circuits of an integrated world economy, which can be exploited to secure an adequate national income."[23] FDI-led growth implies that countries, rather than having to develop their industrial base from their own resources, import raw material, components, or other parts of the value chain; process them; and export them to bigger or more developed markets. It thus differs from the export-led growth model of advanced capitalist countries, such as Germany, where the export industry is less import-dependent.[24] In recent decades, many semiperipheral countries have started to adopt the FDI-led growth model. However, there are different variants of foreign export-led growth, depending on what exactly is being produced and exported: textile or low-tech goods, medium-tech goods, or high-tech goods and services.[25]

According to our elaboration in the previous section, the existing business power literature would assume that MNCs in FDI-led growth regimes are endowed with a high degree of structural power, as they can in principle always threaten the government with exit. That is the nature of a highly globalized economy. Moreover, in their investment decisions, MNCs systematically play countries against each other to get the best conditions. For mobile high-tech firms, this takes place through tax competition, for low-tech firms, through labor costs. But we have also argued that once these firms have sunk their investments in a host country, MNCs depend on government policies to support their competitive edge. In this sense, host states and MNCs become strategically interdependent. Typically, in FDI-led countries, such interdependence can be directly observed in the role played by public sector agencies tasked with attracting FDI, who become crucial points of contact linking the public and private sector outside the civil service. The bargains MNCs reach with host countries typically revolve around capital investment incentives, taxation, labor market flexibility, access to certain types of skills, data protection, and intellectual property. Some of these informal bargains, such as corporate tax exemptions and incentives, are politically sensitive. For these reasons, business and policymaking elites will go to significant lengths to ensure they are kept out of the media.

We test our expectations with two typical cases of FDI-led growth: Hungary and Ireland. Both countries' growth models have been strongly shaped by FDI inflows, but, as we develop in the case studies, they secure very different types of FDI. Figures 1 and 2 demonstrate the contributions of major sectors (export, import, consumption, investment, and government) to their respective national accounts from 1995 to 2017. In both countries, exports have assumed the major share, qualifying these countries as export-led. At the same time, in both countries imports accounted for a large part of this contribution, reflecting the fact that MNCs import a significant share of subcomponents that are processed or serviced in Hungary and Ireland and re-exported to global markets. Their economies are highly integrated with the European Union. This is not by chance: on entry to the European Union, both countries aggressively liberalized their economies, with the intention of attracting FDI from global firms looking to expand their exports into the single market. Central to this liberalization was developing a new state-led industrial policy, specifically targeted at attracting higher-value FDI within the global supply chains of multinational corporations. To that end, the two countries went beyond liberalizing their markets. As a number of authors have argued, low corporate taxes and flexible labor markets are necessary but insufficient conditions in attracting high-tech FDI.[26] Both Ireland and Hungary, in addition to many other EU states, have invented a battery of investment incentives and aggressively pursued a state-led developmental model of attracting FDI.

Although they are typical cases of FDI-led growth, the two countries differ in several important respects: the first is in the type of investment they attract; the second is the extent to which they have privatized their domestic economies. Ireland has concentrated on attracting firms in the information and computer services sector, as well as on attracting new greenfield investment from technology and life science firms emerging out of Silicon Valley. It thus developed an FDI-led growth model aimed at attracting new firms and investments in sectors that never before existed in the country. Those

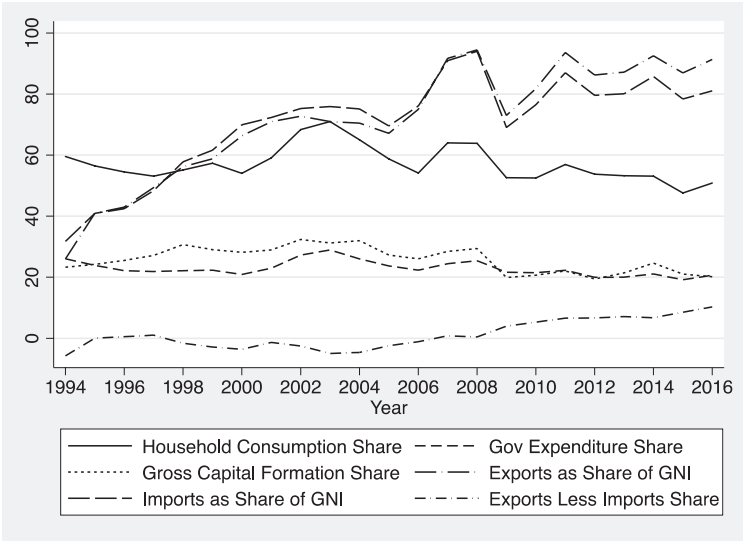

Figure 1. Hungary: major national accounts component as share of gross national income (GNI).
Source: Hungarian Central Bank and the European System of Central Banks (ESCB), https://www.mnb.hu/en/statistics/statistical-data-and-information/statistical-time-series/i-main-economic-and-financial-indicators.

firms, particularly from the United States, set up their operations in Ireland to access the European single market. Hungary, like the other Visegrád countries, has focused much more on the supply chains of the automobile manufacturing sectors and attracting FDI from Germany. Initially, foreign investors profited from privatization, but greenfield investments have played an increasingly important role.

In addition, the Irish state never privatized its domestic utility, energy, and semistate firms. When it privatized firms in domestically oriented sectors, it was very selective about who benefited. Those firms—whether semistate or private enterprises—were owned predominantly by local capital and shaped by local business interests. Similarly, the banks that service households and corporations in Ireland are all locally owned Irish banks. In Hungary, by contrast, foreign capital was also the biggest beneficiary of the large-scale domestic privatizations in key strategic sectors of the country, including energy, banking, retail, utilities, and telecommunications. In effect, what Hungary created was a *comprador* capitalism, whereby foreign ownership was encouraged across the entire economy.[27] Figures 3 and 4 demonstrate the sectoral differences in the type of FDI that has flowed into Hungary and Ireland.

These differences allow us to tease out different constellations of winners and losers in FDI-led growth models and their impact on the noisy politics of welfare reform. They also allow us to test our proposition that these coalitions might push the limits, but not

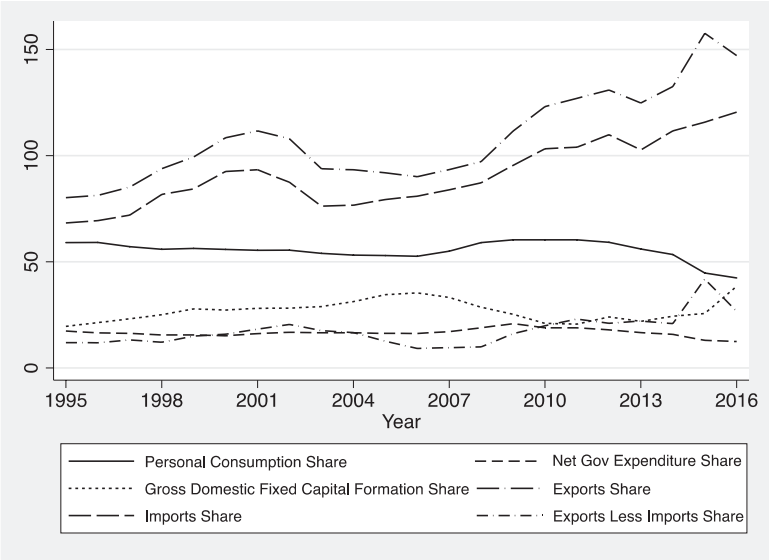

Figure 2. Ireland: major national accounts component as share of GNI.
Source: Central Statistics Office, Ireland, https://www.cso.ie/en/statistics/nationalaccounts/.

fundamentally challenge, the growth model. In general, FDI-led growth produces—sometimes very visibly—winners and losers. Managers and professionals, high- and medium-skilled workers, and the supplier industries belong to the winners. Low-skilled workers are likely to lose out, and domestically owned firms can feel threatened by the superior competitiveness of the MNCs (even if they benefit from a growing pie). Because of FDI's different composition and different overall role in the two cases, we expect winners and losers to look different. Thus, for Hungary, given the focus on medium-tech exports (built around German- and Japanese-owned firms), wage costs play a more important role than for Ireland's high-tech service exports. This should account for more dissatisfaction among workers *within* the existing growth model. In addition, the fact that in Hungary *all* commanding heights of the economy are occupied by foreign capital should lead to a bigger likelihood of nationalist backlash by the domestic bourgeoisie against foreign capital. By contrast, in Ireland the domestic bourgeoisie kept their control of traditional industries and strategic sectors. Finally, differences in the electoral arena should matter. Hungary's majoritarian electoral system and its polarized party competition should be much better able to translate dissatisfaction of secondary producer groups and voters into alternative politics than Ireland's proportional electoral system and the dominance of centrist catch-all parties.

We leverage these qualitative differences for a most different systems comparison. Our core argument is that despite the differences between these countries, and despite the noisy politics of government tax-and-spend policies, welfare reform, and

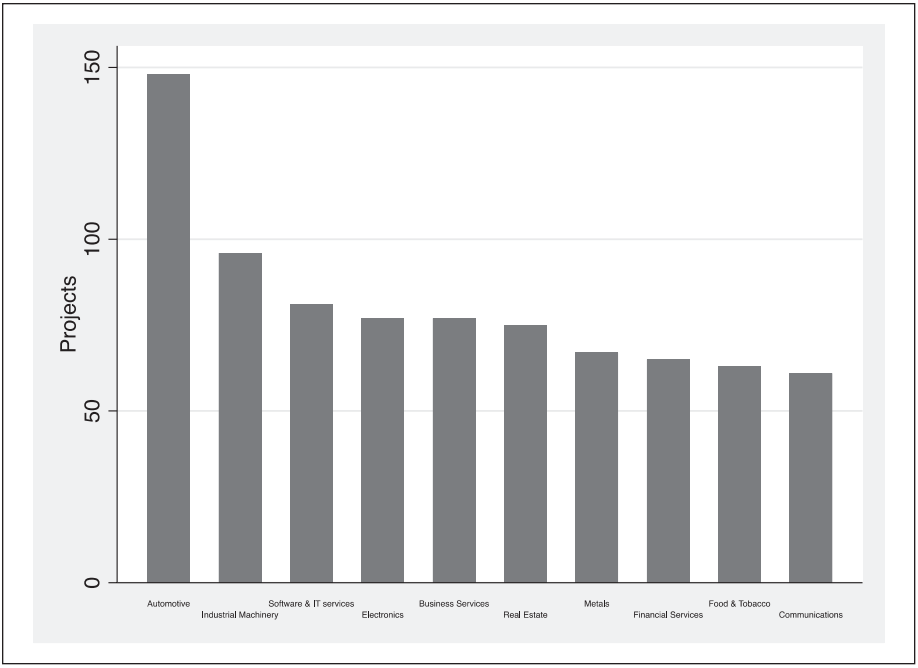

Figure 3. Hungary: FDI projects by sector (2003–18).
Source: fDi Markets Database (*Financial Times*, 2020), https://www.fdimarkets.com/explore/.

immigration, the basic tenets of the FDI-led growth model will remain stable. The industrial and enterprise policies aimed at attracting capital investment will not change. That is because they are not negotiated in the arena of social bargaining with organized labor and business, or in the arena of competitive electoral politics, but in the corridors of quiet elite politics.

To test our expectations, we compare three phases of the development of the FDI growth model in the two countries: formation and consolidation (Hungary: early 1990s to the late 1990s; Ireland: late 1980s to mid-1990s), partial derailment of the growth model during the phase of a demand-led consumption boom (both countries: early 2000s to 2008), and the period of postcrisis FDI-led recovery (both countries: 2010–18). We identify the industrial and enterprise policy bargains designed to attract capital investment. But how do we know that the continuity of the growth model stems from the quiet and informal political bargains underpinning industrial-enterprise policy? Following Gerald Easter, we use the term "bargain" in a broad sense. Policy bargains are "not negotiated at one defining moment or even in one single forum, rather they [are] pieced together incrementally," in a series of contentious and cooperative interactions between business and state elites.[28] While we do not have access to the quiet political deal making, we can establish the institutional and bureaucratic arenas of business-state interaction, the informal access of business to the government, networks

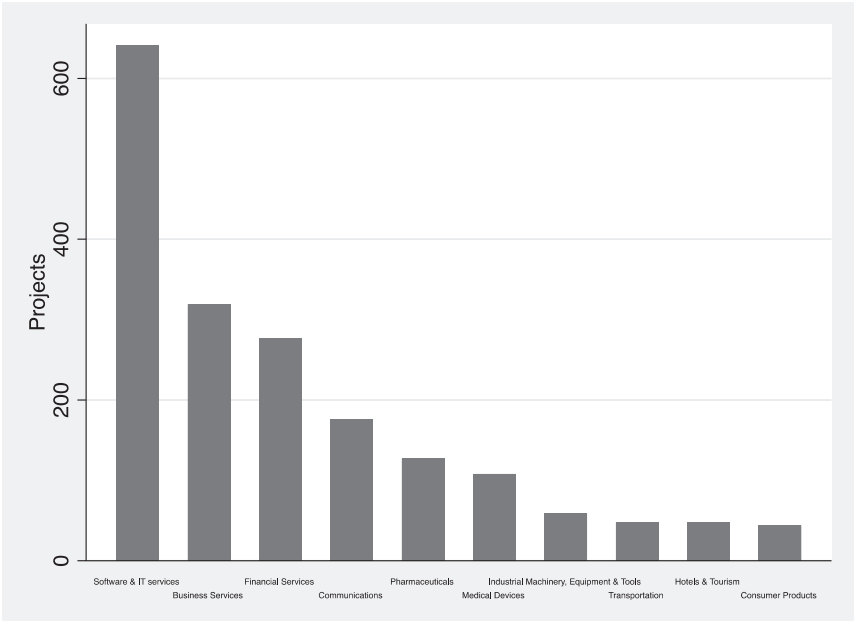

Figure 4. Ireland FDI projects by sector (2001–18).
Source: fDi Markets Database (*Financial Times*, 2020).

between parties and executives, and the congruence of preferences in the business-state elite community on major policies. As to shifting political alliances, we can establish from existing policies the type of business groups and voters that political parties try to serve.

The Case of Hungary

The Hungarian FDI-led model has developed through three distinct phases. During the first phase, which lasted from the second half of the 1980s to the late 1990s, crucial policy choices locked the country into the FDI-led model. The second phase—from the Asian and Russian financial crisis to the global financial crisis—was shaped by the search for a balance between domestic recovery and the constraints and opportunities of Hungary's EU accession. During this phase, manufacturing FDI continued to be a cornerstone of the country's developmental model. At the same time, however, a consumption and—foreign bank led—credit boom stimulated the economy. The third phase, triggered by the financial crisis in 2008, ushered in a phase of selective economic nationalism. Even during this period, however, the goal of attracting manufacturing FDI remained uncontested. The following section will spell out the quiet industrial policies during these three periods, demonstrating the continuity of FDI-favored policies within this growth regime.

The Foundations: Privatizing through FDI

After the breakdown of state socialism, Hungary stood out among postsocialist countries as the dominant recipient of FDI. In the early 1990s, Hungary was among the five largest capital importers worldwide. Initially, investors mostly bought existing companies, but soon greenfield investments gained in significance. Foreign investment rapidly became the most dynamic part of the Hungarian economy. By the mid-1990s, foreign companies accounted for half of all investments, 40 percent of the value added in industry, and 70 percent of the country's exports.[29]

The early and rapid FDI inflow into Hungary can be traced back to its socialist reforms and its early privatization policies. The Hungarian economy had already integrated into the world economy during the 1970s. As a consequence of its Western opening and consumption-oriented socialist model, Hungary had also amassed huge external debts and joined the Bretton Woods institutions in the early 1980s.[30] By the time the old regime collapsed, Hungarian bureaucrats and economic and managerial elites were well integrated into transnational networks.[31] The constraints stemming from the external debt as well as the familiarity of Hungarian elites with Western networks shaped Hungary's privatization strategy. In contrast to its regional peers, from the beginning Hungarian policymakers prioritized privatization through FDI. The first attempts of FDI privatization occurred under the Communist government, which in the last year before its fall drew up a list of fifty-one companies it sought to sell to foreign buyers.[32] Although not much came of this plan, it started a process whereby the first postcommunist governments systematically and successfully sought to attract FDI as a model of economic development. In the process, it was not only industrial capital that entered Hungary. The country was also a forerunner in attracting investment in financial services, retail, and telecommunications. By 1997, five of the seven largest Hungarian banks were in foreign ownership.[33]

What industrial policy bargains characterized this first round of policies aimed at attracting FDI? Overall, Hungarian political elites created a very liberal investment environment through the provision of generous tax incentive structures. These included low corporate taxation, generous tax holidays, and tax incentives targeting specific sectors, regions, and activities.[34] In 1993, a state investment promotion agency was set up to build relationships and networks with global firms and attract FDI. In terms of industrial relations, MNCs were relatively unconstrained, and antiunion MNCs had little to fear from the state or organized labor. Meanwhile, Hungarian wages were competitive, and trade unions quiescent.[35]

Negotiations between foreign investors and the government became increasingly institutionalized. Five influential business organizations emerged during the 1990s, which represented the interests of foreign investors: the American Chamber of Commerce (AmCham), the German-Hungarian Chamber of Commerce, the Joint Venture Association, the European Chamber of Commerce, and the Association of International Companies in Hungary. Another forum for the big investors providing direct access to policymaking was the so-called Investors Council, created in the second half of the 1990s on the initial proposal of AmCham. The five business

organizations listed above form the steering committee. The Investors' Council assures regular contact between the Hungarian government and the biggest capital investors in the economy.[36]

The first phase of Hungary's foreign-led development model produced many losers.[37] Domestic owners of services or industry—whether formerly state owned or newly created from below—fell on hard economic times. They lacked the resources to compete with incoming foreign companies, who had the full backing of the state.[38] Hungary's workforce was decimated. In the initial years of the transition, the country lost a fourth of its existing jobs. The elderly, Roma, and low-qualified workers had to leave the labor market and survive on social benefits. Until recently, employment rates have remained very low.[39] However, those social groups could not sustain a challenge to the Hungarian developmental model, in part because the postsocialist Hungarian welfare state selectively compensated some of the losers.[40]

In addition, the economic policy consensus among Hungarian elites transcended the boundaries of the major political parties. The election result of 1994 can be interpreted as a backlash against the national conservative government. However, the new government coalition of the communist successor party MSZP (Magyar Szocialista Párt) and their liberal ally, SZDSZ (Magyar Liberális Párt), did not change the focus on FDI-led growth. Rather, the "Bokros package" of March 1995, which can be interpreted as a continuation of the FDI-oriented industrial policy—a stabilization program that included a currency devaluation and a surcharge on imports—stimulated labor-intensive exports. In the electronics sector, transnational firms increasingly relocated their labor-intensive production to Hungary, to take advantage of low labor costs.[41] The policy continuity with the previous government was not by chance. MSZP had inherited close transnational ties with international financial organizations and economic elites with a direct interest in the foreign ownership of newly privatized sectors.

EU Accession, Rising Consumption, and Credit Boom

A first major test of the FDI-led developmental model came in 1998, when the Asian and Russian crises led to a setback in FDI growth in Hungary. In addition to the crises, all four Viségrad countries now turned to an FDI-led growth model, competition increased, and it became more difficult to attract investors.[42] In the same year, 1998, the Socialist-Liberal government suffered an electoral defeat, paving the way for the first conservative FIDESZ government under Viktor Orbán. The popular rejection and politicization of the Bokros package played a major role in Orbán's electoral victory. The government implemented a Keynesian economic program. It raised the minimum wage twice, by almost 80 percent; financed large-scale infrastructure and public construction programs; and subsidized loans for residential construction. The FIDESZ-appointed president of the Hungarian National Bank also introduced a flexible exchange rate, which led to the appreciation of the Hungarian forint, making imports cheaper.[43]

These policies forged a consumption-oriented coalition, similar to that identified by Pablo Beramendi and his coauthors.[44] The beneficiaries of the conservative policies were the domestic sheltered sector (especially construction and property developers); the top domestic savings bank, OTP; and low-wage earners. The petite bourgeoisie profited from the increasing purchasing power. At the same time, Hungary's foreign-owned, labor-intensive, export-oriented industry came under pressure, given the inflationary impact of these consumption-oriented policies. The 2002 election saw the return of the socialist-liberal MSZP/SZDSZ coalition to power. This coalition initially tried to continue some of the Keynesian policies of the previous government, by focusing in addition on public sector employees and pensioners. This attempt, however, led to the rapid deterioration of public finances. Speculative attacks on the forint, a nonaccommodating central bank, and fierce domestic opposition as well as EU conditionality added to the budgetary constraints and forced the government to scrap many of the previous policies. The economy at that point was partly fueled by "privatized Keynesianism."[45] Hungary's mostly foreign-owned banks took advantage of favorable interbank money markets in Europe and engaged in large-scale carry trade of cheap international credit, fueling a domestic mortgage boom similar to that observed in Ireland and Spain.[46]

However, despite the consumption-oriented turn of the Hungarian economy, the 2000s did not spell the end of industrial policies aimed at FDI-led growth, for several reasons. First, the EU accession process ensured that Hungary stayed attractive for FDI. The process put a seal of approval on reforms previously undertaken and served as a guarantee for further reform efforts. As such, it increased Hungary's credibility for transnational market actors. Second, foreign investors themselves were in the process of restructuring and expanding, and the Eastern locations were assigned an increasingly important role.[47] In that process, Hungary could capture increasingly complex and upgraded production segments. As a consequence, labor costs played a less important role for investment, to which Hungary's dominant FDI-led sector, the car industry, bears witness. Whereas in 1996, only 15 percent of Hungary's car industry exports were classified as high value-added, in 2006 almost 60 percent were—by far the highest share in the region.[48]

Third, regardless of their political color, Hungarian governments kept subsidizing FDI. The accession negotiations are a case in point. Hungary's chief negotiator, Endre Juhász, characterized the negotiations as a "three player game involving the EU, the Hungarian government and the investors."[49] During the negotiations, the FIDESZ government fought hard to keep the tax concessions it had granted to the big foreign investors, which were incompatible with the EU state aid regulations. It also doled out further tax concessions, despite opposition from the EU Commission. To design its policies, it relied heavily on foreign investors' expertise during the negotiations.[50] After successfully negotiating a generous transitional arrangement with the European Union, which granted foreign investors further tax concessions, Hungary also lowered its corporate tax rate from the already low 19.6 percent to 17.7 percent.[51] Further, the investment incentives packages have become *more generous* in the period since the

late 1990s than during the early transition.[52] In addition, the labor code was changed several times, to increase labor market flexibility.

The Financial Crisis and the Rise of Selective Economic Nationalism

In October 2008, Hungary became one of the hot spots of the global crisis.[53] Its currency and stock markets started to plunge, and banks were exposed to a sudden stop and reversal of liquidity. In order to boost confidence in the forint and gain access to foreign currency liquidity, the Hungarian government had to turn to the IMF. The €20 billion loan package from the IMF, the European Union, and the World Bank came with heavy strings attached. The Socialist-Liberal coalition did not survive the fallout from the crisis. A technocratic government with close ties to the FDI sectors replaced the coalition in 2009. In the 2010 election, the former ruling parties lost 133 seats in parliament. The right-wing nationalists, FIDESZ, gained 100, giving them a majority of 263 of the 386 seats. FIDESZ used its supermajority in parliament to usher in far-reaching changes in the political, judiciary, media, and economic spheres.

Given the nationalist rhetoric of the FIDESZ government, a key question was whether it would turn away from the FDI-led growth model. The crisis had brought long-simmering discontent with FDI dependency into the open—such as the contrast between the foreign-owned and stagnant domestic-owned segments of the economy, the lack of innovation, the gaping current account deficit, and the dependence on foreign currency loans.[54] The FIDESZ government campaigned on an electoral platform to break free from "a world symbolized by banks, multinationals and a bullying IMF."[55] It promised to "magyarize" selected economic sectors, build a successful native entrepreneurial class, and reduce the profit opportunities for foreign-owned enterprises. Two sets of policy measures targeted the perceived imbalance between the foreign- and domestic-owned sectors: sectoral taxes and the nationalization of certain companies and the redistribution of gains to natives.

However, rather than attacking all foreign companies, the major hallmark of Orbán's economic nationalism has been its selective nature. Central to his program is a distinction between "good" and "bad" FDI, with good FDI associated with manufacturing and bad FDI with finance. In addition, the introduction of special sectoral taxes and partial renationalization concerned only foreign-owned sectors servicing the domestic markets, most important being the banking, retail, energy, telecommunications, and advertising sectors. The financial sector was singled out for the most arduous treatment. The lion's share of taxes fell on this sector, and banks were forced to convert outstanding foreign currency loans into Hungarian forints, at a preferential exchange rate.[56] As banking became an unprofitable business, some foreign investors withdrew. By 2016, the share of banking assets in domestic ownership was 60 percent, compared to 40 percent when FIDESZ took power.[57]

This contrasts with the government's industrial policies toward the foreign-owned manufacturing sector. Here, investment promotion has remained a central pillar. Cash subsidies to promote job creation by foreign investors has exploded, and the car industry continues to be the number-one recipient of the largest state-aid packages. In

addition to direct cash grants, Hungary offers additional tax incentives. In 2017, the government introduced a 9 percent flat corporate tax rate, giving Hungary the lowest corporate tax regime in the European Union.[58] It also designed a new policy instrument called "strategic partnerships" with foreign investors, which aims to promote investment, employment, and education and to foster stronger ties to domestic suppliers. Observers agree that these partnerships provide more security and more direct government contacts for Hungary's top investors and exporters.[59] These investment-promotion policies keep bearing fruit. Most recently, the German high-end car producer BMW pledged to invest €1 billion to build a new plant in Hungary, just a few months after Germany's second high-end car producer, Daimler Benz, laid the foundations for a second plant in the country.[60]

FIDESZ's selective economic nationalism has allowed the party to nurture existing state-business elite relationships in the manufacturing FDI sectors while forging a new domestic political alliance. Already before its electoral victory, the party had established close contacts with the fora of the domestic segments of the business sector, such as the Hungarian Chamber of Commerce. Some of the major domestic entrepreneurs had voiced increasing dissatisfaction with the limited economic opportunities in a foreign-dominated economy. Once in power, the government used its new regulatory tools and ownership rights to selectively favor political allies among the petite bourgeoisie and to sponsor a new "oligarchy."[61] The most visible segment of this oligarchy is a new group of wealthy individuals who have benefited from ample state contracts. To nurture this segment of the domestic business class, the government has exploited specifically the increased inflow of EU funds.[62]

The domestic business class has also benefited from the opportunities that have been vacated by foreign investors, such as some segments of the retail chains, the banking industry, and the media. Yet, rather than challenging the power of the foreign companies in the export sector, the political coalition forged under the Orbán government satisfies demands stemming from both segments of the business sector. While public procurement policies and special taxes exclusively serve domestic entrepreneurs, the governments' new low corporate tax regime, investment incentives, and labor market policies are beneficial for both business communities. Indeed, the continuity of the industrial policy regime of attracting FDI was strikingly revealed by a Bloomberg report before the April 2018 elections, according to which "investors would prefer that Hungarian Prime Minister Viktor Orbán win a small majority in Sunday's elections to build on his economic policies."[63]

All in all then, Orbán's selective nationalism pays out economically and politically. It has maintained and nurtured the FDI growth regime in the interest of securing export-led growth but selectively uses the powers of the state to build legitimacy among domestic groups. In order to buttress electoral support, the government has also resorted to populist and aggressive anti-immigration policies, as well as an increasingly authoritarian style of government. Both aim at reducing the scope of partisan contestation and exploiting the sphere of "noisy politics" (see Table 1). Aggressive anti-immigration rhetoric aims at stirring up nationalist sentiments as a way to compensate for eroding social cohesion, while creeping authoritarianism has created an

increasingly uneven playing field for partisan competition. None of this, however, has deterred the continuity of industrial and enterprise policies aimed at attracting German FDI.

The Case of Ireland

Irish industrial policies aimed at attracting FDI emerged and consolidated over three distinct phases. The first phase can be traced from the early 1980s into the mid- to late 1990s, when Irish state elites sought to take advantage of the European single market and build an export-led growth regime through attracting FDI from the United States, particularly in computer manufacturing and pharmaceuticals. The second phase began in the 1990s and responded to the dot-com crash in the early 2000s, when labor cost competitiveness exhausted itself and investment in information and telecommunications technology (ICT) slowed down. During this period, economic growth was secured through a domestic demand-led boom in housing. The third phase can be traced from the policy response to the global financial crisis to the present, when Irish state elites doubled down on incentivizing tech investment from Silicon Valley. We will now examine the underlying quiet politics and industrial and enterprise bargains underpinning each of these growth phases.

Building an Export-Oriented Economy for the European Single Market

Ireland's attempt to secure economic growth through attracting foreign investment can be traced to policy choices that began to take hold in the late 1970s, when Fianna Fáil governments finally gave up trying to protect domestic industry through a policy of import substitution.[64] One reason for the change in policy orientation was impending membership in the European single market. The Irish state decided to split its economic development strategy and set up an autonomous state body narrowly focused on promoting FDI—the Industrial Development Authority (IDA).[65] The IDA would become the most important actor in shaping Ireland's growth regime for the next thirty years. The policy orientation of state elites in the IDA was not one of attracting foreign investors to buy existing Irish industry or purchase privatized state companies. It was focused on attracting new greenfield-site investments from capital-intensive firms in the United States. This strategy was based on an emerging policy consensus across all political parties, and all state agencies, that Ireland needed to attract FDI in order to become an export-led economy within the European market.

In the late 1980s, the IDA focused its attention on computer electronics and computer software firms. This strategy was related to its experience and success in securing the investment of Apple in 1980. Apple established their main European manufacturing base in Ireland and became one of the largest employers in the southwest of Ireland, until they restructured and outsourced their manufacturing to Singapore in the late 1990s. Central to attracting Apple's investment was low corporate taxes and cheap labor.[66] From 1956 to 1980, the Irish state offered any company wanting to establish their export operations in Ireland a 0 percent corporate tax rate. The only

condition was that it had to be export-oriented. But when Ireland entered the European Union in 1973, they were required to remove this incentive package, as it was considered a form of state aid. However, the cutoff date to get rid of the tax deal was 1980, and any company that set up in Ireland in 1980 would receive the 0 percent rate until 1990.[67] From 1981, the tax rate would be increased to 10 percent for all FDI exporting firms. A ten-year "tax holiday," in addition to a variety of cash subsidies and cheap skilled labor, was the industrial policy bargain that enabled the IDA to convince Apple to move out of the United States and set up its first European manufacturing plant in Ireland.

Apple was the first technology company to set up a manufacturing base in Ireland. In 1985 they were followed by Microsoft, in 1989 by Intel, and in 1991 by Dell. Ireland quickly became the place for US multinational tech firms to locate their European operations. The presence of these emerging global leaders kick-started Ireland's comparative advantage—and business cluster—in ICT electronics and computer software. It is worth noting that these firms were not global household names when they made their initial investments—a central strategy of the IDA is to identify and pick "winners" before they go global. All of these companies, and many more, rapidly expanded, making large-scale capital investments. Intel's microprocessing plant, for example, continues to employ almost 7,000 people in an IDA-sponsored industrial park outside Dublin.[68] By the mid-1990s, Ireland had marketed itself to US tech manufacturers and investors as a place of high-skills, low costs, and cheap labor, with a government willing to offer cash subsidies and favorable tax rates. All of this led to an export boom and a rapid expansion of employment in the internationally traded sectors.[69]

Central to the shift in the Irish growth model was the quiet influence of administrative elites within the office of the Taoiseach (prime minister) and within the IDA, where policy officials sought a much more activist industrial policy than the conservatism of the Department of Finance. As part of the new industrial policy strategy, administrative elites nurtured and brokered a centralized triennial wage-bargaining regime, aimed at encouraging trade unions to accept wage restraint. The purpose of this regime (known as "social partnership" and continuing until 2008) was to ensure that the export gains of the 1986 and 1992 currency devaluation were not lost and to act as a complement to the wider state-business strategy of attracting FDI from US manufacturers.[70] The social partnership model explicitly mirrored what state elites considered to be the defining success of other small open economies in Northwest Europe: social consensus on wages and macroeconomic policy.

The social partnership model ensured that domestic Irish business interests and domestic Irish trade unions were aligned with the new industrial policy. This new focus on securing export-growth through FDI (underpinned by elite policy bargains of cash subsidies and low corporate taxes), while ensuring industrial stability through a cross-class coalition in social partnership, emerged under a centrist nationalist coalition including Fianna Fáil (FF) and a neoliberal party, the Progressive Democrats (PDs). In 1992, that government was replaced by a centrist-left coalition including the center-right Fine Gael (FG) and the Labour Party, in addition to small left-leaning

parties (referred to as the "rainbow coalition"). The new government continued with the exact same public policies and doubled down on the policy of attracting FDI. But during its tenure, the European Union ruled that Ireland's tax treatment of international exporting firms—who were granted a preferential 10 percent tax rate—broke the rules of the single market. In response, the Irish government introduced a flat 12.5 percent rate for all exporters. This 12.5 percent rate would become Ireland's calling card to attract foreign investment from across the world.

Noisy Politics and Feeding a Domestic Demand-Led Boom in Housing

The roaring nature of the "Celtic Tiger" led to a significant improvement in economic growth and standards of living. But it also increased costs and contributed toward increased demand for housing and public services. By the end of the 1990s, the medium-tech export growth model began to exhaust itself, and many firms began to relocate their manufacturing base to cheaper locations in Asia and Central Europe. Public pressure emerged for higher wage growth to compensate for housing inflation, for more income tax cuts, and for an increase in social spending (particularly within the public sector). The rainbow coalition resisted this noisy politics and continued an austere approach to fiscal policy, not least to meet the pending Maastricht criteria. Meanwhile, the IDA began to work closely with existing FDI firms to encourage them to keep the higher-value-added parts of their global supply chains in Ireland, while offshoring the labor-intensive parts of the firm. Simultaneously, they began to target emerging internet firms.

The austere approach to social policy, wage restraint, and public spending all changed with the reelection of a center-right liberal coalition of FF and the PDs in 1999. This coalition subsequently governed Ireland until the financial crisis in 2008. From an electoral perspective, FF were historically anchored within the small farming, agriculture, real estate, and construction sectors and within the rural and urban working class. They were also closely associated with the business elite of domestic industry in the semistate sectors: utilities, energy, transport, and banking. In addition, they had strong roots in the Irish trade union movement, which made them particularly favorable to workers in the unionized public sector: health and education. Once elected, FF made it very clear that they wanted to continue to promote the success of the FDI export growth model, but they also wanted to redistribute the fruits of this growth to those outside the FDI sectors. Complementary to the perspective of Pablo Beramendi and his coauthors,[71] this government focused on building electoral support through cutting taxes and increasing social spending.

The public policies instituted during the FF-PD coalition benefited the public sector and those firms that were anchored in the nontradable sectors. These policies were designed, in particular, in response to pressure from the construction, property, real estate, and banking sectors.[72] Needless to say, from 2001 onward household consumption and government expenditure increased rapidly. The pro-cyclical fiscal and wage policy regime was further fueled by the emergence of a credit-mortgage boom, driven by domestically owned banks borrowing excessively on the European interbank

money market and lending for mortgages. Wages quickly began to chase rising house prices, and the outcome was a massive house price bubble. In 2008, the property bubble crashed, and by 2010, Ireland was priced out of the international market and in receipt of IMF-ECB-EC ("troika") funding.

The story of Ireland's housing bubble and banking crash is well told, so we will not reprise it here.[73] The important point is that Ireland went from export-led growth in the 1990s, to demand-led growth in the 2000s. Underpinning the shift was a change in electoral politics. However, that is not to say that quiet industrial and enterprise policies aimed at attracting capital investment suddenly disappeared. On the contrary, the IDA continued to work closely with emerging Silicon Valley firms. In 2004, they secured the inward investment of two companies that had only recently been publicly listed and had not yet become household names—Google and Amazon. By the early to mid-2000s, the industrial policy strategy had moved away from attracting manufacturing toward attracting high-wage, high-tech services. Hence, despite a politically induced boom in domestic demand, Irish industrial and enterprise policies continued to focus on attracting the capital investment of emergent internet firms, such as Google, who within ten years would grow from 50 to over 7,000 employees, the largest private sector employer in Dublin city. By 2019, Google became the second-most valuable company in the world. Central to attracting the investment of these emerging global internet firms was the corporate tax regime.

Postcrisis Recovery, the Rise of the Tech Sector, and the Return of the Celtic Phoenix

From 2012 to the present, Irish industrial and enterprise policies became firmly focused on attracting new FDI from a booming tech sector. From 2012, and during the period of harsh domestic austerity, Irish service exports boomed. Contrary to the mistaken analysis of the troika, the increase in service exports had nothing to do with internal devaluation, as it was largely driven by an expansion of FDI from a rapidly expanding wave of high-tech, high-wage ICT "born-on-the-internet firms."[74] From 2003 to 2018, a total of 2,266 new FDI projects were announced (either new greenfield sites or expansions of existing projects), creating €85 billion in sixteen investments alone, along with 189,531 jobs.[75] Whereas the previous wave of ICT investment was led by Apple, Dell, IBM, Microsoft, and Intel, the new wave was led by Google, Amazon, and social media giants such as Facebook (who did not exist before 2004). From 2012 onwards, internationally traded *services* overtook internationally traded *goods* as the major component of the Irish export basket, while from 2003 to 2018, IT services constituted the largest amount of new greenfield-site investment into Ireland. Underpinning these choices was the quiet politics of corporate investment.

From 2014, the expansion of computer service exports has enabled Ireland to move toward what Lucio Baccaro and Jonas Pontusson have called a "balanced growth path."[76] This basically means a country can expand its exports without needing to restrict wages and domestic demand, and it is only possible when the exports being sold are not price sensitive, which is precisely the case for big tech firms. What industrial and

enterprise policies enabled Irish business-state elites to secure the investment of these tech giants in the new economy? Central to the policy bargain is a long-term commitment to a low corporate tax regime, a dense network of double tax treaties with other low tax havens, access to the European single market, direct cash subsidies, and a willingness to actively defend the interests of these global corporations within the European regulatory space.

The policy bargain aimed at attracting capital investment includes a constant updating of complex corporate tax policies—designed by an elite network of global tax accountants—to facilitate corporate profit shifting. More recently, two pieces of legislation were introduced by the Department of Finance—the Capital Allowance of Intangible Assets in 2009 and the Knowledge Development Box in 2016. Fundamentally, the legislation is aimed at enabling global multinationals to move their intangible assets and intellectual property into Ireland and receive tax relief on the income that these intangible assets or patents generate. These policies have led to many tech, health, and life science companies' onshoring their intellectual property to Ireland and, in turn, to a corporate income tax bonanza in Ireland. By 2019, 20 percent of all Irish revenue came from the corporate sector.

The Irish state has nurtured long-term relationships with investors in Silicon Valley, which is both a *function* and a *determinant* of the presence of an ICT cluster that emerged over thirty-five years ago. The informal policy bargains that have shaped this growth regime have continued, regardless of who is in government, and they rarely, if ever, get discussed during elections.

Discussion

There are three inferences to be drawn from the Hungarian and Irish cases that directly relate to broader scholarly debates in CPE.

First, in terms of growth models, both countries are part of a broader universe of cases wherein governments secure economic growth through FDI. In particular, they attract FDI to generate the conditions for export-led growth. They differ, however, in the *type* of FDI they attract and the *extent* to which FDI has penetrated the broader economy. Ireland predominantly secures FDI from Silicon Valley, thereby specializing in computer service exports (in addition to pharmaceutical products and financial services, which we have not discussed here).[77] Computer service exports do not lend themselves easily to definition and are difficult to empirically record in the national accounts. Big tech firms are not price sensitive, and therefore labor costs do not feature as a consideration in the investment choices of those firms. What matters for them are the capital asset and corporate income tax regimes, access to the European single market, liberalized data and digital privacy laws, and easy access to the European labor force. Fundamentally, it is the capital regime that matters.

Hungary, on the other hand, secures FDI predominantly from German automobile manufacturers. While labor costs are a consideration for these firms, they also want competitive tax rates and access to vocationally trained technical skills. The difference in labor-cost sensitivity leads to different distributional politics. Further, in relation to

the *extent* of FDI, Hungary pursued large-scale privatization of its economy and encouraged FDI across the economy, not just into manufacturing. State-owned enterprises were privatized, and existing industries were sold off, including the banking sector. Significant grievances were created among the domestic capital class. In Ireland, the FDI regime was constructed by new global firms, and in new sectors, while state enterprises, if privatized, predominantly favored domestic business interests. This difference has meant that the domestic capital class in Ireland never felt the same grievances toward the FDI regime as it did in Hungary. Despite these differences, both countries developed a decades-long commitment to a policy regime aimed at attracting foreign capital investment. These industrial policies are anchored in the quiet politics of business-state elites, not the noisy politics of elections.

Second, in terms of distributive politics, our analysis has shown that these FDI growth regimes are remarkable because of their *continuity*. Ireland and Hungary experienced a surge of FDI and an export boom in the 1990s, followed by a demand-led boom in housing in the 2000s. Both countries experienced a sharp crash in 2008–9, followed by harsh austerity measures, political fallout, and a significant internal devaluation. But since then, both countries, unlike other crisis-affected European countries, have returned to strong economic and employment growth, largely driven by the expansion of exports from their core FDI sectors: German automobile manufacturing in Hungary and US tech firms in Ireland. The presence of and lead role played by MNC firms in those sectors long preceded the economic crisis. In addition, they were largely immune to the noisy politics of austerity. Hence, despite turbulence in the political arena—measured in party fragmentation, parliamentary volatility in the Irish case and the consolidation of a right-wing nationalist one-party rule in Hungary—the engine of capital investment in both countries continued to purr. This is even the case in Hungary, where the government has publicly committed to renationalizing large parts of the economy. We have argued that what is demonstrated is that electoral politics matters for noisy political issues, such as welfare reform and immigration, but not for the quiet politics that shapes industrial policy. And it is quiet politics that fundamentally determine the engine of capitalist growth and national growth models.

Third, and perhaps most crucially, our comparative case study analysis shines a light on the importance of a state-led industrial and enterprise policy in shaping capitalist development. Although we have focused on FDI-led growth regimes, we see no reason why the same logic should not apply to countries such as Germany, Sweden, France, or the United States. As argued by Mariana Mazzucato, among many others, the role of the state is central to the politics of all advanced capitalist democracies.[78] Actually existing neoliberalism requires a very proactive state. We traced the politics and policy bargains underpinning these industrial-enterprise policies through three different periods. Central to these policy bargains is the use of an extensive range of tax incentives to attract capital investment—not just headline corporate tax rates, but tax breaks, tax holidays, capital allowances for intangible assets, and cash subsidies. Both countries have navigated EU competition law in rather flexible and imaginative ways. Hence, for many scholars, the industrial and enterprise policies underpinning the model of FDI-led growth are nothing more than a series of neoliberal tax

incentives. That is far too simplistic a reading of the role of the state in shaping the political economy of advanced capitalist democracies.

In both countries, public sector agents have invested heavily in building long-term strategic relationships with transnational business elites in the lead firms that underpin their key FDI sectors. In the Irish case, this network, and the emergence of an ICT high-tech business cluster, has been nurtured for over thirty-five years. In the Hungarian case, these relations have allowed a significant upgrading of manufacturing exports. If it were simply a case of reducing corporate taxes, then every country could follow the same model. But the strategy is about building (high-tech) clusters and specializing in specific parts of the global supply chain within multinational firms. This takes time and expertise and requires a relatively high level of state capacity to commit to market interests. Ultimately, it is a strategy that is pursued by a small group of business elites striking deals with public sector elites within specific sectors of the global economy. Furthermore, those elites are rather indifferent to the partisan color of government. As long as governments credibly commit to sustaining and sponsoring their business interests, they are not likely to care whether it is a liberal, conservative, or competitive authoritarian regime.

The mutual dependency that exists between the interests of large multinationals and the state is often considered a form of structural power, with the state in the inferior position. But this underestimates the extent to which the state is invested in capitalist markets, as well as the extent to which multinationals depend on government to enact favorable public policies. As outlined in the Hungarian case, transnational elites in the German-led manufacturing automobile sectors have expended significant effort through various business channels to ensure the right-wing nationalist government protects their economic interests. Not only has Orbán protected their interests; he has doubled down on trying to attract their investment through enacting favorable market reforms and granting generous incentives.

Does the above mean that electoral and producer group politics plays no role in shaping the trajectory of advanced capitalism and national growth models? No, but it does suggest that electoral politics is secondary to business-state elite politics if the dependent variable is trying to explain growth models in capitalist democracies. Electoral politics clearly matters to governments seeking to legitimize their economic policies and to make social policy reforms to get elected. In that regard, political parties need to anchor their strategies within domestic electoral politics. But the core bargains that shape capitalist development take place quietly, behind closed doors, between business-state elites. These policy bargains take place within a transnational space and in the context of a globalized political economy. That means that public officials are less likely to deal with national business associations and more likely to deal directly with investors, executives, and managers within the global supply chains of global multinational corporations.

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