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Macroeconomic success and social vulnerability: lessons for Latin America from the Celtic Tiger

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Abbreviations

BIS	Bank of International Settlements
BMW	border, midlands and western region
CAP	Common Agricultural Policy
CIE	Coras Iompair Éireann, the state-owned transport company
CPA	Combat Poverty Agency
CSF	Community Support Framework
CSO	Central Statistics Office
EIU	Economist Intelligence Unit
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESRI	Economic and Social Research Institute
EU	European Union
FÁS	Foras Áiseanna Saothair, the national training authority
FDI	Foreign direct investment
GDP	Gross domestic product
GNP	Gross national product

IDA	Industrial Development Authority/Agency
IR	Inequality ratio
ISI	Import-substitution industrialisation
IT	Information technology
MNC	Multinational company
NAPS	National Anti-Poverty Strategy
NESC	National Economic and Social Council
NESF	National Economic and Social Forum
NDP	National Development Plan
NIC	Newly Industrialising Country
OECD	Organisation for Economic Co-operation and Development
PNR	Programme for National Recovery
PNUD	Programa de las Naciones Unidas para el Desarrollo
PPP	Purchasing Power Parity
PRTLI	Programme for Research in Third-Level Institutions
R&D	Research and development
SFI	Science Foundation Ireland
TNC	Transnational company
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
WDC	Western Development Commission
IPE	International Political Economy

Abstract

This paper uses a political economy approach to examine the nature and social impact of Ireland's economic 'miracle', namely the period of high economic growth known as the 'Celtic Tiger', which lasted from 1995 until 2000. Its principal purpose is to offer a broad and multifaceted reading of this period of Irish development, paying particular attention to the links between macroeconomic success and social vulnerability, in order to draw policy lessons for Latin America. The examination of the Celtic Tiger is prefaced by a brief introduction to some of the salient feature of Ireland's development prior to its recent success, comparing structural features of the Irish case to those of Latin America. The paper then introduces the Celtic Tiger phase of development by offering data which illustrate its successes, in terms of economic growth and increased standards of living, and of a major growth in exports and in employment. The following section surveys the reasons for these successes, discussing in turn macroeconomic, fiscal and financial policy, industrial policies (attracting high levels of foreign direct investment and fostering indigenous industry), investment in education, the role of EU structural funds, and Social Partnership. Conclusions are drawn which also emphasis conjunctural factors that help account for Ireland's success over this period. Section four turns to the social impact of this economic success. This examines, in turn, trends in poverty and inequality, trends in prices, the nature of employment, the quality of social provision, and regional and gender inequalities. This section concludes by arguing that the concept of 'social vulnerability' better captures the social impact of Ireland's high economic growth than do explanations offered in the neoclassical economic literature or in the neomarxist sociological

literature. Section five asks whether the Irish model is sustainable and it examines dependence on foreign direct investment, the eroding tax base of the state and growing income inequality as vulnerabilities of the Irish model. It also examines how the state is responding to the economic downturn since 2000. The next section of the paper draws policy lessons for Latin America from the Celtic Tiger, situating these in the context of responses to globalisation. The lessons drawn relate to state potential, to the narrow base of Ireland's economic success, and to the failure of the state to set robust social policy goals and to find the means to achieve such goals. The paper finishes with a brief concluding section.

I. Introduction

Ireland has been transformed in the 1990s.[1] For many years it was regarded as one of Europe's economic and social laggards, performing well below potential since independence in 1922 and in decline relative to virtually all European states, east and west (Lee, 1989). Following a surge of growth and development as the country liberalised its economy in the 1960s and 1970s, by the 1980s it was again showing sluggish growth rates, high rates of emigration and growing social problems and indebtedness (Mjøset, 1992: 5-24), meriting a debate as to whether it was 'a Third-World country' (Caherty, 1992). By the mid 1990s, however, all this had changed and Ireland was being hailed as a showcase of successful development, Europe's Tiger Economy held up internationally as one of the few countries which has made it in the new global e-commerce economy (Ohmae, 2000). *The Economist* described it as 'one of the most remarkable economic transformations of recent years: from basket-case to "emerald tiger" in ten years' (17 May 1997: 23). As official delegations from countries around the world beat a path to the doors of Irish ministers, their advisers and the country's development agencies, Irish economists were holding Ireland up as 'a role model for development' (Bradley, 2000: 22), offering 'lessons for the periphery' (Fitz Gerald, 2000: 55) and predicting that, over the next 15 years, 'Ireland may achieve a standard of living among the highest within the EU' (Fitz Gerald, 2000: 54).

1 Throughout this paper, Ireland refers to the Republic of Ireland.

This paper critically examines the period of high economic growth in Ireland known as the Celtic Tiger which lasted from 1995 until 2000. Its principal objective is to outline the nature of what has come to be called 'the Irish model', credited by some analysts with providing the conditions for this economic success and for the transformation of the Irish economy. The particular focus of this paper's analysis of the Irish model is to identify the links between the nature of the model and its social impact, especially features that can be grouped under the concept of 'social vulnerability'. It is argued that increased social vulnerability results from features of the Irish model itself. This analysis then forms the basis for drawing some policy lessons for Latin America. The approach used is a critical political economy approach, drawn from 'the new International Political Economy' associated with theorists such as Robert W. Cox (see Cox, 1996) and Björn Hettne (see Hettne, 1995) (see also Hay and Marsh, 1999). The theoretical work of Karl Polanyi (see Polanyi, 1957) will inform its examination of the social impact of economic growth and provide a framework for understanding this impact in the Irish case. This theoretical approach diverges from the mainstream approaches used to understand the Celtic Tiger (neo-classical economics and new growth theory, institutional economics and institutional sociology) and from alternative approaches that have been influential in highlighting its inequitable impact on society (dependency theory and neo-Marxism); in the course of the paper reference is made to the strengths and weaknesses of these approaches.

The paper proceeds in the following fashion. As a way of introducing readers to the nature of the Celtic Tiger, the first section offers some key indices of the extent of Ireland's economic success. Section two examines how this success was achieved, drawing on the main theoretical approaches that have been used to interpret it, particularly neo-classical and institutional economics, and new growth theory, as well as on the new IPE approach used in this paper. Section three looks at some social impacts of this economic success, highlighting the ambiguous nature of the Celtic Tiger's impact on Irish society and critiquing the theoretical explanations offered by neo-Marxist scholars for this impact. Having critically introduced the economic, social and institutional features of the Celtic Tiger, Section four can then turn to examining its sustainability, drawing some lessons from the economic downturn that began in early 2001 and how the state is responding. Section five draws some policy lessons from the Irish experience for Latin America, linking them to the wider context of globalisation and its impact on national states, economies and societies. The final section draws conclusions from the study.

II. Structural features of development trajectories: Ireland and Latin America

Ireland's geographical situation has served to distract attention from the nature of its development trajectory. Western Europe's only colony, its integration into the booming industrial economy of Britain in the 19th century resulted in a classic 'Third World' economic structure as the raising of cattle mostly for export became Ireland's main economic activity, particularly following the Great Famine of 1845-48. Meanwhile, incipient forms of industrialisation could not survive the competition from the products of the British industrial revolution which flooded into Ireland following the Act of Union in 1801. Only in the north-east of the island did an industrial economy emerge as a growth pole of the British economy but the partition of the island at independence in 1922 meant that the new southern Irish state was 'virtually without industries' (Ó Gráda, 1994: 313). In 1929, 86 per cent of its exports were agricultural and the export of live animals, mostly cattle, to Britain made up 42 per cent of all the state's exports. Only in 1932 was a determined attempt begun to lay the foundations of an industrial economy through active state involvement behind high tariff barriers. This policy has been likened by one of Ireland's leading industrial economists to that of Import Substitution Industrialisation in Argentina, Brazil, Chile and Mexico (O'Malley, 1992: 32) and, following initial successes, it ran up against similar problems such as the limitations imposed by the size of the home market and persistent balance of payments difficulties in the 1950s. In response to these and prompted by the liberalisation of western European economies in the

1950s, the Irish government adopted an export-oriented industrial strategy in the late 1950s and early 1960s. Ireland therefore should most accurately be categorised as a Newly Industrialising Country (NIC) similar to those of East Asia and Latin America. This has been recognised by many Irish analysts (O'Hearn, 1989; Girvin, 1989; Jacobson, 1989; Jacobsen, 1994; Curtin et al., 1996, Kirby, 1997).

Despite determined state attempts to develop the economy, however, Ireland's performance up to the late 1980s was seen as being 'the least impressive in western Europe, perhaps in all Europe, in the twentieth century' (Lee, 1989: 521). Kennedy et al. compare Ireland's gross national product (GNP) to the GNP of 28 other countries, mostly European, at two dates, 1913 and 1985. At the earlier date, Ireland's per capita income ranked 14th and was higher than those of Norway, Finland and Italy and only a little behind that of France. Sixty years later, however, Ireland had fallen to 22nd place and had been overtaken by all western European countries (except Greece and Portugal), Japan, Czechoslovakia, Hungary and the Soviet Union (Kennedy et al., 1988: 14). Ireland's decline was also recognised in the international development literature. In his study of Europe's development, Dieter Senghaas concluded that 'the history of Irish development is a prime example of emerging peripheralization' (Senghaas, 1985: 129) while J. Bradford de Long, referring to post-World War II prosperity, grouped Ireland with Spain, Portugal, Argentina and Chile 'that one would in 1870 have thought capable of equally sharing this prosperity and have not done so' (De Long, 1988 :1148). Table 1 compares Ireland's per capita GDP with that of some Latin American countries between 1870 and 1992.

Table 1

IRELAND AND LATIN AMERICA, PER CAPITA GDP 1870-1992

(in US$ 1990 value)

	1870	1900	1913	1950	1973	1992
Ireland	1,773	2,495	2,733	3,518	7,023	11,711
Argentina	1,311	2,756	3,797	4,987	7,970	7,616
Brazil	740	704	839	1,673	3,913	4,637
Chile		1,949	2,653	3,827	5,028	7,238
Mexico	710	1,157	1,467	2,085	4,189	5,112
Venezuela		821	1,104	7,424	10,717	9,163

Source: Maddison, 1995: Table 1-3.

However, a unique feature of the Irish case that distinguishes it from Latin America is its unique demographic profile and the effect of this on living standards. Following the Great Famine (1845-48), a sustained tradition of emigration had resulted in a continuing decline in the country's population. The area that today constitutes the Republic of Ireland had a population of 6.5 million in 1841 whereas by 1961 that population had declined to 2.8 million. Since then periods of prosperity saw modest population increases while periods of recession resulted in net population losses. The latter happened in the 1980s, for example, when a deep recession led to a net outflow of people and the population fell from 3.54 million in 1986 to 3.52 million in 1991. This outflow of people, a characteristic of a regional rather than a national economy, had the effect of sustaining living standards in Ireland at a level above what would otherwise have been possible. As Kevin O'Rourke has put it, emigration has been 'one of the key driving forces in the Irish economy' allowing rising living standards go hand in hand with deindustrialisation (O'Rourke, 1995: 420). Without this, Ireland would have been a densely populated country and living standards would have been far lower throughout the twentieth century. Table 2 shows how Ireland's demographic profile facilitated higher per capita growth than was possible in Latin America.

Table 2

IRELAND AND LATIN AMERICA, AVERAGE ANNUAL GROWTH 1965-98

(Percentage)

	GNP growth	Per capita GNP growth
Ireland	3.8	3.0
Argentina	1.9	0.4
Brazil	4.3	2.2
Chile	3.6	1.9
Costa Rica	4.0	1.2
Mexico	3.9	1.5
Venezuela	2.0	-0.8

Source: World Development Indicators 2000: Table 1.1.

III. Characteristics of the Celtic Tiger

Accounts of the success of the Irish economy usually begin by charting its exceptional growth rates since the mid 1990s. As Tables 3 and 4 show, this is exceptional both in comparison to past Irish performance and to most other countries in the world.

Table 3

IRISH GROWTH RATES (GDP/GNP), 1980-2002

(average annual growth net)

Year:	Average 1980-85	Average 1986-92	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
GDP:	2.1	4.0	2.9	6.8	9.8	7.8	10.8	8.6	10.8	11.5	5.9	3.5
GNP:	0.6	3.4	2.9	7.6	8.0	6.9	9.4	7.9	8.2	10.4	5.0	3.0

Source: Economic Review and Outlook, Dept of Finance, various years.
Notes: * estimate.

Table 4

COMPARATIVE GROWTH RATES: IRELAND, OECD, NICS

(average annual GDP growth)

Country	1980-90	1990-2001
Argentina	-0.7	3.7
Australia	3.4	4.0
Austria	2.2	2.1
Belgium	1.9	2.1
Brazil	2.7	2.8
Canada	3.3	3.0
Chile	4.2	6.4
Hong Kong	6.9	3.9
Costa Rica	3.0	5.1

Table 4 (continuation)

COMPARATIVE GROWTH RATES: IRELAND, OECD, NICS

(average annual GDP growth)

Country	1980-90	1990-2001
Denmark	2.3	2.5
Finland	3.3	3.0
France	2.3	1.8
Germany	2.2	1.5
Greece	1.8	2.3
Ireland	3.2	7.6
Israel	3.5	5.1
Italy	2.4	1.6
Japan	4.0	1.3
S. Korea	9.4	5.7
Mexico	1.1	3.1
Netherlands	2.3	2.8
New Zealand	1.7	2.9
Norway	2.8	3.5
Portugal	3.1	2.7
Singapore	6.7	7.8
Spain	3.0	2.6
Sweden	2.3	2.0
Turkey	5.4	3.3
United Kingdom	3.2	2.6
United States	3.0	3.5
Uruguay	0.4	2.9

Source: World Bank, World Development Report 2000/01 and 2003.

In interpreting these figures, it is important to remember that in Ireland's case Gross National Product (GNP) is regarded as a better measure of output growth than is Gross Domestic Product (GDP) due to the fact that foreign multinationals repatriate much of their extensive profits out of the domestic economy. The extent of capital repatriation out of Ireland grew from 2.8 per cent of GDP in 1979 to over 17 per cent by the end of the 1990s. GDP is used in Table 4 for the purposes of international comparison but it should be borne in mind that it has the effect of inflating Ireland's growth figures, as can be seen from Table 3. Using GNP per capita instead of GDP per capita reduces Ireland's ranking among the 15 EU states plus Japan and the United States from fourth place to ninth place (Forfás, 2001: Table 1). However, even when these reductions are made, Ireland's growth rate in the 1990s has been well above that of most OECD countries and NICs. Secondly, from the mid 1990s to 2000 Ireland sustained growth rates double and even triple its historical averages.

Underlining the strength of the Irish economic performance is the high growth in export volumes throughout the second half of the 1990s as detailed in Table 5. This shows Irish export growth to be well above that of the EU and the OECD and comparable to that of other strong export-oriented NICs like Mexico and South Korea. Between 1995 and 2001, the value of Irish exports grew from 35.3 billion euro to 92.5 billion euro while the trade balance grew from 9.2 billion to 35.2 billion euro over the same period (from CSO data).

Table 5

GROWTH IN EXPORT VOLUMES 1995-2001

(% change annually): Ireland, EU, OECD and selected NICs

Country	1995	1996	1997	1998	1999	2000	2001
Ireland	20.1	12.2	17.4	21.4	15.7	17.8	7.4
Mexico	30.2	18.2	10.7	12.1	12.4	16	-5.1
S. Korea	24.6	11.2	21.4	14.1	15.8	20.5	1.0
EU	8.9	4.9	9.0	6.8	4.7	12.6	n.a.
OECD	9.5	7.3	11.6	4.2	4.2	11.6	-1.5
United States	10.3	8.2	12.3	2.1	3.2	9.5	-4.5

Source: OECD Economic Outlook 68, 2000 and 71, 2002.

By the end of the decade, the largest increases in exports were accounted for by organic chemicals, computer equipment and electrical machinery, all sectors dominated by US multinationals (EIU, 2000: 28). Between 1995 and 2000, the percentage of Irish exports going to the US market increased from 8.1 to 17.1, so that by the latter date it constituted Ireland's second most important export market. By 2001, 43 per cent of foreign companies located in Ireland were of US origin and they employed 65 per cent of all employees in the foreign-owned sector (an increase from 56 per cent in 1994). This indicates Ireland's growing dependence on the US, both as a source of foreign investment and as an export market, described by the Economist Intelligence Unit as Ireland's 'deepening integration into the US economy' (EIU, 2000: 28).

Against the background of virtually continuous growth in unemployment during the late 1970s and most of the 1980s, a period when fears of 'jobless growth' were widely aired, one of the most remarkable aspects of Ireland's turnaround in the late 1990s is the surge in employment. As recently as 1997, 10.3 per cent of the labour force was unemployed but by late 2000 this had fallen to under 4 per cent. This is all the more remarkable as the labour force itself grew at an annual average rate of 4.3 per cent between 1997 and 2000, compared to annual average growth of 2.2 per cent between 1990 and 1997. As a result, Ireland's labour force had grown to an historic high of 1.83 million in 2002. Table 6 places Ireland's employment growth in comparative perspective and shows that, since 1997, it has outshone its rivals.

Table 6

EMPLOYMENT GROWTH 1995-2000 (% CHANGE ANNUALLY): IRELAND, EU, OECD AND SELECTED NICS

(annual percentage change of the workforce)

Country	1995	1996	1997	1998	1999	2000*
Ireland	4.9	3.9	3.6	10.2	6.3	5.0
Mexico	-0.6	6.5	5.5	2.7	1.3	3.4
S. Korea	2.6	1.9	1.4	-5.3	1.4	4.0
EU	0.7	0.5	0.9	1.6	1.7	1.9
OECD	1.1	1.1	1.4	1.0	1.1	1.5
United States	1.5	1.4	2.2	1.5	1.5	1.3

Source: OECD Economic Outlook 68, 2000.

Notes: * estimate.

It is not surprising that Ireland's impressive record of export-led and job-rich growth in the late 1990s has resulted in a very significant increase in living standards, the largest increase among the OECD countries and NICs listed in Table 7. While these figures tell us nothing about how this income is distributed, they do show that Ireland in the 1990s has bridged the gap in average per capita income with its richer neighbours. The data show average annual per capita GDP growth between 1990 and 2000; average per capita GNP for 2000 is given to show how much the GDP figures inflate average income figures in Ireland.

Table 7
PER CAPITA GDP GROWTH, 1990-2000: IRELAND, OECD, NICS
(US$ PPP)

Country	GDP 2000	Annual GDP growth 1990-2000	GNP 2000
Argentina	12,377	3%	12,050
Australia	25,693	2.9%	24,970
Austria	26,765	1.7%	26,330
Belgium	27,128	1.8%	27,470
Brazil	7,625	1.5%	7,300
Canada	27,178	1.8%	27,170
Chile	9,417	5.2%	9,100
Hong Kong	25,153	1.9%	25,590
Costa Rica	8,650	3%	7,980
Denmark	27,627	2.1%	27,250
Finland	24,996	2.4%	24,570
France	24,223	1.3%	24,420
Germany	25,103	1.2%	24,920
Greece	16,501	1.8%	16,850
Ireland	29,866	6.5%	25,520
Israel	20,131	2.2%	19,330
Italy	23,626	1.4%	23,470
Japan	26,755	1.1%	27,080
S. Korea	17,380	4.7%	17,300
Mexico	9,023	1.4%	8,790
Netherlands	25,657	2.2%	25,850
New Zealand	20,070	1.8%	18,530
Norway	29,918	3.1%	29,630
Portugal	17,290	2.5%	16,990
Singapore	23,356	4.7%	24,910
Spain	19,472	2.3%	19,260
Sweden	24,277	1.6%	23,970
Turkey	6,974	2.1%	7,030
United Kingdom	23,509	2.2%	23,550
United States	34,142	2.2%	34,100
Uruguay	9,035	2.6%	8,880

Source: UNDP, Human Development Report 2002; World Development Indicators database, 2002.

The 1990s also marked a turnaround in Ireland's unique demographic profile, as outlined in Section One. Over the course of the 1990s Ireland's population showed a sustained increase, to reach 3.9 million in 2001 a figure it had last reached in the 1880s. Over the years since 1997, slightly less than half the annual increase was made up of immigrants (some of them former Irish emigrants returning home).

IV. Recipes for success

The causes of this remarkable success have, not surprisingly, merited sustained attention. Most of this analysis has been done by economists working within a neo-classical economic framework or from the standpoint of new growth theory. For these economists, Ireland's high economic and employment growth in the 1990s derives from its ability to achieve high levels of productivity and maintain cost competitiveness with its trading partners. This view was summed up by Paul Krugman in a paper on Ireland's economic success: 'Given the combination of good productivity growth and wage restraint, the success of the economy is in a macro sense not hard to explain' (1997: 42). This tells us nothing however about how these were achieved nor why their achievement produced such dramatic results in the mid 1990s. For example, one senior Irish economist, Frank Barry, has found that Irish productivity growth was 'substantially higher than the EU average since the late 1960s' whether measured in GDP or GNP and he put this down both to productivity increasing within individual sub-sectors of the economy but also to low-productivity sub-sectors being replaced by high-productivity ones (Barry, 1999: 34-35). This points therefore to the need to examine the particular policy and institutional mix that resulted in Ireland's economic success. While there are disagreements about the relative contributions of different elements such as exchange rate policy, social partnership or industrial policy, there is broad agreement in the economic literature on those elements that are seen as having played essential parts in Ireland's success story. The account here concentrates on these rather than entering the debates on their relative merits. They can be identified as follows: macroeconomic, fiscal and financial policy, investment in education, industrial policies, EU transfers, and social partnership.

A. Macroeconomic, fiscal and financial policy

As Leddin and Walsh have written, 'a high degree of continuity and consistency in the main parameters of economic management' has been evident across all the main Irish political parties over recent decades (1997: 15). Since the economic liberalisation of the early 1960s, this consensus included agreement on an essentially outwardly-oriented economic policy, on active state industrial policies focused primarily on attracting high levels of foreign direct investment (FDI) to Ireland, on investment in education, on respect for property rights and, since 1973, on membership of the European Union. While disagreement between government and opposition was evident in the late 1970s and early 1980s over the growing resort to foreign borrowing to finance job creation in the public sector in response to the impact of the 1970s oil crises, since the mid 1980s a solid consensus has also been evident on the need for a more conservative and stable fiscal policy, reducing the ratio of debt to GDP and balancing the national budget. The more recent disciplines introduced by the EU in preparing for economic and monetary union (EMU) have further reinforced this policy consensus. Buoyant government tax revenues during the years of high economic growth resulted in budget surpluses, making it relatively easy for the Irish government to meet the budgetary requirements for EMU membership. In 1999 the surplus was €1.3 billion out of a total budget of €29.6bn and in 2000 the surplus reached €2.4bn. By 2001, the surplus was reduced to €323m and in 2002 this turned into a deficit of €655m out of a total budget of €31.8bn. This allowed €3.2bn to be spent on servicing the national debt in 1999 but by 2002 this had declined to €2.2bn. Reduced receipts from income and corporation taxes in 2002 forced the government to cut back both social and capital expenditure though the Minister for Finance was arguing in Brussels that Ireland should be allowed to maintain high levels of capital spending to improve Ireland's deficient infrastructure even at the risk of infringing EU rules on budget deficits.

In this context, the role of Structural Funds in helping the government run a budget surplus should also be noted. However, while such EU transfers supplement public expenditure, they do not replace it since matching funding from national governments (and from the private sector) is a criterion for receipt of such funds. Undoubtedly they helped ease pressures on the national government for spending in certain areas (see sub-section iv below for a fuller discussion). But the potential of such EU transfers to facilitate a counter-cyclical fiscal policy is extremely limited by the fact that funds are disbursed to fund previously agreed six-year programmes; once these are agreed public authorities have no more discretion over the use of these funds. In many cases the funds are paid directly to specially established public bodies which operate at arm's length from central government.

The cross-party consensus on macroeconomic and fiscal policy has also included a reluctance to resort to any major privatisation of the relatively large state sector of the economy, particularly in public utilities and transport. Therefore, where state companies have been privatised, this has happened for pragmatic reasons in individual cases (banks, telecommunications, petroleum, steel) rather than out of any widely shared ideological commitment. Furthermore, these cases date from after the emergence of the Celtic Tiger. The Irish state continues to have a relatively large nationalised sector and the 1997-2002 government included a Minister for Public Enterprise indicating the continuing economic and political significance of this sector.

The turnaround in state finances from the unsustainably high levels of foreign borrowing that characterised the early 1980s is usually dated to the austerity budget introduced by the minority incoming Fianna Fáil government in early 1987. To achieve this fiscal correction, the new government resorted to expenditure cuts rather than tax increases, resulting in significant reductions in current and capital spending. These measures were supported in the national interest by the main opposition party, Fine Gael, though it has seen its base of support continuously eroded since then. In a best-selling recent book on the Celtic Tiger co-authored by the then finance

minister, Ray Mac Sharry, he described how he used to go into his ministry on a Sunday to identify expenditure cuts that sometime saved the government as little as IR£1,000 (around US$1,200) (Mac Sharry and White, 2000). Against what was predicted, this contraction resulted not in a recession but in an increase in economic growth and was labelled by some economists as 'expansionary fiscal contraction'. They argued that the cutbacks restored confidence in the public sector leading to a resurgence of private consumption and investment which more than offset the deflationary effect of the fiscal correction. The growth of the foreign debt was halted, confidence was restored in the Irish pound and interest rates began to fall to levels close to those in Germany (for an account, see Leddin and Walsh, 1997). This is seen by most economists as putting in place the conditions that allowed Ireland benefit from the US boom that began in the early 1990s.

Exchange rate policies during this period also contributed to creating these conditions. Ireland had maintained a fixed exchange rate of one Irish pound to one pound sterling following independence in 1922 and this lasted until the creation of the European exchange rate mechanism (ERM) in 1979. With the advent of ERM, the Irish pound was pegged to the German mark (DM) though expectations that this would stabilise the value of the Irish currency and lower interest rates were initially disappointed. It also led to repeated speculative attacks on the Irish pound, particularly during periods when its rate to sterling hit the competitiveness of Irish exports to the UK, still its principal market. This led to Irish pound devaluations in 1983, 1986 and 1992 the last two of which are credited by economists with giving continued competitive gains to Irish exports as the real exchange rate did not quickly revert to its pre-devaluation level. Exports to Ireland's two principal markets, Britain and the US, continued to gain following the advent of economic and monetary union (EMU) at the beginning of 1999 as the euro depreciated in relation to the sterling and the US dollar. However, one consequence of the loss of Ireland's national currency is, as Leddin puts it, that 'the adjustment process has moved from money and foreign exchange markets to fiscal policy and on to the labour market' (2001: 50). In this situation, he foresees that the economy is likely to be more sluggish in reacting to economic shocks and predicts that booms and recessions will tend to be longer increasing the possibility of abrupt about-turns or hard landings. Of relevance in this scenario is Lane's conclusion in his study of Irish fiscal policy that it has 'in general not behaved countercyclically'. He adds that 'this imposes costs on the Irish economy that are likely to become more severe' under monetary union (Lane, 1998a: 14).

B. Industrial policies

'While the stabilization of the public finances may have encouraged an increased inflow of FDI, the export boom and acceleration in the growth rate must be attributed mainly to the latter, rather than viewed as an inescapable consequence of the former' (Walsh, 1996: 85). This quotation draws attention to the central importance of state policy in attracting high levels of FDI to Ireland. As Fitz Gerald put it: "The pro-active industrial strategy pursued by Irish policy makers was central to the long-term development of a strong industrial base" (2000: 38). This focused on the attraction of foreign multinational firms to establish in Ireland. Only more recently has a modern, high-tech and export-oriented indigenous sector emerged. Both sectors are treated separately here.

a) The foreign sector:[2]

In O'Riain's memorable phrase, the Irish state has since the early 1960s assumed 'the role of "hunter and gatherer"' of foreign direct investment (FDI) (O'Riain and O'Connell, 2000, 315).

[2] Officially the Central Statistics Office defines the foreign sector as comprising those industrial units where the owners of 50 per cent or more of the share capital are non-nationals. Since most foreign investment into Ireland has been greenfield investment and since mergers and acquisitions have played a relatively minor role in attracting foreign investment, the foreign sector is largely composed of the subsidiaries of foreign companies in Ireland.

While this policy, led by the Industrial Development Authority (IDA), pre-dates the emergence of the Celtic Tiger, it came to fruition in the late 1980s and the early 1990s. In many ways the IDA resembles the insulated bureaucracies of the East Asian developmental states (see Campos and Root, 1996; Leftwich, 1996) in that it is a state body with, since the late 1960s, autonomy from the civil service, extensive resources and effective insulation from the political process. Indeed, in the extensive account by Padraic White, its managing director from 1981 to 1990, it saw itself as often making the policy which its ministerial bosses followed (Mac Sharry and White, 2000). In establishing the need for such a body, White quotes from a report written for the Irish government in 1952 by a US consultancy group, IBEC Technical Services Corporation, in which one heading stated: 'Not sufficient government initiative for socialism – not sufficient incentive for private enterprise' (quoted in Mac Sharry and White, 2000: 185). Though first established in 1952, following its reorganisation in the late 1960s it became 'the centre of policy making' with a strong focus on attracting FDI (O'Riain and O'Connell, 2000: 317). White identifies two elements of what he calls the IDA's 'competitive nationalism' (Mac Sharry and White, 2000: 239). The first, to which he returns again and again in his account, was the special low-tax regime put in place firstly in the mid 1950s as 100 per cent exemption from tax on export profits guaranteed for 15 years and, under EU pressure, changed in the late 1970s to a 10 per cent tax rate on manufacturing profits guaranteed for 20 years. This incentive, to became a blanket 12.5 per cent tax on all trading companies in 2003, is described by White as 'the unique and essential foundation of Ireland's foreign investment boom' (250). The second element is to identify growing industrial sectors appropriate to Ireland, to find the best companies in those sectors and to persuade them to come to Ireland.

This policy, pursued with determination and not a little charm, had by the 1990s succeeded in attracting to Ireland some of the world's leading companies in three key sectors: i) healthcare (pharmaceuticals and medical devices), ii) electronics and iii) software and other international services. By the late 1990s, 150 foreign companies in the first sector employed 25,000 people in Ireland and constituted 20 per cent of the country's exports. In 1998, 94 per cent of all foreign investment went into manufacturing and 6 per cent into services, principally financial services (OECD, 2000b: 205). The second sector had become the single largest foreign industrial sector in Ireland and 'has been at the heart of the rapid transformation of the country's economic and jobs prospects' (ibid.: 281), employing 28,000 and constituting 30 per cent of the country's exports. With 20 of the 25 top US high-tech companies having operations in Ireland, White believes that 'a critical mass of investment from technology companies has been secured' (290). In the third sector, 27,000 were in fulltime employment in Ireland in foreign-owned international services, including financial services. Inflows of FDI to Ireland increased from $164 million in 1985 to $24 billion in 2000 (UNCTAD, 2002: 172). US investment made up the bulk of this, constituting more than 80 per cent of the overall flows into Ireland in the later years of the 1990s (O'Sullivan, 2000: 263-64). As White proudly puts it, the question for foreign entrepreneurs had changed from 'Why should we go to Ireland?' to 'Why are we not in Ireland?' (Mac Sharry and White, 2000: 311). The extent of Ireland's success in attracting FDI, compared to other European countries and NICs, is detailed in Table 8.

Table 8

FDI AS A PERCENTAGE OF GDP, IRELAND, EUROPE AND NICS, 1990, 2000

(percentage)

Country	1990	2000
Argentina	1.3	4.5
Austria	1.5	6.5
Belgium	6.7	26.6
Brazil	0.4	6.0
Chile	2.2	12.0
Costa Rica	2.9	4.3
Denmark	2.0	38.1
Finland	3.6	34.4
France	3.9	16.4
Germany	1.8	13.3
Ireland	2.2	49.2
S. Korea	0.7	3.2
Mexico	1.0	2.3
Netherlands	8.3	35.3
Norway	2.1	11.4
Portugal	3.9	15.9
Singapore	20.7	11.6
Spain	3.4	16.5
Sweden	7.0	27.3
Switzerland	5.8	25.0
United Kingdom	7.4	38.7
Uruguay	0.0	1.5

Source: World Development Report 2002.

However, an industrialisation strategy so heavily dependent on attracting foreign investment entails its own vulnerabilities, as White acknowledges:

‘The nature of industry keeps changing there is a continuous process of decline in some sectors (for example, textiles and mechanical engineering) and growth in others (software and e-commerce). So we can assume that a fair share of the industries we have today will decline and decay in coming years. Thus, we need to be continually searching for the emerging star sectors that are competitive in an Ireland of rising costs compared with others in an enlarged European Union.’

In cautioning that the IDA’s job is never done, he concludes: ‘If Ireland Inc is closed for business, other competitor countries will quickly take our place.’

In examining the extent to which foreign MNCs become embedded in the Irish economy, the literature on Irish industrialisation has again and again drawn attention to the need to capture more of the cutting-edge research and development activities of multinational companies since they are regarded as providing more benefits to the host economy, both in terms of employment (quantity and quality) and of survival (see, for example, Kearns and Ruane, 2001). However, in his more detailed analysis of the software sector, O’Riain draws attention to the difficulties involved. While he acknowledges that Ireland has become an operations hub, developing its own information technology agglomerations or districts, he finds that the attempt to get MNCs to locate product development in Ireland runs up against companies’ desire to keep control and is likely to have very limited success (O’Riain, 1997: 195). O’Sullivan examines research and development (R&D) spending by foreign companies and their spending on indigenous inputs to find whether, in the 1990s, their increased activities are having a greater developmental impact in the Irish economy. With the exception of the instruments sector where R&D spending by multinationals increased substantially from 0.7 per cent of gross output in 1991 to 2 per cent in 1997, she concludes that ‘R&D intensity was flat or even declined in the sectors most heavily dependent on foreign activity’ (O’Sullivan, 2000: 269). While higher levels of activity by multinationals has led to an increase in spending in absolute terms in the Irish economy, she writes: ‘It is certainly not possible to identify

a trend towards a deepening of linkages between foreign and indigenous companies at least through the analysis of the aggregate behaviour of foreign companies' local purchases; if anything, in fact, the evidence points in the opposite direction' (270). Her verdict on the main thrust of Ireland's industrialisation strategy over the past four decades points to its vulnerability and limited embeddedness:

'Ironically, as Ireland has become more integrated with the European Union in macroeconomic terms, the microeconomic structure of her industrial economy has evolved to more closely resemble a region of the United States. The country's dependence on the United States, especially in sectors that are notoriously volatile like electronics, means that Ireland is highly exposed to the risk of a significant diminution in recent US economic exuberance. Although evidence of a significant deepening of the relationship between foreign multinationals and their Irish bases might well be grounds to temper such a view, the analysis of R&D expenditure and linkages does not provide support for such an interpretation' (283).

b) Indigenous industry:

The emphasis on winning FDI had, for decades, marginalised indigenous industry within overall industrialisation policy. However, as O'Riain put it: 'It took the massive social and economic crisis of the 1980s to delegitimate the IDA's role as the sole bearer of the task of Irish industrial transformation. It was into this restricted institutional space that the alliance of Irish technical professionals and the previously marginalized 'science and technology' state agencies stepped to support indigenous industry' (2000: 181). The reorganisation of the state's industrial development agencies in 1994 resulted in an agency for the development of indigenous industry, Forbairt (later renamed Enterprise Ireland), being established alongside the IDA. Meanwhile, the general tenor of policy was shifting towards greater selectivity in grant giving, and a greater focus on marketing and technology and on indigenous firms (O'Riain and O'Connell, 2000: 319).

As a result of these new approaches to industrial policy, O'Malley detectes signs of 'a substantial and sustained improvement in the growth performance of Irish indigenous industry' over the decade from 1987 to 1997, across a wide range of industrial sectors and indicators such as employment, output, exports, profitability and spending on R&D (1998: 35). Furthermore, he argues that the improvement was more than a response to stronger domestic demand conditions and indicates a genuine improvement in competitive performance. However, in their analysis of Ireland's comparative advantage, Gallagher et al. discover a continuing dualism between foreign and Irish-owned firms even at the peak of the Celtic Tiger period. They write:

'Foreign-owned industry treats Ireland as an export platform, generating 74 per cent of total Irish exports in 1998. On the other hand, while 85 per cent of local plants are Irish owned and 53 per cent of manufacturing employment is generated in these plants, they produce just 28 per cent of gross output' (Gallagher et al., 2002: 64).

Listing Ireland's top 30 companies ranked by turnover, they illustrate that the electronics and pharmaceuticals sectors are dominated by foreign-owned companies while successful Irish firms are in sectors that still enjoy relative protection such as cement, print and packaging, food processing, retailing, and brewing and distilling. Looking for evidence of the emergence of 'clusters' particularly through backward linkages from foreign-owned high-tech industries, they find some evidence in the electronics and telecommunications equipment industries, such as the development of labour skills and a growth in exports by indigenous firms, though from a small base. They say it is too early to judge whether this will lead to a cluster of foreign-owned and indigenous industries. Other possible emerging clusters are in indigenous meat and dairy products (though here it is concentrated in primary products), and in the tourism industry.

It is in the software industry that the clearest evidence has emerged of a ‘cluster’ in which strong indigenous firms have emerged. Together with electronics, software accounts for 40 per cent of all exports from Ireland, generating $5 billion annually. This makes Ireland the largest exporter of software in the world (Gallagher et al., 2002: 67). While it was the scale of FDI by many of the world’s largest software companies that led to the emergence of the industry in Ireland, the number of indigenous firms grew rapidly, from 336 start-ups in 1993 to 561 in 1997 (Foley and Hogan, 1998: 49). Employment grew from 3,801 in 1991 to 9,200 in 1997, which was around half the total level of employment in the industry, and the value of exports by these firms increased from £61 million to £365 million. Meanwhile, R&D spending by them in nominal terms went from £4.6 million in 1991 to £34.6 million in 1997, at which time it was spending twice as much on R&D as its foreign-owned counterpart (O’Sullivan, 2000: 273-4). It is therefore seen as the major success story of Irish indigenous industry in the 1990s. O’Riain found that this industry emerged ‘almost “by accident”’ with little state policy encouraging it and low levels of state resources supporting it (O’Riain, 1997: 198). While some firms emerged to provide services to industry, others from the spinoff by firms of their software divisions and yet others from on-campus research in universities, he finds local factors (such as informal networks within the technical community that resulted from state investment in technological education) predominant in the emergence of the sector. O’Malley and O’Gorman conclude:

‘The indigenous software industry can be regarded as part of something rather like a “cluster”, in the sense used by Porter (1990). This cluster includes relatively influential customer industries such as overseas TNCs in the process industries, software, computer hardware, telecommunications equipment and financial services, as well as indigenous firms in the process industries and financial services. “Related” industries in the cluster include in particular the foreign-owned branch of the software sector and the foreign-TNC dominated telecommunications equipment and computer hardware sectors. The strong geographic concentration of the software industry in urban areas within Ireland is also indicative of “clustering” in Porter’s sense of the term’ (2001: 318-19).

However, questions have been raised about whether such clustering may be replicable in other sub-sectors. O’Malley and O’Gorman point out that software presents lower entry barriers and has offered significant scope for new or small Irish firms to develop in many specialised niches serving segmented markets. O’Riain finds that while the costs of setting up such companies are relatively low, the costs of accessing marketing and distribution networks in order to compete globally are very high. Thus, he points out that two-thirds of these companies employ less than 10 people (though this is not dissimilar to the structure of the industry in the US and Europe). The task of ‘going global’ he sees as being both costly and risky as companies form alliances, typically in the case of the Irish software industry with US companies. While such joint ventures offer increased access to resources and social networks they also reduce the autonomy of the firm and the industry as a whole and he finds that ‘a typical pattern for Irish software firms has been the acquisition of successful firms by TNCs once they reach a certain level of turnover’ (1997: 204).

c) Conclusions:

In assessing the success of Ireland’s industrial policy, therefore, the boom years of the Celtic Tiger must not be allowed obscure the structural vulnerabilities that characterise Ireland’s industrial base. Gallagher et al. point out: ‘The recent success of the Irish economy has not been built on the strength of its national system of innovation and improvement. Rather, the remarkable turnaround in its fortunes has been driven to a large extent by foreign-owned firms in the electronics (including computers), pharmaceutical and financial services industries’ (2002: 77). They report that US firms have earned an average rate of return of 25 per cent on their Irish investment, more than ten percentage points higher than that achieved by them in other EU

countries, and conclude: 'Ireland has been established as a transatlantic trading hub for US multinationals that use Ireland as an export platform into Europe and more recently into the US' (ibid.). The impact on indigenous firms is summarised by O'Sullivan: 'Indigenous success is concentrated in a small number of firms and sectors and certainly cannot be found across all, or even most, indigenous firms. Moreover, as the example of the indigenous software industry reveals, favourable developments are as yet of too recent a vintage to interpret them as firm grounds for forecasting continued success' (2000: 283). Compared to indigenous industry, the foreign-owned sector has continued to show greater dynamism as it has increased its share of employment, output and exports, as shown in Table 9. In 2000, manufacturing employed 19 per cent of the labour force, contributed 42.4 per cent of output and constituted 93.7 per cent of Ireland's exports.

Table 9

CONTRIBUTION OF FOREIGN-OWNED SECTOR TO IRISH ECONOMIC GROWTH: PERCENTAGE SHARE OF MANUFACTURING EMPLOYMENT, OUTPUT AND EXPORTS

(percentage)

Year	Employment	Output	Exports
1987	43%	52%	74%
1999	49%	76%	90%

Source: O'Malley, 1998, 35, Census of Industrial Production 1999, UNCTAD 2002.

According to Murphy, five main areas of high-tech foreign-owned industry (soft drinks concentrates, chemicals, medical and pharmaceutical products, computers and computer software) contributed 53 per cent of net output and 13 per cent of manufacturing employment in 1995 (Murphy, 1998: 14). In 1998, Ireland's top three exporters were all multinational companies (Intel, Dell and Microsoft), accounting for 22 per cent of Ireland's manufactured goods exports and 18 per cent of the country's total exports (Forfás, 2002). Barry, Bradley and O'Malley conclude that, in general, foreign plants tend to be larger, more productive and more profitable than Irish plants, employing substantially higher proportions of skilled labour and paying an average wage that, in 1995, was approximately 25 per cent higher than in indigenous industry (1999: 51-54).

C. Investment in education

One of the factors identified by economists as accounting for Ireland's success in attracting high levels of FDI is the quality of its labour supply. Therefore the expansion of educational provision over decades is another factor widely credited with the success of the Celtic Tiger (for example, Mac Sharry and White, 2000: 364-66). The publication in 1966 of an OECD report on Irish education, entitled *Investment in Education*, is seen as marking the beginning of a major expansion in educational expenditure and participation. Educational expenditure increased from 4.1 per cent of GNP in 1961 to slightly over 8 per cent in the 1990s (Lynch, 1998: 6) and education continued to receive privileged treatment during the economic downturn of the 1980s even as many other sectors experienced severe cuts in expenditure (Fitz Gerald, 1998a: 35). Between 1965 and the late 1990s, the proportion of students participating in full-time education rose from 50 per cent to 100 per cent for 15-year-olds, and from 25 per cent to 81 per cent for 17-year-olds. Wickham sums up some of the achievements of this 30-year expansion: participation rates have caught up with and overtaken British rates; the proportion of the Irish age cohort completing second-level education is about the EU average while the proportion gaining a third-level qualification is well above the EU average; within third-level education an unusually high proportion of students is studying science and engineering thus eroding the traditional focus on the liberal professions in Irish education; and standards in maths and science performance seem to be relatively high by international standards (Wickham, 1997: 281). As a result of this expansion, the percentage of

those who leave school with a Leaving Certificate qualification rose from between 10 and 15 per cent in the early 1960s to over 80 per cent in the 1990s. The numbers with no qualification on leaving school fell from about 20 per cent to less than 5 per cent over the same period (McCormack and Archer, 1998: 19).

The significance of this expansion can only be assessed by looking at trends over time. Thus, the percentage of the population that has completed at least upper secondary education has increased from 27 per cent of the 55-64 age group to 64 per cent of the 25-34 age group. However, this is still lower than in most OECD countries. Contemporary participation rates show an improvement in this situation as the percentage of the 15-18 age group in education is around the OECD average but starts falling to below the average after age 18 and is particularly low from age 20 onwards. Furthermore, targets contained in the National Anti-Poverty Strategy (NAPS) to increase participation rates at the upper secondary level to 90 per cent by 2000 and to 98 per cent by 2007 are not being met and the participation rate remained at 81 per cent in 1999 (CPA, 2002: 28). Barrett, Callan and Nolan note that, over the period 1985 to 1994, the proportion of those aged 18 to 21 enrolled in tertiary education in Ireland doubled and they find a significant enhancement in the levels of educational attainment of those entering the labour force in the 1980s and 1990s (1999: 80). However Don Thornhill, the chairman of the Higher Education Authority and a former secretary of the Department of Education, warns that ‘despite the clear evidence that we are making considerable progress in closing the gaps, the overall education attainment levels of our population of working age would still be below the EU and OECD averages by the year 2015 unless we continue to improve our participation and completion rates’ (1998: 50). Figures from the mid 1990s for educational achievement among OECD countries show Ireland to come in ninth and eleventh place out of 23 countries for achievement by 13-year-olds in science and mathematics respectively. On tables ranking literacy levels among 16 to 25-year-olds and 46 to 55-year-olds, however, Ireland ranks towards the bottom of 12 countries (Forfás, 2001: 105).

D. EU structural funds

The contribution of EU structural funds to the Irish success has been likened by some analysts to the impact of Marshall Aid on other European economies at an earlier period (Ó Gráda, 2002; Ó Gráda and O’Rourke, 2000). Designed to promote convergence in economic growth and living standards between the poorer regions of the Union and its core regions, the structural funds were reformed and expanded in the context of the completion of the single market in the late 1980s. These comprise the European Regional Development Fund (which dates from 1975), the European Social Fund and the Guidance section of the European Agricultural Guidance and Guarantee Fund. To these was added in 1993 a Cohesion Fund, available to the ‘cohesion countries’ of Ireland, Spain, Portugal and Greece whose per capita GNP was less than 90 per cent of the EU average at the time. These funds were allocated in multiannual packages known as Delors I (1989-93) and Delors II (1994-99) and disbursed through programmes drawn up by national governments in consultation with the EU Commission (known collectively as the Community Support Framework, CSF). A third package of structural funds is currently in place for the period 2000-06. In order not to displace national funding, these funds are based on the principle of additionality, requiring complementary national public and private funds. O’Donnell writes that Ireland’s receipts from the Structural Funds can be compared to World Bank estimates of aid flows to middle-income countries. However, he adds that when receipts under the Common Agricultural Policy (CAP) are taken into account (these include agricultural production subsidies and price supports as well as direct income payments to farmers), Ireland’s net receipts from the EU averaged over 5 per cent of GNP throughout the decade; the highest percentage was in 1991 when receipts reached 7.6 per cent

of GNP (O'Donnell, 2000: 185). Table 10 gives details of EU transfers to Ireland since it joined the then European Economic Community in 1973.

Table 10

EU TRANSFERS TO IRELAND, 1973-2001

(percentage)

Year	Structural Funds	CAP transfers	Total	Structural Funds as % of GNP
1973 IR£m	0.0	37.1	37.1	0.0
1974 IR£m	3.6	63.8	67.4	0.12
1975 IR£m	6.9	102.2	109.1	0.18
1976 IR£m	17.5	102.0	119.5	0.38
1977 IR£m	27.8	245.1	272.9	0.50
1978 IR£m	44.6	365.6	410.2	0.68
1979 IR£m	132.6	396.5	529.1	1.74
1980 IR£m	179.5	381.1	560.6	1.99
1981 IR£m	202.2	304.6	506.8	1.86
1982 IR£m	257.8	344.3	602.1	2.07
1983 IR£m	286.0	441.7	727.7	2.10
1984 IR£m	222.1	644.6	866.7	1.50
1985 IR£m	292.1	836.6	1,128.7	1.85
1986 IR£m	262.6	884.0	1,146.6	1.50
1987 IR£m	360.7	739.6	1,100.3	1.90
1988 IR£m	323.1	838.5	1,161.6	1.62
1989 IR£m	331.9	963.4	1,295.3	1.50
1990 IR£m	454.3	1,286.7	1,741.0	1.87
1991 IR£m	866.8	1,334.4	2,201.2	3.40
1992 IR£m	880.4	1,113.6	1,994.0	3.28
1993 IR£m	963.5	1,281.6	2,245.3	3.35
1994 IR£m	667.7	1,173.7	1,841.4	2.14
1995 IR£m	873.0	1,150.2	2,023.2	2.58
1996 IR£m	855.0	1,364.5	2,219.5	2.27
1997 IR£m	986.8	1,519.8	2,506.6	2.35
1998 IR£m	1,100.3	1,274.5	2,374.8	2.04
1999 €m	995.8	1,723.0	2,678.8	1.30
2000 €m	920.7	1,681.4	2,602.1	1.04
2001 €m	904.5	1,584.3	2,488.8	0.93
Total: €m	**16,235.8**	**29,355.2**	**45,590.9**	

Source: MacAleese, 2000: 96; Department of Finance unpublished figures.

These net contributions to Ireland's development compare very favourably to levels of Official Development Assistance (ODA) received by Latin American countries over the same period, as summarised in Table 11. While a number of these surpass the percentages received by Ireland, in all cases these are the poorer countries with levels of GDP not comparable to those of Ireland. In many cases, also, these were received in the form of loans, not grants as in the Irish case.

Table 11
OFFICIAL DEVELOPMENT ASSISTANCE TO LATIN AMERICA
1990 AND 2000
(as % of GDP)

Country	1990	2000
Argentina	0.1	(.)
Belize	7.6	1.8
Bolivia	11.2	5.8
Brazil	(.)	0.1
Chile	0.3	0.1
Colombia	0.2	0.2
Ecuador	1.5	1.1
El Salvador	7.2	1.4
Guatemala	2.6	1.4
Haiti	5.7	5.1
Honduras	14.7	7.6
Jamaica	6.4	0.1
Mexico	0.1	(.)
Nicaragua	32.9	23.4
Panama	1.9	0.2
Paraguay	1.1	1.1
Peru	1.5	0.8
Uruguay	0.6	0.1
Venezuela	0.2	0.1

Source: UNDP Human Development Report 2002.

EU structural funds are credited with having had a significant impact on Ireland's development in two different ways. The first is on economic growth and living standards through their contribution to the productive potential of the economy while the second concerns their institutional impact on the quality of decision-making in the public sector. In Ireland, the funds were allocated under four broad categories with 36 per cent going to infrastructure (roads, ports, communications), 28 per cent to human resources (training, programmes to assist early school leavers), 26 per cent in aids to the private sector (grants or subsidies to expand or develop new industries) and 10 per cent on income support (particularly important in rural areas) (these percentages relate to the allocation of the Delors II package). Evaluating their impact, Fitz Gerald estimates that the 1994-99 package had the cumulative effect of raising GNP by between 2.5 per cent and 3 per cent by the end of their period and he predicts that they will have a longer-lasting effect in raising GNP by about 1 per cent above what it would otherwise have been.[3] GNP per capita will increase by a smaller amount due to population increase (including immigration) but it will be 0.7 per cent higher in 2010 than it would otherwise have been while the funds also had a positive impact on the balance of payments, on the government surplus and on the debt/GNP ratio (reducing it by 5 percentage points by 2010 over what it would otherwise have been). He concludes: 'The long-run impact of the two CSFs will be to raise the level of GNP by about 2 percentage points above the level it would have been without them' (1998b: 689). The second impact relates to their contribution to developing a more efficient administrative culture in the Irish public service. At one level, this resulted from the fact that, as the OECD pointed out, they 'raised the quality of public investment outlays by forcing the introduction of longer-term project planning, so that short-term budgetary pressures have not led to stopping an undertaking with the extra cost of subsequently re-starting it' (OECD, 1999: 44). That this stimulus quickly followed the cuts in public expenditure in 1987 is seen as particularly fortuitous in the Irish case as, without the structural funds, 'Ireland could have found itself suffering from under-investment in the face of

[3] This assessment of the longer-term effects of the Structural Funds is based on the fact that their impact on demand is transitory and is limited to the period over which they are spent while their impact on supply takes time to build up but persists long after they are spent.

rapid growth in recent years' (Fitz Gerald, 1998b: 683). But, perhaps more importantly, the requirement that national government draw up comprehensive national development programmes and consult interested parties in the private sector and civil society on their design and content, as well as establish permanent monitoring committees representing the EU, the state and private interests, has been credited with acting as 'a stimulus to policy innovation and experimentation', by re-introducing developmental thinking and procedures to the Irish public service, by creating a culture of monitoring and evaluation, and by helping decentralise policy-making (O'Donnell, 2000: 187-189).

Overall, the impact of the structural funds is perhaps most evident in the fact that Irish per capita GDP had gone from 66 per cent of the EU average in 1985 to 119 per cent in 2000. However, in the western half of the country, per capita GDP only came to 83 per cent of the EU average so that the Irish government divided the country into two regions for the purpose of maximising its receipt of structural funds in the 2000-06 package, creating a BMW (border, midlands and western) region which remained eligible for core funding (known as Objective 1 funding). This points to an overall characteristic of developments within the EU, namely that 'inequalities across states have fallen by 25 per cent, whereas regional inequalities within states have risen by 10 per cent' (Rodriguez-Pose, 2002: 59).

E. Social Partnership

Social partnership is widely seen as among the most innovative aspects of the Celtic Tiger. Laffan and O'Donnell speak of 'the emerging Irish model of economic and social governance' that has grown from the series of national agreements since 1987 (Laffan and O'Donnell, 1998: 165). In a report for the OECD on local partnerships and social innovation in Ireland written by Professor Charles Sabel of Columbia Law School, the Irish effort 'to foster development and welfare through new forms of public and private local co-ordination ... in a way that blurs familiar distinctions between public and private, national and local, and representative and participative democracy' is held up as an example for the countries of the OECD to follow (Sabel, 1996: 9). A report for the National Economic and Social Forum (NESF) described Ireland's social partnership approach as 'one of the most significant developments in public policy in the European Union' (NESF, 1997: 9). More specifically, the social partnership approach is seen as having 'produced the much needed recovery and has underpinned a sustained period of growth since then' (O'Donnell and O'Reardon, 1996: 34).

In Ireland, social partnership is the term applied to institutional mechanisms through which key economic and social policy objectives are coordinated among sectoral interest groups – the state, trade unions, business organisations and farming organisations – traditionally known as the social partners. Since 1996 voluntary and community groups (working with the poor and disadvantaged) have also been included among the social partners. As Walsh et al. state: 'Social partnership has strong cross-party political support … [and] has in effect been elevated to a shared political ideology, which infuses all aspects of public policy-making and with minimal dissent' (1998: 15-16). It finds its most visible expression in the series of three-year national agreements, from the Programme for National Recovery (PNR, 1988-90) to the Programme for Prosperity and Fairness (2000-02), which have been widely credited with playing a major role in Ireland's economic success through trading wage restraint for tax cuts and thus reinforcing cost competitiveness. These agreements are innovative in that they include not just wage negotiations but consensus on a wide range of economic and social policies – including tax reform, welfare payments, social spending and numerous items of industrial, social and development policy. Each agreement has been preceded by a comprehensive report on national economic and social development drawn up by the National Economic and Social Council (NESC), itself representative

of the social partners. As economic growth resumed, the agreements began to include more ambitious commitments to social equality and inclusion, including the National Anti-Poverty Strategy (NAPS). From its institutionalisation at national level, the principle of partnership has been broadened and finds expression in a bewildering array of partnership bodies, at national, regional and local level, and also at firm level. These include an estimated 65 local development partnerships, about 80 local service partnerships, over 100 community development organisations, local enterprise and employment partnerships, and urban regeneration partnerships. Core funding for these bodies has been provided under the EU Structural Funds. As part of a wide-ranging reform, partnership bodies are being integrated into the workings of local government. A National Centre for Partnership has been established to help achieve these goals.

Concluding that social partnership embodies important institutional innovation, as O'Donnell does, may overstate its significance. Instead, as Walsh et al., emphasise, it has emerged not in response to any overall guiding design but rather as a series of pragmatic piecemeal responses to immediate institutional, policy and political pressures, facilitated by large amounts of EU funding (Walsh et al.,1998: 60-63). Whether it can survive in the period following the end of the boom when funding is less easily available and when consensus is giving way to growing distributional conflicts will be its real test. Furthermore, despite the rhetoric that claimed partnership more effectively addressed social exclusion, evidence given in Section four below shows that it has been ineffective in preventing increases in relative poverty and income inequality that partnership agreements and programmes have been ineffective instruments for redistributing income towards the less well-off. Representatives of the voluntary and community sector have complained at the vague nature of commitments to social inclusion contained in these agreements or of the fact that targets set depend on resources being made available (Kirby, 2002a: 137). In the light of its outcomes, Irish social partnership seems closer to what Teague calls 'competitive corporatism' (Teague, 1998: 120). Instead of representing an up-dated form of the traditional social bargain between capital and labour, he sees them as a means of improving domestic competitiveness through reducing unit labour costs but as offering little to organised labour by way of pay increases or a better social wage. Despite this, trade unions support them as a way of maintaining an institutional and political role. Undoubtedly local partnership bodies have acted as a catalyst for enterprise creation and community development as well as providing services appropriate to their local areas (see Turok, 2001). However, they are also seen as being primarily the creatures of central government, heavily dependent on external (mostly EU) funding and direction and functioning largely independent of one another and of local government, resulting in a lack of local co-ordination and public accountability (Walsh et al., 1998: xv). Activists have voiced the perception that 'Partnerships are coming to be seen as useful vehicles for off-loading complex and intractable problems by centralised policy makers and programme providers' (Foreman, 1998: 37). Finally, fears have been voiced that social partnership 'represented a major shift in power from elected representatives to full-time officials in the civil service and the organisations of the major interests' (Ó Cinnéide, 1998: 47). 'It is, of course, neither participative (except for a small group of activists) nor democratic in any ordinary sense of that word' (50).

F. Conclusions

While the neo-classical economics literature draws attention to the macroeconomic conditions needed to achieve growth, and new growth theorists as well as institutional economists place emphasis on active state policies such as industrial and educational policies and social partnership, international political economy points to the importance of wider conjunctural factors in Ireland's success. Some of these relate to timing and coincidence in that the creation of a single market within the EU following the passage of the Single European Act in 1987 added to Ireland's

attraction for US investment since locating in Ireland now gave access to the whole EU market. That this coincided with the beginning of a long boom period in the US economy was a major piece of good luck which Ireland helped turn to its advantage. Among other conjunctural factors further reinforcing these trends was Mary Robinson's presidency, the Northern Ireland peace process and the Clinton presidency's interest in it. During her period as President of Ireland (1990-97), Robinson actively reached out to those of Irish descent around the world, creating what she called the 'Irish diaspora' members of which began to take a practical interest in Ireland's development. With his active interest in Northern Ireland, Clinton ensured that Ireland featured prominently on the political agenda of the White House during a period in which the conditions were ideal for a major expansion of US investment. A final boost to Ireland's export performance was given by the decline of the value of the euro relative to the US dollar and to sterling following its creation at the beginning of 1999.

But there was a second set of conjunctural features related to demography which also turned positive for Ireland at the same time. These relate to Ireland's exceptional demographic profile, partly due to the baby boom of the 1970s and partly to the effects of high emigration in the 1950s. This had resulted in a high dependency ratio during the economic downturn of the 1980s as Ireland had a large youth population in proportion to the working population. Now, however, with the decline in fertility and in the birth rate, Ireland finds itself in a highly favourable situation as it has a declining dependency ratio with both a declining youth population and a relatively small elderly population (the result of 1950s emigration). Economists estimate that it will be 2015 before the rate of old-age dependency will rise rapidly as it is currently doing elsewhere in Europe thus making greater demands on social spending. Allied to the favourable demographic situation is the reversing of Ireland's traditional pattern of emigration as a tightening labour market attracts Irish skilled labour home. As Fitz Gerald put it: 'Part of the recent transformation in society and the economy must be attributed to this influx of additional skilled labour with new ideas and skills, and new approaches to the many problems which Ireland faces' (Fitz Gerald, 2000: 32).

Irish success therefore owes itself to a far more complex and varied set of factors than simply 'getting the fundamentals right' or to state policies. For this reason, it is not likely to be easily replicable. While state action created some of the necessary conditions, it seems unlikely that these on their own would have proven sufficient to create the booming economy of the late 1990s. As the OECD concluded:

'Unfortunately, it would seem that there has been no "silver bullet" – no single, overriding policy that could be adopted elsewhere in order to emulate Irish experience. Rather the breaks in trend, first around 1987, when the deterioration ceased and performance improved, and then around 1994, when the boom began, are attributable to the confluence of a series of favourable changes in the environment and other exogenous factors (some of which were specific to Ireland and are unlikely to be replicated elsewhere), as well as prudent planning and a range of policy shifts that lay the foundations for the pickup in growth. Most of the items that have contributed to the improvement are well known to other policy makers, but other countries' situations may not be so propitious as to allow such a strong response, even to fully appropriate incentives and institutional arrangements' (OECD, 1999: 10).

V. Social impacts of economic success

The purpose of this section is to illustrate the ambiguous nature of the social impact of high levels of economic growth. It does this by detailing in turn trends in poverty and income inequality, in prices, and in employment. Evidence of a reduction in the quality of social provision and trends in regional and gender inequalities are also briefly examined. The section ends by commenting on the inadequacies of how social well-being is measured and argues that the concept of 'social vulnerability' offers the potential to capture important dimensions of the lack of social well-being in a context of greater economic liberalisation.

A. Poverty and inequality

Extensive debate has taken place on the impact Ireland's high-growth economy has had on poverty. The most authoritative data are provided by the Economic and Social Research Institute (ESRI). These are drawn from the Institute's large-scale household surveys of 1987 and 1994-2000 (the latter, entitled the Living in Ireland survey, was the Irish element of a wider EU survey and was updated annually) and they provide data on what they call consistent poverty and relative poverty. The former measure is composed of the percentage of households who fall below relative income poverty lines and also experience deprivation in that they lack one or more items on a list of eight basic indicators of deprivation. This list includes, for example, new rather than second-hand clothes, a meal with meat, fish or chicken

every second day, a warm waterproof overcoat, and heating. There are major differences therefore between the way poverty is measured in Ireland and in Latin America. Irish measures are based primarily on income and are measured against average incomes whereas in Latin America poverty is measured against a level of expenditure required to purchase a basket of goods considered essential to survival. Poverty analysts consider that there can be considerable differences between households deemed 'income poor' and those deemed 'consumption poor' since income is not necessarily used for family consumption. In Latin America, a distinction is made between 'poverty' and 'indigence' based on the level of expenditure used (the indigent having a level of expenditure simply allowing survival whereas the poor have a higher level of expenditure allowing for some wider participation in society). In Ireland, the distinction is between 'consistent poverty' and 'relative poverty'; the former combines relative poverty and consumption poverty (the lack of essential items) whereas the latter relates poverty to average incomes. The different bases of measurement make it impossible to compare poverty levels in Ireland and Latin America; the closest one can get is to compare levels of inequality based on inequality ratios as is done in Table 15 below.

In public discourse in Ireland, the measure of consistent poverty has come to be regarded as being similar to a measure of absolute poverty. Table 12 shows the trends in consistent poverty under the Celtic Tiger.

Table 12

PERCENTAGE OF HOUSEHOLDS IN 'CONSISTENT POVERTY', 1994-2000

(percentage)

Poverty line	1994	1997	2000
40% of average income	2.4	3.1	2.9
50% of average income	9.0	6.7	5.1
60% of average income	15.1	9.7	6.2

Source: Nolan et al., 2002: Table 5.6, p 39.

In their 2002 report, however, those who compile these data urge that the set of deprivation indicators be amended to take account of 'the way poverty itself can be reconstituted in terms of new and emerging social needs in a context of higher societal living standards and expectations' (Nolan et al., 2002: 63). This acknowledges, therefore, that poverty is always a relative concept. Looking at trends in relative poverty under the Celtic Tiger however reveals a far less benign outcome. This is detailed in Table 13 which shows the percentage of households living below poverty lines drawn at 40 per cent, 50 per cent and 60 per cent of average income.[4]

Table 13

PERCENTAGES OF HOUSEHOLDS FALLING BELOW POVERTY LINES, 1994-2000

(percentage)

Poverty lines	1994	1997	2000
40% average income	4.9	6.3	11.8
50% average income	18.6	22.4	25.8
60% average income	34.2	34.3	32.9

Sources: Nolan et al., 2002: Table 3.2, p 19.

[4] The equivalence scale used gives each additional adult a value of 0.66 and each child a value of 0.33 in calculating the total number of 'equivalent adults' in the household.

As well as the substantial increase in relative poverty, the data also reveal a consistent growth in the depth of poverty below each income line meaning that 'those falling below relative income thresholds are falling further and further behind the middle of the income distribution' (Nolan et al., 2002: 22).

Consistent with the growth in relative poverty, the Living in Ireland surveys also show a growth in inequality during the 1990s, after 20 years of remarkable stability in Irish income distribution data. The ESRI sums up the change as follows:

'In the mid 1990s the bottom 10 per cent of households had about 2 per cent of total income whereas the top 10 per cent had about 27 per cent. However, between 1994 and 1998 there was a redistribution of over 1 per cent of total income away from the bottom 30 per cent of the income distribution – representing a substantial shift in a short period. The increasing inequality reflects a shift from the bottom half of the distribution to the top half, rather than to those right at the top' (Nolan, Maitre, O'Neill and Sweetman, 2000: xix).

Data for the period 1987-1998 for disposable income are given in Table 14.[5] (Updated data to 2000 is not available at the time of writing.) This illustrates the decline in the share of the bottom 30 per cent of the population consistent with the poverty data above and the increase in the share of the fifth to the ninth decile. It also illustrates that the top decile has seen its share decline slightly, though survey data on high income earners are unreliable as they tend to underreport their income.

Table 14

DISTRIBUTION OF DISPOSABLE HOUSEHOLD INCOME, 1987-1998

(percentage)

Decile	1987	1994	1998
Bottom	2.0	2.3	1.8
2nd	3.4	3.3	3.0
3rd	4.8	4.6	4.4
4th	5.9	6.0	6.0
5th	7.3	7.5	7.7
6th	8.8	9.1	9.5
7th	10.7	11.1	11.3
8th	13.2	13.5	13.5
9th	16.5	16.5	16.7
Top	27.4	26.4	26.1

Source: Callan and Nolan, 1999: Table 8.3, p 173; Nolan, Maitre, O'Neill and Sweetman, 2000: Table 3.11, p 31.

More recent data from a different source confirm the increase in income inequality over the period of the Celtic Tiger. These come from the Central Statistics Office's Household Budget Survey, a periodical survey of household expenditure. Comparing the situation in 1994-95 with that in 1999-2000, this reveals that the average disposable income of households in the top two income deciles increased by over 61 per cent while that of households in the bottom two deciles increased by 37 per cent. Households in the intervening deciles recorded average increases of between 46 per cent and 55 per cent. The ratio between the average weekly disposable income of households in the highest income decile compared with those in the lowest decile rose from 11:1 in 1994-95 to 13:1 in 1999-2000 (CSO, 2002).

[5] Disposable income is gross income (direct income earned from employment or from investments plus state transfers such as unemployment benefits, children's allowances, old age pensions) less direct taxes such as income tax and employee share of social insurance contributions. It thus gives an estimate of the income accruing to households after transfers have been added and taxes paid.

In interrogating the impact of economic growth on social well-being, it is important to know how Ireland fares compared to other countries. Were levels of poverty and inequality in Ireland found to be relatively low in international terms, then the social impact of its economic growth may be judged somewhat less harshly than would otherwise be the case. The first comparison is the Human Poverty Index for 17 industrialised countries contained for the first time in the UNDP's 1998 *Human Development Report*. Entitled a 'poverty index', it combines four elements – longevity (the percentage of people not expected to survive to age 60), knowledge (the percentage of people who are functionally illiterate), living standard (the percentage of people living below the income poverty line set at 50 per cent of the median disposable income) and exclusion (the percentage of the labour force who are unemployed for 12 months or more). It thus constitutes a more multifaceted measure of poverty than do measures based on income poverty alone. From 1998 to 2002, Ireland occupied the second lowest place (the United States was in lowest place) on the index though there was movement among other countries up or down the index. Table 15 broadens the comparison, including a group of Latin American and East Asian countries. The inequality ratio (IR) is derived from the ratio of the income of the top 20 per cent to that of the bottom 20 per cent of the income distribution.

Table 15

INCOME INEQUALITY: IRELAND, OECD COUNTRIES AND NICS

(Inequality Ratio)

Country	IR	Rank	Country	IR	Rank
Austria	3.2	1	Britain	5.6	14
Norway	3.5	2	S. Korea	5.7	15
Finland	3.6	3	Australia	5.8	16
Denmark	3.6	4	Canada	7.2	17
Sweden	3.6	4	**Ireland**	**8.0**	**18**
Belgium	3.6	6	Hong Kong	8.7	19
Germany	4.1	7	United States	9.4	20
Japan	4.3	8	Singapore	9.6	21
Netherlands	4.9	9	Costa Rica	12.9	22
Italy	5.1	10	Mexico	13.5	23
Taiwan	5.2	11	Chile	17.4	24
Spain	5.3	12	Brazil	25.7	25
France	5.6	13			

Source: Kirby, 2002a: Table 3.7, p 60.

On this ranking, Ireland is also found to be close to the bottom of the OECD countries and behind a number of East Asian NICs. These data illustrate that Ireland has high levels of poverty and inequality compared to other comparable countries and that these already high levels have tended to worsen over the period of the Celtic Tiger.

Finally, the period of the Celtic Tiger has seen a dramatic increase in the share of national income going to profits and a concomitant decrease in the share going to wages, as detailed in Table 16.

Table 16

WAGE SHARE OF NATIONAL INCOME, 1987-2000 IRELAND, EU, US, JAPAN

(percentage)

Country	1971-80	1987	1990	1995	2000
Ireland	77.3	71.2	67.8	64.7	57.2
EU	75.3	72.0	71.2	69.1	68.6
United States	70.0	68.7	68.3	67.2	67.7
Japan	78.0	73.9	72.0	73.4	70.7

Source: European Economy, No 69, 1999.

As Lane puts it, this shows 'a radical factor income shift away from labour and towards capital', a trend which he finds coincides with the beginning of social partnership in 1987 (Lane, 1998b: 225). While Lane argues that this environment of wage moderation and high profitability results in greater employment and encourages inflows of foreign capital, it also illustrates how state actions result in growing benefits to capital at the expense of labour.

B. Prices

Assessing the impact on living standards of the dramatic increases in per capita income between 1990 and 1998 detailed in Table 5 requires, firstly, that they be put in the context of rising costs over the same period and, secondly, that the distribution of income be taken into account. For, if costs have risen faster than incomes or if the increases have gone disproportionately to a small proportion of the population, the living standards of the majority may not have improved over the period.

The combination of moderate income increases under social partnership agreements with reductions in income tax and (up until 2000[6]) low inflation resulted in 'substantial gains in real living standards for those in employment' between 1987 and 99' (NESC, 1999: 237). The National Economic and Social Council calculated that the cumulative increase in real take-home pay for a person on average manufacturing earnings over this period was around 35 per cent (236). O'Connell also found real increases of between one-fifth and one-third in the purchasing power of all household types over the period 1987 to 97 (O'Connell, 2000: 84-5). However, since inflation is estimated without taking into account increases in house prices, these estimates neglect increases over the period in the greatest expenditure item facing most people over their lifetime. As Drudy and Punch point out, up to 1994 new house prices increased broadly in line with the consumer price index, house building costs (labour and material costs) and average industrial earnings. 'Since 1994, however, house prices have diverged significantly from these other indices and have increased at a significantly faster rate than house building costs' (Drudy and Punch, 2001: 248). Nationally, the average new house price for which loans were approved increased by 104 per cent from 1994 to 1999 while, in Dublin, the increase was 136 per cent (248). As a result, 'access to home ownership based on principal incomes has been eliminated for low-to-average-income households and an increasing number of middle to higher income households… Access to owner occupation is now limited to joint mortgage holders with combined incomes considerably higher than national average wages' (Downey, 1998: 34)[7]. Drudy and Punch report data on the occupations of those receiving loan approval which shows that professionals make up an increasing proportion of house buyers while representation of those from all other social classes has declined steadily since 1994 (2001: 250).

Meanwhile, 'the housing poverty of low- and below-average income groups residing in the [rented] sector will worsen as increasing numbers of households are left with less disposable income, reduced savings and are forced to occupy the worst accommodation in terms of quality, condition and location' (Downey, 1998: 50). A greater demand for rental accommodation is driving up rents in the private rental sector thereby forcing low-income groups out. Since the late 1980s, the state has neglected public, local authority housing whose role has become increasingly residualised over the 1990s (Fahey and Williams, 2000: 237). Taken together these trends have

[6] While inflation was only 1.5 per cent in September 1999, by October 2000 it had reached an annual rate of 6.8 per cent (EIU, 2000: 25).

[7] According to the Bank of International Settlements (BIS), allowing for inflation, residential property prices between 1995 and 1999 increased by 76 per cent in Ireland compared to 41 per cent in Finland and the Netherlands, 31 per cent in Denmark and 29 per cent in Norway. The increase in France over the same period was only 2 per cent while prices fell by 8 per cent in Germany, 9 per cent in Italy and 12 per cent in Japan (Keena, 2000).

exacerbated housing need; Drudy and Punch estimate that in 1998 at least 150,000 persons were in serious housing need (Drudy and Punch, 2001: 245). The numbers of those who are homeless in Ireland has at least doubled over the period of the Celtic Tiger: in 1991 an official assessment calculated that there were 2,751 homeless people in Ireland over the age of 18. By 1999, the official figure stood at over 5,000 and was regarded by experts as a significant underestimate (Hayes, O'Neill and Weier, 2002: 6).

These trends have the effect of further worsening wealth inequalities in Ireland as those who own property see the value of their holding fast increasing while those who don't own property are left further behind. As Gray and Clarke recognise, the increase of over 247 per cent between 1992 and 1997 in property and equity prices 'has disproportionately benefited those individuals who hold an above average share of these assets' (1998: 35). The abolition of residential property tax in 1994 and the absence of capital gains tax on residential property added to these inequities since the holders of such profitable assets had their tax liability reduced.

Increased housing costs is also a contributory factor to a related trend, namely the decline in the household savings ratio during the 1990s. From a peak of over 11 per cent during the 1992-93 currency crisis, the savings ratio was relatively stable in the 8-9 per cent range over most of the decade. However, since 1998 it declined sharply, from 9.6 per cent to 6.4 per cent in 2000. Alongside this has been a strong growth in personal borrowing over the decade; in real terms, personal credit grew by more than 250 per cent between 1993 and 2000 (Lane, 2001: 3-5). As a result, the ratio of personal debt to personal disposable income increased from 43 per cent in 1990 to 69 per cent in 2001, most of it happening towards the end of the period. 'The vast majority of this increase has been in borrowings for housing purposes. House mortgage finance and other housing finance amounted to just over 29 per cent of personal disposable income in 1990. By 2001 this had risen to 52 per cent' (Duffy, 2002: 49). McCoy et al. conclude that 'the rapid rise in the ratio of personal debt to income suggests that the exposure of households to an economic shock has increased. The fact that this increase has been largely due to a rise in borrowing for housing purposes indicates the extent to which the economy is exposed to a shock affecting the housing market, such as a sharp upturn in interest rates or an employment shock' (McCoy et al., 2000: 23). Lane identifies the under 35 age group as being particularly financially vulnerable in the event of an economic downturn (Lane, 1998b: 5).

In this situation therefore many people may not feel their living standards have improved under the Celtic Tiger. In a survey at the end of 2000, only 45 per cent of respondents believed themselves financially better off then they were two years previously, while 44 per cent saw no change and 10 per cent believed themselves worse off (The Irish Independent, 30 December 2000).

C. Employment

The second major way in which economic growth is seen to have a beneficial impact on the living standards of the population is through the increase in employment since the mid 1990s, as detailed in Table 4. However, there has been disagreement over the nature of the employment being provided by the Celtic Tiger. For example, Tansey argues that 'occupations requiring high levels of qualifications and skills have exhibited particularly rapid growth' with the result that 'Ireland is becoming a highly qualified "white collar" economy' (Tansey, 1998: 41). On the other hand, O'Hearn concludes that the employment increase has been 'heavily concentrated among low-wage, often part-time service occupations that are dominated by women' (O'Hearn, 1998: 98-9). It is important therefore to examine more closely what types of jobs the Celtic Tiger provided though

the fragmented nature of employment data that is available in Ireland make firm conclusions difficult.[8]

The greatest employment growth between 1994 and 2000 has taken place in services. While industrial employment increased from 343,600 to 476,200 over the period, employment in services increased from 729,200 to 1.064 million. Within industry, most new jobs came in construction which showed a rise of 44.9 per cent as against a rise of 18.6 per cent in manufacturing industry. Figini and Görg (1998) found decreasing wage gaps within manufacturing industry over the recent period showing that Ireland's industrial structure does not display a marked divide between a highly paid modern work force (a so-called 'labour aristocracy') side by side with a larger, poorly paid and less skilled work force as has been found in the international literature on industrialising countries (see Haggard, 1990). Within construction, average earnings increased from 121 per cent of the average industrial wage in 1995 to 145 per cent in 1999 (calculated from CSO data).

However, since most of the employment growth took place in services, it is more important to identify the sub-sectors in which this took place. The single largest growth took place in financial and other business services which showed an increase of 46 per cent between 1994 and 2000. Data on average earnings in banking, insurance and building societies show that these were not keeping pace with the growth in average industrial earnings over the period of high employment growth, increasing from 142 per cent of the average industrial wage in 1995 to 145 per cent in 1999 by which time construction workers had caught up with them. The next highest growth in service jobs took place in the transport, storage and communication category with an increase of 44.5 per cent. This is also a category characterised by some high-profile but low-pay employment, as evidenced by a wave of strikes over low pay in the national airline, Aer Lingus, and the national bus and train company, CIE, in late 2000 and early 2001. Substantial growth also took place in the hotels and restaurant (37.2 per cent growth in jobs) and the wholesale and retail sub-sectors (28.2 per cent), also sectors characterised by relatively low-wage insecure jobs (Kirby, 2000: 232-3). Data from the state training and employment authority, FÁS, on changes in the occupational structure confirm that between 1995 and 2000 the numbers at work in manufacturing grew by 63,000 but those in market services grew by 168,000 of which the single largest category was 'other market services' with an increase of 73,000 jobs, followed by distribution (66,000 extra jobs). Jobs in non-market services grew by 33,000, of which jobs in education and health grew by 30,000. Detailed breakdowns of these categories are available only up to 1997 at the time of writing but these show that the largest increases in employment between 1993 and 1997 took place in personal services (29,600 extra jobs), 'other skilled workers' and production operatives (24,600 extra jobs in each), clerical workers (22,200 extra jobs), associate professionals (20,300 extra jobs) and managers (16,900) (see Hughes et al., 2000). Following Tansey (1998: 41), the employment increase between 1993 and 1997 can be divided into the two categories of 'highly qualified white collar' jobs (to use Tansey's term) and blue collar jobs. This results in a total of 48,300 extra jobs in the first category as against a total of 141,400 in the second, an increase of 16.6 per cent in the first and 17.2 per cent in the second. Thus, rather than occupational up-grading, a more adequate hypothesis to characterise changes in the occupational structure of the Irish workforce under the Celtic Tiger might be occupational polarisation. This would reflect, in the Irish case, the emerging dualism in the social structure of informational societies identified by Castells (1996: 201-326).

Looking at the conditions that characterise this employment, O'Connell points out that in Ireland 'so little is known about pay and conditions, about how much of part-time work is voluntary or otherwise, nor about the stability of such work' (1999: 228). However, examining the fragmentary evidence that does exist, Kirby found growth in part-time employment, growth in other

[8] Unlike the data provided by CEPAL for Latin America, there is in the case of Ireland no breakdown available for jobs in the formal and informal sectors, nor of rural and urban jobs.

forms of atypical work, including a significant level of casualisation in the retail sector, growth in employment on fixed-term contracts, and growth of temporary and part-time work and of outcontracting in the food, drink and tobacco industry. In the food industry, a tendency towards the underdevelopment or deskilling of the work force and the transformation of sections of the work force into 'self-employed' contract workers was also found (Kirby, 2002a: 49-55). Examining the growth in workers who gain temporary work through signing on with employment agencies, Boucher and Wickham acknowledge that data on such workers in Ireland is unreliable and incomplete but they report that Ireland has the highest percentage of workers on a temporary employment agency contract in the EU (at 5.2 per cent) whereas the EU average is 2.2 per cent (Boucher and Wickham, 2002: 13). This poses a question mark about Tansey's positive conclusion that 'part-time work meets the needs and fits the circumstances of most of those who undertake it' (Tansey, 1998: 40).

Evidence on earnings shows a rise in low-paid employment and a widening in earnings dispersion between 1987 and 1994. Nolan estimates that there had not been a significant increase in the number of employees on low pay between 1979 and 1987 nor had there been any significant change in earnings dispersion over this period (Nolan, 1993). However, ESRI surveys in 1994 and 1997 show that 'the ratio of the top to the bottom decile increased markedly, but this was concentrated in the period from 1987 to 1994' (Sexton, Nolan and McCormick, 1999: 65). Between 1994 and 1997 some categories of unskilled and semi-skilled workers improved their relative position dramatically (particularly sales workers and personal service workers) due to rising demand for such workers when supply was decreasing. As a result, the percentage of employees on low pay fell back marginally from 23 per cent in 1994 to 22 per cent in 1997 (Barrett et al., 2000: 141). However, those at the top of the distribution continued pulling away from the median. This was particularly marked for those in the 95th percentile whose earnings as a proportion of the median increased from 2.4 in 1987, to 2.8 in 1994 and to 3.0 in 1997. Meanwhile those of the 99th percentile increased from 3.6 to 3.8 and up to 4.3 over the same period. 'So over the whole period top earnings rose very rapidly, but it is only at the very top that there is any suggestion that this might have accelerated from 1994 to 1997' (Sexton et al., 1999: 65). While we don't have more recent data, the pressure of labour shortages in improving the relative earnings of unskilled and semi-skilled workers is unlikely to have continued as unemployment began to increase from mid 2001. Finally, relative unit labour costs in Ireland in 2001 were 72 per cent of their 1995 level, the lowest in the EU.

D. Quality of social provision

Despite the severe economic crisis of the 1980s and the assault on the welfare state taking place in Britain at the time, the Irish welfare state if anything expanded in those years with expenditure increasing from 10.7 per cent of GDP in 1980 to 13 per cent in 1985 (Cousins, 1995: 24). It had dropped to 9.8 per cent in 1990 and increased again to 10.9 per cent in 1992. In the high-growth phase of the Celtic Tiger it has declined steadily and stood at 6.8 per cent in 2001. However, in contrast to the universality of coverage that characterised the British welfare state in the post-War period, the Irish system has, in Cousins's words, 'remained essentially fragmented and showed little commitment to inter-class solidarity' (20). One can conclude from the account of Breen et al. (1990) that the Irish welfare state was never intended to be redistributive and was inspired not by equality but by charity. Instead of using the period of economic boom to improve the quantity and quality of social provision, since the early 1990s Ireland has diverged from the European norm, both in terms of social expenditure and of government revenues (see Table 17). As a percentage of GDP (and GNP), Ireland's social expenditure and government revenues are now by far the lowest in the EU. 'The Irish public sector is now the smallest in the EU in relative terms,'

states Ó Gráda (2002: 56).[9] Ireland has thus become a low-tax, low-spend economy compared to its EU neighbours.

Table 17

TRENDS IN GOVERNMENT REVENUES AND SOCIAL EXPENDITURE, IRELAND AND EU, 1993-2000

(as % of GDP)

	Ireland	EU	Ireland	EU
	1993	1993	2000	2000
Government current tax and non-tax receipts	38.6	43.2	33.8	43.9
Government expenditure on social protection	20.2	28.8	14.1	27.3

Sources: OECD Economic Outlook 71, 2002; Eurostat Social Protection in Europe 2003.

While the taxation and welfare systems are key instruments through which governments can redistribute income and wealth, studies of the redistributive effects of the Irish tax and welfare systems point to their inequities. Despite the high levels of economic growth which gave the state greater scope for such reform in the 1990s, the income tax system was found to be less progressive in the late 1990s than it had been in 1980. Though a number of steps have been taken which benefit the lower paid, such as significant increases in personal tax allowances combined with modest increases in exemption limits, or reductions in relief available on mortgage interest and private health insurance contributions, other changes have tended to benefit the better off, such as the reduction in the rate of capital gains tax from 40 per cent to 20 per cent in the 1998 budget. Thus, no decisive move in the direction of a more egalitarian tax system is obvious. Examining the redistributive effect of welfare payments, the ESRI found that between 1987 and 1994, the policy of increasing some of the lowest welfare payments resulted in significant increases in disposable income for the poorest 20 per cent of families, though many low and middle income earners saw a decrease in disposable income as their payments did not increase as fast as earnings. Meanwhile higher earners gained substantially from tax cuts. For the period 1994 to 1998, however, increases in welfare rates have lagged further behind increases in wages with the result that the poorest 20 per cent have seen a significant decrease in disposable income and the gains, due to tax cuts, have gone to higher earners (Callan et al., 1998: 24, 25). Furthermore, a failure to index social welfare increases to increases in average earnings will result over the coming years in 'a rise in the numbers falling below half average income, or the lower poverty cut-off of 40 per cent of average income,' they state (32). The Irish welfare state has, therefore, proved ineffective in modifying in any significant way the inequalities generated by market forces and, indeed, may even have exacerbated them. In surveying welfare and taxation changes up to the end of the 1990s, Fitzgerald concludes: 'Welfare increases that lag behind earnings, and tax reductions focused on the wealthier, are serving to widen not to narrow the gap between rich and poor. The unique opportunity to tilt the system in the direction of those on lower incomes has been wasted' (Fitzgerald, 2001: 192).

Neither has the state shown any great commitment to overturning inequalities in the educational and health systems. While educational participation has been steadily increased over recent decades, Smyth and Hannan find a 'a notable persistence in educational inequalities by social background' (Smyth and Hannan, 2000: 117). They point out that, at second-level, participation tends to be higher among those whose parents have higher levels of education while educational under-performance is more evident among pupils from working class backgrounds, whose parents are unemployed or have lower levels of education or who come from larger families.

[9] It should be noted that, in Ireland, most social expenditure is financed through taxation; social contributions play a smaller role than in any other EU country except Denmark (see Timonen, 2002: 10).

They find a widening gap between the professional and unskilled manual groups in their access to full-time third-level education over the past two decades.

Furthermore, Archer found that public spending on education is regressive as the state spends more on the education of better off young people who tend to remain in the system longer than it does on young people from poorer backgrounds who tend to leave the system earlier. Examining the significant expansion of special measures to tackle educational disadvantage, he finds that it is not possible to say to what extent these have made a difference to the relative position of disadvantaged schools (Archer, 2001). Thus, the available evidence points to the fact that education tends to further marginalise those who come from more disadvantaged backgrounds since, as Smyth and Hannan put it, 'young people in Ireland who do not achieve educational qualifications are disproportionately likely to experience labour market marginalisation in terms of unemployment, insecure jobs and/or low pay' (Smyth and Hannan, 2000: 125).

Recent research has also found deep structural inequalities in the Irish health system. As Professor Brian Nolan described it:

'The state now has a two-tier system with a divide that is much more pronounced than in most other European Union countries. In other countries the rich can buy private care, but we have allowed a structure to evolve whereby the public health services themselves incorporate faster access and arguably better care for half the population, the half with more resources' (Nolan, 2000).

He points to the growth in private health insurance, from 20 per cent cover 20 years ago to almost 50 per cent cover now, as a sign of widespread dissatisfaction with the public health system. Furthermore Tussing has identified a bias against public patients in that consultants are paid a salary to treat them whereas they are paid a fee-for-service for private patients. 'A health economist would predict the consequence of this unhappy combination would be that consultants would favour private patients,' he wrote (Tussing, 2001). In such a situation it is not surprising that people whose annual income is below £10,000 have disability rates four times as high as those whose income is more than £29,000, that the mortality rate of infants of poorer parents is 50 per cent higher than for infants of better off parents, or that the death rate for men from heart disease in Ireland, already the highest in the EU, is doubled for men who are low-earners or who live in socially deprived areas (*The Irish Times*, 1, 2 January 2001).

E. Inequalities

There are fears that the economic growth associated with the Celtic Tiger is exacerbating regional inequalities. For example, research for the Western Development Commission shows that between 1991 and 1996 the average annual growth in net industrial output in the seven western counties (traditionally the country's poorest which suffered continuous high levels of emigration since the 1850s to the present day) was 3.7 per cent compared to a national rate of 12.7 per cent. Over the same period, these counties' share of national industrial output dropped from 14.6 per cent to 9.6 per cent (WDC, 1999: 11). Furthermore, between 1993 and 1997 employment in IDA-backed companies in these western counties increased by 22.8 per cent as against an increase of 55.1 per cent in Leinster and 67.1 per cent in Dublin (12). Liam Scollan, chief executive of the Western Development Commission, a state agency charged with spearheading development in the west, has been quoted as saying that 'the incremental approach which is being taken is probably not going to be sufficient to reverse long-standing trends' (*The Irish Times*, 2 February 2001).

The impact of the economic boom on gender inequalities has been more positive, but it too is not without its darker sides. Women's participation in the labour force has increased from under 28

per cent in 1971, to 35 per cent in 1986 and up to 44 per cent in 1999 (O'Connell, 2000: 60). Though participation rates remain relatively low by European standards, there appears to be some convergence towards the European average over the 1990s. However, Fahey et al. point out that among women with children under 5 years of age, Ireland still has the lowest activity rate in Europe; in Ireland, along with Italy and Greece, less than half this group are active in the labour market whereas in Denmark 80 per cent are. Similarly Irish mothers with children up to 10 years of age have participation rates among the lowest in Europe. They point to the extremely low provision of early childhood and publicly-funded childcare services in Ireland compared to Europe as constituting an obstacle to higher levels of participation by women in these groups (Fahey et al., 2000: 258).

Gender differentials in pay have decreased from 56-57 per cent in the period 1955-72 to 75 per cent in 1998. However Fahey et al. now see grounds for doubting that the differentials will continue to narrow as continuing labour market expansion may attract women with fewer qualifications into the workforce. They also find that women continue to be over-represented and under-represented in the same professions in the late 1990s as they were in the 1970s. While they welcome women's growing representation in managerial occupations and their stable but high representation within professional and associate professional jobs, they report 'evidence of considerable vertical segregation within these occupations, and women are severely under-represented in the very top layers of those occupations' (262). Finally, in studying the risk of poverty for women between 1987 and 1994, Nolan and Watson found the poverty risk for women living alone increased from 4 per cent to 24 per cent and for female lone parents who were heads of households it also increased sharply, from 17.4 per cent to 31.7 per cent (Nolan and Watson, 1999: 18-9). They also found that, for individual women, their risk of being in poverty had increased over the same period at a rate greater than the risk for men (62) and that the risk of women being low-paid, while being equal to that of men when below the age of 25, becomes much greater than that for men when the women are aged between 35 and 44 (87).

F. Towards a concept of 'social vulnerability'

This section has assembled evidence on the social impact of Ireland's high levels of economic growth. While some of it might be disputed by those who see the changes of the 1990s in a largely positive light, much of it would be readily accepted. Where more substantial differences lie is in the significance attached to such evidence. For example, three economists who offer a very positive account of the Celtic Tiger summarise its distributional impact by saying that, if Ireland's decline in unemployment from 17 to 4 per cent 'was achieved partly through a rise in the level of relative inequality, many might regard the trade-off as acceptable' (among whom they number themselves) (Clinch, Convery and Walsh, 2002: 36). With their focus on the functioning of the economy, economists by and large tend not to attribute major significance to ways in which this may be damaging social cohesion and they believe further growth can address such issues. Left-wing analysts of the Celtic Tiger tend to regard it in the opposite light, highlighting its social damage but minimising its economic achievements. O'Hearn, applying a theoretical framework drawn from dependency theory, argues that growing poverty and inequality follow from the Irish state's commitment to a model of dependent industrialisation which requires that it puts the profitability of multinational companies above the social needs of its own citizens (see O'Hearn, 1998, 2000). Allen offers a more conventional Marxist account of the Celtic Tiger which emphasises how it has enriched a small elite while leaving the rest of the population relatively less well off, resulting in a 'discontented majority' (Allen, 2000: 6).

One way of mediating these two extreme positions is to make an object of study the meanings attributed to the phenomenon of the Celtic Tiger, to undertake what can be called a study

of its 'cultural political economy'. This approach is inspired by the work of Tucker: 'From a cultural perspective we must consider people's values, ideas, and beliefs, their identity and feelings, how they view the world and their place in it, and what is meaningful to them' (Tucker, 1997: 4). In this context, significance can be attributed to evidence that in Ireland suicide is the most common cause of death among males between the ages of 15 and 24 and that the rate of suicide among men aged between 25 and 34 is the second highest in this category in the EU. A sharp rise of 94 per cent in violent assaults and of 83 per cent in sexual offences between 2000 and 2001 (part of which may be due to changes in the way such data are compiled by the Irish police though other categories of crime did not rise by similar amounts) lends support to media reporting of such cases. The murder rate has also risen sharply in Ireland since the early 1990s at a time when it has stabilised in Britain: 60 murders were recorded in 2001 as against 25 in 1992. Per capita alcohol consumption, traditionally low in Ireland compared to other European countries, rose by 41 per cent between 1989 and 1999, by far the highest increase in the EU. Reflecting on these trends in Irish society in the 1990s, a leading professor of psychiatry concluded that 'there are worrying trends to suggest that the civic order is in disarray' (Casey, 2002). The cultural political economy of the Celtic Tiger can also be examined through examples of critical media discourse (for a further elaboration of the concept of a 'cultural political economy', see Kirby, 2002b: 22). Based on this evidence, Kirby identifies some meanings attributed to it: 'Values such as individualism, materialism, intolerance of dissent, lack of concern for the environment and a failure to value caring are identified as characterising life under the Celtic Tiger (2002: 159). As Flynn put it in writing about the mood of a group of Irish holidaymakers returning home from Spain: 'This wasn't just the customary gripes at the end of a holiday; there was the clear sense that people were no longer proud of where they lived and where they worked and where they were raising their children' (Flynn, 2002).

Such evidence points to the lack of a sense of social well-being in the Ireland of the Celtic Tiger and seems poorly captured either by the emphasis of neo-classical economists on 'quality of life issues' or of their Marxist critics on a discontented majority. For the malaise seems to stem from a sense of dislocation, an alienation from Irish society and its values. The work of the 20th century social theorist, Karl Polanyi, offers an understanding of what is causing this. In his classic work, *The Great Transformation* (1944; the 1957 edition is used here), Polanyi argued that the Industrial Revolution in Britain constituted a social catastrophe even while it led to economic improvement. He based his view on the fact that 'a social calamity is primarily a cultural not an economic phenomenon that can be measured by income figures or population statistics' and 'it lies in the lethal injury to the institutions in which [a person's] social existence is embodied' (1957: 157). Polanyi sees poverty and social dislocation as arising from the imposition of the self-regulating market on society as happened with the advent of the Industrial Revolution. The self-regulating market treated labour, land and money as commodities and therefore led to 'the running of society as an adjunct to the market' (57) which 'required that the individual respect economic law even if it happened to destroy him' (85). From this arose the baffling paradox for Polanyi that poverty and plenty went hand in hand as constitutive features of this market society, as he called it. Olofsson describes the means through which this happened: 'Disembedding means being cut loose from traditional protective as well as oppressive ties and institutions, and more dependent on the changing fortunes of the market processes. The larger the impact of disembedding processes the more working populations will be exposed to general and abstract market processes' (1995: 109).

Polanyi's insights offer a more satisfactory way of understanding what at first acquaintance seems a paradox: a sense of dislocation and alienation in the midst of a booming economy with full employment and rising income levels. Acknowledging this paradox alerts us to the fact that we poorly understand the factors that constitute social well-being and that our dominant approaches within social analysis seem ill-equipped at both a theoretical and a methodological level to address

the issue adequately (for an attempt to theorise the issue of social well-being in the Irish case, and in particular the contribution equality of condition makes to it, see Kirby, 2001a). In the context of globalisation, the concept of human security is being used as a way of capturing the new forms of uncertainty and risk associated with it (see Harriss-White, 2002). Indeed, a project for the publication of an annual Human Security Report beginning in 2003, complementing the UNDP's Human Development Report, is far advanced. However, the concept of human security, with its attention to threats to people's right to live, work, and participate without fear in social, political and economic structures (see Rojas Aravena, 2002) fails to capture some of the dimensions of social dislocation and alienation identified in the Irish case. In the UNDP's Human Development Reports on Chile, the concept of human security has been broadened to incorporate the erosion of social bonds and a sense of anxiety and uncertainty about the future (see in particular PNUD, 2000). However, the concept of insecurity seems too narrow to capture what is being identified here since, strictly speaking, its meaning is limited to a fear of what *might* happen. The sense of dislocation identified in the Irish and Chilean cases seems better captured by the concept of 'social vulnerability' since its core meaning relates not just to a fear of what *might* happen but to the liability to be damaged or harmed, thereby drawing attention to the harm actually being done to the fragile bonds of social belonging. Following the insights of Polanyi, the source of this liability can be identified in the inroads of market principles into the running of society (for an application of this to social well-being in Latin America, see Kirby, 2002c). Based on the evidence of the social impact of the Celtic Tiger, a further clarification of what this concept might mean, its theoretical refinement, and the elaboration of indicators to measure it seem urgent tasks.

The policy implications of such an approach are also important since they direct attention to the need for public authorities to ensure that the market serves society rather than destroying it. This, for example, would require broadening the responsibilities of regulatory agencies beyond their present role of facilitating the efficient and competitive functioning of markets; instead, such public authorities would have to give priority to social objectives. In a globalised world, this cannot be left to action at the national level alone since states would be fearful of adverse economic consequences. It will require determined action at an international level to ensure that markets are constrained so that, as far as possible, social cohesion and equality is strengthened.

VI. Is the 'Irish model' sustainable?

As the Celtic Tiger faltered from mid 2001, a debate raged within the economics literature as to whether this period of exceptional growth signifies a delayed convergence with Ireland's neighbours or a regional boom. The first view rests on the standard Solow economic growth model which predicts that convergence occurs among economies that are similar in such elements as macroeconomic stability, trade openness and educational standards. According to this view, what needs explaining is not Ireland's boom but what delayed it so long in achieving convergence with its nearest neighbours; such culprits as late liberalization, irresponsible fiscal management and a bloated public sector are identified (see Ó Gráda, 2002). Those proposing the second view, however, argue that orthodox economic policies may be necessary but are not sufficient to achieve the high-growth rates recently experienced by Ireland. For this, such non-orthodox policies as an active industrial policy or structural fund transfers are also needed. The implications for the future of these two different perspectives are highlighted by Barry: 'If the convergence view is correct, it suggests that we can now rest on our laurels: as long as we do not introduce inappropriate policies we are unlikely to fall behind average EU living standards. If the regional view is correct however, it suggests that external shocks to our ability to attract FDI might have serious long-term consequences for the economy' (Barry, 2002: 90).

Barry emphasises that the risks facing the Irish economy are from external sources, mentioning a prolonged US recession, EU tax harmonisation and competitive challenges from central and eastern European states as constituting threats to Ireland's ability to attract

high levels of FDI. However, the downturn in the Irish economy since 2001 points to internal sources of vulnerability also, thereby revealing the structural weaknesses of the 'Irish model of economic and social governance' (Laffan and O'Donnell, 1998: 165). Three such weaknesses can be identified: i) its dependence on high levels of FDI; ii) its narrow tax base; and iii) pressures generated by growing income inequality. Each is treated in turn.

A. FDI

According to UNCTAD, FDI into Ireland fell from US$24 billion in 2000 to $10 billion in 2001. The Irish industrial development agency, Forfás, reports that it has continued to fall during 2002. While 13,500 new jobs were created in foreign-owned companies in Ireland in 2001, 17,500 were lost in the same period, the first net job losses in the foreign-owned sector for 15 years. Though Ireland's manufacturing growth rate remains the highest in the EU, this is seriously distorted by the contribution of the foreign-owned chemicals sector which includes production of the drug Viagra, used to treat male impotence. Former Irish Taoiseach (prime minister) and professional economist, Dr Garret FitzGerald, estimates that this 'Viagra sector' as he calls it gives 'a false impression of the overall trend of industry activity' since it employs 2 per cent of all manufacturing workers and contributes 3.5 per cent of manufacturing earnings but reports a Gross Value Added of between 24 per cent and 40 per cent of the whole of Irish manufacturing. Correcting for this distortion, FitzGerald estimates manufacturing output in mid 2002 to be 10 per cent lower than in early 2001 (FitzGerald, 2002). Unemployment, traditionally a major problem in the Irish economy, had fallen to its lowest point of 3.6 per cent of the labour force in early 2001; since then it has shown a steady rise to 4.2 per cent by the middle of 2002. However, due to a major expansion in public sector employment (for some commentators, this is related to the general election of mid May 2002) this figure masks a sharp decline in manufacturing employment over the period. It has been estimated that in the absence of this growth in the public sector, unemployment would have risen to around 6 per cent by late 2002 (Keena, 2002). With a growing public sector deficit, this expansion in public employment is unlikely to continue.

B. Tax base

The second vulnerable element results from the state's narrow tax base due to its low corporation tax rate (a key element in its strategy to attract FDI), its reduction of income tax rates throughout the second half of the 1990s (as part of a trade off to maintain wage competitiveness through modest wage rises negotiated centrally), and its low taxes on wealth and on property. One result of this has been that tax receipts from income have fallen far faster with the onset of the economic downturn than was expected (income tax receipts were 11.2 per cent lower in the first eight months of 2002 than in the same period the previous year). While no one has yet offered an explanation for this, it is speculated that many of those who lost their jobs in contracting sectors (often relatively high-pay sectors) have found employment in sectors paying lower wages, with the result that these workers pay less of their income in tax or pay no income tax at all. The other major decline in tax receipts comes from a higher-than-expected downturn in receipts from corporation tax. As a result, throughout 2002, the government has had to revise upwards its projections for the size of the budget deficit in late 2002, from a projection in late 2001 of a surplus of €170m, to in mid 2002 a projected deficit of €300m, to in October 2002 an expected deficit of €1.3bn. Though the projected GDP deficit for 2002 is 0.3 per cent, well within the ceiling of 3 per cent set by the EU under its Growth and Stability Pact, some economists have predicted a deficit of around 1.5 per cent in 2003. Meanwhile, attempts to limit the size of the budget deficit are already leading to cutbacks in social spending in areas like health and education for the disadvantaged.

C. Income inequality

The third element of vulnerability arises from the impact of the social partnership process. While centralised negotiations resulted in relatively modest wage rises for all workers, those in booming private sectors managed in a period of skilled labour shortages to win additional wage rises. This resulted in public sector workers seeing their relative position worsening, the impact of which was especially evident to them in the context of a housing market that was more and more out of their reach. Government responded by establishing a ‘benchmarking’ review to compare public and private sector jobs and recommend percentage wage rises for public sector workers to keep them in line with comparable jobs in the private sector. Unfortunately for the government, the report of the benchmarking review group, avidly awaited by public sector unions, was published in July 2002 in a period of growing budgetary restraint. Though it did not reveal the methodology it used to arrive at its conclusions, it recommended an average pay increase of 8.9 per cent throughout the public sector. However, these varied greatly between different professions and different grades within the one profession, with recommended increases varying from a low of 2.5 per cent to a high of 25 per cent. Overall, it is estimated the increases would add 1 billion euro a year to the government’s pay bill. While payment would worsen the state of the public finances, postponement would almost certainly prompt serious industrial action in a restive public service.

Each of these elements of Ireland’s current economic downturn arise from structural features of the Irish ‘success story’. They confirm O’Riain’s analysis written before growth slumped:

‘This model of development also turns out to be Janus-faced. Its success, based on a profound internationalisation of social and economic life through flexible state institutions, turns out to be the major threat to its sustainability as these multiple globalisations generate an inequality and enormous political tensions that the decentralised state institutions have great difficulty containing’ (2000: 183).

Much will therefore depend on how the state responds.

D. Responses to current downturn

The predominant policy response is not to change in any fundamental way what is widely seen as a highly successful strategy. The Irish government's immediate response has three prongs to it. Firstly, it seeks to follow the same growth strategy that in its view has been so successful, that is attracting to Ireland multinational investment in three key areas – IT, pharmaceuticals and financial services. The government’s hope is that the present international economic downturn will be temporary and that FDI will soon pick up again. The second prong to its strategy is a National Development Plan (NDP) for the period 2000-2006, involving investment of some 50 billion euro or 9.8 per cent of GNP per year, designed to address major infrastructural defects and create new regional growth poles around the country. Over half of the expenditure (52 per cent) is to be spent on physical infrastructure and a further 36 per cent on education and training, R&D and industry support. This spending includes 3.8 billion euro in EU structural funds over this period and 2.3 billion euro from the private sector. An innovative part of the NDP involves a major investment programme in third-level research, the first ever significant investment in the area by the Irish government. This includes a Programme for Research in Third-Level Institutions (PRTLI) which spent over 600 million euro between 1999 and 2002 establishing research institutes in Irish universities, the establishment of an Irish Research Council for Science, Engineering and Technology and an Irish Research Council for the Humanities and the Social Sciences, and the establishment of Science Foundation Ireland (SFI) to foster a world-class research capability in biotechnology, and information and communications technology. SFI had an initial funding of 635

million euro. Through this, the third element of the government's strategy for long-term development, it is hoped to create an active research culture with knock-on effects for job creation. While public officials maintain a strong commitment to funding the NDP even amid budgetary cutbacks, the Taoiseach (prime minister), Bertie Ahern, admitted publicly that 'we would be stretched to the very limit to implement most of the National Development Plan' (*The Irish Times*, 11 September 2002) and a leaked Department of Finance memo revealed that money put aside for capital spending for the period 2002-05 would not be enough to pay for what is planned under the NDP (*The Irish Times*, 27 September 2002).

However, even if the growth strategy outlined above is successful and if international conditions turn positive, this would ease but not resolve the structural weaknesses in the Irish model. In terms of Ireland's dependence on high levels of US FDI, the changing nature of the European Union is almost certain to intensify pressure, on at least two specific fronts. The first relates to growing pressure for tax harmonisation that has the potential of undermining the tax advantages widely seen as a major reason for Ireland's success in attracting high levels of FDI. The Irish government is resisting such moves strenuously and mounted an intense and successful diplomatic effort to prevent agreement at the Nice summit in December 2000. However, the Irish stance is reported to have angered some of its larger partners and, while temporarily avoided, tax harmonisation remains a central demand of those states that espouse a more federal Europe. It raised its head again in late 2002 as Ireland was reported to be resisting efforts to have tax harmonisation included in early drafts of a major new treaty being drawn up by the Convention on the Future of Europe (as reported in *The Irish Times*, 4 November 2002). The second major challenge relates to budget transfers to Ireland, both through structural funding and through such mechanisms as the Common Agricultural Policy. Though, in 2001, Ireland still remained a net beneficiary from the EU with a net balance in its favour of 1.2 billion euro or 1.13 per cent of its GNP, it is soon expect to become a net contributor. This will further test a model that has relied on large amounts of social investment from the EU. Neither can it be predicted what impact enlargement will have on the Union and on the competitive advantage Ireland has gained as a member. For example, a number of the new member states (such as the Czech Republic, Hungary, Poland, Slovenia) are likely to be effective competitors with Ireland for FDI. While, in the first six months of 2002 new investment projects into Ireland were declining by almost 28 per cent, in eastern and central Europe foreign investment projects increased by 54 per cent, mostly from the United States (Ernst & Young, 2002). Furthermore, all the new member states will require high levels of EU social funding to which Ireland will be a net contributor. Added to the internal strains emerging, therefore, the external context for Ireland's success is turning much more challenging.

VII. Globalisation, Ireland and Latin America: Policy lessons

On the 2002 and the 2003 A.T. Kearney/Foreign Policy Magazine Globalization Index, Ireland was found to be the most globalised country in the world (*Foreign Policy*, 2002: 38-51; 2003: 60-72). This signals the significance of the Irish case for examining the room for manoeuvre of relatively peripheral states and economies in the context of deepening globalisation. The policy lessons are particularly relevant for countries like those in Latin America whose development trajectory bears marked similarities to that of Ireland. Both Latin America and Ireland have moved from being primary commodity exporters with a weak industrial base, through decades of import-substitution industrialisation (ISI), to a painful adaptation to the disciplines of market liberalisation (see Kirby, 2002a: 11-25). This trajectory saw the state playing a leading role in fostering indigenous industry only to run up against the constraints imposed by a limited home market and growing balance of payments deficits. Ireland became convinced of the benefits of liberalisation earlier than did Latin America, moving to open its economy from the early 1960s onwards and putting in place incentives to attract multinational companies. However, despite its earlier liberalisation, Ireland waited another three decades to experience the surge of growth that now identifies it as a model of successful development in a globalised era.

The Irish case offers three major policy lessons for Latin America. The first is a very positive lesson about the continuing potential in a globalised world for the state to play an active role in fostering competitive advantages in the economy. The second lesson is

a more cautionary one, and relates to the dangers of believing that industrialisation can be bought. The third lesson concerns the social impact of economic growth and the need for the state to develop more robust instruments to mediate this relationship. Each are dealt with separately here.

A. State potential

The most positive lesson that Ireland offers to Latin America is the active role the state has played in fostering an industrial base and in seeking to upgrade the technological profile of its industry. The move from being primarily an exporter of unprocessed dairy products 40 years ago to being primarily an exporter of high-tech industrial goods in the 1990s makes it comparable to the East Asian dragons. It is particularly noteworthy that, from the mid 1980s onwards, as Latin American states were implementing policies that weakened their industrial capacity, Ireland was deepening and extending its active industrial policies, targeting key emerging multinational companies in the sectors it had prioritised and fostering a more active indigenous innovative capacity through creating networks between the state, universities, and companies. The emergence of an indigenous software industry is the principal success of this latter policy. Throughout it all, the state showed a relatively strong commitment to education, ensuring even amid the cutbacks of the 1980s that educational investment was maintained. It needs to be remembered also that the state which displayed such capacity in the 1990s was for long seen as a particularly ineffective state. For example, a major study of the Irish state published in 1990 concluded that 'the state's capacity – so formidable on paper – on closer examination proves to be illusory' (Breen et al., 1990: 213). A decade later, no student of the Irish state could write this. Overall then, Ireland's economic success in the 1990s demonstrates the continuing central role that the state needs to play in fostering the capacities for competitive success in a globalised economy. Indeed, the Irish state in the 1990s has even been described as a 'flexible developmental state', though this has been criticised for being overly selective of the evidence on which it is based (see Kirby, 2001b). Turning to Latin America, it is paradoxical that many of its larger states displayed much more innovative capacity than did the Irish state during the period of ISI but appear to have lost much of this capacity with liberalisation.

B. The narrow base of success

If the first lesson of the Irish case is comparable to the success of the East Asian dragons, the second lesson shows where it diverged from their success. For, as highlighted above, the difficulty about the Irish case is that it concentrated for too long on fostering an industrial base that depended more and more on foreign multinationals. Despite active policies to develop linkages with indigenous suppliers and to encourage multinationals to situate more R&D activity in Ireland, much of the industrial base created through active state policies remains weakly embedded in the national economy. This was expressed by a leading economist in 1998 who characterised the Irish success as 'the US high-tech tiger with the Celtic face' (Murphy, 1998: 3). While the presence of leading multinational companies in the Irish economy has undoubtedly developed skills, a management culture and technological know-how in the Irish labour force, one economist has questioned the value for money that this represented (O'Sullivan, 1995). More crucially for the future, it has created a path dependency on buying in industrial capacity rather than on fostering it from within which permeates Irish political and business culture and will be very difficult to change. Ireland's success over the second half of the 1990s has masked rather than changed its high level of dependence which makes it particularly vulnerable to the new competitive environment that is emerging in the European Union.

This offers important policy lessons for Latin American countries which are also increasingly dependent on FDI for their development. The principal lesson of the Irish case is that the state needs to devote attention to ensuring that the technological capacity and managerial skills brought by multinational capital become strongly embedded in the domestic economy. In believing that foreign capital would develop the Irish economy for it, the Irish state reinforced the long-term dependence on attracting foreign capital that is now one of its greatest vulnerabilities. An active industrial policy, therefore, needs to go far further than simply attracting high-quality foreign investment. It needs to be guided by a strategic vision of how this will be used to help develop strong and enduring domestic capacities which can underpin a dynamic national system of innovation. For the Irish case shows that foreign investment can, under optimal international conditions, engineer an economic boom but that this can happen without the development of a national system of innovation. This, therefore, offers a cautionary lesson to policy makers in Latin America, a lesson which emphasises the more solid basis for long-term success built through the development of strong indigenous capacity in East Asia. In many ways, the Irish state had it too easy and has not yet had to face the really difficult task of fostering indigenous success.

C. Mediating between economy and society

In turning to the social impact of Ireland's high economic growth, the major policy lesson concerns the failure of the state to establish robust goals for social policy and to find means to achieve them. Instead, economic goals have taken on a primacy in public policy with social goals being defined in largely aspirational terms and made dependent on economic success. Examples are the state's failure to establish any goals for the reduction of relative poverty or income inequality, or the failure to ensure that housing provision responds to social imperatives rather than economic ones. The state's approach towards social provision in Celtic Tiger Ireland can be characterised as an example of 'Third Way' social policies as formulated by Anthony Giddens including community-focused approaches, investment in human capital and programmes for the active development of civil society (Giddens, 1998: Chapter 4). Giddens elsewhere stated that a key criterion to judge the success of such policies was their ability to embody a redistributional programme and to maintain the classic concerns of social democracy with social justice and the battle against inequality (Giddens, 1999: 17). On this criterion, Ireland's partnership approach towards social provision has failed. This has been very short-sighted for not only has it contributed to deepening social divisions but the growth of inequality is itself undermining economic success. This alerts policy makers to the vital need to attend to social goals and not make them subservient to economic growth. The Irish experience also shows how 'Third Way' approaches are no substitute for more traditional means of redistribution through the taxation and welfare systems.

Two principal policy lessons can be derived from this. One is the need to ensure that taxation systems and the levels of revenue they raise for the state are adequate to the increasing demands placed on the state if it is to achieve success in a globalised world. The Irish case alerts Latin American policy makers to the implications for a country's tax base of extreme reliance on foreign investment, since it has used low levels of corporation tax as its main competitive advantage and has ensured wage competitiveness through trading cuts in income tax for wage moderation. These are structural features of the 'Irish model'. This has resulted in ever greater deficits in infrastructural and social development but it has also weakened greatly the capacity of the state to invest in developing the innovative capacity that is the only sure basis for long-term success. This was something totally neglected by the Irish state up to the late 1990s when initial and very promising moves to invest in innovation fell victim to budget cutbacks in 2002 and 2003. It is too early yet to know how much damage such cutbacks are going to inflict but they indicate a less than wholehearted commitment by the state to investing in innovation. Ireland shows that trading tax

levels for competitive advantage undermines the very success it is trying to achieve. The second lesson relates to institutions. On the one hand, the Irish case seems to show impressive institutional innovation in such areas as social partnership and industrial policy. On the other however, it alerts Latin American policy makers to the dangers of confusing institutional proliferation with institutional innovation. The Irish state has tended to establish ever more institutions, each responding to particular demands on the state, while failing to develop a larger strategic vision which could underpin a coherent reform of state institutions. Not only is such a proliferation of state institutions unaffordable in the long-run but, more importantly, it greatly weakens coherence and even legitimacy as citizens come to lose faith in the state's ability to achieve objectives, particularly those relating to social needs. This is ever more evident in the Irish case drawing attention to the need to develop not only state capacity but a coherence that allows economic and social goals be progressively met in tandem.

Conclusions

The Irish case and the policy lessons derived from it raise deeper questions about the nature of economic success in a globalised world and the social costs of that success. For policy makers, these inevitably raise painful dilemmas as to the ability of the state in a globalised world to guide the market in ways that are socially beneficial. Unfortunately, the Irish experience throws little light on such dilemmas as economic success has been achieved through the state facilitating the operation of the market rather than guiding it towards more developmental ends.[10] It is therefore a cautionary tale of the social costs of economic success in a globalised world. Policy makers in states which have not experienced much economic success may be tempted to settle for such a trade off. But its longer-term social costs and their threats to its sustainability should not be underestimated.

[10] This found expression in one revealing comment by a well-known Irish economist, Jim Power, who was reported as saying at a public meeting: 'I have no political bias but I believe that, for the past five years, the country took very little to govern. The government were faced with very few difficult decisions' (reported in *The Irish Times*, 19 September 2002: 14).

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