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# The Irish Globalization Game

Strategies and Impact

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# Abstract

This thesis discusses Ireland's rapid economic growth in the 1990s, in order to place it in the context of contemporary globalization debate. A great deal of the growth has been cited to stem from the state's encouragement of globalization, in terms of increasing exposure to global markets. I investigate the interactions between the state and market, in order to determine if the economic growth was a direct result of a hands-off policy, or if the state intervened with active policies. I found that there are four prominent areas where the state intervened to spur on growth; macroeconomic policies, industrial policy, EU-membership and the shaping of the social partnership agreements. I also compare the two most cited models said to characterize Ireland in the 1990s, the developmental state where the state acts as a midwife to the industry, and the competition state model where market pressures restrain state power and results in social inequality. My findings are that Ireland shows characteristics of both models.

*Key Words: Ireland, Globalization, Competition State, Developmental State, Economic Growth, EU*

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# 1 Introduction

Divulging the literature on Ireland's economic boom in the 1990s, one comes across titles such as *From Bust to Boom* and *Ireland's Economic Miracle Explained*. A summary reads: "The recent success of the Irish economy has been nothing short of remarkable... This growth... according to most economists, is likely to continue for the foreseeable future" (Sweeney 1998). The Economist stated that "If any country lends substance to the cliché that the global economy is an opportunity not a threat, it is Ireland" (The Economist 1997). Today, as the credit crunch and financial crisis of late 2008 have ebbed into the global recession of 2009 and beyond, Ireland is in a very different place, and a common joke heard in the pubs in Dublin is: "What's the difference between Iceland and Ireland? One letter and two months". However, in the period from the around 1990 to 2000; Ireland's economic growth was cited as a miracle development, and the former poor nation was suddenly the top performer in EU in terms of GDP growth, and named the Celtic Tiger. One of the explanations behind the wonder growth was explained to be that Ireland made the best of what globalization had to offer.

Globalization is one of the most prominent catchphrases of the last decades, cited to be the cause of everything from the expansion of liberal democracy to the increase of childhood obesity, leading for some to claim that the word globalization is indeed the most globalized phenomena in the world (Jönsson et al 2001:9). We hear about an increasingly globalized, flat world where national models are forced to converge to a neo-liberal mould and that policy autonomy and state sovereignty are challenged. Others claim that, to paraphrase Alexander Wendt, globalization, just like anarchy, is what the states make of it and that the state has an ever more important role in a country's economic and social development.

There are many questions that command interest within the globalization litany: Are the levels and processes of economic regional and global integration we are witnessing entirely and qualitatively new, or merely a return to previous period of international trade and dependency in the 1870-1914? There are also questions arising around the causes and drivers of globalization. Is growing international economic activity the main factor at the heart of

globalization? Or should globalization be described as a result of deliberate changes in states' foreign economic policies? Also, there are questions regarding the consequences of globalization: What are the consequences of globalization for domestic societies, national autonomy, democratic accountability and international governance.

This essay seeks to critically analyze the mainstream account of 'playing the globalization game' by minimizing government and letting markets rule, by describing the Irish experience in the 1990s. To what extent, and in which ways, did policy decisions and market conditions interact to shape this country's economic performance during a period of rapid globalization? I aim to investigate the claim that markets always trump politics, by seeing which deliberate policy choices contributed to the Celtic Tiger boom. I will also describe the debate on the social consequences of rapid globalization that has broken out in the aftermath of the Celtic Tiger growth.

## 1.1 Statement of purpose

Contemporary globalization literature has debated the impact on the sovereignty states who undergo rapid globalization, and there are many questions pertinent to the potential loss of influence and decision making power by national policy makers when national models are forced to converge. It is the purpose of this essay to add to this discussion by studying the globalization process in Ireland during the 1990s. How did Ireland go from being a poor underdeveloped nation one of Europe's richest nations? What were the consequences for society? This essay seeks to put under the analytical microscope the proposition that global markets trump national politics and social forces. The question I specifically will seek to answer is:

***To what extent and in way did policy decision and market conditions and actors interact to shape the country's economic performance in the 1990s?***

And secondary:

***Has Ireland retained considerable room for maneuver in economic and social terms in the form of a developmental state or can it be seen to be converging towards the model of a competition state?***

The purpose of this essay is to highlight and analyze the debate between two opposite camps, those who claim that Ireland attained economic development through giving global market forces free reigns, and those who claim that it is an example of how a highly interventionist state can promote adaptation to the internationalization of the economy.

## 1.2 Disposition

This paper aims to account for and discuss different perspectives on Ireland's economic growth and increased levels of economic globalization in the 1990s. I have focused on the debate concerning the interaction between policy and global market conditions in Ireland, in order to determine to what degree deliberate policy choice made a difference to the recent developments and what consequences this approach had. In the coming chapters, I will briefly give an overview on the globalization debate which has sprung out of different social scientists' views on globalization and its effects on national policy making capabilities and apply them to the Irish case. In chapter two I will describe the contemporary mainstream International Political Economy theories regarding the causes, nature and consequences of globalization. I will also briefly account for the view of globalization as a hegemonic discourse. Chapter three will give a background account on Ireland's recent politico-economic developments. I will then go on to discuss two sides of the debate and ideal models used in contemporary literature to describe the Irish state's development in becoming one of the most globalized countries in the world; the flexible developmental state model indicating a more activist state and the completion state model. I will then discuss how these different accounts can come to such different conclusions.

## 1.3 Method and material

The method I have chosen to use for this paper is a literature review of the debate on the nature, causes and effects of globalization in contemporary Ireland. This paper builds on study and analysis of several works and articles published in scientific periodicals. Specific contributors on the Irish experience include, but are not limited to, Kirby (2002), Ó'Riain (2000), Smith (2002, 2005), Hardiman (2006), and Keohane & Kuhling (2007). Many newspaper articles from Irish and international press are also cited to recreate the popular academic interest for the Celtic Tiger development. The literature on the emergence of globalization discourse is not as developed as one might think. Contributions in this field, in addition to Foucault (1976), include the works of Hay (2001) and Kjaer and Pedersen (2001).

This paper has an explanatory approach, where I have tried the bearing power of different globalization theories. The different ideal types chosen to illustrate the different sides of the globalization debate are arguably extreme. However, ideal types help by shaping the main features of a certain phenomenon to more useful tools for analysis of politico-economic phenomena (Held and McGrew 2003:13).

To validate my data, to secure a critical analysis and validation of the data used I have conducted cross checks against multiple sources, including Irish national statistic databases, state agencies such as IDA and international organizations such as the OECD: Since this paper aims to compare and analyze different perspectives and models on opposite sides of the globalization debate I aim to contrast arguments and give an unbiased picture which will stand up to intra-subjectivity standards and scientific scrutiny.

## 1.4 Limitations

I have chosen to study Ireland because of its rapid economic development in the 1990s which is often ascribed to be a direct result of the country's neo-liberal adaptation to globalization. The Republic of Ireland is a particularly interesting example in debates about the trajectory of contemporary European political economies, because it is comparatively highly exposed to the international economy, coming only second to Luxembourg of the OECD countries in terms of trade openness and ranking first in the world for inflows per capita in terms of FDI (Smith 2006: 520). Early 21<sup>st</sup> century Ireland has also been described as a successful example of a country which has made the most out of what globalization has had to offer, and it is often set as an example to other countries aspiring to achieve rapid economic growth and



cited as an example for aspiring EU member states. (Light 1998, The Economist 2004). The Republic was ranked as the most globalized country in the world for three years running in the esteemed A.T. Kearney Globalization Index (Foreign Policy, March/ April 2004 also published on [www.atkearney.com](http://www.atkearney.com)) using the A.T Kearney method which is based on economic integration, salience of FDI, levels of personal contacts, technological connectivity and political engagement in international organizations. This makes Ireland an interesting focus for the debate of the nation state's role in fostering economic development in a globalized world.

The two analytical models I have chosen to account for contemporary Ireland's experiences with globalization are the most prevalent in the existing debate, and can be viewed as extreme ideal types. Discussing only these two narratives may serve to oversimplify a very complex case, but also sharpens the focus in order to understand and evaluate the recent development from the point of view of Irish policy makers, as well as in a comparative policy context to see if they indeed are generalizable for countries seeking to emulate the Celtic Tiger growth saga.

## 2 Globalization in theory

In this chapter I am to give a brief overview of the contemporary globalization debate from the perspective of International Political Economy (IPE) and Foucault discourse theory. This overview will shed some light on the discussion on the drivers and impact of globalization in Ireland.

### 2.1 Conceptualizing globalization

There is no single and universally agreed definition of globalization. The many different definitions are based on different emphasis on material, spatio-temporal and cognitive aspects of globalization. Globalization can be defined both as an outcome and as a process:

*“as an outcome, globalization is a world economy in which government policies pose few barriers to, and technology enables, cross-border economic transactions. As a process, globalization consists of the flows of goods, services people, capital and technology that arise within the single world economy and the transformations of national economies that these flows produce” (Oatley 2006:362).*

There are also elements of both descriptions and prescription used in many definitions, such as the following:

*“The description is the widening and deepening of international flows of trade, finance and information in a single, integrated global market. The prescription is to liberalize national and global markets in the belief that free flows of trade, finance and information will produce the best outcome for growth and human welfare. All is presented with an air of inevitability and overwhelming conviction” (UNDP, 1997:82).*

For the purpose of this paper, I have chosen to conceptualize globalization in its form of economic interconnectedness, i.e. the increasing internationalization of national economies where activities have become interwoven into an integrated web of trade and production relationships. (Oatley 2006: 362). This more narrow economic definition of globalization can result in a lack of analysis on social relations in other domains than the

economic and political. I have chosen to not include the connotations of cultural globalization, due to the scope of my purpose, because the narrow conception has the capacity to take on the claims carried by the dominant discourse of globalization (Rosamund 2003:666). As I will discuss below, some social scientist who claim that globalization is not a new phenomena, and should rather be labeled “internationalization” or “triadization”, since previous periods have seen similarly high international trade the majority of transactions are done within the Triad of the USA; EU and Japan (Hirst and Thomspson 1999:231). My intention is not to debate the merits of calling markets global, but rather using the more cautious position that markets have globalized over time, with allows me to focus on the consequences of this process for national policy autonomy. The Irish globalization debate also touches upon the concept of globalization as a hegemonic discourse, and thus I shall briefly overview the concept theory below.

### 2.1.1 Globalization as a hegemonic discourse

Globalization is experienced differently in different countries and by different social actors. In some countries it has been heavily politicized and created increased social cleavages, and in others it has been seen as a apolitical fact of life and opportunity for economic development and prosperity. To fully understand the phenomenon of globalization in its entirety “we need to examine the conditions and forces that produce, govern and relate these different facets of globalization. For, this will allow us to understand what defines the unity of the phenomenon of globalization, and therefore its conditions of existence and change” (Antoniades 2007:307).

Globalization can be construed as a hegemonic discourse. A hegemonic discourse is a Foucaultian term and defined as a set of practices and meaning that produce the objects and processes of which they speak ( Foucault, 1972:49). This conceptualization of globalization can be useful for several reasons: it does not take globalization as an given end-product. By conceptualizing globalization as a hegemonic discourse, it can be seen as a “dynamic set of practices and meanings that are productive of their subjects and objects” (ibid). Antoniades continues: “ It abolishes a superficial analytical and ontological distance, that is found in many positivistic projects, between the production of social agents and the production of their social environment. Thus, for the approach proposed here, significant changes in the environment of social agents (for instance the liberalization of financial markets or the introduction of flexibility in the labor market) signify changes in the

(re)production of social agents themselves. In this manner, globalization is produced by social agents, but at the same time it produces these factors” (Ibid). Thus by studying globalization as a hegemonic discourse, one studies both material and ideational factors. I have chosen to include this theoretical framework because it facilitates the study of how globalization is materialized in different institutional settings.

To capture the materialization of a globalization discourse in a country, one analyzes national institutional actors that dominate the production and reproduction of domestic public discourses and policies. This can be done by tracing whether and how globalization discourse was implicated in the vocabularies, ideological proposals, visions, policies or strategies of certain social actors, including political parties, unions and the media for example. By doing a “double reading” of official documents – examining for what purpose and in what context the term globalization was used in the analyzed documents and the second reading determining the dominant objects ,including themes, practices and policies of the documents.

## 2.2 International Political Economy

The effects of integration into the global market on national policy autonomy are central to the study of International Political Economy. IPE is an interdisciplinary subfield, as it reflects collaborations of insights from both Economics and Political Science, with emphasis on the interaction of political actors and market forces. IPE studies the political battle between winners and losers from global economic exchange. Some even define IPE as the study of globalization because its key inquiries are tied to what we conventionally see as processes of globalization, such as the changing nature of relations between states and markets, the growing power of non-state forces, the reorganization of authority and power relations in world politics, and the de-territorialization of political economies (Rosamund 2003: 662).

Scholars of IPE study the different strategies invented and adapted by governments and try to explain why different governments adapt different strategies. They also study which strategies have been more successful in attaining economic wealth and welfare, and if an active participation in the international economy hinders or facilitates development. IPE emphasizes how the political battle generated by the distributive

consequences of the global economy shapes the development strategies that governments adopt (Oatley 2006:5).

The objective of much of IPE has been the interrogation of claims by policy actors about globalization, and this general purpose can be translated to a number of substantive research questions, among which some of the most discussed are:

- is globalization *actually* a characteristic and distinctive feature of the contemporary period?;
- does globalization circumscribe the policy autonomy and capacities of established forms of public authority?;
- does globalization induce institutional convergence among hitherto diverse models of capitalist political economy?;
- is globalization, in fact, a policy choice made by states?" (Rosamund 2003:662)

In contemporary globalization theory, the commonplace idea is that global markets trump national politics as social forces. There are many examples where globalization places constraints on national policy choices. The mobility of financial capital, for example, tends to put pressure on budget deficits because of the interest rate premiums the capital markets attach to them. However, there is no consensus on the detrimental effects of these constraints

*" it is hard to make the case that globalization constraints are pervasive, or even the norm. Indeed, there are numerous instances in which various facets of market integration have been associated with both more interventionist government policies and greater divergence in national trajectories over a range of policy areas – without precipitating damaging capital flight in countries that have eschewed the neo-liberal path" (Garrett 2000: 3001 in Held & McGrew 2000).*

As the globalization litany has grown, three major camps have developed, all with different understandings of the nature, causes and consequences for globalization. In examining these debates; the concepts, theories, and methods used in the study of IPE have benefited by the continuing erosion of the disciplinary boundaries that traditionally separated it from the cognate fields of International Economics and Comparative Politics.

### 2.2.1 The great globalization debate

I will briefly touch upon the three mainstream globalization schools to give a better understanding of the arguments prevalent in the Irish globalization debate.

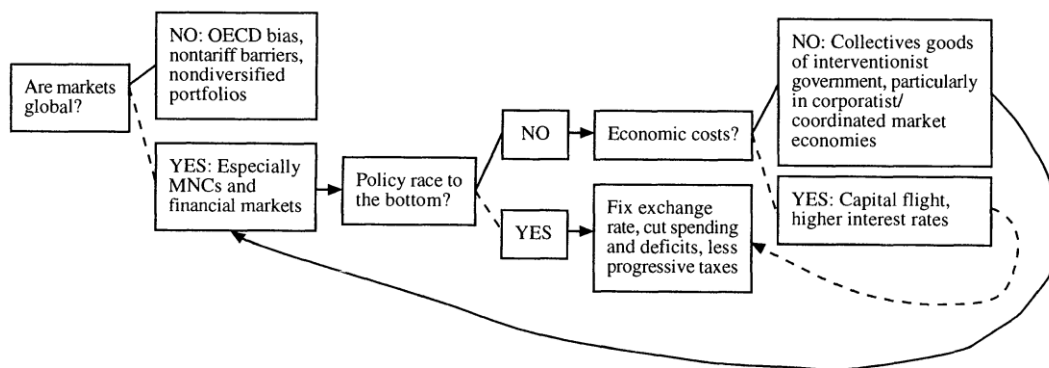


Figure 1: Globalization and national policy autonomy

From Garrett 1998: 790

How a country's emersion into the global economy affects its sovereignty and policy making power is, as mentioned above, still a contested concept. Held et al (1999) describe the three main schools of thought in the debate: The hyperglobalists, the sceptics and the transformationalists. The three schools of thought contain a wide variety of scholars, and a multitude of branches, but they do broadly reflect three distinct sets of "arguments and conclusions" regarding globalization's conceptualization, causal mechanics, distributional effects, and most importantly for my overview, implications for state power and governance.

Hyperglobalists see globalization as a distinctly new epoch in human existence, where human beings increasingly find themselves under the power of the global market. There is a political and normative diversity ranging from neo-liberals to neo-Marxists in the group, however hyperglobalists of both camps agree that governments today face new constraints to their power, and the amount of political choice is limited as models converge, and the traditional welfare model seems outmoded. Kenichi Ohmae (1993, 195) argues that globalization is bringing about a denationalization of economics and that only two forces matter in the world economy: global market forces, and transnational companies. He claims that the global system is governed by the logic of the market competition and public policy will at best be secondary, since no governmental agencies can match the scale of world market forces.

The sceptics, such as Hirst and Thompson (1999), claim that globalization is largely a myth, and that the economic interconnectedness spoken of really is intensification of trade between the triad; Japan, the US and the EU. The role of the nation state in the new governance structure remains pivotal because its unique capacity to act as loci from which

“forms of governance can be proposed, legitimated and monitored” (Hirst & Thompson 1999: 275). Sovereignty becomes a non-absolute and static term, but rather an alienable and dynamic capacity. States have indeed given a up a measure of their power to other agents, such as international regulatory organizations, but they still act as a source of legitimacy of transferring power to new agencies above and below the national level:

Finally, transformationalist scholars tend to agree with the hyper globalists that globalization is a qualitatively new and distinct era in which nation-states have to adapt new strategies to engage in. Transformationalists emphasize globalization as a long-term historical process which is full of contradictions and significantly shaped by conjunctural factors. One central argument is that globalization is re-engineering and re-constituting the power, functions and authority of the governments of the traditional nation-states (Held et al 1999:2, Mann 1997). The relationship is a complex one, and one might think of contemporary sovereignty more as a bargaining resource than a territorial boundary (Keohane 1995 in Held et al 1999:9). Thus, rather than globalization leading to the inevitable demise and undermining of the nation-state, it is seen as having encouraged states to adapt new coping and development strategies and in many cases becoming more of an activist state. Mann (1997) argues that on almost every level today’s states in advanced capitalist societies are far more powerful than their antecedents.

## 3 The Celtic Tiger the 1990s

The impact of the various transformations on Irish society associated with the exposure to global markets and rapid economic growth has been an issue of strong contestation in the domestic public sphere. In this chapter, I will give a short introduction to Ireland's contemporary history.

### 3.1 Background: fact file Ireland

Ireland surprised most of the international establishment with its dramatic rise from 'the poorest of the rich countries' in the 1970s, to the very well off Celtic Tiger economy of the new millennium. The previous two centuries were characterized by population decline, relative poverty and some deindustrialization (Sweeney 1998:17). In the mid 1980s things had gone from bad to worse, when the nation suffered its most severe recession since its inception in 1921, with negative growth, staggering unemployment, rising public debt and a trail of enterprises and highly educated citizens leaving the country. However, by the mid 1990s, the economy had reached a drastic turnaround with soaring export and growth rates and

Table 1: Ireland's economic performance in comparative perspective

	1 Average annual GDP growth, 1994-2000 (%)	2 Average annual GDP growth, 2001-2003 (%)	3 Average annual unemployment, 1994-2000 (%)	4 Average annual unemployment, 2001-2003 (%)
Czech Republic	2.1	2.7	5.8	7.7
Denmark	3.1	1.0	5.7	4.8
Finland	4.4	1.7	12.9	9.1
France	2.5	1.2	11.2	8.9
Germany	1.9	0.4	8.5	8.7
Hungary	3.5	3.4	8.8	5.7
Ireland	9.3	4.8	9.4	4.3
Italy	2.1	0.8	11.3	9.0
NL	3.5	0.2	4.9	3.0
NZ	3.5	3.3	6.8	5.0
Poland	5.4	2.1	13.0	19.2
Slovak Republic	4.4	4.1	14.0	18.4
Spain	3.5	2.4	16.1	11.1
Sweden	3.5	1.5	8.3	5.1
UK	3.3	2.0	7.2	5.0
USA	3.9	1.9	4.8	5.5
OECD	3.2	1.6	7.0	6.8

Source: OECD Economic Outlook no. 75, summer 2004, Statistical Annex,  
[http://www.oecd.org/document/61/0,2340,en\\_2649\\_201185\\_2483901\\_1\\_1\\_1\\_100.html](http://www.oecd.org/document/61/0,2340,en_2649_201185_2483901_1_1_1_100.html)



decreasing debt leading many pundits to call it a “showpiece of globalization”. It seemed as if Ireland were a shining example of how a region can turn around from economic doom by integrating maximally in global markets and the global division of labour (O’Hearn 2000:71).

Ireland had become a modern, trade-dependent economy with GDP growth rate averaging a robust 7.9 % in the period from 1990 to 2001, which was the third highest in the world, after Singapore and China. This is to be compared with the more modest average growth rates of 1.8% 1981-1986 and 4.6 % 1987-1991 (Kirby 2004:206). Unemployment also fell from 15.9% in 1993 to 4.3% in 2000 (ibid).

## 3.2 The route to riches

Analysts tend to differ in the relative importance they attribute to the different elements that helped give rise to the Celtic Tiger economy. However, throughout the literature, there seems to be a consensus that the following elements were of direct importance in the state’s strategy:

### 3.2.1 Macroeconomic management

The state taking an activist stance through macroeconomic management, including fiscal and financial policy is claimed to have been a decisive factor in giving rise to the Celtic Tiger phenomenon. One of the preconditions for the drastic economic development was the high degree of consistency and continuity in Irish macroeconomic management. This can be attributed to the fact the seemingly non-ideological nature of the Irish party-system where all parties in the Dáil (parliament) supported an essentially outward-oriented free-market economic policy and active policies focused on attracting FDI. Since the mid 1980s 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 (Kirby 2004:208). This fiscal austerity served to restore and increase confidence in the public sector and brought on a resurgent in private consumption and investment which allowed Ireland to benefit from the US boom in the 1990s.

So how come the Irish parties didn’t show any big discrepancy in their attitude towards globalization? Antoniadou (2007) developed an interesting discourse analysis of how

globalization is translated and materialized in political parties in Ireland<sup>1</sup>. In the other country analyzed in this comparative study – Greece – the discourse of globalization emerged as a new zone of contestation;. It was a source of antagonism for political parties; for some globalization was conceptualized as a dangerous, barbaric force and a new form of imperialism, and in some it was seen as a ‘new reality’ and significant opportunity for development. In Ireland, by contrast:

*“the discourse of globalization emerged as a new zone of consensus, the constituent meanings and practices of which remained beyond public deliberation, ideological contestation or party antagonism...It is indicative that the concept of globalization itself was rather absent from the party political scene. Three of the four main political made no reference to the term globalization in their 1997 and 2002 manifestos. On the other hand, the main ‘objects’ of economic globalization (i.e. deregulation, privatization, tax cuts) were ever-present in Irish politics. Yet, these objects did not define a new zone of contestation, but rather a set of taken-for-granted policies and practices”*  
(Antoniades 2007:313)..

Thus the Irish political parties redefined their identities, strategies, critiques and policy suggestions, not through a new zone of contestation, but rather through a new zone of a somewhat subliminal consensus that defined what was not to be discussed or disputed. The three main parties set their main governmental objective to “do whatever was required in order for Ireland to remain attractive to mobile capital investments’ (ibid). These sentiments, a testament to the consensual non-ideological space of Irish politics, were also represented by the left. The labor party declared that it was “committed to a strong market economy based on competition”... and that its objective was the “prioritization of enterprise and innovation as key elements in the creation of wealth” (Antoniades 2007:314). However, as time progressed, the Labor Party adopted a more traditional European left perspective that described globalization as a “gross injustice” and a “threat for the social and economic rights of the individual” (ibid). In 1998 globalization went from being treated as an ‘out there’ developmental issue, to a first order domestic issue. Antoniades finds that “In Ireland the hegemonic /globalization was communicated, and thus materialized as a set of practices and meanings that stood outside the *political*, beyond politics and ideology. It delineated not a zone of contestation, but a zone of fundamental consensus; the underlying *givens* of Irish

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<sup>1</sup> When studying the main political parties in Ireland, Antoniades based his analysis on the national election manifestos for the 1997 and 2002 elections. He studied Fianna Fail, Fine Gael, the Labour Party and the Progressive Democrats.

politics and economics (ibid). This may explain the consistency of efforts in macroeconomic management throughout the different governments in the period.

### 3.2.2 Industrial policy

There is a high level of state intervention in industry, which is subsidised with grants, state aids and tax breaks. Pro-active industrial strategies designed by Irish policy makers were central to the development of a strong, international competitive, industrial base (Fitz Gerald 2000:38). Active policies formed in the 1960s, geared at attracting foreign multinational companies (TNC) to invest in Ireland, and several powerful state agencies were formed. In the 1990s, these activities were at its height, and the state development agencies were all given grants which amounted to several hundred million British pounds (Sweeney 1998:130) during the decade.

The most influential agency, the Industrial Development Authority (IDA) was established by the government in 1956, it was designed to have to broad sets of objectives: firstly, the provision of incentives to promote and support Irish domestic industry (Ó'Riain & O'Connell in Nolan et al 2000:316). In 1969 the IDA were given direct grant-giving powers, and it was restructured into a semi-state body outside the civil service. The IDA reported to Department of Industry and Commerce. Thus, by the early 1970, the IDA had taken on a strategic role in shaping industrial policy. This institutionalization of the IDA as a powerful agenda setter led to a consolidation of the focus on attracting foreign investment (FDI).

The role played by FDI in the modern economic developments in Ireland cannot be over stated. The IDA and the competitively low corporate tax of 10 % (compared to 30% in Britain) soon attracted the major US and international high tech firms to the country, INTEL, Microsoft, Lotus, IBM; Oracle, Fujitsu etc (O'Hearn 2000:74). The first big win was the establishment of the Intel chip plant near Dublin in 1991, which the IDA worked long and hard to attain. It was also costly, the IDA spent €100 000 per job to attract Intel, with the average for other firms being €12 000. However, since almost all other major high tech companies followed suit, O'Hearn claims that when the IDA made all the efforts it could to attract Intel to Ireland, it practically "bought" the economic boom (ibid). The IDA targeted

specific industries to attract investment in order for Irish industry to ‘move up the value chain’. The agency developed and adapted a deliberate strategy of attracting, networking and promoting Ireland as a business environment, and thus political choice and strategic planning proved crucial.

FDI has affected every aspect of the Irish economy and in the late 1990s the foreign sector accounts for over half of Irish manufacturing employment, and over two thirds of gross manufacturing output (Bradley 2000:12). The foreign share of fixed capital investment rose from around 60% in the 1980s to over 85 % in the late 1990s. The investments did not go to the sectors where Ireland traditionally had a comparative advantage, since these industries were geared towards the small indigenous market. Instead, the money went to the high-technology industries, such as computers, instrument engineering and the pharmaceutical and chemical sectors (ibid). The normal processes of regional concentration associated with export-oriented growth, were at first impeded by a public policy that encouraged geographical dispersal at the expense of strict economic criteria. However, this public policy ended and today Ireland has attracted enough firms in the high-tech industries to merit the description of sectoral agglomerations or clusters (ibid).

This way of conducting everyday micro interventions in the economy is typical for the Development States of the Asian Tiger Economies. However, unlike the Asian Tigers, the Irish system does not provide protection for fledging local enterprises. Social scientists debate the effectiveness of this visible hand, and the Cuilliton report cites that over the period 1981 to 1991, the government spent £1.6 billion resulting in only 7,000 jobs (Sweeney 1998:130). However, without this public spending job losses would have been disastrous, possibly wiping out industry in Ireland leaving no base for the economic take-off facilitated by globalization in the 1990s.

The heavy reliance on TNC investment as a model of economic development has also come under hard criticism. O’Hearn argues that the Celtic Tiger growth is an illusion, since it is dominated by TNCs and that the export figures are inflated by a small number of American owned businesses who ship the profit elsewhere.

### 3.2.3 EU- membership

Joining the EU as an aspect of further internationalization is seen as a major contributor to Ireland's economic growth. When Ireland applied for membership in the European Union, it was still a highly agricultural country. The debate on whether or not to join the EEC focused on the likely benefits from higher prices on agricultural produce under the Common Agriculture Program (CAP) rather than regional policy. Ireland lagged far behind most other small European states in the 1950s. Standardized data from the 1960 makes a comparison in terms of purchasing power parity (PPP).

**Graph 3: PPP in European Member States 1960-1999**

<b>Country</b>	<b>1960</b>	<b>1973</b>	<b>1986</b>	<b>1999</b>
Belgium	98.6	104.5	104.2	112.5
Germany	122.1	114.5	116.8	109.1
France	105.3	110.5	109.8	103.7
Italy	87.3	94.0	102.5	101.2
Luxembourg	168.7	153.1	138.8	165.9
The Netherlands	112.1	107.1	102.2	105.3
Denmark (73)	119.9	114.4	117.9	114.6
<b>Ireland (73)</b>	<b>60.6</b>	<b>58.9</b>	<b>63.7</b>	<b>111.0</b>
United Kingdom (73)	123.9	104.4	101.9	98.4
Greece (82)	42.5	62.4	61.4	68.7
Portugal (86)	43.2	61.1	54.0	74.1
Spain (86)	56.9	74.8	69.7	80.2
Austria (95)	94.8	98.5	105.4	110.9
Finland (95)	87.8	94.3	100.6	101.8
Sweden (95)	122.7	115.0	112.5	96.5

(ibid)

In the early years of EU membership, the main benefits to Ireland came from the Common Agricultural Policy due to increased transfers under the price guarantee section (Bradley in Nolan et al 2000:11). However, it was able to win high levels of structural funds from the late 1980s and on. Aimed to promote convergence in economic growth and living standards between Europe's rich and poor nations, EU structural and cohesive funds contributed to more than €12 billion to Ireland from 1989 to 2001 ( Kirby 2003:28 in Kirby 2004:209). This money supported high levels of investment in infrastructure, human resources, the private sector and income support to a degree that would not have been possible otherwise. The structural funds are estimated to have added as much of 3.5% to Ireland's

GNP when the first tranche was given (Sweeney 1998:78). The funds also forces Irish politicians to commit to more long term planning, and ended the “stop and go” era of policy making.

Ireland also tremendously benefited from the EU single internal market and its trade integration with global markets. According to a study by the CEPII<sup>2</sup>, Ireland increases its world market share by 90% over a five year period in the late 1990s/early 2000s (CEPII 2006).

### 3.2.4 Social Partnership Agreements

One of the most prominently featured domestic policy innovation bearing upon economic stabilization and growth promotion is the concept of Social Partnership Agreements. These are institutional arrangements through which important economic and social policy objectives, such as national pay settlements, are coordinated and agreed upon by interest groups in the society. These social partners are that state, trade unions, business organizations, farming organizations and community groups. These deals last for about 6 years, and to date 7 deals have been made since the first in 1987 (<http://www.taoiseach.gov.ie>).

Between 1987 and the late 1990s, real wage growth in the whole manufacturing industry was estimated at only 1 % annually (Hardiman 2005:42). This would seem to suggest that there were effective wage disciplines in place, to increase Ireland’s attractiveness to foreign employers. It is interesting to try to discern to what extent this was a result of a government led construction of a new institutional mechanism of decision making or a matter of market. One possible theory is that the Irish labor market during this period was self-regulatory, and that market pressures, combined with weak unions, hindered employees to benefit from increasing corporate profits. The competitively low wages can be attributed to the large labor supply stemming from returning skilled migrants, qualified young people, women returning to the work force and a substantial pool of previously unemployed people (O’Hearn 2000:87). Others, however, point out that wage restraint is essential to good macroeconomic performance and thus the social partnership agreements were vehicles of a neo-liberal economic strategy on part of the employers, backed by the governments (Hardiman 2004:42). Economic growth could be managed with lower inflation and higher

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<sup>2</sup> CEPII stands for the **Centre D’Etudes Prospectives et D’Informations Internationales**, or the Research Center in International Economics.

employment, than otherwise. However, the social partnerships also contributed to raising real disposable income and living standards, as the real-take home employee pay rose 60% during the 1990s, due to negotiated tax cuts (ibid).

## 4 The Irish globalization debate

The mainstream version of Ireland's economic transformation is that Ireland was well poised to take advantage globalization, in terms of the of the investment opportunities sparked by the American boom, and the increased internationalization through its EU membership.

Promoting Ireland as a successful example rests on a very positive interpretation of globalization, in line with the neo-liberal hyperglobalist school of thought. Kenichi Ohmae speaks of Ireland as a great example for other countries. When he speaks of the potential benefits of economic globalisation he says: "if I had to pick one country as a harbinger of the coming shift in national economies, it would be Ireland" (Ohmae, 2000:119). When talking about how to induce growth, he refers to Ireland as the best example of a country that "has a vision of the future and adapted to it" (Light 2000:38).

As affluence rose, a national debate sprung on the effects on the rapid globalization. Two main approaches have developed, each in line with a separate branch of the contemporary globalization debate: Authors such as Ó' Riáin 2000, Hardiman 2005, Smith 2002, categorize the globalizing Ireland as an activist state that has made deliberate and active policy choices to "foster" globalization, with plenty of room for policy makers manoeuvre. They point to, among other things, the state's instrumental role in developing the Social Partnership deals, which form the framework for negotiations between employers and labour. Ó' Riáin classifies the Irish model as developmental and distributive and claims that the state remains central in national economic and social affairs. On the other side, Peadar Kirby (2000) claims that Ireland is not a model of development, but rather constitutes a example of letting market forces free and that the state's traditional powers have been greatly undermined and made less relevant by globalization. Kirby uses Cerny's (1997, 2000) model of the Competition State, and claims that even though the state is still active, it is increasingly subordinate to the global market forces. He also claims that the rapid growth has led to growing inequality in the country.



## 4.1 Ireland as a developmental state

One of the models that have been put forth as a transformationalist solution to the challenges of globalization is the development state. O’Riáin (2000) describes how the development states of the East Asian ‘Tiger economies’ were seen as evidence that states can contribute to economic development in a globalized world during their successful rise to prosperity during the 1970 and 80s. The strategy developed by the development states was to achieve their goals not by taking on the tasks of development themselves, but rather by shaping and creating the capabilities of the society and markets to do so (O’Riain 2000:163). The government focused on being the ‘midwife’ to new firms and sectors and engaged in upgrading of their organizational capabilities to achieve this. However, in the 1990s, the East Asian development states seemed to lose some of their allure as successful examples of how to make the best out of globalization. The Asian Tiger-economies showed signs of being too inflexible to cope with the rapid changes, and too weak to deal with the increasingly internationalized economies which became evident during the financial crisis of 1997 and 1998 (ibid:157). The development states seemed to be undermined from both below and above by the emergence of flexible regional economies and dispersed networks of technology and finance.

In creating a more suitable theoretical framework for the case of Ireland, O’Riáin develops and extends the DS framework along three dimensions: state intervention in the globalization process, conditions of embedded autonomy and threats to state intervention that emerge dynamically during the developmental process. He calls this new model ‘Flexible Developmental States:

*“The flexible developmental state (FDS) is defined by its ability to nurture post-Florist networks of production and innovation, to attract international investment, and to link these local and global technology and business networks together in ways to promote development. This ability is sustained by the multiple embeddedness of the state in professional-led networks of innovation and in international capital, and by the state’s flexible organizational structure that enables the effective management of this multiplicity” (O’Riain 2000:158).*

This model deals with both local and global perspectives on industrial development in order to examine the opportunities for development strategies in an increasingly integrated global

economy. It emphasises the importance for political choice in the integration of, and embeddedness in, global flows and networks, and the state remains a powerful actor. Since the transnational companies, networks and capital flows have penetrated the nations, the role of the state has transformed into a *mediator* between the local and the global, connecting them and shaping their interactions. This is done in two main ways, which the case of Ireland clearly demonstrates.

In accordance with the FDS model, the Irish state can be seen as focusing on attracting foreign direct investment into the country and then building up networks of production and innovation, as well as attempting to foster indigenous networks and then encourage them to internationalize (O’Riain 2000:165). This is facilitated by the Ireland’s bureaucratic organizational structure consisting of a range of ‘embedded autonomies’ of state agencies tied to particular social groups, such as labour, expatriates and indigenous networks of innovation. These agencies are internally flexible organizations with their own connections to different parts of the EU administration. In contrast to the traditional DS model, Ireland differs because: “Rather than a cohesive and relatively insulated national state apparatus, the FDS consists of a state apparatus that is deeply embedded in a ‘network polity, forging socio-political alliances out of constantly shifting local, national and global components” (ibid 166, 167). An example of this is how the state, through its development agency IDA which was highly embedded with the TNCs; “scaled up” social networks within the technical communities to foster innovation and networking. By linking grants to R&D, export and management development the IDA was able to put constant pressure on Irish firms to upgrade and redirect their efforts. Also, embedded autonomy characterises the institutions of the social partnerships where the state is embedded with several social partners.

Thus the FDS model implies that the Irish state, adapting to the outside environment, still plays an activist role, albeit in a ‘glocal’ way. Several areas of active policy making can be distinguished, among them external adjustment (mode of insertion of the Irish economy into the global economy) and domestic adjustment (the macroeconomic stance taken by the Irish government and the domestic coalitions that were constructed by the government to attune the cost base of the national economy to international competitiveness conditions). The role of the state remains the central actor in the process of shaping the development path for the country (O’Riain 2000:163).

Walby also reinforces this conclusion and states that in order to understand Irish development, we need to understand multiple polities of nations, states, religion and the EU:

“Ireland’s insertion into global processes depends upon the varied insertions of different polities within diverse global networks... The relationship between Ireland and globalization is not best represented as that of the undermining of a nation-state by global capital, but rather of the complex restructuring of multiple polities which are linked into different global networks”(Walby 2003:530).

## 4.2 Succumbing to globalization - competition state theory

In contrast, Peadar Kirby describes Ireland’s transformation into a competition state, a term created by Philip Cerny. Inspired of the works of W. Cox (1995, 2002) Kirby sees social outcomes as principle criterion for developmental success, and laments the outcomes of Ireland’s adaptation to globalization. He calls Ireland a “warning of the social costs of economic success” in globalization (Kirby 2004:206) and that the FDS model is a “mirage”. As opposed to the development state, what characterises a competition state is that the state’s scope of control of the national economy and society “diminishes as economies integrate into the international marketplace” (Kirby 2002:143). Cerny claims that globalization constrains the state political autonomy and forces it to act according to the “competition state logic”, where social policy is subordinated to the needs of the economy and redistributive welfare rights take second place to a productivist reordering of social policy. State actors, react to the pressures of the global market by “promoting the comparative advantages of particular production and service sectors in a more open and integrated global economy” (Cerny 2000:22). According to the theory, competition states see their public good increasingly commoditised, privatized and organized around criteria for profitability. The distribution of public goods become less focused on the rights and needs of citizens, and more consumer driven. Public investment focuses on projects which enhance capital or create flexible labour markets.

Kirby finds that this transformation from welfare state to competition state is evident in the Irish case. He sees the rising economic and social inequalities as direct outcomes, and not merely side effects of the Irish model (Kirby 200). He points to the tax cuts and relatively low public spending, which served to increase Ireland’s international competitiveness. The Irish government is keeping the wage setting relatively low in return for

reduced income tax, and spends far below the EU and OECD average on health, education and social services.

*This illustrates the longer-term consequences of the Irish state's low-tax development strategy as the state has become ever more dependent on market forces to achieve social outcomes and has fewer resources to provide quality infrastructure or services, or to counteract with any effectiveness the polarizing impact of market forces. It finds itself caught amid contradictory pressures: economists tell policy makers that they must further reduce spending and taxation to maintain competitiveness ... while those concerned with social problems call for increased social spending. The evidence points to the fact that the former have more influence over policy than the latter (Kirby 2004:216).*

Using Cerny's model, one can see evidence of Irish policy makers being constrained by transnational factors in line with the competition model in the following way:

- A shift from macroeconomic to microeconomic interventionism, as reflected by industrial policy
- A shift from state intervention to develop nationalised industries to a flexible response to competitive conditions
- A shift in the focal point of politics away from maximizing welfare to the promotion of enterprise, innovation and profitability (Cerny 2000 in Kirby 2004:143).

Kirby also dismisses talk of Social Partnership Agreements being testaments that there is still space for nationally articulated policies about redistribution of resources as social rhetoric, designed to conceal the fact that there has been a fundamental political shift towards free market solutions (Kirby 2004: 218). He sees the recent Social Partnership deals as vehicles for the Neo-liberal political agenda, ineffective in tackling inequality. In accordance with Cerny, the actual amount of government action and involvement in society in Ireland may have increased. However, the power of the state to control specific activities and market outcomes has decreased, which undermines the "overall strategic and developmental capacity of state agencies" (Cerny 2000:34). The model can be very useful to apply to Ireland to show how a country can prioritise the international competitiveness over social development.

#### 4.2.1 The Celtic Tiger backlash: growth with social inequality

So, is there any evidence for increased social inequality in line with the competition state model? After the first wave of literature raving about the economic wonder of the 1990s, a

second wave of more critical authors looking at the growing social inequalities in the country emerged. Economic and social inequalities in Ireland have risen sharply during the last decades, and relative poverty has increased and deepened since the 1990, despite of the economic boom (Holland 2003:1). Some place the blame on the rapid globalization which has led to a policy race to the neo-liberal bottom, endangering both the efficacy and legitimacy of the democratic process itself (See Cerny 1990 and O'Hearn 1998). Kirby sees the rising economic and social inequalities as direct outcomes, and not merely side effects of the Irish model. He cautions the uncritical stance of celebrating economic growth as itself indicative of social progress, and calls the outcome “ a stark contrast between economic success and social failure” (Kirby 2004:5). Kuhling & Keohane point out that domestic research shows that “the one-sided model of social progress which prioritises economic competitiveness over social cohesion and welfare drives Irish modernity” (2007:15). Co-existing with the economic boom, the nation is the heavy reliance of the national economy on multi national capital.

The increase in social inequalities and the lowering of quality of life due to inadequate public expenditures can be seen to result from the pursuit of short term economic strategies. EU statistics show that government spending as part of GDP sank from 41 % in 1980 to 33 % in 1997, which was the lowest out of all 15 member states with an average at 44 % for the period (European Economy 1997: table 7). This could be solely due to the fact that that state spending actually did grow, but that GDP rose much quicker. However Kuhling & Keohane claim that that the economic productivity was accompanied by a rise in social inequality even when taking into account the increase in equality and relative poverty. The reasons for this are debated, but include the steep rise in housing costs excluding a larger part of the population from the property ladder, rise in homelessness and the persistence of “profound structural inequalities in the healthcare system” (Smith & Hannon in Kirby 2004: 35). Also, Fitzgerald’s study from 2000 substantiates that the tax and welfare system are serving to widen, not narrow, the gap between rich and poor. In an international comparison, a different facet of the Tiger economy is apparent, when looking at the United Nations Human Development Report: In the end of the 1990s, when the economy was at its peak, the poverty rates in Ireland were the highest in the EU and the second most unequal country in the OECD (Human Development Report 2001: 183).

The Irish welfare state was not very strong in the first place, but Kuhling and Keohane argue that the economic boom of the 90s could have been used to finance social programs, but that the governments were constrained by the high level of globalization: “ the

systematic pursuit of neo-liberal strategies such as wage restraint and social partnerships on one hand, and tax incentives for transnational corporations on the other has not only meant that the Irish infrastructure has remained underdeveloped, but also that Ireland's indigenous economy remains underdeveloped and is a dependent economy" (Kuhling and Keohane 2004:18). Evidence of record high sales of luxury cars, property speculation and expansion of retail space despite the limited income growth is also a sign of growing social inequality during this period. Another aspect was the breakdown of the states guarantee that all citizens had right to housing (O'Hearn 2000:79) which may have acerbated social problems.

## 5 Discussion and conclusion

It is the prevailing of much popular debate, that politics lag helplessly behind economics, and that politics have thus become “uninteresting and irrelevant” (Garrett 1998:777). In conducting the review of the contemporary globalization debate in Ireland, I disagree with this stance.

### *To what extent and in way did policy decision and market conditions and actors interact to shape the country’s economic performance?*

I have found the domestic debate very interesting in highlighting the ways in which a small country can adapt itself to globalization to strive for economic growth. Some ascribe the recent good economic outcomes to the market, attributing very little value to strategic policy choice or appropriate institutional adjustments. This argumentation claims that a fortunate combination of demography and labour market dynamics mixed with the driving force of the global market explain the growth: “Markets prevail, and function best with a hands-off policy stance” (Hardiman 2005: 38). Others claim that good policy choices were indeed critical for achieving the upswing: “Maybe this is a classic case of the successful insertion into the global economy of a small open economy, through a combination of effective policy adjustment to international conditions and of an alliance of national interest. In this scenario, markets are volatile, but politics make the critical difference between better and worse performance” (ibid).

I have found four areas where active policy was made to take advantage of the benefits that exposure to the global markets offer: By implementing a fiscal austerity, the state could restore confidence and balance the national budget, which led to increased consumption and investment. The Irish state did contribute with interventions in the form of an active and shaping industrial policy, picking out winning industries and companies and steering their activities with the help of strong state agencies. The state contributed to the economic growth by attracting large amounts of FDI by active policy choices such as lower corporate tax. By pursuing an EU membership, the access to the single market and beneficial structural funds

were secured. By institutionalizing the social partnership agreements, wage restraint and redistribution policies were negotiated and tailored to growth with lower inflation and higher employment.

Many authors from different sides of the political spectrum emphasize Ireland's location within the process of globalization as the critical feature of the economic turnaround. By combining theories of both global and local nature, one can create an account of the multiple ways in which local and global processes shape different modes of integration in the global economy and how they are sustained by institutions. As mentioned earlier, globalization can manifest itself differently in different places. For an example, The United States of America and the European Union can be seen to represent different civilizational models of globalization; one based on free market neo-liberalism and one more committed to values of institutionalized collective mutual responsibility (Keohane and Kuhling 2007:29). One can argue that Ireland is a beneficiary of both these models – as a recipient of large amounts of foreign investment from the USA and development grant aid from the EU. The early success of Irish globalization has both to do with chance factors, such as historical ties to the US and geographical place in Europe, but equally due to the state's strategic courting of the USA and EU.

Regarding my secondary research question:

***Has Ireland retained considerable room for maneuver in economic and social terms in the form of a developmental state or can it be seen to be converging towards the model of a competition state?***

I have found that both the narratives of the change brought on in Ireland by adapting to globalization offer interesting insights and perspectives. They show that the Irish case is not easily classified. Contemporary Ireland shows clear elements of both the developmental and competitive model, which highlights the multi-faceted nature of policy changes. Ireland's membership in the European Union is an interesting example of this duality. On one hand, Ireland shows clear competition state tendencies in the embracing of market-oriented approaches and the entry into the EMU, where national macro-economic autonomy is diluted. However, on the other hand, Ireland has resisted certain neo-liberal pressures from the EU to liberalise. One example of this is how the government refused to alter its budgetary policy in



2001, even though they received a reprimand for being “inappropriately expansionary” (Smith 2004:354). The government used a large surplus as an opportunity to “spread wealth” which can be seen as a developmental/distributive characteristic.

Another example of how the state over exhibits both tendencies is the social partnership agreements. O’Riain sees the adoption of the social partnership model as a demonstration of how the Irish state plays an interventionist role, while Kirby sees it as a tool of redistributing wealth in favour of the wealthy and a part of the wider process of turning Ireland into a competition state. Taking a wider perspective, one sees that the situation seems more complex than this, as Hardiman points out, both the scope and participants of the agreements have changed over time, with issues non-related to wage restraint, such as poverty reduction and unemployment becoming more prevalent with time. While wage dispersion did grow between 1987 and 1997, the highest growth occurred in the first half, and not in the period of rapid economic growth from 1994-1997 (Smith 2006:529).

The strict comparison between the two distinctly binary narratives can be problematic for several reasons. First, it tends to describe a one-dimensional rather than multidimensional conception of change:”While many authors may indeed point to the diversity and complexity of specific models , they nevertheless (quite understandably) seek to emphasise those aspects of economic and social policy that fit most easily into their classification and to downplay the features that do not” (Smith 2006:522). Thus, while the state may show many of the tendencies that fit easily into either classification, it does not mean that it is definitely defines by those tendencies. It is actually probable that some counter tendencies will appear at one point in time. Using these ideal types as labels may be useful as heuristic tools, however this may lead to functionalism: the state exhibits developmental / competitive tendencies because it is a developmental/ competition state (ibid).

Regarding the social changes that are central to the criticism of holding up Ireland as an example to aspire to, the Irish experience can be seen to highlight some of the key paradoxes of economic globalization, where a gap is opening up between the economic and political goals of globalization. This debate is a key concern of debates on postmodernity. For example, Habermas (2001) argues that the disconnect between the economic and political effects of a globalized economy creates what he calls a “democratic deficit” which entails that at the point we are most economically integrated, we experience the most disenfranchisement and rolling back of the welfare state. He claims that “this transformation so radically reduced the nation states’ capacity for action that the options remaining open to them are not sufficient to

shield the populations from the undesired social and political consequences of a transnational economy” (Habermas 2001:50 in Kuhling & Keohane 2007:18). It is however crucial to note that while public spending in Ireland fell relative to economic growth during the 1990s, it increased dramatically in absolute terms. Yet with the results in terms of growing socioeconomic inequalities, it is clear that Ireland has spent more on the welfare state, but it has made less welfare effort” (O’Riain & O’Connell 2000:331).

In conclusion, while Ireland has become more market oriented during the 1990s, it cannot be said to completely be characterized as a competition state, because there are several developmental tendencies are evident. Many questions arise from this debate on the recent Celtic Tiger developments, which open up to future research: Is the Irish model generalizable for other nation states to emulate? Was the growth strategy of aggressively courting and accommodating foreign investments a sustainable strategy? With the privilege of hindsight, we can see that the high levels of growth decreased quickly when the global financial crisis hit, and in September 2008 Ireland was the first of the Euro zone countries to enter into recession. The debate on the effects of globalization is surely not over on the green island.

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