DEVELOPMENT STRATEGIES, SOCIAL POLICY AND POVERTY REDUCTION: LESSONS FROM IRELAND

ESTRATEGIAS DE DESARROLLO, POLÍTICA SOCIAL Y REDUCCIÓN DE LA POBREZA: EXPERIENCIAS DESDE IRLANDA

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ABSTRACT

This paper offers a brief overview of the principal development strategies used by the Irish state, the social policies associated with them and their impact on poverty. While the paper traces the background since independence in 1922, its principal focus is on the period since the 1980s, since this is the period in which the policies were put in place that are associated with the boom period of the 1990s, widely known as the Celtic Tiger. The paper's subject is the Republic of Ireland (known as the Irish Free State from 1922 to 1937 and as Éire from 1937 to 1949). It begins by offering an overview of the principal developmental strategies pursued by the state from 1922 to 1980, and the poverty outcomes so far as we know them. The second section examines the crisis of the early 1980s, and the developmental and social policy responses to that crisis that laid the foundations for the Celtic Tiger. The following section outlines the nature of the economic success achieved, identifying the principal motors of economic growth and their impacts on the labour market, and also identifying trends in poverty and inequality. The fourth section seeks to explain the correlation of developmental and distributional outcomes in Ireland's recent development, interrogating the reasons for the correlation of high growth with increases in poverty and declines in welfare effort.

KEY WORDS

Development models, poverty and inequality, social policy, welfare effort, Ireland

RESUMEN

Este artículo ofrece un breve repaso de las principales estrategias de desarrollo usadas por el estado irlandés, de las políticas sociales asociadas a ellas y de su impacto en la pobreza. Aunque el artículo descri

be el contexto desde la independencia de Irlanda en 1922, su foco de atención se centra en el periodo posterior a los años ochenta, porque este es el periodo en el que se implantaron estas políticas y se asocia con el estallido de los años noventa, que hizo que Irlanda pasara a ser ampliamente conocida como el "Tigre Céltico". El objeto del artículo es la República de Irlanda (conocida como el Estado Libre Irlandés desde 1922 a 1937 y como Eire desde 1937

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a 1949). Comienza ofreciendo una panorámica de las principales estrategias de desarrollo llevadas a cabo por el estado desde 1922 a 1980, y sus resultados en los niveles de pobreza - tanto como podemos conocer dichos niveles-. El segundo apartado examina la crisis de los primeros años ochenta y las respuestas de desarrollo y de política social a esa crisis en las que descansan los fundamentos del “Tigre Celta”. El apartado siguiente perfila la naturaleza del éxito económico conseguido, identificando los principales motores del crecimiento económico y su impacto en el mercado de trabajo e identificando también las tendencias en los niveles de pobreza y de desigualdad. La cuarta y última sección busca explicar la correlación de los resultados del desarrollo y la distribución en el desarrollo irlandés reciente, preguntándose por los motivos de la correlación entre un alto crecimiento económico y los incrementos en la pobreza y un declinar en el esfuerzo para conseguir el bienestar.

PALABRAS CLAVE

Modelos de desarrollo, pobreza y desigualdad, política social, esfuerzo para conseguir el bienestar, Irlanda.

THE IRISH STATE AND DEVELOPMENT, 1922-80

Ireland's development has followed a path very different to that of its nearest neighbours in northern and western Europe. A region of the UK economy following the Act of Union between the two kingdoms in 1801, the incipient industrialisation that characterised the Irish economy under its colonial parliament at the end of the 18th century was stifled and, especially following the Great Famine (1845-48), the Irish economy became overwhelmingly dependent on agricultural production and, within that, on pasture. The only exception was the north-east of the island, which became an industrial growth pole within the British economy. Following independence in 1922 when the north-east remained part of Britain, the newly independent Irish state had an economy similar to that of many developing countries dependent as it was for around 50 per cent of its exports on the export of a single unprocessed commodity (live cattle to the British market); excluding a small food and drinks industry, the new state was “virtually without industries” (Ó Gráda, 1994: 313). While poverty was widespread in 19th century Ireland, we have no reliable statistics as to its extent. However, social conditions were markedly changed by the steady decline in population following the Great Famine as a tradition set in of emigration to Britain, North America, South Africa and Australia/New Zealand. The population of what later became the Republic of Ireland declined from 6.5 million in 1841 to 2.9 million just after independence in 1926; much of this decline was concentrated in the poor western half of the country. Emigration has been seen as “one of the key driving forces in the Irish economy” allowing rising living standards go hand in hand with deindustrialisation (O'Rourke, 1995: 420).

The first 10 years of independence saw a conservative management of the economy, concentrating on improving agricultural exports to Britain. As historian Joe Lee puts it: "The Department of Finance, incarnated in the redoubtable Secretary, J. J. McElligott from 1927 to 1953, did not believe in state-led economic development. From their perspective the role of the state was to keep out of the way of private enterprise, and keep taxation as low as possible and therefore, at least in the short term, social services, as meagre as possible. This was to be a competition-based, market-driven economy" (Lee, forthcoming). As real agricultural prices fell over the 1920s and output was sluggish, poverty and emigration continued. In social policy, though the new state inherited a relatively developed and generous welfare system from British rule, agricultural workers who constituted half the labour force in Ireland were not covered by it and the new Irish state cut back rather than expanded the welfare system, abolishing assistance to unemployed who were uninsured and reducing the old-age pension, both in 1924. As Lee concludes: "It is only a slight exaggeration to say that the state, for all the huffing and puffing, and despite the imaginative launching of the Shannon electricity scheme in 1926, may as well not have existed. Growth probably proceeded at much the same rate as it would have under direct London management".

The coming to power in 1932 of Fianna Fáil (the "republican" party defeated in the civil war of 1922-23) saw a major change in policy on both the economic and social front. Representing the small farmer and rural labourer as well as the small urban proletariat, Fianna Fáil came to power with a radical policy of using the state to initiate a process of native industrialisation behind high tariff barriers. The energetic Sean Lemass built the Department of Industry and Commerce into a counterweight to the conservative Department of Finance and cajoled reluctant industrialists to set up plants substituting domestic durable and non-durable consumer goods for those previously imported. The policy had an initial success as manufacturing output rose by 7.2 per cent and manufacturing employment by 8.6 per cent between 1932 and 1936 while the number of Irish-owned industrial concerns quoted on the Dublin stock exchange trebled between 1933 and 1939 and their aggregate capital doubled. Yet, a Swedish banker, Per Jacobsson, who inspected the new factories in the mid-1930s, was less than impressed - "few seemed to him well run, many to have been sited with no regard to costs" (quoted in Ó Gráda, 1997: 112). Fianna Fáil proved equally energetic with regard to social policy, introducing unemployment assistance and unifying national health insurance in 1933, introducing a widows pension scheme in 1936 and children's allowances for larger families in 1944 (Cousins, 2005: 26). Most noteworthy, were the new government's introduction of an ambitious programme to clear Dublin's notorious slums and to build large working class housing schemes, and its programme for building new hospitals. Welfare spending rose from about 3 per cent of national income in 1931 to around 5 per cent in 1936 though it began to fall back throughout the 1940s (Cousins, 2005: 27).

Yet, this policy of Import-Substitution Industrialisation (ISI) was already reaching the natural limits of the small home market by the late 1930s. When Ireland emerged from the enforced isolation dictated by its neutrality during the second World War (known as “the emergency” in Ireland), a lively debate took place within the leadership of the ruling Fianna Fáil party: Sean Lemass sought to deepen the industrialisation drive through more active state involvement and to adopt a version of the comprehensive British health service then being planned. Both proposals were roundly defeated by his more conservative colleagues. Without a strong policy direction, the state faced growing balance of payments problems and sluggish industrial productivity in the 1950s while remaining aloof from the liberal trading order emerging in western Europe. Meanwhile, unemployment increased and emigration returned to levels not seen since the 1850s with over 50,000 people emigrating a year. The workforce fell from 1,228,000 in 1946 to 1,053,000 in 1961 (CSO, 2000: 108). This period was one of stagnation in terms of state welfare with the introduction of a contributory old-age pension in 1961 being the only major reform. The situation was created for a fundamental change in economic policy.

A new policy was introduced in the late 1950s based on three elements: the use of grants and tax concessions to encourage export-oriented production, the attraction of foreign manufacturing firms, and dismantling protection so as to gain greater access to markets abroad (Kennedy et al. 1988: 236). While the initial expectation was that the domestic firms protected by high tariff barriers would begin to win export markets, the policy led to a swift growth in foreign enterprises establishing in Ireland for the export market so that state policy increasingly began to depend on this foreign-owned sector. In winning overseas investment, the Industrial Development Authority (IDA), a semi-state agency that bears some similarity to the “insulated bureaucracies” of the East Asian developmental states, played a key role as the “hunter and gatherer” of foreign firms. Three phases of FDI can be identified: an initial phase of mostly British firms which established in Ireland during the protectionist period to gain access to the Irish market, a second phase in which firms engaged in the manufacture of mature, standardised and relatively labour-intensive products such as clothing, footwear, textiles, plastics and light engineering established in Ireland for the purpose of export to European markets. By the late 1960s, a third phase was being initiated characterised by more sophisticated products such as machinery, pharmaceuticals, instruments and electronics. By 1973, overseas firms accounted for almost one-third of all manufacturing employment (68,500 out of 219,000) and by 1983 there were almost 1,000 foreign firms in Ireland, half of them from the United States, one-eighth from Britain and about one-tenth from Germany (Ó Gráda, 1997: 115). Between 1958 and 1973, manufacturing output grew by 6.7 per cent per annum while manufacturing employment grew by only 2.4 per cent per annum. However, exports as a percentage of gross output grew from 19.4 per cent in 1960 to 41 per cent in 1978 (O'Malley, 1989: 69, 92). However, as foreign firms expanded, the domestic

ones established under ISI stagnated: there was no employment growth in this sector from the mid 1960s to the end of the 1970s and it dramatically contracted in the early 1980s when domestic demand slumped. Overall, there was a significant shift in the sectorial composition of the workforce: between 1961 and 1981, the share of the workforce engaged in agriculture dropped from 35 to 17 per cent, the share in industry increased from 25 to 32 per cent and the share in services from 40 to 51 per cent (Cousins, 2005: 30). This period also saw significant expansion of the state's welfare effort through the introduction of insurance and means-tested schemes for groups like the unemployed, deserted wives and unmarried mothers and new benefits including invalidity and death benefit. Significant expansion of second-level education occurred through the introduction of free schooling and of health-care through a major reform of structures, eligibility and funding. Overall, Ireland's social welfare expenditure increased from 5.5 per cent of GDP in 1960 to 6.8 per cent in 1968 and to 11.4 per cent in 1974, compared to an average increase in the EU15 from 9.7 per cent to 13.3 per cent over the same period. As Cousins concludes, "the relative status of the welfare system in the late 1970s reflected Ireland's low level of economic development rather than a categorisation as residual" (Cousins, 2005: 33). Finally, this was the period which saw the "rediscovery of poverty" in Ireland (Nolan and Callan, 1994: 22) when a paper to a conference of the Catholic bishops' Council for Social Welfare estimated that "at least 24 per cent of the population have a personal income below the poverty line" based on social security or income maintenance rates of payment (Ó Cinnéide, 1972: 397; emphasis in original). This marks the beginning of the period for which regular survey data on rates of poverty are available and trends over the period 1973 to 1987 are given in Table 1.

Table 1: Poverty trends in Ireland 1973-1987

Poverty line	1973	1980	1987
% of households below 50% of mean income	18.2	17.2	18.9
% of persons below 50% of mean income	17.8	19.22	22.9

Source: Nolan and Callan, 1994: 35

FROM BUST TO BOOM: POLICY INNOVATION IN THE 1980S AND 1990S

Ireland's response to the economic recession occasioned by the oil price rise of 1973 was somewhat postponed by the expansionist policies followed by governments at the time and financed through high levels of foreign borrowing. Unemployment rose from 5.5 per cent of the labour force in 1971, to 9.9 per cent in 1981 and up to 16.7 per cent as recently as 1993. The early 1980s therefore were

characterised by a sense of gloom; growth was stagnant and debt service payments were consuming more and more of tax revenue (from 18 per cent in 1980 to 25 per cent in 1987). By the late 1980s emigration had again a marked feature of Irish life, rising from 27,000 in 1987 to 46,000 in 1989. While much attention has been paid to the actions of the incoming Fianna Fáil administration in March 1987 in cutting state expenditure severely in order to bring the state's finances under control (see Mac Sharry and White, 2000), more crucial to subsequent success were the policy innovations of the period. A central policy shift followed the Telesis Report of 1982 into industrial policy. This was very critical of the state's exclusive dependence on foreign multinationals and urged greater support for indigenous industry. As Ó Riain puts it, it "did cause a stir within the policy community" and "the general tenor of policy did shift through the 1980s to consider some of the recommendations of the Telesis Report" including a reorganisation of the Industrial Development Authority (IDA) into two divisions in 1988, one for foreign-owned industry and one for Irish-owned (Ó Riain, 2004: 181). In this period a new set of industrial development agencies focused on indigenous industries and, crucially, on business and technological upgrading through networking in a proactive way local business entrepreneurs with university research centres and state officials. In his work, Ó Riain has charted the upgrading of investment, R&D, skills, and productivity that took place in key sectors of the Irish economy in the 1980s and 1990s through this innovative alliance of state officials, business entrepreneurs and university research institutes. Many of these entrepreneurs were young people who had gained experience working in multinational enterprises either in Ireland or abroad. Most noteworthy was the emergence of an Irish software industry, which Ó Riain calls "the leading edge of indigenous industrial upgrading in the Celtic Tiger" (Ó Riain, 2004: 56). In this way also, the productive foundations were being laid for Ireland to be able to take advantage of the rising amounts of US investment seeking to enter the European market following the completion of the Single European Market in 1987.

The other major policy initiative of this period, widely credited with playing an essential role in Ireland's success, is social partnership. While concertative agreements at national level between employers and labour facilitated by the state, particularly in negotiating national pay agreements, had been tried in the 1960s and 1970s, this national approach was abandoned in 1980 amid the crisis of the national finances. However, the policy making body, the National Economic and Social Council (NESC) made up of representatives of the state, employers' bodies, farmers' organisations and the trade unions, continued to elaborate an economic and social analysis agreed among the social partners and its 1986 report entitled *A Strategy for Development* became the basis for the incoming government in 1987 to bring the social partners together to negotiate a three-year Programme for National Recovery (PNR). This agreement between the social partners, not only on national pay awards, but on key elements of economic and social policy, has

become institutionalised as a feature of Ireland's governance structures; to date seven such agreements have succeeded one another with that signed in 2006 covering a ten-year period and entitled *Towards 2016*. Furthermore, the partnership principle has been extended to regional and local level in such bodies as City and County Development Boards and the local area-based partnership bodies with a brief for economic and social development in deprived areas. In 1996, national social partnership bodies were expanded to include Community and Voluntary sector organisations as full members; these represent private, charitable and voluntary bodies working with people in poverty, people with disabilities, women, and other vulnerable and marginal groups. Social partnership, seen by some as a form of "negotiated economic and social governance" (O'Donnell, forthcoming) is more widely seen to have played a decisive role in ensuring wage moderation at a time of high economic growth thus safeguarding Ireland's competitiveness internationally. This was achieved through trading moderate national wage increases for reductions in income taxes. In general terms, the partnership approach to governance is seen to have maintained industrial and social cohesion at a time of major social change.

This period also saw a new activism in social policy with the establishment of new agencies and programmes. Notable among these were the National Anti-Poverty Strategy (NAPS), one of the final acts of the Irish state's first left-wing social welfare minister, Proinsias de Rossa (1994-97), and the Equality Authority. The NAPS charted the rise in poverty since 1973, analysed its causes and set time-bound targets for poverty reduction: to 'aim at considerably reducing the numbers of those who are "consistently poor" from 9-15% to less than 5-10%' between 1997 and 2007 (NAPS, 1997: 9). As shown in Table 5 below, these were more than met, though much debate has taken place about the adequacy of this measure particularly in the context of a booming economy. In 2002, the NAPS was revised and integrated with the EU National Action Plan on Social Inclusion. The Equality Authority, established by the state in 1999, has as its brief to reduce discrimination under nine named headings, including gender, sexual orientation, political and religious beliefs and membership of the Travelling community. This it does largely through public education and through taking employers or service providers to court when it believes it has strong evidence of discrimination.

A focus on policy innovation must not distract from the fact that this innovation took place in parallel to continuity in the basic features of the state's economic and social policies. Though industrial policy had been broadened beyond an exclusive focus on winning FDI, the key element of the IDA's armoury in attracting firms to Ireland, namely a low-tax regime on company profits (a 10 per cent tax rate on manufacturing profits guaranteed for 20 years was introduced in the early 1970s and in 2003 this became a blanket 12.5 per cent tax on all trading companies). This has again and again been promoted by policy makers and senior company managers as the single most important reason for Ireland's success in

winning high levels of FDI. Just as industrial policy maintained its continuity, so too did social policy. With over one-quarter of the working age population reliant on social welfare payments in the mid 1980s, welfare spending rose steadily over this period. More significantly, Ireland saw few of the reforming moves made in countries like Britain both to rein in welfare spending and to make it more conditional on labour market participation (so-called ‘workfare’). Though conditions for certain schemes were tightened in this period, a number of new payments for carers were introduced. Paradoxically, at a time of economic recession, Ireland’s welfare spending increased faster than the EU average over this period, from 86 per cent of the EU15’s average in 1974 to 104 per cent by 1987 (Cousins, 2005: 37).

THE CELTIC TIGER: DEVELOPMENTAL TRANSFORMATION, 1987-2006

Recovery was not spectacular at first as economic growth only averaged 3.6 per cent of GNP between 1987 and 1993 and by the latter year 294,000 people were still unemployed. However, after 1993 both growth and employment showed considerable rises as shown in Tables 2 and 3. This shows that the boom (characterised by rates of GDP growth of over 6 per cent) lasted from 1994 to 2002.

Table 2: Irish economic growth, 1990-2005

Year	GDP	GNP
1990	1.9	2.5
1991	3.3	1.9
1992	2.6	2.6
1993	5.8	6.3
1994	9.5	8.0
1995	7.7	7.2
1996	10.7	9.0
1997	8.9	8.1
1998	8.5	7.7
1999	10.7	8.5
2000	9.2	9.5
2001	6.2	3.9
2002	6.1	2.7
2003	4.4	5.1
2004	4.3	3.9
2005	5.5	5.4

Source: CSO National Accounts

The impact of this economic growth on the labour market was perhaps its greatest contribution to welfare. While the labour force as a whole grew from 1.36

million in 1992 to 2.1 million in 2006, the decline in unemployment – for long a deeply institutionalised social problem in Irish society – marked a decisive break with the past. This is seen in Table 3.

Table 3: Irish employment trends, 1992-2006

Year	Labour force (000s)	Employment rate among 15-64 years old (%)	Unemployment rate (%)
1992	1,364	51.1	15.4
1993	1,386	51.7	15.6
1994	1,423	53.0	14.3
1995	1,452	54.4	12.3
1996	1,498	55.4	11.7
1997	1,560	57.5	9.9
1998	1,645	60.6	7.5
1999	1,713	63.3	5.6
2000	1,767	65.2	4.3
2001	1,810	65.8	3.8
2002	1,845	65.6	4.3
2003	1,882	65.1	4.6
2004	1,920	65.5	4.4
2005	2,015	67.1	4.2
2006	2,108	68.1	4.3

Source: FÁS Irish Labour Market Review 2006

More detailed data allow us to examine where most of the employment growth took place. This is given in Table 4 for the three years 1998, 2001 and 2006 and is broken down for 11 key employment sectors:

Table 4: Irish sectoral employment trends, 1998-2006 (000s)

Sector	1998	2001	2006
Agriculture, Forestry and Fishing	136.0	122.5	114.5
Production industries	302.4	318.1	288.5
Construction	126.1	180.0	262.7
Wholesale and retail trade	211.1	247.8	284.4
Hotels and Restaurants	97.8	103.8	116.3
Transport, Storage and Communication	87.0	111.1	120.7
Financial and other Business Services	171.1	217.1	267.3
Public Administration and Defence	70.9	81.3	105.1
Education	93.3	103.8	135.6
Health	113.9	144.0	201.2
Other	84.5	92.4	120.6

Source: CSO labour market statistics

The principal trends can be highlighted. The long-term decline in the agricultural sector has continued over these years. Manufacturing employment, which had been growing over the decades since the 1930s reached its peak in 2001 and began to decline since. The largest increase in employment took place in the construction sector which more than doubled its employment over these years and in 2006 employed about one eighth of the national labour force. The other major increase took place in the financial sector, reflecting in part the growth of the Financial Services Centre in Dublin. Since most of those employed in the education and health sectors are public employees, the growth in these sectors, coupled with that in public administration and defence, shows the significant contribution that continues to be made to employment growth by the public sector. Alongside these sectoral changes was a significant increase in the participation of women in the formal labour force. As recently as 1996, there were 582,400 women in the labour force but 825,500 women were not in the labour force; women's participation rate was 41.4 per cent. Ten years later the number of women in the labour force had increased to 819,000 and Ireland's participation rate at 58.3 per cent had surpassed the EU average of 56.3 per cent.

The evolution of poverty and inequality over the course of the boom has elicited widespread public concern in Ireland. Up until recently, data on poverty in Ireland was gathered under two headings – consistent poverty and relative poverty. The former is a combination of relative income lines together with deprivation measured according to a list of indicators such as having a meal with meat, chicken or fish every second day, having new rather than second-hand clothes, having a warm waterproof overcoat and two pairs of strong shoes. Absence of these indicates deprivation (for a fuller explanation, see Whelan et al., 2003: 34-35). This was adopted as the key indicators for the National Anti-Poverty Strategy (NAPS) thus giving the indicator major political importance. Trends in this indicator over the course of the boom are given in Table 5.

Table 5: Evolution of households in 'consistent' poverty, 1994-2001 (% in poverty)

Poverty lines	1994	1997	2000	2001
40% average income	2.4	3.1	2.7	2.5
50% average income	9.0	6.7	4.5	4.1
60% average income	15.1	9.7	5.8	5.2

Sources: Whelan et al. 2003: 38

However, trends in relative poverty, measured as the percentage who fall below certain percentages of mean income levels give a somewhat more complex picture of what was happening to poverty. This is shown in Table 6.

Table 6: Evolution of relative household poverty, 1994-2001
(% in poverty)

Poverty lines	1994	1997	2000	2001
40% average income	4.9	6.3	10.6	9.8
50% average income	18.6	22.4	23.7	23.8
60% average income	34.2	34.3	32.0	32.2

Sources: Whelan et al. 2003: 11

Since the initiation of the EU Survey on Income and Living Conditions (EU-SILC) in 2003, data on poverty in Ireland are grouped into somewhat different categories making them consistent with data across the EU. However, this means that it is more difficult to assess longer-term trends. Since 2003, the EU's 'at-risk-of-poverty' rate has been more centrally adopted in measuring poverty in Ireland. This is the share of persons with equivalised income below a given percentage of the national median income (note that median income is used in this measure whereas mean income had been used previously in Ireland). The percentage of income used is 60 per cent. Trends in the gini coefficient and in income distribution (the ratio of the income of those in the top income quintile to those in the bottom quintile) are also now regularly measured. Trends in these measures are given in Table 7.

Table 7: Trends in poverty and inequality, 2000-05

	2000	2001	2003	2004	2005
Relative 'at-risk-of-poverty' gap	19.3	20.7	21.5	19.8	20.8
Gini coefficient	30.2	30.3	31.1	31.8	32.4
Income distribution	4.7	4.8	5.0	5.0	4.9

Source: CSO, 2006

Placing these data in comparative terms, the CSO points out that in 2005 Ireland has the highest at-risk-of-poverty rate in the EU, matched only by Portugal and the Slovak Republic, and significantly higher than the average EU25 rate of 16 per cent. Significantly, when all social transfers were excluded, the Irish rate was the 7th highest at 39 per cent but the inclusion of social transfers only reduced the Irish risk by 18 percentage points compared with an average 25 percentage points across the EU as a whole (CSO, 2006: 5). A final indicator of Ireland's comparable distributional position in Europe is taken from EU data giving the shares of national income as a percentage of GDP throughout the Union. In 2001, the share of national income that went to employees in Ireland, at 39.9 per cent, was the second lowest

after Greece and compared with an EU15 average of 51.3 per cent. The share going to profits in Ireland, at 48.7 per cent was the second highest, again after Greece, and compared to an average share of 36.3 going to profits in the EU (Eurostat, 2004). These data point to the fact that Ireland's economic success has been accompanied by significant distributional inequalities. These points not just to the distributional inequalities in the ways the benefits of the boom were shared, but also to the state's overall welfare effort. Cousins' points to the fact that as average spending on welfare throughout the OECD continued to rise after 1987, Irish spending began to fall so that its social security transfers declined from 11.4 per cent of GNP in 1994 to only 9.1 per cent in 2002, by far the lowest in the EU15. Eurostat figures show that, in 2002, Ireland's overall spending on social protection, at 19.3 per cent of its GNP (or 15.9 per cent of its GDP) was well below the EU average of 27.4 per cent and the lowest of the EU15. Indeed, it was lower than Slovenia, Poland, Hungary, the Czech Republic and on a par with Slovakia. Health and education spending, as a percentage of GNP, were almost exactly the EU average.

INTERROGATING IRELAND'S SUCCESS

This correlation of economic success with poor distributional outcomes in the Irish case raises a major puzzle. Why has Ireland's welfare effort not kept pace with its growing wealth? Answering this question will require firstly identifying the essential features of what some call Ireland's 'model of development' before then interrogating aspects of the Irish political and party system, its relationship to civil society actors and interest groups and the way in which these various actors have been institutionalised in social partnership. This will help to identify some political and social particularities of the Irish case that are quite distinctive and not easily read by outside observers.

If there is such an entity as the "Irish model" it is essentially a low-tax model. Mention has already been made of the fact that Ireland's tax on companies has been comparatively very low (though some of the new entrants to the EU are now seeking to emulate this tool of policy with some success) and income taxes, traditionally quite high in Ireland, have been significantly lowered over the period of the boom to the point where Irish workers now pay the lowest direct tax in Europe as a percentage of the cost of employment, according to a survey by Deloitte (*The Irish Times*, Dec 22nd, 2006). Alongside this, taxes on capital gains have been significantly lowered while no taxes exist on private ownership of property. A tax on consumption of all goods and services, Value Added Tax, is meanwhile relatively high at 21 per cent. This largely confirms the view stated by the Taoiseach (prime minister), Bertie Ahern, that Ireland "is now a low-tax economy under all the headings by European Union and OECD figures and we are going to keep it that way" (*The Irish Times*, Nov 18th, 2006). Not surprisingly, the Irish government's current tax and non-tax receipts fell over the course of the boom

(between 1993 and 2000) from 38.6 per cent of GDP to 33.8 per cent (OECD, 2002). Paradoxically, for most of the period of the Celtic Tiger, changes to income tax resulted in redistributing income not from the well-off to the poor but in the opposite direction, as the National Economic and Social Council (NESC) has acknowledged: "From 1995 to 2002, a regressive pattern was dominant with Budgets improving the disposable income of the top three quintiles [top 60 per cent of income earners] by significantly more than the bottom two quintiles [bottom 40 per cent]" (NESC, 2005: 81). This has only been reversed since 2004. In this way, therefore, both in its structure and in its operation over the period of the economic boom, Ireland's tax system illustrates how, far from using these mechanisms to correct the inequalities generated by a market economy, it has actually contributed to worsening these inequalities. It remains to be seen whether the somewhat more progressive redistribution that has characterized the national budgets since 2004 corresponds to the "political budget cycle effect" which Cousins noted as a feature of Irish state budgets since 1980, notably a short-term rise in government social spending in periods prior to elections (Ireland had local elections in 2004 and will have a general election in 2007) (Cousins, 2005: 125). Clearly, then, the low-tax nature of the Irish model restricts government's room for manoeuvre in addressing social issues. Boyle describes Ireland as "Europe's most anorexic welfare state" as it tends to deal with symptoms while neglecting the deeper roots of problems, offering "cheap, flexible solutions that avoided long-term commitments" (Boyle, 2005: 113).

To understand the emergence of this "model", the context of Ireland's political and party system needs to be examined. For, unlike the political systems in most other European countries, Irish politics are dominated by a highly clientelist political culture in which members of parliament (known as TDs) define their role much more as go-betweens between their constituents and the bureaucracy, rather than as legislators. Contesting seats in multi-seat constituencies where their biggest rival can be a candidate from their own party, forces TDs to compete against one another in responding to constituents every complaint. This weakens greatly the role of ideology in Ireland's political culture and local issues often seem to dominate political discourse over and above the larger and more important national and global issues. The origins of the Irish party system furthermore reinforce this localist and non-ideological orientation. The two principal parties emerged from the split in the old Sinn Féin party that had led the struggle for independence. The split occurred not on lines of social ideology but of constitutional principle: the republicans refusing to accept the dominion status offered to the new state at independence. Following their defeat in the civil war, they established Fianna Fáil which quickly became the state's largest party and has dominated politics ever since. While it began its days as a more socially progressive party, with a strong base of support among urban and rural workers and small farmers, it has over the decades transformed itself into a party of big business (with particularly strong links

to property developers and speculators) while continuing to maintain sections of its old support bases. Fine Gael, the successor of the party that won the civil war (with its traditional base among large farmers and professional interests) and the small Labour Party (with its appeal to a liberal middle class and to the organised working class) have again and again been forced to coalesce in order to remove Fianna Fáil from power. What to many commentators might seem the more natural bedfellows in Irish politics would be Fianna Fáil and the Labour party; only once (1992-94) did they enter a coalition government together and the Labour party suffered badly at the polls since as a result of this. Meanwhile, a very small neo-liberal party, the Progressive Democrats, which emerged out of a split in Fianna Fáil in the late 1980s, has managed to exercise a major influence despite its very small size, as it has provided the ideological backbone to the two coalition governments it has formed with Fianna Fáil since 1997. In the Irish political system, professional civil servants ("the permanent government" as they are often called by Irish political scientists) tend to exercise a broad influence over policy and its execution.

The role of interest groups in Irish politics has, until recently, received little attention. While conservative groups like the Catholic Church's hierarchy and the medical profession can be identified to have played at times a decisive role in blocking or diluting legislative proposals they did not like, the role of such interest groups is perceived to be more negative than positive most of the time – blocking change they do not like but rarely advocating policies or making proposals. The trade union movement, while extensive, was very fragmented and its congress lacked authority within the movement. Similarly with the employers' bodies: until the early 1980s they were relatively weak and poorly representative. Overall, it can be said that Irish civil society was (and remains) very state-dependent, a feature that is consistent with the clientelistic nature of the political system and the role of TDs within it. The nature of the welfare system that has grown up in this situation is heavily weighed in favour of the interests of the middle classes though, paradoxically, middle class interest groups have rarely emerged to promote those interests. In a classic description of Ireland's welfare state, O'Connell and Rottman wrote:

Inequalities were neither eliminated nor even greatly abated. While all citizens may have come to have virtually equal entitlements to a comprehensive range of social rights, services and benefits, the interaction of those rights with market-generated inequalities generally results in the reproduction of inequality. What has evolved is a pay-related welfare state in which minimal levels of universal entitlement to income and services are supplemented by market-based resources. Thus, we argue that the expansion of the welfare state, and of social citizenship, was accompanied in such a manner as to leave privilege essentially undisturbed (O'Connell and Rottman, 1992: 206).

As if to underline how little has changed over the course of the boom years, Cousins more recently wrote that "that the interests of the more politically dominant

classes such as business, the upper middle class and (at least until recently) farmers have been mediated by the state to develop a two-tier welfare state which provides a basic level of support to all and focuses particular benefits towards the middle classes through the tax system” (Cousins, 2005: 115).

It is interesting that, as these various interest groups became more organised in the early 1980s, that they were drawn into social partnership from 1987 onwards. The trade union movement was particularly successful in 1979 and 1980 in mobilising some of the largest protests seen in Ireland demanding a reform of the taxation system. In response to the social challenges that emerged during the severe recession of the early 1980s a vibrant community and voluntary sector emerged as a lobby group for more socially progressive policies, particularly in welfare areas. These constituted some of the most articulate voices of protest to government actions during that period. However, since the emergence of social partnership, these groups have all been brought within the concertative institutions thus losing their independent voices to a large extent. In examining their influence within these institutions, Hardiman concludes that “the input of organisations representing the most disadvantaged is likely to be treated as a “residual category”, confined to securing whatever is left over after the established interests have had their say” (Hardiman, 1998: 141).

CONCLUSIONS

This paper has broadly identified the principal phases of Ireland’s development from independence up to the boom of the 1990s known as the Celtic Tiger. Since the central concern of the paper has been the connection between development regimes and poverty outcomes, the paper has shown how the greater neo-liberalisation of the Irish economy in the late 1980s and early 1990s succeeded in putting it on a high growth path but at the cost of greater relative poverty and inequality. The paper then sought to explain the reasons for these paradoxical outcomes through examining the nature of Ireland’s development model and the political and institutional context in which it has evolved, including the relative power of interest groups. The principal conclusion is that growing inequality is not an accidental aspect of Ireland’s political economy but is a structural feature of it, accounted for by the low-tax model that drives economic growth and the cooptation of interest groups who might otherwise pressure for the needs of the marginalised to be given greater consideration by public policy makers.

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