

Poverty Reduction and Policy Regimes Country Overview Paper

Explaining Ireland's Development *Economic Growth with Weakening Welfare*

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Acronyms

CME	coordinated market economy
CSO	Central Statistics Office
DETE	Department of Enterprise, Trade and Employment
DOF	Department of Finance
DSFA	Department of Social and Family Affairs
DOT	Department of the Taoiseach
EC	European Community
EEC	European Economic Community
ESRI	Economic and Social Research Institute
EU	European Union
EU–SILC	European Union Survey on Income and Living Conditions
FÁS	An Foras Áiseanna Saothair (<i>Training and Employment Authority</i>)
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
GNP	gross national product
GP	general practitioner
IDA	Industrial Development Authority
IFSC	International Financial Services Centre
INOUE	Irish National Organisation for the Unemployed
ISI	import substitution industrialization
LME	liberal market economy
NAPS	National Anti-Poverty Strategy
NESC	National Economic and Social Council
OECD	Organisation for Economic Co-operation and Development
PD	Progressive Democrat
TD	Teachta Dála (<i>member of the Irish Parliament</i>)
UK	United Kingdom
US	United States

Summary/Résumé/Resumen

Summary

This paper is divided into three main sections. The first section (parts 1 and 2) offers an overview of the principal development strategies used by the Irish state, the social policies associated with them and their impact on poverty. The survey of policy regimes is divided into two periods: from independence in 1922 to 1987 and from 1987 to 2006. The first of these periods is further divided into subperiods: (i) 1922–1932, a period of fiscal conservatism and minimal developmental or welfare activity; (ii) 1932–1959, a period of very active economic and social developmentalism that, however, ended with serious fiscal and social problems; (iii) 1959–1973, a period of economic and social liberalization with a significant expansion of welfare effort; and (iv) 1973–1987, a period of major recession and growing national indebtedness but of large increases in welfare spending and of timid moves toward welfare reform. Box 1 shows how the state was actively involved in housing provision, especially since 1932, but that budgetary cutbacks in 1987 resulted in a steep decline in public housing and much greater reliance on the market for housing provision. The overall trends over this 65-year period show a stagnant labour force, shifts in employment from agriculture to industry and services, the constant safety valve of emigration, low female participation in the labour force and a modest rise in per capita income over much of the period. Fragmentary evidence on poverty and inequality shows Ireland to have high rates compared to neighbouring countries.

Part 2 offers an overview of the Celtic Tiger period, divided into two subperiods: 1987–2000, its creation and flowering, and 2000–2006, post-Celtic Tiger Ireland. In the first subperiod, there was spectacular growth in gross domestic product/gross national product (GDP/GNP), in the labour force and in employment from the early 1990s. State industrial policy was successful in winning high levels of foreign direct investment (FDI), and there was significant policy innovation by the state toward indigenous industry and mechanisms of economic and social governance; yet there was a weakening welfare effort as social spending growth failed to keep pace with the growth in GDP/GNP. Somewhat lower but still very healthy economic growth rates over the second subperiod mask a change in the economy as growth came to depend more and more on domestic demand—particularly construction and consumption—and export sectors slowed. Services came to take on a more central role in economic activity, and box 2 examines the contribution of Dublin’s International Financial Services Centre and how it operates as “an enclave economy” with weak links to the rest of the national economy. This subperiod saw no significant social reforms, though there was a certain reversal of the state’s weakening welfare effort. Overall, the period from 1987 to 2006 was one of immense changes in the Irish economy and society, which are illustrated in the final section of part 2. The population, the labour force, employment and living standards all increased dramatically. Yet, over the same period, relative poverty and inequality grew and remained high by comparison with European Union (EU) and Organisation for Economic Co-operation and Development (OECD) countries.

The second section of the paper (part 3) examines Ireland’s present welfare regime in greater detail and is divided into three subsections. The first of these examines the nature of the welfare regime and how it has evolved, illustrating how the Irish welfare system relies substantially on non-contributory benefits, many of them means tested. It has developed in an incremental and ad hoc fashion, adding new benefits as new needs became identified. The taxation system relies significantly more on taxes on goods and services as a source of revenue than is the case in other EU countries, and the reliance on corporation and property sales tax (stamp duty) is regarded as being vulnerable to downturns in these sectors. Overall, Ireland’s tax and welfare systems are seen as heavily favouring middle-class interests. Box 3 reports on Ireland’s health inequalities and on the widening nature of its two-tier health system. The second subsection analyses the effectiveness of Ireland’s welfare regime in reducing poverty and inequality, and assembles a range of data to prove that it failed to overturn privilege and in many ways acted to reinforce it, and lags well behind the EU average in its ability to reduce poverty. The final

subsection discusses the impact of globalization on Ireland's welfare regime and concludes that the construction of a national discourse about globalization has reinforced policy choices about low taxation and the residual nature of welfare policy, and spurred a slow commodification of welfare. This has served to strengthen existing policy monopolies and to limit policy change. Box 4 critically examines the proposal from the National Economic and Social Council (NESC) for Ireland to become a "developmental welfare state", finding it ambiguous and ungenerous, while its failure to discuss how it might be funded weakens its credibility.

Arguing that the nature of Ireland's policy regimes and the place of welfare within them reflect the nature of the country's political institutions and the ways interest groups interact with them, the paper's third section (part 4) turns to the role of politics and political institutions in accounting for the policy regimes that are surveyed in parts 2 and 3. The first subsection examines the nature and functioning of the country's party and electoral systems and concludes that these have given rise to a culture of short-term pragmatic politics due to the cross-class, non-ideological and essentially populist nature of the major parties and to the impact of the Single Transferable Vote system of proportional representation in fostering a localized and personalized practice of politics. Box 5 outlines the growth of the state's labour market agency, An Foras Áiseanna Saothair (FÁS), to illustrate the functioning of Ireland's "anorexic welfare state". The second subsection examines the influence of interest groups and devotes most of its attention to the operation of Ireland's system of "social partnership", both in terms of the influence of the various social partners within it and its impact on poverty reduction. The paper reports that, far from being a form of social democratic concertative mechanism between capital and labour, social partnership has been used as a vehicle for imposing a neoliberal agenda and that the organizations representing the most marginalized have only residual influence within it. Social partnership's social objectives are found to be vague and aspirational, and subservient to the state's primary goals of economic competitiveness. The subsection ends by examining why the trade unions and the Community and Voluntary sector remain part of social partnership in this situation. It concludes that, despite their very limited influence on outcomes and in the absence of any alternative strategy that might achieve more for their constituencies, leaders in both groups see the balance of advantage as lying in remaining at the table rather than leaving it. The third subsection turns to the Irish state, examining its nature and functioning and how policy is made within it. It reports on a debate about whether the Irish state is best characterized as a new form of developmental state, a network development state, or a competition state.

The paper ends by situating Ireland in two literatures: varieties of capitalism, and typologies of welfare states. It sees Ireland as a liberal market economy, though with the "puzzle" that it has some of the coordinative mechanisms associated with the coordinated market economies. Turning to the typologies of welfare states developed by Esping-Andersen in his book, *The Three Worlds of Welfare Capitalism*, the paper concludes that Ireland is closest to the liberal model.

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Résumé

Ce document se divise en trois grandes sections. La première section (parties 1 et 2) donne une vue d'ensemble des principales stratégies de développement appliquées par l'État irlandais, des politiques sociales qui y ont été associées et de leur impact sur la pauvreté. L'étude des orientations politiques se divise en deux époques: de 1922, date de l'indépendance à 1987 et de 1987 à 2006. La première de ces époques est divisée en plusieurs périodes: (i) 1922-1932, années de conservatisme budgétaire, marquées par une activité minimale de développement ou de protection sociale; (ii) 1932-1959, période d'intense activité de développement économique et social qui se termine, cependant, par de graves problèmes budgétaires et sociaux; (iii) 1959-1973, période de libéralisation économique et sociale pendant laquelle l'effort de protection

sociale connaît une expansion sensible; et (iv) 1973–1987, période de nette récession qui se caractérise par l'accroissement de la dette nationale mais aussi par de fortes augmentations des dépenses sociales et de timides tentatives de réforme de l'Etat providence. L'encadré 1 montre que l'Etat s'est investi dans la construction de logements, surtout depuis 1932, mais que les réductions budgétaires en 1987 ont entraîné une diminution soudaine de l'offre publique de logements et une dépendance beaucoup plus forte de ce secteur envers le marché. Pendant ces 65 ans, la tendance générale est à la stagnation de la population active, à un glissement des emplois de l'agriculture vers l'industrie et les services, à une émigration constante qui sert de soupape de sécurité, à un taux d'activité faible chez les femmes et à une modeste hausse des revenus par habitant pendant la plus grande partie de la période. Les données disponibles, fragmentaires, montrent que l'Irlande a un taux de pauvreté et des niveaux d'inégalité élevés par rapport à ses voisins.

La deuxième partie offre un panorama général de la période du Tigre celtique, qui se subdivise en deux tranches: les années 1987 à 2000, celles de sa naissance et de son épanouissement, et 2000 à 2006, ou l'après-Tigre celtique. Pendant la première tranche, le produit intérieur brut/produit national brut (PIB/PNB), la population active et l'emploi connaissent en Irlande une croissance spectaculaire à partir du début des années 1990. Grâce à sa politique industrielle, l'Etat réussit à attirer d'importants investissements étrangers directs (IED) et, par ailleurs, fait preuve d'innovation dans sa politique envers l'industrie nationale et les mécanismes de gouvernance économique et sociale; pourtant l'Etat providence ralentit ses efforts car les dépenses sociales n'augmentent pas au même rythme que le PIB/PNB. Des taux de croissance un peu plus faibles mais encore très vigoureux pendant la deuxième tranche masquent une économie en évolution dont la croissance devient de plus en plus dépendante de la demande intérieure—en particulier du bâtiment et de la consommation—et dans laquelle les secteurs d'exportation marquent un ralentissement. Les services en viennent à occuper une place centrale dans l'activité économique, et l'encadré 2 met en lumière la contribution de Dublin comme centre international de services financiers et son fonctionnement d'économie "d'enclave", sans liens étroits avec le reste de l'économie nationale. Ces années-là ne se signalent par aucune réforme sociale importante, malgré un certain revirement de l'Etat providence, dont l'effort allait en s'affaiblissant. Dans l'ensemble, la période de 1987 à 2006 est marquée par de profonds changements de l'économie et de la société irlandaises, qui sont illustrés à la fin de la deuxième partie. La population, la population active, l'emploi et les niveaux de vie ont tous augmenté de manière spectaculaire. Cependant, la pauvreté relative a progressé et les inégalités se sont creusées et l'une et les autres sont demeurées fortes par rapport à celles des pays de l'Union européenne (UE) et de l'Organisation de coopération et de développement économiques (OCDE).

La deuxième section du document (partie 3) examine plus en détail le régime social actuel de l'Irlande. Elle comprend trois parties. La première examine la nature du régime social et l'évolution qu'il a subie, montrant que le système social irlandais repose pour une large part sur des prestations qui ne sont pas financées par des cotisations et qui, pour la plupart, sont liées à

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