

THE FUTURE OF SOCIAL PARTNERSHIP IN IRELAND

**A DISCUSSION PAPER PREPARED FOR THE NATIONAL
COMPETITIVENESS COUNCIL**

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May 2001

CONTENTS

SUMMARY

1. INTRODUCTION

2. A PERSPECTIVE ON THE EVOLUTION OF PARTNERSHIP

2.1 Analytical Foundations of Irish Social Partnership

2.2 The Self-Understanding of Irish Social Partnership

2.3 The Achievements and Limits of Partnership

2.4. The Dual Evolution of Social Partnership

3. NEW CHALLENGES IN A CHANGING CONTEXT.

3.1 Listing Public Policy Tasks

3.2 Placing Policy Tasks in a Coherent Policy Framework

3.3 Wage Bargaining

3.4 New Approaches to Government and Public Administration

4. PARTNERSHIP IN OTHER EUROPEAN COUNTRIES

4.1 Introduction

4.2 Wage Bargaining and Industrial Relations

4.3 Macroeconomic Policy, the Labour Market and Social Security

4.3 Conclusions and Tentative Lessons

5. OPTIONS FOR THE DEVELOPMENT OF PARTNERSHIP

5. 1: Option 1: Abandon Partnership

5.2 Option 2: Preserve the Core Institutions

5.3 Option 3: Retreat to the Core Partnership Process

5.4. Option 4: A Partnership Programme without a Pay Agreement

5.5 Option 5: Use Partnership as an Aid to Achieve the Core Substantive Tasks

5.6 Towards a New Model of Public Governance and Partnership

APPENDIX: WAGE BARGAINING IN SELECTED EUROPEAN COUNTRIES

REFERENCES

SUMMARY

1. INTRODUCTION

Most have little doubt that social partnership has been a key factor in the economic success of the country since 1987. Yet there is a palpable sense of unease about partnership. Among the anxieties are the following:

- Partnership no longer seems to provide the stable pay and industrial relations climate which was one of its great benefits;
- Although partnership has helped to produce an economy that works, there are critical areas of Irish life—such as transport, health care, planning, housing, waste management, poverty, drug-abuse, childcare, parts of education, immigration—where public policy does not work;
- Although partnership has produced a responsive and sophisticated system of public policy making at national level, citizens regularly meet unaccountable public institutions;

Yet most believe that it would be a grave mistake to abandon social partnership. This paper offers an explanation for this combination of feelings and outlines five options for the future.

2. A PERSPECTIVE ON THE EVOLUTION OF PARTNERSHIP

2.1 Analytical Foundations of Partnership: A Consistent Policy Framework

There are three requirements for a consistent policy framework in a small, open, European democracy:

(i) **Macroeconomic:** a policy approach which guarantees low inflation and steady growth of aggregate demand;

(ii) **Distributional:** an evolution of incomes which ensures competitiveness, industrial peace and which is fair;

(iii) **Structural:** a set of supply-side policies which promote structural change to maintain competitiveness in a changing external environment.

Through the 1990s, the first of these requirements was met by adherence to the European Exchange Rate Mechanism and transition to EMU. The second was met by a negotiated determination of incomes. This negotiated approach also encompassed taxation, the public finances, monetary policy, the main areas of public provision and social welfare. In pursuit of the third requirement, NESC and others advocated a programme of structural reform in taxation, social welfare, housing, industrial policy, manpower policy and the management of public enterprises.

2.2 Beyond Bargaining: Deliberation and Problem Solving

While partnership involves a significant amount of bargaining and deal making—reflecting the functional interdependence between the partners—this is not the whole story. Partnership also involves the players in a process of deliberation that has the potential to shape and reshape their understanding, identity and preferences. Shared analysis of economic and social problems and policies has been a key aspect of the partnership process. The key to the process would seem to be the adoption of ‘a problem-solving approach’. This suggests that rather than being the *pre-condition* for partnership, consensus and shared understanding are more like an *outcome*.

2.3 The Achievements and Limits of Partnership

The period of social partnership has been one of unprecedented economic success in Ireland. Successive governments and the social partners see partnership as an important factor in this turnaround. The partnership approach would seem to have had a significant impact on the Irish economy through three channels: wage bargaining, coherent and consistent macroeconomic policy and change in supply-side factors. Business analysts remain divided on the extent and depth of transformation in business organisation and industrial relations.

However, any assessment of the achievements and limits of partnership must consider the European dimension. It can be argued that Irish policy and partnership relied heavily on the European internal market programme to achieve change in the public utilities and protected sectors. Another limitation of partnership, in the eyes of many, is that it has not done enough to counter a significant widening in earnings disparity or to secure social inclusion.

2.4 The Dual Evolution of Social partnership

We can identify a significant dual evolution of social partnership. Over the five programmes since 1987, the emphasis has shifted from macroeconomic matters to structural and supply side policies, and the range of supply-side issues has widened to address key constraints on Irish growth, such as childcare and life-long learning. This change in the substance or *content* partnership has involved a parallel change in *method*. While macroeconomic strategy can be agreed in high-level negotiation every three years, complex cross-cutting policies—on issues such as social exclusion, training, business development or childcare—cannot be devised and implemented in periodic high-level national deliberation or negotiation. Consequently, to address the growing list of supply-side issues there has been an expanding array of working groups, task-forces, ‘frameworks’ and ‘forums’ involving representatives of the various social partners. In a few areas of policy—such as long-term unemployment, rural and urban re-generation and business development—new institutional arrangements have been created to involve actors on the ground.

This is a deliberately stylised account of the evolution of partnership. Indeed, one of its purposes is to suggest that this dual movement is incomplete. Most participants feel that our success rate in structural and supply-side issues is lower than in macro issues, that while we know how to do high-level bargaining, we are unsure how to do multi-level problem solving. In most areas, the move to multi-level problem solving is limited, since the working groups are still composed of national officers of the social partners. Because of the incompleteness of this dual evolution, people are torn between more strategic co-ordination and more decentralisation.

The central argument of the paper is that the handling of these structural and supply-side policies is the major challenge facing Irish public policy and social partnership.

3. NEW CHALLENGES IN A CHANGING CONTEXT.

3.1 Opportunities and Policy Tasks

Ireland has the opportunity to make the transition to higher living standards and an improved quality of life, a fairer and more inclusive society, while providing the basis for long-term prosperity. To make this transition a number of complex tasks must be achieved:

- Ireland will have to become a learning, knowledge-based society
- Supply-side constraints on economic and social development must be removed;
- The quality of public services must be dramatically improved;
- A long-term reversal of inequality must be started;
- The coherence of national strategy must be maintained in new circumstances.

The lines of public policy action necessary to achieve these tasks are numerous and varied. They include action on human resources, infrastructure, enterprise development, regulation and social inclusion (see Section 3.1 of the discussion paper).

3.2 Revising the Content of the Consistent Policy Framework

In the face of this daunting set of policy tasks, and the economic and social strains experienced at present, it is common to ask: can partnership survive? It seems preferable to revisit the consistent policy framework, outlined above, and to identify those areas in which revision of existing policy is necessary. This suggests the following:

- **Macroeconomic policy:** remains broadly the same, with some changes deriving from the transition to EMU;
- **Distribution:** the settlement in place since 1987 is no longer adequate.
- **Structural and supply-side** problems are numerous and urgent.

The discussion paper focuses on the latter two, makes an initial assessment of how policy might change and considers how partnership can contribute.

3.3 The Distributional Settlement

All three elements of the distributional settlement seem to require reconsideration:

- Wage bargaining;
- Public Sector Pay Determination;
- Social inclusion and the social wage.

The pressure on these arrangements is largely a reflection of the dramatic change in the size and structure of the economy, the new approaches adopted within firms and changing patterns of social and family life.

There are a number of reasons why the wage bargaining component of Irish social partnership now requires careful consideration and analysis. Among these are:

- The move from ERM to full EMU;
- Shortages of labour in many areas of the economy;
- The move to new systems of public sector wage determination;
- The likely limits to a strategy of exchanging pay restraint for tax reductions;
- The need to ensure that high employment means social inclusion.
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Recent analytical work suggests that fully-centralised bargaining may not be optimal in Ireland's circumstances, and that intermediately-centralised wage bargaining can yield lower unemployment and inflation. For these reasons, fresh work needs to be undertaken on Irish wage bargaining during the remainder of the PPF. A shared understanding of the mechanisms of wage determination is vital to allow the partners distinguish between a temporary and correctable deviation and a more fundamental change in conditions.

3.4 Structural and Supply-Side Policies: How Can they be Achieved?

Ireland requires action on a wide range of structural or supply-side measures. Among these are some of the most pressing policy issues, such as transport, traffic, housing, childcare and waste management. Experience suggests that an adequate understanding and policy cannot be achieved by high-level deliberation and negotiation between the social partners alone. One response is to abandon or curtail social partnership, and rely on the administrative arms of government for the provision of supply-side infrastructures and services.

The New Centre in Public Administration

In recent decades, public systems in many countries have been reformed to improve the clarity and delivery of policy. Despite some successes, these experiments in 'New Public Management' have not achieved the 'straight line accountability' they sought and have weakened co-ordination across policy areas. As a result, governments are struggling to reconcile the equal attractions of strategic co-ordination and networked decentralisation.

However, out of these various reform experiments, innovative organisational arrangements are now emerging in public administration in many countries. They are particularly prevalent in the fields of education, local development, drug policy, policing, environmental protection and labour standards. This approach creates a novel kind of formal relation between the centre and the local: it provides transparency and possibilities for systematic learning unavailable in informal networks, without creating the rigidity of bureaucracies. Local actors are given freedom to set goals for improvement and are given the means to achieve them. In return, they must propose measures for assessing their progress and provide rich information on their own performance. The centre pools the information and ranks by reference to, periodically revised, performance measures. This approach increases local innovation, but makes the local transparent. The centre retains the right to sanction those who continually fail. But it does so to complement, not undermine, local autonomy.

There are a number of instances of this new approach in Ireland in recent years. The local partnership approach to social exclusion and development has been identified as an internationally significant experiment. The flexible reconfiguration of industrial policy, through the continuous re-design of business services, also involves a novel relation between the agencies and their client firms. Other policy initiatives which have been experimental, which seek better co-ordination of service providers, and which engage citizens/clients in new ways, exist in food safety, environmental protection, treatment of drug abusers, some local authorities' approach to waste management, disability, enterprise-level partnership and community development.

The central dilemma facing public policy and partnership derives from the fact that neither government, of a traditional kind, nor social partnership, as it currently exists, are capable of meeting the key challenges. The structural, supply-side and service policies pose major organisational challenges to government, public agencies, business, trade unions and the community and voluntary sector. Many of these policies can only be agreed, analysed and changed in the context of doing them. Indeed, where successful experimental approaches have emerged it is the local units that do the problem solving.

4. PARTNERSHIP IN OTHER EUROPEAN COUNTRIES

Social partnership has undergone a significant revival in Europe in the 1990s. The experience in other European countries suggests that:

- a shared understanding of key economic mechanisms is critical to effective economic management;
- there is a trend towards decentralisation in the 'social pacts' of the 1990s;
- the content of social partnership has changed from the model of the 1960s and 1970s, now combining wage moderation with supply-side policies aimed at employment and competitiveness—sometimes described as 'supply-side corporatism' or 'competitive corporatism';
- in some countries, a partnership approach has been seen as the only way of achieving reform of welfare and pensions policy;
- a balance must be struck between the advantages of *continuous and stable partnership*, in terms of shared understanding and trust, and the disadvantages of a *rigid model*, in which certain interests become entrenched and develop a veto on change;
- Government is a most important player in social partnership;
- Governments have on occasion considered it necessary to over-ride the social partners, and to radically reduce their influence over selected spheres of public policy.

5. OPTIONS FOR THE DEVELOPMENT OF PARTNERSHIP

Option 1: Abandon Partnership

The first option is to abandon social partnership. This is advocated by those who have opposed partnership since 1987, on the grounds that it is a distortion of the free market and/or a dilution of

parliamentary democracy. Others might argue that partnership, though effective in the past, is no longer necessary to achieve economic or social goals.

The merits of this perspective lie in its recognition of the extent to which economic change—in technology, skills, markets and monetary regime—demand that firms have flexibility to address diverse circumstances.

There are a number of limitations to this proposal. It assumes that wage bargaining cannot produce inconsistent claims on the output of the economy. It assumes that supply-side services and infrastructures, critical to future prosperity, will be provided by government or the market. Although the anti-partnership position is often part of a market ideology, it actually assumes the existence of a very strong state: one that does not need to co-operate with others in order to provide complex services, deal with a range of market failures or resist the demands of sectional interests.

Option 2: Preserve the Core Institutions of Partnership

This option is to preserve the core partnership institutions, such as NESC and NESF, on the grounds that the employers and unions are moving towards a disengagement from national-level agreement on wages and other issues. An institutional framework would then be in place when the partners again see the need for a national-level agreement.

This perspective takes seriously the beneficial effect which partnership provides: predictability, cost competitiveness and industrial peace. It correctly says that a partnership process which does not provide these is unsustainable.

But there are a number of limitations to this view. On wage bargaining, this perspective assumes that the only choice is between a fully-centralised pay agreement or no partnership programme. It also assumes that the wider determinants of competitiveness and social inclusion will be adequately addressed in the absence of a national partnership programme. This is doubtful.

Option 3: Retreat to the Core Partnership Agenda: Pay, Tax and Welfare

A third option is to bring partnership back to its strategic core—pay, tax and welfare. This perspective takes seriously the demands which an elaborate partnership system puts on all partners and the limited success of high-level partnership working groups and ‘forums’ in doing real problem solving on many of the structural and supply-side issues. A partnership agreement which concentrated on the core distributive bargain might be more strategic and more easily communicated.

However, implicit in this view is the idea that the widening of the partnership agenda is the *cause* of the difficulties in the partnership process and a loss of strategic focus. This is debatable. Indeed, it is the core distributive bargain which is under the greatest stress. If structural and supply-side issues were excluded from partnership, it seems likely that they would find their way back in, since they are key influences on competitiveness and social inclusion. This option (like Options 1 and 2) assumes that the wider structural and supply-side issues will be adequately addressed if national partnership is confined to wages, tax and welfare.

Option 4: A Partnership Programme Without a Wage Agreement

A fourth option is a partnership agreement without a national-level agreement on pay. There are a number of merits to this proposal. It recognises the fact that partnership has been a factor in an improvement in the coherence and inclusiveness of public policy and has led to experimental collaboration between social partners. It suggests that these achievements should not be made hostage to agreement between employers and unions on a national-level pay deal.

But this proposal is based on the assumption that wage bargaining can take care of itself, and can produce no problems. This might be so, but cannot be taken for granted. With or without partnership, Ireland has to devise a wage bargaining and distributive system suitable to its economy and society. This perspective also ignores the importance of a shared over-arching understanding in facilitating

incremental co-operation in a range of specific areas. In addition, the proposal suggests that the non-pay, non-distributive, elements of partnership are relatively unproblematic. This is hardly so. Finally, some important partners might be less interested in partnership if it did not contain agreement on pay.

Option 5: Use Partnership as an Aid to Achieving the Core Substantive Tasks

Option 5 is to revise the content of the 'Distributional' and 'Structural' elements of the consistent policy framework, but to radically change the approach to supply-side structures and services.

This option is based on the following propositions. The central developmental task for Ireland is the creation of a complex set of supply-side infrastructures and services. These pose major organisational challenges to existing public organisations and firms. Consequently, retreating from partnership to old-style government, leaves too much outside deliberation and problem solving to guarantee the transition to competitiveness, inclusion and quality of life. But, since high-level partnership cannot solve these problems either, delegation from government to national partnership will not meet the central development task. Neither strategic co-ordination nor networked decentralisation can guarantee effective public administration. Ireland must urgently adopt those new organisational arrangements that can combine local innovation with transparency and accountability.

In doing this, government faces the formidable task of finding and building new structures. Can partnership assist in this task? It is possible to suggest a range of ways in which it might assist in solving the complex set of supply-side and structural problems. Three are particularly important.

Radical change in the public sector, and organisational performance and partnership in the private sector, are policy imperatives now. This requires the creation of a new consensus for organisational and policy flexibility, secured through partnership or by some other means. In a consensus-oriented system it is necessary to mobilise consensus to achieve change and overcome veto points.

In certain areas, Government, its agencies and the social partners can jointly work out how certain supply-side services can be provided. This requires examination of the content, delivery, monitoring and evaluation of public policy and services. This recasting of public policy must include reconsideration of the roles of central departments, agencies, professionals, branch offices and citizens in setting goals, delivering services and monitoring performance.

Organisational change frequently throws up issues of incentives and rewards. The social partners have expertise and authority in this area. The current situation is one in which there is both an urgent need for improved services and a case for some adjustment in the distributional balance between the traded and non-traded sectors, and between the public and private sectors. Without a clear partnership consensus on organisational change, the distributional re-balancing is likely to drown out issues of service and policy reconfiguration.

The limitations of Option 5 lie in the wide agenda for partnership and the demands of organisational and policy change on many fronts at the one time. Adopting Option 5, government and the social partners may want to select a small number of critical supply-side and infrastructural problems. Solution of these selected problems in specified time would be the core of the agreement. Partners would commit to intensive problem-solving and forego their right to defend arrangements which stand in the way of necessary change.

Over time, national partnership may move back towards Option 3, concentrating on the core distributional issues of wages, tax and welfare. As public systems are reconfigured, there will be less temptation to try to address detailed supply-side problems by forming high-level working groups of social partners at national level. The problem solving will be done where most of it can only be done, at local and sectoral level.

Towards a New Model of Public Governance and Partnership

Social partnership has been a key factor in Ireland's remarkable economic transformation since 1987. In that context, the extension of partnership into structural and supply-side issues has brought it face to face with its own limitations and the limitations of the public system. The next stage of social development requires a radical change in the way both the state and voluntary associations relate to citizens. Looking at Irish social partnership in the year 2001, it seems that we are either at the end of something very good, or at the beginning of something truly astonishing.

1. INTRODUCTION

Most people in Ireland have little doubt that social partnership has been a key factor in the economic success of the country since 1987. Yet there is a palpable sense of unease about partnership. A range of anxieties can be identified:

- Partnership no longer seems to provide the stable pay and industrial relations climate which was one of its great benefits;
- The agenda of partnership has expanded enormously, so that there is little sense of strategic focus;
- On some of the key issues added to the partnership agenda—such as childcare and housing—the partnership approach does not seem to be solving problems;
- The membership of the partnership system has widened, and this has reduced the quality of analysis and the speed of decision;
- The proliferation of partnership bodies, issues and working groups is using up the time and energy of organisations and public servants;
- Participation in national-level partnership structures is weakening the social partners and voluntary bodies by creating a gap between national representation and local action;
- The spread of the partnership ethos is undermining policy-making and implementation because there is excessive consultation;
- Although partnership has helped to produce an economy that works, there are critical areas of Irish life—such as transport, health care, planning, housing, waste management, poverty, childcare, parts of education, immigration—where public policy does not work;
- Although partnership has helped to produce a great number of jobs, it seems less effective in ensuring that those jobs are made rewarding, secure and compatible with a rich family life, through the creation of enterprise-level partnership, life-long learning and flexibility;
- Although partnership has produced a responsive and sophisticated system of public policy making at national level, citizens regularly meet unaccountable and ineffective public institutions;
- Partnership has accommodated a widening disparity in incomes and living standards;
- Partnership has allowed a falling share of social spending as a percent of GDP, sometimes referred to as a falling ‘welfare effort’;
- The exchange of pay moderation for tax reduction—which has been a key feature of the partnership agreements—is reaching the end of its potential;

Given this list of anxieties, it is remarkable that most believe that it would be a grave mistake to abandon social partnership. Indeed, those who openly advocate this turn out, in almost all cases, to have been opposed to it all along.

This discussion paper offers an explanation for this strange combination of anxiety about partnership and fear of any departure from it. Section 2 outlines a perspective on the development of partnership since 1987. The analytical foundations of partnership are summarised and the partners’ understanding of the process is described. Some of the achievements and limits of partnership are then identified. The

Section ends by suggesting that Irish partnership has undergone a dual evolution—in both content and method—but that this evolution remains incomplete. This explains why many participants feel the partnership process to be over-extended, overburdened and not as effective as it should be.

Section 3 identifies some of the challenges which Irish public policy must address and the changing context in which this must be done. It is argued that the consistent policy framework used in the NESC *Strategy* reports—distinguishing between macroeconomic, distributive and structural policy—offers a useful way of viewing the policy tasks. However, the policy approaches in both the distributive and structural categories now require new analysis and some revision. Some reasons for a review of Ireland's centralised wage bargaining system are outlined. The changing capabilities of both government and the social partners, in Ireland and elsewhere, are noted in a brief review of new approaches to public management.

Section 4 provides a brief survey of social partnership in other European countries. The revival of social partnership in the 1990s is noted and the key aspects of 'social pacts' in EU member states are identified. The Section closes by identifying some conclusions and tentative lessons. A more detailed account of the evolution of wage bargaining and monetary policy in selected European countries is provided in Appendix A.

Section 5 outlines and evaluates five options for the future of partnership. One option is to abandon partnership. Another option, based on the view that the current phase of partnership is nearing an end, is to preserve the partnership institutions, for a time when the partners again see the merits of a national agreement. A third option is for partnership to focus only on the core distributive bargain—concerning wages, tax and welfare. The fourth option is a partnership programme without a pay agreement between employers and unions. The fifth option is based on the view that partnership must focus on the major developmental tasks facing Irish society—which are now the creation of a complex set of infrastructures and services and securing social inclusion. However, achievement of these tasks requires radical organisational change, which will ultimately also change partnership radically.

2. A PERSPECTIVE ON THE EVOLUTION OF PARTNERSHIP

2.1 Analytical Foundations of Irish Social Partnership

In its second *Strategy* document, 1990, the NESC set out a framework which has informed its subsequent work, and which underlies the social partners' understanding of the process. It argued that there are three requirements for a consistent policy framework in a small, open, European democracy:

- (I) **Macroeconomic:** the economy must have a macroeconomic policy approach which guarantees low inflation and steady growth of aggregate demand.

(ii) Distributional: there must be an evolution of incomes which ensures continued improvement in competitiveness, and which handles distributional conflict in a way which does not disrupt the functioning of the economy.

(iii) Structural: there must be a set of complementary policies which facilitate and promote structural change in order to maintain competitiveness in an ever changing external environment.

The manner in which a consistent and effective overall approach is developed varies considerably across countries. Consideration of how various countries, with different structures and political traditions, operate economic and social policy suggest that the system must be internally consistent, and must be suitable for the economy and society to which it is applied.

Through the 1990s, the first of these requirements was met by adherence to the ERM and transition to EMU. NESC argued that the second of these requirements is best met by a negotiated determination of incomes and that, to be really effective, such a negotiated approach must encompass not only the evolution of pay, but also taxation, the public finances, exchange rate and monetary policy, the main areas of public provision and social welfare¹. In pursuit of the third requirement, NESC and others advocated a major programme of structural reform in taxation, social welfare, housing, industrial policy, manpower policy and the management of public enterprises. It argued that such reforms are best achieved with the active consent and participation of those who work in the agencies and institutions concerned. This participation is more likely in the positive industrial relations atmosphere which can be created by national policy which, on the one hand, minimises the scope for conflict over pay and, on the other, lays down rights and duties which foster and encourage security and flexibility.

The international orientation of Irish social partnership was further underlined in the 1996 NESC *Strategy* report (1996a), which underpinned Partnership 2000. While globalisation has undoubtedly undermined many elements of national economic policy, even in large countries, there remain several areas where national policy remains crucial, and may even have become more significant. In a small, open, European democracy like Ireland:

- (i) Most of the policies which affect national prosperity are *supply-side* policies;
- (ii) Given rapid economic change, national policies must produce *flexibility*;
- (iii) Successful national supply-side policies, directed towards innovation and competitiveness, depend on the high level social cohesion and co-operation that the state can both call upon and develop.

The NESC argued that this view on globalisation has implications for the three elements of a consistent policy framework, outlined above. It underlines the importance of consensus—across both the social partners and the political parties—on macroeconomic and monetary policy. It suggests that once such a consensus is in place, and is reflected in government policy, wage bargaining and management, there is little value in active discussion of macroeconomic matters, or in agonising over the transition to, or terms of, European monetary union. The main focus of policy analysis and development should be the supply-

side measures that influence competitive advantage, and the institutional arrangements which encourage discovery and implementation of such measures (NESC, 1996a, 1996b, 1999).

2.2 The Self-Understanding of Irish Social Partnership

The development of social partnership since 1987 has involved a wide range of economic and political actors in a complex process of negotiation and interaction. Detailed, shared, analysis of economic and social problems and policies has been a key aspect of this process. Indeed, that analysis has, for a variety of reasons, focused on the partnership system itself. In its 1996 report, *Strategy into the 21st Century*, the NESC offered the following characterisation of social partnership, as it has developed since 1987:

- (i) The partnership process involves a combination of *consultation, negotiation and bargaining*.
- (ii) The partnership process is heavily dependent on a *shared understanding* of the key mechanisms and relationships in any given policy area;
- (iii) The *government* has a unique role in the partnership process. It provides the arena within which the process operates. It shares some of its authority with social partners. In some parts of the wider policy process, it actively supports formation of interest organisations;
- (iv) The process reflects *inter-dependence* between the partners. The partnership is necessary because no party can achieve its goals without a significant degree of support from others;
- (v) Partnership is characterised by a *problem-solving* approach designed to produce consensus, in which various interest groups address joint problems;
- (vi) Partnership involves *trade-offs* both between and within interest groups;
- (vii) The partnership process involves *different participants* on various agenda items, ranging from national macroeconomic policy to local development (NESC 1996b, p66).

This list can be seen as both a *description* of the partnership process, as it is, and a set of *conditions* for effective participation in the process. Indeed, most of these principles were explicitly adopted by both the 'traditional' and 'new' social partners in the 1997 agreement, Partnership 2000. The participants have continued their self-reflexive examination of Irish partnership. This has yielded a further characterisation of the process. A distinction can be made between two different conceptions, or dimensions, of partnership:

- Functional interdependence, bargaining and deal making.
- Solidarity, inclusiveness and participation.

Effective partnership involves both of these, but cannot be based entirely on either. To fall entirely into the first could be to validate the claim that the process simply reflects the power of the traditional social partners, especially if claims for the unemployed and marginalised are not included in the *functional* inter-dependence, and are seen as purely *moral*. To adopt a naive inclusivist view would risk reducing

the process to a purely consultative one, in which all interests and groups merely *voiced* their views and demands. While these two dimensions are both present, even together they are not adequate.

There is a third dimension of partnership, which transcends the two discussed above. Although the concepts of 'negotiation' and 'bargaining' distinguish social partnership from more liberal and pluralist approaches, in which *consultation* is more prominent, they are not entirely adequate to capture the partnership process. Bargaining describes a process in which each party comes with definite preferences and seeks to maximise their gains. While this is a definite part of Irish social partnership, the overall process (including various policy forums) would seem to involve something more. Partnership involves the players in a process of deliberation that has the potential to shape and reshape their understanding, identity and preferences. This idea, that identity can be shaped in interaction, is important. It is implicit in the description of the process as 'dependent on a shared understanding', and 'characterised by a problem-solving approach designed to produce consensus' (NESC, 1996b, p. 66). This third dimension has to be added to the hard-headed notion of bargaining, (and to the idea of solidarity), to adequately capture the process.

The key to these features of partnership would seem to be the adoption of 'a problem-solving approach'. As one experienced social partner put it, 'The society expects us to be problem-solving'. A notable feature of effective partnership experiments is that the partners do not debate their ultimate social visions. This problem-solving approach is a central aspect of the partnership process, and is critical to its effectiveness. This suggests that rather than being the *pre-condition* for partnership, consensus and shared understanding are more like an *outcome*.

It is a remarkable, if not easily understood, fact that deliberation which is problem-solving and practical produces consensus, even where there are underlying conflicts of interest, and even where there was no shared understanding at the outset. It is also a fact that using that approach to produce a consensus in one area, facilitates the same approach in other areas. The key may lie in understanding what kind of consensus is produced when problem-solving deliberation is used. It is generally a provisional consensus to proceed with practical action, as if a certain analytical perspective was correct, while holding open the possibility of a review of goals, means and underlying analysis. This type of agreement certainly involves compromise. But the word compromise is inadequate to describe it. 'Compromise' so often fudges the issues that need to be addressed,

2.3 The Achievements and Limits of Partnership

This paper is not the place for an exhaustive analysis of the role of partnership in Ireland's economic and social development since 1987. In this section, I summarise economic performance in the years of partnership, and note some alternative perspectives on the achievements and limits of partnership.

Economic Performance in the Period of Partnership

The period of social partnership has been one of unprecedented economic success in Ireland. The country not only escaped from the deep economic, social and political crisis of the 1980s, but may have significantly addressed its long-term developmental problems of emigration, unemployment, trade deficits and weak indigenous business development.

Under partnership, growth resumed, inflation continued to decline, the budget deficit fell sharply, employment began to recover, but unemployment initially stayed stubbornly high. The European recession of the early 1990s and the ERM crisis of 1992-93 interrupted Ireland's recovery somewhat. Strong growth after 1993 produced a dramatic increase in employment, huge budget surpluses and, eventually, a big reduction in unemployment. The combination of economic growth, tax reductions, reduced interest rates and wage increases yielded a substantial increase in real take home pay. Between 1987 and 1999, the cumulative increase in real take home pay for a person on average manufacturing earnings was over 35 per cent. The performance of the Irish economy since the mid-1990s, was exceptionally strong, particularly in employment creation. Indeed, between 1994 and 1999, Ireland achieved a 28 per cent increase in employment, while the EU as a whole produced a 3 per cent increase.

The Partners' Views

The production, within the context of the NESC, of a common analysis of Ireland's economic crisis in 1986, and the agreement on a programme to avert further disaster, is seen by the partners to have been instrumental in facilitating the formulation and implementation of government policies to tackle the public finance crisis. This common analysis of the domestic crisis was followed by the development of a shared analysis of Ireland's experience, prospects and strategy in the EC (NESC, 1989)—a perspective which also became a matter of consensus between the main political parties. In addition, the success of the PNR led NESC to see a link between three elements: the formulation of an agreed analytical understanding of economic and social problems, the implementation of a consensual approach to distributional issues and the ability of government to adopt a strategic as opposed to a short-run perspective (NESC, 1990). Following a decade of political drift, the ability of government to take strategic, non-

opportunistic decisions, seemed to have increased considerably under the regime of social partnership.

While this view of the achievements of partnership is undiminished, the partners now identify its limits also. Indeed, most of the anxieties listed in the Introduction to this paper are shared by one or other of the partners.

Economists' Views

While the evolution of Irish economic policy in the past fourteen years has been marked by a high level of consensus—between the social partners and across the political spectrum—the more liberal and orthodox economists have stood outside the consensus. Some have objected to the politicisation of industrial relations because it ‘adds to the bargaining power of trade unionism on an ongoing basis’ (Durkan, 1992; Durkan and Harmon, 1996). Others have argued that the social partners are ‘insiders’, whose pay and conditions have been protected at the expense of ‘outsiders who would work for less’, and that social partnership has had the effect of ‘raising the level of unemployment and emigration’ (Walsh and Leddin, 1992). Likewise, Haughton, in a recent historical review of Irish development argues that ‘It was fortunate that the wage agreements have coincided with rapid economic growth, because the agreements create considerable rigidity in the labour market’ (Haughton, 1998, p. 37). An aspect of the strategy that has particularly provoked orthodox and neo-liberal economists is EMU. Opposition to the negotiated approach to economic management tends to be combined with a strong attachment to sterling rather than the euro (Neary and Thom, 1997).

More policy-oriented economists attach considerable significance to partnership in escape from economic crisis (Honohan, 1999) and in re-establishing the profitability of business in Ireland (Lane, 1998). However, FitzGerald, while attributing significance to the degree of consensus produced by partnership, argues that its impact on wage formation may have been less important than many have assumed (FitzGerald, 1999; Kennelly and Collins, 1999).

The Views of Business Analysts and Industrial Relations Scholars

Among business analysts and industrial relations scholars, the achievements of Irish policy and partnership are disputed along three dimensions:

- The predominance of transnational companies (TNCs) over indigenous firms;
- The quality of the jobs created; and
- The extent and depth of change in organisation and industrial relations in the Irish economy.

Indeed, there would seem to remain considerable uncertainty, in official circles and elsewhere, about the depth of Ireland's business and economic transformation.

Those who doubt a significant Irish breakthrough focus on the dominance of TNCs. O'Hearn goes so far as to say 'In the main, the Irish tiger economy boils down to a few US corporations in IT and pharmaceuticals' (O'Hearn, 2000, p. 75). Indeed, he suggests that much of Ireland's growth is an illusion, reflecting the inflated output of key firms in a narrow band of sectors, such as computers, pharmaceuticals and software. Little real breakthrough has been achieved by indigenous enterprises.

It is undoubtedly true that TNCs have accounted for a very large proportion of Ireland's increased output, employment and exports. However, not all these TNCs can be seen as export platforms with little developmental impact on the Irish economy. More importantly, the predominance of TNC output and exports should not be allowed to occlude the very significant improvement in the capabilities and performance of indigenous firms in both manufacturing and services. Employment in Irish owned manufacturing enterprises increased by more than 10 per cent between 1987 and 1997 (O'Malley, 1998). This employment growth is not only greater than has been achieved in Ireland in the past, but significantly outpaces manufacturing employment growth in the EU, the UK, Japan, the US, Australia and Canada. Nor is it dependent on sub-supply to TNCs; exports of Irish firms increased faster than employment through the 1990s, despite slower growth in overseas markets than in the Irish economy. Indeed, the highest growth in employment in Irish manufacturing firms occurred in the more highly traded and internationally competitive sectors. Having been virtually stagnant between 1980 and 1987, the output of Irish-owned manufacturing increased by an average of 4.0 percent per year from 1987 to 1995—more than twice the OECD average. O'Riain points out that industrial R&D spending in the whole economy increased in real terms by 15 percent among foreign firms and 16 per cent among Irish-owned firms. O'Malley's judgement on the performance of indigenous manufacturing is that the 'the scale and durability of this improvement is without precedent in twentieth century Ireland' (1998, p. 35).

While there would seem to have been a significant widening of wage differentials, it is not accurate to portray the growth in Irish employment as predominantly an expansion of 'bad' jobs. While the Irish economy has certainly been creating part-time jobs at a rapid pace, there has been a very significant increase in full-time employment and the largest number of new jobs are managers and professionals (Tansey, 1998). As O'Riain says, the employment growth has been characterised by an overall upgrading

of the occupational structure combined with a significant polarisation of occupations and wages (O’Riain, 2000).

Perhaps the most contentious aspects of Irish business change are the patterns of organisation and industrial relations. In the 1960s and 1970s, there was considerable uniformity in industrial relations in foreign-owned and Irish-owned enterprises. An adversarial model, based on collective bargaining and arms-length dealings between unions and management, diffused throughout much of industry and services (Kelly and Brannick, 1984). However, research by Roche shows that in the 1980s and 1990s there has been profound fragmentation and divergence in industrial relations practices. Four distinct industrial relations models have emerged: a non-union human resource (HR) model, a ‘new industrial relations’ or ‘partnership’ model, an approach of managerial unilateralism and de-regulation and, in some sectors of the economy, continued adversarialism with only piecemeal innovation (Roche, 1998). This fragmentation arises, in part, because the trans-nationals companies arriving in the late 1980s and 1990s have adopted the non-union HR approach (Roche and Geary, 1996).

This fragmentation of the previously prevalent adversarial model is confirmed by research which shows distinctly different rates of adoption of a range of human resource management and work organisation practices in foreign-owned and Irish owned enterprises (Geary and Roche, 1999). The emergence of a significant *difference* between the industrial relations practices of foreign and indigenous firms, should not be allowed to conceal the degree of *change* within Irish firms. The proportion of Irish workplaces experimenting with new work practices ‘is impressive and compares favourably with other countries’ (Geary, 1999, p. 879)—although there is a lively debate on the depth, scope and economic significance of workplace innovation in Ireland². The ongoing dynamic is described by Roche and Geary as follows:

Notwithstanding the significant differences in the level of adoption of human resource practice between foreign- and Irish-owned workplaces, there is evidence ...of a “spill-over-effect” where the latter are increasingly introducing new HR practices most often associated with MNCs...In that sense, the HR practices of MNCs may well have acted as an important catalyst and exemplar for change amongst Irish-owned companies (Geary and Roche, 1999, p.17).

The emergence of new organisational and industrial relations approaches in Irish enterprises is consistent with the other trends noted above: their improved output and export performance, their enhanced profitability, the increasing educational profile of the working-age population and the involvement of many companies in either sub-supply to TNCs or in international networks of production and innovation. A significant section of Irish business has become involved in international networks of investment, R&D and product development (O’Connell, 2001).

An Initial Synthesis

Given the complexity and simultaneity of economic and social events, it is, of course, possible to claim that partnership had little or nothing to do with Ireland’s economic performance since 1987. In many respects,

an argument about this would be fruitless. The important issue is less *whether*, or *how much*, partnership contributed to Ireland's economic transformation, than *how* it contributed. The partner's self-understanding of partnership goes some way to answering that question. It attributes the success of partnership to a combination of bargaining, solidarity, shared understanding and problem-solving. At first sight, these might seem to be features of the partnership *process*. This is not really so. They actually focus on substance and outcomes. The partners' view is that partnership is, first and foremost, *product*, not process³.

Some of the economic commentary would seem to be based on a rather mechanical view, which sees prices and costs as the only signals which are relevant in the economy. This ignores a number of co-ordination problems which can hamper economic performance. Consequently, some versions of the economic view seem to ignore the importance of expectations in business decisions, the possibility of inconsistent claims on the output of the economy, the role of consensus or dissent in making government policy coherent or short-termist, the role of consent in enhancing the implementation of policy, the role of relationships in the performance of the enterprise, the role of an over-arching agreement in supporting a flexible and co-ordinated response to unforeseen events, and the role of agreement on certain key parameters in facilitating constructive discussion of more contentious issues.

In its evolving analysis, NESC has argued that negotiated programmes—when based on a shared understanding of key economic and social mechanisms—can both align the social partners to consistent and competitive actions and provide a framework for strategic government policy. The role of partnership in assisting government and shaping government policy probably consists of a combination of four effects:

- Increased coherence and consistency;
- Improved implementation and enhanced effectiveness;
- Increased policy innovation and experimentation;
- Possible enhanced veto-points on change.

One key player observed that partnership had a major effect in creating a coherent approach. It was observed that 'work that gets done elsewhere doesn't have the same impact'. For example, NESC has provided (a) a forum where things get teased out, (b) the capacity to create an overview and (c) a route to get that thinking taken on board. Indeed, this person contrasted this strength of partnership in the sphere of economic and social policy with the intractable problems that exist in the area of transport and physical planning, areas of policy which are not subject to an equivalent system of deliberation, consensus-building and strategic focus. This seems an important observation. But, it is argued below that it highlights the depth of the challenge which Ireland now faces.

The partnership approach would seem to have had a significant impact on the Irish economy, though three channels: wage bargaining, coherent and consistent macroeconomic policy and change in supply-side factors.

Consider first the impact of the partnership approach to wage bargaining. One of the most striking features of Irish economic performance in the period of partnership has been the enhanced profitability of business. Lane demonstrates that the rate of return on capital almost doubled, rising from 8.6 percent in 1987 to 15.4 per cent in 1996. The sharp rise in profitability coincides with ‘the formation of a new consensus among the social partners, as formalised in the negotiation of a sequence of national agreements’, suggesting that ‘the incomes policy that lies at the heart of a new consensus is an important factor in explaining the income shift from labour to capital’ (Lane 1999, p. 228). The resulting environment of wage moderation and high profitability is almost certainly a key factor in Ireland’s employment creation, attraction of inward investment and the unprecedented commercial success of indigenous companies (see also Honohan, 1999; McHale, 2000).

FitzGerald’s econometric study of the Irish labour market leads him to suggest that the ‘impact of the partnership approach to wage formation has been less significant than many have assumed’, since ‘the partnership approach served more to validate the results which market forces had made inevitable’ (1999. p. 160 and p. 162). The main impact of partnership lay in improved industrial relations, which significantly enhanced economic performance, and the fact that ‘the partnership approach has also contributed to a more coherent approach to economic policy making’ (FitzGerald, 2000, p. 42).

This brings us to the second channel through which partnership influenced the economy. In macroeconomic terms, partnership was an important element in Ireland’s transition from a high-inflation, volatile and conflictual economy to a low-inflation, stable, economy. In particular, consensus on the consistent policy framework summarised in Section 2.1 above, took the exchange rate, and therefore inflation, outside day-to-day party political competition and industrial relations conflict. This can be contrasted with an approach in which short-termism ruled in economic policy, business decisions and wage setting. Through much of the post war period, that approach led the UK to short bursts of fast economic growth, followed by deep recessions imposed in order to reduce inflation. Ireland’s experiment since 1987, for the first time in its history, partly inoculated it from the, strikingly unsuccessful, combination of macro policy and income determination pursued in Britain for many years. Ireland finally escaped the most negative effects of Britain’s political business cycle. As a result, it achieved low and predictable inflation combined with strong growth of output and employment. It has also preserved a higher level of social solidarity, which seems an essential pre-

requisite to sustaining redistributive policies and addressing issues of structural change and reform in a non-conflictual way.

The third channel of influence on the economy is a supply-side mechanism. This arose because there would seem to be a close connection between settling major macroeconomic and distributional issues, on the one hand, and constructive engagement with supply-side problems, on the other. Closing-off macroeconomic alternatives freed management, trade union and government energies for discussion of real issues that impact on competitiveness and social cohesion—corporate strategy, technical change, training, working practices, the commercialisation of state-owned enterprises, taxation, local re-generation and active labour market policy—and forced (almost) all to engage in realistic discussion of change. This approach was particularly liberating in a country whose political system tended to clientelism, whose enterprises had grown used to direct and indirect protection and whose trade union movement had developed in the British adversarial tradition.

However, we cannot accurately identify the role of partnership without considering the European dimension. By coincidence, the adoption of the partnership approach coincided with the programme to complete the European internal market. The completion of the European internal market was a most important factor in the recovery and re-orientation of the Irish economy. Indeed, the combination of social partnership and the European internal market programme is a particularly interesting aspect of the Irish story (O'Donnell, 2000). Social partnership has all sorts of advantages. But one possible limit of consensus is the difficulty of undertaking radical action which disrupts entrenched interests—such as those in Telecom Eireann, ESB, Bord Gais, An Post or protected sectors such as banking and insurance. As McAleese says, Irish policy makers were not inclined to rock the boat in protected public utilities and services (McAleese, 2000). (Although, it can be argued that, we were even *less* likely to achieve change in these sectors without social partnership, given the power of lobbies over Irish political parties). While social partnership stabilised the economy, European integration produced a steady pressure to make public utilities and services more efficient, consumer-oriented and independent of overt or covert state subsidy or protection. Thus, Ireland benefited from an unusual, but benign, combination of institutionalised co-ordinated of the key economic actors and pressure for market conformity. It is now clear that Ireland's overall approach to market and social regulation has been, and will continue to be, significantly re-shaped by membership of the EU.

While this benign combination was clearly a positive factor in the economic performance since 1987, it has a potentially negative aspect now. It suggests that partnership on its own may not have greatly increased the ability of the Irish system to achieve change in the public sector or to deal with the entrenched interests which are protected by public regulation. Indeed, some hold the view that partnership *decreases* the capacity to achieve change, since the need for consensus can be turned into a veto. If either of these propositions hold, it is particularly worrying, since radical change in public services, in regulation and the organisation of work are now the central substantive tasks that have to be achieved, by partnership or by some other means (see Section 3 below).

This tentative synthesis of the achievements and limits of partnership is one which emphasises that partnership cannot be divorced from the wide range of other changes taking place in the past decade and a half. While an adequate list of these changes is beyond the scope of this paper (see O'Donnell, 2000), the following seem particularly important:

- The changed role of women in the society, the economy and public life;
- Europeanisation of public policy, interest representation on the labour market;
- The emergence of a more entrepreneurial culture and the adoption of new approaches to management and organisation;
- Continued increase in levels of educational attainment;
- The emergence of a culture of investigation, which is a step on the road to a culture of accountability and compliance;
- The spread of information technology;
- Continuation of strong inequality in access to these new economic and social resources.

Social partnership can be seen as a part of the gradual opening, Europeanisation, commercialisation and democratisation of Irish society. Yet partnership only has a future if it continues to be consistent with the dynamic of the economy and society, and if it can anticipate and help to solve the problems which change throws up.

2.4. The Dual Evolution of Social Partnership

Using the consistent policy framework outlined in Section 2.1, we can identify a significant evolution of Irish social partnership. Over the five programmes since 1987, the emphasis has shifted from macroeconomic matters to structural and supply side policies, and the range of supply-side issues has widened to address key constraints on Irish growth, such as childcare and life-long learning. This change in the substance or *content* of partnership has involved a parallel change in *method*. While macroeconomic strategy can be agreed in high-level negotiation, complex cross-cutting policies—on issues such as social exclusion, training, business development or childcare—cannot be devised and implemented in high-level national deliberation or negotiation. Consequently, to address the growing list of supply-side issues there has been an expanding array of working groups, ‘frameworks’ and ‘forums’, involving representatives of the various social partners. In a few areas of policy—such as long-term unemployment, rural and urban re-generation and business development—new institutional arrangements have been created to involve actors on the ground. This dual evolution of partnership is summarised in Box 1.

Box 1: The Dual Evolution of Partnership

The Evolving Content and Method of Partnership	
<i>Content</i>	<i>Method</i>
Macro to structural and supply side	high-level bargaining to multi-level problem solving

This is deliberately stylised account of the evolution of partnership. Indeed, one of its purposes is to suggest that this dual movement is incomplete. Most participants feel that our success rate in structural and supply-side issues is lower than in macro issues. That while we know how to do high-level bargaining, we are unsure how to do multi-level problem solving. Indeed, in most areas, the move to multi-level problem solving is limited, since the working groups are still composed of national officers of the social partners.

One of the central arguments of this paper is that it is the incompleteness of this dual evolution that explains the anxieties listed at the start of the paper. Intensive discussion among the social partners reveals a set of problems and frustrations with a widened partnership process that encompasses a wide agenda (NESF, 1997). Some feel that the emphasis on consensus can serve to prevent innovation and close debate. Many partners feel that the terms of inclusion are unequal, with employers and unions sharing a functional inter-dependence, and the community and voluntary sector relying on a set of moral claims. Most partners report severe difficulty in linking their representation in national-level policy making to the local action of their members. While recognising the significant achievements of partnership, almost all groups expressed some frustration and disappointment with the difficulty of turning participation in partnership into real change. The proliferation of partnership bodies is identified as a problem by almost all participants. Perhaps the most important problem identified is the inadequacy of monitoring arrangements in the partnership system. Although the partners pressed for the creation of monitoring arrangements, in private they admit the limitations of a system in which they interrogate civil servants on the progress of a wide range of initiatives.

Some of these uncertainties are even more in evidence in the current discussion of partnership. One instinct is to pull back from the profusion of issues and the complexity of participation, to a partnership

approach confined to the core distributional parameters: wages, tax and welfare. Another is to limit the role of partnership altogether, and return to a less cumbersome form of executive decision and implementation. Yet another is to declare it impossible for government to solve these complex supply-side problems, and hand them over to the market. One instinct is to decentralise and devolve public authority; another is to assert central control of strategy and policy. In almost every discussion of public policy in which I have participated in recent years, these different instincts are expressed. They each reflect some real limitation of the public system as it exists at present.

The central argument of this paper is that the handling of the structural and supply-side policies is the major challenge facing Irish public policy and social partnership.

3. NEW CHALLENGES IN A CHANGING CONTEXT.

3.1 Listing Public Policy Tasks

Ireland is now in a critical period of transition. It has the opportunity to make the transition to:

- Higher living standards and an improved quality of life;
- A fairer and more inclusive society;
- While keeping the economy competitive in a rapidly changing world and providing a strong basis for further prosperity;

To make this transition a number of complex tasks must be achieved:

- Ireland will have to become a learning, knowledge-based society with the capacity to embrace with confidence the challenges and opportunities offered by globalisation, technology and social change;
- Supply-side constraints on economic output, efficiency and social development must be removed;
- The quality of public services must be dramatically improved;
- A long-term reversal of inequality must be started;
- The coherence of national strategy for economic and social development must be maintained in new circumstances.

Our success in achieving these tasks will determine the depth and durability of Ireland's new-found prosperity and the kind of society which Ireland will become in the 21st century.

The lines of public policy action necessary to achieve these tasks are numerous and varied. This is clear if we list the issues to be addressed in the areas of human resources, infrastructure, enterprise development, regulation and social inclusion.

Human resource:

- Labour supply;
- Skills and like-long learning;
- Education;
- Immigration;
- Housing and settlement.

Infrastructure:

- Transport;
- Housing;
- Planning and settlement;
- Telecommunications;
- Energy;
- Scientific research.

Enterprise development:

- Organisational capability;
- Pay, gain sharing and partnership;
- E-commerce;
- Life-long learning;
- Family-friendly work;
- Childcare
- Research and development;

Regulatory:

- e-commerce;
- Telecommunications;
- Energy;
- Environment;
- Competition;
- Transport;
- Childcare
- Care of elder people.

Social inclusion:

- Social protection;
- Taxation;
- Poverty;
- Literacy, education and training;
- Healthcare;
- Drug-abuse;
- Housing and planning;
- Citizenship rights;
- Community and local development;
- Childcare;
- Care of elder people.

While listing development policy tasks in this way is useful, it has a number of limitations. First, it leaves open important questions on which there might be conflicting views. Second, it outlines a huge agenda, without providing any structure of ideas which connects one thing to another, substantively. Third, it lists apparently diverse tasks for the public system, without identifying any commonalities or synergies in *how* they might be approached. Fourth, it lists policy problems as tasks for government, without exploring whether many of them could be achieved primarily by others. Consequently, this way of listing tasks looks likely to:

- increase the difficulty of getting clear strategies;
- make the implementation of policy more difficult; and
- lead to confusion and conflict over the roles of various public agencies and bodies.

3.2 Revising the Content of the Consistent Policy Framework

In contrast to the above listing of policy tasks it seems preferable to revisit and redefine the elements of a consistent policy framework in Ireland's new circumstances, within the analytical structure outlined in Section 2.1 above. This would allow us to allocate policy problems and tasks to each of the three boxes, and to identify those in which significant substantive revision or re-examination of existing policy seems necessary. This suggests the following

:

- **Macroeconomic policy:** remains broadly the same, with some changes deriving from the transition to EMU;
- **Distribution:** the settlement in place since 1987 is no longer adequate;
- **Structural and supply-side** problems are numerous and urgent.

This discussion paper focuses on the latter two. While a detailed account of a revised consistent policy framework is beyond the scope of this paper, it is possible to identify some of the issues which arise under the macroeconomic, distributive and structural headings.

A Macroeconomic Approach for Low Inflation and Strong Demand

The first element in the macroeconomic box from 1987 was: adherence to the narrow band of the ERM and transition to EMU. With the launch of the euro, adherence to a credible, non-accomodating, exchange rate policy is no longer a policy issue. Two different issues now exist. One is Ireland's exposure to movements in sterling. Action on this lies in the area of industrial policy or business services, rather than macroeconomic policy. A second is the overall combination of monetary and fiscal policy in the Euro zone.

The second element in the macroeconomic box of the consistent policy framework was public finance. The agreed policy approach in the five partnership programmes was sustained correction of the public finances, focused on reduction of the debt/GNP ratio. With that ratio now well within the rules governing EMU, that goal no longer provides a principle that can guide the management of the public finances.

Nevertheless, it is vital that we retain capacity to reach consensus on the overall use of public revenue. Outside the context of a binding constraint, a balance still needs to be struck between debt reduction, public savings, public investment, current public spending and tax reduction. While there are certain analytical principles which can be invoked, none of them provide a determinate overall set of rules. Indeed, to a significant extent, the determination of national policy on public finance is dependent on the approach adopted in the other two main categories of policy, distribution and structural policy.

The Distributional Settlement

It was argued in Section 2.5 that the evolution from the PNR to the PPF involved a decreased emphasis on macroeconomic policy and increased emphasis on structural or supply-side measures. This change in content reflected the fact that the distributional settlement, while evolving as the economy became stronger, remained essentially the same. It is now clear that the distributional element of the partnership framework is under considerable stress and requires re-examination and probably revision.

Indeed, it looks likely that all three elements of the distributional settlement require reconsideration:

- Wage bargaining;
- Public Sector Pay Determination;
- Social inclusion and the social wage.

The pressure on these arrangements is largely a reflection of the dramatic change in the size and structure of the economy, the new approaches adopted within firms, changing patterns of social and family life and the increased urgency of ensuring that overall prosperity is combined with social inclusion. While analysis of these is beyond the scope of this paper, an initial discussion of wage bargaining can be found in Section 3.3 below.

Structural Adjustment and Supply-Side Policy

It is clear that most of the policy tasks listed in Section 3.1 should be categorised under the heading of structural or supply-side measures. Indeed, this is true of some of the most pressing policy issues, such as transport, traffic, housing and childcare. It is the extent of these issues that creates the feeling that partnership is over-extended. It is the difficulty of dealing with them that leads some to feel that partnership is ineffective. It is the absence of a shared understanding on many of these problems that

explains why they are sometimes seen as undermining partnership, or illustrating the limitations of partnership. For a long time it was the community and voluntary sector that battled to get some of these issues included in partnership. Having got them in, they worked to turn platitudes into agreements. Confronting the limits of that they pressed to turn agreements into commitments. Limited progress suggested that it was necessary to turn commitments into targets. Now that the dictionary is used up, the question is: how can these targets be met? While employers and unions were initially most focused on the macroeconomic and distributional boxes of the partnership framework, increasing bottlenecks and urgent new problems prompted them to add a range of new supply side problems in each partnership agreement. This is particularly evident in the PPF. Consequently, all partners, including government, now confront the same question: who can address these problems and how can they be solved?

Many of the structural and supply-side problems pose major organisational challenges to government, public agencies, business, trade unions and the community and voluntary sector. Not only have the substantive issues changed somewhat, but the context in which policy must operate has also changed. Consequently, Section 3.4 below summarises underlying changes in the capabilities of government and the social partners, and changes in public management internationally, which must be taken into account in the next phase of social partnership.

Conclusion

In current discussion of partnership it is very common to ask 'is a continuation of partnership possible without a national wage agreement?'. Some think it is, while a majority are inclined to the view that pay is the 'glue' that holds partnership together. But really the question is badly put, and may send discussion in the wrong direction. It puts partnership first, and asks what is compatible with it. The following points seem more important:

- With or without partnership, Ireland has to devise a wage and reward system which is suitable for its type of economy and which achieves its social goals;
- Regardless of pay, public policy has to address a wide range of supply-side and distributional issues in a coherent way.

It seems best to focus on these substantive tasks, including ways in which they are related to one another. Consequently, the remaining parts of Section 3 discuss in some more detail the issue of wage bargaining (Section 3.3) and the changing capabilities of the social partners and government (Section 3.4).

3.3 Wage bargaining

There are a number of reasons why the wage bargaining component of Irish social partnership now requires careful consideration and analysis. Among these are:

- The move from ERM to full EMU;

- Shortages of labour in many areas of the private sector;
- The move to new systems of public sector wage determination;
- The likely limits to a strategy of exchanging pay restraint for tax reductions;
- The need to consider what distribution of income is appropriate in a socially inclusive society.

Any such review should take account of international experience and developments in the analysis of wage bargaining systems. Section 4, below, summarises developments in partnership in other EU states and outlines some of the ideas which figure in international research on social concertation. Here, I outline some important analytical developments, which may have a bearing on our approach to wage bargaining in Ireland.

Within the analytical literature, there is emerging a revised view of how wage bargaining works in European countries and how it can best be organised to achieve competitiveness, low inflation and employment. The starting point of this revision is the analysis of centralised and decentralised bargaining used by NESC in its Strategy report—an analysis which suggested that centralised bargaining or fully-decentralised bargaining were superior, in terms of unemployment and inflation, to industry-level bargaining. Iversen, of Harvard University, argues that that analysis takes insufficient account of the interaction between wage bargaining and the monetary/exchange rate regime in place (Iversen, 1999). He suggests that the economic effects of three different models of wage bargaining—fully decentralised, intermediately centralised or centralised—depends on whether government adopts an accomodating or non-accomodating monetary/exchange rate policy. This brings together two important fields of economic analysis which have, to date, been separate: the study of wage bargaining and the, recently developed, literature on central bank independence.

Iversen argues that there are two approaches to wage bargaining and monetary policy which are particularly conducive to low unemployment and strong economic performance:

- (A) Intermediately centralised (industry or sector-level) wage bargaining combined with a non-accomodating monetary regime; and
- (B) Centralised wage bargaining combined with an accomodating monetary regime.

The third approach to wage bargaining (C)—decentralised, firm-level, bargaining—can be combined with either an accomodating or non-accomodating monetary policy. It can produce low levels of unemployment, with high levels of wage inequality, but

not as low a level of unemployment as can be achieved with other approaches to wage bargaining⁴.

This argument clearly involves a significant revision of Calmfors and Drifill's influential analysis of the advantages of centralised over intermediate-level and decentralised bargaining. The logic of this revision need not detain us here (see Iversen, 1999).

This might suggest that most European countries can choose between **A** and **B**. A few European countries, such as the UK, have chosen **C**. However, Iversen then argues that a number of international developments have weakened the foundations of model **B**, centralised bargaining with an accomodating monetary policy. This model has been made less feasible because:

- New flexible technologies and production techniques require more varied reward systems and greater inter-occupational wage flexibility;
- International capital mobility has made discretionary accomodating monetary policy less effective;
- The increased importance of service-sector employment means that fully centralised bargaining, with a compression of wage differences, will tend to restrict the growth of private services;
- Fiscal pressure on governments limit their ability to secure full employment through the expansion of public services.

Consequently, Iversen says that his analytical and empirical analysis 'point to the possibility that intermediately centralised systems outperform all others if combined with an independent central bank' (Iversen, 1999, p. 71). Indeed, a significant number of countries have moved towards **A**, industry-level bargaining with a non-accomodating monetary regime. The accession of more and more countries to the ERM and EMU can be seen as evidence of the difficulty of operating an independent monetary policy. The move of a number of countries from fully centralised bargaining to industry- or sector-level bargaining is seen as evidence that this is the best approach to combine with a tight monetary policy (see Section 4 below and Appendix A).

It seems likely that these analytical developments can assist us in understanding the evolution of Irish wage bargaining since 1960 and, particularly, the experience of partnership and ERM since 1987. Future development of Irish partnership should carefully consider these revisions to the analysis of centralised wage bargaining. However, the application of these ideas to Ireland is not simple. The definitions of decentralised, intermediate and centralised bargaining need to be carefully studied. Likewise, the definition and measurement of accomodating and non-accomodating monetary policy require attention. Only on the basis of some detailed empirical work can we answer the following questions:

- How centralised was Irish bargaining in the five partnership agreements?;

- How much wage compression was evident under the partnership programmes?;
- How accommodating or non-accommodating was Irish monetary policy at different times in the evolution of the ERM?

There is a further complication which arises in applying these ideas to wage bargaining in EU countries, including Ireland. The creation of the euro changes the relationship between wage bargaining and monetary policy. While various scenarios have been outlined for European wage bargaining in EMU, there remains considerable analytical and empirical uncertainty (Soskice and Iversen, 1998; Marginson and Sisson, 2000).

It seems important that fresh work be undertaken on Irish wage bargaining during the remainder of the PPF. Such work has begun the ESRI and is reflected in recent issues of its *Quarterly Economic Commentary*. This might be taken up in the preparation of NESC's Strategy report, under the auspices of the National Office for Economic and Social Development. One purpose of a renewed analysis and shared understanding of the mechanisms of wage determination is that the partners can tell when there is temporary deviation from a model that basically works, and set about making corrections. There is a danger that temporary and correctable deviations—arising sometimes from exogenous events—might be understood as a fundamental breakdown of the partnership regime. This view could then become a self-fulfilling prophecy, as the action of one partner amplifies the difficulties of another.

3.4 New Approaches to Government and Public Administration

Introduction

Section 1 ended by noting the incomplete dual evolution of partnership, and the sense of uncertainty about whether to simplify the partnership system or work harder to make the complex system more effective. Section 2 opened by listing the bewildering set of policy areas in which action is necessary to deepen competitiveness and secure social inclusion. It then suggested that these be placed within the consistent policy framework that has underpinned Irish policy and partnership since 1987. This confirmed that the central developmental task is the creation of a complex set of supply-side infrastructures and services. It posed the question: how are these to be achieved? And it hinted that they cannot be achieved by national partnership of the type in place. That is, they cannot be achieved only by high-level analysis, deliberation and negotiation between the social partners. One response is to simplify things in a particular way. Partnership might be abandoned—or confined to those things that can be achieved by high-level negotiation—and the supply-side infrastructures and services might be provided by the administrative arms of government. This Section shows why that route to simplification is not promising.

The Rise and Fall of the Administrative State⁵

Democratic government is founded on the principle that the people grant sovereignty to an elected legislature. Yet, it is accepted that the legislature is not in a position to co-ordinate the wide range of

public activities or to take adequate account of the complexity of problems which public policy must address. Across the world, the major response to this was the creation of the administrative state. The doctrinal innovation that legitimated the administrative state is the theory of delegation. That theory reaffirms the formal sovereignty of the legislature, but also recognises that no assembly can itself competently address the complexity of modern society. Hence the legislature is allowed to delegate some of its sovereign authority to other entities, able to specify rules suited to particular contexts beyond the view of a central lawmaker.

Delegation of legislative authority took two main forms. In the Whitehall system, parliament entrusted civil servants with responsibility for translating general laws into precise rules and co-ordinating activities across areas. In the neo-corporatist states of continental Europe—Germany, Italy, the Nordic countries—authority was delegated not to the civil service, but to the affected interests in civil society themselves: trade unions, employers' associations, and others. These organisations were presumed to represent the natural and mutually complementary constituents of industrial society—labour and capital first and foremost. They could be entrusted to make law in the name of democracy by negotiating among themselves. Of course, in most countries government involves a combination of the two forms of delegation, to civil servants and social interests.

In the long term, these forms of delegation produced neither accountability nor effective co-ordination. The reasons are clear in retrospect. The jurisdictions of interest groups do not naturally conform to the boundaries of the problems that need to be solved. The less adapted the organisation of interest groups is to its environment, the more partial and self-interested the interest-group representation. Exactly the same can be said of bureaucracies, their jurisdictions, and the self-interest of bureaucrats. Systems that combined delegation to interest groups with delegation to the civil service eventually experienced the worst of both worlds, rather than the best of each.

The New Public Management and its Limits

In response to these problems, across the world there was a shift in the role of the centre and national government. The complexity, volatility and diversity of economic and social problems, and of social groups, was seen to undermine the capacity of traditional, post-war, legislative and administrative systems. Parliaments found it difficult to pass laws which could accommodate the variety and unpredictability of situations which need to be addressed. Administrative systems designed for uniform delivery of a predictable range of services, could not meet the new needs and demands

of citizens (Dorf and Sabel, 1999). Social partners cannot take their membership for granted, or meet their varied needs through representation.

In countries with Whitehall type systems—the UK, New Zealand, Canada and Australia—the reaction to these problems, though delayed, was vehement. It was informed by a set of ideas known as the New Public Management (NPM), taken directly from American economics of the 1980s. The core idea was to re-establish the control of the democratic ‘principal’—the sovereign people acting through elections—over its ‘agents’ in government, by reducing the ambiguities of delegation. Just as shareholders were to wrest control over the corporation from managers, so the citizens were to retake control of their state from public officials and interest groups.

This assertion of ‘straight-line accountability’ required a profound transformation in the organization and scope of government. Conception was to be separated from execution: politically appointed ministers, supported by expert staffs and hired consultants, were to determine strategy, and civil service managers were to execute it. By the same logic, the scope of responsibility of individual ministries, and the programmes within them, was reduced. These changes led to a decentralisation and flattening of administrative units. These changes went hand in hand with an emphasis on global performance measures: crime rates, numbers of unemployed persons placed in jobs, test scores of students, and so on. Performance of tasks, sufficiently simplified to admit of straight-line accountability, could be captured by such metrics. Instead of trusting co-ordination of public policy to unreliable, because self interested, negotiation among interests, or collegial consultation among civil servants, management of public affairs could be by results.

The clearer the purposes of government, and the more measurable the results of its actions, the easier it is to translate the tasks of public administration into contracts. This made it possible for government to contract with private parties, instead of its internal units, for the provision of service. Straight-line accountability thus made the monopoly of public administration on service provision contestable in theory. Indeed, contractability and contestability made it easier to privatise many government functions.

The successes of the NPM in establishing the contestability of public administration and devolving authority are indisputable and largely taken for granted. But measured

by its own standard—as a movement to restore accountability and effectiveness to government—the results of the principal-agent version of New Public Management are equivocal at best. Government in the Whitehall countries is arguably less accountable and no more effective than before, for two reasons connected to the principal-agent underpinnings of the reform movement itself.

First, it has proved impossible to separate strategy from implementation, or more generally, conception from execution. Agencies and citizens become the experts, not only on the execution of tasks, but also which tasks might be worth pursuing. The principal/agent distinction is untenable in practice. Agencies develop a near monopoly of expertise in their policy area. Policy therefore emerges from innumerable small decisions, such that 'the agency tail will wag the departmental dog'. But Departments continue to meddle in the details of agency decision-making. If the results are disappointing, the minister can play on the ambiguities in the distinction between policy (her responsibility) and management (the domain of the operating agency) to avoid accountability. Civil servants are no longer in charge; but no one else is, either. Thus, in his influential study *Understanding Governance*, Rhodes concludes that 'British government has undergone a significant decrease in political accountability' (Rhodes, 1997, pp.102-3).

Second, narrowing programs in the interest of accountability had the unintended consequence of the making it more difficult to co-ordinate the narrower entities. Given specific tasks, and encouraged by new incentive systems to focus exclusively on them, what was to induce the agencies to co-operate among themselves to solve problems requiring their joint action? As Rhodes observes, the resulting problems are most conspicuous at the level of local government, where the NPM was applied most vigorously. In the wake of the reforms, 'services are...delivered through a combination of local government, special purpose bodies, the voluntary sector and the private sector. Organisational interdependence is ubiquitous and the government faces the increasingly difficult task of steering several distinct organisations' (Rhodes, 1997, p.100).

The Equal Attractions of Strategic Co-ordination and Networked Decentralisation

Both of these problems—the impossibility of maintaining the strategy/implementation distinction and the need for broad co-ordination to correct the effects of narrow steering—are manifest in the sudden salience of what the British call 'cross-cutting' or 'wicked problems': problems like the reform of schools or the provision of treatment to drug abusers, or any problem where policy must draw on the local knowledge of service providers and service users *and* requires co-ordination of service provision across a wide range of formal jurisdictions. In Britain, these two problems have prompted a set of thoughtful proposals that aim to retain the achievements of the NPM while overcoming some of its shortcomings.

Active discussion of these issues can be found in a series of innovative papers produced in the Cabinet Office, on policy co-ordination (*Wiring it Up: Whitehall's Management of Cross-Cutting Issues*), new

relations between the center and the local (*Reaching Out: the Role of Central Government at Regional and Local Government*) and the principles of good policy making and implementation (*Professional Policy Making for the Twenty-First Century*). In a paper for the Scottish Council Foundation, *Holistic Government: Options for a Devolved Scotland*, Leicester and Mackay draw on similar ideas, including the Irish analysis of partnership, to argue that the creation of the new Scottish parliament and executive provides an opportunity to incorporate new principles of public administration.

The starting point for all these reports is the conviction that the functional organisation of government departments limits the possibility of addressing cross-cutting policy problems. In response, the reports suggest variants of what might be called a commando centre: a crack team of civil servants at the very centre of government who use the powers of the bureaucracy to foster cross-cutting behaviour. But the reports also highlight the limits of central control and co-ordination. Thus the Cabinet Office's *Wiring Up* paper insists that 'conflicting priorities will be sorted out at a strategic policy level and not allowed to undermine efficient and effective service delivery' (WU, 5.1). But it also insists on 'the need for the centre to recognise its limitations and...to look to service deliverers and end-users to signal where there are existing (or potential) failures to work cross-departmentally' (11.4).

The assumption in these papers is that it is necessary to have both strategic oversight and the local knowledge of networks, but also that it is impossible. The commando centre promises the necessary panorama. But a new bureaucratic elite, with the flexibility to define cross-cutting projects, will be cut off from local knowledge and therefore be co-ordinating in the dark. Devolution to local networks might seem the solution. But this is to put enormous faith in the self-co-ordinating abilities of society itself. Given these irreconcilable conflicts between the two types of organisation, and hence the need for trade-offs, some combination of commando centres and networked local units looks reasonably attractive under current conditions.

But there are current innovations in organisation that overcome the distinction between bureaucratic formality and networked informality. In considering how Ireland is to achieve a complex set of infrastructures and public services, and what role social partnership should have in this, note should be made of the way in which public policy and administration can be recast.

Democratic Experimentalism and the New Centre in Public Administration

The inspiration for some of the most interesting experiments in public administration are the innovations in organisation pioneered in Japanese firms, but now commonplace in diverse industries in many countries, including cars, computers,

semiconductors, sports shoes, garments, engineering and food. While the principal-agent firm tries to clarify goals to prevent anyone using ambiguity to exploit it, what Sabel calls it the 'pragmatist firm' assumes that it is impossible to eliminate ambiguity (Sabel, 1995).

A comparison of the design practices and customer-supplier relations in the two types of firms illustrates the distinctive features of pragmatist organisation, and in particular the novel role of the organisational centre. In the standard firm, initial product designs aim to be integral and definitive. As a result, design is centralised and timid. Design proposals in the pragmatist firm are modular and provisional. The first outline of the eventual design is elaborated by benchmarking. Module makers are invited to evaluate and improve their piece of the product. Pragmatist organisations can manage the counterintuitive trick of considering a greater number of design variants than standard firms while shortening the design cycle and reducing design errors in the bargain. These differences are reflected in differences in the kinds of components standard and pragmatist firms buy from other companies. The standard firm buys little of consequence from outside suppliers. In the pragmatist firm, in contrast, there is at the limit no difference between an inside and an outside supplier.

In one sense, therefore, the pragmatist firm is more decentralised than the standard firm. But on another level, this contrast is misleading. In the pragmatist organisation, the roles of centre and periphery are re-defined in a quite new ways. This is an organisation that, from the traditional point of view, is neither centralised nor decentralised.

Similar organisational arrangements are now emerging in public administration in many countries. They are particularly prevalent in the fields of education, local development, drug policy, policing, environmental protection and labour standards⁶. This approach creates a novel kind of formal relationship between the centre and the local that provide transparency and possibilities for systematic learning unavailable in informal networks, without creating the rigidity of bureaucracies. Local actors are given freedom to set goals for improvement and are given the means to achieve them. In return, they must propose measures for assessing their progress and provide rich information on their own performance. The centre pools the information and ranks by reference to, periodically revised, performance measures. This approach increases local innovation, but makes the local transparent. The centre retains the right to sanction those who continually fail. But it does so to complement, not undermine, local autonomy.

Lest this new model of public administration sound remote, it should be emphasised that there would seem to be many instances of this 'democratic experimentalism' in Ireland in recent years. The local partnership approach to social exclusion and economic development has been identified as an internationally significant development (Sabel, 1996). There are reasons to believe that the flexible reconfiguration of industrial policy, through the continuous re-design of business services, also involves a novel relation between the agencies and their client firms. Other policy initiatives which have been experimental, which seek better co-ordination of service providers, and which engage clients/citizens in new ways exist in:

- Food safety
- Environmental protection;
- Treatment of drug abusers;
- Some local authorities' approach to waste management and refuse;
- Disability;
- Enterprise-level partnership;
- Community development;
- Parts of health care;
- Childcare and local partnership.

In some instances, these innovative approaches are directly related to the formal partnership approach. In some instances, it is partners that have done the innovation. In others, the experimental approach is more loosely connected to partnership, but should be seen as part of a wider movement towards problem-solving and participation, of which partnership and Europeanisation are both parts.

Conclusion

This Section has shown that, on international and Irish experience, it will be impossible for a centralised government system, on its own, to achieve a complex set of supply-side infrastructures and services. So retreating from partnership to old-style government is unlikely to deliver the structures and services that are needed.

But this section has also confirmed the suggestion, made at the end of Section 1, that in the case of complex supply-side policies an adequate shared understanding and policy approach cannot be achieved by high-level analysis and negotiation among the social partners. So retreating from government to partnership (of a central kind) is equally unattractive.

The central dilemma facing public policy and partnership derives from the fact that neither government, of traditional kind, nor social partnership, as it currently exists, are capable of meeting the key challenges. Many of these policies can only be agreed, analysed and changed in the context of doing them. Indeed, where successful experimental approaches have emerged, it is the local units that do the problem solving. Consequently, the supply-side infrastructures and services pose major

organisational challenges to government, public agencies, business, trade unions and the community and voluntary sector.

4. PARTNERSHIP IN OTHER EUROPEAN COUNTRIES

4.1 Introduction

There is no doubt that social partnership or concertation has undergone an astonishing revival in Europe during the 1990s. Of the fifteen member states of the EU, nine have seen the emergence or re-emergence of partnership initiatives: Ireland, the Netherlands, Finland, Italy, Portugal, Spain, Germany, Belgium, and Greece. A tenth country, Austria, has continued a partnership approach in place for several decades. An eleventh, Sweden, has moved away from its earlier highly-centralised system of neo-corporatism, but now adopts wage guidelines which have many features of a social pact (Compston, 1998).

Now that the continued, or increased, reliance on policy concertation is recognised, various explanations are being canvassed and explored. These include the idea that the corrosive effect of liberalisation and globalisation has been overrated (Traxler, 1997), an emphasis on the impact of European market and monetary integration (Rhodes, 1998), and a focus on the altered content of concertation, particularly its role in achieving reform of welfare systems (Rhodes, 1998; Traxler, 1997; Ebbinghaus and Hassel, 1999).

In attempting to identify lessons for Ireland, the following observation should be borne in mind.

First, robust and simple generalisations are difficult because social partnership can involve a range of methods, operate at various levels, take a variety of forms and cover a diverse subject matter. While it is tempting to classify countries into clear 'models' or 'varieties of capitalism', 'a preoccupation with typologies often degenerates into a sterile debate on taxonomy rather than producing answers to the more interesting questions of how institutional arrangements affect performance'(Casey and Gold, 2000, p. 108)

Second, while some definite drivers of social partnership in EU countries can be identified—such as the Maastricht criteria, unemployment and population ageing—we have to delve much deeper to identify factors which introduce *new* ideas or insights to the Irish discussion.

Third, the context in which social partnership revived in many EU countries, poor macroeconomic performance and a fragile ERM, has changed with the move to a single currency and the return of relatively strong growth. So the patterns and lessons of the 1990s may not apply to our present circumstances (Pochet and Fajertag, 2000).

Fourth, the Irish approach, and the Irish analysis of how partnership works, have now begun to influence the international analysis of social pacts, so we often get our own experience reflected back at us (see Pochet and Fajertag, 2000).

Social partnership or social pacts can encompass four sets of issues: macroeconomic policy, pay determination and employee relations, training and labour market policy, and social security. In most cases, incomes policy is the key issue in social pacts. (Traxler, 2000). But given the growing interdependence between spheres of policy, the social pacts of the 1990s almost all involve a range of other policies as well. Section 4.2 summarises the main developments in wage bargaining, highlighting the re-emergence of a partnership approach. Section 4.3 outlines the way in which the other three sets of policy issues have been combined in recent social pacts in Europe. Section 4.4 states a number of conclusions and tentative lessons which derive from an initial examination of social partnership in other countries. More extensive research would be required to firm-up these conclusions.

4.2 Wage Bargaining and Industrial Relations

Across Europe, there is great variety in the manner and level at which pay and employee relations are determined. Yet in a significant number of countries national, or at least inter-sectoral, social pacts have been used in the recent past to co-ordinate pay or to rationalise bargaining structures and industrial relations, or both. Given the diversity of starting points—some historically centralised, some decentralised, some relying on legal regulation of industrial relations, other voluntarist—it is difficult to identify clear trends or to be confident that convergence is underway. One important interpretation, discussed in Section 3.3 above, is that presented by Iversen (1999). He argues that there is a definite trend from centralised bargaining with an accommodating exchange rate to moderately centralised bargaining with a hard currency peg. He derives that interpretation from his study of five countries traditionally identified as ‘neo-corporatist’: Austria, Denmark, Germany, Norway and Sweden. As indicated in the brief accounts below, the evolution of wage bargaining in countries with a different background—Ireland, Italy, Spain, Portugal and Finland—would seem to lend support to his thesis. In Appendix A, the evolution of wage bargaining and macroeconomic policy in the five countries studied by Iversen is outlined in more detail.

Through several decades of conflict over macroeconomic policy and wages, **Denmark** settled on ERM membership and its wage setting system has been decentralised to the sectoral level, although the social partners have been deeply involved in shaping what is sometimes called a ‘negotiated economy’ (Amin and Thomas, 1997). In **Austria**, both macroeconomic policy and wage bargaining have been remarkably continuous, combining a peg to the DM (and later membership of EMU) with a wage system co-ordinated by the social partners at national level, but involving a significant sectoral element. Beginning in 1993, **Italy** made remarkable use of social pacts, to meet the Maastricht criteria, reform the pensions system and rationalise its bargaining structures. Its rationalised wage bargaining system contains a significant regional dimension. After the restoration of democracy in **Spain**, there were a number of national agreements which laid down pay guidelines, but by the mid 1980s consensus evaporated. But in the late 1990s, the Maastricht criteria and other factors saw the re-emergence of national agreements focused particularly on labour market regulation. The Maastricht criteria seem to have been important in the **Portugal**, where there have been five tri-partite pacts since 1987, reflecting a strong distributive coalition (Rhodes, 2000).

In the **Netherlands**, an agreement between the central organisations of business and labour, the so-called Wassenaar Agreement of 1982, is widely seen as the start of the country’s economic recovery. While wage bargaining is strongly influenced by bi-annual meetings between the government and social partners, and the resulting informal wage guidelines, there is a significant element of decentralisation to sectoral and company level. In **Belgium**, several attempts to reach a national agreement have failed but, partly as a result of the intense level of discussion on this, the bargaining system is now based on explicit comparison with wage developments in other countries (something which is also found in Italy, Sweden and Denmark). In **Finland**, a model of social partnership has been a key feature of the country’s recovery from the huge difficulties which attended the collapse of the Soviet Union. Its Stability Pacts of 1991 and 1995-97 and Social Pact of 1998-2000, contained agreement on fixed wage guidelines. **Sweden** has gone through several decades of conflict over the direction of both macroeconomic policy and wage bargaining, which saw employers groups withdraw from some of the tri-partite institutions of Swedish neo-corporatism. While its highly centralised wage system has been significantly decentralised,

allowing a wider dispersion of wage levels and growth rates, its approach to wage bargaining seems to be shaped by occasional agreements on what wage increase is appropriate given the expected average of EU wage growth. Collective bargaining in **Germany** was traditionally at sectoral level, with a leading role played by the engineering sector, balanced by the disciplining role of the independent Bundesbank. In recent years, there has been some evidence of decentralisation to enterprise level, in the negotiation of both working time and pay. This trend, towards allowing individual enterprise to deviate (usually downwards) from negotiated industry rates, has given rise to an extensive debate on whether the ‘German model’ still exists (see Appendix A). Attempts to create a national level accord, the ‘Alliance for Jobs’, have failed, largely because of lack of consensus on reform of welfare, pensions and taxation.

4.3 Partnership Approaches to Macroeconomic Policy, the Labour Market and Social Security

In almost all countries that have adopted a formal social pact or an informal partnership approach in recent years, co-ordination of pay bargaining has been combined with an element of agreement on macroeconomic policy, labour market policy and reform of social security. The Maastricht Treaty set the parameters of macroeconomic policy, and a significant part of the revival of social partnership consisted of the emergence of consensus on this, and attempts to make wage bargaining and other policy consistent with it. Thus, most social pacts extend beyond pay to encompass labour market policy, training and social security.

Goetschy suggests that the social pacts of the nineties have played a dual role. On the one hand, they have served to legitimise some fairly fundamental societal changes (labour market flexibility and social protection) and have triggered a variety of debates on these topics which are far from over; on the other hand, they have sought to confer up-front advantages on companies (cost reductions etc) and individuals (training, labour market access etc.) in a changed international and European environment (Goetschy, 2000., p. 49).

The role of these new social pacts in securing welfare reform in the 1990s is evident in a number of cases, and serves to further identify ways in which current social partnership differs from the neo-corporatist incomes policies of the 1970s (Ebbinghaus and Hassel, 2000; Hassel and Ebbinghaus, 2000). Wage moderation in the 1990s was aimed at employment and economic growth via restoration of competitiveness and sound public finances (Traxler, 1997). For a variety of reasons, this implied an emphasis on reducing labour costs. Since wages are the main influence on labour costs, there was a focus in many countries on achieving wage increases below productivity growth. But there was also a new focus on non-wage labour costs, particularly mandatory social insurance contributions. This issue

was particularly acute in continental countries, where these costs can account for between 40 and 50 per cent of labour costs in manufacturing.

The linkage between wage moderation and social policy reform is illustrated in the Italian, Dutch and German cases. Although Italy reached agreement on wage moderation and reform of its bargaining structures in 1993, the issue of pension reform became a critical one in the subsequent years. Attempts by several governments to impose reform were blocked by union and popular protest. After 1995 the Dini and Prodi governments negotiated pension reform with the unions. 'Conceration with the unions not only proved to be crucial in assuring parliamentary support...it also provided societal legitimacy for the major reform effort' (p. 76). In the Netherlands also, agreement on wage moderation, dating from 1982, preceded welfare reform. However, it was followed by a long period in which welfare reform was centre stage and, at times, highly contentious. Although agreements between the employers and unions evolved to facilitate part-time and atypical work, there came a point when the government dramatically reduced their role in shaping and administering the social security system, especially concerning disability (Visser and Hemerijck, 1997).

4.3 Conclusions and Tentative Lessons

The experience of European countries confirms the centrality of a shared understanding of key economic mechanisms in creating and sustaining a partnership approach. Where it exists, this shared understanding covers two spheres of the economy in particular: European monetary integration and the interconnection between employment, wages, taxation and social protection.

There is a clear tendency towards decentralisation in the social pacts of the 1990s. In most cases, this has been a controlled form of decentralisation, sometimes referred to as 'co-ordinated decentralisation' (Pochet and Fajertag, 2000), 'centralised decentralisation' or 'organised decentralisation' (Traxler, 1995). Not only has wage bargaining been decentralised (allowing more discretion at sectoral, firm and plant level), but other aspects of pacts take the form of framework agreements, the details of which are filled in and implemented at lower levels.

The content of social partnership has changed from the model of the 1960s and 1970s (wage restraint in return for extension of social benefits, Keynesian expansion of demand and increased public employment) to wage moderation as a part of a supply-side policy aimed at employment, competitiveness and growth and macroeconomic policy based on EMU and sound public finances. This changed form of social partnership is sometimes described as 'supply-side corporatism' (Visser and Hemerijck, 1997) or 'competitive corporatism' (Rhodes, 1998).

The decentralisation and changing content of partnership have given rise to a proliferation of forums for transactions between the social partners and the state, at European , national, sectoral, local and

company level. In many countries, participants are seeking to discover how centralisation and decentralisation can be combined (Goetschy, 2000).

In some countries, a partnership approach has been seen as the only way of achieving change, particularly in welfare, given the balance of political forces (e.g the Netherlands, Sweden, Portugal, Spain) or the weakness of the political system (e.g Italy).

Partnership has been far more prevalent, and far more successful, in small countries than in large countries. Italy (and to a lesser extent Spain) is the only large country that has concluded a national social pact and achieved a significant economic turnaround based on social partnership.

Economic performance has been better in those countries in which social partnership has changed a lot or been re-invented (Netherlands, Ireland, Sweden, Portugal, Finland, Italy and Denmark) than in those countries whose partnership approach has changed little (Austria and Germany) (Casey and Gold, 2000). This suggests that a key balance must be struck between the advantages of *continuous and stable partnership* —in terms of shared understanding and trust—an the disadvantages of a *rigid model*, in which certain interests become entrenched and develop a veto on change.

Government is a most important player in social partnership. Partnership works when it brings a strong agenda to the partnership system, balancing the interests of employers and unions with its perspective on the overall interest of society. In most cases government is a formal partner, but even where agreement is bi-lateral, government remains a critical sponsor of partnership (Traxler, 2000). In some cases, partnership agreement is motivated by the social partners desire to pre-empt unilateral state intervention in a given policy sphere, what Visser and Hemerijck call ‘the shadow of hierarchy’ (Visser and Hemerijck, 1997).

Governments have on occasion considered it necessary to over-ride the social partners, even to radically reduce their influence over selected spheres of public policy, in what it sees as the wider social interest. In some cases, this has been consistent with continuation of a successful partnership approach (e.g the Netherlands), while in others it has undermined the possibility of partnership (e.g Germany). It sometimes undermines the possibility of partnership *and* blocks reform of policy.

Of all the countries in Europe, Ireland has gone much the furthest in widening participation in social partnership to marginalised and disadvantaged groups and in including active social inclusion measures in partnership agreements. While this has been noted in the international analysis of partnership and public policy, it was observed in a recent survey that it is Ireland ‘inability to respond to the challenges of relative poverty and inequality which has until today constituted the Achilles’ heel of these successive agreements and prevented this otherwise successful experience from becoming a “model” for other countries’ (Pochet and Fajertag, 2000, p. 14).

5. OPTIONS FOR THE DEVELOPMENT OF PARTNERSHIP

5.1. Option 1: Abandon Partnership

The first option is to abandon social partnership. This is advocated by those who have opposed partnership since 1987, on the grounds that it is a distortion of the free market and/or a dilution of parliamentary democracy. Others might argue that partnership, though effective in the past, is no longer necessary to achieve economic or social goals.

One merit of this perspective lies in its recognition of the extent to which economic change—in technology, skills, markets and monetary regime—demand that firms have flexibility to address diverse circumstances. It might also be argued that some of the partners are no longer delivering on their commitments and the goals set out in the PPF could be achieved more fully outside partnership.

There are a number of limitations to this proposal. The first is a factual matter: it assumes that Ireland's partnership programmes have imposed rigid constraints on firms and have reduced the ability of firms, unions and government to react to unforeseen events. It assumes that unco-ordinated wage bargaining cannot produce inconsistent claims on the output of the economy. But there are good reasons to fear that the labour market, like other markets, can over-shoot. While the market will eventually find its own level, this might only occur after a significant loss of competitiveness and employment. Indeed, this perspective dismisses all the co-ordination problems that can hamper economic activity. It seems to assume that because *individual* firms, unions and citizens can take the overall economic context—of growth and stability—for granted, all can collectively do so as well. Experience shows that if each individual and social group behaves as a 'free rider', then eventually collective goods—including competitiveness and full employment—can disappear.

This perspective also assumes that supply-side services and infrastructures, critical to future prosperity, will be provided, in the right quantities and quality, by government or the market. Although the anti-partnership position is often part of a market ideology, it actually assumes the existence of a very strong state: one that does not need to co-operate with others in order to provide complex services, deal with a range of market failures or resist the demands of sectional interests. While government is undoubtedly, and appropriately, the leader of the national social partnership, it would be a grave mistake to approach economic and social problems with an outdated view of the power, autonomy and effectiveness of central government.

5.2. Option 2: Preserve the Core Institutions

A second option derives from the view that pressures on the PPF constitute a serious erosion of partnership. Consequently, it might be argued that the employers and unions are moving towards a disengagement from national-level agreement on wages and other key business parameters. Efforts to

paper over this change might be seen as compounding its negative effects, rather than mitigating them. For example, it could be argued that a patched-up partnership agreement, which was not really adhered to, would amount to a two-tier bargaining system. On past evidence, such a system can produce wage pressure, which creates inflation or erodes competitiveness, or both. While the nature of current bargaining needs to be carefully analysed, along the lines suggested in Section 3.3 above, let us assume that this view is correct. It might then be argued that attention should focus on preserving the core partnership institutions, such as NESC, for two reasons. First, in the absence of an effective partnership agreement, useful analysis can be undertaken by the social partners and advice offered to government on a range of policy issues. Second, and most important, an institutional framework will be in place when the partners again see the need for a national-level agreement.

This perspective on the future of partnership has important merits. It takes seriously the beneficial effect which partnership provides: predictability, cost competitiveness and industrial peace. It correctly says that a partnership process which does not provide these is unsustainable. This observation, or instinct, should not be lost.

But there are number of limitations to this view. These fall into three categories:

- Wage bargaining;
- Other aspects of relations between employers and employees/unions;
- Wider determinants of competitiveness and social inclusion.

On wage bargaining, this perspective seems somewhat too definite. It assumes that the only choice is between a fully-centralised pay agreement or no partnership programme. It assumes that current pressures are the start of a breakdown of the partnership arrangement, rather than a temporary and correctable departure. It does not take sufficient account of the fact that wage increases above the terms of the PPF are driven by both employers and unions/employees. It does not allow for the possibility that Ireland may be moving from a fully centralised system to an intermediately-centralised system, and this may be appropriate given both the euro and the need for companies to have varied reward systems. Overall, it downplays the possibility that the partnership process, through analysis and deliberation, rather than just bargaining, could reach a roughly shared understanding of the very pressures which are currently straining the PPF.

This perspective also seems to downplay other aspects of relations between employers and employees/unions, upon which national-level partnership can have a beneficial effect. Indeed, some of these—such as labour supply and gain-sharing—can have a direct bearing on pay pressure in the short term, and a major impact in the long term.

Finally, this minimalist perspective would seem to assume that the wider determinants of competitiveness and social inclusion, listed in Sections 3.1 and 3.2 above, will be adequately addressed in the absence of a national partnership programme. If this is doubtful, as I argue below, then it seems

a little brave to retreat to preservation of the core institutions and wait for the partners to rediscover the merits of a national agreement.

5.3. Option 3: Retreat to the Core Partnership Process

A second option is to bring partnership back to its strategic core—pay, tax and welfare. This option is motivated by the view that the partnership process and agenda has become overblown. As we saw in Section 2.5, it is certainly true that the partnership agenda has expanded, largely by addition of an increasing range of supply-side or structural issues. This perspective sees the widening agenda as the reason for a loss of strategic focus. Indeed, some would go further and argue that a lot of the extra issues are ‘baggage’, ill-defined and aspirational. A partnership agreement which concentrated on the core distributive bargain—involving pay, tax and welfare payments—would be both more strategic and more easily communicated.

This perspective on the future of partnership also has significant arguments in its favour. It takes seriously the demands which an elaborate partnership system puts on the time of both the partners and public servants. More important still, it takes seriously the limited success of high-level partnership working groups, frameworks’ and ‘forums’ in doing real problem solving on many of the structural and supply-side issues. It takes seriously the fact that a partnership approach to these issues can create an endless process of consultation, with decision and action blocked by absence of consensus. On many issues, some of those at the table have nothing to offer, and are simply there because their organisation is part of the wider partnership agreement. Even when the issue is of real significance to an organisation, those at the table may have little to offer because the expertise, and therefore problem-solving capability, lies with their members, not national officers. These observations and instincts are vital, and must be reflected in the future of partnership.

However, there are a number of limitations to this view also. These concern:

- Strategic focus;
- The core distributive bargain; and
- Wider determinants of competitiveness and social inclusion.

Implicit in this view is the idea that the widening of the partnership agenda is the *cause* of the difficulties in the partnership process and a loss of strategic focus. This is debatable, unless it is put more precisely. To see this, consider the proposal that partnership would be stabilised, and regain its strategic focus, if it retreated to the core distributive bargain. But, it is the core distributive bargain which is under the greatest stress. It is pressures on that bargain, and conflicting views on it, that are the main evidence for a loss of strategic focus. This pressure can, in turn, be traced to the pace of economic change, full employment, conflicting views on the allocation of tax reductions and another set of factors, to be discussed presently. Consequently, it seems unlikely that a partnership programme confined to pay, tax and welfare payments would be more stable in current circumstances.

Doubts about this perspective on the future of partnership are reinforced if we consider the wider determinants of competitiveness and social inclusion. Although many involved in partnership are frustrated by the greatly extended agenda, when pressed, they agree that the determinants/dimensions of competitiveness and inclusion are now complex and multiple. It seems likely that if deliberation was confined to the core distributive parameters, the partners would draw attention to the important supply-side constraints and policies which shape company performance and social exclusion. We might enter a cycle a widening and narrowing focus. More concretely, recent experience shows that it is often lack of agreement on organisational change in supply-side services—such as health, education, transport and company restructuring—which creates pressure in the core distributive bargain. Leaving these things outside partnership, may threaten what is inside. Consequently, excluding this organisational change from the partnership process is unlikely to stabilise partnership. Indeed, it is argued below that organisational change has been insufficiently included in partnership to date (O'Donnell and Teague, 2000).

Finally, this perspective shares with the minimalist perspectives (Option 2) the assumption that the wider determinants of competitiveness and social inclusion, listed in Sections 3.1 and 3.2 above, will be adequately addressed if the national partnership programme is confined to wages, tax and welfare.

However, we should not dismiss this proposal permanently. There are reasons why it should be kept in view, and may, in time, be the correct direction. It could be recast as:

Option 3a: bring partnership back to its strategic distributive core—pay, tax and welfare—*while making sure that the wider public system is changed so it can provide the supply-side infrastructures, services and change effectively.*

This perspective is one which sees the partnership system extending its scope in the past fifteen years, introducing a partnership approach and assisting change in a range of public services and supply-side systems, and then retreating to a strategic core—*leaving those services on a new footing.* The problem is that the wider public system has not been sufficiently changed so it can provide the supply-side infrastructures and services effectively. The services are not yet on a new footing.

Undoubtedly, some movement in this direction is already taking place. For example, following the White Paper on the voluntary sector, each Department will have a voluntary sector communication structure. It seems likely that this mainstreaming of the voluntary sector role in policy formation and implementation can replace some of the voluntary sector inputs into national-level partnership activity. Likewise, the activities undertaken by IBEC and ICTU on a range of problems, seems likely free them, in national partnership bodies, to focus on other issues.

5.4. Option 4: A Partnership Programme Without a Wage Agreement

A fourth option for the future of partnership is the exact opposite of option 3. Where Option 3 envisages a partnership agreement focused only on the core distributive issue, Option 4 is a partnership agreement without any national-level agreement between the partners on pay, tax and welfare payments.

There are a number of merits to this proposal. It recognises the fact that partnership has been a factor in a wide-ranging improvement in the quality, effectiveness, inclusiveness and creativity of Irish public policy. Area-based approaches to social exclusion and development might be cited as one example. In addition, partnership has been the origin of experimental new collaboration between social partners, quite separate from government policy. It suggests that these achievements should not be made hostage to agreement between employers and unions on a national-level pay deal.

But there are a number of limitations to this proposal. These concern:

- Wage bargaining;
- The role of an over-arching agreement;
- The difficulty of dealing with structural and supply-side issues.

The proposal for a partnership programme without a pay agreement would seem to be based on the assumption that wage bargaining can take care of itself, and will not produce problems. This might be so, but cannot be taken for granted. It was noted in Section 3.3 that the following changes in context warrant new analysis and deliberation on Ireland's distributional settlement:

- The move from ERM to full EMU;
- Shortages of labour in many areas of the private sector;
- The move to new systems of public sector wage determination;
- The likely limits to a strategy of exchanging pay restraint for tax reductions;
- The need to consider what distribution of income is appropriate in a socially inclusive society.

With or without partnership, Ireland has to devise a wage bargaining and distributive system suitable to its economy and society. Consequently, there may be little to be gained from debating whether social partnership is possible without a national wage bargain. A promising analytical approach, which seems suited to Ireland's economic context, was reported in Section 3.3. It suggests that Ireland's monetary regime is most suited to an intermediately-centralised wage bargaining system. If this suggestion was to be confirmed, organisational arrangements for an industry- or sector-based bargaining system would have to be considered.

This perspective also ignores the importance of a shared over-arching understanding in facilitating incremental co-operation in a range of specific areas. While the relation between over-arching constitutive agreement and incremental cooperation is complex, there seems little doubt that it is important, in systems as diverse as such as national partnership, enterprise partnership and European integration (Laffan, O'Donnell and Smith, 2000; O'Donnell and Teague, 2000).

Finally, the proposal for partnership without a pay agreement seems to reflect a view that the non-pay, non-distributive, elements of partnership are relatively unproblematic. This is hardly so. Indeed, we saw that some participants see the increased supply-side agenda as the main problem in partnership. Without necessarily endorsing this view, a major theme of this paper is the need to clarify the way in which partnership can help solve structural adjustment and supply-side problems (see Section 5.4 below). In addition, some important partners might be significantly less interested in partnership if it did not contain agreement on pay.

These reservations lend some support to the widespread adage that ‘pay is the glue that hold partnership together’, but leaves open the question of what it is that the glue holds together.

5.5. Option 5: Use Partnership as an Aid to Achieve the Core Substantive Tasks

Option 5 is to revise the content of the ‘Distributional’ and ‘Structural’ elements of the consistent policy framework, and to radically change the approach to supply-side structures and services.

Key Propositions

This option is derived from the analysis developed above. In the course of this paper the following propositions have been advanced:

1. A shared strategic understanding, across the social partners and political spectrum, has been a key factor in Ireland’s economic and social performance since 1987;
2. Partnership has undergone a significant dual evolution, in content and method;
3. This evolution has left many feeling that partnership is over-burdened and ineffective;
4. The ‘consistent policy framework’, can provide an overview of the key macroeconomic, distributive and structural policy requirements;
5. Certain elements of the distributive settlement, including wage bargaining, require new analysis and revision;
6. A shared overview of the economic and social situation is important in distinguishing temporary turbulence from a fundamental change in conditions;
7. The central developmental task for Ireland is the creation of a complex set of supply-side infrastructures and services;
8. These pose a major set of organisational challenges to existing public organisations and firms;
9. Consequently, retreating from partnership to old-style government will not meet the central development task;
10. In the case of a complex set of supply-side infrastructures and services, an adequate shared understanding and policy approach cannot be achieved only by high-level national analysis and negotiation among the social partners;

11. Consequently, delegation from government to national partnership will not meet the central development task;
12. Neither strategic co-ordination nor networked decentralisation, on their own, can guarantee effective public administration;
13. New organisational arrangements, emerging in many countries and in Ireland, can combine local innovation with transparency and accountability. These give local actors freedom to set goals for improvement and the means to achieve them, but demand that they propose measures for assessing their progress and provide rich information to the centre in order that they be monitored and accountable.
14. Contracting partnership to a core distributive bargain—pay, tax and welfare—may not stabilise partnership and will make it unlikely that key infrastructures and services will be adequately provided.

Revising the Distributive and Structural Elements of the Consistent Policy Framework

All three elements of the distributional settlement in place since 1987 now require reconsideration:

- Wage bargaining;
- Public Sector Pay Determination;
- Social inclusion and the social wage.

Devising and achieving a new distributional settlement requires both fresh analysis of key economic and social mechanisms and deliberation on the type of society which we intend to build in Ireland. This places heavy demands on the social partners, on the public institutions charged with organising public deliberation and seeking consensus, and especially on government.

On the supply-side infrastructures and services, Option 5 is based on the view that these cannot be left entirely outside the ambit of partnership. The other options leave too much outside deliberation and problem solving to guarantee the transition to competitiveness, inclusion and quality of life. Indeed, it could be argued that the scope of partnership has not been wide enough. Could Ireland's physical planning and transport systems (and certain regulatory and service regimes) be as bad as they are, if they had been subjected to the kind of deliberative and problem-solving approach that characterises social partnership?

But Option 5 is also based on the view that structural and supply-side problems cannot be tackled by the existing structures of either partnership or public administration. Government faces the formidable task of finding and building new structures. The question then is: can partnership assist in this task? It is possible to suggest six ways in which it might assist in solving the complex set of supply-side and structural problems:

1. Creating a new consensus for organisational change and continuous improvement;
2. Creating urgency in areas where government decision and action is the critical factor;
3. Teasing out how certain supply-side issues can be dealt with, and helping to find the organisational arrangements necessary;

4. Supporting and monitoring organisational change and capability;
5. Addressing the distributional issues which frequently accompany, or inhibit, organisational change;
6. As new organisational arrangements emerge, social partner organisations may have roles as deliverers, recipients or monitors.

1. A New Consensus for Organisational Change and Continuous Improvement

Drawing on propositions 7 to 14 above, it can be argued that organisational change and capability is the central issue in the years to come. Organisational capability, in the public, private and voluntary sectors, is an increasingly important determinant of competitive advantage, and therefore of prosperity, social progress and quality of life. Just as public finance correction was a policy imperative, not a policy option, in 1987, so radical change in the public sector and organisational performance and partnership in the private sector is a policy imperative now. Without it, Ireland will not complete the transition to a prosperous, fair, society and Irish citizens will not have the service necessary for quality of life. In the scramble to get what inadequate services and opportunities are available, there is a fair chance that even the economic gains of the past decade will be reversed.

In this context, organisations must achieve continuous improvement, and to do so must engage the commitment, intelligence and energy of employees, members and citizens, empowering them to contribute to the full. At the same time, employees, members and citizens increasingly expect to be involved in the design, execution and assessment of the work they do, or the services they receive, and expect a voice in the workplace and a share in the rewards of the organisation. Continuous improvement through engaging and empowering people is a key element of organisational or enterprise partnership.

Partnership and the social partners can assist this in several ways. Organisational capability and performance should be put at the heart of national policy. In a consensus-oriented public system, this requires the creation of a new consensus for organisational and policy flexibility, secured through partnership or by some other means. The experience of the past shows that the partners strategic overview—if persuasive, oriented to the wider good and genuinely problem-solving—can be a significant support to government in achieving major change in Irish policy.

2. Urgency

In some structural and supply-side areas government decision is initially the critical factor, even if complicated organisational issues arise later. The social partners can have a shared view of the urgency of these issues. In a consensus-oriented system it is necessary to mobilise consensus to overcome veto points that systems of consultation can create.

3. Teasing out How and Where Supply-side Problems Can Be Solved

As well as building a new consensus for organisational change, Government, its agencies and the social partners can jointly work out how certain supply-side services can be provided. It is clear from the propositions 8-11, above, that neither central government nor the social partner at national level can actually provide these services. The extension of partnership into structural and supply-side issues has brought it face to face with its own limitations and the limitations of the public system. The things it wants to achieve require fundamental change in public administration. Consequently, partnership must now be brought closer to three other important trends in Irish public life:

- The Strategic Management Initiative;
- Devolution to new agencies, local bodies and the reform of local government;
- The pressure for improved systems of accountability and compliance.

Just like the dual evolution of partnership, these changes are also incomplete.

Enhanced performance and partnership in the public service requires examination of the content, delivery, monitoring and evaluation of public policy and services. This recasting of public policy must include reconsideration of the roles of central departments, agencies, professionals, branch offices and citizens in setting goals, delivering services and monitoring performance (O'Donnell and Teague, 2000). A key determinant of success will be the ability to recast national frameworks and institutions in the light of local innovations.

The existing processes of change—in the SMI and devolution—clearly need all the support they can get. Indeed, this form of centre-led decentralisation has been a feature of Irish policy, and social partnership, in the past. A good example is the creation of the area-based approach to long term unemployment, leading on the partnership approach to local development.

4. Supporting and Monitoring Organisational Change and Capability

Most organisational change is led from within firms, public agencies or national associations, such as IBEC, ICTU and community organisations. Yet experience shows that this can be assisted by official bodies such as Forfas, Enterprise Ireland, the new National Centre for Partnership and Performance and the EU. In addition, these bodies have an important role in disseminating best practice.

5. Distributional Issues in Organisational Change

Organisational change frequently throw up issues of incentives and rewards. Indeed, the threat to pockets of rent earning is frequently the main reason for resistance to change. The social partners have expertise and authority in this area. They can use that expertise and authority to defend rent earners or to lead the way to fairer and more effective regulatory, administrative and policy systems.

Furthermore, the current situation is one in which there is both an urgent need for improved service systems and a case for some adjustment in the distributional balance between the traded and non-traded sectors, and between the public and private sectors. Without a clear partnership consensus on

organisational change, the distributional re-balancing is likely to drown out issues of service and policy reconfiguration.

6. The Social Partners as Deliverers, Recipients or Monitors of Service Provision

Furthermore, as public administration is reconfigured, along the lines outlined in Section 3.4, the social partners may have a more active set of roles in the decentralised provision and centrally organised monitoring which this approach involves. I say, 'may' have roles, because the no organisation can have an automatic right to either share in the provision of services or organise and speak for any constituency.

Option 5 May be a Route to Option 3

In a sense, Option 5 might be seen as a programme to allow Option 3 eventually become a reality: a concentration of national partnership on the core distributional issues of wages, tax and welfare. As public systems are reconfigured, there will be less temptation to try to address detailed supply-side problems by forming high-level working groups of social partners at national level. The problem solving will be done where most of it can only be done, at local and sectoral level. Of course, it remains possible that the social partners at national level will have a role in the framing centre which has the key task of monitoring performance and disseminating best practice.

There is sense in which giving social partnership a role in this process of organisational reform is odd. It is using national partnership as an instrument to rid itself of problems and functions which it would not have in a less centralised system. But, although we wouldn't start from here if we had a choice, it so happens that rapid creation of a complex set of infrastructures and supply-side services is the major developmental challenge facing Irish society. While partnership is, in some textbook sense, best suited to ensuring competitiveness an inclusion through an agreed distributional framework, it does not create competitiveness and inclusion in circumstance of its own choosing.

In view of the attractions of Option 3, the need to see partnership as just one part of a wider transition to a quite new form of public policy and administration and the demands of partnership, Option 4 might be recast as:

Option 5a: concentrate partnership on its distributive core—pay, tax and welfare—*plus a small number of strategic supply-side and infrastructural problems.*

In this option, government would engage the social partners to support it jointly achieving a major breakthrough on those structural and supply-side problems which are critical to Ireland's future, both economically and socially. Solution of these selected problems in specified time would be the core of the agreement. Partners to such an agreement would commit to intensive problem-solving and foresake their right to defend arrangement which stand in the way of necessary change.

5.6 Towards a New Model of Public Governance and Partnership

National-level partnership arrangements cannot be effective if they are premised on an outdated view of the power, autonomy and effectiveness of central government. They will not assist in solving problems if they rely on central government to design, direct and administer programmes. Social partnership will not retain its relevance if it relies on the state to underwrite the partners' monopoly of representation of groups of citizens. That legitimacy must be created and recreated in action. A major challenge, is how to refocus partnership arrangements so that they are consistent with the emerging roles of national government. A second challenge is how to redesign public administration itself, so that it is consistent with these emerging roles.

Ultimately, these changes seem likely to create a new model of partnership and public governance. Intensive discussion among the social partners, and observation of trends in public policy in other countries, suggest three characteristics of that new model (NESF, 1997; O'Donnell, 1998). First, the nature and role of social partners is changing. Traditional characteristics of partners in neo-corporatist systems—monopoly representation, a functional role in the economy, centralised structures for representing and disciplining members—are giving way to new ones: *information* as the key resource, new forms of public advocacy: *analysis, dialogue* and *shared understanding*. Second, we are also witnessing an historical shift in the role of the centre and national government. The traditional roles—allocating resources, directing the operation of departments and administering complex systems of delivery and scrutiny—are giving way to new ones: policy entrepreneurship, monitoring, facilitating communication and joint action between social interests, and supporting interest group formation. Third, the relationship between policy making, implementation and monitoring is changing, in ways which place monitoring, of a new sort, at the centre of policy development (Dorf and Sabel, 1998).

Social partnership has been a key factor in Ireland's remarkable economic transformation since 1987. In that context, the extension of partnership into structural and supply-side issues has brought it face to face with its own limitations and the limitations of the public system. The next stage of social development requires a radical change in the way both the state and voluntary associations relate to citizens.

Looking at Irish social partnership in the year 2001, it seems that we are either at the end of something very good, or at the beginning of something truly astonishing.

APPENDIX

THE EVOLUTION OF WAGE BARGAINING IN SELECTED EUROPEAN COUNTRIES

A.1 Introduction

This Appendix illustrates Iversen's thesis, discussed in Section 3 above, that there is a definite trend away from centralised bargaining with an accommodating exchange rate to moderately centralised bargaining with a hard currency peg. Indeed, his distinction between these two approaches leads him to question the value of the concept of 'neo-corporatism'. Because they have had traditionally had quite different combinations of wage bargaining and monetary policy, he rejects the idea that five countries—Austria, Denmark, Germany, Norway and Sweden—should all be seen as examples on one 'corporatist' or 'Northern European Model' (Iversen, 1999, p. 119). On the subject of wage bargaining, an emerging theme is the EMU, its implications for the effectiveness of national bargaining systems and the possibility of co-ordinated wage bargaining at European level. This is not a subject we can address in any depth in this paper, although it is one which warrants analysis in Ireland.

A.2 Denmark

In the late 1950s and 1960s Denmark moved towards a centralised wage bargaining system. This was combined with government expansion of employment and educational opportunities. The approach in the 1960s bore all the 'core elements of the corporatist bargain': wage restraint, wage solidarity, an increase in the social wage and provisions to reassure workers about their future welfare (Iversen, 1999, p. 124). One of the elements that came under attack during the 1980s was the compression of wages, with the growing importance of wages negotiations at the industry and firm levels. Employers had a growing desire to escape the constraints on their ability to design company incentive systems. The increasing element of wage drift created pressure for larger compensatory increases within the centralised system. On Iversen's analysis, this distributional conflict reflects the increasing exposure of Danish firms to international competition. This not only puts the centralised system under pressure but reduces the advantages of centralised bargaining. At the same time, the feasibility of controlling wage costs in a (more) decentralised system improved.

The fiscal crisis of the state reduced the willingness of government to meet public sector wage demands, or to cushion the effects of loss of competitiveness through public sector employment. 'A series of budgetary and administrative reforms linked to a controlled decentralisation and sectoralisation of public wage bargaining simultaneously improved control over wage costs and facilitated a more market-conforming wage structure' (Iversen, 1999, p. 135). During these years there was also a transition from a Keynesian full-employment regime to a monetarist low-inflation regime. This 'marked a fundamental re-orientation of macroeconomic policy priorities that cemented the transition to a decentralised bargaining system' (p. 135). This was a protracted and difficult transition, in which membership of the ERM came with an interest premium. It took considerable time for

government to persuade the parties in the labour market to contain wage increases at a level consistent with German inflation. Indeed, the potential for re-alignments within the ERM made parties unsure what direction the Danish system was going in. Through much of the 1970s and 1980s Denmark hovered between the two models outlined by Iversen.

The protracted series of crises in Denmark, and their eventual resolution by a government which adhered to the ERM and Maastricht criteria, bears some resemblance to Ireland's experience in the 1980s. 'In hindsight it is thus clear that 1982 marked a fundamental regime shift in Danish macroeconomic policy, which now enjoys bipartisan support' (p. 142). In parallel with this change of macroeconomic regime, the Danish also undertook some reform of their highly generous welfare system

The Danish had to make institutional changes to move from a centralised to an industry-level bargaining system. This involved mergers and reorganisation of unions and employers associations.

4.3 Sweden

Although centralised bargaining began later in Sweden, by the 1960s it was to become the most developed model. The model was based on an explicit strategy of ‘solidaristic wage policies’. The idea of the so-called ‘Rehn-Meidner model’ was that roughly equal wages would not only promote egalitarian goals, but also modernise the economy by facilitating the growth of efficient firms (through competitive wages) and inducing inefficient companies to either rationalise or close down. The effectiveness of this was enhanced by active labour markets policy and investment policy. Full employment was underpinned by the expansion of the public sector.

By the late 1970s the centralised and solidaristic wage system came under pressure, as employers (and some higher skilled workers) sought to escape the constraints on company reward systems. While attempts were made to allow more decentralised wage formation, this tended to create pressure within the bargaining system. As in Denmark, distributional conflict within the labour movement was exacerbated by radical wage levelling in the public sector (p. 131). Competitiveness and employment were protected by means of devaluation in 1977 and 1982, combined with collective wage agreement. This approach was bolstered by Sweden’s elaborate set of exchange controls. Iversen sees the Swedish experience as a good example of the tendency of centralised wage bargaining to produce inflationary pressure, that is then alleviated by the soft currency policy. This approach was threatened when liberalisation of international financial markets meant that the Swedish authorities had to persuade the currency markets that it could control inflation. What was known as the Swedish Third Way came to an end in late 1990, when the government decided to peg the value of the krona to the ECU. This also constituted a de facto abandonment of the commitment to full employment. Indeed, this reversal was followed by restrictive fiscal policy, application to join the EC and some reform of the welfare system—measures which eventually attracted support of the Social Democrats.

As in Denmark, the move to a more decentralised bargaining system required deliberate efforts to build an institutional framework for this. Both unions and employers took steps to form sectoral bargaining cartels. This has proven difficult, with high level of strike threats and strike activity, and some employers calling for more enterprise-level bargaining. A critical issue is how to combine an element of decentralisation of bargaining with a level of co-ordination sufficient to limit inflationary pressure and ensure competitiveness.

A.4 Austria

While Austria is correctly seen as a long standing example of concertation or neo-corporatism, there are important differences from both Sweden and Denmark. At first sight, the system seems highly centralised, with the Parity Commission for Prices and Wages, the employers association and the union

confederation playing a key role. In fact, many analysts point out that the distribution of wage increases has never been subject to centralised bargaining. The adjustment of wages in response to market conditions is achieved through a complex system of enterprise- and sector level negotiations, under central surveillance (p. 151). In this system, the peak level exerts a significant influence on overall increases by signalling an overall target. Iversen suggests that the core idea underpinning the bargaining process is that by allowing *relative* wages to be determined at the sectoral and firm level, negotiators at the peak level can focus on the achievement of appropriate adjustments in the economy-wide *level* of wages. In particular, there is a concern to ensure that wage increases do not move the functional division between labour and capital out of balance with macroeconomic requirements.

An important feature of the Austrian version of ‘centralised’ bargaining is that it involves a much weaker solidaristic element. Wage dispersion is high, and the system does not attempt to compensate workers for wage drift in high-skill, high-technology, high-performance firms or sectors. Given Iversen’s analytical argument, outlined in Section 3 above, he sees this as a crucial point ‘because it helps us to understand why Austria has been able to combine a non-accomodating policy regime with a relatively centralised bargaining system’ (Iversen, 1999, p. 152). He suggests that Austria is the only OECD country that satisfies these conditions. It seems likely that Ireland does also, although confirmation of this would require the research work suggested in Section 3.4 above. There are, of course, significant institutional differences between Austria and Ireland, which need to be taken into account.

A.5 Norway

Norway has a relatively long history of centralised bargaining. In recent decades its bargaining system and economic policy have been largely shaped by the dominance of the oil and gas industry in its economic structure. The oil boom, which began in the early 1970s, led to rapid wage growth across the economy and oil revenues allowed Norwegian governments to increase public sector employment. With extremely tight labour markets, wage negotiations were decentralised in 1974, for the first time in 13 years. This gave rise to very high settlements and a severe deterioration in international competitiveness. In response, a tripartite approach was adopted through much of the 1980s, combining local and centralised forms of bargaining. This mixed approach had only modest results, and its weakness was exposed when oil prices suddenly dropped in 1986. This led a Social Democratic government, with the support of the main union federation and the employers association, to impose a thorough recentralisation of Norwegian bargaining. In Iversen’s view, the ‘success of centralisation in the late 1980s and 1990s should not blind us to the underlying pressures for decentralisation’. The international integration and liberalisation of capital markets has reduced the autonomy of government policy, particularly its freedom to address unemployment through creation of public sector employment or expansionary fiscal policy. Indeed, Iversen suggests that the bargaining system has exhibited ‘subtle signs of decentralisation’. Among these is the fact that an increasing portion of total increases has come in the form of wage drift that disproportionately benefits better paid workers.

The re-centralisation of Norwegian wage bargaining has been accompanied by a significant element of policy concertation. Indeed, it has created an institutional structure within which problems such as unemployment have been addressed.

A.6 Germany

In contrast to most European countries, the wage bargaining system in Germany has been stable over a relatively long period. German wage bargaining is dominated by large industrial unions and employers associations, with a central role played by the metalworking sector. All wage bargaining takes place at the industry level, with the industry organisations of employers and workers coordinating the bargaining process in the individual federal states (the *lander*). An important player in the system has been the independent Bundesbank. Its primary goal is price stability, and it used monetary policy to both set the parameters of wage bargaining and, on occasion, to react to what it saw as excess wage settlements. This encourages employers to resist excessive wage demands and discourages unions from making them. Under these conditions, wage increases tended to be determined by the position of German industry in international markets. Thus, Germany is the prototype for the idea of 'coordinated' wage bargaining combined with an independent monetary policy. An important feature of the wider system is the system of 'co-determination' at enterprise level. This allows workers a role in decision making through works councils, but these councils are prohibited from engaging in collective bargaining.

There is little doubt that the German system was highly successful through most of the post-war period. In the 1990s, the effectiveness and sustainability of its wage bargaining and industrial relations system became a subject of considerable dispute. The big increase in unemployment, the economic and social difficulties following re-unification, the integration of service markets under the European single market programme, the rise of information technology and the success of new organisational forms in the US have led many to the view that the German model is in deep crisis.

Iversen takes a different view. While acknowledging the difficulties of the 1990s, he argues that the German system 'is much more stable and attractive to employers than either the old centralised systems of Scandinavia or the more decentralised systems of the British-United States variety'. He traces the difficulties of the 1990s to unique events which temporarily broke the linkage between wages and unemployment. This reading does not attach too much significance to calls by SME employers for greater flexibility at firm level, or to the evidence that the distinction between sector-level negotiations and company-level negotiations has become blurred. In his view, the prospect of such local empowerment is frightening to most German employers. 'Unions are strong in Germany, and employers have no alternative but to deal with them at the industry level. Although this may not provide the kind of flexibility in wages and work time that many employers would like, without centrally imposed constraints on wages, German employers cannot control costs' (Iversen, 1999, p.

163). Even if this were accepted, others would highlight the slow pace of change in systems of social security and the inflexibility of many aspects of the German economy. Indeed, Iversen himself draws attention to the slow rate of growth of service sector employment in Germany and sees this as an example of a critical dilemma facing many European democracies: either embark on a strategy of promoting private service sector employment through a certain flexibilisation of wages and employment conditions (as has been done in the Netherlands and Ireland) or sacrifice employment to retain a smaller full-time work force characterised by egalitarian earnings (as has happened in Germany).

The transfer of monetary policy from the Bundesbank to the ECB undoubtedly constitutes a significant change in the German system, since it alters the implicit coordination of wages and monetary policy.

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¹ The Council's argument for centralised wage bargaining is outlined in greatest detail in Chapter 5 of its 1996 *Strategy* report (NESC, 1996b).

² See Sabel, (1996); Jacobson, (1996); McCartney and Teague, (1997); Geary, (1999); Roche and Geary, (2000); European Foundation, (1997); O'Donnell and Teague, 2000).

³ For further discussion of this distinction, see O'Donnell and Teague, 2000.

⁴ Iversen's analysis of decentralised bargaining differs from that of Calmfors and Driffil in allowing that firm-level bargaining can create wage pushfulness that yields unemployment. In contrast to their model, his theory allows there to be externalities of unemployment (see Iversen, 1999, pp. 25-6).

⁵ This section draws on Sabel and O'Donnell, 2000.

⁶ See Dorf and Sabel, 1998; Liebman and Sabel, 1999; Sabel, O'Rourke and Fung, 2000; Sabel and O'Donnell, 2000.