The Irish Economy in a Comparative Institutional Perspective

National Economic and Social Council

An Chomhairle Náisiúnta Eacnamaíoch agus Sóisialach

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December 1992

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Constitution and Terms of Reference

1. The main tasks of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government through the Taoiseach, on their application. The Council shall have regard, inter alia, to:

   (i) the realisation of the highest possible levels of employment at adequate reward.
   (ii) the attainment of the highest sustainable rate of economic growth.
   (iii) the fair and equitable distribution of the income and wealth of the nation.
   (iv) reasonable price stability and long-term equilibrium in the balance of payments.
   (vi) the balanced development of all regions in the country, and
   (vi) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Members of the Government will meet regularly with NESC on their initiative or on the initiative of NESC to discuss any matters arising from the terms of reference and in particular to discuss specific economic and social policy measures and plans and to explore together proposals and actions to improve economic and social conditions. Any reports which the Council may produce shall be submitted to the Government, and shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council, and

   Five persons nominated by agricultural organisations;
   Five persons nominated by the Confederation of Irish Industry, the Federation of Irish Employers and the Construction Industry Federation;
   Five persons nominated by the Irish Congress of Trade Unions;
   Nine other persons nominated by the Government, including one from the National Youth Council, the Secretary of the Department of Finance, the Secretary of the Department of Industry and Commerce, and the Secretary of the Department of Labour.
   Any other Government Department shall have the right of audience at Council meetings if warranted by the Council's agenda, subject to the right of the Chairman to regulate the numbers attending.

5. The term of office of members shall be for five years. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office.

6. The numbers, remuneration and conditions of service of staff are subject to the approval of the Taoiseach.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

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Lars Mjøset

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COUNCIL'S PREFACE

The Council, in Report No. 89, *A Strategy for the Nineties* stated its belief that a sophisticated understanding of the constraints and opportunities facing a small open economy in Europe is a pre-requisite to the formulation of appropriate economic and social policies. The Council noted that other small open economies in Europe have experienced (both historically and recently) higher levels of economic growth and associated economic achievements, notably low levels of unemployment. Some of these economies, like Ireland, have small populations, they are small geographically and culturally homogenous: moreover they lack, as does Ireland, any outstanding natural resource endowment which confers significant economic advantage - such as unlimited energy supplies.

The Council decided to undertake a comparative study to examine the basis for the relative economic success of this group of countries including Finland, Sweden, Denmark, Austria and Switzerland. Dr. Lars Mjøset, Research Director at the Institute of Social Research in Oslo was commissioned to undertake the study.

The Council was particularly interested in understanding the institutional mechanisms for consultation and agreement on key economic and social policies which appear to underpin their relatively successful economic performance, marked by continuous flexibility and adaptability. The Council noted in Report No. 89 that the role of consensus and of institutionalised corporatism may be one of the key factors contributing to the economic success of the small, open economies.

Dr. Mjøset's report provides a unique overview of the historical experience of these countries and of the policy-making processes which have developed out of that historical experience. His report also provides a very useful analytical framework for examining their relative performance.

The Council is examining the implications of this analysis for Ireland. While the particular institutional arrangements which operate in any one country cannot successfully be replicated in another, the Council is satisfied that there are policy lessons and some institutional models relevant to Ireland to be discerned from Dr. Mjøset's analysis. These will be presented by the Council in a report which is currently in preparation.

In the meantime, the Council considers that Dr. Mjøset's report should be made available in its own right as a most useful contribution to the understanding of Ireland's development performance relative to that of other small European countries.

Lars **Mjøset** was born in 1954 and educated in social science at the University of Oslo. He is at present Research Director for comparative studies at the Institute for Social Research, Oslo, Norway, working mainly on comparisons of economic development and economic policies in small and large Western countries.

ACKNOWLEDGEMENTS

Much of the work on this report was done in 1990. Based on what I already knew about the Nordic countries, I studied the development of Ireland and of the small Alpine countries. This led to a new series of research problems concerning the Nordic countries. For instance, some understanding of emigration from the Nordic countries was absolutely necessary if they were to be compared with Ireland. Having looked into these matters, I returned to Irish developments. The results of this zig-zag movement are contained in the report. As was to be expected, the last round of rewriting (early 1992), generated even new problems, but these had to be put aside, since the project was at that time working overtime. Consequently, the careful reader will discover a lot of loose ends. I leave them there for further research and debate among scholars interested in comparative European studies.

Writing this report, I have had generous assistance both at the Norwegian and the Irish side. In Oslo, Kristen Nordhaug and Espen Andersen assisted on the first drafts. I am also thankful for advice from Pål Veiden on Austria and Jan Fagerberg (on growth theory). For certain themes in Ch. 4, I draw on joint work with Ton Notermans, carried out during his stay at the Institute for Social Research in 1989. Thanks are due also to the Institute librarian, Sven Lindblad, who (as usual) managed to get me any book or article I needed.

On the Irish side, I owe thanks to the NESC secretariat, and in particular to Tony McCashin, who besides organising the project from the first to the final phone call across the North Sea, has also provided comments and information throughout the project period. To be able to carry through the comparisons asked for by NESC, the project required that I very rapidly accumulated sufficient knowledge about modern Irish development. Besides selective reading of recent Irish and international social research, I was also able to have discussions with a number of Irish colleagues at various times in 1990 and 1991. For such discussions which were important inputs to the report I shall thank the following: Tom Barrington, Richard Breen, Packie Commins, Raymond Crotty, Brian Girvin, Damian Hannan, Joseph J. Lee, Kieran A. Kennedy, Philip J. O'Connell, Rory O'Donnell, Eoin O'Malley, and Chris T. Whelan. Some of these also provided both data and comments on parts of earlier drafts. Concerning responsibility for the final manuscript, of course, the usual disclaimers apply.

Oslo, May 1992. L.M.

Overview and Conclusions

Part I

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CHAPTER 1

OVERVIEW AND CONCLUSIONS

This report analyses long term socio-economic development in Ireland in comparison with five contrast countries: Austria, Denmark, Finland, Sweden and Switzerland. The main focus is on economic growth and development. The original proposal by NESC for this project envisaged a two stage study. The first stage would compare Ireland with the five contrast countries, providing a descriptive overview, focusing on the relationships between institutional arrangements, policy approaches and economic and social performance. The second stage would accomplish two things: first, the analysis would move towards a causal account, based on comparative reasoning, and second, specific issues for in-depth analysis would be identified.

This report intends to provide the descriptive overview. A fully-fledged causal account based on comparative reasoning, however, could in no way be completed during the short project period. We have, however, proceeded some steps on the way between the two stages. **It seems possible on the basis of the material in this report to outline in broad terms the Irish development experience since the industrial revolution as a sequence of vicious circles, which can be counterposed to the virtuous circles of the contrast countries.** These circles indicate that there are processes of interaction within clusters of causal factors. These factors reinforce each other to create negative or positive cumulative processes.

The first subsection of this Chapter sketches these circles (Figure 1.1), thereby providing a very brief summary of Parts III and IV below. The next subsections present some comments on the three topics that were listed as the Council's central interests in the project outline: **the achievement of consensus and the policies and institutional frameworks which sustain consensus; the extent, timing and nature of industrialisation; and the inter-relationship between efficiency/economic policies and social/redistribution policies** (1.4). Then, some comments on the present situation are provided (1.5), since the difference between a short-term and a long term perspective may be a problem in this project. In addition (1.6), further in-depth studies are suggested.

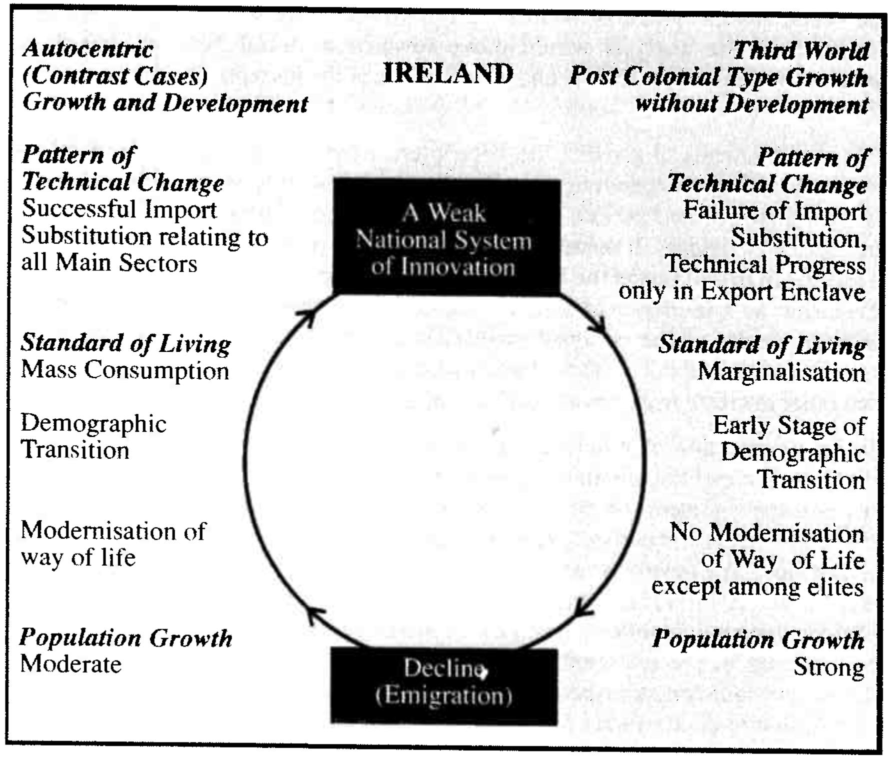
1.1 IRELAND'S VICIOUS CIRCLES IN PERSPECTIVE

While traditional economics often assumed that economic growth always implied development, modern development theory has emphasised that a distinction must be drawn between the two. While **economic growth** is simply the growth of output, we speak of **socio-economic development** only if conditions for the fulfilment of human needs are improved (reduction of marginalisation, abolition of poverty, provision of work for most of the labour force).

Specifying this distinction, Part II of this report introduces the notions of auto-centric development (growth **with** development) and peripheral development (growth **without** development). The former is typical of post-war development in the OECD area, while the latter is typical of the poorest third world countries, even in the post-colonial period. The contrast countries are all clear-cut cases of an auto-centric development model, but how should Ireland be classified? Ireland is not a third world country, but it is also hard to classify it as a clear-cut auto-centric case. Thus, Figure 1.1 locates Ireland in between the auto-centric and the peripheral types. The reasons for such a location may be specified by looking at two dimensions which are both related to growth and development: **the pattern of technical change** and **the standard of living**.

FIGURE 1.1

Ireland between the auto-centric and the peripheral types



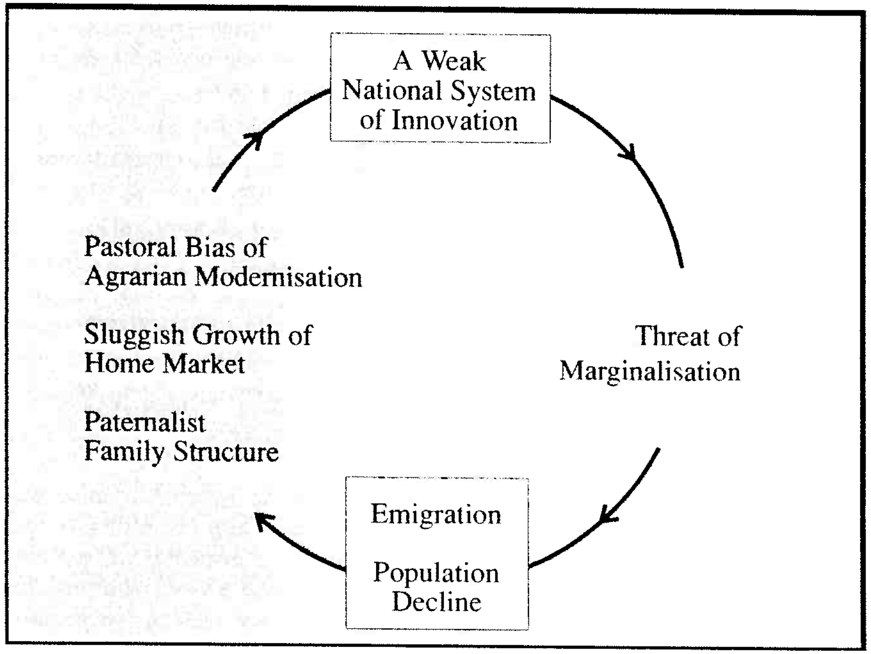
As for the pattern of technical change, this report highlights the persistent problems of industrial development in Ireland. In this respect, Ireland seems closer to the third world type. This is indicated by the characterisation of a weak national system of innovation in Fig. 1.1. As for the standard of living, however, Ireland seems closer to the auto-centric type. 20th century Ireland has not seen poverty and marginalisation comparable to poor third world countries. In this, Ireland's emigration has played an important role. That is why population growth has been introduced into Figure 1.1. Auto-centric countries have completed their demographic transition, while third world countries are only in their early phase. Ireland, however, has a late demographic transition, but, due to emigration, there has been population decline since the Great Famine.

A brief historical account clearly demonstrates the importance of emigration. The late mercantilist period is the only one where economic historians have traced something like a virtuous circle in Irish modern development. As a consequence of the industrial revolution, Ireland's cottage industry was hit by *deindustrialisation*. The interaction between deindustrialisation and agricultural restructuring to provide cattle to a booming English market in the post-1814 period, led to the Great Famine. Following this disaster, population decline emerged as a most persistent factor in Irish development, first through starvation and emigration, later through emigration only. This study confirms that **this demographic pattern constitutes the most distinctive feature of Ireland's development**. It is not only unique compared to our five contrast cases, there is simply no similar demographic experience anywhere in the modern world, so far.

In sum, we propose to search for the keys to Ireland's development problems in the square located in the middle of Figure 1.1's sixfold table. Figure 1.2 tries to specify the basic elements of the vicious circle within that square. The circle links several factors. No one of them alone is responsible for Ireland's problems; it is their mutual interaction which is decisive. It goes without saying that this interaction can only be traced in a very insufficient way in the form of arrows in a figure.

FIGURE 1.2

Ireland's Basic Vicious Circle



The basic vicious circle starts from two facts: the weak national system of innovation, and population decline via emigration. The mechanisms whereby these two features reinforce each other must be sought in the social structure. These mechanisms are highlighted by studying contrasts which emerge from the comparison with the other case countries. Some elements of the social structure have been indicated in Figure 1.2, but of course only in a very simplified way.

Far into the 20th century Ireland was an overwhelmingly agrarian society. The very slow pace of agrarian modernisation was connected to a paternalist family structure in the countryside. With a high birth rate, the demographic pattern was distinctly less modern than in any of the contrast countries. This produced a threat of marginalisation which reinforced emigration. Simple religious reductionism - a reference to some Catholic ethic - cannot fully explain this aspect of the social structure, since Austria is also a Catholic country. In Austria, however, development was marked by another and more virtuous cumulative process: Austria had developed a more solid industrial basis, population did not decline, Catholicism was not tightly linked to nationalism, and in its very complicated post-war institutional set-up, the interests of labour, capital and farmers were carefully balanced at all levels.

Returning to Figure 1.2, it indicates that the outflow of people in their most productive years and the pastoral bias of agrarian modernisation (which is a principal difference compared to Denmark's development) precluded the development of dense industry-agriculture linkages, thus blocking the development of a strong national system of innovation. This also indicates that demand in the domestic market was neither strong enough nor sophisticated enough to stimulate an Irish industrialisation process which could match the pace of industrialisation in the contrast countries. The lack of industrial employment reinforced the threat of marginalisation, and to escape this threat there was further exit.

While Figure 1.2 indicates the basic elements of the "deep structure" of Ireland's development problems, various historical constellations have reinforced this vicious circle. We shall discuss this in relation to a historical periodisation. The "*external*" element of such a periodisation is constituted by the phases of the world economy, which defines the basic environment for a small open economy. The periodisation also has more "*internal*" elements. In particular, Irish independence in 1921 is an important watershed. In a closer periodisation, the various political regimes in Ireland following independence also have to be taken into account.

As for the periodisation of the world economy, details are presented in Chapter 4 below. We identify three instances of peripheralisation pressure: the industrial revolution, including the period after the Napoleonic wars; the great depression of the 1870s and 1880s; and the 1930s. Following each of these depressions, there have been three major periods of dynamic stability: liberalisation during British hegemony in the 1850s and 1860s; the pre-World War 1 upswing; and the long post-war boom between 1950 and 1973. Relating to these periods, it seems that Ireland's growth lagged behind the contrast countries not only in the problem periods, but even in the dynamic phases.

Before independence in 1921, British colonialism was, of course, a major feature of the Irish situation, reinforcing the vicious circles in various ways. Throughout the 19th century, all the contrast countries were independent as far as economic policies

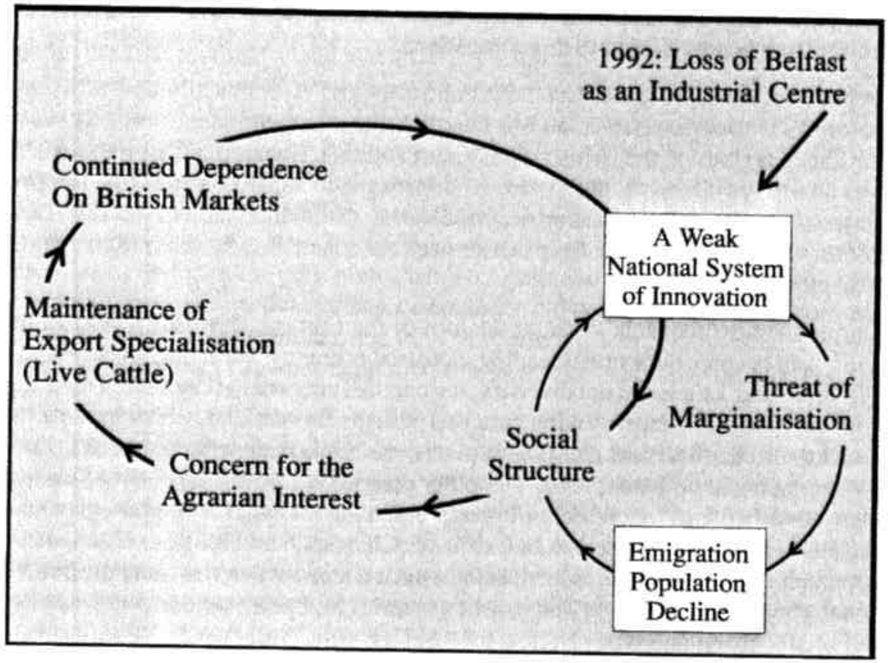
and industrialisation strategies are concerned. Finland maintained its own written constitution even in the period of Russian rule, 1807-1917. Sweden, Denmark and Switzerland had a longer historical experience of independence. Austria was a great power, so it is not relevant to this comparison.

Ireland, on the other hand, was both politically and economically tied to Britain before 1921. Deindustrialisation was the consequence when Ireland was exposed to the cheap textiles of the British industrial revolution. Switzerland's protoindustry was similarly vulnerable, but Switzerland managed to adjust (Chapter 6). The first surge of Nordic industrialisation occurred during the liberal phase of the 1850s and 1860s, while Ireland at that time experienced the traumatic aftermath of its famine (Chapter 6).

During the next dynamic phase at the turn of the century, Germany - besides the U.S. - had become the world's leading industrial economy, especially in chemicals. While Ireland's trade did not diversify, the contrast countries all increased their ties with Germany. The most striking case was perhaps Switzerland, which became the location of chemical and aluminium plants (on the border with Germany), since Switzerland had no patent laws. The other contrast countries, especially Sweden, also absorbed not only technologies, but also management strategies and organisational forms pioneered in Germany (Chapters 6 and 8). Both political and geographic factors enabled them to enjoy a trade pattern which was more diversified countrywide than Ireland's. The Nordic countries all had a traditional dependence on Britain, but balanced this by new links to Germany. Britain at this time, as many economic historians have shown, was unable to develop efficient production in the new leading sectors: chemicals and electricity. **Ireland became a free rider on Britain's decline, while Austria and Switzerland were free riders on Germany's economic miracle.** Even Belfast specialised in lines of production which fitted into the general British orientation: textiles and shipbuilding.

More important for the present study, however, are the problems which developed in the 20th century. A first set of such problems was obviously connected to the post-colonial situation. Another set of problems emerged in the postwar period. Figures 1.3, 1.4 and 1.5 give very simplified accounts of how such specific historical and sectoral circles of causation have influenced the basic vicious circle in the period after independence. (Each of these three figures contains the basic vicious circle with the more specific vicious circle linked on to it.) Figures 1.3 and 1.4 trace a *socio-political* and an *economic* version, respectively, of *post-colonial problems*. Figure 1.5 traces an additional post-World War II mechanism. Based on such short project work, we shall in no way claim that these are the **only** problems, but they are at least problems which emerge as striking from the comparison with the more successful contrast countries.

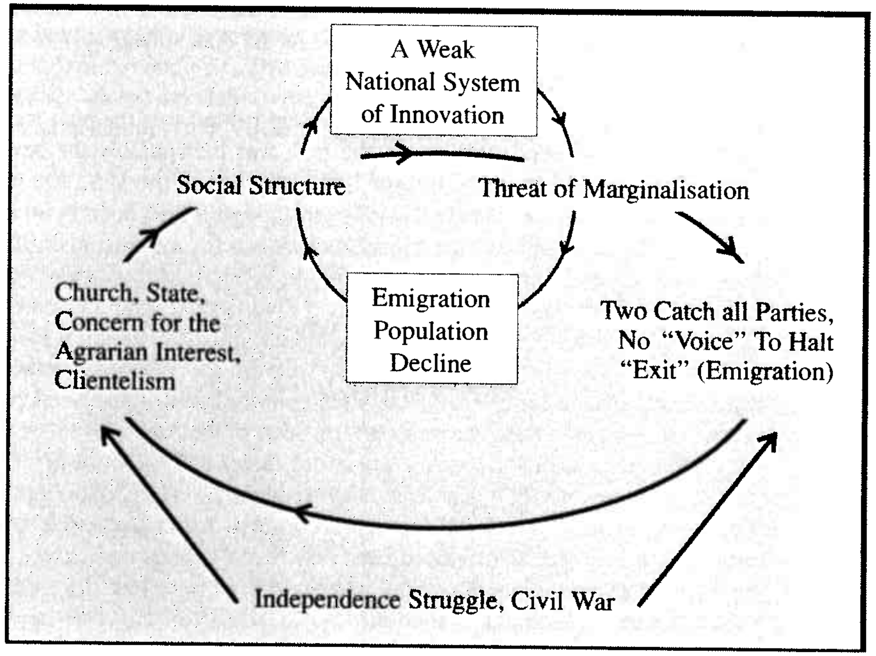
FIGURE 1.3
The post-colonial economic vicious circle



It is well known that Ireland's economic dependence on England was little affected by its political independence. At the time of the economic war (1930s), Ireland did show signs of an import substitution dynamic similar to that of the contrast cases (notably Scandinavia). There is evidence of a home market-oriented dynamic, and even emigration slowed down. Still, this did not lead to a process of catch-up industrialisation. The weak industrial structure at the time of independence must have been one of the factors explaining this. In Figure 1.3, the straight arrow indicates a once and for all event, while the rest of the connections are circular, self-reinforcing ones. The once-off event was the loss of Belfast, as with the 1921 settlement Northern Ireland remained with Britain, and the Republic was separated from the only surviving industrial centre (Belfast) on the island. For this reason, and also due to the general deindustrialisation of the 19th century, the Republic started with a minimal manufacturing sector. The dominant export activity remained the same as before independence: exports of live cattle to Britain. Very few industrial activities could relate to such exports.

Prosperity in the cattle trade also: (i) conserved the socio-structural relations prevailing in Irish agriculture; (ii) maintained the pastoral bias; and (iii) bolstered the importance of the agrarian interest in Irish politics. The land reforms which preceded independence did not go far enough, and an agrarian structure developed which, despite a distribution of landholdings similar to Denmark's, hampered agrarian modernisation and the cultivation of agro-industrial ties (Chapter 11).

FIGURE 1.4
The post-colonial socio-political vicious circle



The struggle for independence gave Ireland an independent bureaucracy and a specific party system. Some of the resulting mechanisms are sketched in Figure 1.4 (where a straight arrow again indicates a once and for all event). With a very small working class, and a party system which was determined by the split in the independence movement, Ireland was blocked from developing the labour party/union/farmers' movement structure which led to the Nordic red/green alliance of the 1930s, compromises which are at the root of the social democratic experience in Scandinavia (Chapters 8 and 11). Irish development was also different to that of the Alpine countries. In the latter cases, collaboration between social partners was bolstered by means of various versions of a pillarised system. Given the weakness of structural change and the consequent dominance of agriculture, the Irish welfare state became overly biased towards support for owner-occupier farmers, who also benefitted from the tax structure (Chapters 12 and 19).

The structure of the party system, with two catch-all parties, is different to the systems of the contrast countries. None of the parties was able to put the problem of emigration on the political agenda. Failing to represent the voice of those who chose exit, they both became linked to a social structure which had emigration as a condition of its continuation. Furthermore, the competitive logic of two catch-all parties became a problem in the phase of excessive borrowing in the 1970s. The whole combination of a centralised bureaucracy, with elements of patronage and clientelism in the political system, contrasts with the other countries.

The Church had been a uniting force throughout the struggle for liberation. After independence, the Church obviously became a force which consolidated the traditional family patterns, and also strongly influenced many other institutions, including both the state and the large parties, as well as the educational system in particular.

Perhaps the most spectacular example of Ireland's falling behind was the post-war Golden Age. After the 1945 peace settlement, the U.S. was indisputably the new dynamic centre of the world economy. Ireland had many ties to the U.S. due to emigration. Ireland also received Marshall Aid, even though it had been neutral throughout the war. Marshall Aid was the trigger mechanism for a diffusion of the new American modes of production and consumption in Western Europe. Here the contrasts between the Irish vicious circle and the virtuous circles of the other countries are particularly strong. Ireland obviously did not have an industrial base strong enough to develop its own national version of the "Fordist" mass production/mass consumption complex. All the other contrast countries succeeded. As small countries they certainly did not emulate all aspects of the American model, but they all reorganised their manufacturing industries under the influence of the new principles of work organisation. They developed industries which catered for various aspects of the new mass demand (but not all aspects: for instance, neither Finland, Denmark, nor Switzerland produced cars; Austria only assembles cars). In this way, they became progressively integrated in a network of intra-industry trade between the most advanced industrial countries.

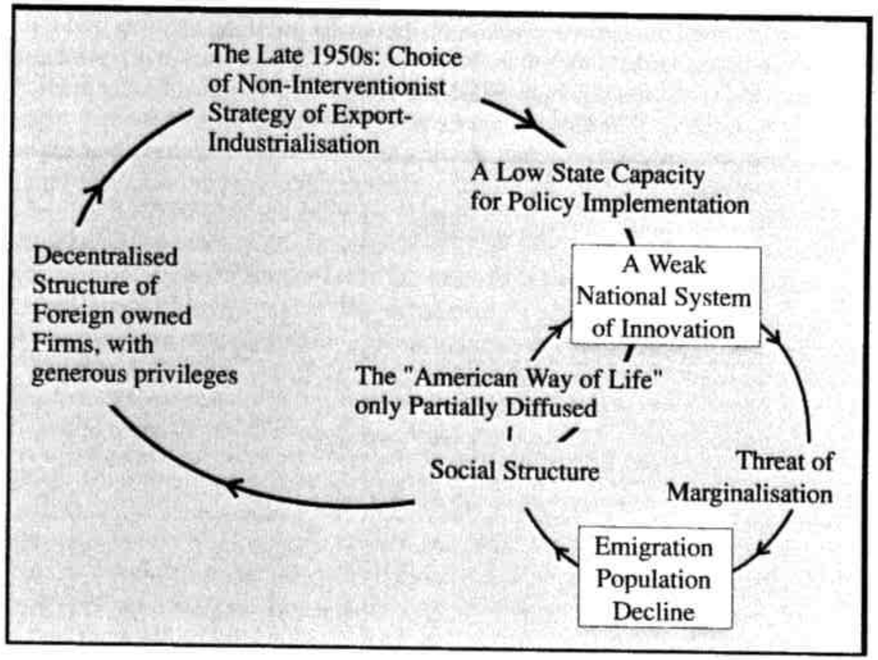
The comparison with Denmark supports the conclusion that the *impact of agricultural exports and the focus on England were crucial features of Ireland's failure*. Even Denmark's performance was below average before 1959, but at that time, Denmark experienced its second industrial revolution, developing further its own indigenous industrial base (Chapter 10). There was not much emigration from Denmark at that time, so the pressure for change was greater. Irish emigration, by contrast, peaked in the 1950s. The lesson would seem to be that if a country exported such a large share of its labour power, it could not assimilate much of the "Fordist" complex, except perhaps for elements of the American "consumption norms", since the per capita income of the remaining Irish of course grew faster than the national product.

More important, the fact that one must always be aware of the *interactions* between different factors in cumulative circles is nicely illustrated here: if Ireland had possessed a somewhat stronger industrial base by 1945, more aspects of the new techno-economic paradigm (a concept outlined in Chapter 4) could have been absorbed, the emigration outflow would perhaps have been stemmed earlier, which in turn would have put more pressure on the agrarian social structure, giving rise to indigenous industrialisation. This was probably the most realistic scenario for a transition out of Ireland's vicious circle. Unfortunately, it is counterfactual when held against the reality of Irish performance during Western Europe's Golden Age. (This reality has been schematised in Figure 1.6, which sketches a vicious circle relating to the new outward-oriented strategy of industrialisation since the late 1950s).

In the next three sections, we provide some comments on NESC's areas of central interest. Let us state at once that we will in no way claim that nothing can be learned from the contrast countries. But our comments are based on the conviction that really productive learning requires that we appreciate and undertake the complexities of comparative analysis. This will make us aware of the qualifications that must be made when we deal with tempting slogans like "consensus", "industrial transformation" and "equality".

FIGURE 1.5

The post-war vicious circle of Irish Industrialisation



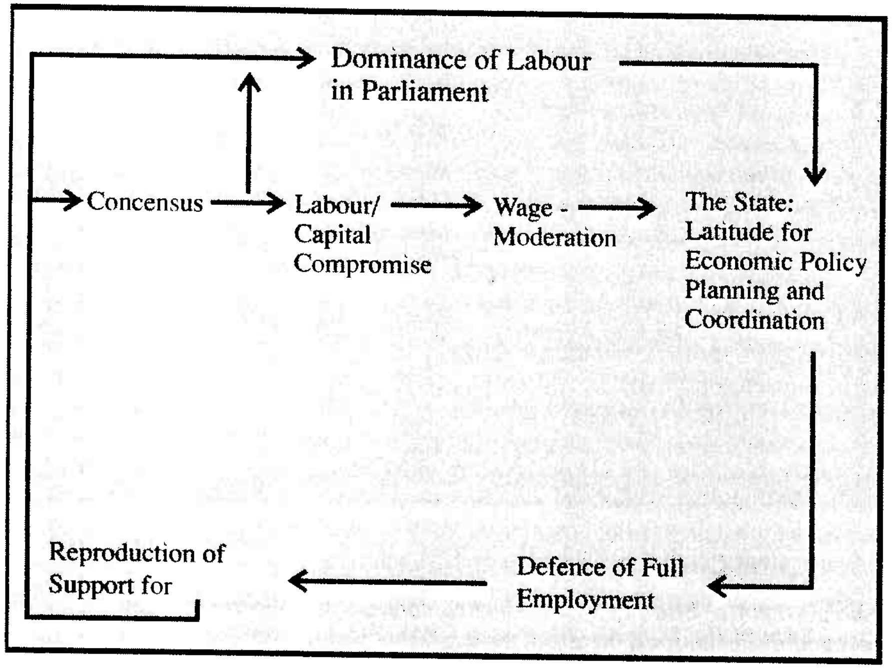
1.2 CONSENSUS

NESC's report, *A Strategy for the Nineties*, contains the following judgement: "[A]n outstanding institutional feature of the small European economies [...] is their strong emphasis on achieving consensus and on finding mechanisms to resolve distributional conflicts. The recent experience in Ireland of the PNR is evidence that Ireland may have scope to broaden and strengthen the role of consensus and of consensus-forming arrangements." (Report No. 89, p.27). It is claimed that these economies share "structural similarities to Ireland", and since they have achieved much better economic performance, they should be sources of "policy learning".

As for the structural similarities, the basic reference is to size and openness. This argument seems to assume the operation of the following mechanism: small, open economies in combination with consensual institutional frameworks produce good macroeconomic performance. (Economists and political scientists have claimed that a so-called "corporatist exchange mechanism", particularly typical of countries with a long tradition of social democratic rule, is at work here. The features of this mechanism are sketched in Figure 1.6). This implies a tacit diagnosis of Ireland's problem: it is a small, open economy without a consensual institutional framework.

At the most fundamental level, we should note the definition of institutions in Chapter 2 : institutions generally reflect compromises or temporary balances between major social interest groups. Institutions also standardise expectations. Their relationship to economic growth, therefore, may not rely so much on the formal characteristic of consensus, but on the constellations of interest groups behind this consensus, and how the specific shape of institutions fulfills the function of "signpost". Coherence between various institutions is also crucial.

FIGURE 1.6
The Corporatist Exchange Mechanism



Furthermore, in Chapter 3, we question the importance of size and openness as decisive variables. Rather, we indicate a preference for comparative study along the lines of Senghaas' scheme (Table 4.3), which allows us to specify various economic structures, socio-economic factors, and patterns of political and social mobilisation. The crucial challenge is to depict the "development constellation" formed by these factors.

If we can make such a specification, it is no longer so easy to argue that Ireland shares "structural similarities" with the contrast countries. We would rather prefer to emphasise similarities in the external possibilities and constraints which all the

countries faced due to their location in the 19th century European periphery, and later in the postwar 20th century Atlantic core of the world economy (as already specified above). These external factors must be related to the periodisation of world economic periods outlined in Chapter 4. Senghaas' scheme allows us to identify the internal structures and institutions which account for the way in which the challenges and restraints were tackled by each country. One interesting result of our analysis, in fact, is that the relationships between smaller countries and regional great powers may be important intervening variables between the external and internal factors. Ireland's exclusive reliance on Britain, even after independence, has already been mentioned as a contrast to the stronger influence of Germany in all the contrast cases.

It is often difficult to trace the exact dividing line between "institutions" and "structures", as discussed in Chapter 2. In terms of our study, this specifically means that there is an intricate mutual interaction between institutions and structures. We present these interactions as circles of cumulative causation which can only be analysed accurately for historically specific periods. Consensual institutional arrangements in our case countries are best known in respect of the postwar period. In fact, all the later social democratic countries had quite strong social conflicts in the inter-war period, while Switzerland's record with respect to consensual institutions is longer. And the postwar phase, as we repeatedly emphasise, was a Golden Age of growth, forcefully stimulated by the diffusion of technologies, principles of work organisation and consumption patterns from the U.S. **It is, in fact, quite difficult to state that consensus was the key to the successes of the Golden Age, since due to the mutual interaction of many factors - the virtuous circle - general prosperity made consensus rather easy.**

The question might be raised: has the Irish institutional system been devoid of consensus? The period between the late 1930s and the early 1970s might, in many respects, be counted as a period of consensus in the Irish political system. This confirms our earlier point: the crucial causal link is not between consensus-creating institutions and economic growth, but rather between collective actors - and the compromises which they make - and economic growth. Lack of consensus in relation to incomes policies in the 1970s and the early 1980s may have made things worse in Ireland, but in a longer time perspective our study has shown that it is not the absence of consensus which explains Ireland's problems. One can easily imagine that if certain conflicts had been more pronounced Ireland would have changed more rapidly. If those who emigrated had been able to sound their voice in the system, if women had been more successful in challenging the conservative paternalism of the social structure, change might have been hastened. As a result, demographic change might have been faster, and emigration less extensive.

However, NESC's interest in consensus is certainly related to the most recent problem period which started in 1973. For this period, the argument might look as follows: the contrast countries coped better during the crisis due to their consensual institutions. As we have indicated, the corporatist exchange mechanism (Figure 1.6) may have helped to lessen the unemployment problem in Sweden, Finland and Austria in the 1970s. But at that time, Irish growth performance was better than these countries (Table 13.1). If the 1980s are included, however, the very severe Irish problems between 1982 and 1986 push Ireland back from the top position. However, during the 1980s the working of the contrast countries' political economies was not so much marked by genuine corporatist exchange, as by a new set of routines, heavily influenced by the external pressure of monetary instability following the liberalisation of short term capital flows (Chapters 14 to 18). If this system is to be called corporatist, it is at least a more defensive kind of corporatism (seen from the wage-earners' perspective), devoid of the plus-sum features of the 1970s corporatist arrangements. It involves more strains, and more legitimation problems, since the rewards to the participating interest groups are no longer so obvious.

If corporatism is defensive, encountering many problems in the social democratic group of corporatist countries, **Ireland should probably learn from the problems rather than from the attractive features.** The nineties are the age of a harsh restructuring race and of financial openness. The Golden Age of the 1960s, with the U.S. as the uncontested source of "production and consumption norms", and with capital controls in most countries, has ended. Although Ireland got much less out of that phase than any of our contrast countries, it is not wise to emulate the Golden Age models on the basis that they worked in the other small European countries in an earlier period.

Since 1987 it seems that Ireland has been able to create consensus and general support for recovery just as much as the other countries. But again, we should be careful not to reach simplistic conclusions. A thorough analysis should be made of additional factors which made 1987, 1989 and 1990 boom years for the Irish economy. What, for instance, was the role of the stabilisation of sterling?

In sum, carrying through this project has convinced us that the general notion of consensus should not be at the centre of the debate about policy learning. If a general formula is needed concerning the relations between institutions and growth, it should focus on the inter-relationship between the broader institutional arrangements and the "national system of innovation" (discussed in Chapter 4) surrounding the "development blocks" - the clusters of important firms - of a particular economy. We have preferred to build our study around this inter-relationship, as well as around the idea of cumulative virtuous and vicious circles. To illustrate this point, consider Switzerland which has a very strong and flexible national innovation system, but the wider institutional framework may have weak points, as it does not seem able to defend full employment with a high rate of labour force participation. Similarly, Sweden has more problems of inertia in its industrial complexes, but an impressive institutional framework which involves wage-flexibility, egalitarianism and active manpower policies.

Nothing in our study indicates that it is a **disadvantage** to strengthen consensual institutions (specially related to incomes policies) as Ireland has done in connection with its *Programme for National Recovery* and its follow-up *Programme for Economic and Social Progress.* But our study indicates that consensus alone is not a sufficient basis for turning Irish development onto a virtuous circle in the medium and long term. The relationship of the consensual institutions to the national system of innovation must be spelt out.

1.3 INDUSTRIALISATION

Our study has shown that, in terms of economic growth, the large gap between Ireland and the other countries was not created in the 1970s or 1980s. It had been created earlier. The gap corresponds to the failure of Ireland to create its own development blocks. The term "create", however, is slightly misleading, since no national system of innovation was constructed by deliberate decision or choice.

The crux of Ireland's development problem is the weak development of indigenous industry. This is not a new discovery. In fact our study reinforces some of the conclusions of NESC's earlier reports on industrial policies.

Ireland has a long record of industrial policies. According to Kennedy's summary, Ireland has, since independence (1921), "tried two interventionist strategies to create an industrial base which had failed to develop of its own accord under laissez faire"[1]. The 1921-30 and the 1945-58 periods were laissez faire, the 1930s and the 1960s/70s were the interventionist phases. Kennedy finds some similarities between the two interventionist strategies: first, substantial subsidies were granted to manufacturing. Second, there were no plans for elimination of subsidies after the industries had passed the infant stage. Third, the strategies relied on a free response by private enterprise: there was no state involvement in production. Fourth, none of the strategies involved much selectivity: any activity with a chance of being viable was supported. Fifth, the protectionist phase gave high employment growth and the outward looking phase gave high productivity growth, but "neither strategy raised output sufficiently to permit simultaneous progress on the twin national aims of absorbing labour surplus and raising living standards"[2]. More important than low growth rates was the fact that the degree of processing was relatively unsophisticated.

All of the contrast countries show a better performance with respect to industrial development. Despite their origins as staple goods exporters (Switzerland is the only exception here), they developed effective manufacturing industries supported by national systems of innovation. Such conditions favoured entrepreneurship. With reference to the studies of the Irish social structure surveyed in Chapter 11, Ireland's problem may be described as follows: the Irish social structure had emigration as a precondition and most potential entrepreneurs would choose Hirschman's exit option.

In the late 1950s, there was a certain recognition of this, but the solution of the outward looking phase was to import entrepreneurs, or rather, import the results of entrepreneurship elsewhere. The late 1960s and the 1970s, with their relative success, showed that an improvement in the economic situation would stem the flow of emigration. This was the only period in which Ireland caught up. But this new condition - a growing population (labour force) - could not be combined with the prevailing economic policy routines. When the external environment became less favourable, certain aspects of the political system created an unfortunate lagging of adjustment. Expansion was financed by excessive borrowing. When financial instability escalated in connection with more openness in the 1980s, Ireland got into much deeper trouble than any of the contrast countries: escalating unemployment, a world record national debt and the reappearance of emigration, now in an even more vicious, brain-drain version. Lacking a solid national system of innovation, the crisis became much more severe in Ireland than in any of the contrast countries. On the other hand, the contrast countries (except Denmark) were able to defend full employment well into the mid-1980s.

In other words, since the late 1950s Ireland has tried to import a foreign system of innovation, based on U.S., British and German influences. Ireland provided (mostly rural) labour to this system, but very few indigenous Irish firms would really interact with these firms. There have been only weak linkage effects. Thus, Ireland is closer to the peripheral pole, (cf. Figure 1.1) as discussed in mare detail in Chapter 4, than any of the contrast countries. To the extent that there are development blocks in Ireland, they are not really interacting with the domestic economy, they are just links in a multinational chain. Figure 1.5 above schematically portrays some elements of this vicious circle.

A major task for Ireland in the 1990s, therefore, must be to stimulate an Irish system of innovation. Only this will solve some of the problems identified in the outward-oriented strategy, namely the increasing competition for foreign investment. It should also be noted that such a system would be no cover for old-fashioned import substitution strategies. It does not involve state protection, but it implies the creation of factor advantages. It recognises that the world is open and that the goal is not substitution for imports, but rather an innovative approach to the question of export competitiveness.

The analysis of national innovation systems - even the way they worked during the Golden Age - indicates many elements from which Ireland may learn. But this learning must be combined with a clear understanding of the specific challenges of the present state of technological development, as surveyed in Chapter 4.

In this connection, one should also remember that **Ireland's problems are even more complex than the problems faced by the contrast countries today.** The problems of the contrast countries are related to the attempt to switch from a successful adaptation to the Fordist complex. Their virtuous circles must be redefined to master the challenges of the new techno-economic paradigm. Ireland's problem is different: **Ireland must find a position in the restructuring race on the basis of having missed the opportunities of the Golden Age.** The challenge for Ireland is not simply to develop into a Fordist latecomer. That would be a poor strategy, since the maturation of the mass production/mass consumption complex has been at the root of the economic problems since 1973.

The fact that the Fordist model of growth has been in crisis since the early 1970s also tells us that **the fact that Ireland largely missed the Fordist opportunities should also be interpreted in a positive manner.** At least Ireland is not burdened with the industrial sectors facing the most serious crisis. But whether Ireland can hook right on to a new techno-economic paradigm is largely dependent on its national system of innovation.

1.4 EQUALITY

Our study shows that the Nordic countries - for example, in their social policies - are marked by strong egalitarianism and universalism. Comparing the consensual systems of Austria and Sweden, it turns out that **Austria** has consensus *without redistribution*, while **Sweden** has consensus *with redistribution*. But we indicate that this is not just a "policy orientation", but an orientation with deep historical roots. It has been reinforced by the social democrats, but it can be traced back to the mobilisation of farmers who, in all the Nordic countries, developed autonomous political parties in the early part of the 20th century. The conclusion which emerges is that egalitarianism is not easily emulated, since politicians have only a very limited possibility of rearranging social forces.

As in the case of consensus, it is our conviction that the question of equality should be specified. For the Irish case, **the goal of more equality should mainly be related to those who are obliged to solve the country's problems by leaving.**

At the risk of being provocative, we hold that this problem should be related to the question of the supply of Irish entrepreneurship and engineering skills, discussed in the preceding section. The shift from a foreign-influenced to a national system of innovation - from an export economy to an exporting national economy in Senghaas' terms - must be linked to the question of emigration. Only if emigration is stemmed can the supply of entrepreneurship be secured. While the 1960s and early 1970s saw the first export-oriented industrialisation of Ireland, the 1990s must see the consolidation of development blocks and a national system of innovation. Institutional changes in this connection must incorporate the concern to stem emigration. This is an enormous challenge, given the dependence of large parts of the Irish institutional complex on "exit". Institutional change is required in order to respond to the "voice" of those who might otherwise emigrate.

Since the phenomenon of Irish emigration is unique, there are no direct parallels from which Ireland can learn. But we have seen that our Alpine countries are both marked by relatively restrictive labour market policies, which implies that even there a link to emigration can be traced (although Swiss women only "emigrate" out of the labour market and into the household, and those who leave Switzerland are guest workers, not those born there). In contrast, Sweden incarnates the Scandinavian approach of trying to combine full employment with increasing employment rates. In this respect, Scandinavia defines a greater challenge for Ireland than the small Alpine countries. The Scandinavian system is a solidaristic one, eager to avoid long-term unemployment, convinced that this will create divisions in which unions increasingly become egoistic on behalf of their employed members.

As for egalitarian social policies as such, it must be made clear that the change in economic policy routines in the 1980s has squeezed the most generous social policy systems. While one may say that Switzerland had a too weak system of social protection in the early 1970s, many policy makers in the Nordic countries have, through the 1980s, begun to fear that their systems are too generous. All around Scandinavia there is talk about a "reform intermission". If the Nordic countries have great trouble maintaining their egalitarian systems during the present troubled period, how could one expect Ireland to emulate their Golden Age successes? Of course, it is clear that a setback from a high level is less damaging than problems at a lower level (such as Ireland's). Nevertheless, our suggestion is that equality in the Irish case should be related mainly to the question of emigration. If, however, emigration is to become a matter of concern on the Irish agenda, and if there should be a stemming of the outflow, there is no doubt that this will imply the strongest ever challenge to the Irish welfare state.

1.5 TRANSITION TO A VIRTUOUS CIRCLE?

Summing up this study, focusing on the topics of special interest to NESC, one is struck by the relationship between long term and short term problems. A main focus has been the long term nature of Irish exceptionalism. This is usually the field of the historian, apart from the fact that this study is a comparative one (a perspective the historian much too seldom applies). But for the NESC, there is also the very short term problem: where Ireland should go from the PNR and the PESP into the 1990s? Are there any lessons to be learnt from the contrast cases? This would be the traditional field of the applied social scientist. The long term problems can be understood and they can be specified as complicated vicious circles, and a more thorough analysis might specify how many 'small' causes accumulate to create them. But this understanding may have little relevance to the short term problems.

Commenting on NESC's areas of special interest, however, we have tried to indicate some connections between the long and the short run problems. We shall here continue this discussion.

It is, however, necessary to keep in mind that there are very strict limits to "institutional engineering". Hopefully, our presentation of the different models above will not invite a picking of paradigms. It would of course be straightforward if one could simply decide on a Swiss national system of innovation, Swedish redistributive policies and Austrian powers of policy coordination. However, it makes sense to emulate only if the institutions that are emulated are relevant in the present period.

Furthermore, as has already been emphasised, one must remember that the definition of *problems* is relative. For instance, the move from an unemployment rate of 2.5 per cent to 5 per cent in Austria constitutes a doubling of the level, however modest this problem may seem to an Irishman. We have repeatedly emphasised that even the contrast countries have great problems today. *Switzerland* had low economic growth in the 1970s and 1980s, and provides no real solution to the labour market problem. Domestic priorities are always subject to the restraints of Switzerland's being a key currency country. *Austria* had relatively high growth in the 1970s and 1980s, but there are certain worrying industrial rigidities, and many inequalities. *Sweden's* growth was not very strong, and in the late 1980s the country was haunted by an overheated economy. As for *Denmark*, both growth and labour market performance have been mediocre, and the fate of the agro-industrial complex is doubtful. Throughout the 1970s and 1980s it has shared Ireland's problems with high long term unemployment and a disturbing debt burden. By the early 1990s, it

seems that the current account deficit problem is temporarily solved, and trade has been booming with the unified Germany, but unemployment recently passed the 10 percent mark again. *Finland* had very strong growth in the 1970s and 1980s, but its success was partly dependent on the old east/west structure, and problems arise when that structure changes and the cold war melts away. Finland can no longer benefit from its barter trade with the USSR, and by 1991 problems had grown massive, as shown in Chapter 17.

The real challenge is in fact to watch carefully the changing trends. If Irish development has been haunted by coalitions of interest groups which have unwillingly slowed down the growth of the economy and blocked the absorption of international impulses, it is important to analyse whether these coalitions are being weakened.

For the question of the future of incomes policy concertation, trends in the union movement seem crucial. The Irish union movement has been marked by an "English" structure (and there have also been direct connections as many British unions have members in Ireland). In this respect, however, there has been some centralisation, i.e. a certain development in the direction of a more Scandinavian pattern (which is still, of course, less centralised than the Austrian one). A major question is whether the support for concertation was only a response to high unemployment, or whether it reflects a more solid trend towards centralisation. Note, however, that it seems crucial to be aware of the challenges to unionism elsewhere. The fear of being squeezed like the British union movement under Thatcher in fact was one motivation for the Irish unions' support for the late 1980s concertation.

Ireland is also moving away from its reliance on British influence in another respect. As a consequence of EC membership, Irish exports are now considerably more diversified geographically. This of course implies a challenge (European tastes may differ from the well-known British preferences), but to the extent that Britain's below average economic performance continues, reduced dependence on that market is also an advantage.

Ireland may soon encounter more than one of the contrast countries as fellow members of the EC. As shown in Part III, influential policy makers in all the EFTA countries express the conviction that full membership of the EC, or at least a well-working "European economic area" may relieve some of the present problems. Recently, as also mentioned below, Finland and Sweden have joined Austria in pegging to the DM (EMS). Austria and Sweden have already applied for membership of the EC. Switzerland and Finland have traditionally been sceptical, but are growing increasingly ambivalent. It is, however, outside the scope of this report to judge whether Ireland's long-standing EC-membership is in any sense an asset in the competition with the contrast countries which will be latecomers in an EC context.

Even regarding another major feature of Ireland's problem - its unique social structure - there are elements of change. The share of the primary sector in the labour force is going down, with certain groups effectively dependent on various forms of state or EC support. This means that one of the most persistent bases of paternalism is being weakened. The EC has changed to a policy of land curtailment. A policy of increasing agricultural output is bound to be difficult as a result of EC policy and GATT negotiations.

Furthermore, concerning average family size, Ireland is now eliminating its long lag, and is approaching the "modern" demographic pattern. Instruments of family planning are now easily accessible, and certain women's rights have been improved. Declining fertility reflects the changing role of women and is not unconnected to a weakening of Church influence, not least through declining involvement in education and health care. Educational reforms have strengthened second and third level schooling.

1.6 SUGGESTIONS FOR FURTHER IN-DEPTH STUDIES.

Several topics may be defined as candidates for in-depth studies.

(1) The notion of a national system of innovation has been at the core of our study. Studies should be made along the lines of Porter's or the Neo-Schumpeterian guidelines, identifying national advantages which Ireland possesses. This should be linked to an evaluation of the industrial policy measures that have been developed through the 1980s in response to the Telesis evaluation conducted ten years ago.

(2) As shown in Part V, most of the contrast countries have recently undertaken tax reforms. There have already been many studies of the Irish tax structure, but the relevance of the experience of other European countries should be assessed.

(3) The NESC identified features which merited analysis in a comparative fashion in this study. One feature was industrialisation, which has been dealt with extensively in this report. Another feature, however, was the question of institutions to ensure "implementation of agreed policies". Some examples are given in this report, and in particular, Chapter 9 presents the Austrian system of policy coordination. However, the NESC referred to an earlier report which argued that "Ireland's centralised political and administrative structures might constitute a 'development obstacle' and that other countries' superior economic achievements are facilitated, in part, by more decentralised arrangements." Unfortunately, no thorough comparison could be made in this report of the administrative systems of the six countries. The reason was that there is a grave lack of comparative studies in this field, and that it was not possible - within the given time limits - to develop comparisons based on the various sources which are certainly there in national studies of administration history. The present report may hopefully be useful as a general background for such a study.

(4) Hopefully, the present report will stimulate other ideas on how to learn from the contrast countries. When setting out to learn from countries other than Britain and the U.S. it might be interesting to look at an earlier case of emulation of Scandinavia. In fact, in connection with the extension of the Australian "Accord" of the early 1980s, an Australian mission in 1987

published a report which promoted a policy of corporatist concertation in Australia.[3] By now, an evaluation could possibly be made of this experiment.

(5) Finally, the NESC should develop the insights contained in its Report No. 90 (The Economic and Social Implications of Emigration) and support studies of the causes and consequences of emigration. A particularly attractive idea for historical and comparative investigation is to study institutional innovations aimed at stemming a migratory outflow which is considered too large. This study could trace the various ways in which regions or countries have worked to stem "exits" and the kind of consequences that followed in terms of social mobilisation ("voice").

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Institutions and Socio-Economic Transformation

Part II

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CHAPTER 2

THE NATURE OF INSTITUTIONS

2.1 INTRODUCTION

A theme like "the use and abuse of national models" is worthy of study in its own right. The Japanese were said to be travelling all around the West to adopt "national models" in the late 19th century: they found the German and U.S. models particularly interesting.[1] Until the 1870s, Britain was certainly a principal model for many European countries, just as the U.S. emerged as a model in the inter-war period, and has provided the decisive paradigm for most Western European countries in the postwar era. With the unfolding of world economic instability since the 1970s, the particular "Japanese model" has been the most recent source of inspiration. Finally, with the contemporary changes in Eastern Europe, some scholars and politicians in the Nordic area claimed that a "Scandinavian model" would be attractive as a model for a democratic mixed economy incorporating a degree of equality which is in line with the ideas of the socialist tradition. For less developed countries, there is certainly the "NIC"/newly industrialising country-paradigm available.

The attraction of "national models" is linked to the fact that a technocratic theory of modernisation has never been valid. Such a simplistic theory claims that technologies are always available on a world wide scale and that any country can easily absorb them, catching up with more advanced nations. But as much research has shown, the ability to absorb technologies relies *on national institutional frameworks,* and there may be *international institutional restrictions* on the spread of technologies. Two other features make things even more complicated: on the one hand, industrialising nations encounter the world economy with a number of specific endowments, ranging from geo-economic conditions to institutional legacies. On the other hand, much research has shown that there are distinct periods (avoiding the more dubious word, cycles) in the development of the world economy. Thus, the endowments of a country and the timing of its association with the world economy must be considered carefully.

The question of growth and development, in sum, must be analysed as a complex interplay between domestic and external forces, and the relationship between these forces may vary over time. The interplay creates in each case a "model", or a "mode of socio-economic development", which will, however, vary according to world economic periods. Thus, the appropriateness of this model may vary over time. A "U.S. model" was very attractive in the 1950s, but not in the 1980s, the era of the "Japanese model". Furthermore, many forces are in play, and to point them out we need typologies.

If there is an "Irish model", it has not been very attractive for emulation. Lee states in a recent historical account: "It is difficult to avoid the conclusion that Irish economic performance has been the least impressive in western Europe, perhaps in all Europe, in the twentieth century."[2] Considering growth of per capita income between 1910 and 1970, he notes that it was slower than any other European country, except Great Britain. But per capita figures are influenced by Ireland's large emigration. Considering the growth of national income as such, he concludes: "No other European country, east or west, north or south, for which remotely reliable evidence exists, has recorded so slow a rate of growth of national income in the twentieth century."[3] In the mid 1980s, Ireland probably had the highest real unemployment (taking into account emigration and active labour market policy measures) among the OECD countries, and its debt was also the highest within the OECD, perhaps even in the world.[4] The most dramatic conclusion relates to the Irish experience of the postwar period. Lee refers to Bairoch's conclusion that during the "Golden Age" of high growth in Western Europe, 1945-73, relatively backward countries tended to catch up with the more advanced economies. But Ireland "features as the solitary exception" to this rule. Even in the 1960-74 period Ireland's per capita growth of GNP was below the averages of the EEC, EFTA and COMECOM.[5]

Such reflections on a specific long term Irish crisis have also caused growing awareness of the limited range of countries with which the Irish have compared themselves. Usually, Ireland has been compared with the U.K., but this implies comparing Ireland with another below average performer. Lee again: "We undoubtedly remain intellectually peripheral. It is we who decided to remain ignorant of how more successful small countries conducted their affairs, we who have refused to learn in any systematic way from the performance of others, we who assumed that a knowledge of English dispensed us from mastering the languages of more successful countries, from which we arguably have had much more to learn than from the English-speaking world."[6]

In this report, our task is to take some steps towards such a comparison between Ireland and "more successful small countries". The measure of "success" is the one to which Lee also referred, namely the quite conventional one of economic growth and development. These notions will be specified below. The study has been conducted within the time restraint of half a year, draws information from the author's earlier research on the Nordic countries, and from a number of secondary sources on Austria, Switzerland and on Ireland itself.

In commissioning this study, the National Economic and Social Council wanted it to pay particular attention to the role of social and institutional factors in the explanation of Ireland's poor economic performance. The comparative contrast cases are NESC's choice. Ireland was to be compared with European countries that, similar to Ireland, are small, open, late industrialisers, energy importers, and geographically peripheral.

The choice of comparative cases is influenced by the interest in countries with a high rate of economic growth, since these are countries — as NESC states — whose economic performance (income growth, full employment) Ireland would like to emulate. It turns out that the five contrast countries have all developed a strong, indigenous industrial sector. Thus, a main focus of this study is the extent, timing, and nature of industrialisation. Given that the countries should be small, and not much better endowed in terms of basic resources than Ireland, four "success cases"

emerge: Austria, Finland, Denmark and Switzerland.[7] The population of Austria, however, is more than twice as large as Ireland's 3.6 million, but the inclusion of Austria is merited for two additional reasons. The NESC wanted the project to pay particular attention to the achievement of consensus and the kind of policy and institutional framework which sustains consensus, and to focus on the inter-relationship between efficiency-oriented economic policies and social policies with a redistributive aim. Austria is particularly famous in the first respect, but in order to illuminate the second aspect, NESC has also chosen Sweden (with an even larger population than Austria and somewhat more favourably endowed with natural resources than Ireland) as a case for comparison. In this way, the most famous example of a Nordic model and its blend of egalitarian social provisions and relatively effective economic policies can be considered.[8]

As a first stage, NESC wanted a descriptive overview, focusing on the relationship between institutional arrangements, policy approaches and economic and social performance. As a second stage, NESC wanted the consultant to use comparisons to find initial clues to underlying causal mechanisms. In this regard, a number of comparative claims were to be assessed. NESC particularly identified: (i) the alleged connection between corporatist structures and a superior record in terms of employment and economic performance; (ii) the question of whether "attitudes" account for any differences; and (iii) the question of whether the structures of government impede or facilitate economic progress.

The NESC, fortunately, did not expect one-dimensional explanations: "The crucial factor identified in recent research is the response of these small, open economies to their economic vulnerability, and the design of institutional systems which facilitate continual economic adaption and equitable sharing of the costs and risks of economic change."[9] Together with a number of middle-range theories, typologies direct the analysis in the chapters that follow. The result will be, hopefully, a multicausal analysis. Although research in this field has not proceeded far enough to generate very solid causal statements, comparative analysis will lead us some way towards discriminating between the many possible causes.

A more fundamental point must be made here, one which explains the initial warnings about models. We may encounter both an "Austrian" and a "Swedish" or "Finnish" model. They may all look attractive, but emulation is always only one part of the process of growth and economic transformation. Furthermore, in the present period of world economic development not only Ireland, but also the possible "model" countries are in a situation of strain. To quote an extreme example, it should not be excluded a priori that, in the present world economic environment, some traits specific to the Irish economy could give Ireland certain advantages compared for instance with Sweden. If, for instance, the ideas of "flexible specialisation" are relevant to the present situation (i.e. that the future industrial structure may be characterised by rather small, decentralised firms), Ireland could benefit from the fact that its industrial structure is not based on very large firms. Even more fundamentally, the fact that there is today growing concern about environmental problems, and the recognition that future patterns of economic growth must be "sustainable growth", may open up new possibilities for Ireland's small domestic firms as well as for its not so pollutive agriculture.

In the end, the most important value of the following comparative analysis may be that by contrasting Irish developments with other "models", an idea emerges about some specific opportunities that Ireland may have at this point in world economic development.

2.2 DEFINING INSTITUTIONS

The basic task of this project is to investigate the relationship between social structures and economic growth. In the project proposal, these social structures are described as *institutions* and *strategies*. Let us start by defining institutions, a core notion in sociology.

A representative definition, reflecting the heyday of sociological functionalism, depicts institutions as "regulative principles which organise most of the activities of individuals in a society into definite organisational patterns from the point of view of some of the perennial, basic problems of any society or ordered social life".[10]

The functionalist bent is betrayed by the wish to link institutions to universal "perennial, basic problems". Such functionalism came under heavy criticism in the 1970s and 1980s. A variety of alternatives all have in common that they emphasise conflicts, collective action, and more or less strategic behavior by interest groups. Applying a power resources perspective, Walter Korpi developed the following macrosociological framework, offering an integrated theory of social change, formation of institutions and periods of relative stability:

"Changes in the power resource distribution will affect the levels of aspiration of the actors and their capacity to maintain or to change existing social structures. Social change can be expected to emerge from various types of bargaining and/or manifest conflicts, the forms and terms of exchange between the parties are thus moulded. — Where parties are involved in long term interaction, settlements between them generally tend to involve different types of compromises. Such compromises may lead to the creation of new social institutions or changes in the functioning of existing institutions. Social institutions, and arrangements conditioning processes of distribution and of decision-making, can thus be seen as outcomes of recurrent conflicts, where the parties concerned have invested their power resources in order to secure favourable outcomes. Therefore such institutions need not be viewed as neutral or objective arrangements for conflict resolution. Instead the ways in which they were created and function reflect the distribution of power in society. When the distribution of power resources is altered, the form and functioning of these institutions and arrangements are also likely to change. — The distribution of power resources between the major collectivities or classes in society will thus shape people's actions in a variety of ways. These actions, in turn, will affect social structure as well as the distribution of power. A continuous interplay between human action and the structure of society thus arises".[11]

There may, however, be more to it than just balancing of power. Other recent definitions — relating to problems within the study of technical change — have tried to include elements of a theory of knowledge. This generates the following

definition: "Institutions are sets of habits, routines, rules, norms and laws, which by reducing the amount of information necessary for individual and collective action, make reproduction and change of society, possible".[12]

According to this view, institutions are "informational devices which reduce uncertainties". They are "signposts" in the daily interaction processes which constitute society. The power-perspective is not excluded here, since institutions "also signal established power relationships between people".[13] Such a definition implies neither holism nor individualism: "The interplay between 'routines' and choice, between sticking to rules and deliberately planning and choosing one's actions, is fundamental in the understanding of all economic processes, indeed all societal processes."[14]

The definition can also be specified by dividing the signpost function "into different basic institutional functions. Institutions reduce uncertainties, mediate conflicts, provide an incentive system, and by serving in these three functions they also set the preconditions for creative activity. Or put in different words: Uncertainties and conflicts necessarily imply institutions. Repeated and coherent action requires an incentive system, which also implies institutions. Selection, adaption, learning and innovating, that is creative activity, implies frames of references within which change can be understood and implemented, which again implies institutions. Routine-breaking is always conducted on the basis of experience with existing routines and is based upon other routines which are not broken. At least this is true for routine-breaking not resulting in chaos."[15]

Certainly, institutions may be found at all levels of aggregation of society. At the macro level, we have for instance property rights, money, the seven day week, the state, common law; at the micro level there are specific laws concerning e.g. pollution, traffic regulation, routinised lender-borrower relations which define the credit system, etc. The same institution may be identified at different levels of society.[16]

As for the relationship between technological progress and institutional change, this approach regards technological and institutional change both as long run and interdependent processes. Either may periodically play the leading role.[17] In the case of Japan's "economic miracle" in the post-war period, for instance, it seems that Japanese institutions spurred technological adaption.

In this perspective, periodisation is crucial: "a *frame of reference* for the question of how institutional change matters in economic growth should be wide, in the sense that it must allow for the fact that the relationship between technology and institutions takes very different shapes in different situations and periods. Otherwise it would repeatedly run into conflict with the facts of economic history. For example, it should be possible to mark and describe historical periods of growth in terms of clusters not only of technical innovations but also of institutional innovations and, most important, by identifying certain patterns of relationships between technologies and institutions."[18]

B. Johnson here provides an interesting comparison between technology and institutions. First, there are certain parallells: just as there are basic and supplementary technologies, so there are basic and supplementary institutions. But it is also very difficult to draw a precise dividing line between technology and institutions. (Take the example of the department of a firm: what is technology and what is institution?)

Second, there is more resistance to institutional change than to technical change. In modern capitalism, much of the institutional design has technological development as its goal (that is why we say that technological change is institutionalised). But since institutions are patterns of human interaction, "institutional change" is not easily institutionalised (it is even questionable if such a thing is desireable). "More capital and manpower resources are normally devoted to technical change than to institutional change. In fact, stability and permanence are important ideals amongst transaction cost engineers, for instance amongst lawyers. Furthermore, the marriage between natural science and technology has accelerated technical change. The foundations of institutional change in the social sciences, however, are much weaker and do not do much to accelerate the process of institutional change."[19] Thus, institutions change "through minor innovations and slow crystallisation". This gives "coherence" and "durability" to the institutional system: the signpost function is connected to "predictability", or "trust". This should be conducive to economic growth. But strain may be created by "radical technical change and rapid changes in the pattern of international competition".[20]

The third point is that, in at least one sense, the institutional framework has a priority over technical change: "Reproduction of society presupposes some kind of institutional order, in which various institutions interact with each other in a system with some internal coherence."[21] This, however, seems difficult to substantiate: both "functional interrelatedness", and the compromise between the social forces are important. Compromise may secure the signpost function, but a lack of institutional cohesion may stimulate flexibility.

In this study, our concept of institutions follows the definitions provided above, with combined emphasis on institutions as compromises and as signposts. Our general approach may be described as institutional economics.

CHAPTER 3

ECONOMIC GROWTH

In this section we first specify our dependent variable, economic growth. We then discuss very briefly a number of growth theories originating from mainstream and "heretic" economics. These approaches are deductive ones, which use various econometric techniques for their empirical studies. Such an approach is not followed below, but a selection of the main models is presented here in order to demonstrate with what kinds of factors the economics profession has dealt.

3.1 INDICATORS OF ECONOMIC GROWTH

Rates of economic growth measure aggregate production. A first overview may be gathered from Table 3.1 below, and in Chapter 1 we have already surveyed Ireland's comparative performance. Referring to the Irish experience, we can specify some nuances regarding this measure. While GDP measures the gross domestic product, i.e. the value of all production carried out within Irish borders, GNP measures the national product disposable in the national economy.

TABLE 3.1

Comparative Economic Growth — Stylised Facts

	PER CAPITA GROWTH		TOTAL GROWTH		INVESTMENTS	
	I	II	III	IV	V	VI
	1913-50	1950-70	1950-60	1960-70	1950-60	1960-70
AUT	0.2	4.9	5.8	4.7	16.4	20.2
DK	1.1	3.3	3.3	4.8	14.0	16.9
FIN	1.3	4.3	5.0	5.1	19.6	20.0
IRL	0.7	2.8	1.7	3.9	13.1	15.1
NOR	1.8	3.2	3.2	5.0	23.7	23.8
SW	2.5	3.3	3.4	4.6	15.5	17.3
CH	1.6	3.0	4.4	4.5	14.1	20.0
UK	0.8	2.2	2.7	2.8	11.6	14.2
WE/a	1.0	4.0	4.4	5.2	15.4	18.1

I & II — Growth of Per Capita Real Output (annual average compound growth rates)

III & IV — Rate of Growth of Total Output 1950-70 (annual average compound growth rates)

V & VI — Non-residential Fixed Investment as Percent of GNP at Current Prices (average of ratio for years cited)

WE/a — Average for Western Europe.

Source: Angus Maddison, "Economic Policy and Performance in Europe 1913-1970", Ch. 9 of Carlo M. Cippola, editor, The Fontana Economic History of Europe, Vol. 5(2), 444, 478, 487.

About 12 per cent of Ireland's GDP leaves the country as profit repatriation by multinational companies, and as interest on foreign borrowing. (Thus while over 1973-85, Irish GDP grew by 2.9 per cent per annum, GNP grew by 1.7 per cent.) In most of our case countries, the differences between these two measures are negligible, while in the Irish case the GNP measure is generally used in order to provide the relevant figures for comparison with other countries' GDP.[22] This indicates Ireland's dependence on foreign multinationals, and its massive debt burden, to be dealt with below.

Furthermore, the distinction between growth of total product and per capita growth must be emphasised. As Kennedy, et. al. recently have clarified, the growth of Irish GNP per capita was the second highest in a group of 23 European countries in the 1830-1913 period (Ireland 1.6%, Denmark 1.7%, mean 1.1%), but its growth rate of total product (aggregate GNP) was the lowest (Ireland 0.7%, mean 1.9%).[23] The reason for this large discrepancy is Ireland's "population implosion" following the disastrous Great Famine of the mid 19th century. This will be discussed at length below.

3.2 MAINSTREAM ECONOMIC GROWTH THEORIES

Neoclassical economic theory is basically a theory about the independent and self-sustained nature of the market. At the more general level, its theory of growth starts from the idea of a production function, which relates growth of output to technology and the factors of production (K — capital and L — labour).

Neoclassical studies of growth in the tradition of Solow, assume perfect competition, full capacity utilisation, full employment, and the absence of economies of scale. The assumption is that these processes take place under conditions of competitive equilibrium, with perfect foresight in all markets. The production function can also be written as the sum of three factors: (a) the rate of growth of capital stock, weighted by the capitalists' share in net output, (b) the rate of growth of the labour force, weighted by labour's share in net output, and (c) the rate of growth of technology (total factor productivity). In other words, GNP rises as the result of long-term effects of capital formation, labour force expansion, and technological change. Some empirical studies in the 1950s and 1960s found that as much as 75-80 per cent of the growth was a result of increases in productivity (the third factor), and that this had to be accounted for by a number of residual factors.

From this stems the tradition of growth accounting.[24] Pioneered by Simon Kuznets, this tradition relates to historical national accounts series. Attempts were made to decompose the growth of GDP, since national accounts had decomposed GDP itself. Early studies gave a large unexplained residual, and later studies tried to squeeze this down, either by trying to regard technological progress as embodied in the factors of labour and capital, or simply by adding other explanatory factors. The most famous example of the latter approach is Denison's *Why growth rates differ*. Denison found that the residual could be specified as technological change, resource allocation and scale factors. Controlling for the latter two, Denison found that only Germany and France could be regarded as catching up with the U.S. in the 1950s

and early 1960s, but it has been argued that his scale factors in fact represented the technology of consumer goods production, imported from the US. The general criticism is that most of the variables in the growth accounting approach are interdependent. It is thus quite weak when it comes to determining the fundamental explanatory factors of economic growth.

There are various modified neoclassical approaches. Hollis Chenery, for instance, points out that in the conventional equilibrium models, "shifts in demand and the movement of resources from one sector to another are considered relatively unimportant because labour and capital produce equal marginal returns in all uses." There are no economies of scale. As an alternative, Chenery proposes a broader view, in which "economic growth is regarded as one aspect of the transformation of the structure of production that is required to meet changing demands and to make more productive use of technology. Given imperfect foresight and limits to factor mobility, structural changes are most likely to occur under conditions of disequilibrium".[25] In this view, sectoral disaggregation is necessary, since there are lags in adjustment and segmented markets for both factors. Reallocation of resources to higher productivity sectors, e.g. into industry from agriculture in a developing country (as for instance in Lewis' famous dual economy model), may account for growth. There will be economies of scale and learning by doing, and internal and external bottlenecks may be reduced. Chenery and collaborators have applied this perspective to a study of developing countries.

Neoclassical economics also has its own brand of institutionalism, based on extensions of welfare economics. The most famous application of such an approach is Mancur Olson's later work.[26]

All the neoclassical approaches assume that growth is equivalent to development. It is not our task in this report to develop such studies.[27] To the extent that we venture to specify concrete economic mechanisms, we shall rather rely on "heretic" economic theories, which are more easily combined to an institutional approach such as that presented in Chapter 2. We see market imperfections as the general rule. Important examples of such imperfections are economies of scale, product differentiation, concentration, market power and a hierarchical ordering of levels of technological development. Such factors will interact, generating cumulative effects related to the posession of know how, catching up processes, etc.[28]

3.3 "HERETIC" ECONOMIC ANALYSES

One group of applied studies focuses on the catching up process. Their point of departure is technology gaps which develop for rather accidental reasons (wars, periods of protection, etc.). When, for other reasons, there is an opening up for technology flows, catching up takes place and, in the laggard countries, growth is stimulated by a process of imitation. Such an analysis is quite important for the whole of Western Europe in the postwar era.[29] But they focus on diffusion (imitation) rather than innovation. Thus, they are not really able to understand developments in leader countries, changes in leadership, as well as the *existence* of laggards.

The work of Nicholas Kaldor on economic growth has been very influential among non-neoclassical economists. Kaldor was inspired by the institutionalist idea of "cumulative causation",[30] and by the notions of increasing returns to scale. Growing markets enlarge the scope for specialisation and the division of labour, and this is particularly so in manufacturing production. Thus, Kaldor regarded this sector as the engine of growth, emphasising that productivity increases are both causes and effects of increasing production.[31]

Hodgson summarises Kaldor's theory of virtuous and vicious circles as follows: "that manufacturing output growth promotes further growth in manufacturing productivity and productivity in the economy as a whole. In addition growing manufacturing productivity helps to promote exports, further stimulating manufacturing output, as well as shifting the balance of payments constraint. This feedback closes a loop and provides a rationale for the notion of cumulative change. Furthermore, as the manufacturing sector grows in absolute terms, in its relative importance in the economy as a whole, and in its average level of productivity, it is deduced that both output and productivity will grow for the entire economy".[32]

It has been shown that this so called Kaldor/Verdoorn relationship worked for the Golden Age period of Western capitalism (roughly 1947-1973), but not for the period of crisis since 1973.[33]

The French regulation school has pointed to the differences between 19th century liberal capitalism, dominated by British hegemony and the technologies of the textiles and railway complexes, and 20th century organised capitalism, emerging in the U.S. in the interwar period, being diffused to both Western Europe and Japan in the postwar period. Only this latter model entailed mass production of durable consumer goods, linked to a highly efficient investment goods sector. The mass production/mass consumption model — with a particularly large scope for economies of scale — has also been ironically dubbed "Fordism".[34] In the postwar period, most Western European countries benefitted strongly from the emulation of the "American norms of production and consumption". Thus, a number of studies have focused on catching up mechanisms, as already noted, and the virtuous circles generated by the European countries' adoption of the American model in their own specific political and economic contexts have been investigated. But as we saw already in Chapter 1, Ireland has obviously not been blessed by any such virtuous circle. Its growth has been below even the East European countries, which were closed off from the diffusion of American impulses by the iron curtain!

It is therefore not surprising that the alternative outcome of backwardness has been discussed in the Irish case: a cumulative vicious circle of stagnation. Analyses of such processes are commonly encountered in development theory, and we shall look at this topic below (Section 3.6).

In general, "heretic" approaches in economics and political economy are closer to the classic institutional programme of supplying not general theories, but middle range conceptualisations of growth dynamics in specific periods of socio-economic development. They work at a lower level of abstraction than neoclassical economics. They are also often inter-disciplinary and tend to study growth in a broader context.

This is why we have to look at different groups of theoretical approaches. In Section 3.4 we deal with theories of small, open economies. In Chapter 4 we shall examine political economic studies of macroeconomic performance, and in particular, topics addressed within development studies.

3.4 DOES THE SIZE OF A COUNTRY MATTER?

The notion of "small countries" has been one criterion in the choice of cases to compare in this study. A number of studies have searched for peculiarities pertaining to small countries.[35] Roughly speaking, economic studies tend to focus on drawbacks, political studies on specific advantages.

Two of the defining characteristics of small countries — as soon as they begin to integrate with a larger world economy — are their small home markets, and the large shares of imports and exports in relation to total production. In the modern age, and especially in the postwar period, as noted above, economies of scale are very important in many sectors. Increasing returns to scale mean that average costs decline as the scale of production increases. New firms would therefore have to enter at the same scale in order to be competitive. (The importance of this is indicated by statistics on industrial concentration.) A firm which is above the minimum optimal capacity level with respect to production, research and cooperation, has market power, while there are barriers to entry in the form of higher costs for firms below the minimum.[36]

Deliveries to their own home market are never enough to secure returns to scale for firms in small countries. They must rely totally, or at least partially, on production for export. This makes the industrial sector of the small economy very specialised. On the other hand, when GNP per capita grows, demand gets more diversified, creating a pressure for a less specialised production structure. There is thus a "trade off between market power and diversification".[37] This creates some difficult dilemmas. Specialisation increases vulnerability: hard times in particular sectors may spell large problems for the countries specialising in these sectors. But even if times are good, the imperative of gaining returns to scale may bar the small country from another type of benefit, namely the advantages of agglomeration (external economies). This advantage develops with the existence of many related firms, specialist services and suppliers, pools of skilled labour, and a large local market.[38] If large countries more easily develop such external economies even their small firms will enjoy lower entry costs than small firms of small countries.

One might try to systematise this by applying strict modelling. We have so far discussed drawbacks for small countries compared to large ones at the same point in time. It may be, however, that similar drawbacks would apply in countries of the same size if one of them was an early starter, while the other was a latecomer. If cumulative processes benefit the industrial sector of an early starter, latecomers face higher entry barriers.[39] We shall not pursue such modelling further here, but it is easy to see why many scholars claim that small latecoming countries face particular problems. O'Malley's study of Irish industrial development applies this perspective.[40]

Besides entry barriers linked to economies of scale and external economies, O'Malley lists a number of other sources of entry barriers encountered by a latecomer. But he makes no attempt to discuss whether size or the very fact of the late start is the main problem. One barrier is product differentiation: brand identification, e.g. due to advertising, which creates a reputation for good quality, which the unknown brands of the latecomer cannot match. Another one is capital requirements. Entering a sector under modern conditions requires much larger investments than pioneer countries had to put up. Furthermore, even investments in working capital, e.g. for advertising, customer credits, etc. (which, unlike machinery, do not even have a resale value) are larger for the latecomer. O'Malley also mentions barriers which apply in different industries: In engineering industries, there are customers' switching costs, i.e. costs of retraining employees to handle different machines, or testing new machines. In consumer goods industries, there is the problem of access to distribution channels, since existing firms have long-standing, well developed relationships with distributors. In technologically advanced industries, proprietary technology is a barrier, e.g. product designs, process know-how, which are protected by patents. Newcomers have to invest heavily in their own r&d, with uncertain prospects. Finally, in many industries, there are learning or experience curves: average production costs tend to shrink as skilled personnel acquire practical on-the-job experience.

To the extent that the framework of neoclassical economics leads to policy advice, it mainly lends support to the liberal strategy of industrialisation: free trade and unconstrained access for foreign investment (outward orientation) are regarded as the key to an "upgrading" of the industrial structure. But the modern view disregards the importance of scale and entry barriers. O'Malley indicates an alternative view, according to which a latecomer which follows conventional policy advice would be caught in a vicious circle, summarised as follows: "(a) confinement of indigenous industry very largely to sheltered activities and others with relatively low barriers to entry; (b) a slow rate of diversification, or a slowing down after an initial spurt at the start of industrialisation, leading to (c) a marked slowing down in the rate of growth of, or a decline in indigenous industrial employment while unemployment still persists; and (d) competitive pressures from other low-cost NICs becoming involved in the same limited range of easily entered activities."[41]

Another set of problems for small countries has been diagnosed with respect to domestic economic management. A large share of external trade, and exposure to foreign investments may threaten the sovereignty of the country, making the government weaker. Tensions between sheltered and exposed sectors may arise, and this may also make economic management by the state more difficult.

Yet another set of problems concerns their relation to international economic coordination. Although the share of foreign trade weighs heavily in the economy of a small country, this share is a very small share of total world trade. It has been argued that while small countries are those most severely affected by the processes of internationalisation, they have the least influence on it.[42] Crucial decisions in international relations are made by hegemonic great powers, or in international institutions in which the great powers have most of the influence. The impact of

regional hegemons or great powers is also quite important here, as Ireland's experience with Britain after 1922 illustrates.

As for developments in the 1970s and 1980s, a "small country squeeze" has been discussed. As we shall see in the next section, world economic development may be characterised by a succession of core (or generic) technologies. These tend to become more and more complex. It is for instance much more difficult to produce microchips than to produce a mechanical steam engine (which was important for the 19th century railway complex). It may be that a small country does not need to produce chips itself, but at certain crucial points in time a mastering of generic technologies may still prove crucial. This is a difficult choice for a small country, because such mastery requires enormous costs. If the country chooses to stay out of this field, it may, however, be squeezed between large countries which master the core technologies, and newly industrialising countries which, according to a product cycle logic, are producing very cheaply a number of more simple goods. In such a squeeze, the area of "medium tech" niche products may simply be too narrow.[43]

Turning to research on political matters, the emphasis seems to change from drawbacks to the *advantages* of being small. Large countries may play the decisive role in world politics, but small countries have every chance to be free riders. As for domestic politics, it has been emphasised that small countries should have better conditions for collaborative politics. Participation in politics may be greater. Citizens internalise norms more easily.[44] There are fewer interests to be considered. The connections between their self-interests and the interests of the state are clearly visible.[45] Thus consensus is maintained more easily than in large countries.[46]

Economic drawbacks and political advantages provide a good introduction to the topic of small countries, but of course it is not as simple as that. The really interesting contributions try to combine these two aspects. Thus, Peter Katzenstein argued that the strength of consensus enables small countries to cope easily with openness. Small countries have such a long experience in coping with economic openness. Within their consensual frameworks, they have developed "democratic corporatism", a system of state/society linkages which enable them always to practice flexible adaptation, conducting industrial policies that ensure renewal and maintenance of industrial competitiveness.[47] Larger countries can externalise the costs of restructuring, the small ones have to internalise it. This requires adjustment on the part of both firms and workers, and in order to provide "domestic compensation" — Katzenstein argues — small countries have erected solid welfare states.[48]

Katzenstein's approach tries to create a synthesis between the analysis of economic vulnerability and political flexibility via consensus. But his approach shares a major weakness with all other studies focused on size (and on latecoming): they displace internal factors.[49] But had it not been for such internal factors, small countries would have differed little from regions within large countries: "Military considerations, social structures, commercial policies, the responsiveness of crown and government to unique internal influence all seem to justify the importance given to countries as opposed to regions."[50]

The importance of internal factors creates problems for both the economic and the political diagnosis stylised above.

As for the idea of economic problems, small countries may have available specific raw materials that are in demand. Given certain internal conditions, as we shall see, a manufacturing industry may arise via linkages to this resource base. (This was very much the case in Scandinavia.) But even unconnected to such resources, niches may develop (as already noted), as in the famous example of Swiss textile machinery. In certain niches small countries may even be able to influence the tastes of other countries, thereby extending their "home" market: examples are Swiss Bally shoes or consumer durables with a sophisticated Danish or Finnish design. Furthermore, economies of scale certainly apply in many modern sectors, in particular in process industries, like chemicals, glass and steel, but not in all sectors. In metal manufacturing, for instance, external economies (e.g. learning) are more important.[51] The technological paradigms associated with 20th century development implied more scale advantages than earlier paradigms, but as we shall see in Chapter 4.4, the new core technologies of the 1970s and 1980s may make scale less important and external economies more important.[52]

As for the positive assessment of small countries in political studies, it is plain to see that internal cleavages based on race and religion may undermine consensus. Thus consensus may not be explained by openness as such, but by ethnic or religious homogeneity at the national level. Furthermore, applying collective action theory, the nature and strength of the major interest groups (farmers and workers) may help to explain periods of strong consensus. Countries like Norway and Sweden had a high level of industrial conflict in the interwar period, and their postwar stability may be seen as depending on a compromise between two strongly organised social classes. Studies of corporatism, as we shall see in Chapter 4, try to specify such features.

In sum, we have some doubts as to the value of the category "small countries". We have earlier proposed the following strategic definition: *small countries are those which cannot be analysed unless we also analyse large countries.*[53] More specifically, it could be argued that the most relevant distinction is not that between small and large countries, but that between great powers and other countries, small or large. Great powers tend to restrain the sovereignty of small countries for many reasons, among which security considerations are one important group. Furthermore, the tastes and preferences of great powers tend to be emulated widely (the U.S. norms of consumption are the most prominent example.) Nuances in this picture may be introduced by considering regional great powers. In this way we arrive at a hierarchy of: great powers (hegemons possibly), regional great powers, and other countries (small or large).

CHAPTER 4

THE POLITICAL ECONOMY OF MACROECONOMIC PERFORMANCE AND INDUSTRIAL TRANSFORMATION

4.1 INTRODUCTION

Compared to economists' studies of economic growth (Chapter 3.3), studies by political scientists, sociologists and institutional economists generally proceed in a more inductive way, using a wider variety of models, models which are less rigid than the fundamental neoclassical ones. They often try out a variety of middle range theories linked to these models. We shall not provide a full survey, but we shall mention three approaches which have all been quite influential within the field of comparative studies.

These approaches are: *first, studies of corporatism, second, studies of national innovation systems*, and *third, studies of the relationship between financial systems and industrial policies.* A fourth group, studies of dependent and autocentered development, are presented in Chapter 4.2. Our analysis will be guided by all these approaches, but we shall emphasise different time horizons. Concerning corporatist patterns (or more generally, patterns of interest intermediation), we shall focus on the postwar period and especially on the most recent decades. Concerning innovation systems, we shall focus mainly on the 20th century, and concerning dependent development, we shall cover the 19th and 20th centuries. Finally, we shall add Chapter 4.3 on the question of emigration and Chapters 4.4 and 4.5 on periodisation.

Economic performance can be indicated with reference to conventional macroeconomic indicators, which have been well developed through the postwar period, and that are now the target variables for economic policy makers. Some of the standard OECD variables for the most recent periods are reported in Table 4.1: economic growth, conventionally defined, and inflation for the two periods of difficulty 1973-9, 1980-8. In addition, unemployment figures for the whole postwar period are provided.

With few exceptions, Ireland is at the bottom in all these comparisons. Its GNP growth was in fact above average and above both Denmark, Finland and Sweden in the 1973-79 period, but this performance rested largely on borrowing. In 1980-88, Ireland was at the bottom again. Consumer price inflation has been the highest during both periods since 1973. As for unemployment, there are interesting parallels between Ireland and Denmark: these two countries had the highest unemployment rates in both periods 1948-58 and 1959-69. Since 1973, Ireland has joined the league of other small "mass unemployment" EC countries, and while Denmark is a little below both Belgium and the Netherlands, its unemployment performance is more like the other EC countries than that of the other Nordic countries.

Katzenstein's study of the "democratic corporatism" of small countries was mentioned in Chapter 3. There are, however, numerous studies of corporatism which

TABLE 4.1

Indicators of Macroeconomic Performance

	AUT	BEL	DK	FIN	IRL	NL	NOR	SW	CH	OECD
ANNUAL AVERAGE GROWTH RATES OF GDP[1]										
1973-79	3.2	2.9	2.2	3.0	3.7	3.5	4.8	2.1	0.2	3.0
1980-89	2.1	2.0	1.7	3.7	1.7	1.6	3.4	2.0	2.2	2.3
INFLATION (CPI)										
1973-79	6.6	8.3	10.6	12.5	14.5	7.3	8.5	9.3	4.7	11.0
1980-88	4.0	5.1	7.1	7.4	10.0	3.0	8.8	8.1	3.3	8.0
UNEMPLOYMENT[2]										
1948-58	5.8	6.8	9.7		8.4	1.9	2.8	2.4		
1959-69	3.0	3.7	3.8	2.0	6.3	1.3	1.9	1.5		
1973-79	1.4	5.1	4.9	3.9	7.3	4.9	1.7	1.6	0.3	4.6
1980-89	3.2	11.1	8.9	5.0	14.3	11.0	2.8	2.1	0.6	9.0

Notes: 1 — Ireland: GNP;
2 — 1973-88: Commonly used definitions. (Standardised unemployment rates are not available for Denmark, Ireland and Switzerland.)

Source: Unemployment 1948-69: B.R.Mitchell, *European Historical Statistics 1750-1970*, London 1975, Table C2. All other figures: OECD, *Economic Outlook*, 46, Dec. 1989. Tables R 1, 11, 18. Unemployment and GNP/GDP updated from OECD, *Economic Outlook*, 48, Dec. 1990.

do not restrict their scope to small countries and which emphasise internal rather than external determinants. We shall not provide any comprehensive survey of these studies.[54] Many of these studies connect corporatism to centralisation in the labour market. Ideal types are countries like Austria or Sweden, which have high rates of unionisation, a centralised union movement and an equally strong organisation at the employer side. Economistic accounts of this situation emphasise that these strong collective actors are able to overcome the free rider problem, thus stimulating a market solution to the problem of wage formation.[55] In hard times, unions are thus able to trade wage moderation for full employment (cf. Figure 1.6). Neo-Marxist accounts on the other hand, analyse such features as class compromise, emphasising that the balance of power, not the market mechanism, determines the distributional struggle.[56]

More thorough empirical surveys along these lines, however, have given less clear-cut conclusions. Therborn's investigation ends up by emphasising national traditions,[57] but like most other such studies, he is not able to integrate the structural dimension. In the following section, we shall look at another approach which has been more successful in connecting structural change to national conditions.

Growth implies "structural change" or "transformation". The neo-Schumpeterian school, another one of the heretic traditions within economics, has provided a useful periodisation of "core technologies" (or "technology paradigms") during the era of industrial capitalism. There are five such technological complexes, linked to the following leading sectors: textiles (ca. 1790-1840), railways (1840s-1890s), electricity/chemicals (1890s-interwar period), durable consumer goods (interwar period-1970s), and micro-electronics (1970s, and onwards).[58]

Small countries take no part in developing these basic technologies, but the technologies become available as they are diffused on a world scale. There may be institutional factors at the international level, blocking diffusion, but for the small European countries that we deal with here (all members of the postwar Western world), it is reasonable to assume that they had the possibility of "hooking on" to the new technological options. This does not necessarily mean that they produce the core technologies themselves, but rather that since these technologies are general, multi-purpose ones they would develop a range of export products (linked to the small country's natural and historical preconditions), that would sell in world markets. In line with such an argument, our definition of transformation is linked closely to the evolving industrial (manufacturing) sector of the country in question.[59] Schumpeter's original notion of the "entrepreneur" has been promoted against the technocrat neoclassical notion of the "production function". But recent Neo-Schumpeterian analyses have largely displaced the heroic entrepreneur, emphasising instead a number of institutional features oustide and inside the firms, lately called "*the national system of innovation*".[60]

A "national system of innovation" has been defined as "*the institutions and economic structures which affect the rate and direction of innovative activities in the economy*".[61] Recent Swedish and Danish contributions to the study of such systems take "interactive learning" as their point of departure: "individual agents and organisations increase their knowledge in technical matters, not in isolation from each other, but in a process of interaction, involving learning from each other as well as producing, in cooperation, new knowledge and the dimension of a system of innovation to be its capacity to support interactive learning (and 'creative forgetting'!)'[62] Edquist and Lundvall further argue that learning is strongly rooted in routine economic activities:

"Given that important parts of interactive learning take place as a by-product in economic routine activities, *the institutional set up* and *the economic structure* become crucial for understanding the dynamics of the system of innovation. Institutions may be understood either as specific and materialised organisations and formalised sets of rules, such as the banking system or the law complex regulating the labour market. A less visible, but important, dimension of institutions is the non-formalised norms, and the sets of habits and routines, governing everyday behaviour. Institutions in this sense are fundamental for learning. They rationalise everyday life, making room for creative and non-routine activities, and they provide guideposts for learning, making it possible to move ahead in spite of uncertainty. Finally, they regulate the relationships between individuals and social aggregates involved in interactive learning.

"In smaller countries we find an *economic structure* which is quite specialised on the supply side. The structure of private consumption has become quite homogenous in the post-war period while the international differences in the production structures have proved to be more stubborn. Actually, we would explain this observed stubbornness by the fact that interactive learning is important and that it is more easily realised inside a national system than across national borders. This implies that the technical competence of small national systems of innovation, typically, will be developed inside a rather narrowly defined space and that this space is restricted at all times by the prevailing production structure.

"We might sum up our discussion by an analogy with information technology systems. The institutional set up may be regarded as the software and the production structure as the hardware forming a framework defining the space for interactive learning and affecting its rate and direction."[63]

Conceptual and empirical work on national innovation systems emerged among heretic economists in Britain and Denmark. The framework proposed recently by Michael Porter is very much in line with these studies. Porter classifies the determinants of "national competitive advantage" in four groups: "1. *Factor conditions*. The nation's position in factors of production such as skilled labour or infrastructure, necessary to compete in a given industry. 2. *Demand conditions*. The nature of home demand for the industry's product or service. 3. *Related and supporting industries*. The presence or absence in the nation of supplier industries and related industries that are internationally competitive. 4. *Firm strategy, structure, and rivalry*. The conditions in the nation governing how companies are created, organised, and managed, and the nature of domestic rivalry."[64] Porter draws a figure in which these four boxes are linked, creating the shape of a "diamond".

This perspective is best characterised as the conditions of competition as seen from the point of view of the single firm. Porter combines inspiration from business economists' study of the competitiveness of separate firms with inductive reasoning based on material from a four year project which involved numerous researchers dealing with 10 countries (including Denmark, Sweden and Switzerland).

Porter's focus is the "role of the home nation in stimulating competitive improvement and innovation",[65] both in industry and services. According to Porter, it is no paradox that such a perspective emerges in a time of strong internationalisation. His findings contradict the view that firms have transcended countries. He emphasises that "the leaders in particular industries and segments of industries tend to be concentrated in a few nations and sustain competitive advantage for many decades. When firms from different nations form alliances, those firms based in nations which support true competitive advantage eventally emerge as the unambiguous leaders."[66]

Porter's study also reflects the coming of an era where many countries struggle to lead in the "restructuring race". In the 1950s and 1960s, it was perhaps enough to learn from the "U.S. model", and later the "Japanese model" became fashionable, but studies like that of Porter show that there are many models: "Competitive advantage is created and sustained through a highly localised process. Differences in national economic structures, values, cultures, institutions, and histories contribute profoundly to competitive success."[67] Clearly critical of mainstream neoclassical analysis, Porter prefers a more disaggregated approach with realistic assumptions.

Institutional features are involved at many points in Porter's analysis. Among factor conditions, he distinguishes *human and knowledge resources*, where the educational and the research institutions are important; *capital resources*, where the institutional structure of capital markets matters, and *infrastructure*, where the state is influential. Porter also emphasises that factors can be created: "Factor-creating mechanisms include public and private educational institutions, apprenticeship programmes, government and private research institutes, and bodies providing infrastructure such as government-owned port authorities or community hospitals (...) The character of the institutional mechanisms prevalent in a nation for factor creation, which is partly a function of its social and political values and history, constrains to some extent the range of industries in which a nation can compete."[68] As for demand conditions, Porter discusses for instance the impact of sophisticated and demanding, even anticipatory buyers.[69] As regards related and supporting industries, Porter discusses institutional mechanisms facilitating the spread of linkages between firms and industrial sectors, as analysed by Hirschman and others.[70] His fourth group concerns firm strategy, structure and rivalry. Here Porter studies ownership structures, capital market conditions, and the nature of corporate management. He also discusses national priorities in a fairly disaggregated way and also notes the importance of domestic rivalry among firms.

In addition to these four groups, he also studies the role of chance, that is, shocks establishing discontinuity, creating "a new specialised national 'diamond'".[71] He also discusses how government influences the determinants of competitiveness.[72] "The 'diamond', reflecting many diverse elements of a nation, measures how well the nation creates and transmits these forces to its firms, as well as the presence of the insight and tools needed for competitive advantage."[73] These "diamonds" can be ranked according to how effectively they promote competitive advantage.

In addition to such institutional features, structural features (to the extent that they can be isolated from institutional ones) also matter. As for *physical resources*, they are mainly geo-climatic conditions. Porter also emphasises that disadvantages in basic factors may be turned to advantages, as they spur innovation.[74] Porter also points out that the "segment structure" in which firms are involved is often related to the structural characteristics of a country.

Analysing single countries, Porter often repeats himself. The same institutional features are quoted in connection with many of the diamond's corners. For instance, in his section on Switzerland, language skills and multiple cultures are mentioned both under "Factor conditions", "Demand conditions", and "Firm strategy". The culture of compromise and accommodation is mentioned in connection with "Factor conditions", "Supporting industries", "Firm strategy" and "Role of government". The same goes for structural features. This shows how Porter's approach, although closely related, *differs* from the notion of a national system of innovation. In the latter notion, institutions and structural features are discussed as such, with reference to clusters of national industries. This is also the approach in Senghaas' scheme, which we shall discuss in the next section. These perspectives are more oriented towards the national economy, while Porter sees everything from the point of view of the single firm.

Porter touches upon this nuance when discussing cultural factors and the need for a long term historical perspective: "As I have described the 'diamond', I have touched on many examples of the role of social and political history and values in influencing competitive success. Social norms and values affect the nature of home demand, for example, as well as the goals of managers and the way firms are organised. Social and political history influence the skills that have been accumulated in a nation and the institutional structure within which competition operates. These aspects of a nation, which some call cultural, cannot be separated from economic outcomes. Also, 'cultural factors' are, upon close inspection, often closely intertwined with economic factors. For example, Japanese lifetime employment, the nature of incentive systems, and management behaviour toward workers. These practices all grew out of bitter labour strife in Japan both before and immediately after World War II. Cultural factors are important as they shape the environment facing firms; they work through the determinants, not in isolation from them. Such influences are important ones to competitive advantage, however, because they change slowly and are difficult for outsiders to tap or emulate. Social and political history and values create persistent differences among nations that play a role in competitive advantage in many industries."[75]

In fact, nobody would deny this kind of interaction, but Porter does not really consider the possibility that if determinants are determined by other, more

encompassing factors, the latter factors should figure as the starting point of the explanation. Porter is less original than he claims. His approach is in line with the Neo-Schumpeterian tradition, in which the entrepreneur is replaced by a network of national institutions, and where Schumpeter's *dynamic* notion of competition is specified as patterns of cumulative causation. Actually, it may be doubted that the diamond can aspire to the status of a general theory. Rather, it is a typology which may lead to more concrete explanations if applied in comparative studies. It may well be that only in this way can patterns of cumulative causation be specified.

Even the Neo-Schumpeterian approach mostly deals with OECD countries. (Porter goes as far as to include some NICs.) While the corporatism studies tend to end up with Sweden or Austria as their ideal cases, the Neo-Schumpeterians mostly end up with Japan and/or Switzerland in a similar position. These are all countries in which the growth = development equalisation does not imply many problems. In the next section, we look at comparative studies that have included third world countries, where growth may not imply development. This is useful for our purposes, not only because it has been claimed that Ireland has elements of a "third world" country, that it lies "between two worlds". It is also necessary because there may be much to learn from studying contrast cases which have not been blessed by the high welfare levels of Western countries.

Financial systems transform savings into investments, and they often entail advice to firms. Studying the relations between financial and industrial policies, Zysman classified three types of financial systems: First, "a system based on capital markets with resources allocated by prices established in competitive markets"; second, "a credit-based system with critical prices administered by government", and third, "a credit-based system dominated by financial institutions".[76] Analysing the large economies, Zysman found the first type in Britain and the U.S., the second type in France and Japan, and the third type in Germany. The smaller countries of our study can also easily be classified according to this typology: Ireland was a section of the British financial system until 1978, and Denmark is also close to the British-type capital market based system. The countries dominated by strong social democracies, Sweden and Austria, have a credit-based system dominated by government, and even Finland has such a system. Finally, Switzerland seems to have a German type system, based on a credit-system dominated by financial institutions.

Zysman regards these systems as a set of domestic institutions which translate external disturbance into domestic disturbance in a particular national economy.[77] They affect the administrative and political strategies aimed at influencing the balance between consumption and investment. By influencing investments and industrial policies, these systems take part in the determination of national competitive advantage.

A closer description of lender/borrower mechanisms, the role of intermediary institutions and the types of credit allocation involved in each model gives us a closer impression of their characteristics. The *capital market based* financial model rests on a segmentation between banks, firms and the government. These are autonomous domains with few contacts and little influence on each other. The state is non-interventionist. Industrial adjustment is led by firms. Banks mainly provide short term funds. There are many such intermediary institutions. There are large secondary (stock) markets, investors can easily buy/sell bonds/assets. The mechanism of credit allocation is a competitive one, with prices of funds fluctuating according to the market mechanism. Both the *credit based* financial models imply strong lender/borrower ties. As for intermediary institutions, banks provide long-term capital. They stay with the borrower, possibly even assisting in the management of firms. The capital (stock) market is of little importance. Loans or stocks are fairly illiquid to a company. The difference between the *government-based* and the *institutional* one may be traced as follows: In the *government-based* model, financial institutions are mainly the instruments of the state, which leads industrial development. Credit rationing determines critical prices, and there is discrimination between different financial institutions, thereby allocating capital according to specific investment priorities. In the *institutional* one, adjustment is led by financial institutions. The model of industrial development is a bargained one. Financial institutions influence prices relatively independent of government. Government influence is limited to open market operations and the establishment of general rules.[78]

Zysman argues that these systems do not change even if global financial markets are becoming increasingly integrated. This is probably a correct assessment for the period he analyses (the 1970s). In the 1980s, however, it seems that the credit-based systems, at least the one in which the crucial financial variables are determined by government, are under severe pressure. Thus, we shall argue in Part IV, that there is a trend towards the capital-market based type in all countries, although most strongly in the earlier credit-based/government-influenced type.

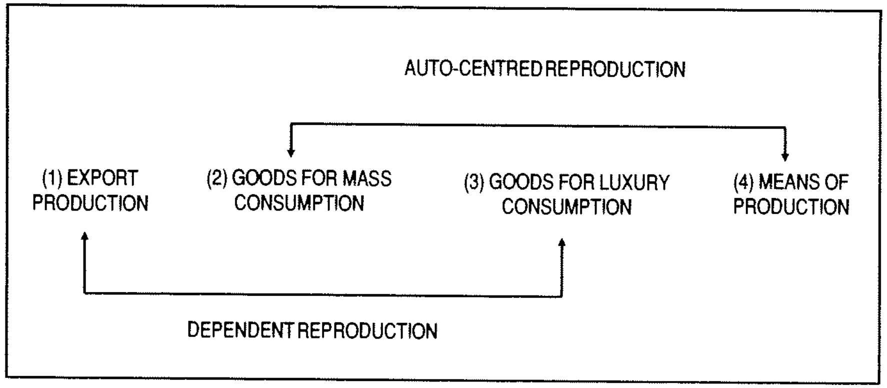
4.2 ECONOMIC GROWTH WITH AND WITHOUT DEVELOPMENT

A very interesting framework, in which the long term transformation of the European countries is analysed using concepts derived from development theory, has been presented by the German political scientist Dieter Senghaas and his collaborator Ulrich Menzel.[79]

Senghaas' work was strongly inspired by Samir Amin's distinction between two different models of development: the central Western countries have had *auto-centric development*, while the others have been the victims of *dependent development*. Amin's point of departure is a distinction between four sectors of the economy, defining auto-centred reproduction as the connection between sectors 2 and 4, while dependent reproduction combines 1 and 3 (Fig. 4.1).[80]

The model of central accumulation is a closed one: Amin holds that the "essential" relations of this system can be grasped independently of external developments. This is an important difference in comparison with the mainstream notions of the "development of under-development". Compared to trade within the core, Amin emphasises, core/periphery trade is quantitatively insignificant.

FIGURE 4.1
Samir Amin's Two Patterns of Development



While development of the core is thus relatively independent of developments in the periphery, this is not the case the other way around. The peripheral model developed in response to the centre's need to import primary products. Core entrepreneurs undertake investments to the extent that they can get either raw materials or foodstuffs at a cost which is lower than in the core. If there is a world market price, such a cost difference may depend on a higher productivity (e.g. for natural reasons) or on lower wages. Abstracting from productivity, Amin notes that several mechanisms (underemployment, large turnover, low productivity jobs) in the peripheral social formation will work to secure low wages for the export sector. To the extent that these mechanisms prevail, society loses its traditional nature. But no substantial domestic market is created. Rather, the modes of production that were formerly "pre-capitalist" are reproduced.

In the auto-centric model, the capitalist mode of production eliminates other modes, while in the peripheral model, capitalist development is blocked by the influence of the centre, and therefore pre-capitalist modes are reproduced or conserved. Thus, a basic connection in the auto-centric model, the productivity-indexed real wage, is absent. The basic industrial connection in the auto-centric model is between sectors producing means of production and mass consumption goods. It has a flourishing domestic market. The periphery attracts only certain investments and its domestic market is very limited, with the main industrial connections being between the production of luxuries and the export sector (Figure 4.1). It is tempting to introduce here some concepts coined earlier. Amin's auto-centric development may be interpreted as the U.S. mass production/mass consumption model which spread to Western Europe in the postwar period.[81] "Development", as distinct from growth, here means that the auto-centric model fulfills the basic needs of the broad masses, like food, housing, education and culture, in sum: an increasing standard of living.

Table 4.2 summarises the political, economic and institutional contrasts Amin finds between the central and the peripheral models of accumulation. The right-hand column summarises the features of "structural heterogeneity", a term which Amin uses to characterise peripheral, dependent development. It points to the fact that due to phenomena like marginalisation, the peripheral model consists of several structures which are not interlinked.

Amin concluded that in the periphery, irrespective of political regime (whether proclaimed socialism or post-colonial capitalism), these fundamental deficiencies were present. Peripheral development is a vicious circle, blocking the kind of economic growth which implies development, that is abolition of marginalisation (i.e. satisfaction of basic needs, poverty, provision of full employment, etc). Fundamentally, the auto-centric model combines growth and development (broadly defined), while the peripheral model is one that may well grow rapidly in certain periods, but it does not entail development.

Dieter Senghaas tried to apply Amin's notions to the developments within the core itself. Looking at the early 19th century, one could trace within Europe a number of core-periphery relations. The countries of that periphery stretching around Britain from Scandinavia throughout Eastern and Southern Europe (with Ireland closing the circle) must have been exposed to peripheralisation-pressures similar to those which hit Amin's peripheral economies of the 20th century.[82] Their economic development has been closely related to the export of certain staple products to a world economy dominated by great powers, both in an economic and a military sense. Britain was the most important great power of the 19th century. During the first half of the 20th century, with two world wars and the interwar turmoil, military conflict and lack of coordination, both the great powers destabilised the world economy, and the 1930s and World War II were periods of protectionism and isolationism. In the postwar period, the U.S. took over as the dynamic centre of the world economy.

TABLE 4.2 *Amin's Dichotomy*

	AUTO-CENTRIC	**PERIPHERAL (Structural Heterogeneity)**
Development of Productive Forces	Homogenous.	Heterogenous, that is, advanced in the modern sector, but backward in the traditional sector.
Domestic Market	Favouring products related to mass consumption.	Favouring products related to luxury consumption (demand emerging among elites in their direct or indirect relations to the modern sector).
Sectoral connections and relation to agriculture	Durable consumer goods production relies on a preceding industrialisation of simpler consumer products as well as on a modernisation of agriculture. The central country either developed its own sector for investment goods, or succeeded in a process of import substitution.	The enclave export sector spurs luxury consumption. Import substitution starts late and with durable consumer goods, i.e. the latest generation of core consumer goods. Thus, the domestic producers of simpler mass consumption goods are not stimulated to modernise. Production of basic foodstuffs, including the agricultural sector, stagnates. Industries do not become growth poles, but reinforce domestic inequalities. To the extent there are basic industries, they are supported by the state, and related to exports and luxury products, not to mass consumer goods.
Population and Employment Dynamics	The broad masses of the population are integrated into the accumulation mode. Cyclical crises of unemployment are replaced by "Keynesian" full employment oriented economic management.	The broad masses are marginalised. There is a secular increase of unemployment/and numerous varieties of under-employment (impossible to trace in statistical terms). These conditions secure a low wage.
Wages	Origins of demand are the masses. Wages are high, they count as a crucial demand factor.	Wages are a cost-factor only. In the modern sector they are very low, in the traditional sector they are at subsistence level, or there is a natural economy. The poverty of the masses is a condition for the integration of a minority in the world system. The elites emulate European or American ways of life. There is development only for the minority, not development for the masses.
Political Consciousness	Reformism in the working class.	Reformist consciousness is not possible in the periphery, since the system does not integrate, but marginalises the masses. Consciousness of the system leads to its rejection.

Putting the problem this way, Senghaas discovers an enigma. How were some of these members of the European periphery able to avoid structural heterogeneity, becoming cases of auto-centric development? Investigations of this problem in terms of the traditional dependency focus — how a country links up with the world economy — gave quite negative results. While Amin had claimed that auto-centric development would only be possible with a delinking from the world economy (and the establishment of regional common markets), Senghaas found that historically, an auto-centric result had been achieved both via a purely liberalist association to the world market (especially the case of Switzerland), via a combined approach ("association/dissociation", meaning a relatively liberal approach to trade integration, but with regulations on foreign investments, use of natural resources, etc; this is the "Scandinavian trajectory") and via an approach which relied on internal dynamics and state intervention (Japan).[83] The strategy of Ireland was obviously one of pure association during the period of economic integration with Britain (1801-1922), then a period of attempted dissociation from 1930, with association again in the postwar period. The few paragraphs devoted to the Irish case by authors in this comparative tradition seem to count Ireland not with the auto-centric group, but with the peripheral cases, that is with most of the present-day third world, but also with countries of Southern Europe, like Portugal.[84]

As the standard "external" variables favoured by dependency theory fail to explain the different developments of the 19th century European periphery, Senghaas ends up with strong emphasis on internal socio-economic and institutional variables. Table 4.3 gives a summary of Senghaas' explanatory scheme.

A full comment on this scheme is provided elsewhere.[85] The scheme is not an elegant explanatory model, but rather a list of factors that may interact in determining virtuous and vicious circles, and it must be used along with thorough periodisation. Senghaas' own analysis tends to favour the "distributional" variables (agrarian property and income) in part 2 of the scheme. Using the scheme below, however, we shall see that it is important to include factors from all sections of the sheme.[86]

Discussing how the nature of agrarian modernisation influenced industrial dynamics, Senghaas contrasts defeudalisation, colonialism and systems without a feudal or colonial past.[87] As for countries without a feudal past, settler colonies were based on one tragic "initial cost", the murder of native populations. But then they were "tabulae rasae". For the state, this implies that the bureaucracy was responsible for the construction of infrastructure and for selective protectionism of infant industries. Examples are Canada, the U.S., Australia, and New Zealand.

Successful defeudalisation depended on the balance of power and specific conditions and/or cleavages between ruler, aristocracy, farmers, merchant capital, bourgeoisie and working class. Scandinavia is an ultimate example.

TABLE 4.3 *Senghaas' List of Explanatory Factors*

1. ECONOMIC STRUCTURE
- — The nature of staple exports
- — Geo-economic conditions
  - —conditions for agriculture, —resource, endowments, —regional markets

2. SOCIO-ECONOMIC FACTORS

Area	Variables (Qualitative and Quantitative)	Value of Variables Conducive to Auto-centric Development	Relations to other factors and research traditions
Agrarian property	— Distribution of land holdings — Share of land occupied by holdings of different sizes — Pattern of ownership of other resources (forests, minerals, fish,etc.)	— All distributions are relatively egalitarian (or marked by only "moderate" inequality), that is: approaching the normal curve	— Rather than size as such, the crucial feature is the intensity of farming and the degree of mechanisation, i.e. the productivities of land and labour
	— Innovation-orientation of farmers	— High innovation orientation	
Distribution of income	— Distribution of income	— Same as above (only moderate inequality); influences the dynamics of the domestic market	— This is one of the factors which creates a homogenous social structure.
	— The relation between the distribution of income and the savings rate	— The savings rate must be such that productive investments are allowed	
	— The relation between the distribution of income and the demand for investment goods	— The domestic market must be sufficiently stimulated	
	— The share of wages and salaries in the net national product	— Relatively high	— Related to union density
Economic institutions (affecting the quality of the firms)	— Risk-oriented entrepreneurs or firms	— Industrial interests gaining hegemony over traditional elite groups	— Social and political mobilisation
	— Banking system	— Supportive of industrial interests	
	— Nature of national innovation system at the firm level	— Able — to mix collaboration competition — to absorb information and new technologies — to innovate in times of crisis	
	— Level of education	— High (a high level of literacy)	— The state
	— Quality of institutions of higher education	— High quality, and dense connections to firms	— The state

3. POLITICAL AND SOCIAL MOBILISATION

Area	Variables (Qualitative and Quantitative)	Value of Variables Conducive to Auto-centric Development	Relations to other factors and research traditions
Social	— Mobilisation of farmers	— Strong cooperative movement	— The state
	— Mobilisation of workers	— Strong union movement	
Political	— Democratisation	— Effective democratisation weakens old elites and leaves more room for "industrial interest" groups and the establishment of "conflict solution systems" in which these groups have a say	— Small countries are often influenced by events in large countries — Comparison of conflict solution system (comparisons of corporatism) — Distribution variables
	— Nation building and sovereignty	— Early national sovereignty allows national self-determination in customs policies, control of resources, use of earlier unsettled areas	— Social mobilisation — The state
	— Nature of party system	— A large degree of clientelism may be a problem, especially if it reaches from the local into the central administration	— The state (Rokkan's comparative tradition)

TABLE 4.3 *continued*

State apparatus	— Administrative reform	— The bureaucracy must adjust to democratisation and new social movements	— Social and political mobilisation ("Bringing the state back in" - research tradition)
	— Unified legal system and legal security	— Unified, consistent, provide legal security	
	— State provision of infrastructure	— Maintain demand e.g. for high-tech products, facilitate the emergence of industrial centres and interaction between agriculture and industry. Match intervention and competition	— Economic institutions (Neo-Schumpeterian research tradition)
	— State provision of education	— Generous	— Economic institutions

Source: Dieter Senghaas, *Von Europa lernen*, Frankfurt a. M. 1982, p. 136f. English translation, *The European Experience*, Leamington Spa 1985, p. 90f. Modified and extended.

As for unsuccessful defeudalisation, world economic trends in terms of trade would strengthen the agrarian oligarchy. Despite some impulses towards industrialisation, the industrial bourgeoisie would remain small, agrarian oligarchic elites and merchants dominate, with support from foreign interests. Import substitution may take place during a populist phase, but with its failure, the danger of a coup arises. This pattern is typical of peripheral export economies, for instance, of Latin America after the wars of independence, and Senghaas goes as far as using the term "self-colonisation".

As for the case of colonialism, this is where dependency theory (and its historicised version, world systems theory) fits best. Local ruling classes ally with the colonisers. A monocultural enclave economy is reproduced, and structural heterogeneity haunts the economy. Throughout the 20th century, colonialism has been followed by decolonisation. Here Senghaas's discussion turns out to be quite open. Relating to Elsenhans' studies, he emphasises the influence of state classes in such contexts. An aggressive state class can transcend barriers to development, as the case of Japan 1760-1945 shows, and more recently South Korea and Taiwan also. More often, however, state classes are unable to generate enough freedom of action (and their focus turns towards self-enrichment). The result is often development dictatorships.[88]

Our comparative analyses in the chapters below will often refer back to Senghaas' scheme, which we regard as quite relevant for the kind of comparative analysis we have been asked to do. As our contrast cases must all be located in the "successful defeudalisation" category, we shall mainly be comparing small countries with a non-colonial past with Ireland, which has a colonial past.

It should be noted that it has been argued that such a comparative strategy is not useful in the Irish case. Crotty argues that Ireland can only be compared with third world countries, that is with the 137 former colonies of the world. Pursuing such a strategy, Crotty finds both that Ireland is a case of "capitalist colonial undevelopment", and that it has a number of unique features, being "Europe's only capitalist colony".[89] This is, according to Crotty, the fundamental reason why Ireland "undeveloped" while e.g. the Nordic countries, together with other small, north-European countries, "developed".

Crotty's arguments on the effects of colonialism depend on a quite peculiar definition of capitalism. He traces its origins to the central European forests, about 5000 years ago. This definition is based on an ambitious comparison of cattle-rearing societies in world history, no less than an attempt to define the "uniqueness of the West" with reference to the relationship between cattle-rearing, pastoral cultures, the crop-growing ancient civilisations and the ecological environment. Crotty's book entitled *Ireland in crisis* is certainly no quick pamphlet, but an exercise in universal history. We cannot possibly do justice to his contribution here, but it is important to contest his restriction of cases with which Ireland can be compared.[90]

Crotty's general formula is that capitalist colonisation takes place where capitalism imposes a social structure — one which was adequate in the environment of Central Western Europe — on social structures based on a redistributive logic. This is the root cause of undevelopment, which Crotty describes as a "disease", as the persistence of "deep-seated structural and institutional defects" even after independence.[91] Thus, a comparison of Ireland, where such an imposition happened from the Tudor conquest and onwards, with the other countries of the European periphery is irrelevant, since these other countries, according to Crotty, had developed "individualistic capitalism" indigenously over thousands of years![92] This clearly shows that Crotty's approach is very different from dependency theory: he does not subscribe to the theory that the growth of core capitalism has been conditioned on the *under*development of the periphery by means of the exchange of raw materials for industrial goods, thus maintaining third world countries as enclave economies. Instead, capitalism is only harmful when it develops outside its relevant ecological environment.

We obviously need to defend our comparison of Ireland with the other countries of the European 19th century periphery. There is no space to challenge systematically Crotty's construction of world history. Its strength is the emphasis on the major resources and means of production — land and domesticated animals — available to man, as well as on the interaction of those factors with climate and other natural conditions. But his distinction between non-individualistic and individualistic social orders seems to us much too crude.[93]

Rather, within the central European domain, different social orders developed, related to varieties of feudalism, to different cleavage patterns generating different socio-political developments, to different consequences of interstate relations, to different effects of the spread of world religions, different fates of national languages, to the differential impact of the spread of the late 18th century industrial and democratic revolutions. While Crotty's detailed analysis often mentions these factors, there is a strange tension between these discussions and his generalising distinction between colonised and non-colonised social orders. The basis of this latter distinction is a comparative study of the ancient agrarian civilisations of world history. The exclusive use of this distinction even when dealing with developments in the European domain throughout the last 500 years, is bound to distort the analysis.[94] If this cleavage is reduced to one among several others, the comparison of Ireland with other countries in the European periphery is warranted.

As a second main point of criticism, it must be emphasised that industrial capitalism reduces the impact of climate and the resource base. Being aware of this, Crotty's line of argument seems to be the following: he starts from climate and agriculture, then derives individualism (as a principle of social organisation), and then turns from individualism to the idea of an "institutional framework" which is imposed in the colonised areas. Much of the argument, however, as to why this "out of context" imposition of institutions (which worked well in the Western capitalist sphere) creates "distortions" must again return to its inappropriateness relative to climatic features. But this is no sufficient explanation of why adaptation in manufacturing lines of production has been so weak in most recent cases in the third world. It seems that Crotty largely fails to specify the concrete nature of the vicious circles found in the post-colonial countries. Possibly aware of these problems, Crotty has lately focused more closely on the analysis of the state.

The key factor which bars development, Crotty argued in 1988, is the state: "The state in every former capitalist colony causes the economic system to malfunction". He explains this with reference to the "distinctive origin and nature of the state in former capitalist colonies". The state namely, originates from the administration established by the colonisers to exploit profit from the colony. The rights exercised by such a colonial state were "without commensurate responsibility to the society within which the rights are exercised", they are the rights "enjoyed by a garrison class in return for services rendered to a capitalist colonial power". These rights or privileges are basically landed property, and decolonisation has been "a process of indigenising privilege". The state has been the crucial organisation which enhances and consolidates privilege. Thus, the only comparison Crotty really needs is that between the post-colonial state and all other state apparatuses: "The state in every country that has not been capitalist colonised, by contrast, has evolved in diverse ways in response to diverse circumstances, but always in response to local needs. The state in every such country, though often subjected to intense outside pressures, has never sought to uphold institutions and practices that were designed and imposed originally to extract profit from its citizens for the benefit of non-citizens."[95] And in contrast: "The independent state in every former capitalist colony preserves and enhances indigenous privilege at the cost of national undevelopment. It does so by using, in the same manner, the same institutions and technologies as were employed by its forerunner, the metropolitan administration, for the same purposes. These institutions (principally property) and the technologies (principally medical science) are not inherently socially destructive. It is the manner of their application, out of context, in former capitalist colonies that causes undevelopment".[96]

At this point, Crotty again brings his argument to bear on economic factors: "The primary, specific manner in which the state in all former capitalist colonies perpetuates privilege/disability is through its determination of factor prices. The state determines the cost of land, capital and labour for producers at levels which maximise privilege and its associated disability, and without reference to economic realities."[97] He then goes on to argue that the state makes land and capital virtually free for certain privileged groups, and labour so expensive that a large share of the labour supply is forced to emigrate.[98]

This resume shows that Crotty's radical perspective is certainly an encompassing one. It provides a total view of Irish development as that of a third world country, oddly placed very close to the industrial heartland of Europe. What makes Ireland unique as a third world country is the relatively high per capita income share and high wage level, which has been made possible by emigration. Instead of overcrowded cities with masses of poor un- or underemployed people, which is the result of marginalisation in most third world countries, Ireland is one of the more affluent former colonies, exporting its unemployment to the English-speaking world. But his approach involves a curious shift between "geo-climatic" and "statist" determinism. Rather than arguing at this level (being e.g. committed to the rather strong statement that only the state determines factor prices), we prefer a less fundamentalist approach.[99]

It should be emphasised that this criticism primarily aims at a rejection of Crotty's claim that it is irrelevant to compare Ireland with other small West European countries. Freed of its somewhat heroic fundamentalism, his contributions to the analysis of Irish developments contain many valuable insights that we shall draw on below. Actually, we shall claim that the factors discussed by Crotty can be analysed within Senghaas' more inductive and comparative approach. The impact of the state is clearly a very important topic, but we hold that this topic can be fruitfully analysed with reference to Elsenhans' studies of state classes in the third world.[100]

Returning to Senghaas' list of explanatory factors, some further comments on the variables relating to political and social mobilisation are necessary.

As for the nature of the party system, the work of Stein Rokkan is indispensable.[101] He analyses the European party systems as expressions of social cleavage lines. A state-church cleavage and a national democratic cleavage emerged with the spread of secularised, democratic, and nationalist doctrines after the French Revolution. Cleavages between primary and secondary producers and labour and capital came with the later industrial revolutions. More precisely these were conflicts resulting from the question of tariff protection raised by the transport revolution (the second crisis according to Table 4.7 below) at the end of the 19th century, and the conflicts between labour and capital resulting from the spread of the wage relation (to a large extent the industrial wage relation, but not exclusively) and socialist doctrines.

In general, the national revolution cleavages preceded the industrial revolution cleavages. There were, however, important differences between the timing of these two revolutions as well as their local setting. In Rokkan's framework these differences — which date back to earlier periods — account for the varieties of Western European party systems. As for the case of Ireland, we shall see that the nationalist issues grew to dominate the formation of an Irish party system.

As for all the variables discussed in part 3 of Table 4.3, they have mainly been analysed by sociologists and political scientists, and there is very little consideration of the impact of such features on economic growth and transformation. (This problem we cannot hope to solve within the context of this report.) In Table 4.3, however, it is mentioned that a large degree of clientelism may be detrimental to auto-centric development. Patronage and clientelism may grow to be very important in a party system, but among the countries Rokkan analysed, this was not often the case. As soon as we turn to third world countries, or even just to South-European countries, such matters prove to be very important. Since we locate Ireland in between the first and the third world, we must provide some basic definitions.

Clientelism is a way of allocating public goods. We are here interested in political clientelism in a parliamentary context. In this case a client offers support (a vote) in exchange for various goods or services. Such patron/client relationships are easily traced in local government "machine" politics. For instance, if a politician controls the allocation of state resources like housing grants, medical cards, or local government jobs, these resources are allocated to the politician's clients, who repay by voting for the patron. In our context, however, a wider definition is relevant, one which places the patron-client relationship within a broader system of domination. This definition emphasises the relationship of local patrons to the general political system which links rural and urban voters to national power centres. Clientelism here implies "a certain autonomy of the local patron vis-à-vis the national party organisation and leadership, an autonomy based on his capacity to act as a relatively independent political entrepreneur or sub-contractor, rather than as an interchangeable cog in the party organisation."[102]

Mouzelis provides this definition in the context of his study of Balkan and Latin-American countries. These areas he dubs a "parliamentary semi-periphery". Specific to these areas were their submission until the early 19th century to huge patrimonial empires (the Ottoman and Iberian empires), different from European absolutism. These countries have a long record of parliamentary-democratic rule, which in fact started before their industrialisation. This 19th century parliamentarism involved a very restricted franchise, and the "authoritarian-particularistic state" was controlled by a handful of notable families, manipulating the electorate through legal and illegal means. When this "oligarchic" parliamentarism declined, industrialisation had not really begun, so the democratisation of the political system did not involve "active participation of the industrial classes", particularly not by relatively autonomous working-class organisations. "Instead, the new middle- and lower-class participants and their organisations were brought into the political arena in a more dependent/vertical manner", which Mouzelis dubs an "incorporative" pattern.[103]

In the Western European countries (the "capitalist centre"), the balance between democratisation and industrialisation resulted in "strong and autonomous civil societies", which counteracted such dependent/vertical integration of the organisations founded.[104] Clientelism, as defined above, was one aspect of this kind of integration. Mouzelis' main aim is not to discuss the consequences of this type of incorporation for economic growth and transformation. The fact that some kind of industrialisation took place in these countries he takes as given. He does not discuss whether this growth was of the auto-centric or the peripheral type. But it would seem that there is a connection to Senghaas' approach in the following respect: vertical integration is linked to a lack of autonomy for civil society organisations. This autonomy, one may well argue, is a condition for the consolidation of mass demand which is implied in the auto-centric case.

The main aim of Mouzelis' discussion is to explain the postwar military dictatorships in countries like Argentina, Chile, or Greece. These countries are cases of peripheral development, and Mouzelis emphasises that they displayed a very unequal distribution of political power between rulers and ruled, and that this provided an "inadequate basis for dealing democratically with the staggering problems that postwar semi-peripheral societies had to face once their economies were becoming more industrialised and their politics more fully marked by high levels of mass participation."[105] In sum, this framework, which includes a consideration of clientelism, may be considered as a basis for understanding the Irish case. We shall show in Part III, however, that it does not fully fit that case.

Another element in Table 4.3 is nation-building and sovereignty. Discussing Rokkan's work, we found that nationalism dominated the formation of the Irish party system. Thus, the notion of nationalism must be treated in somewhat more detail.

Modern capitalism, as Giddens points out, always developed within the confines of the modern nation states.[106] The phenomenon of nationalism is a general one, emerging in Europe in the late 18th century. It was inspired by the French and American revolutions, and connected to print culture and the spread of mass education. Nationalism proved to be "the most effective form of mass mobilisation that the world has known",[107] serving to integrate a population inside the borders of a nation state by overcoming pre-national forms of political loyalty. Nationalist elites rediscover the national roots of a people, creating an "imagined community" rooted in an alleged common past. As soon as these elites dominate the state apparatus, the reference to the national community becomes a basic instrument in creating order. Unlike earlier ruling elites, nationalist elites actually influence basic social relations, since many activities are "nationalised" and since the process of nation building creates a distinct political culture and defines the goals of social development. The consolidation of the "nation state" implies increased surveillance and control over the national population. But it also raises the need for elites to legitimise their rule, thereby foreshadowing full democratisation, as the earlier "subject masses" become masses of citizens. Economic growth is no longer emphasised by the state only to finance the military apparatus, but also to legitimate elite rule.

Nationalism did not only integrate already existing European nation states in the 19th century. Certain areas within other countries defined themselves as "nations", mobilising for a liberation struggle. The English colonies in America were the first ones to succeed in such a liberation struggle, and in the 20th century, decolonisation was driven by such nationalist mobilisation. Ireland is clearly a case in point. In this respect, Finland is the only case among the contrast countries to experience a similar nationalist mobilisation and liberation from Russia.

Senghaas (see Table 4.3) argues that "early national sovereignty allows national self-determination in customs policies, control of resources, and use of earlier unsettled areas." This statement, however, is vague, as it is not clear at what point in historical time national sovereignty comes "too late". However, when Senghaas emphasises the transition from an export to a national economy, there are many ways in which the existence of territorial sovereignty may benefit, but also impair, economic growth and transformation. Again the problem is that these topics in political science have rarely been linked to the question of economic development. In fact, since nationalism relies on both social cleavages and ideological agitation, nationalist movements have often presented very simple interpretations of economic development problems. In the Irish case, for instance, nothing is simpler than attributing any Irish development problem to British dominance. Social science, of course, must beware of accepting such claims. At most, they are hypotheses to be confirmed only if the precise mechanisms which generate the economic problems can be demonstrated.

4.3 THE IMPACT OF EMIGRATION

If there is one feature of Irish socio-economic development which merits special attention, it is its demographic development. Ireland experienced a "population implosion" after the disastrous famine of the mid 19th century. As Table 4.4 shows, Ireland's demographic experience is unique. Its population in 1910 was only 54 per cent of the population of the 1840s, while all our other case countries had increasing populations. Ireland's population continued to decline even in the 20th century, although the differences compared to other countries have been narrowing. This demographic uniqueness is bound to enter into the discussion of Ireland's economic fate at a number of crucial points. Among Western nations, no country in recent history has experienced "exit" to the extent that Ireland has.

In the 19th century, starvation (the Great Famine) added to emigration as the most important factor behind this demographic experience. In the 20th century, emigration was the overarching reason. Table 4.5 provides comparative figures. Throughout the whole 19th century, Ireland's double digit emigration (per thousand of total population) contrasts markedly with all the other countries. Even in the peak decade of Scandinavian emigration (the 1880s), Ireland had nearly double the emigration of Norway. Only in the first decade of the 20th century did Norway reach the Irish level. In the 1911-40 period Ireland was still well above all the others, although emigration from small European countries as such faltered in this period, especially during the 1930s world depression. In the 1950s, Irish emigration reached new heights (Table 12.7), declining to more moderate levels in the 1960s. Then, in the 1970s, Ireland experienced a sudden inflow of people, reaching a positive population growth for the first time since before the famine. In the 1980s, however, Irish emigration recurred once more.

Given our research problem, it seems relevant to ask whether social science has addressed the relationship between economic growth/transformation and emigration. Kieran Kennedy claims that social science has not provided firm generalisations of the relationship between population growth and economic development.[108] In demographic terms, a declining population may result from high mortality, large-scale emigration, or low fertility. Ireland's population implosion belongs mainly to the second category, while a number of historical cases belong to the first one. The one that has been most discussed, however, is the third one, since low fertility is a trend which haunts many of the most developed countries in the world today. It has been pointed out that this concern was visible even in the interwar

TABLE 4.4
Population Growth

	AUT	BEL	DK	FIN	IRL	NI	NL	NOR	SW	CH	P	SP
1840		4337	1289	1446	8175		2861	1328	3939	2190	3737	15455
1910	6648	7424	2757	2943	4390		5104	2392	5522	3753	5958	19927
%		171	214	204	537		178	180	140	171	159	129
1925	6535	7406	3435	3148	2972	1257	6865	2650	6054	3880	6087	21303
1960	7009	9190	4585	4446	2884	1485	11556	3591	7767	5429	8889	30431
%	107	124	133	141	97	118	168	136	128	140	146	143

Note: All numbers are thousands. IRL & NI (Ireland/Northern Ireland): 1841-1911, 1926-1966; AUT (REP) (Austria): 1910, 1923-1961; BEL (Belgium): 1846-1910, 1920-1961; DK (Denmark): 1840-1911, 1925-1960; FIN (Finland): 1840-1910, 1920-1960; NL (The Netherlands): 1839-1909, 1920-1960; NOR (Norway): 1845-1910, 1920-1960; SW (Sweden): 1840-1910, 1925-1965; CH (Switzerland): 1837-1910, 1920-1960; P (Pourtugal): 1841-1911, 1920-1960; SP (Spain): 1857-1910, 1920-1960.

Source: National censuses, reported in B. R. Mitchell, *European Historical Statistics* London 1975, Table B1.

TABLE 4.5

Emigration

TOTAL NUMBERS PER DECADE (THOUSANDS)

	AUT/H	BEL	DK	FIN	IRL	NL	NOR	SW	CH
1800:									
51-60	31	1	-	-	1162.0	16	36	17	6
61-70	40	2	8	-	849.9	20	98	122	15
71-80	46	2	39	-	623.9	17	85	103	36
81-90	248	21	82	26	866.1	52	187	327	85
91-00	440	16	51	59	433.4	24	95	205	35
1900:									
01-10	1111	30	73	159	346.1	28	191	324	37
11-20	418	21	52	67	150.8	22	62	86	31
21-30	61	33	64	73	181.5	32	87	107	50
31-40	11	20	100	3	21.4	4	6	8	47
41-50	-	29	38	7	-	75	10	23	18
51-60	53	109	68	32	408.8	341	25	43	23

Source: B.R. Mitchell, *European Historical Statistics 1750-1970*, London 1975, Table B * and 9. Ireland 1951-60, see source to next table.

FREQUENCY OF EMIGRATION

	AUT/H	BEL	DK	FIN	IRL	NL	NOR	SW	CH
1800:									
51-60	0.17	0.02	-	-	18.82	0.50	2.43	0.47	0.24
61-70	0.21	0.04	0.47	-	15.16	0.58	5.80	2.98	0.58
71-80	0.22	0.04	0.80	0.03	11.79	0.45	4.71	2.36	1.31
81-90	1.09	0.36	3.95	1.18	17.53	1.21	9.62	7.01	2.94
91-00	1.79	0.25	2.24	2.35	9.45	0.50	4.56	4.19	1.12
1900:									
01-10	4.11	0.42	2.84	5.52	7.82	0.50	8.27	6.14	1.05
11-20	1.45	0.28	1.84	2.08	4.86	0.36	2.53	1.53	0.81
21-30	0.93	0.43	1.87	2.08	6.08	0.43	3.17	1.77	1.28
31-40	0.16	0.24	2.71	0.08	0.72	0.05	0.21	0.13	1.13
41-50	-	0.35	0.93	0.18	-	0.81	0.32	0.34	0.40
51-60	0.76	1.23	1.53	0.76	14.10	3.17	0.73	0.59	0.46

Note: The frequency of emigration is yearly emigration per thousand of the population. In the table above, the number of emigrants per decade has been calculated as the percentage of the total population at mid-year 1855, 1865, 1875, 1885, 1895, 1905, 1913, 1925, 1935, 1946 and 1955 respectively, and this percentage has been divided by 10 to approximate yearly emigration.

Source: Calculated from emigration statistics in B. R. Mitchell, *European Historical Statistics 1750-1970*, London 1975, Table B 8 (emigration per decade, original source: W. Woodruff, *Impact of Western Man*, London 1966) and Table B 9 (Ireland), and from population statistics in P. Flora, et. al. (ed.), *State, Economy, and Society in Western Europe 1815-1975*, Frankfurt a.M./New York, 1987, Vol. 2, Ch. 1 (except for Switzerland 1855 and 1865, and Ireland 1855-1905, from Mitchell, *European Historical Statistics*, Table B1). The 1871-80 figure for Finland is taken from Andres A. Svalestuen, "Nordisk emigrasjon en komparativ oversikt", in *Emigrationen fra Norden indtil 1. Verdenskrig*, Rapporter til Det Nordiske Historikermøde i København 1971, Copenhagen 1971, p. 14. (Figures in this source for other of our countries generally fit our data.) The 1951-60 figure for Ireland is from NESC, *The Economic and Social Implications of Emigration*, Report No. 90, Dublin, March 1990, Table 2.4. (Figures for Ireland 1871-1911 in this source, generally fit our data.)

period.[109] At that time, it formed one of the bases for the "stagnation thesis", which motivated the Keynesians to propose state-interventionist schemes. Keynes himself argued against Malthusianism. stating that "a phase of declining population will make it immensely more difficult than before to maintain prosperity", since (among other things) a breakdown in effective demand would spur unemployment. Thus, he proposed "policies of increasing consumption by a more equal distribution of incomes and by forcing down the rate of interest".[110] In the 1960s, research on these matters was carried out by the U.N. However, it does not seem that the results reported from these projects have much relevance for the specific Irish case.[111] As for Table 4.4, we have added the two cases of Portugal (P) and Spain (SP), to emphasise that a relatively high growth of population is no key to economic development and transformation.

The analysis of the effects of emigration can certainly benefit from the famous "exit/voice" polarity, launched by Albert O. Hirschman: exit and voice are defined as different "responses to decline" in all kinds of organisations (e.g. firms or states).[112] "Loyalty" means that an actor prefers to "voice" protest against the dismal state of affairs, rather than to "exit" from the organisation. In his book, Hirschman was mainly preoccupied by the introduction of the "voice" option into economists' mainly "exit" oriented market models, but in later contributions, he also discussed exit (e.g. emigration) from states.[113] Inspired by Hirschman, Stein Rokkan introduced exit and voice as notions in his comparative studies of the development of European party systems.

Emigration has been discussed within Rokkan's framework by Stein Kuhnle.[114] He challenges Hirschman's thesis that, since large-scale emigration means that many oppositional and potentially revolutionary persons disappear, elites of countries with high emigration may accept democratisation for the remaining masses. In this context, Kuhnle briefly questions Hirschman's view that emigration was mostly beneficial for the country in question: "for *whom* did out-migration alleviate problems? Naturally for the people who took the ships and for the responsible political leaders of the sending states. But necessarily for the large population remaining ashore? Could this population have gained greater welfare and progress *earlier* had many reformers and revolutionaries not migrated? Maybe out-migration alleviated problems for most groups in the short run, but the long term effect for the political development of the sending states might possibly be questioned".[115]

But in fact, Kuhnle's empirical analysis also ends up emphasising positive effects. He is partly able to confirm the hypothesis that high-emigration states developed welfare states earlier than low-emigration states. However, in the case of Ireland one could restate his doubts.

Many Irish scholars have certainly questioned the long term benefits of emigration. In fact, if there is one candidate for a mono-causal explanation of Ireland's problems, it is probably emigration. Even an unsystematic selection of statements makes this abundantly clear. J. J. Lee, discussing Irish "character", argues that the Irish "socio-economic system" is one that "decreed mass emigration and national population decline as pre-requisites for the comfort of the survivors".[116] He points

out that the "Irish way of life" resulted in a "personality type" that is often dubbed "the begrudger": "The begrudger mentality did derive fairly rationally from a mercantilist concept of the size of the status cake. The size of that cake was more or less fixed in more or less stagnating communities and in small institutions. In a stunted society, one man's gain did tend to be another man's loss. Winners could flourish only at the expense of losers. Status depended not only on rising oneself, but on preventing others from rising. For many, keeping the other fellow down offered the surest defence of their own position."[117]

Raymond Crotty points to a "rigorous, systematic selection" over six generations, and argues that it "is at least conceivable" that it has "altered the genetic character of the resulting population. It is conceivable that the Irish population now is genetically more cautious, less disposed to change, than the population of 1820. Neither can it be discounted that, six generations on, Ireland now has a 'fat cat' population, with a genetically induced propensity for conservative caution".[118] And: "Along with that half of population there left also the political, economic, social and intellectual pressures that operate in, and are a fundamental part of, normal societies".[119] The strength of Irish unions, he claims, is also a function of the population implosion. Since "Irish hard core unemployment" comprises those who were unwilling to emigrate, unions never cared much for them.[120] Finally, the political situation in Ireland is also crucially influenced by emigration. Thus, Irish politics are said to be marked by very personal patron/client relationships and are "exceptionally dynastic".[121]

Such statements may best be seen as provocations intended to stir up the domestic debate. Causes and effects become circular in such accounts. The real challenge is to include emigration in a broader study of the Irish pattern of development. The cumulative nature of the processes is clear once we understand that both unemployment and emigration may be seen as "symptoms of a failure to mobilise productive resources fully".[122]

Unfortunately from a comparative perspective, it is hard to find country cases that could serve as parallels to Ireland. Within European nations, however, there have been regions which have experienced a similar scale of "exit". For instance, as Kuhnle points out, "exit" was analysed in case studies of Southern Italy long before Hirschman launched his framework.[123] A more recent study by Claudio Vedovato[124] quotes an unpublished manuscript in which Hirschman makes the following statement: "exit-migration deprives the geographical unit which is left behind (countryside, city, nation) of many of the more activist residents, including potential leaders, reformers, or revolutionaries. Exit weakens voice and reduces, therefore, the prospects for advance, reform, or revolution in the area that is being left; it also may cause a process of cumulative decline to take hold there".[125] Cumulative processes involving emigration and a contracting domestic demand may be crucial factors in explaining the dismal development of indigenous Irish manufacturing industry.

Chapter 3 presented our "dependent" variable, economic growth. Chapter 2 provided a general view of "institutions", since the main task of the project is to investigate the impact of institutions on economic growth. Earlier sections provided different specifications, providing typologies of institutions (esp. Table 4.3) and various middle range theories relevant to our investigation. These sections contain the main concepts and typologies that will be used in the study.

At least one more typology is needed, however, namely a *periodisation of the world economic periods*. Such a periodisation has already been hinted at. Any study of small nations must of course always remember that these are integrated into a larger world economic structure, one which changes and which the small countries cannot really influence.

4.4.1 Proto-industry

Recent studies of European proto-industrialisation in the 17th and 18th century have challenged the standard notion that industrial capitalism emerged from an agricultural society.

Proto-industrialisation has been defined as a rural phenomenon, influencing the relationship between town and country in the early modern age. Production was "carried on as a subsidiary occupation of rural dwellers not able to feed themselves from their own soil, and the demand for supplementary foodstuffs of those employed in domestic industry precipitates commercialisation of the agricultural operations of other farmers and other regions."[126] Proto-industrialisation must be distinguished from industrialisation, since neither the labour process, nor the techniques of labour supervision changed much: "the big alterations occurred in the connections among producing units and in the relations between the suppliers of capital and the suppliers of labour".[127]

Proto-industrialisation implies widespread industrial production in villages and small towns, implying considerable proletarianisation (strata dependent on wages) before the population revolution of the 19th century: cottagers, paupers, vagrants, cotters, gardeners. Main sectors were textiles (wool, linen), wood and iron. Milward and Saul have described 18th century industrialisation as "part-time employment of the rural labour force in manufacturing activities carried on in their own homes".[128] They mention spinning and weaving (of linen, wool or newfangled cotton), manufacture of iron products, toys and watches. For Tilly, the main point is that there was industrialisation before 1800, mainly based on rural labour. Proto-industrialisation showed that "until quite recently the major alterations in the relations of industrial production occurred in the countryside, as capitalists sought out cheap, docile, relatively immobile labour, and moved their capital in response to the availability of that labour".[129] 18th century Europe consisted of a series of regions, each with a dominant city, subordinate cities, and an agricultural hinterland. Some of these regions involved industrial activities in the rural hinterland, and the products were brought to the cities by petty merchants. By relying on this rural labour force, the capitalist did not need to pay the full reproduction costs of labour. The

rural labourers would outcompete expensive urban craftsman, depending fully on the urban market for food, but more capital intensive branches of production would remain and expand in cities. Port cities supplied the rural products to international trade. Hamburg, for instance, would supply linen products from Silesia, Saxony, Westfalia, Bohemia, Moravia, Swabia, Styria and Switzerland, as well as from closer areas.

Mendels proposed the following model of a process of proto-industrialisation: given certain conditions, merchants in a region would push small farmers to produce goods for external markets. Family strategies would be reoriented: further reliance on paid employment emerged as an alternative to inheritance of land or on a position in a restricted craft. With workers shifting between agriculture and other occupations, land productivity would rise. In good times, nuptiality and marital fertility may rise, without declining proportionately in bad times. Thus, population would increase, and a "vulnerable, miserable, and industrially-disciplined labour force" was there, ready to be employed in larger, capital-intensive units of production.[130]

Charles Tilly notes that the evidence for such a model is mixed.[131] Firmly opposing the "common-sense sociology of the nineteenth century", namely the view that industrialisation follows a straight line from agriculture via handicraft to full-scale industry,[132] Tilly is suspicious of attempts at just adding proto-industry as a missing link in the transition from agriculture to industry, or from "Gemeinschaft" to "Gesellschaft". Instead, he establishes a typology of three different "transitions to capitalism", using two dimensions: "scale of producing units", and "extent of manufacturing". The first type is the "industrial revolution", involving growth of both. This type was "quite rare" in Europe, "confined mainly to places in which coal deposits made rapid large-scale industrialisation attractive to capitalists". The second type is proto-industrialisation followed by deindustrialisation. This was the most frequent case, with areas becoming more agricultural (Ireland is a case here). The third type, and the most common way in which concentrated industry emerged, was the path from proto-industrialisation to concentration.[133]

This perspective also allows Tilly to look at the interaction between proto-industrialisation, industrialisation and deindustrialisation. In 1750, Tilly holds, we could well imagine that cities would remain sites of rentiers and traders, while the proletariat would swell in the countryside. But instead, deindustrialisation followed. Coining the phrase "After proto-industrialisation, deindustrialisation. After proletarianisation, peasantisation", Tilly quotes the Swiss example: "an eighteenth-century explosion of textile production into the previously poor, sparsely settled and agricultural hill country, followed by a nineteenth-century reflux to Zurich and nearby towns".[134] Wage-workers as well as smallholders, sharecroppers, and petty tenants, deserted the countryside, leaving the larger farmers (owners and leaseholders) behind.[135] Tilly describes this as an "implosion" of industrial production into cities, and the development of a radical separation of industry from agriculture. Tilly concludes that "most European areas of proto-industrial production entered the twentieth century more purely agricultural than they had been for centuries before, and with the family farm the dominant setting for agricultural production".[136]

TABLE 4.6

Patterns of Deindustrialisation According to Tilly

	LOCAL	WITHIN REGION	INTER-REGIONAL
WITHIN INDUSTRY	Competition	Reorganisation	Runaway shop
BETWEEN INDUSTRIES	Change in Specialty	Reinvestment	Flight

Tilly quotes a number of examples of deindustrialisation as a process of redistribution of capital and labour: "a deliberate movement of capital away from unprofitable industries, followed inevitably by a decline in employment, and often capped by the near-disappearance of manufacturing as an economic base".[137] Deindustrialisation may take place locally, within a region or inter-regionally. Making a six-fold table (Table 4.6), Tilly notes that it can also take place within or between industries.

In Part IV we shall use this typology in the analysis of Irish 19th century deindustrialisation.

4.4.2 Phases of Industrial Capitalism

Presenting the neo-Schumpeterian perspective in Chapter 4.1, we mentioned a periodisation of world economic development based on leading sectors. In the Schumpeterian tradition, new general technologies are the basis of world economic long waves. Interpreted as a periodisation, this approach is quite helpful.[138] As a further modification, Ulrich Menzel has suggested a periodisation which is specifically related to the crises encountered by countries in a catch up position.[139] It highlights the historically changing "pressure for peripheralisation",[140] meaning that the timing of a country's development relative to world economic phases may be important. The table relates this scheme to a periodisation based on long cycles (Kondratieff long waves —K's for short).

TABLE 4.7

Long Waves and Periods of Crisis for Latecomers

	K1		K2		K3		K4	
Long waves	A	B	A	B	A	B	A	B
	1790-1814	1814-1845	1845-1872	1872-1892	1892-1929	1929-1942	1942-1973	1973-
Menzel's typology	First Crisis			Second Crisis		Third Crisis		Fourth Crisis

Note: Kondratieff chronology follows J. J. van Duijn, *The Long Wave in Economic Life*, London 1984. Years are approximations. The A-phase covers what Schumpeter termed the Prosperity and Recession phases, while B covers the Depression and Recovery phases.

The first crisis relates to the industrial revolution, the upturn phase of K1: cotton spinning was mechanised 1785-90, cotton weaving just after the end of the Napoleonic war. After the 1790s, the puddling process and rolling replaced

hammering in iron foundries, steam engines replaced waterwheels or human/animal power. This gave Britain enormous advantages in productivity and cost. Cotton cloth made in Britain flooded world markets, replacing woollens and linens. Iron began to replace wood as a building and engineering material. Britain was also a world leader in machinery production, and this economic superiority was part of a wider military and political superiority. The other large countries reacted to this pressure by a policy of delinking, supported by political and even militaristic expansion (cf. the French wars). Smaller countries, on the other hand, experienced a major competitive pressure against their cottage industries. They became trapped in the geo-political struggle between the large countries (cf. the redrawing of the European map after Napoleon's defeat by England). Clearly, this "peripheralisation pressure" particularly hit small countries with a large textile proto-industry.

The second crisis relates to the downturn of K2, starting at the end of the 1870s. It was a consequence of the revolutions in transport and preservation technology. Western Europe had seen railroad development in the 1850s, Eastern Europe in the 1860s and 70s. Iron steamships would replace wooden ships from the 1880s. The refrigeration process was invented in 1882, and an international capacity of cold storage facilities and refrigerated ships was built up. The prices of a number of traditional staples — grain, cattle, timber, coal, minerals — declined due to cheaper transport. Menzel refers to Lewis' argument that only at this time did a real international division of labour emerge, replacing "the former pseudo-world market which connected only islands and coastal areas".[141] Staples could be brought in from virgin productive areas far away and far inland. "The loss of the protective capacity of long distances was disastrous for the whole of North-, West- and South European agriculture."[142] The response was a wave of protectionism, started off by the German tariffs of 1879. Nationalism and conservatism soared in the large countries. The "marriage of iron and rye" in Germany is famous. Small countries faced high tariff walls, and increasing competition due to the cheap staple imports.

The third crisis is the downturn phase of K3. This crisis cannot be linked to major technological dynamics, but had a lot to do with the failure to settle European international affairs after World War I. In any case, as Menzel points out, world trade contracted much more than GNP, and protectionism (increasing duties, devaluations, discriminatory trade agreements, etc.) escalated. This of course also created problems for small open economies.

The period starting from the oil shock of the 1970s can surely be seen as yet another crisis, linked to the next downturn, that of the K4. This present crisis deserves its own section.

4.5 THE CRISIS OF THE 1970s AND 1980s

A closer look at the most recent crisis period provides a background for the developments of the 1970s and 1980s. The economic policy response to these problems will be analysed in Part V.

The first signs of problems could be traced at the international level. The late 1960s saw a dollar crisis and a destabilisation of international credit markets, leading to interest rate fluctuations in 1973-4. In 1979/80, changes in U.S. monetary policies led to a major increase in international interest rates. In the early 1970s, successful formation of raw materials cartels (and a possible exhaustion of existing sources) produced a raw materials boom, with changes in relative prices and income transfers. The most famous case was of course the oil price explosion (1973/4). The second rise in the oil price was connected to the outbreak of the Iraq/Iran war 1979/80. Then in 1985, the oil price slumped (see also Figure 13.1).

The crisis of industrial production started in 1974. Unlike the 1930s, there was not a downward spiral with unemployment and deflation, but *stagflation*, that is simultaneous inflation and unemployment. Throughout the 1970s, a number of changes in the international division of labour were also recognised, in particular the rise of the newly industrialised countries of South-East Asia, which became very competitive in labour-intensive products.[143]

Throughout this long period of stagnation, more basic technological and social changes have evolved. In the following section, we shall survey some of these changes.

As for technologies, one of the driving forces behind the Western European boom of the 1950s and 1960s was the diffusion of technologies and work organisation methods developed within the U.S. auto-industrial complex. Since the early 1970s, however, a new paradigm has emerged, challenging the old one.[144] Many other countries besides the U.S. (and Japan in particular) rank as sources of new technologies. A global restructuring race is going on between all developed states. They struggle to promote industrial activities employing the most recent core technologies. These technologies are the "core" of the new techno-economic paradigm, which means that they generate a large number of new products and production processes, they are applicable in most sectors of the economy, and they promise to overcome the obstacles created by the earlier "Fordist" model of economic growth.[145]

There are at present two clusters of core technologies, microelectronics and biotechnology, with "technology webs" around them. Concerning microelectronics, six product areas may be discerned: chips or semiconductors are sometimes dubbed the "crude oil of the 1980s" (pointing back to the importance of cheap oil as one key factor in the earlier postwar Fordist paradigm). Since the early 1970s, the power of these chips has increased steadily, the number of components on a chip has been doubling every two years. New and more powerful chips, as well as new software and advances in artificial intelligence are the basis of the so-called "fifth generation computers", which will work with parallel information circuits, not only with numbers, but also performing symbolic inference, that is "reasoning". While chips may be the crude oil, telecommunications equipment may be seen as the "nervous system" of the information society (loosely parallel to the system of highways and air-traffic routes of the earlier "auto-industrial society"). Of particular importance to manufacturing industry is the development of third generation industrial robots, which have been made "intelligent" by means of powerful processing units, a vision system and tactile sensitivity. The two final product fields are computer aided design and software development.[146]

There is an increasing convergence between the different areas of core technologies, promising systems integration between future productive and administrative processes. One futuristic area of convergence is the "biochip", but there is also the integration between telecommunications and computers, CAD and robots, robots and microprocessors. Consequently, modern large firms will have to master different technologies at the same time. This blurs traditional sectoral boundaries. Firms face higher r&d expenditures for latest generations of core products. Thus, they need growing worldwide sales, and they hurry to move into the most profitable applications.[147] As core technologies become integrated, product and process innovations become closely linked. This spurs new patterns of mergers and collaboration between firms.

The new technologies promise to solve a number of problems implied by the earlier growth model: they save labour, as one chip can replace many mechanical parts. Thus, energy costs are also reduced. Robots also obviously replace labour. Repair becomes cheaper and faster as one only needs to replace modules, and many of the new systems are even self-diagnosing and self-repairing. New technologies also involve savings on raw materials and inventories, as well as less pollution.[148]

Van Tulder and Junne emphasise that new technologies generate more flexibility. Flexible automation involves reprogramming of capital equipment, which allows small batch production, and smaller average plant size, since minimum production volume is lower. Modern telecommunications facilities allow quick reactions to a changing environment. CAD and CAM (Computer aided manufacturing) reduce the development time of products. Linked with numerical control machines, they also reduce manufacturing time. All this makes it possible to adapt more flexibly to consumer demand, as a broader assortment of similar products can be produced. Biotechnology and new materials allow flexible changes in raw materials, due to increasing substitutability.[149]

According to Piore and Sabel, the crisis of the 1970s, broke the spell of the mass production system.[150] This "second industrial divide" promises a future of decentralised and flexible specialisation. Rather than huge, inert assemblies of special machinery capable of producing large series of one product, the factory uses reprogrammable robots, CAD/CAM and feedbacks (through telecommunications) of market information, producing smaller series, adjusting very rapidly to market signals.

Van Tulder & Junne are more pessimistic as to the prospects for employment creation and decentralisation. They hold that the social impact of the spread of the present core technologies will be persistent unemployment problems in the long run and a polarisation between skilled personnel being permanently re-educated and low- or unskilled workers. Production will be centralised in large towns because the educated white collar worker prefers to live in such places.

During the Golden Age, European firms benefitted from a "follower strategy", imitating products and innovations which already had proven successful, thus spending less on r&d than the pioneer (U.S.) firms. Since the 1970s, such a strategy has become more risky. Production technology is no longer standardised and stable.

International competition is fiercer, growth of demand is sluggish and the dangers of tariff protection are ever present. Thus, companies cannot wait too long to apply new technologies. These developments shorten the life-cycle of products considerably. When the life cycle was longer, a follower could be sure to offer a similar cheaper product somewhat later, but with shorter life cycles, the technology gap may develop cumulatively: when the imitated product is available, the leader has already developed a new one.

Such a mechanism may explain why, even in a peaceful period, a new technology gap may develop. Freeman holds that during the 1970s Japan developed a new technology gap towards the rest of the world.[151] Technology gaps are not dependent only on technology as such. They are gaps in the ability to commercialise, use and manufacture products by means of new technologies.[152] The Japanese model has replaced the U.S. mass production model as the leading star for imitating entrepreneurs. Thus, many of the strategies to create more flexibility may just as well be called strategies of "Japanisation".[153]

As for the wage nexus, an increasing share of the labour force became wage earners throughout the Golden Age. Their income was determined by collective agreements, which also implied bargaining over working time and working conditions. Wages became indexed to productivity. As economic problems multiplied in the 1970s and 1980s, this institutional development was blamed as a main feature of institutional inertia. Boyer[154] singles out four definitions of labour market flexibility, all launched as ways out of the old system. One definition emphasises the importance of work groups, which enable workers to move from one job to another. Another definition argues that to achieve flexibility, legal constraints governing the contract of employment must be relaxed. The ideal type would be a wage contract amendable on a day to day basis, meaning that all employment would be temporary employment. (Such a definition is not always compatible with the first one, as the functioning of work groups requires a stable employment contract.) The third definition is the neoclassical one, namely that real wages should be adapted to the economic situation facing each company or the labour market as a whole. Basically, this is the idea that supply and demand in the labour market always create an equilibrium and that all unemployment is voluntary. (Since workers either do not want to sell their labour power at the current price, or they search for employment, maximising their income over their lifetime.) The fourth definition emphasises the burden of social and fiscal payments as a main obstruction of flexibility. If state intervention was reduced, the difference between the workers' take home pay and the total wage cost of the company could be reduced. These definitions indicate ongoing strategies to increase the flexibility of labour. The restructuring of the wage relation is influenced both by technical changes and by the permanent struggle between labour and capital, which at present takes the form of an employers' offensive.

It has been claimed that the attack on job security by out-sourcing, transfers of production to the third world and increasing automation has prevailed in the U.S., Britain and France, reflecting a "flexible-liberal" model. In contrast to this, a "social

contract" approach has been pursued in Japan, Scandinavia and in regions of Germany and Italy. This approach involves appeals to workers, collectively (as in Sweden) or individually (Japan), to join the search for productivity and quality. Stronger university-enterprise ties are also part of this model, which has been dubbed "negotiated involvement".[155]

Surveying trends in management practice, Boyer in a recent study for the OECD, however, found that there are signs of convergence towards a new model in many countries.[156] He presents this model as a response to the problems that emerged as the standard U.S. mass production (or "Fordist") management system faced the crisis of the 1970s and 1980s.

A main slogan for the new model is "global optimisation of the whole productive flow". Actual management practice in the auto-industry during the 1960s progressively disregarded this old goal of scientific management. Instead large-scale rationalisation was imposed to counteract lack of discipline on the part of workers. But this led to under-utilisation of machinery. As for the relationship to the workforce, the Fordist model implied a division and specialisation of tasks. In the seventies, this gave rise to turnover problems, and rigidities related to increasing control and monitoring costs. The new model leans more towards the model of group work, or at least allocation of more responsibility to each worker. The hierarchy of skills is redefined, reducing the layers of middle management. Production personnel, for instance, do an increasing share of the programming of NC-machines. The Fordist model actually minimised the general education required and did not emphasise on-the-job training. Only a small layer of technicians, engineers and managers had a high degree of general education. The new core technologies, however, make both a broader general education, as well as effective and regular on-the-job training, very important. The number of low skilled jobs is declining. Furthermore, the Fordist model implied hierarchical control and wage-incentives only. This did not match the requirements of the younger generations, who were better educated and more anti-authoritarian. Thus, "human resources policies" became more important, and other incentives, linked to participation, became more important to bolster positive support for the firm. The Fordist model was centred on collective agreements as temporary armistices. The need for commitment from workers pushes firms towards either wage formation which rewards individual commitment, or the Japanese type "quasi job security".

The new model also aims at full integration of research, development and production, while the Fordist model separated design from the set-up of machinery and the organisation of the work process, thus creating difficult lags. The Fordist model centralised all decisions about production in one separate department of the large firm, but the experience of slow response to rapid change in the 1970s and 1980s, led to a decentralisation: smaller and less hierarchical units now make more decisions about production. As for relations to other firms, the Fordist model implied vertical integration, with a large number of subcontractors. But with the more radical technological changes of the 1970s and 1980s, not even large firms could fully mobilise the competence needed (the new challenge of combining information processing and telecommunication was already mentioned above). Thus, networking and joint ventures became more important as the search both for specialisation and coordination intensifies. The new model also makes the relationship to subcontractors more permanent (multi-year) and cooperative, to promote joint innovation.

The Fordist model was based on a given set of consumption norms, which were only followed indirectly via marketing studies. In the 1970s and 1980s, however, demand became more specialised, tastes changed more rapidly, and it became more difficult to anticipate preferences. The new model therefore tries to establish closer links between producers and users. R & D, production and marketing are integrated as closely as possible. In the computer sector, for instance, feedback from final users is crucially important. In fact, as demand growth was much less stable in the 1970s and 1980s, a rapid response to changes became imperative. In the 1960s, subcontractors sheltered the assembly line from the mild business cycle movements. In the 1970s and 1980s, however, it was crucial that the core production process itself could be regulated with reference to external fluctuations. Reprogrammable machine-tools were the technical side of this reorganisation. The new model also emphasises the "zero defect objective" at each stage of production, improving quality without escalating costs. This differs from the Fordist model, which mainly went for standardised products at low costs. Top quality luxury goods were a question of craft production. But in the auto industry, Japanese, German and Swedish producers challenged the US auto-industry, producing more durable, fuel-efficient and reliable cars. Smaller runs were possible thanks to reprogrammable equipment.

Many features of the new model can be found in Japan. It is also easy to see that the new core technologies play a prominent role. But there is also a wider room for manoeuvre, especially related to labour relations. Boyer specifically asks whether the new model is only a Japanese one, with cultural conditions that may be impossible to emulate. He concludes, however, that a country like Sweden also contains many aspects of the model.[157]

We shall finally turn to the realm of money and finance. Here, a number of structural changes have taken place which all may seem to be enhancing flexibility. There was a change from fixed to "flexible" exchange rates in the early 1970s. Furthermore, short term capital movements have increased enormously, a feature which would increase the flexibility of banks since the off-shore currency markets are inter-bank markets. In these new internationalised money markets, regulation and state intervention are minimised, since currencies are traded outside their country of origin (cf. the term "Euro-dollar market"). These international developments have spurred financial deregulation at the national level. But the evaluation of these changes by economists differ. A group of "financial instability" theorists claim that these trends have increased uncertainty, thus spurring a wave of financial innovations and short term capital movements just to hedge against this uncertainty. They also claim that these capital movements significantly restrain the freedom of action of national economic policies.[158]

Van Tulder and Junne claim that many aspects of present deregulation policies must be understood in relation to new technologies: "national regulations often function as non-tariff barriers to protect national industry. Technical, health, security or environmental standards can be used to block the access of foreign competitors to national markets. In a period of very fast technological change, however, many of these protective measures can become counterproductive. They can slow down technological development by domestic firms and reduce their competitiveness in the long run. They may not only keep foreign competitors away from the national market, but also impede national firms wishing to expand abroad. Expansion abroad, however, can be necessary in order to reach the level of sales which would be needed to finance up-to-date research during the short period that demand for a new product is booming. State activities to support national industry at present may thus take the opposite direction (deregulation instead of regulation) from the 1970s".[159] Thus they claim that the present restructuring race — between the U.S., Japan and Western Europe — also involves a *subsidies race* (with national governments and the EC offering r&d support), a *cooperation race* (in which a company's choice of a partner may be as important as its choice of product), and a *deregulation race* (in which anti-trust legislation is watered out).

The socio-technical forces behind the change in economic policies are important to bear in mind. But the convergence of a new set of policy routines is certainly also a political process. Boyer traces a recent "new orthodoxy" in labour market questions. Most expert organisations, advisers, and mainstream economists argue that European labour markets are less flexibile than U.S. and Japanese labour markets in the 1980s. Their policy proposals are: "1. to reduce wages until an adequate distribution of income is recorded; 2. to restrict budgetary and monetary policy, to complement this new lowered wage; 3. to promote, over the medium to long term, labour relations favouring restoration of a competitive labour market".[160]

The political background of this new orthodoxy can be related both to the international and the national level. As for the international background, the increasing constraint on national states by international short term capital movements is clearly linked to decisions and non-decisions by the U.S., which retains its monetary hegemony and finances its deficits by issuing the key currency of the world economy, the dollar.[161]

The above discussion of techno-economic flexibility, flexibility in the relations between firms, in the wage relation/management practice and in the financial sphere, refers to ongoing processes of institutional change. These processes have decisively influenced the West European states. The trend in economic policies has everywhere been towards liberalisation and deregulation. But it is clear that the way in which a country adapts to international influences depends on a number of factors which do not stem from international diffusion: these are both geo-economic factors and institutional factors pertaining to the constitutional history and the party system of the country under consideration. The notions needed to study this side of the process were presented in earlier sections.

4.6 OUTLINE OF THE COMPARATIVE STUDY

The rest of this report is organised as follows. *Part III* presents the five contrast countries — Austria, Denmark, Finland, Sweden and Switzerland. Some of the comparative characteristics of their development and postwar "models" are sketched. At times, one of the contrast cases is used in more focused comparisons: Sweden had relatively large emigration, but in the early 20th century, there was a clear change from an exit to a voice strategy on the part of Swedish labour. Such a change did not occur in Ireland, where exit continued to be the dominant strategy. Denmark and Ireland are both agricultural exporters — so how is it that Denmark adjusted in a very different way compared to Ireland? As for Finland, it is interesting to compare both with reference to civil war and to its very rapid transcendence of industrial underdevelopment. *Part IV* considers the Irish experience in some detail. Finally, *Part V* deals with the problems of economic policy adjustment in the period 1973-1990 in all six countries.

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1. During the Meji period (1868-1912), the Japanese deliberately emulated Western organisations in all crucial areas of society (e.g. military organisation, communications system, banking system, legal system, factories, political parties, newspapers, chambers of commerce, clubs, stock exchanges, professional societies). Cf. D. Eleanor Westney, *Imitation and Innovation. The Transfer of Western Organisational Patterns to Meiji Japan*. Cambridge, Mass. 1987, Introduction & Ch.1.
2. Joseph J. Lee, *Ireland 1912-1985*. Cambridge 1989, p. 521.
3. *ibid*, p. 514f.
4. See Table 13.2 below and the comments in that context.
5. Lee, *op. cit.*, p. 520.
6. Joseph Lee, "Ireland Today Poor Performance from a Talented People?", *Irish Times*, Dec. 1989.
7. Finland and Denmark may be seen as particularly similar to Ireland: Denmark as an agroindustrial exporter, and Finland, due to its recent urbanisation, national independence, and industrialisation, as well as a recently developed corporatism. Switzerland is peculiar due to its decentralised political/administrative system, low level of centralised interest group organisation, and limited welfare state. But it has a high level of consensus, a strong commitment to economic openness, and a highly efficient industrial sector.
8. Norway, the native country of the consultant, is not included, mainly because its endowment with oil as a natural resource sets it too far apart from Ireland.
9. Quoting NESC's project description.
10. Shmuel N. Eisenstadt, "Social Institutions", in D. L. Sills, editor, *International Encyclopedia of the Social Sciences*, London & New York 1968, Vol. 14, p. 410.
11. Walter Korpi, "Political Democracy as a Threat to Capitalism: A Comparison between Pluralism, Neo-Corporatism and a Power Resource Perspective", in Joachim Matthes, editor, *Krise der Arbeitsgesellschaft? Verhandlungen des 21. Deutschen Soziologentages in Bamberg 1982*, Frankfurt/New York 1983, p. 74.
12. Björn Johnson & Bengt-Åke Lundvall, "Limits of the Pure Market Economy", in Jan Bohlin, et. al., editors, *Samhällsvetenskap, ekonomi och historia. Festskrift til Lars Herlitz*, Gothenburg 1989, p. 93.
13. *ibid*, p. 92 f.
14. Björn Johnson, "An Institutional Approach to the Small-Country Problem", in Christopher Freeman and Bengt-Åke Lundvall, editors, *Small Countries Facing the Technological Revolution*, London 1988, p. 281.
15. *ibid*, p. 281f.
16. *ibid*, p. 281f.
17. Johnson sees this as a challenge to two other approaches regarding the relationship between institutional and technological change. The first view seems to be implied in many neo-classical models: They claim that there is an immediate coherence and correspondance: changes in both technology and institutions occur quickly and continuously. The other view is that of classical institutionalism, often dubbed the theory of "institutional inertia", which sees technological change only as the dynamic element. Institutions also change, but not independent of technology. Thus, the development of more efficient institutions is a slow, long-run process. According to such a view "differences in growth rates over time can thus be a result of differences in 'fitness' between technology and institutions. Development is the result of a recurrent conflict between technological dynamism and institutional inertia." Johnson, *ibid*, p.283.
18. *ibid*, p. 285.
19. *ibid*, p. 287.

... discusses a possible conflict between the signpost function and the requirements of flexibility, cf. Johnson, *ibid*, p. 287-9. Flexibility in terms of the pure market model is flexibility in allocating scarce resources. Such a flexibility is immediately present in the models of neo-classical economics. But, as Johnson and Lundvall point out: "When it is realised that flexibility also expresses learning, innovation and creative (as opposed to reactive) activities the conclusions regarding the need for institutional design become more complex" (Johnson & Lundvall, *op. cit.* p. 86). Neo-classical theory scarcely deals with "technological process", but rather "choice of technologies" from an existing set of blueprints. But studies of diffusion of innovations show that changes and improvements are integral to the spread of technologies. And here there are uncertainties.

21. Johnson, *op. cit.*, p. 288. Important contributions to the analysis of such socio-economic coherence has been provided by the French regulation school, which have been presented elsewhere: Lars Mjøset, "Regulation and the Institutional Tradition", in Lars Mjøset/Jan Bohlin, *Introduksjon til reguleringskolen, Nordic Summer-University: Working Papers*, Vol. 21, Aalborg, Denmark 1985.

22. Kieran A. Kennedy, Thomas Giblin & Deirdre McHugh, *The Economic Development of Ireland in the Twentieth Century*, London 1988, Ch. 1.2.

23. *ibid*, Table 1.2.

24. The survey relies on: Jan Fagerberg, "Why Growth Rates Differ", in G. Dosi, et. al., editors, *Technical Change and Economic Theory*, London 1988. See also Jan Fagerberg, "A technology gap approach to why growth rates differ", *Research Policy*, 16, 1987.

25. Hollis Chenery, "Growth and Transformation", in H. Chenery, et. al., *Industrialisation and Growth*. A Comparative Study, New York/Oxford 1986, p. 13.

26. Mancur Olson, *The Rise and Decline of Nations*, New Haven 1982. This analysis is not further presented here, but see Lars Mjøset, "The Limits of Neoclassical Institutionalism", *Journal of Peace Research*, 1/1985. Cf. also Angus Maddison, "Ultimate and Proximate Growth Causality: A Critique of Mancur Olson on the Rise and Decline of Nations", *Scandinavian Economic History Review*, XXXVI, 2, 1988, 25-29. — In a Dublin lecture which has not been published, Mancur Olson made some remarks on the Irish case. As far as I can ascertain, a main point was that the events making for Irish independence from England in 1922 implied no institutional break with the past. This, however, betrays the loose nature of his approach. In applied studies, Olson determines the "age" of institutions from the most recent war or social revolution. According to such a crude operationalisation, 1922 should certainly count as a break with the past. The scholar should not be allowed arbitrarily to choose which of such "breaks" are to be included in the tests of his theory, at least not as long as no substantial discussion is provided concerning *which* institutions it is that matter for economic growth.

27. Recently, Kieran A. Kennedy, "The Context of Economic Development" in John Goldthorpe and Chris T. Whelan, editors, *The Development of Industrial Society in Ireland*, Oxford 1992, has emphasised that there exists no analysis by neoclassical economists of Ireland's development problems. We agree with his point that such an analysis would be interesting, for instance one in terms of modern open economy macroeconomics. Given our institutionalist perspective, such an analysis would have been an interesting contrast to our own, since neoclassical economics treats the economy in isolation from its institutional framework.

28. The recent "new foreign trade theories" may be seen as attempts to consider such factors (intra-industry trade, cross-penetration of foreign direct investments between industrialized countries, etc.) more thoroughly.

29. Cf. in particular Angus Maddison, *Phases of Capitalist Growth*, Oxford 1982.

30. Found in Veblen, in Myrdal's "monetary equilibrinm", and in the work of Johan Åkerman.

31. Nikolas Kaldor, "Causes of the Slow Rate of Economic Growth in the United Kingdom" (1966), reprinted in Kaldor, *Further Essays on Economic Theory*, London 1978. It is interesting for us that Kaldor's analysis was related to the slow growth of Britain (which must have influenced Ireland).

32. Geoff Hodgson, "Institutional Rigidities and Economic Growth", *Cambridge Journal of Economics*, 13, 1, 1989, 79-101, p. 79.

33. Robert Boyer & Pascal Petit, "Employment and Productivity in the EEC", *Cambridge Journal of Economics*, 5: 1981; Robert Boyer & Pascal Petit, "Technical progress, industrial growth and employment: an essay in generalising Kaldor's law", Note ronéotypé CEPREMAP, September 1980; Robert Boyer & Pascal Petit, "Progrés technique, croissance et emploi: un modèle d'inspiration kaldorienne pour six industries européennes", *Revue Economique*, 32: 6, Novembre 1981; Robert Boyer & Pierre Ralle, "Croissances nationales et contrainte exterieure avant et apres 1973. Enseignements d'une analyse en composantes principales", Note ronéotypé CEPREMAP, 1985; Robert Boyer & Pascal Petit, "Kaldor's Growth Theories: Past, Present & Prospects", in W. Semmler & E. Nell, editors, *Nicholas Kaldor & Mainstream Economics*, London 1989; Robert Boyer & Pascal Petit, "Technical Change, Cumulative Causation & Growth", Paper presented to the OECD International Seminar on Science, Technology & Growth, Workshop IV, Paris 5.-8. June 1989

34. Cf. Mjøset, "Regulation and the Institutional Tradition". The most important authors of the regulation school are Michel Aglietta, Robert Boyer and Alain Lipietz. A related approach may be found in Michael J. Piore & Charles S. Sabel, *The Second Industrial Divide*, New York 1985.

35. Rob van Tulder, "Studies of Small Industrial Countries and Economic and Technological Development", in Rob van Tulder, editor, *Small Industrial Countries and Economic and Technological Development*, The Hague, December 1989. This collection contains a comprehensive bibliography.

36. Michael E. Porter, *Competitive Strategy - Techniques for Analysing Industries and Competitors*, London and New York 1980; Joe S. Bain, *Barriers to New Competition*, Cambridge, Mass. 1956. One indication of the importance of barriers to entry is that most of the major industrial firms today were established a long time ago. Vernon found in 1970 that 187 of the largest American firms (accounting for 80 percent of US foreign manufacturing investment) had been established before 1900.

37. F. Breuss, *Österreichs Aussenwirtschaft 1945-1982*, Vienna 1983, p. 231.

38. Cf. e. g. Gunnar Myrdal, *Economic Theory and Underdeveloped Regions*, London 1959.

39. Radical development theories — like dependency theory — emphasise this feature within broader theories about centre and periphery. In particular, the impact of multinational firms from the advanced countries is studied.

40. Eoin O'Malley, *Industry and Economic Development. The Challenge to The Latecomer. Dublin 1989.*

41. *ibid*, p. 29.

42. Otmar Höll, "The Eternal Problem Since David and Goliath. A Comparative Study between Large and Small States on the Basis of the Austrian Model", *Austria Today*, 3, 1984, pp. 17-24; Otmar Höll & A. Tausch, "Austria and the European Periphery", in J. de Bandt, P. Mandi & D. Seers, ed., *European Studies in Development*, London 1980; Otmar Höll, editor, *Small States in Europe and Dependence*, Vienna 1983.

43. Even the very large Swedish firm Ericsson is just able to keep up in the race concerning digital telephone switches. The Dutch multinational Phillips has sold out to AT&T. Many firms attempt joint ventures in such a situation. As for the impact of multinational firms, there seem to be three groups among the small OECD countries. One group has large, homegrown multinationals (Sweden, Switzerland and the Netherlands). These countries tend to have a larger r & d community connected to these firms. Another group, including for instance Belgium, Austria and Ireland, have many foreign firms. The third group, with e. g. Norway and Denmark, have relatively few multinationals, but also few foreign investors.

44. Robert A. Dahl and Edward R. Tufte, *Size and Democracy*, Stanford 1973.

45. David R. Cameron, "The Expansion of the Public Economy: A comparative Analysis", *American Political Science Review*, 72: 1978, argued that since consensus is easily created and maintained in small countries, the labour market parties are well organised, and they easily agree on incomes policy solutions.

46. Simon Kuznets, "Economic Growth of Small Nations", in E. A. G. Robinson, editor, *Economic Consequences of the Size of Nations*, London 1960.

47. Peter Katzenstein, *Small States in World Markets*, Ithaca 1985, which covers Austria, Belgium, Denmark, The Netherlands, Norway, Sweden and Switzerland.

48. Remembering the parallells between small size and late start, we see that Katzenstein's theory is quite similar to Gerschenkron's theory about institutions as compensations against backwardness. Gerschenkron claimed that a more active policy by banks or the state is necessary if the latecomer is to catch up. His theory is not limited to small countries. Alexander Gerschenkron, *Economic Backwardness in a Historical Perspective*, Cambridge, Mass. 1962.

49. Methodologically, these studies often displace the approach of development theory by considering only high-income, rich OECD countries. Thus, they seldom provide contrast cases. For a discussion of this, cf. Section 3.6 below. A detailed criticism of Katzenstein's work is Alexander Hicks, "National Collective Action and Economic Performance: A Review Article", *International Science Quarterly*, 32:2, 1988, p. 131-145, who demonstrates an inclination towards circularity in Katzenstein's argument, and also convincingly suggests that Switzerland should not be treated as a case of corporatism, while Finland should be included. This fits with our own results below.

50. S. B. Saul, "The Economic Development of Small Nations: the Experience of North West Europe in the Nineteenth Century", in C. P. Kindleberger and Guido Di Tella, editors, *Economics in the long view*, *Essays in Honour of W. W. Rostow*, Vol. 2, Applications and cases, Part 1, London 1982, p. 112.

51. Saul, *op. cit.*, p. 118 claims that at least before 1870, there were not many scale economies in wide areas of manufacturing industry.

52. Piore & Sabel, *op. cit.*

53. Lars Mjøset, "Historiske særtrekk og internasjonal intergasjon", *Søkelys på arbeidsmarkedet*, 2/1990.

54. Lars Mjøset & Ton Notermans, *Unemployment and Labour Market Performance*, Ch. 1, unpublished paper Institute for Social Research, 1990. Oslo, provides a comprehensive survey.

55. Lars Calmfors & John Driffill, "Bargaining Structure, Corporatism and Macroeconomic Performance", *Economic Policy*, April 1988. Correlating centralisation and unemployment, Calmfors & Driffil found that countries with very high and very low centralisation came closest to full employment. Countries with a middle ranking on their index of centralisation were worse off. The study relies on a neoclassical approach, and is not really linked to any empirical investigation.

56. Walter Korpi, *The Democratic Class Struggle*, London 1983. In a rather ambivalent position between these two approaches are Bob Rowthorn & A. Glyn, "The Diversity of Unemployment Experience Since 1973".

57. Göran Therborn, *Why Some People Are More Unemployed Than Others*, London 1986. Cf. Part V for a more detailed overview.

58. Joseph Schumpeter, *Business Cycles*, New York 1939.

59. But if the theory of the small country squeeze — presented above — is correct, this structure may only work in specific periods.

60. Christopher Freeman, *Technology Policy and Economic Performance*, London 1987 presents this notion, but the research groups in Aalborg, Denmark originally launched it. The most comprehensive discussion of the notion is now available in Bengt-Åke Lundvall, editor, *National Systems of Innovation*, London 1992.

61. Charles Edquist & Bengt-Åke Lundvall, "Comparing Small Nordic Systems of Innovation", in Richard R. Nelson, editor, *National Innovation Systems*, Oxford 1992.

62. Edquist & Lundvall, "Comparing Small Nordic Systems of Innovation", Paper for the Maastricht seminar on National Systems Supporting Technical Progress, November 1989 [draft version] p. 15.

63. *ibid*, p. 16.

64. Michael E. Porter, *The Competitive Advantage of Nations*, p. 71. Porter's definition is certainly not related to Relative Unit Labour Costs or any of the other popular and very aggregated measures of competitiveness. His definition is rather connected to the nature of a country's export and/or foreign investment pattern, cf. p. 25 and Appendix A. — A very simplistic view (often related to exclusive emphasis on incomes policies), is the belief that rational restructuring, and consequently growth of employment, will follow if only costs are reduced (wage costs above all). But if "competitiveness" is related to national economic and social structures, and if the rationality of firms is a bounded one, then a reduction of wage-costs may very well be just another factor in a vicious circle, reproducing the problems of competitiveness. This is why many scholars prefer to define a notion of "structural competitiveness", which is based on the structural and institutional characteristics of the economy. Within the OECD, such a notion (which is very close to the notion of a national system of innovation) has been proposed by F. Chesnais, "Science, technologie et compétitivité", *Revue STI*, Paris: OECD, 1/1986.

65. *ibid*, p. 70.

66. *ibid*, p. 18 f.

67. *ibid*, p. 19.

68. *ibid*, p. 80 f.

69. *ibid*, p. 92. A country of course benefits if "the values embodied in its culture are spreading", examples are U.S. preference for fast food or credit cards. "Conversely, Scandinavian concern for social welfare and the environment tends today to be ahead of that in the United States. Swedish and Danish firms have achieved success in a variety of industries where this heightened environmental concern anticipates foreign needs, such as in water pollution control equipment." — Porter also deals with the size and pattern of demand growth and the internationalisation of demand. Porter, *The Competitive Advantage of Nations*, p. 97, p. 100, on the T.V. industry, where U.S. firms pioneered T.V.-sets with furniture styling and large picture tubes. Because of different constraints in the Japanese home, Japanese firms went for small picture tubes and compact sets. The latter proved more in demand internationally.

70. The notion of linkages depicts the spread of derived activities from an original staple goods activity, e.g. a sawmill would be a backward linkage from the original staple export of timber. The concept was coined in Albert O. Hirschman, *A Strategy of Economic Development*, New Haven 1958. For a useful overview, see Albert O. Hirschman, "A Generalised Linkage Approach to Development, with Special Reference to Staples" (1977), reprinted in Hirschman, *Essays in trespassing*, Cambridge 1981.

71. Porter, *op. cit.*, p. 125.

72. Porter, *ibid*, p. 128, adding chance and governments gives the "complete system", cf. p. 127.

73. *ibid*, p. 129.

74. *ibid*, p. 82.

75. *ibid*, p. 119.

76. John Zysman, *Governments, Markets, and Growth*, Ithaca 1983, p. 55.

77. *ibid*, p. 56.

78. But this last model is only to be found in West Germany, and as presented in Zysman, *ibid*, p. 251 ff, it seems unique.

79. For a broader discussion of Senghaas and Menzel's framework, see Lars Mjøset, "Comparative Typologies of Development Patterns", in L. Mjøset, ed., *Contributions to the Comparative Study of Development. Proceedings from the Vilhelm Aubert Symposion, Oslo, August 1990*, Oslo: ISF 1991.

80. Samir Amin, "Accumulation and Development, a Theoretical Model", *Review of African Political Economy*, 1/1972.

81. But employing these terms from the French regulation school implies a decomposition of Amin's auto-centric model into two world economic periods.

82. Entry barriers like those discussed in Chapter 3.4 illustrate what Senghaas means by peripheralisation pressure.

83. Cf. Dieter Senghaas, "Self-Reliance and Auto-centric Development — Historical Experiences and Contemporary Challenges", *Bulletin of Peace Proposals*, 1/1981, p. 46; Ulrich Menzel & Dieter Senghaas, "Autozentrierte Entwicklung im Weltsystem — Versuch einer Typologie", in Jochen Blaschke, hrsg., *Perspektiven des Weltsystems*, Frankfurt a. M. 1983, p. 149-150.

84. Ireland's development history is a prime example of developing peripheralisation", writes Dieter Senghaas, *Von Europa lernen*, Frankfurt a. M. 1982, p. 186-9 (English translation: *The European Experience. A Historical Critique of Development Theory*, Leamington Spa & Dover 1985); see also p. 147, where Senghaas notes that focused comparisons could be made e.g. between the development histories of Denmark and Ireland, The Netherlands and Portugal, Norway and Greece, Sweden and Spain, Finland and Rumania. He himself presents a comparison between Denmark and Uruguay (pp. 147-177).

85. See Mjøset, "Comparative Typologies of Development Patterns", *op. cit.* The scheme is mainly derived from Senghaas, *Von Europa lernen*.

86. There are here some similarities to the idea of a "take off" in modernisation theory, but the mechanisms emphasised by Senghaas are somewhat different from those emphasised by W. W. Rostow, *The Stages of Economic Growth*, Cambridge 1960. Neither does Senghaas presuppose that there is a protracted period of very high growth rates forming a specific take off period.

87. Dieter Senghaas, "European Development and the Third World. An Assessment", *Review*, XI, 1, Winter 1988, p. 31.

88. Most of Hartmut Elsenhans' writings on these matters are in German. His main work is Elsenhans, *Abhängiger Kapitalismus oder bürokratischer Entwicklungsgesellschaften, Versuch über den Staat in der Dritten Welt*, Frankfurt a.M. 1981. Specifically on the question of state-classes, see also: Elsenhans, "Zur Rolle der Staatsklasse bei der Überwindung von Unterentwicklung", in Alfred Schmidt, ed., *Strategien gegen Unterentwicklung, Zwischen Weltmarkt und Eigenständigkeit*, Frankfurt a.M. 1976, pp. 250-265; Elsenhans, "Die Staatsklasse/Staasbourgeoisie in den unterentwickelten Ländern zwischen Priviligierung und Legitimationszwang", *Verfassung und Recht in Übersee*, 10, 1, Januar/März 1977, pp. 21-42; Elsenhans, "Der periphere Staat, Zum Stand der entwicklungstheoretischen Diskussion", *Politische Vierteljahresschrift*, 26, Sonderheft 6, 1985, pp. 135-156; Elsenhans, "Dependencia, Unterentwicklung und der Staat in der Dritten Welt", *Politische Vierteljahresschrift*, 27, 2, Juni 1986. Some papers on state classes are also available in French: Elsenhans, "Capitalisme d'Etat ou société bureaucratique de développement", *Etudes internationales* 13, 1, März 1982, pp. 3-22; Elsenhans, "Rente, sous-développement et Etat dans le Tiers Monde", *Cahiers du CREAD* (Algier), 5, 1, Januar-März 1986, p. 5-52. The topic is also briefly covered in Elsenhans, "The Extension of State Functions and the Specific Requirements for a New International Economic Order Made by the Third World", Paper for International Political Science Association World Congress, Paris 15.-20. July 1985.

89. Raymond Crotty, *Ireland in Crisis*, Dingle 1986, p. 62 ff.

90. "Uniquely in Central Western Europe within the past 5,000 years, capital became the key to production. Production in all other societies was determined by the fixed amount of land or slaves available." *ibid*, p. 187. In this way, Crotty defines capitalism differently from both the Marxist and the dependency tradition. According to the Marxist tradition, capitalism originates at the point in history where a market for wage labour is created, that is when masses of people are excluded from possession of land, and are available on a labour market with nothing to sell but their labour power. According to dependency theory, the emergence of a world economy, that is a constellation with sovereign states linked together in an international division of labour, dominated by the quest of merchant capitalists for profits, starts off capitalism. Both these processes may loosely be dated to the long 16th century (1450-1620) — that is, about 4,500 years after the start of Crotty's capitalism — but the first process started in England only (agrarian capitalism), while the dynamics of trade were related to the European states system as such. The inter-relations between the different dynamic processes indicated by these two definitions have been much discussed, and it is not our task to add to this discussion here. Let us only note that for Crotty's general formula, neither these two processes, nor the emergence of modern, industrial so called "factory capitalism" towards the end of the 18th century, has any significance.

91. *ibid*, p. 92.

92. Crotty explicitly points to "the fundamental difference between the anachronistic, hegemonic rule of one territory by the king of another within the same social order, and the capitalist colonising of a non-capitalist, non-individualistic territory by the property-owning colonisers of another territory and of another social order." *ibid*, p. 64 f, the remark is related to Eastern Europe, but Crotty also refers to Scandinavia, where, during the age of absolutism, the countries colonised each other (Denmark colonised Norway, and Sweden Finland).

93. *ibid* p. 82 & passim.

94. Above all it allows Crotty to use a strange combination of reductionist materialism and neoclassical modelling. For instance, with his focus on agrarian economics, Crotty does not discuss clusters of generic technologies at all. This is all written off as "Western technology". Thus, when he argues — promoting a reformist strategy — that Ireland shall rely on western civilisation, etc. such a view has no good foundation in his analysis. Another problem for the dichotomy is his claim that in the modern version of European capitalist development, the welfare state, even Western countries are brought towards a redistributive pattern again, with a chronic labour surplus... Cf. *ibid*, p. 82.

95. Raymond Crotty, *A Radical's Response*, Dublin 1988, p. 60.

96. *ibid*, p. 61. These institutions and technologies emerged in Central Western Europe, and were applied in settler colonies (North America, Oceania), where the indigenous population was nearly fully displaced, as well as in Eastern Europe, Russia and East Asia, in countries that had not been capitalist colonies, and thus were able to "adopt western institutions and technology eclectically and adjust them to meet local needs". See p. 52.

97. *ibid*, p. 61.

98. This analysis will be commented on in Part III.

99. While Crotty's approach involves a heroic fundamentalism in his distinction between, on the one hand, a capital-intensive development model, which generates adequate institutional frameworks, and, on the other hand, the countries that "undevelop" because of an imposed institutional framework, Amin's fundamentalism is different: His privileged mechanism is that of unequal exchange, coupled with statements as to the widening of the technology gap between core and periphery. Senghaas' approach, finally, is not fundamentalist: much more hinges on internal factors, on the pattern of conflict solution and on strategic choices in critical periods.

100. See references to Hartmut Elsenhans' studies above. His point is that a state class may extract rent incomes from the economy in a number of ways. His analysis of how state elites appropriate a social surplus may be compared to Crotty's claim that the state prices all the production factors.

101. Stein Rokkan, *Citizens, Elections, Parties*, Oslo 1970.

102. Nicos Mouzelis, *Politics in the Semi-Periphery*, London 1986, p. 93.

103. *ibid*, p. xiv-xix.

104. *ibid*, p. 73.

105. *ibid*, p. xvii.

106. Anthony Giddens, *The Nation State and Violence*, Cambridge 1985.

107. Brian Girvin, "Nationalism, Capitalism and Economic Development: The Politics of Instability in the European Periphery", unpublished conference paper, (Leuwen, Belgium), September 1990, p. 4-9.

108. Kennedy, et.al., *The Economic Development of Ireland in the Twentieth Century*, p. 146.

109. Erland Hofsten, "The Effects of a Declining Population", *Scandinavian Population Studies*, Vol. 4, Copenhagen 1978.

110. J. M. Keynes, "Some Economic Consequences of a Declining Population" (1937), in *The Collected Writings of John Maynard Keynes*, Vol. XIV, London 1973, p. 131-2; cf. also Alvin M. Hansen, "Economic Progress and Declining Population Growth", *American Economic Review*, 1939.

111. E.g. in *Determinants and Consequences of Population Trends*, Vol. 1, New York: The United Nations 1973.

112. Albert O. Hirschman, *Exit, Voice, and Loyalty*, Cambridge, Mass. 1970.

113. Cf. Hirschman, "Exit, Voice, and Loyalty: Further Reflections and a Survey of Recent Contributions", *Social Science Information*, Vol. 13, Febr. 1974; Hirschman, "Political Economy: Some Uses of the Exit-Voice Approach", *American Economic Review, Papers and Proceedings*, Vol. 66, 1976; Hirschman, "Exit, Voice, and the State", *World Politics*, Vol. 31, 1, Oct. 1978. These essays are reprinted in Albert O. Hirschman, *Essays in Trespassing*, Cambridge 1981.

114. Stein Kuhnle, "Emigration, Democratisation and the Rise of the European Welfare States", in Per Torsvik, editor, *Mobilisation, Center-Periphery Structures and Nation-Building*, Oslo 1981.

115. *ibid*, p. 509.

116. Lee, *Ireland 1912-1985*, p. 644.

117. *ibid*, p. 645 f.

118. Crotty, *Ireland in Crisis*, p. 70.

119. *ibid*, p. 71.

120. *ibid*, p. 84-5.

121. *ibid*, p. 103.

122. O'Malley, *op cit*, p. 114. (It is of course an overstatement to say that the only innovation that was made was emigration. At any rate, however, emigration has been analysed as a type of innovation, given the following conditions: Freedom from all feudal and other ties, perception of chances to improve the actor's material welfare, information on alternatives, and finally, the transport revolution.)

123. Kuhnle refers to J. S. MacDonald's classic study. J. S. MacDonald, "Agricultural Organisation, Migration and Labour Militancy in Rural Italy", *Economic History Review*, Vol. 26, 1963/4.

124. Claudio Vedovato, "Economic Stagnation and Easy "Exit": The Italian South from Unification to the 1950's", *Scandinavian Economic History Review*, Vol. 38, 1, 1990.

125. A. O. Hirschman, "Exit and Voice", mimeo 1985. Quoted by Vedovato, *op. cit*.

126. Ove Hornsby & Erik Oxenbøll, "Proto-Industrialisation before Industrialisation? The Danish case", *Scandinavian Economic History Review*, 30, 1, 1982, p. 3. This is the definition of Franklin F. Mendels, "Proto-industrialisation: The First Phase of the Process of Industrialisation", *Journal of Economic History*, XXXII, 1972, 241-61.

127. Charles Tilly, "Flows of Capital and Forms of Industry in Europe, 1500-1900", *Theory & Society*, 12, 2, 1983, p. 124; see also Ch. Tilly & R. Tilly, "Agenda for European Economic History in the 1970s", *Journal of Economic History*, 31, 1971, 184-198.

128. Alan Milward & S. B. Saul, *The Development of the Economies of Continental Europe,1780-1870*, London 1976, p. 93-4.

129. Tilly, *op. cit.*, p. 124. "Quite recently", however, is specified p. 125 as "prior to the massive development of factories, steam power, and large-scale machine production".

130. This rough summary relies on Tilly, *ibid*. p. 130 f.

131. Tilly's definition of proto-industrialisation is different from that of Mendels: "the increase in manufacturing activity by means of the multiplication of very small producing units and small to medium accumulations of capital. Negatively, it consists of the increase in manufacturing without large producing units and great accumulations of capital". This broad definition does not require proto-industrialisation to take place in rural areas, be linked to agriculture or to extra-regional markets. If a narrower definition of proto-industrialisation should be maintained, Tilly names his broader phenomenon "segmented industrialisation". Tilly, *ibid*, p. 141.

132. *ibid*

133. *ibid*, p. 136.

134. *ibid*, p. 133.

135. *ibid*, p. 133.

136. *ibid*, p. 140.

137. *ibid*, p. 138.

138. It should be emphasised that interpreted as a periodisation, we need not bother with the search for universal mechanisms to explain long waves. We are thus closer to the approach of Maddison, *Phases of Capitalist Growth*, *op. cit*. Angus Maddison, *The World Economy in the 20th Century*, Paris 1989, who is generally critical of long waves.

139. Ulrich Menzel, "The Experience of Small European Countries with Late Development", in L. Mjøset, editor, *Contributions to the Comparative Study of Development*, *op. cit*. (This is an English translation of the concluding chapter or Menzel's large study of Canada, Denmark, Finland and Switzerland, Ulrich Menzel, *Auswege aus der Abhängigkeit. Die entwicklungspolitische Aktualität Europas*, Frankfurt a. M. 1988.)

140. This notion was defined in Chapter 4.2.

141. Menzel, *op. cit*. p. 6; W. Arthur Lewis, *The Evolution of the International Economic Order*, Princeton 1978.

142. Menzel, *op. cit.*, p. 6.

143. Cf. the discussion of the small country squeeze above.

144. Christopher Freeman & Carlota Perez, "International Business Cycles, Investment Behaviour and Technical Change", in G. Dosi et.al., *Economic Theory and Technical Change*, London 1988, C. Freeman & C. Perez, "Long waves and new technology", *Nordisk Tidskrift för Politisk Ekonomi*, 17, 1984, C. Freeman, *Technology Policy and Economic Performance*, London 1987.

145. C. Perez, "Structural Change and Assimilation of New Technologies in the Economic and Social Systems", *Futures*, 15, 5, 1983.

146. Rob Van Tulder & G. Junne, *European Multinationals in Core Technologies*, New York/Chichester 1988, Ch.1.

147. Van Tulder & Junne, *op. cit.*, p. 16 f.

148. Annemieke J. M. Roobeek, "The Crisis in Fordism and the Rise of a New Technological Paradigm", Futures, April 1987.

149. Van Tulder & Junne, *op. cit.*, 26 f.

150. Piore & Sabel, *op. cit*.

151. Christopher Freeman, *op. cit*.

152. Van Tulder & Junne, *op. cit.*, p. 155.

153. *ibid*, pp. 74, 77, 92, 154, 164, 222, 199 show many traits of Japanisation among European firms: Multinationals increasingly become oriented towards design, management, trading and service, while most of their production is subcontracted to smaller firms. They go for large-scale automation, just-in-time inventory systems, close and exclusive links with subcontractors and quality circles. The subcontractor structure becomes increasingly hierarchical. R&D becomes increasingly important and some firms even offer life-time employment for highly qualified employees. Recent moves to spur mobility of leaders and middle managment within the firms are also known from the Japanese system. The MITI-approach is copied by many of the industrial policy institutions, and projects like the Japanese VSLI-project are standard models. Anti-trust legislation is watered out, following the Japanese model of weak anti-monopoly laws and legalised cartels.

154. Robert Boyer, editor, *The Search For Labour Market Flexibility*, Oxford 1988, p. 223 ff.

155. D. Leborgne and A. Lipietz, "New Technologies, New Modes of Regulation: Some Spatial Implications", *Society and Space*, Vol. 6, 1988.

156. Robert Boyer, "New Directions in Management Practices and Work Organisation", Report to the OECD conference *Technological Change as a Social Process — Society, Enterprises and the Individual*, Helsinki, 11-13 December 1989. The following relies on Table 4 and pp. 13-23.

157. *ibid*, p. 36 f.

158. Susan Strange, *Casino Capitalism*, Oxford 1986, Fritz W. Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, Frankfurt a. M. 1987.

159. Van Tulder & Junne, *op. cit.*, p. 201.

160. Boyer, editor, *The Search For Labour Market Flexibility*, *op. cit.* p. 240.

161. Strange, *op. cit.*

An Historical Overview of the Contrast Cases

Part III

Contents

CHAPTER 5

INTRODUCTION TO THE HISTORICAL REVIEW

This Part presents the five countries that serve as the comparative contrasts to Ireland. In the next Part, Irish developments are discussed in the light of these experiences. While this Part provides all our material for comparison with Irish developments, we have chosen to postpone to Part IV any concrete comparative discussions involving Ireland. We are using Senghaas' three groups of explanatory factors (Table 4.3) as a framework for the comparison, with explicit reference to the periodisation presented in Chapter 4.4. As already indicated in Chapter 4, the contrast cases are all clear-cut cases of auto-centric development. Senghaas' table indicates the "values" of the variables favourable to such development. A comparison related to the dimensions of this table help us to clarify — in Part IV — whether Ireland is really closer to the "peripheral" type of development than any of the contrast cases.

This Part is divided into seven Chapters. Chapter 5 provides some quick and clearly incomplete notes on early history. Chapters 6, 7 and 8 discuss each of the three major groups of factors in Senghaas' scheme (Table 4.3). Senghaas' scheme is a list of factors with special relevance to the crucial periods in which a country embarks on an auto-centric trajectory. So far, Senghaas emphasises, no country has experienced a deterioration, from an auto-centric structure to a new position of peripheralisation. Although at some points in Chapters 7 and 8 we have used quite recent data, we do not use Senghaas' scheme to analyse the postwar period. In Chapter 9 rather, we provide a comparison of the economic policy models which emerged in each country during the Golden Postwar Age of the 1950s and 1960s. The approaches surveyed in Chapters 3.4 and 4.1 are more suited to deal with this period. These models developed in the interface between national legacies (from the earlier periods analysed in Chapters 6 to 8) and international restructuring (the constitution of U.S. hegemony in the Western world economy) in the late 1940s.[1] In line with the main focus of our comparative analysis we are particularly interested in the institutional framework emerging in the Golden Age. In Part V, we shall provide up-to-date studies of the transformations of the industrial structures during the postwar period and into the troubled period of the 1970s and 1980s. Here we focus on what was dubbed the national innovation system in Chapter 4.1. The economic policies (and broader institutional changes) during that recent period, will also be analysed in Part V.

We shall first provide a brief overview of the early history of the contrast countries. We start with the European state system of the late mercantilist age of the 17th century. One of our five cases, Switzerland was a small, independent unit, internally quite fragmented. Another one was truly a great power: the Habsburg monarchy at that time encompassed not only Austria, but also the areas of present day Czechoslovakia, Hungary, parts of Poland, Romania and Yugoslavia. Two of our Nordic cases, Sweden and Denmark, were rivalling regional great powers of the North, and Finland was a territory within Sweden.

5.1 SWITZERLAND

The Swiss day of independence was August 1, 1291, when a pact was established between the three forest cantons, Uri, Schwyz and Unterwalden. The Confederation was gradually extended in conflicts with neighbouring powers in the 14th century. In the 15th century, there were numerous internal problems, but the Swiss won fame for their military skills. In 1513, 13 cantons were in the Confederation, and its independence was firmly established at the time of the reformation in the 16th century. In 1515, a treaty with France secured 100 years of peace, with access to French markets. The Swiss reformation started with Zwingli in Zürich in 1519, and soon the Confederation was divided between Protestants and Catholics. Switzerland was not involved in any international conflicts in the period 1531-1798. There was occasional fighting between Catholics and Protestants, but still, the Swiss context was tolerant and stable enough to allow a number of religious and political minorities (like the Huguenots) to settle, adding to the supply of capital, skills and entrepreneurship.[2] This national experience is the background of Switzerland's persistent emphasis on neutrality. Already the Confederation of 1291 took the form of interlocking military alliances, in which a third party would mediate if hostilities broke out. During the Reformation, the Swiss learned that internal disagreement would tempt foreign powers to invade the country. The Swiss practised this policy of neutrality through the Thirty Years war, and had it written into later international settlements (1648, 1815).[3] Throughout this early period, Switzerland exported labour. In particular, Swiss mercenaries fought on different sides in the struggles between European great powers.[4] Catholics supported the Habsburgs and after 1693, France in the War of Spanish Succession. Protestants first supported France, but after 1693 the Dutch and the British against France.

The independence of the Confederation was recognised by the great powers in the Peace of Westphalia in 1648. But governance of the country was virtually completely decentralised in the 17th and 18th centuries. Geneva was actually not part of the Confederation, but still influenced it strongly, and was regarded by the outside world as part of the Confederation. In the mid 16th century, John Calvin made the city a Protestant stronghold, as a combined political and religious leader. Until the end of the 18th century, Geneva supported the Protestants. The 18th century Enlightenment was also very strong in Switzerland: Rousseau was a native of Geneva, Voltaire lived there after 1755.

5.2 SWEDEN, DENMARK AND FINLAND

The Nordic-Teutonic people had inhabited the Nordic areas since ancient times, sharing the same language. In the Viking age (800-1000 AD), there were occasional attempts at forming a united kingdom, but the structure remained one of petty kingdoms. Vikings settled Iceland, the Faroe Islands and Greenland (ca. 900 AD). Another ethnic group, with a different language, settled the Finnish area (100 AD), but later Swedes settled there also. Finland became a region within Sweden, but with its own language. In 1389, the Danish Queen became ruler of the Swedish-Finnish area also. This Kalmar union broke up in 1523, followed by numerous Nordic wars.

The mid 17th century was a period of economic decline. At the same time, there were major changes in the technologies of war: gunpowder, cannons, armed military vessels, and standing armies of conscripted peasants and/or mercenaries — all such costly arrangements squeezed the state budgets. As we shall see in Part IV, England at this time pursued its policy of anglicisation and plantation in Ireland, partly due to the strategic importance of this area. And it was at this same time that Swiss mercenaries were involved in many of the European wars.

In the Nordic setting, the landed aristocracies proved badly qualified for fighting war under the new conditions.[5] They also had tax exemption, so they did not solve the financial problems of the state. There had been a certain concentration of their feudal estates throughout the first half of the 17th century. The Kings, allied with bureaucrats, the military and the clergy, thus introduced absolutism in Denmark and Sweden throughout the second half of the 17th century, in an attempt to counter the offensive of the landed aristocracy.

However, this parallel emergence of absolutist states was based on different socio-economic foundations. Both the relations of production in agriculture and the position of the urban bourgeoisie differed. Sweden had a large share of small, but relatively autonomous farmers. Some were owner-occupiers, others leased land from the King. Large parts of Swedish agriculture consisted of subsistence activities. Thus, the landed aristocracy was much weaker in Sweden than in Denmark. In Denmark, the bulk of the peasants were subjected to various kinds of feudal ties. But Danish agriculture produced a surplus, and this made it an important export sector. Thus, trade was more developed in Denmark, its towns and merchant capital flourished. Apart from the west coast, the Swedish coastline was on the Baltic sea. Both the geographical position of Sweden and Finland, as well as the nature of the agrarian structure, explain the weakness of towns and merchant capital in that area. Sweden possesses large deposits of raw materials, especially of iron ore (particularly in the North of the country). Swedish mining was important in its economic structure ever since the formation of a Swedish state in the 13th century.

Swedish absolutism developed as an "agrarian bureaucracy". Its tax base was weak (subsistence agriculture and weak towns), and the absolutist bureaucracy could not be financed by monetary taxes. Bureaucrats and military leaders in a new state-based bureaucracy crowded out the old landed aristocracy. The new bureaucracy did not enjoy favourable wages, but was financed by various types of indirect taxes, be it the return on their own land or a rent on the tenants who tilled state land. The new Swedish bureaucracy became intertwined with the richest farmers. In the long term, this influenced the nature of Swedish and Finnish conservatism, which always relied on both urban and rural elites. This may also be one of the reasons why Swedish industrialisation started rather late. Swedish farmers were split in different strata with different kinds of privileges. The absence of a homogenous peasant mobilisation may help to explain the rather late arrival of parliamentarism and democratisation of the suffrage in Sweden.

In contrast to Sweden, the Danish absolutist system implied a full transition to money taxes. The landed aristocracy lost its tax-immunity, but they were still quite strong in rural areas. Danish farmers won their freedom from feudalism only in the late 18th century. The fiscal crisis of the Danish state was solved by the sale of crown land. In Sweden, on the contrary, state ownership of land increased during absolutism. Contrasting with the Swedish fusion of urban and rural elites, Danish bureaucrats became strongly intertwined with urban elites, in particular with the merchant bourgeoisie in Copenhagen.

The two main adversaries in the Nordic wars, Denmark/Norway and Sweden/Finland, sided with different great powers during the Napoleonic wars (1807-1814). Denmark joined sides with France, while Sweden had declared war on France, effectively siding with England. The end result was that the Swedes lost Finland to Russia in 1809. In 1814, however, with England's overall victory, Denmark lost Norway to Sweden.

5.3 AUSTRIA

While Switzerland was a small federation among large, powerful neighbours, Austria has its background in one of the three ultraconservative European great powers: Austria-Hungary, which together with Russia and Prussia formed the "Holy Alliance" in the era after the Napoleonic wars. With a population of 51 million and a surface of 677,000 square km, it was the second largest state in Europe. But the large multi-ethnic empire was in a long term process of decline, starting from the revolutionary decade of the 1840s. At the same time, Prussia consolidated the powerful German Empire. Pressure for democratisation mounted during the reign of Franz Josef (1848-1916).

The survey of early historical developments above is a rough sketch only, drawing mainly on the research tradition inspired by Stein Rokkan. The comparative points concerning Sweden and Denmark indicate how contrasts may further our understanding of the processes of nation building and the formation of modern parliamentary party systems. The processes of political mobilisation and nation building were also influenced by the nationalist revolutions (the French and American ones) of the late 18th century. According to Rokkan, the political economic and geopolitical "start variables" must be traced in the absolutist period, but in addition, we need to study the processes of industrialisation in the 19th century, the topic of our next chapter. In this we shall be more specific than Rokkan.

CHAPTER 6

ECONOMIC STRUCTURES

The study of industrialisation has often been couched in terms of a "take off" process, possibly modified by a classification of starters and latecomers. Classifications based on fragile time series of data on industrial production or gross national product, have mostly proven ambiguous. For our presentation, we have chosen another approach: the patterns of industrialisation are studied along two dimensions. The *internal* dimension relates to their dominant export sectors.[6] These export sectors are of course related to the country's natural endowments. They form the bases of exports of primary products with a low value added (staple goods). The external dimension consists of the periods of world economic development traced in Chapter 4.4.

This Chapter surveys the resource bases of the countries and also describes their respective processes of industrialisation. In the following Chapters we discuss factors which interacted with the structural forces of industrialisation. Only in this way — integrating the dimensions of Senghaas' scheme — can we hope to approach a full understanding of the development patterns of our contrast countries.

Among our cases, Switzerland displays a remarkable process of proto-industrialisation in the 18th century. In the other countries, proto-industry based on textiles and advanced manufacturing was much weaker. Two of the countries — Sweden and Austria — had major mineral sources. Furthermore, Austria, Finland and Sweden have large forests, which traditionally gave rise to exports of timber and later of other wood, pulp and paper products. Denmark remains the only contrast case which — like Ireland — had to rely entirely on agricultural exports (grain, meat and dairy products).

As for the timing of industrialisation, Switzerland clearly had a very early start, and Finland a very late one. But apart from this simple conclusion, it does not seem fruitful to make distinctions between the timing of developments in Austria, Denmark and Sweden: all these countries display phases of development starting in the mid 19th century, with specific adjustments in each world economic period.

In the mid 19th century, the Nordic countries were still quite poor. Some traditional staple exports existed, like timber from Sweden and Finland, raw iron from Sweden, and agricultural produce from Denmark. Like Austria, Sweden had a traditional sector of iron foundries close to the mines. In Denmark, there was also some proto-industry in textiles (linen), but in none of the Nordic cases was proto-industrialisation as spectacular as in the Swiss case.

Starting in the mid 19th century, the Nordic staple exports and their spin offs engendered widespread Scandinavian industrialisation. Their dominant export sectors first emerged as global demand for food and raw materials spread from England in the mid 19th century. On the basis of Finland's and Sweden's wood exports, exports of sawed wood developed, later also exports of pulp and finally of paper. Sweden also developed a strong iron- and metal-industry, based on its iron ores. These sectors later became the basis of the strong Swedish manufacturing industry. Denmark, and Sweden in one period, experienced increasing demand for their agricultural produce. Denmark lacked its own supply of most industrial raw materials.

Aggregate growth was comparatively strong in the 1870-1914 period. In all countries, linkages influenced the growth of the manufacturing sector. These linkages turned out to be most widespread in Sweden. In Sweden, especially after 1890, manufacturing industry emerged as the major force in economic growth.

In Denmark, industrial development was closely related to agricultural modernisation. Agriculture created Danish industry and influenced its structure.[7] Industrial development was a dependent variable, an aspect of the broader economic development in Denmark. But industrialisation fed back, giving rise to a rapid growth of agricultural productivity (1870-1910).

Finnish industry was the most backward in the Nordic setting, and thus, very vulnerable to foreign competition. But regional patterns were very important. During its time as a Grand Duchy within Russia (1809-1917), infant Finnish industries exported textiles, iron and paper eastward. Among our contrast case countries, Austria is the only other country with an important component of eastward exports (which is quite understandable, given its earlier dual monarchy with Hungary). There was very little structural change in Finnish industry before World War I. Jørberg notes that this was probably because the agrarian population was still increasing. Thus industry could get labour without rising wages.[8] Overseas emigration did not really develop before the 1890s (see Table 4.5), but before that there was much migration of Finnish workers to Sweden. Sweden (and Norway) experienced pressure for higher wages.

Summarising the "growth poles" (or leading sectors) in the last quarters of the 19th century, Jørberg mentioned agricultural development in Denmark, industry in Sweden, and timber products in Finland.[9] In the 1890s, business cycles began to coincide, and all Nordic countries experienced a large increase in GNP and investment.[10] In 1890-1910, Sweden developed particularly fast, catching up with the per capita income levels of Denmark and Norway.[11]

In the following section, we shall look more closely at each of the contrast countries.

6.1 SWITZERLAND

Switzerland had few raw materials, no primary energy (except water power), a rather poor agriculture, and difficult communications. But there were also advantages: a good seasonal supply of labour, and an important position on the trade routes between northern and southern Europe.[12] Already in the 16th century, the country's food deficit was financed by means of specialised textile products and watches, products which initially required only a small capital stock and which could be transported cheaply. Also the tertiary sector was important: mercenaries, transit trade, later financial services and tourism. The guilds regulated urban craft activities, so industrialisation was located in rural areas until the late 18th century, in the form

of putting out and cottage industry.[13] Such a decentralised structure has remained throughout the 20th century.

In the late 18th century, Switzerland experienced an economic miracle.[14] Industries based on wool, cotton, linen and silk goods flourished in Zürich, St. Gallen and Basel. Geneva won international fame for its clocks. Incomes from these activities trickled down quite broadly. "Before 1780, Switzerland was the most advanced textile producer on the Continent — England was scarcely ahead of her — and the world's largest exporter of cotton products."[15]

Due to the technological breakthroughs (cf. Chapter 4.4.2 above) within cotton spinning in England during the first industrial revolution (1764-1779), Swiss cottage industry was exposed to "peripheralisation pressure". Cheap English yarn squeezed the hand-made yarn of the Swiss textile industries. A switch into woollens or linen was not possible, since these were largely replaced by cotton. In the late 18th century, the Swiss tried to construct their own machines, but failed. Technology transfer was attempted, although that was a problem in the period of a British ban on machinery exports, and of wars and blockade. Various forms of industrial espionage were attempted. First, spinning was given up and yarn was imported so that the Swiss could concentrate on weaving. Starting in 1801, spinning was attempted with imported British spinning machines.

The living conditions of large sections of the population deteriorated, bringing mass poverty. Mechanisation of weaving in the 1830s and 1840s made things worse, and emigration gained pace. But the competitive pressure worked only gradually. Violent conflicts were rare. In this period regression to a pure agrarian society seemed a possibility. But the population was limited and land was scarce, so it was necessary to keep on as an exporting country.

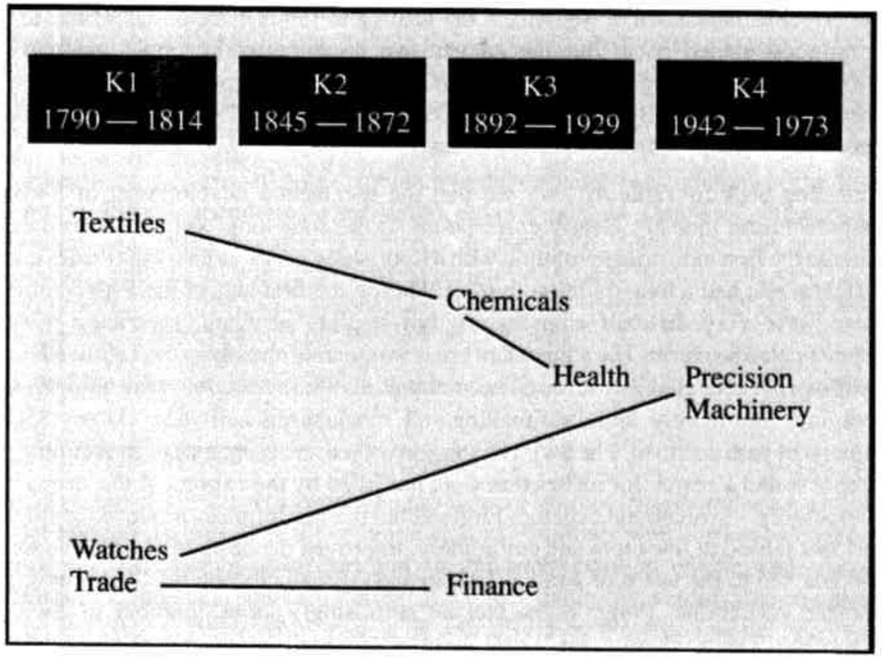
Referring back to Table 4.7, we see that the spectacular development of Swiss manufacturing industry clearly corresponds to the four long waves. Switzerland entered the first industrial revolution with a flourishing proto-industry in textiles and watches, and had a long tradition in trade. During the first half of the 19th century there were very difficult adjustments, but textiles survived, producing more sophisticated products. The adjustment crisis was visible already in the 1830s. Many textile producers changed to machine making, textile production went into dyes, weaving, embroidery and lace-making, all mechanised activities. After 1830, imports of yarn declined. The Swiss strategy involved an acceptance of the country's openness and a search for niches that were not filled by the exports of the stronger competitors. "Switzerland ceded to England the market for mass produced textiles and specialised in fine cloth and embroidery, improved the designs of printed cloth and adapted to the tastes of Arabian, Asian and African customers."[16] Discussing demand conditions, Porter notes that a "surprisingly large" number of Swiss industries developed from the textile industry. A small home market pushed the industry towards niches and a selective factor disadvantage like high wages made Swiss producers focus on high-price market segments (fine apparel, undergarments, lace, woven silk fabrics, fine yarns).[17]

From 1850, there were backward linkages from textiles to textile machinery and power-supply machinery. Switzerland lacked pit-coal, so instead they improved techniques of water power machinery, and here linkages (turbines) developed. Tunnelling technology became another Swiss specialty, obviously connected to its geographical peculiarity as a mountainous transit trade area.

A financial sector developed following the first surge of industrialisation, mainly doing foreign business. This sector was clearly related to the long transit trade tradition, as well as to Switzerland's domestic stability and neutrality. A railway system was constructed in 1852-64, and transport costs declined. Switzerland benefited from the European episode of free trade in the 1850s and 1860s, as did all our contrast countries, but not Ireland.

Biucchi notes that while mechanisation was one aspect of the industrial revolution, two other aspects are *not* visible in Switzerland, namely the concentration of labour in factories, and the development of a labour/capital cleavage. Firms remained medium/small sized.[18] "Switzerland seemed at that time already to have evolved a perfect synchronisation in the rhythm of development."[19] A new surge of industrialisation followed in the 1870s and 1880s, focusing on chemical and electrical industries.

FIGURE 6.1
Swiss Complexes and Long Cycles



Note: Periodisation according to Table 4.7.

As for the new challenge of the late 19th century, linkages eventually extended also from the development of an electrical industry. One such produced chemicals (dyes, bleaching materials) necessary for the textile industry. In the watch sector, there was a specialisation in luxury watches. The early linkages between chemicals and textiles (especially dying) were further cultivated so that a whole chemical industry developed.[20] The pharmaceutical industry developed from synthetic dyes by means of an accident in which the therapeutic effects of dyes were discovered. Switzerland since then developed products such as herbicides, insecticides, pesticides, flavourings, fragrances. The chemical block also included a strong health complex, producing medicines and drugs. Here, Switzerland's closeness to Germany, which was at that time becoming a world leader in chemical production, was quite crucial. Silk production also developed. The watch industry involved linkages towards precision mechanics.

In this period, trade activity spread to encompass modern financing activity also. In the fourth long wave, finally, precision machinery emerged as a spin off specialisation from the watch-making industry. This is illustrated in Figure 6.1.[21]

6.2 AUSTRIA

Our contrast cases are chosen because they are all small, open economies in the 20th century. In the 19th century, however, Austria was a large and relatively closed economy, with a complicated division of labour within the empire. Changing borders complicate the analysis. In 1867 the Austrian empire was transformed into the dual monarchy (Austria-Hungary, lasting until 1918). The two areas were relatively autonomous. Industry developed mainly in the western areas of the empire, that is in present-day Austria (and Czechoslovakia). In Austria, industrialisation started early, but proceeded quite slowly and it is hard to trace one leading sector. Only after the Versailles Treaty at the close of World War I did Austria became a small country with a population of about the same size as Sweden's (ca. 6 million).

The region which is today Austria possesses many natural resources: large deposits of salt, magnesite, iron ore, brown coal, and considerable amounts also of bituminous coal, graphite, lead, zinc, copper. There are also oil and natural gas fields, and rivers and lakes which can be used to generate water power. The Danube is navigable, and in the 20th century it has been important for bulk cargo (coal, coke, iron ore, steel, oil, and grains).

Within the dual monarchy, there was a regional specialisation: industry in Böhmen and in the Austrian areas just mentioned, corn in Hungary and oil in Galizia. Given this division of labour, the area as such was relatively autarchic. Menzel and Senghaas claim that the massive railway construction (after 1850) had few linkage effects.[22]

During the continental blockade, there was a first surge of mechanisation of the textile industry, leading on to the first wave of industrialisation between 1830 and 1846/7. This was earlier than in the Nordic countries, probably due to the fact that early Austrian textiles developed in the Vorarlberg region, bordering on Switzerland. It can thus be regarded as a spin-off from the Swiss industry across the border.

Besides this industrial centre, two other early 19th century core industrial areas are mentioned: around Vienna, there were a number of manufacturers producing consumer goods like cotton, printed textiles, paper, metal products, raw sugar and even machines. Finally, there were iron-making firms close to the mines (Steiermark, Upper and Lower Austria and Kärnten). Their output of raw iron was as large as that of England in the late 18th century.[23]

In the second half of the 19th century, the size of firms increased and the limited liability type company spread. As in Germany, there was a massive growth of banks: in six years 1867-73, 70 banks were founded in Vienna, and there were close connections between banks and industrial firms.

As in Germany, there was an alliance between iron (Austrian industrialists) and corn (Hungarian estate owners). Starting in 1878, there was a clear turn to protectionism, with further tariff increases in 1909, and a cartellisation of industry. A third wave of industrialisation occurred between 1880-1913, characterised by further railway construction and heavy industries. The key industrial area now became Böhmen, at the cost of the Alpine regions. Koerber, the prime minister, pursued strong state interventionism in 1900-1904, comparable to Witte in Russia. But this policy was a failure.[24] Hungary developed faster than Austria in the period following 1880, due to enforced industrialisation. Still, there was a "dual upturn" after 1903, with industry broadening. In World War I, Austria experienced a war economy, involving strong elements of economic planning and significant productivity increases, as well as tax increases.[25]

As for industrialisation, Milward and Saul state: "Comparisons with earlier industrialising economies like France or Britain would suggest that, certainly after 1890, as far as the industrial sector was concerned Austria-Hungary was closing the development gap. But how wide that gap had become may be judged from the fact that Austria-Hungary produced in 1913 only about 6 percent of Europe's total industrial output, although it was the fourth largest industrial producer on the continent. In terms of per capita output it was behind the Scandinavian countries, Belgium and the Netherlands."[26] But they also emphasise that there were considerable regional variations: only in the most abstract sense was economic development "national". When Austria emerged after the Versailles conference, with more than half of the area cut off, what remained were the most industrialised areas. This is a marked contrast to Ireland, which lost its most industrialised area in 1922, also in the wake of the Versailles agreements.

6.3 SWEDEN

There were great pressures on Sweden's old agrarian system in the period 1810-25. Population growth was large. Some of these problems were resolved as productivity was raised by the introduction of a new crop: the potato, although the potato never

came to dominate as strongly as in Ireland.[27] During the whole period 1770-1870, the numbers in the lower agricultural classes increased much faster than the number of owner-peasants. Many of the poor ones had no chance of earning a living within agriculture. There was a number of enclosures. Grain exports grew quite rapidly. The British share of Swedish corn exports increased from 34 to 88 percent between the early 1830s and the late 1840s.[28] Transport was mainly based on canals.

Agricultural transformation defined the push-situation in which emigration escalated: enclosures, a redivision of land, reclamation and general modernisation. Smaller landowners were uprooted. Especially in the south of Sweden, there was concentration of estates. The first surge of Swedish emigration came 1866-1870 (in general, see Table 4.5). Triggering factors behind emigration were letters, return visits, emigration agencies and newspaper advertisements.[29] It was also known that wages were higher in the U.S. Many studies show that emigration was high in the case of U.S. business cycle upturns and in the case of bad Swedish harvests.[30]

There were three spurts of industrialisation in Sweden, roughly speaking the 1850s, the 1870s and the 1890s. In the 1850-1880 period, following the British repeal of the Corn Laws, grain became increasingly important as an export item. Sweden particularly exported fodder grain, oats, the price of which did not decline as much as that of wheat in the "Great Depression" of the late 1870s. In the 1850s and 1860s exports of iron, as well as pig and bar iron also increased. Textile production was concentrated in factories (imports of raw cotton increased). Another important export item was timber. The first sawmill was mechanised in 1849.

Generally, Swedish industrial development was a response to external pressure, both competitive pressure on iron and international demand for sawmill products.[31] Riegler emphasises that Sweden possessed raw materials with lower production costs than in the core countries. He claims that the ground rent produced in this way was redistributed and that this process interacted with increasing agricultural production spurred by mass demand.[32] Export production stimulated capital goods production, and in good times for these sectors, consumer goods industries expanded. This all implied an industrial expansion before a proper transportation network had been set up.[33] But Swedish income per capita was low in the 1850s, so the home market must be judged as weak. Thus all the main sectors, and large parts of agriculture were increasingly export oriented.

In the 1870s industrial expansion was broader. It was connected to rail-road construction. Mining and railroad construction went hand in hand.[34] Inflation in the early 1870s created large profits, which were reinvested. The interest rate was low and transport costs declined. Swedish iron ore exports had been declining since the middle of the 18th century. But now, steel-making readjusted via investments incorporating new technologies, especially the Bessemer process. Swedish industry developed expertise in special steel. Iron, steel and mining formed a leading development block, employing 25 percent of the industrial labour force (adding the timber sector, we get to 45 percent of the workforce). Sawmills introduced steam power. The first real trade cycle crisis occurred at the end of the 1870s, but following this, expansion was very even in Sweden. In the whole period 1881-1895, emigration was very high (Table 4.5).

The two earliest development blocks in Swedish industry emerged in close connection with Sweden's dominant export sectors. Originally, these were timber and ore. The old, traditional export products were replaced by products incorporating more value-added, reflecting the spread of production linkages around the original export staple. The share of planed wood increased relative to timber, then came pulp and paper, and the final, most sophisticated stage is the export of wood processing machinery. Similarly, there is a chain extending from ore to iron, further to steel, and to machinery in general. The development blocks consist of very large firms, with a network of smaller suppliers around them.

In the 1890s, timber expanded further, but in 1900-10, the forest sector was challenged by Finnish and Russian competition.[35] The share of paper and pulp exports grew further.[36] As for the iron sector, metals and engineering became increasingly important.[37] These were the two growth poles. Even the chemical industry expanded, driven by match manufacturing and superphosphates. Electrical engineering developed from the turn of the century. Even in this period, much of the Swedish industrialisation was a rural phenomenon. Stockholm and Gothenburg was the only real cities with some industrial activity. Only Ericsson was based in Stockholm, the other large Swedish firms were in smaller towns like Västerås, Uddevalla, and in Dalerna.

In the 1885-1914 period, grain disappeared from the export basket. Adjustments in the agrarian sector were similar to all the other Nordic countries: a restructuring towards meat and dairy products, butter in particular. This strengthened the trend towards smaller family farms. Terms of trade developments were favourable for Sweden all through this period. Even export prices of raw materials increased. Most of the products in the Swedish export basket were of importance for the industrialisation of other countries. Sweden was little affected by the great depression: its export products were such that firms abroad tried to save costs by using more of the cheaper Swedish raw materials.[38]

There were strong concentrations of industrial workers both in the forest and the metal/machinery complex. The supply of qualified workers in the labour market diminished. Seasonal labour was earlier much used in mines and in forest industries. There was a certain segmentation between agrarian and industrial occupations. Earlier, much seasonal labour had been supplied from other Nordic countries, in particular from Finland. Riegler claims that the late overseas emigration of the Finns (Table 4.5) was a response to an increasing recruitment of Swedish, and later Russian workers in Swedish industry sectors in the late 19th century.[39] The lack of skilled labour in Sweden at that time is well known.

The early competitiveness of Swedish manufacturing exports is a crucial feature. In the 1880s and 1890s, a number of successful engineering innovations were made (milk centrifuge, turbines, electric machinery, gasometers, gas accumulators, combustion engines, ball bearings, safe matchsticks). This capital goods sector had emerged from the massive rail-road development in the 1870s, as well as from development of water power as a basis for furnace industries (as in Norway).[40] Sweden thus experienced import substitution also in the capital goods sector. This

was the background of the group of large Swedish companies. All of them, with the exception of Volvo (founded in the 1920s), were formed in the 1890-1910 period. Senghaas underlines the fact that Sweden started out with a very export-oriented manufacturing sector, and that the constitution of the domestic market followed only later.[41]

In the other Nordic cases, development blocks were related to staple products. In the Swedish case, however, the engineering industry became a development block of its own, relatively autonomous of the original natural resource based activities, and very internationalised. This feature is probably unique in the Nordic setting. Edquist and Lundvall claim that "the strong international orientation of the big Swedish engineering firms has made the engineering sector, as a whole, less strongly rooted in the development blocks around processing of raw materials, than in Denmark, where equipment users in the agro-industrial complex have played an important role in the fostering of competitive engineering products."[42] But engineering grew out of the earlier natural resources-based development blocks. This is confirmed by the fact that Swedish competence and r&d in non-ferrous metals and chemicals is very weak.[43]

Swedish bureaucrats and skilled workers organised very early, and since that time there was an influence by the original union movement on the form of organisation adopted by white collar groups. Although many aspects of organised capitalism were inspired by Germany, the sense of conflict was stronger among the Swedish underclasses than among German ones, which had a more paternalist type of organisation.

Up to 1890, investments had mainly been extensive, but from that time and onwards they became intensive, as capital per worker increased. Up to the 1890s, the limited domestic market was an obstacle to Swedish industrialisation. After 1890, one section of Swedish manufacturing industry turned to production of import substitutes.[44] Comparing the engineering sectors of the Scandinavian countries, Jørberg points out that Sweden had the most advanced and export-oriented one.[45] Except for Denmark's ship engines, the Swedish sector was the only one which generated numerous innovations. In the other countries, the engineering industries only supplied the domestic market with relatively simple goods. Jørberg's explanation is that the domestic market in none of the other countries was large enough for engineering specialisation. In the 1890-1914 period even the home market expanded.[46] The share of domestic output in consumption went from 65 percent to 80 percent.[47] Industrial production grew much faster than GDP 1870-1914. Productivity increased yearly by about 2 percent. In the mid-1890s, industry's contribution to GDP surpassed that of agriculture. While the agricultural share of the population was larger than that of Norway and Denmark, Sweden also had a larger industrial sector. This means that the tertiary sector was less developed in Sweden. "The growth of the Swedish economy was thus based on a big increase in commodity output, while in Denmark and Norway the service sector was more important."[48]

In agriculture, the average size of farms increased slightly, but the share of farms under 20 ha increased from about 85% in 1890 to nearly 92% in 1932. The share of family farms increased.[49] Family members helping out in farm work squeezed out agricultural employees. From 1880, the agrarian share of the labour force declined and from 1900, the number of independent farmers decreased. Owner-occupier farmers remained, although their farms became smaller. Some of the very mobile rural workers remained, but most of the property-less agrarian workers emigrated, together with daughters and younger sons of farmers. The result was a squeeze on the supply of labour power: real wages increased, even in the low-wage regions. Wages were lowest in the South-east. Here estate owners tried to escape the squeeze by importing seasonal workers from Eastern Europe. But this could not halt the secular increase of real wages, and at the turn of the century agricultural workers formed unions.[50]

As Table 4.5 shows, Swedish emigration peaked in the 1881-90 and 1901-10 period. A number of social reformers from academic circles and the labour movement argued that the exit emigration reflected discontent and that the outflow could be stemmed by reform, for instance better housing and redistribution of land.[51]

After the turn of the century, another group also spoke out against emigration. Conservative politicians and industrial entrepreneurs were concerned with the rising wage levels. They interpreted emigration as a sign of indifference and antagonism to discipline on the part of the working masses. They opposed social reform, but wanted a "strengthening" of Sweden by re-migration of Swedes, bringing back the "energy of America".[52] These groups also agitated in the U.S., demanded a Swedish-American shipping line to bring emigrants back, and in 1907 founded the "National Society Against Emigration".[53] The same year, a large investigation of emigration was launched, producing twenty topical reports and a volume of conclusions. The organiser of this study, Gustav Sundbärg, blamed the late development of Sweden both with respect to railway construction and universal suffrage, and argued that the key to lower emigration was that Sweden should "not be behind, neither in economic activity, nor in the reform of society".[54] It has been concluded from this that "Sweden did indeed use emigration effectively as a weapon in the fight for planned social change."[55]

The halting of emigration was not only a consequence of internal factors, since from World War I and onwards, emigration to the U.S. became increasingly difficult, and the wage gap diminished. But (in comparison to Ireland), the interaction between two domestic features seems decisive: the first one was the development of a block of engineering industries with a strong demand for labour in the decades before World War I. This factor has already been discussed. The second factor was the emergence of the Swedish union and labour movement as a collective actor. This implied that "voice" rather than "exit" became an option for the Swedish working masses. This second factor will be further discussed in Chapter 8 below.

6.4 DENMARK

In Denmark, railway construction was related to the development of agrarian exports. Efficient transport was needed to handle perishables.[56] Railways were constructed from the 1860s onwards. There were no Danish exports of industrial

products before the 1890s. Industrialisation mainly occurred in the Copenhagen area at least up to 1872.[57] "Industrial growth depended on income growth within Denmark and its expansion was due either to fresh demand or to important substitutes. Changes in Danish income growth, on the other hand, were to a considerable extent dependent upon agricultural export capacity. Thus it is possible to see Denmark's industrialisation as derived from that country's relations with Britain, her greatest outlet for agricultural products. The British market determined income growth for her agriculture, and her agriculture's demand for industrial goods determined the country's industrial structure."[58] In this respect, Denmark is unique in the Nordic setting. Its industrialisation was based on consumer goods.

There was an agricultural export boom in the 1850s and 1860s. The loss of Schleswig/Holstein in the 1860s stimulated industrial growth, as Denmark was cut off from the competition of these industrially advanced areas. The interest rate was low, and there were even some capital exports.[59] In the period 1850-70, six firms were incorporated; in 1872 alone, 16 firms and in 1873-75, 69 firms. Jørberg describes this as import substitution industrialisation with a strong craft element, with little mechanisation, and with many women and children employed.

The most important sectors in terms of manufacturing employment were clothing, gloves, and tobacco. Other firms were brick makers, mills, breweries, fertiliser plants and sugar refineries. Brick making and other construction materials reflected construction activities, and also the availability of limestone (one of the few natural resources). Cotton spinning industries had difficulties because of low customs barriers. They developed only in the 1890s. But cotton-weaving existed. It had earlier been run as a putting out system until the 1850s. By 1880 it had become highly mechanised. The only capital-intensive firms which existed were iron foundries and engineering firms. Before 1897, statistics made it impossible to distinguish between industry and crafts. Only 73,000 workers were in industry proper. By 1914, the number had grown to 108,000.[60] Capitalisation increased, indicated by an increasing number of horsepower per industrial worker. Import substitution increased. According to one calculation, just before World War I, 70 percent of all industrial products consumed in Denmark were manufactured in the country.[61] Imports were increasingly agricultural products needed as fodder and other inputs, as well as industry's demand for raw materials. Denmark's industry was a function of her general economic development, especially agriculture. The persistence of craft products also indicates the home market orientation. Industrial development was "derived", not a "positive force".[62]

The milk separator was invented in the late 1870s.[63] In 1880 there were no co-operative dairies in Denmark, while in 1890, there were 679, and in 1913 more than 1100. "One factor strongly promoting the growth of co-operatives was the smaller farmers' fear of exploitation by their larger colleagues who, having more capital, were able to purchase separators. In addition to the co-operative dairies and slaughterhouses, the farmers set up co-operative societies to purchase raw materials necessary to their own production and to market their finished products, and formed export associations, etc."[64] The co-operatives standardised their products. They also influenced the productive networks: skimmed milk was used in pork rearing, and pigs were inputs into the slaughterhouse cooperatives.[65]

There was an interaction between the folk high-schools and the cooperatives. These schools were based on enlightenment ideas and they grew up after the 1840s. By 1880, such schools had spread all over Denmark, and they were important for the self-consciousness and political influence of farmers.

In the 1870s, Germany banned imports of live pigs. There was a general spread of agricultural protectionism on the Continent. Denmark thus changed into packed pork and concentrated on the British market. England accounted for 39 percent of Danish exports in 1880, 59 percent in 1900. Meat, butter, egg and cheese increased from 60 percent in the 1870s to 87 percent of agricultural exports in 1910 (and 43 percent alone in 1910 was butter). The cooperative movement implemented the new marketing techniques. Furthermore, there was more emphasis on butter exports: "This, then, was how Danish agriculture met the international agricultural crisis of the 1880s: by restructuring her production in the direction of meat and dairy produce, whose prices proved more stable than those for grain; by greater concentration on the output of butter than of pigs (butter prices improving in relation to pig and pork prices); by standardising butter production; by increasing productivity per unit of acreage and worker; and by taking advantage of the low grain prices on the world market to import cheap grain and fodder, thus lowering production costs. The agricultural crisis may have hastened on this transformation of Danish agriculture into a highly specialised and efficient industry — indeed, it probably did; but it was not its cause. As early as 1870, as has already been noted, exports of meat and dairy products had already outstripped grain exports. The trend was already evident. Although Denmark, like Britain, retained her free trade policy, this did not mean the end of her agriculture as an important factor in economic development, as was the case in Britain."[66]

6.5 FINLAND

In the early 19th century, Finland was a very backward, agrarian country. In the mid 19th century, there was specialisation in grain, cattle stocks were reduced. Following the bad harvest of 1867, there was a famine in which 8 percent of the population died (137,000).[67]

The Finnish forest industries had a comparable role to Denmark's agricultural sectors. Timber exports were about 25 percent of all exports in 1836, and this share had risen to 50 percent in 1866. There was no sign of industrialisation at that time. The cotton industry was introduced by a Scottish immigrant in the 1820s, but only after 1859, when customs barriers to the east were repealed,[68] granting Finland privileged access to the Russian market, was there real expansion. The trade liberalisation implied pressure from Russian products, but also options for Finnish exports. The agreement was terminated by Russia in 1886, as protectionism escalated in continental Europe.

Jørberg summarises the Finnish case as follows: "Finland's situation was the most peculiar. She was politically attached to, and also economically dependent upon,

Russia, e.g., for her exports of textiles, iron and paper. Since, from 1859 to 1885, trade barriers were almost abolished between the two countries, some sections of Finnish production were orientated towards Russia, and this, as has been said, gave rise to a specialised type of Finnish industry, exporting low-grade goods, while the country's own needs were partly met by imports. The slow growth of the Russian market prior to 1890, however, was an obstacle to any swift expansion of Finnish industry. To some extent this had the effect of delaying conversion to a more modern type of production, such as had to be carried out if Finnish industry was to compete in the world market. Finland's iron industry found this conversion too much for it, as Norway's had earlier. Her textile industry, on the other hand, became concentrated on the home market and by import substitution to a great extent conquered it. One reason for this was that there were only a few textile firms, and these were relatively large and technically rather advanced. Industry was financed without the help of a developed banking system; fluctuations in the Finnish currency, before the introduction of the gold standard in 1878, also added to the difficulties of export firms, as did the need to give relatively long-term credit on exports to Russia, thus employing capital which could otherwise have been invested. All this meant that the structure of Finnish industry only changed very slowly."[69]

Timber exports prospered during the second half of the 19th century due to the liberalisation of timber trade within the European core led by the abolition of British duties, the rising European timber demand, and the reduction of transport costs. The initial success of this export was based on abundance of timber and cheap labour. Finland's dependence on this single staple good made the country highly vulnerable to changing international conditions. But Finland avoided the so-called staple trap, that is continuing dependence on a few primary export goods with low value added and few linkages to the rest of the economy. Linkages were established to a number of industrial activities, including more advanced forest industry exports.

As late as 1880, Finland had only 8 factories, of which 3 were textile mills, 2 sugar refineries, and 2 paper/pulp mills. Only 6.4 percent of the population depended on industry for a living in the 1880s. But the Finnish textile firms were the largest in Scandinavia, very export-oriented towards Russia. Also paper and butter (before 1886), were exported to Russia. Lack of domestic purchasing power was compensated for by exports to Russia. Russia's exports to Finland in the 1859-86 period probably did not cause much harm in Finland, since the Finnish market was so limited. Regulations and export duties concerning sawmills and the pulp industry had been removed during the 1860s. Finland could take advantage of the international boom, including a surge of demand for timber, in the 1870s. Timber was exported to Britain and Western Europe. Nine mechanical pulp mills were set up. Sulphate pulp mills followed in the 1880s. 42 new firms were set up in this connection.[70] In 1885, 36,000 workers were employed in industry, and of these 7,300 were in saw mills and 22,000 in paper and pulp.

Finland benefitted from the European free trade episode, above all via its exports to the east. The new protectionism of 1886 was a shock. Finnish products were too simple and of too poor quality for Western markets. To facilitate adjustment, there were some grants for modernisation of Finnish industry. Privileged trade with Russia continued, however, but subject to quotas. Forest exports secured necessary imports and a positive foreign balance. Finnish railway construction was of course connected to the transportation of timber and forest products for export.[71]

According to Jørberg, the potential of the home market improved, and a strategy of import substitution was possible in the 1890s. In this period, growth was connected to sawmills and the pulp industry. The share of timber plus paper and pulp of the export value had been 47 percent in the 1870s, and was up to 70 percent in 1910-14. The export structure in 1910/14 was 51.7 percent timber products, 19.2 percent paper and pulp, 17 percent agrarian products, and others: 12.2 percent. The 1905 structure of Finnish industry as percentages of total employment was: Metals/engineering: 18.3; timber: 23.7; sawmills: 20; textiles: 11; pulp/paper: 9.2; chemical: 2.7; stone, clay and glass: 9; food/beverages: 10.7; leather: 3.5; others: 12 percent.[72]

The 1860s were the starting point of a dynamic Finnish development based on timber exports. This development disturbed the stable pre-capitalist social setting of the Finnish peasant society. From 1860 to 1900 timber prices rose three or four times as fast as consumer prices and land prices increased at about the same rates. Between 1860 and 1913 the gross domestic product of Finland increased fivefold, the share of industry and construction in GNP increased from 13 to 25 per cent and the share of the primary sector fell from 65 to 47 per cent. The share of exports in this process was 20-25 per cent of the GDP from the 1890s on, and the share of forest based products was 69 per cent of total exports at the turn of the century.[73] All through this period, Finland's industrial development was "extremely dependent on export developments".[74] The multiplier effect of export industries explains domestic expansion.

Up to 1900, Finland had sold her own low quality iron to Russia, and imported what was needed of better quality iron. But after 1900, Russia out-competed Finnish iron, even in Finland. Finland, however, had started to develop its own engineering industry as a backward linkage in relation to the sawmill industry and the roundwood mill industry during the strong business cycle upturn of 1895-1900.[75] Earlier, such equipment had been imported from Germany, Sweden and even Norway. As raw iron production declined, metal engineering grew.

The composition of the forest based exports changed towards an increasing share of pulp and paper production until the export value of paper-products surpassed the value of mechanical wood industry products in the interwar period. Finland's early adoption of pulp and paper production was furthered by its location close to Germany and Sweden, the two centres of invention within these industries.[76]

Early cartelisation and concentration within Finnish industry facilitated the adoption of new and costly technologies connected to the more technologically advanced pulp and paper industry. At the beginning of the 20th century, however, the big companies with interests in timber resources, the sawmill industry, pulp and paper industry, energy production and the engineering industry controlled entry into the Finnish forest industry.[77] During World War One the imports of vital inputs for this industry — chemicals and machinery, especially from Germany — were closed off. The

industry was forced to substitute these missing inputs. The pulp and paper industry created a number of special offices to provide for domestic machinery and supplies, and erected a central laboratory for the study of efficient pulping methods. Young Finns were educated for the leading engineering functions within the industry.[78] Thus the backward linkages were consolidated also within the most advanced industries.

Finland's position within the Russian empire (as one of the few peripheries that were more advanced than the mother country) furthered industrialisation. Between 1900 and 1909 exports to Russia were 28 per cent of total exports and 73 per cent of non-forest-industry exports. These exports were of primary importance for the early phases of the metal and textile industry along with paper-making. These industries had closer linkages with other industries than did sawmilling.[79] Thus, Finland took advantage of its position between the Russian empire and Western Europe, exporting typical primary products to the advanced West and industrial products to the backward empire. Ireland, on the other hand, was subjected to a far more industrially advanced empire that reinforced her staple trap; the competition from the English textile industry hampered the industrial growth of Ireland and caused severe dislocation within the Irish countryside by increasing the dependence on agricultural production.

As for agriculture, there was a specialisation in butter for export after 1880. Butter was between 8 and 18 percent of total Finnish exports.[80] In fact Denmark imported and re-exported Finnish butter. The cooperative movement grew in the early 20th century, and cooperative dairies in 1909 were responsible for 80 percent of Finland's butter output. The cooperative movement stimulated the transformation from arable to dairy farming. In 1905, farmers set up an export organisation also. Here a virtuous circle related to the home market is visible: "The steadily increasing timber exports led to a rise in the value of the forests, earlier regarded as more or less worthless. And since the forestry companies owned a smaller share of the acreage than they did, for instance, in Sweden, the peasants were the chief beneficiaries."[81] Agricultural change was to a large extent financed by incomes from the forests. The home industry grew as a result of increased market dependence within the peasantry.[82]

In the late 19th century, the demographic check mechanisms of the old peasant society disappeared. The timber boom benefitted the lower strata within the peasant society economically by providing wage labour within forestry and its related activities. But the upper stratum of the peasant society, the freeholding peasantry, was the main beneficiary of this development. The new market-oriented relations between freeholding peasants and their workers increased the class differences within the peasant society. The numerical proportions between the three main classes of the peasant society — freeholders, crofters, and agricultural workers — changed from 39/32/29 (percentages) in 1870 to 35/17/48 in 1901 (cf. Table 11.9). The proportion of the landowning population grew much more slowly than did the number of agricultural workers, and the crofter population (including tenant farmers) was falling, even in absolute numbers. The crofters were small leaseholders who obtained their main livelihood from farming. This class declined as the freeholders, stimulated by the market opportunities of commercial farming, started to evict crofters and add their plots to the main farm. Thus, the landless agricultural workers were to a large extent recruited among the crofters.[83] These large groups of daily hand workers in agriculture became a reservoir for urban industry. But many also tried to get cheap property to become independent farmers. Thus, new soil was broken in this period. Backwoodsmen and unpropertied labourers tried to break soil, rather than choosing an exit option. This was a major precondition of the 1918 Finnish civil war.[84]

6.6 SUMMARY OF EARLY INDUSTRIALISATION

From the late 19th century comparable data on shares of the workforce in different sectors are available. In Part IV, we refer to calculations of the Irish industrial labour force at about 100,000 in 1922.[85] According to comparative figures published by Flora et.al., that was about 10.2 percent of the labour force.[86] It had probably been declining since the 1880s. It may have been comparable to the share of Norway or Denmark in the 1880s-1890s. Table 6.2 indicates that none of the Scandinavian countries, nor Austria, experienced any decline in manufacturing employment in the period 1880-1920. It also shows the "latecomer" status of Sweden, but its massive industrial expansion in the late 19th century brought it much higher than Ireland in the 1920s. The table also shows the permanently very high share of Swiss employment in manufacturing industries. The general impression is that all the contrast countries developed infant industries which benefited from the liberalisation of the 1850s and 1860s.[87] Their industrial revolutions were concentrated in the second half of the 19th century. Among the contrast cases, only one country had a flourishing proto-industry like Ireland, but Switzerland did not at all experience a deindustrialisation process. As is clear from the table, Switzerland maintained the highest share of workers in manufacturing industry among the countries selected. If the data of Table 6.2 can be trusted, only Finland was at a level of backwardness comparable to Ireland's at the turn of the century.[88]

Referring back to Table 4.3, the next two Chapters survey socio-economic factors and political and social mobilisation, respectively.

TABLE 6.2

Share of Labour Force in Manufacturing Industry and Agriculture

MANUFACTURING INDUSTRY	1880	1890	1900	1910	1920	1930	1940	1950	1960	1970
AUT		17.2	17.3	19.1		26.9	22.0	27.7	30.8	31.1
BEL	27.4	29.0	31.7	34.0	33.0	35.3		36.6	34.6	32.0
DK	20.0	21.6	21.2	20.2	24.5	24.2	25.1	26.8	28.9	27.8
FIN				9.8	11.7	12.7	15.4	20.7	21.5	24.7
IRL					10.2	11.4	12.2	15.2	17.0	20.2
NL			23.5	24.2	26.0	25.9	25.3		30.5	24.0
NOR		20.1	21.6	21.5	21.5	20.3	22.1	25.8	25.5	26.7
SW	7.8	11.6	15.8	19.5	24.6	23.7	27.4	31.0	34.2	29.2
CH		36.4	36.5	36.9	36.6	35.5	35.5	37.3	39.8	37.7

AGRICULTURE

	AUT	BEL	DK	FIN	IRL	NL	NOR	SW	CH
1880	55.6	30.3	50.3					51.5	
1890	64.1	23.1	44.8				49.6	53.9	37.4
1900	60.9	21.9	47.5			30.8	41.3	49.8	31.0
1910	56.9	22.4	42.7	71.5		28.4	39.2	45.6	26.8
1920		19.1	35.2	70.4	51.3	23.6	36.8	40.4	27.1
1930	31.9	17.0	35.2	64.5	47.6	20.6	35.3	35.4	21.3
1940	39.0	12.1	29.9	57.4	45.3	18.8	29.5	28.8	20.8
1950	32.3		25.6	46.0	39.6		25.9	20.3	16.5
1960	22.8	7.2	17.8	35.5	35.2	10.7	19.5	13.8	11.2
1970	13.8	4.6	10.6	20.3	25.4	6.1	11.6	8.1	7.7

Years: Divergences from the years in the table: Austria: 1934, 1939, 1951, 1961, 1971; Belgium: 1947,1961; Denmark: 1901, 1911, 1921; Ireland: 1926, 1936, 1946, 195 1961, 1971; Netherlands: 1899, 1909, 1947, 1971; Norway: 1946; Switzerland: 1888, 1941.

Note: Manufacturing here includes: basic mineral products, basic metal products, fabricated metal products, machinery and equipment, fabricated non-metallic mineral products, chemicals, rubber and plastic products, paper, printing and publishing, furniture and wood products, textiles, wearing apparel and leather products, food, beverage, and tobacco and other manufacturing industries. It excludes mining, building, electricity, gas, etc. — Note also that more detailed labour force data on Ireland in the 19th century are available in Table 11.8 of Part IV.

Source: Peter Flora et al. *State, Economy and Society in Western Europe 1815-1975*, Vol. II, Frankfurt a.M. 1988, Ch. 7

CHAPTER 7

SOCIO-ECONOMIC FACTORS

Discussing the various factors proposed by Senghaas for all our five contrast cases would require a large scale project. We have neither the time nor the resources to treat each of the factors in great comparative detail. What follows often relies on quite episodic evidence.

7.1 AGRARIAN PROPERTY

As noted in Part II, the distribution of land holdings is Senghaas' favoured prerequisite of auto-centric development.

With regard to *Switzerland*, Biucchi notes a "perfect balance" between town and country. The industrial revolution "did not cause any great social problems or upheavals, because the perfect balance between town and country and the distribution of wealth among wide middle sectors of the population corrected and even attenuated, during the period 1800-1830, that 'proletarisation' (the exclusive dependence of two-thirds of the rural population on industry) that the eighteenth-century 'patriot economists' had censured."[89]

The increased competition radiating from British machinery in the early 19th century implied a return to agriculture. But agriculture was innovation oriented: the return to the land in the early 19th century "also afforded the impetus for agrarian reforms, for abolishing the remaining restrictions on land tenure, and providing incentives for livestock-rearing — in short, for the decisive revival of a branch of the economy that eighteenth-century prosperity, forgetful of physiocratic teaching, had come to neglect. (...) The balance, both economic and political, between town and country, and the distribution of functions and activities between them which had been in practice for more than two centuries, had given Switzerland an economic structure both free and expanding and at the same time stable, socially developed, and untouched by the ferment of social or political revolution. The return to the land as a subsidiary source of income and subsistence, together with the decentralisation and specialisation of industry which served to maintain and strengthen the industrial middle class, excluded the development of an industrial proletariat in Switzerland."[90]

Biucchi also emphasises the connections between growth of rural incomes and the creation of a domestic market: "A good part of the wages of the numerous industrial population was reinvested in rural property (small houses and farms) throughout the country." Together with decentralisation, this feature is "the key to a seeming paradox in Swiss economic policy, its strongly agrarian trend despite the prevalence of industry and commerce."[91]

In *Austria*, enlightened absolutism between 1740 and 1790 ("Josephinismus"), wrought a number of institutional changes within a setting of mercantilist economic policies: feudal regulations and internal tariffs were abolished, a number of regulations on peasants and entrepreneurship were lifted. As for agrarian reforms, they favoured commercialisation and modernisation.[92] In the dual monarchy, the agrarian structures were probably quite different between the two main parts, with many large estates in Hungary. But with the breakdown of the monarchy, Austria was left with its own, more egalitarian agrarian structure.

According to Senghaas the social structures of Scandinavian agriculture spurred "growth with equity".[93] Egalitarian and modernised agrarian structures (freeholding peasantry, early enclosures, limited large scale landed property) ensured that large proportions of the agrarian based staple export incomes were evenly spread among the freeholding peasants within forestry, fishery and agriculture proper. These agricultural export incomes were spent on agricultural modernisation and increased consumption. The domestic market was extended and new home market-oriented industries emerged. Some of these industries also developed into new export industries that reduced the dependence of these countries on single staple products.

A possible objection to Senghaas is that he generalises from the Danish case. As we have seen in Chapter 6.3, only in Denmark was agriculture really decisive for economic transformation. In Sweden, that sector was temporarily important, while agriculture was not very important in Norway or Finland. In the latter three countries, however, we must remember that the distribution of other natural resources (e.g. ore, forests), was of additional importance. The crucial feature for Senghaas is the creation of an expanding domestic market. Data on the early 20th century pattern of agrarian holdings in Denmark and Ireland is provided and analysed in connection with Table 11.3 below. Judging from these data, it seems that Ireland's distribution of agrarian holdings after the late 19th century reforms did not differ much from that of the two others.[94] This leads us to conclude that the distribution of land holdings as such is not as crucial as Senghaas sometimes tends to claim.[95] But we can easily modify his argument by emphasising the above-mentioned incomes from the additional export activities.

Based on these very preliminary notes, we can only conclude that the agrarian sectors of all our case countries were not marked by glaring inequalities. There was nothing like Latin American latifundias, which tend to be Senghaas' main comparative contrast. The fact that farmers successfully mobilised in the political sphere is indirect evidence pointing in the same direction. This will be discussed below. The fact that this is *not* a marked contrast to Ireland will be discussed in Part IV.

7.2 INCOME DISTRIBUTION

Even today, strictly comparable data on income distribution patterns are hard to come by, and difficult to interpret. Quantitative historical investigations are of course even more complicated to carry out, and we have found nothing to rely on in this respect.[96] As a second best option, we shall look briefly at the contemporary situation.

A standard measure of inequalities of personal income is the Gini index. In Senghaas' analysis, this variable is strongly emphasised, but neither Senghaas nor Menzel have attempted to carry through a quantitative historical analysis. For their historical analysis, they rely, as we shall do, on indirect evidence. In fact, most of this evidence relates to social and political mobilisation, and will accordingly be presented in Chapter 8.

The data compilation by Flora and collaborators provides postwar data on income inequalities in all our contrast countries. A selection is provided in Table 7.1. Due to Ireland's old-fashioned tax system in the period covered, Irish data, however, are not provided.[97] A more recent study analyses the contemporary Irish distribution of income in a comparative perspective, but among our case countries only Sweden is included in that study.[98] Some results from this analysis have, however, been added in Table 7.1.

TABLE 7.1

Distribution of Personal Income Before Tax, Postwar Period

	FLORA-COMPILATION (PRE-TAX)				CALLAN/NOLAN		
	Gini index		**Relative mean dev.**				
	Early 1950s	*Mid 1970s*	*Early 1950s*	*Mid 1970s*	*Gross income*	*Net income*	*Alt. source*
SWEDEN	38.0	26.0	27.0	18.3	24.9	20.5	29.0
FINLAND	49.7	27.9	36.0	22.4			
NORWAY	44.8	31.4	32.5	22.6	28.9	24.3	31.0
SWITZERLAND	50.0	33.2	35.9	24.2			
AUSTRIA	32.8	34.9	23.0	24.5			
DENMARK	38.3	42.5	27.2	29.7			
IRELAND					38.3	34.1	38.0

Note: Flora data: Sweden 1950, 1974; Finland 1950, 1974; Norway 1952, 1975; Switzerland 1951, 1975; Austria 1957, 1976; Denmark 1950, 1976 (the latter figure is not comparable with the 1950 figure). — Callan/Nolan data: Gini indexes for gross income (pre-tax), and net income (post-tax) for Sweden and Norway 1979, Ireland 1987. Alternative source is a Gini index for the distribution of unadjusted household income over households: Sweden and Norway 1981, Ireland 1987.

Source: Peter Flora, Franz Kraus & Winfried Pfenning, *State, Economy, and Society in Western Europe 1815-1975. A Data Handbook*, Vol. II, Frankfurt a.M. 1987, Ch. 8. — Tim Callan & Brian Nolan, "Income Distribution and Redistribution: Ireland in Comparative Perspective", in John Goldthorpe and Chris Whelan, editors, *The Development of Industrial Society in Ireland*, Oxford, 1992.

If the data are taken at face value, the case of Denmark clearly does not confirm our expectations: the table tells us that inequalities have grown there between the early 1950s and the mid-1970s. Apart from this, the table confirms our educated guesses: Sweden is the most egalitarian case in the mid-1970s (but it seems anomalous that Austria should rank highest in the 1950s). In Sweden, Finland and Norway, inequalities have decreased, and so has the relative mean deviation. Finland has had the most radical reduction of inequalities, but the reduction in Switzerland is substantial. In the mid 1970s, inequalities were higher in Austria and Switzerland than in Finland and Sweden.

A better documented study, dealing with wage dispersion, has been carried out by Bob Rowthorn, who concludes: "Austria, which has been frequently admired for its labour market performance since 1973, does badly and emerges with a rating which is at best mediocre by international standards. This is explained primarily by the fact that employment opportunities for women are severely limited in Austria and their pay is on average well below that of men. In addition, wage dispersion amongst men is considerable and there is a substantial body of low-paid male workers. Conversely, all of the Nordic countries, without exception, do well and enjoy a clear lead over the rest of the OECD during the period since 1973. All of them have managed to achieve, or maintain, comparatively high levels of employment for both men and women, and as a rule wage dispersion is relatively low; in particular, the earnings gap between men and women is smaller than in most other countries. Thus, in terms of employment and wages, the Nordic countries are strikingly more egalitarian than Austria. This points to a fundamental difference between social corporatism of the Nordic variety and that which obtains in Austria."[99] Table 7.2 gives the indicators calculated by Rowthorn.

TABLE 7.2

Dispersion of Hourly Earnings in the late 1980s

	COEFFICIENT OF VARIATION (%)	F/M RATIO (%)
AUSTRIA	21	70
SWEDEN	8	82
DENMARK	9	87
FINLAND	16	76
SWITZERLAND	16	70

Note: ILO-data, covering manual workers in manufacturing, mining and construction. The Coefficient of Variation is weighted by employment, male and female earnings have been counted as distinct observations. The F/M ratio is the ratio of average female to average male hourly earnings.

Source: Bob Rowthorn, "Social Corporatism, Wage Dispersion and Labour Market Performance", in Jukka Pekkarinen, Matti Pohjola and Bob Rowthorn, editors, *Social Corporatism: A Superior Economic System?*, Oxford 1992, Table 1.

Indicators of relative poverty are also relevant here. Table 7.3 contains data for EC countries, which means that out of our contrast cases, only Denmark is covered. The table shows that Ireland is clearly worse off than Denmark, but better off than the Southern European EC countries, like Portugal and Greece. Ireland, however, has the largest increase in relative poverty between 1980 and 1985, not only among the countries selected, but in the whole of the EC.

Judging from these very recent data, it seems that our countries form two groups. The Nordic countries form the egalitarian camp (Sweden, Finland, and Denmark, although evidence is conflicting in the latter case), while Austria, Switzerland and Ireland are the — relatively speaking — inegalitarian camp. It seems that in Ireland, as in Austria and Switzerland, the distribution of income has never been a variable that has really influenced collective bargaining. This contrast may be interesting with respect to questions concerning the relationship between the socio-economic level of development and income distribution, as well as for debates on the redistributive effects of the welfare state, but it must (again) be noted that they tell us nothing about the question which interests Senghaas most, that is, whether the distribution of income influenced the consolidation of home market demand during the industrial breakthrough periods of the respective countries.

TABLE 7.3

Percentage of persons below half Average Equivalent Income, EC Countries, 1980, 1985

	1980	1985
DENMARK	13.0	14.7
IRELAND	19.2	22.9
PORTUGAL	27.8	28.0
GREECE	24.2	24.0

Source: Callan & Nolan, "Income Distribution and Redistribution: Ireland in Comparative Perspective", cf. source of Table 7.1.

Senghaas' emphasis on the two sets of distributional variables (land holdings and income) reflects his preoccupation with the auto-centric/peripheral contrast (cf. Chapter 4 above), in which the peripheral case has no strong home market. Comparing *only* high income countries, other nuances relating to the home market have been emphasised. Porter provides much material on the qualities of the home market, qualities that seem relatively independent of the distribution of income. Analysing the Swiss case, he notes that the high per capita income, as well as the inflow of rich tourists and in part the multi-language character of Swiss society, give Swiss firms "a unique window on evolving product needs. The Swiss company has buyers at home that reflect needs in several nations." It also turns out that firms in the French parts of Switzerland specialise in consumer goods, while the German parts are the most advanced in watchmaking and chemicals. And even more important: "Germany, France, and to a lesser extent Italy, are so closely linked to Switzerland both culturally and geographically as to nearly represent 'home markets'."[100]

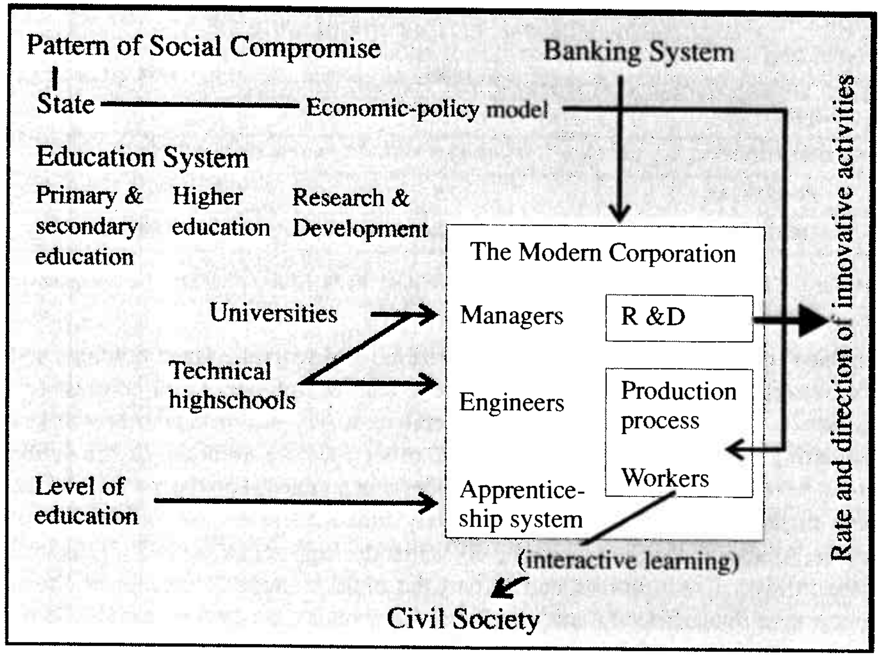
Similarly, studies of trade integration, especially during the 1960s, demonstrated the important function of the Nordic area (which is, with the partial exception of Finland, a language community) as an extended home market, in which successful firms could prepare themselves for further expansion in the world market.[101]

7.3 ECONOMIC INSTITUTIONS

According to Senghaas' scheme, we need under this heading information on a number of features such as risk-oriented entrepreneurs/firms, the banking system, the nature of the national innovation system at the firm level, the level of education, and the quality of institutions for higher education. Relating to the Neo-Schumpeterian approach which was presented in Chapter 4, it seems that most of these factors can be treated as factors involved in the functioning of the national system of innovation. As defined in that Chapter, this system consists of the institutions and economic structures which affect the rate and direction of innovation, and that again is, of course, a major variable behind economic growth performance.

FIGURE 7.1

A Sketch of the National Innovation System



A rough visual presentation of the possible impact of these factors is provided in Figure 7.1.[102] The following remarks serve as illustrations of the figure.[103] A number of economic historians have investigated and compared the relationship between the modern corporation (based on managerial hierarchies and a separation between ownership and management) and the banking system. With reference to Germany and Austria there has been a lively discussion concerning the Gerschenkron thesis, according to which the impact by banks was stronger in the late-industrialising countries than in the pioneer countries (and that the impact of the state was similarly stronger within late-late-industrialisers like Russia).[104] We have, however, indicated that the Nordic countries did at least not industrialise before

Austria. Denmark, then, is a problem case, since there was no strong impact by banks, but here the cooperative movement may be seen as a "functional equivalent" to banks and/or state intervention. As for Sweden (perhaps a latecomer) and Finland (perhaps a late-latecomer), there was certainly influence from the German model, characterised by active banks and an interventionist state.[105] Still, it would be an exaggeration to argue that in Sweden, banks (e.g. the Wallenberg family) determined the strategies of big business, and that in Finland, the state was the ultimate force behind industrial catching up.

As for Switzerland, its banking system developed in quite another way: it was initially linked to transit trade and to the impact of refugees in the Swiss federation. The financial sector developed following the first surge of industrialisation (last half of the 19th century), mainly doing foreign business. In the interwar period, internationalisation had already proceeded far, and at that time, the policy of absolute secrecy concerning Swiss bank accounts (originally invented in order to defend the fortunes of refugees from Nazi Germany) developed. Given the stability of Swiss society and its armed neutrality, international investors showed a high confidence in the Swiss banking system. While there has been a strong interaction between Swiss multinational companies and internationally-oriented banks, there seems to have been a certain cleavage between large Swiss banks and the domestically-based, export-oriented firms.

TABLE 7.4

Estimated Total National R&D Spending as a Percentage of National Product, 1975-1987

	1975	1977	1979	1981	1983	1985	1987
SWEDEN	1.7	1.8	1.9	2.2	2.5	2.8	3.0
JAPAN	2.0	2.0	2.3	2.6	2.8	2.9	
SWITZERLAND	2.4	2.3	2.4	2.3	2.3		
FINLAND	0.9	1.0	1.0	1.2	1.3	1.5	1.7
AUSTRIA	0.9			1.2	1.2	1.3	1.3
DENMARK	1.3	1.0	1.0	1.1	1.2	1.3	
IRELAND	0.8	0.8	0.7	0.7	0.7	0.8	

Source: Michael E. Porter, *The Competitive Advantage of Nations*. London 1990, Table 13.1, p. 693.

Research and development activity is a crucial feature of the national innovation system. Numerous indicators are available in this respect, but our comparison here will be restricted only to the most aggregate ones. Table 7.4 shows total r&d spending as a percentage of the national product.[106] This share has increased in most of the countries throughout the last fifteen years. Sweden ranks highest among our cases, at the same level as Japan, which has been included for comparison, given the paradigmatic status of the "Japanese model", (cf. Chapter 2). Among our countries, Switzerland and Sweden have large home-based multinationals.[107] Such firms engage in numerous r&d activities, and most likely account for the comparatively high r&d shares in these two countries. The Swiss rate has been permanently high, higher than Japan's during the 1970s. By the late 1980s, Finland has reached a middle position among our contrast countries, and its share has increased more than any of the others between 1975 and 1987. In 1975, its share was not much higher than Ireland's, so the contrast to Ireland's stagnation in terms of r&d spending is striking.

Knowledge is an increasingly important input into the present day complex manufacturing production processes. In their study of the 19th century European periphery, Bérend and Ránki deal with education and literacy as important components of the "human factor" in economic development. They find a marked contrast between Scandinavia and the rest of the countries of the periphery, but unfortunately they nowhere comment on the Irish case. Their conclusion is the following: "While elementary public schools, the most significant educational achievement of the prewar period, had brought the general standard of education of the entire population of the Scandinavian countries completely up to date, in the southern and eastern parts of Central Europe this could only be said of about 50-66 per cent of the population, and in the Balkans and in Russia of less than one-third of the population. Except for Scandinavia, then, the periphery was out of phase in respect of elementary training and in terms of literacy — the preconditions of all further development. The 60 per cent illiteracy figure for the countries of the industrial core at the beginning of the nineteenth century had, in a century's time fallen to one or two per cent, practically tending to zero. Some of the periphery were thus, in a sense, a hundred years behind the core."[108]

One of their main points is that there was no direct connection between the timing of the industrial revolution and the attainment of an advanced educational system. The spread of Lutheranism, adopted as a state religion in many German states in the 17th century, spurred the development of public education, one of Luther's aims. The same was the case in Scandinavia: Denmark had compulsory primary school attendance already at the end of the eighteenth century (Norway 1827, Sweden 1842). They emphasise that Finland, which made primary education compulsory as late as in 1866, had completely eliminated illiteracy by the beginning of the twentieth century.[109] While these countries were clearly backward economically, "their achievements in the field of education were so outstanding that even some of the most advanced core countries were unable to match them."[110] The same goes for the spread of education in the Hapsburg Monarchy. Switzerland is not covered, by Berend and Ránki but the available data indicates that the same was the case there.[111]

However, compulsory education does not immediately translate into a fully literate population. By the mid 19th century, the Nordic illiteracy rate was below 30 percent (England: 33 percent, France: 40-45 percent). Berend and Ránki note that Scandinavia was at the forefront in European education, and in the years before World War I, illiteracy had totally disappeared.[112]

As for more detailed data, we can revert to the Flora compilation for data which cover all our case countries. There are, however, many problems involved in the interpretation of Table 7.5. The earliest data on primary education relate to the late 19th century: here Sweden and Switzerland rank very high, and Denmark and

Austria form a second, also quite high group. Ireland is towards the bottom, but the real bottom is Finland, with only 6.7 percent of the 5-14 age group in public primary schools. Given Berend and Ránki's claim that illiteracy was abolished even in Finland at the time of World War I, there is every reason to doubt this number, and consequently, we cannot know whether Ireland was that much lower than the others either.

The data on secondary education also contain some paradoxes: data for the mid-1970s show a good performance by Finland, Switzerland, Sweden and Denmark, while Ireland lies somewhat lower, and Austria astonishingly low. This is most likely due to problems of classification, since the age groups overlap. As for the student share of the 20-24 age group, we easily identify the revolution of academic education of the late 1960s. Here, Ireland and Switzerland are in the bottom league, with less than half the share of Denmark.

On-the-job training is an alternative to secondary and higher education. During the present restructuring race, continuous retraining of workers is more important than ever. There are clearly differences as to how prepared countries are in this respect. In Germany, a very solid apprenticeship system has existed for a long time. It is maintained as something of a collective responsibility of the employers, collaborating with the state-based educational system. Having completed compulsory schooling, young people may establish a contract with a company, receiving a training course under a master craftsman, attending vocational school one day a week. A 1978 household survey showed that two thirds of the workforce had vocational or higher qualifications in Germany, against one third in the U.K. The system has clear-cut career paths, with graded courses, examinations and recognised qualifications for large groups of skilled workers. Twice as many people have such qualifications in Germany compared to the U.K.[113] There is also regular retraining going on in the firm. In contrast, it has been claimed that in the U.S. and the U.K., "both employer and Government policy, or neglect, has tended to permit the development of a larger and larger "periphery" of unskilled and semi-skilled workers, often low paid and insecure, existing round a "core" of skilled or professional secure and relatively highly paid employees."[114]

The much less dualistic German system is quite costly for employers, but firms deliberately try to internalise a number of educational functions which in other countries only exist outside the factory.[115]

Both Austria and Switzerland have apprenticeship systems which are like the German one. Porter notes that the Swiss apprenticeship system covers all young people who do not go to university.[116] Ireland must surely be closer to the British system. These differences can probably be traced back to the late 19th century, which would be most relevant in terms of Senghaas' scheme, but a further exploration of this topic would require a more specialised project.

TABLE 7.5

Primary and Secondary Schools and Higher Education

		% of age group (5-14) in public primary schools		% of age group in secondary schools			Students in higher education % of 20-24 age group
				lower (10-14)	general higher (10-19)	general higher (14-19)	
IRELAND	1880	37.8	[44.2][1]		1.6		2.3*
	1890	45.9	[45.9][1]		2.1		0.7*
	1925	82.9			4.4		1.3*
	1960	87.8			14.9		9.4[2]
	1975	82.3			32.9		10.3
DENMARK	1894	59.6					
	1906			6.1		0.6	1.8[3]
	1925	67.1		13.3		1.3	2.0
	1960	71.4		30.0		3.9	6.1
	1975	72.5		48.7		15.5	21.9
AUSTRIA	1881	56.1					0.7
	1891	63.1			1.1		0.9
	1922	83.5			3.2		4.5
	1962	73.1			7.9		8.2[4]
	1975	72.8			14.0		16.0*
SWEDEN	1881	72.2			1.7		0.8
	1891	74.5			1.6		0.9
	1924	61.6		10.1		1.5	1.6
	1959	64.1		30.9		8.6	7.0
	1975	60.9		53.0		33.3	19.3
SWITZERLAND	1881	75.0			1.0		0.8
	1891	75.6			1.4		1.4
	1926	70.5		5.2		2.1	2.3
	1961	69.1		7.1		5.6	4.3
	1977	67.4		41.7		9.1	10.0
FINLAND	1880	6.7					
	1900	18.8			1.9		1.2[5]
	1925	46.8			1.4		1.3
	1960	58.5			9.9		7.4
	1975	59.6			45.1		18.1*

Notes: * Universities, other numbers higher education (a somewhat broader category).
[1] Includes private primary schools; [2] 1965; [3] 1915; [4] 1960; [5] 1905.

Source: Peter Flora, *State, Economy, and Society in Western Europe 1815-1975. A Data Handbook*, Vol. II, Frankfurt a.M. 1987, Ch. 10.

Concerning higher education, two additional aspects should be investigated. First, the quality (and spread) of institutions for higher education, and second, the patterns of interaction between universities (state-sponsored r&d) and firms (company-based r&d). In the Scandinavian setting, Sweden is famous for its early development of a German type system of technical highschools. The Royal Technical Highschool was founded by the 1850s, and it educated a very large group of engineers, filling up the middle layers of the rapidly expanding firms towards the end of the 19th century, with the most successful engineers advancing into top management positions. Also many top bureaucrats had the same background. Denmark, on the other hand, had a very different system, with numerous folk highschools which educated the rural population. Denmark also had agricultural highschools.

But the impact of this factor, however, is (like most others) not unambiguous. Saul notes that the lack of institutions of higher education is not always a drawback: "Whereas German and British engineers and chemists normally received their training in local colleges and factories, the Swiss in particular moved all over western Europe for the purpose and went back home to pool their experiences."[117] According to Porter, Swiss firms today have very extensive links to the outside world in this respect: "in many of our case studies, including surveying equipment, heating controls, pharmaceuticals, and hearing aids, Swiss companies developed close relationships with foreign research centres in specific technologies, and in many instances established research subsidiaries in foreign countries. The early establishment of research centres in the United States and the United Kingdom by Swiss pharmaceutical companies, for example, has been vital to their output of innovative new drugs. The adeptness of Swiss companies at sourcing foreign technology, common to a number of nations that have been unusually successful in upgrading industry, seems to stem from a number of factors. The Swiss do not for a moment entertain the possibility that all technology can be developed in Switzerland, given its small size. The high skill level of Swiss scientists and engineers provides a foundation for assimilating foreign technology. Also, language and cultural skills make them particularly able to forge strong relationships abroad."[118]

This brief survey of the components of the national innovation system may indicate that the Swedish, as well as the Austrian and the Swiss systems can be counted as derivatives of a German type system. Possibly this goes for Finland also. Denmark has a quite specific system, reflecting its specific economic structure as analysed in Chapter 6, and to be discussed more comprehensively in Chapter 17. Ireland, finally, may turn out to have a system much more influenced by the English system. The deficiencies of the English system have been much discussed in economic history, in connection with the famous German and U.S. catching up at the turn of the century.[119]

CHAPTER 8

SOCIAL AND POLITICAL MOBILISATION

8.1 MOBILISATION, DEMOCRATISATION, NATION BUILDING, SOVEREIGNTY, AND PARLIAMENTARISM

In Senghaas' scheme, each of the items in our heading for this section is treated separately. In real history, however, they all form aspects (at various times) of a broad process of social and political mobilisation. A summary table (8.1) is inserted here in order to provide some crucial years which will be referred to below.

TABLE 8.1

Democratisation - Crucial Dates

	DK	SW	FIN	AUT	CH[1]	IRL
General suffrage/men	1849	1909	1907	1907	1848	1918
General suffrage/women	1918	1921	1907	1919	1971	1923
Parliamentarism	1901	1917	1919	1918	1866	1918

1 While the Swiss Federal constitution of 1850 prescribed male democracy, it is hard to date the real beginnings of such a system. There was much intimidation and manipulation. Therborn (p.16) suggests 1879 (or the 1880s) as a better dating: that year a proper electoral register was established for the first time. As noted below, postwar governments (at least) have been established according to a fixed distribution of ministers between parties. Thus, Flora, Vol. 1, p.187 gives no list of "party composition of cabinets" for the Swiss case.

Source: Peter Flora, *State, Economy and Society in Western Europe 1815-1975*, Vol. 1, Göran Therborn, "The Rule of Capital and the Rise of Democracy", *New Left Review*, 103, May/June 1977, pp. 11-16.

Before we turn to each single case, we shall present a distinction between the German and Anglo-American traditions, proposed by Charles S. Maier and further developed by Göran Therborn. The distinction was originally proposed in order to analyse the historical preconditions of corporatism understood as collective bargaining.[120] The distinction turns out to be important when Ireland is to be compared to the contrast cases.

In his historical comparisons of conditions for collective bargaining, Maier noted that the U.S. and England had no corporatism, and France and Italy also had very little. To explain this, Maier emphasised the timing of party formation and collective bargaining. England had unions accustomed to collective bargaining before party consolidation. Italy and France had it the other way around, while the North European countries had a simultaneous development of party and union movement.[121] Therborn restates these findings as a typology of three kinds of labour movements.[122] We do not need to deal with the Latin case, so two remain. The *Germanic* labour movement integrates under political leadership a mass party and a trade union movement. The trade unions are broadly organised, centralised and

uniform. They have a broad social focus, but are politically self-limiting, which is probably a more important predisposition for compromises than their size as such. They are close to the party, and thus predisposed to strike deals.

The *Anglo-American* labour movement is marked by the fact that trade unions engage narrowly in industrial relations questions only. Political organisation was postponed or was even absent (cf. the U.S.).[123] This labour movement lacks a general class perspective outside the narrow area of questions relating to wages and working conditions. (Ireland and Denmark are close to this one). Assuming that wage earners have three major interests (wages, working conditions and full employment), Therborn expects that the Anglo-American type labour movement would clearly give priority to wages and working conditions, while the Germanic type labour movement would clearly focus on the social wage and employment, or on work time reduction and unemployment compensation if it is weaker.

In this connection, Therborn also proposes a distinction between two types of welfare states, the European type and the Anglo-American. In the latter one, labour does not participate in the administration of the welfare state. As for the type of policy making, he holds that the Germanic approach consists of selective policy-making involving labour, and an Anglo-American approach shifts between Keynesian demand management and general deflation.[124]

Scandinavia

We shall provide a stylised account of Nordic social and political mobilisation, but with certain selected illustrations. For postwar developments, the social alliances and compromises of the interwar period are crucial. We find here a parliamentary alliance between farmers (or certain strata among them) and workers, and we find a social compromise between workers and capitalists, both at the factory and at the organisational levels. The latter compromise is connected to the former alliance by the fact that the compromise involves a shared responsibility: the labour movement is allowed to conduct government policies (with support from farmers and others), while workers accept that the capitalists have the last say in questions of investment and work organisation. In the following section, we shall focus on the mobilisation of the farmers, in order to see how, by the interwar period, they had ended up in a position where they were motivated to form a parliamentary alliance with labour. Then we shall analyse the emergence of the labour/capital compromise. Although we separate these processes, they are inter-related, since working class mobilisation could relate to the earlier achievements of farmers' mobilisation.

Studies of early Nordic social insurance systems show that Nordic social policies differed significantly from the Bismarck type paternalist social policies. The paternalist approach focused only on workers (to contain their mobilisation).[125] It furthermore differentiated benefits according to the given social stratification, avoiding wide-ranging social equalisation. Finally, its financing was designed to avoid redistributive effects: it was based on premiums or on regressive consumption taxes. In contrast to this, the Scandinavian model of welfare policy was generated by pressure from below. It thus aimed to be universal, offering a flat-rate benefit to everybody. Also its financing was intended to serve the equalisation of life chances: it relied heavily on tax financing to redistribute the burdens to those who could carry them. In the German tradition, on the other hand, social policy was preventive, divisive, manipulated from above.

Accepting these peculiarities of the Nordic systems of social policies, Peter Baldwin has argued that the "characteristic features of Nordic social insurance were not decided on in the 1930s or after the Second World War, during the tenure of Social Democratic power, but already with the first legislative initiatives at the end of the nineteenth century. They were determined at the behest of parties and classes not associated with the Left. Welfare policy of a universalist, egalitarian, tax-financed kind was, in this case, not the sort of qualitative change claimed by the social interpretation. Only apparently did it transcend narrow interests of particular classes or social groups. Only in retrospect has it come to seem a demand put forth and realised by workers and the left. When first introduced, the legislation that defined the exceptionalism of Scandinavian welfare was the outcome of battles between a rising agrarian bourgeoisie and entrenched, but declining, bureaucratic and urban elites."[126]

The exceptionalism consisted of universalist, egalitarian, tax-financed welfare measures. Baldwin does not deny the unique results of the Nordic development path. Comparing them to the paternalist models of social policy, he notes: "The Scandinavian welfare states, (...), were qualitatively different in realising the need of the disadvantaged for solidarity. Nordic social policy supposedly demonstrated that real reform could be wrung from the privileged by the oppressed themselves, on their own terms. It embodied equality, not hierarchy; consensus, not conflict; solidarity, not separatism. Scandinavian measures were universal in their embrace of all citizens. They were financed through taxes that fairly apportioned burdens and had a penchant for being formally egalitarian, flat-rate benefits."[127]

The roots of this model reach back before the labour movement was a strong social force, that is during the late nineteenth century. In Scandinavia at that time, "priorities were defined by the emerging agrarian middle classes. Scandinavian pensions were made universalist because farmers refused to be excluded from these new forms of statutory generosity. They were tax-financed because, in this way, the rural classes expected to gain more than they lost. To attribute the (often dubious) progressivity of twentieth-century measures to an earlier period is to misunderstand the nature of battles then fought out between social groups, in guise of fiscal and welfare reform. Before the era of progressive income and wealth taxes broached at least the possibility of a redistributive allotment of social costs, welfare policy financed by the central state's indirect consumption levies lessened the expense of poor relief that tended to be underwritten by local land taxes, paid by farmers. Far from being an attempt to apportion costs by the ability to bear them, state-financed social policy in this period was one element of a drawn-out dispute between rural and urban elites, whose resolution allowed farmers to shift social burdens to their opponents."[128]

Baldwin does not deny that working class mobilisation later continued along the same lines: "Universality and tax-financing were eventually accepted by the left as progressive, solidaristic characteristics of Nordic social policy. When this Scandinavian *Sonderweg* was first chosen, nevertheless, they were points demanded for its own particular reasons by the emerging agrarian bourgeoisie — only continued, not created, by Social Democrats in the 1930s and later."[129]

Several scholars point out the importance of farmers' mobilisation. Senghaas, as we have seen, strongly emphasised the importance of the agrarian owner-occupier in the consolidation of the domestic market. Alestalo & Kuhnle also claim that the particular Scandinavian development route was distinguished by "democratisation from below".[130] They find the roots of this development in the timing of individualisation and commercialisation of agriculture in Scandinavia. Transition to freehold and enclosures preceded the commercialisation of agriculture and made the peasants prosper from the later market opportunities. The peasants became rural middle classes that allied with new urban middle classes within the 'Left' (Liberal) parties against the established government elites.[131] Thereby, feudal and mercantilist privileges that blocked the spread of export incomes were abolished, and favourable economic policies were implemented.

As the working class organised economically and politically, cultural and economic cleavages between urban elites and rural peasants were criss-crossed by a new labour-capital cleavage. However the urban-rural cleavage between Conservatives and Liberals remained, and these groups did not unite against the new class mobilisation from below. Furthermore there were splits between different factions within the Liberal or conservative movement into distinct agrarian and liberal (or conservative) parties during the early 20th century and some of them cooperated with the social democratic parties at different times.[132] The result was the peculiarity of the Scandinavian party structures, which are marked by a strong united working class movement to a large extent holding government during the postwar era, and a weak, internally split political right.[133] This party structure secured favourable conditions for the 'countervailing forces' of rising trade union movements, closely tied to the social democratic parties. Thereby the changing class structures of industrialisation and urbanisation were still accompanied by "growth with equity" as a result of the increased power of the working classes.

In a broader comparative perspective, it has been emphasised that the Scandinavian processes of social and political mobilisation were relatively peaceful. Ruling elites adjusted to the consolidation of new influential collective actors in civil society. Denmark (and Norway) were clearly the most peaceful cases, while Finland, which experienced a civil war, was the most violent one. There was in the Scandinavian setting no vicious circle of revolution and counter-revolution,[134] no "oligarchic parliamentarism",[135] and no alliance of large estate owners and commercial bourgeoisie able to block industrial transformation.[136] Two of the Nordic countries, Norway and Finland, were dominated by larger powers, Norway by Sweden and Finland by Russia. In the case of Norway, dissolution of the union was again a quite peaceful process and there was no garrison administration. As for the Finnish case, marked by a break with Russia and controversies connected to the Swedish elites in a society marked by strong rural unrest, a comparison with Ireland's liberation from England is more interesting.[137]

Walter Korpi's comparative studies provide a stylised picture which is an interesting point of departure. In his view, Sweden emerges as a country in which the process of equalisation of power resources has proceeded very far.[138] This coincides with the view of Swedish social democrats, who interpret Swedish 20th century history as a three stage development: their first victory was the establishment of political democracy (parliamentarism, universal suffrage) 1917-20, then they worked to achieve a "social democracy", the "people's home" of the welfare state, between 1930-60. In this phase, the "labour movement had much to gain by attempting to reach a settlement with business interests in the industrial arena and to transfer its initiatives in distributive conflicts to the political arena." In his comparative studies of strikes, Korpi showed that the conflict level in Sweden declined from an international maximum in the 1920s, to an international minimum in the 1930s and in the postwar period.[139] This indicates the emergence of a "historical compromise", a basic feature of the "Swedish model". At the economic level, there is a compromise between the labour movement and business leaders: capitalists accept collective bargaining and the trade unions restrain the workers' use of their "market power", i.e. the strike weapon. This presupposes that social democracy is the governing party, since then the labour movement can be sure that the "non-democratic" strike is replaced by a "democratic" class struggle, that is: the erection of institutions that reproduce the power resources of labour. These institutions secure full employment, and the provision of welfare state services related to health, education, and social security.[140] Sweden is the ideal type case of how working class power resources are accumulated, being converted into welfare state measures in the postwar period.

Korpi emphasises that the labour movement must struggle in order to defend the positions that have been won. The Swedish solidaristic wage policy, presented in Chapter 9 below, for instance, may be seen as an attempt to avoid internal splits within the trade union movement. Within parliamentary democracy a left majority must be reproduced, and this necessitates an alliance strategy. In the 1930s, small farmers were the most important groups for political cooperation, while in the postwar period, the new middle classes became increasingly important (pension reforms were important for these groups).

Table 8.2 draws on Korpi's studies, connecting working class mobilisation and the position of the left in the parliament, with industrial conflict as the dependent variable. This scheme presupposes that democratisation and nation-building are completed, and it also presupposes the achievements of the mobilisation of farmers.

At this point, we shall continue (from Chapter 6) our account of the Swedish case. Among our contrast cases, Sweden was closest to Ireland in terms of emigration per thousand of population at the turn of the century (Table 4.5). This merits a closer study of the social mobilisation processes involved as Swedish emigration rate declined to 1.5 and 1.8 as against 4.9 and 6 for Ireland in the 1910s and 1920s.

TABLE 8.2

Korpi's Working Class Strength Indicators 1946-76

	WORKING CLASS MOBILISATION					THE LEFT IN PARLIAMENT		INDUSTRIAL CONFLICT		
	1	2	3	4	5	6	7	8	9	10
SW	71	43	High			High	High	43	36	Less
A	55	45	High			Medium	High	44	145	Less
DK	49	39	High			Medium	Medium	173	184	Same
FIN	39	37	Medium	Major	Political religious	Medium	Medium	630	835	More
IRL	36	9	Low	—	—	Low	Medium	443	293	More
CH	23	18	Low	Minor	Religious	Low	High	11	7	Less

Definitions:

1. Unionisation (percent of non-agricultural employment).
2. Average percentage of votes for left-wing parties.
3. Working class mobilisation (1 + 2).
4. Splits between parties linked to the labour movement.
5. Splits among different trade union (confederations).
6. Strength of left-wing parties' government participation (weighted labour share).
7. Proportion of time with left representation in cabinet.
8. Relative volume of strikes (strike days per 1,000 employees, non-agricultural sector).
9. Relative involvement (numbers of persons involved in industrial conflict per 10,000 workers).
10. Strike involvement compared to the interwar period.

Korpi places Sweden and Austria in the "High mobilisation, stable control"-group; Denmark in the "High mobilisation, temporary or partial control"-group; Finland in the "Medium-high mobilisation, low control"-group; Ireland in the "Low mobilisation, exclusion"-group, and Switzerland in the "low-medium mobilisation, partial participation"-group.

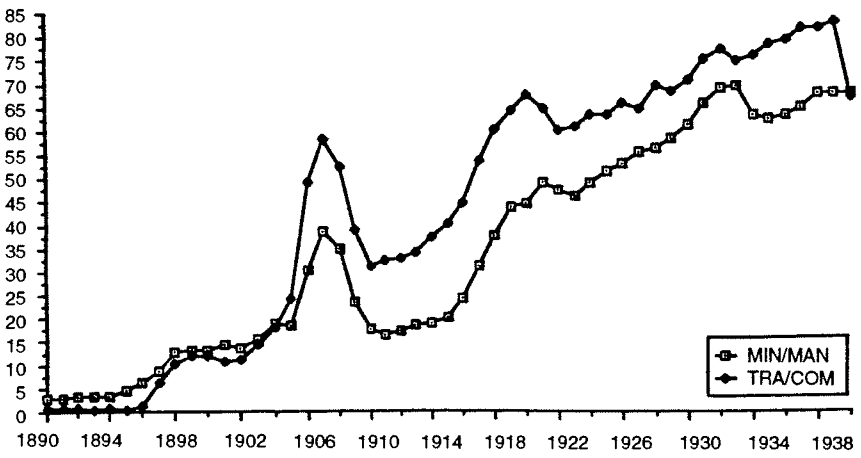
Note: Korpi regards "Working class mobilisation", and "The left in parliament" as independent variables, while "Industrial conflict" is a dependent variable.

Source: Walter Korpi, *The Democratic Class Struggle*, London 1983, Tables 3.6 and 8.1.

Based on Sweden's rapid industrialisation at the turn of the century, a strong union movement of both industrial and agricultural workers emerged. The highest growth rates of union density, according to Bain's data, were in 1897-1899, 1903-1904, 1907, and 1915-1917. From 1924 onwards, union density grew smoothly, reaching 54 percent in 1940, 67.7 in 1950, 73.0 in 1960, 80.4 in 1970 and 87.2 in 1975.[141] Even more interesting are union densities by industry. Figure 8.1 traces the development of union density in mining/manufacturing and in transport/communication. The surges of mobilisation around 1906 and around World War I are clearly visible, and we see that in these crucial industrial sectors, union density hovered between 58 and 82 percent (transport/communication) and between 44 and 68 percent (manufacturing/mining) in the interwar period.

FIGURE 8.1

Sweden: Union Density in Manufacturing/mining and Transport/Communication, 1890-1940. Percent.



Source: G. S. Bain & R. Price, *Profiles of Union Growth*, Oxford 1980, Table 7.2.

While 1890-1918 was a phase of domestic market expansion, the share of exports increased again in Sweden in the 1920s. The period following World War I was first marked by an inflationary world economic boom, marked by high liquidity, a large demand and appreciation of the exchange rate. During World War I, unions had won wage improvements. Due to inflation, real wages declined during World War I, but they rose 1919-21 (and also in the late 1920s). In response to this, there was a massive movement of rationalisation in Swedish industry. Many small firms disappeared, while the larger ones expanded internationally. Agricultural prices were declining and more people left the land. But soon the easing of political tensions, less military spending and very complicated international financial relations (the reparations question, for instance), created instability. The depression was particularly deep during 1921 and 1922 (GNP fell by 20 percent). As a consequence, wages were dramatically cut over 1922/23. As industry could not absorb the whole labour surplus

produced by rationalisation, unemployment increased (to 27 percent in 1921-2).[142] But these people did not revert to the exit option to any degree comparable to the period before 1917. Between 1921 and 1935, average unemployment among unionised workers was 15.7 percent.[143] At rates over 20 percent (1921-22 and 1932-33), emigration again tended to rise. This situation also discouraged many people in the agrarian sector who in another situation would maybe have migrated to towns, seeking industrial employment. Thus, there was also an overcrowding of the agrarian sector, especially in small farms and within agrarian workers' families. In the 1875-1895 period there had been a lack of skilled labour, while there had been hordes of unemployed unskilled labourers in the countryside, willing to emigrate. Now, there was high unemployment among skilled workers (many of them unionised) in the urban areas, as well as a pool of agricultural surplus labour. But both these groups were less motivated for emigration. According to Riegler, this was above all due to the strengthening of collective action by unions both in the industrial and agricultural sectors.

Due to the depression, the Swedish krone was close to the old gold parity by 1921. Banks had a hard time, and there was state intervention to solve problems in the private banking system. At an international conference in 1922, a return to prewar gold standard parities was decided, and this reform was completed in 1925 as sterling was made gold-convertible. Sweden reached convertibility by 1924. Following this adjustment, later recessions in the 1920s were milder. But during this period, Sweden had the highest level of strike activity in Europe. Table 8.3 shows this for our six case countries. Between 1907 and 1940, Sweden lost more than 100,000 man days per 100,000 workers in 14 out of 33 years (Finland: 11, Austria: 4 and Denmark: 3). Sweden also recorded the highest loss in one year (1909). Although data for Switzerland and Ireland do not cover as long a period as this, they emerge as more docile in terms of strikes (late 1920s and the 1930s).

After 1924, a major process of rationalisation followed in the export sectors. Although the rationalisation process was mainly inspired from Germany, there were important differences. In Germany it was staged by the state, but in Sweden, it was carried through by the "industrial right" ("industrihøgern", both industrial and financial capital). SAF (the Employers association) and the Swedish Industrial association (1909/10) had the initiative, they provided the support and implemented rationalisation. Rationalisation and high wages interacted. In 1930, among all European industrial countries, Swedish labour earned the highest wages.[144] The wage-gap with respect to the U.S. evened out, making emigration less attractive. This spurred immigration to Sweden, and the overall consequence was high unemployment.

As for fiscal policies, the idea of balanced budgets and "responsible budget policy" reigned. National accounts systems were very primitive, and it is hard to find out whether this policy was procyclical and also whether the later social democratic "proto-Keynesianism" (to be discussed below) was really counter-cyclical.

On September 21, 1931, Britain was forced to leave the gold standard. Sweden had no choice but to follow Britain's devaluation. In Germany, there was a turn to a strategy of autarchy following the Nazi seizure of power, and England consolidated its new "System of Imperial Preferences" at the 1932 Ottawa conference. Following these events, Swedish monetary policies were rather accommodating. The Central Bank stabilised the krone at an exchange rate which favoured exports. The interest rate was low. The domestic market kept growing, and housing construction, for instance, flourished.

As the crisis hit Sweden with a lag in 1930, the unions' high wage policy had to be modified, and social democracy here was a crucial factor. During the deflationary crisis of 1921/22, the labour movement had pushed for a programme of union-directed unemployment benefits, supported by the state. But this was not implemented before 1934. A state- and local government-sponsored programme of emergency relief, however, had been in operation since the end of World War I, but that programme relied on a minimum wage. This became the focus of labour resistance. Unions opposed the emergency relief programme, since their position would deteriorate if too many workers were taken out of the labour market.

In the spring of 1928, the Swedish Labour party discussed their new party programme.[145] A setback (from 41 to 37 percent — Table 8.4 below gives the percentages for all labour parties) in the Autumn 1928 election confirmed the need for a new strategy: maybe the working class would not continue to expand, securing the automatic achievement of a parliamentary majority. Some argued that working class expansion had already peaked. The new strategy was first reflected in the party's 1930 parliamentary motion, which argued that the emergency relief should be replaced by productive state-financed employment, paid according to prevailing collective agreements, and with the same working conditions. The motion did not pass, but it was an important factor behind the party's mobilisation in 1931 and 1932. In 1932, the Labour party went from 35 to 41.7 percent of the vote, and formed its first government since 1926. Analyses of the election result also showed that much new support was won among poor people in rural, agricultural areas. Already by 1933, the so-called red/green alliance was a reality: The Labour party made a deal with the Farmers' party: 200 million SEK were granted to exceptional public works, while — to the benefit of the farmers — food prices were increased and protectionist tariffs introduced. Although the economic effects of these allegedly "expansive" fiscal policies are hard to ascertain ex post, it was important that support for the unemployed no longer took the form of stigmatising "emergency relief".

TABLE 8.3

Strikes Before 1940 - Man-days Lost per 100,000 Non-Agricultural Wage Earners

	A	DK	FIN	IRL	SW	CH
1899		426620				
1905					295402	
1907			339769			
1908			245140		204988	
1909			139731		1267719	
1911			156841			
1912			282095			
1914			195928			
1917			1013547			
1918					128087	
1919					171499	
1920			186845		658801	
1921	118800				192228	
1922	114101	161956			189623	
1923	100070			169098	482139	
1924	174098					
1925		280351			173420	
1926			131905		114290	
1927			597192			
1928			162144		314377	
1930						(21505)
1931					163982	
1932					190485	
1933					208402	
1936		172005				
1937				347643		
(Total years)	4	4	11	2	15	0

Note: Only years with a loss of more than 100.000 man days per 100,000 non-agricultural wage-earners are listed, except for the case of Switzerland, where the year of the highest number of lost man days is listed. Data for the following periods: Austria 1891-1913, 1919-1937; Denmark 1987-1940; Finland 1907-1940; Ireland 1923-1940; Sweden 1886-1940; Switzerland 1927-1940.

Source: Peter Flora, et. al., *State, Economy, and Society in Western Europe 1815-1975*, Vol. 2, Frankfurt a. M. 1988, Ch. 10.

TABLE 8.4

Electoral Support for Socialist Parties in the Interwar Period

	DK	NOR	SW	FIN	A	CH
1919					40.8	23.5
1920	32.6		36.1		36.0	
1921		30.5	39.4			
1922				39.9		
1923					39.6	23.3
1924	37.1	33.3	46.2	39.4		
1925						25.8
1926	37.6					
1927		40.8		40.4	42.3	
1928			43.4			27.4
1929	42.0			40.9		
1930		33.1		35.2	41.1	
1931						28.7
1932	43.8		47.0			
1933		41.9		37.3		
1935	47.7					28.0
1936		42.8	53.6	38.6		
1939	45.3			39.8		25.7

Note: For the Nordic countries, share of votes for social democratic and communist parties. In the cases of Denmark, Norway and Sweden, these were small, but in Finland it was large. Thus, the Finnish left was more split. Austria only had one Socialist party. In the Swiss numbers, votes for the Communist party are not included (it gained less than 3 percent in all elections).

Source: *Kriser och krispolitik i Norden under mellankrigstiden. Møtesrapport. Nordiska historikermøtet i Uppsala 1974*, Uppsala 1974; and for A & CH: Peter Flora, State, *Economy, and Society in Western Europe 1815-1975*, Vol. 1, Frankfurt A.M. 1983, Ch.3.

The Labour party began to emphasise the mutual interdependence between farmers and workers, and the virtuous circle created by increasing wages and food prices. In this way, the labour movement continued a long tradition of collaboration between workers and farmers (the cooperative movement, the temperance and free church movements). Threats were emphasised (despite the fact that these were very weak in Sweden). State intervention would be extended, also covering agricultural prices. And even more important, the old idea of "socialisation" of the means of production was replaced by the more modern idea of a mixed economy,[146] and the ideology of the "people's home" replaced the emphasis on class struggle, pure and simple. The new reformist message was that there were alternatives within capitalism, and that it was of crucial importance that the Labour party supported the alternative which benefitted the broad masses. Within economics, there was a change from the frugal "state economic" approach to a more "social economic" approach, based on the idea

that deficit financing could stimulate an economic sector in which capacity was not fully utilised. It is noteworthy that at that time, Sweden had the world's smallest bureaucracy, but the world's most far-reaching public policy. The point was that the labour market organisations themselves implemented the policies, and also the local authorities.

The 1930 proposal is seen by Riegler as the point of transition from a passive approach (which accepted mass migration) to an active strategy to secure the "right to work", that is an active labour market policy. Distress over emigration was matched by claims that the state should engage more in social policies. He concludes that economic changes and social experience had caused a change from emigration as an individualistic pursuit of a better standard of living, to a collectivist strategy for improving Swedish society.[147]

This was the start of what Korpi calls the "Historical compromise", in which the business community had to recognise the strong position of the social democratic movement and the trade unions. Both camps were highly concentrated, more than in any of the other Nordic countries. In 1936 a deal securing labour peace was struck between the labour market parties ("Saltsjøbadavtalen").[148] At that time, trade unions adopted similar positive attitudes to Taylorism and strategies for work rationalisation. "One of the reasons for the change in attitudes was the belief - rightly or wrongly - that the social democratic government could guarantee that new production technology would not result in widespread unemployment. Another reason was their belief that unions - thanks to their strength - would be capable of appropriating what they considered their rightful share of the productivity gains from new production technology and other forms of rationalisation of production."[149] When negotiating with the employers, unions could always count on the use of state power by social democracy to back them up. In this indirect way, the welfare state and the full employment commitment were important preconditions for the compromise. "The fact that workers may expect to find alternative employment if fired implies a more positive attitude among workers towards new process technology than in other countries."[150]

Switzerland

In the wake of the French revolution, Switzerland was invaded in 1798. Local autonomy was abolished. A new constitution broke the power of old oligarchic elites, dismantling all hereditary distinctions and established equality before the law. This was the "Helvetic revolution" of 1801. But this "Helvetic Republic" faced great problems due to linguistic, cultural and religious diversification. This was recognised by Napoleon, who influenced an "Act of Mediation" in 1803, which established a federalist system. The central government ("Diet") had power only in foreign policy matters: war and peace, currency regulation, military forces. All other matters were to be determined at canton level, and there were 19 cantons at that time. The French threat of annexation during the wars (1803-1813) enforced unification.

But with the fall of Napoleon, the conservative great powers forced Switzerland to return to its older, decentralised structure. Switzerland's traditional problems connected to very strong local sovereignty surfaced again. Old elites soon regained their power. With this 1815 constitution, three new cantons (including Geneva) were added, which brought the total number of cantons up to 22. At that time, the great powers also stated that Switzerland's neutrality was in the interest of Europe as a whole.

As noted in Chapter 6, Switzerland was under strong pressure in the post-Napoleonic period. In the 1830s, the waves of liberal nationalism influenced Switzerland: ten cantons applied universal male suffrage in the 1830-33 period. They also wanted to increase the powers of the central state, and a number of Catholic cantons formed a separatist alliance. The result was a short civil war (the "Sonderbundskrieg" of 1847): Catholic, conservative and agrarian cantons were defeated by Protestant, liberal and industrialised cantons. The settlement in 1847 gave rise to a Constitution influenced by liberal ideas, with a careful balance between cantons and federal powers. This 1848 constitution (with a few alterations and amendments) has remained Swiss law. It provided a minimum of centralisation with respect to defence, a uniform system of measurement and customs. It reduced the power of old elites. The mid-19th century was obviously a turning point. After about 350 years of internal strife, Switzerland has had peace ever since. From that time, Switzerland has been a paradigm of egalitarianism and democracy, of the successful integration of areas consisting of different languages, religions and cultures.

Referring to this sequence of development from the Helvetian Republic, via the Mediation, the Restoration, and the 'revolutions' of 1830 and 1848, Biucchi argues: "In the course of those events the relics of the old corporative regime were suppressed and brought to an end by deliberate legislative intervention: the abolition of feudal land ties, the distribution of common lands, freedom of domicile and of labour, industry, and commerce, all helped Switzerland to evolve easily towards free trade a basic principle of her commercial policy."[151] Another important feature was that it "accelerated and prepared the way for integration and unification" of the 23 cantons. All tithes and all feudal landed rights were abolished, with liberty for crafts and trades. The Republic also gave impulse and protection to machine spinning.[152] This indicates that the establishment of full national sovereignty based on a constitution was very important for many of the socio-economic institutional changes discussed in Chapter 7 above.

In Chapter 9.5, we shall survey the "hybrid" Swiss form of representative government. According to Kerr, this form relies on four political traditions which all originate in early history: proportionality, popular consent, federalism and neutrality.[153] The origins of the doctrine of neutrality were mentioned in Chapter 5. The 1848 Constitution re-emphasised neutrality, and the Constituent Assembly, as we have seen, in fact gathered to settle internal strife in a period of external threat from major powers. Later, of course, neutrality was reinforced by the experience of the two world wars of the 20th century. Switzerland remained neutral, housing the Red Cross headquarters and serving as a centre of communication between the powers at war. Also *federalism* was written into the Constitution, thus guaranteeing the Catholic minority protection against the Protestant forces. It contains elaborate

checks and balances and also made Swiss politics very decentralised: throughout the 20th century, party life mainly took place at the cantonal level, not in the national arena. Federalism keeps hostile neighbours apart, but also allows integration of dissimilar cultures within a single nation.

Switzerland benefited from the free trade in the late 19th century. Since 1859, Swiss men were no longer permitted to work as mercenaries. Parliamentarism followed in 1866, as a consequence of the Prussian victory over Austria in 1866.[154] Catholic and Socialist minorities mobilised through the late 19th century, and the Radical, Protestant and anti-clerical forces, which dominated at that time, had to concede the right of minorities to propose *referendums* in constitutional amendments of 1874 and 1891. This element of direct democracy is a populist aspect of the Swiss system which complements, or even supplants the representative functions of political parties. Minorities are allowed to influence compromise solutions. Such "gütlichen Einvernehmens" are reminiscent of German and Swiss treaties of religious peace, typical of the 16th and 17th centuries.

As for the further processes of mobilisation, we must remember certain structural characteristics. As already noted in Chapter 6, the Swiss economy had, throughout this long period, been a very open economy, with strong export-orientation, little protectionism, and very moderate interventionism. Its social structure was quite middle class, with an emphasis on small firms. Swiss development has been dubbed "modernisation without urbanisation". Despite a very large share of the workforce in industry, Switzerland did not develop a huge proletariat concentrated in large plants in urban areas.[155] The working class mobilised very late and is very weak in a power resource perspective. While both Switzerland and the Nordic countries differ from Ireland in the sense that they benefited from the trade liberalisation during British hegemony, the Nordic countries all saw a rather intense mobilisation of the working class. Unlike Ireland and Switzerland, the Nordic area benefited from an absence of religious cleavages. As for the position of women, there are also marked differences. Switzerland achieved male suffrage very early, but women gained the vote as late as 1971. The Nordic countries were relatively late with respect to male suffrage, but very early with respect to female suffrage. Given Switzerland's early male suffrage, workers had developed loyalties to many other parties, and the late rise of its Social Democracy to a mass party, reduced that party's impact on socio-political development.

The main point about labour in the Swiss system, however, is not its full exclusion, but rather its integration within a system based on proportionality. Among the four traditions behind the Swiss system, it still remains to discuss the *rule of proportionality*, the principle that power is shared at all levels of government according to an informal key based on the balance of social forces. This practice was adopted gradually, in order to defuse tensions before they escalated into open conflicts. "At the outbreak of the general strike of 1918 in Zurich, the Radicals introduced proportional representation in federal elections and closed ranks with their former arch-enemy, the Catholic Conservatives [The Christian Democrats: LM], to form a governmental coalition capable of confronting increasing class tensions. At the peak of the Nazi threat in 1943, the same bourgeois parties admitted a Socialist representative to the Federal Council in the interests of national solidarity. In the social realm, in 1937, organised labour and employers' associations also concluded a 'Peace Treaty' in which both parties agreed to arrive at collective wage agreements without recourse to the threat of either strikes or lockouts. All these practices continue to this day."[156] In Chapter 9, we shall study some consequences of this peculiar version of proportionality.

Austria

Pressure for democratisation mounted during the reign of Franz Josef (1848-1916).[157] Austria experienced a stepwise extension of voting rights, culminating in general suffrage in 1907. The Christlich-Soziale Verein was founded in 1887, and later became the Christian-Social party, the large conservative party of Austria.

The Dual Monarchy was a mosaic of more than 10 nationalities. Austria-Hungary was one of the countries which triggered off World War I, and the war crushed the monarchy and divided what was left of the empire in the second half of 1918. The new republic was left with only 27 percent of the area of imperial Austria. The population was reduced from 51 million to about 2.3 million in 1923: Austria became a small country. What had been a "domestic" division of labour was now a question of foreign trade. Austria had been specialised in industry, while much of the agriculture was subsistence oriented.[158] Social relations in industry were, as we shall see, quite tense in the aftermath of the Great War.

The Austrian National Council had given the country the name "Deutsch-Österreich" and wanted to be a part of Germany. It was the victorious Allies of the First World War who forced them to change the name and to include a ban on "Anschluss" in the new constitution.

In the 1918 elections, the Social Democrats became the largest party. Revolutions raged in Russia and Hungary. The brief Hungarian "Räterepublik" inspired Austrian workers, and unionisation exploded (770,000 in 1919). The whole period of Austrian history between 1914 and 1945 has been described as a long period of unrest.[159]

In 1920, Karl Renner of the Social Democratic party was elected the first president of the Republic. Social Democracy was in a strong position to push for reforms. In the period 1918-1920, there was a government of socialists and the Christian-social party. Socialists proposed a nationalisation of large industries and banks. In the period 1918-1920, Austria was a leading country as far as social legislation is concerned: for example, the 8-hour day was passed in 1919. For the Austro-Marxists, social policy was a means of convincing workers that significant reforms could be attained within capitalism. The first signs of Austria's later famous "Social partnership" can be traced to the first republic. The idea was to maintain wartime collaboration. In 1917, principles of "Parity" or balance between the classes were applied in some committees in industry, and despite protests, some of these principles were maintained after the war. President Renner was an important influence in this regard.

But while these measures reflected the sudden power of working class organisations following the setbacks for the earlier ruling groups in World War I, these very ruling elites had earlier experimented with collaborative institutions. There was a "socialism of the chair" *(Kathetersozialismus),* similar to that of Bismarck's Germany in the 1880s. Already in the 1880s, sickness and accident insurance for industrial workers had been introduced. The idea was to anticipate working class demands for social protection, thus precluding autonomous working class mobilisation. The Conservatives lost interest in social policies, but in 1907, the Christian Social party, together with the Liberals began to design pension schemes which split different occupational groups. This coincided with universal suffrage for men (Table 8.1). In 1894, the authorities had entertained the earliest ideas about workers "chambers" to contain the struggle for general suffrage. In 1917, however, such a chamber was organised as an expression of workers' self-organisation. The unions and the Social Democratic Party had decided in favour of an Arbeiterkammer, and legislation passed in 1920.[160] These chambers would advise authorities on matters relating to workers (work environment, insurance, housing, nutrition, health, education), keep statistics, make surveys on living conditions, and generally promote the economic interests of workers and white collar employees.

The Austrian working class organisations here took up an idea of corporatist organisation of social groups in chambers which went back to the trade chambers in the 19th century. The origins of the business chamber, the post-1945 "Bundeswirtschaftskammer", can be traced back to the first law on trade chambers (1848). The system was extended in 1850 (regional chambers) and 1868.[161] Chambers gave advice, and could also send delegates to one of the four parliamentary houses. In 1876, the first meeting of representatives from all chambers took place. The assembly was dominated by the gross-bourgeoisie. The idea of separate industry chambers was discussed, but rejected. Only in 1938, during the fascist period, was a national chamber (Bundeskammer) established.

Another important group was the "Freie Industriverbände", set up to support employers in industrial conflicts. In the phase of protectionism following the world economic slump of the 1870s, an anti-free trade "Industrielle Club" of 60 large companies was formed (1875). In 1892 it became a member of "Zentralverbandes des Industriellen Österreichs", small firms organised in "Bund Österreichischer Industrieller" (1897). There was tight collaboration between the trade chambers and these employers' organisations. In 1918 a comprehensive association for all industry was established. This "Hauptverband der Industrie Österreichs" was an independent organisation in function until 1934. In 1934 a "Bund der Österreichischen Industriellen" was established as a subdepartment under the Ministry of Trade and Transport.

As for farmers, serfdom had been abolished in 1781. In 1808, the first "agrarian society" was founded. These regional societies aimed to improve soil cultivation, and defend agricultural interests. From 1848 there were attempts to establish agricultural chambers, regulated by law, not electing their own representatives. The first one, however, was not established until 1922.

At that time, normalisation was on its way. The victories of social democracy in the first years after World War I proved fragile. From about 1920, the labour movement faced setbacks. The collaborative institutions that had been constructed were now left ineffective. The collaborative government fell (1920), marking the end of "Konkordanz"-democracy, i.e. the idea that interest organisations should take part in government according to their strength.

As for social policies, the earlier, conservative emphasis re-emerged. The bourgeois "Mittelstand" social policy strategy treated salaried employees and workers differently. Separate packages were aimed at different occupational statuses (private sector employees, public sector employees, industrial workers, workers in agriculture and forestry). The Social Democrats did not succeed in establishing alliances with farmers and salaried employees, and the Social Democratic party was confined to the role of an industrial working class party.[162] The SPÖ (Labour) only retained dominance in Vienna, trying to display the city as a paradigm of socialist policies. This is an important contrast to the Nordic pattern of labour/farmer alliances in the interwar period. In the Nordic countries, unions were relatively strong, while in Austria, there was a diversity of competitive unions in the interwar period.

In Austria, being a homogenous Catholic country, the "Germanic" approach to social policy was fully supported by Catholic social theory.[163] Esping-Andersen & Korpi note that this theory "combined a basic acceptance of capitalism with a criticism of its exploitative excesses in early industrialism. Farmers and urban petit-bourgeois groups just as much as workers were seen as suffering from the advances of industrialism. Therefore, the *Mittelstand* came to play a strategic role in Catholic reform strategy. The long term task of social reform was seen as the creation within capitalist, industrial society of a new *Volksordnung* based on occupational communities or estates (*Berufsstände*), which would include employers as well as workers. The essentially corporatist nature of this type of solution to prevailing social ills was underlined by Catholic thinkers and became clearly expressed in the papal encyclical *Quadragesimo anno* of 1931. It was, in turn, manifested in institutional structures of social policy which divided wage-earners into different occupational groups and, in particular, separated manual workers from salaried employees. In this strategy the state was accorded a subsidiary role in support of the efforts of individuals, families, neighbourhoods and occupational groups."[164]

In other words, in countries like Austria, social reforms "pursued a corporatist, status-segregated order designed to reward loyalty and traditional privilege, and to discourage wage-earner unification. The leading concern was to preserve pre-capitalist conceptions of organic social integration rather than to facilitate the free development of market relations. This contrasts with the liberal bourgeois response that prevailed in the Anglo-Saxon and Scandinavian nations. The over-riding objective here was to minimise state interference in private property rights, to block the emergence of distributional mechanisms outside the market, and thus to incarcerate labour in the market. The punitive poor law was the favoured response to the social question for classical liberalism, while reformist liberals looked to corporate welfare or contractual insurance schemes."[165]

This tradition was continued in the postwar era.[166] Neither in Austria nor Scandinavia were the social policy measures of the 1920s and early 1930s very effective or encompassing. The economic crisis created numerous problems for the state finances. The political differences mentioned earlier, made for very different outcomes in the years leading up to World War II. Mention has already been made of the so-called red/green alliances between farmers and workers which produced state interventionism with parliamentary democracy intact.

In Austria, liberal democracy was increasingly threatened. The political cleavage between Social Democrats and the Christian-Social Party widened throughout the first republic, and there was also Nazi mobilisation. Under the pressure of economic crisis in the 1930s, there were proposals about extension of the parliament through "Ständervertretung", i.e. a council of various estates (corporate groups), most likely on an authoritarian basis. The last democratic elections before the war were held in 1930. The Communist Party was banned in 1933. This led to a bloody civil war in 1934, with parliamentarism effectively blocked after March 1933. The *Heimwehr* (close to the Christian-Social Party) defeated the Social Democrats, the Communists, and also the Nazis. *Heimwehr* was later absorbed by the "Vaterländische Front", which became the only legitimate political organisation. This front also opposed the adherents of unification with Germany (the idea of Gross-Deutschland). Austro-fascists wanted to retain Austrian independence, although their orientation was "Germanic". They were also inspired by Mussolini. The leading figure was Dollfuss, who wanted to abolish the parties, introducing a "social, Christian, German state" in which the principle of "Selbstverwaltung der Stände" replaced parliamentarism. Dolfuss was killed in 1934, in an attempted Nazi coup. After the civil war, the Christian-Social party introduced authoritarian rule. There was a common organisation of manual and white collar workers (Arbeiter & Angestellte). The organisations both on the employer and employee sides were centralised.[167] The new chancellor, Kurt Schuschnigg, was in favour of an authoritarian Standesstaat, but tried to avoid "Anschluss". His front was challenged from both left, by Austrian socialists, and right, by Nazi Germany. Anschluss was not avoided, anyway: Hitler invaded Austria on March 12, 1938. With the Nazi invasion of 1938, the trade chambers and other internal organisations were made into "Gauwirtschaftskammern" (county chambers), directly managed by the authorities.

The civil war of 1934 is often described as a "shock", the memory of which has lived on. In the postwar period, a cartel of elites, with specific career tracks, have ensured co-operative coordination between public policies and unions' wage policy, driving the Austrians to accept the corporatist-consensual system. At the same time, however, both the old Bismarckian conservative corporatism, and the later fascist corporatism, in crucial respects determined an institutional legacy which the Austrians relied on when they reconstructed their democratic system from 1945 onwards. This legacy is a major contrast to the Nordic countries, which rather had a legacy of reformist class compromise from the 1930s.

8.2 THE STATE

General remarks

The processes dealt with in Chapter 8.1 are usually treated as processes within civil society. The actions of the state, and of bureaucracy as the more or less direct executor of government policies, continuously interact with and intervene in civil society. The present vogue of "statist" studies is just the most recent expression of such views. There are certainly scholars who claim that most of the processes which took place in civil society were in practice crucially influenced by the state.[168] Thus, freedom of association may be blocked by the state; the state may influence access to parliament (and thus influence the chances of changing the legal codes by which the state influences social development), and the state may influence parliament's struggle to appoint the government which will rule the state. Systems of taxation are imposed by the state apparatus. Although bureaucracy is often regarded as a pure tool of other elites, and/or as the body which implements parliamentary decisions without adding anything to them, there may have been much latitude left for improvisation by the bureaucrats. The state implements measures, but if they are fully determined by e.g. interest group mobilisation, it is of secondary importance to discuss the state, but if the state has some kind of autonomous influence on the outcome (by defining the agenda, implementing, supervising, defining specific rules within a broader legal framework, etc.), then the specific contribution of the state must be explained. The multitude of such possible interactions is why it has been quite difficult to maintain a strict separation between civil society and the state in our analysis. Certainly, state policies have been mentioned many times in Chapter 8.1. and even in Chapter 7.

Senghaas' scheme relies, as we have seen in Part II, on a dichotomy between auto-centric and peripheral developments. For the latter kind of third world development, Elsenhans has developed the notion of "state classes". This notion highlights the problem of distinguishing between state and civil society, since here, a class — a collective actor within civil society — has the state apparatus as its very social base. Once we turn to comparative studies involving third world states and even Southern-European states, the notions of patronage and clientilism arise. Patronage has been defined as the public employment of political clients as a reward for their votes (cf. Section 4.2). If the parties competing for government (at local or national level) tend to reward clients in this way, bureaucracy may be over-inflated and may strangle the economy with taxes. In predominantly agrarian societies, such a regime can clearly hamper agrarian transformations. There are reasons to believe that there have been more elements of patronage in Ireland than in any of the contrast countries. A further discussion of this, however, is reserved for Part IV. In the following section we discuss a number of features pertaining to the comparison of the contrast cases.

First, we shall briefly mention that in Austria, Sweden and Denmark, the state apparatus was inherited from their earlier period as (regional) great powers. Switzerland remained a stable territory from a very early date and the Swiss state

apparatus emerged under the constraint of strong cantons. Finland was, as mentioned, the case closest to Ireland, being controlled by Russia until 1917.

Different experiences during World War II are also worthy of mention (although they may have just as much importance for the "Nation" as for the state apparatus): Switzerland and Sweden are famous European neutrals. Denmark was occupied by Nazi Germany, while the case of Austria's indigenous fascism and later annexation by Hitler was mentioned above. Finland's fate during World War II was more complicated: Finland was invaded by the Soviet Union in November 1939, but fought back hard in the Winter war. In March 1940, there was peace, with Finland ceding areas containing 12 percent of its population. Given further Russian pressure, Finland turned to Germany for protection, but remained neutral when Germany invaded the USSR in June 1941. German troops operated from the North of Finland and Russia bombed Finland. An armistice with Russia was signed in September 1944, and there were struggles with the Germans, who refused to leave.

Neutrality has a particular influence on 20th century industrial developments. There are important connections between Sweden's engineering industry and the country's armed neutrality, based on indigenous production of military equipment, and it seems that the same connection exists in Austria. In Switzerland this influence is most pronounced with respect to trade. In Sweden, the state and the big private firms are involved in large-scale projects, with large and complex technological systems which may also give spin-offs to the civilian sector. (Nuclear power research switched to development of nuclear power plants as a Swedish project to produce atomic bombs was shelved.) The state also cooperates with private industry in matters of computers and space technology.

Switzerland's industrialisation, as we have seen, took place mainly in the countryside. Trade, on the other hand, was located in the towns. As industry was in the countryside, it was free "almost entirely from those administrative, social, and political costs which even in those days became translated into taxation." Government was very cheap. "The decentralisation and ruralisation of industry also helped to mitigate the inevitable social consequences of the industrial revolution, for family incomes from industrial activities were supplemented both by the subsistence livelihood derived from small rural properties and by the investment of savings in land. In Switzerland the phenomenon of the proletariat, which accompanied the industrial revolution in other countries, was practically non-existent."[169] The state was simple, modest and decentralised.

Switzerland's armed neutrality is organised as a militia, which by the late 1980s contained 625,000 citizens — soldiers who could be mobilised in 48 hours. This army is a very important element in the Swiss socio-political system, it is a "bedrock for Swiss neutrality and the essential cohesive factor in a disparate, multilingual and dual-religious confederation". It also permeates the Swiss corporate system: "The boardrooms and senior managements of big Swiss companies and banks are sprinkled with colonels, majors and captains. Officer training and promotion in the militia often opens the way to a career in business and banking".[170]

As for Denmark, structural features such as the prevalence of agrarian exports, as well as the lack of industrial raw materials like huge forests, mineral or energy supplies, have set their marks on the Danish bourgeoisie, which has been basically linked to agricultural exports and other trade activities. The Danish working class has worked in small, often artisan production activities and the petty bourgeoisie (independent family farmers and urban tradesmen) have been strong.[171] With an agricultural sector which to a large extent had been organised on a cooperative basis and with only minimal elements of large scale industries, it is no surprise that the Danish state is the most liberal in the Nordic setting, fairly unexperienced in matters of economic planning. These circumstances influenced Danish economic policies through to the late 1950s.

A rough and overall judgement is that among our five contrast countries, Sweden, Austria and Finland have historically had strong states, although the specific patterns of intervention have varied. Elements of German administrative style may have been emulated. Denmark and Switzerland, on the other hand, have rather weak states in the sense that their administrations have been closer to the liberal ideal type. Of the two, the Swiss state is certainly the more liberal.

Trade policies

As for trade policies, it has often been pointed out that small countries prefer liberal trade policies.[172] An independent customs policy requires that the nation be sovereign. But for trade policies, the mobilisation of various fractions among business elites is probably more important than the broad masses, peasants and workers. Senghaas has classified a number of countries according to their integration in the world economy in the 19th and early 20th century. He argues that in the case of Austria, a private market economy developed due to internal dynamics (being a very large country before 1914). Switzerland is classified as one of the few cases of full and unrestrained "association" with the world economy, (Belgium was the first case in this group), while the Nordic countries all belong to a group of "associative/dissociative" cases.[173]

In Switzerland, it has been claimed, trade policy was directed "by geography and the country's geo-physical structure".[174] Therefore free trade became the normal economic practice. Historically, Switzerland tried to strike a balance between protection and openness. In the 1806-1813 period, France forced Switzerland to introduce a very protective tariff on cotton goods, and also the continental blockade served as protection, since it excluded British products from third markets, where Swiss goods could still be sold. Before the railway there was of course also the protection of long distances. In this period of protection, it seems that the cotton industry succeeded in mechanising, and became independent of English yarn.[175] Later, Switzerland reduced tariffs, but well into the 19th century there was a chaos of internal tariffs between the different cantons. Only after the July Revolution in Paris 1830 were the guild system and other restrictions on industry dismantled. These were measures of state intervention.

As for Austria, a customs union between Austria and Hungary was introduced in 1851, tariffs were lowered in 1852, and free trade was introduced in 1865 (through a trade agreement between Austria and Prussia). Austria, however, followed the German-led move to increasing protectionism in the late 1870s. The 1920s are difficult to evaluate, as so many regulations connected to World War I and the reconstruction process must be accounted for. With the turmoil of the 1930s, protection again increased.

Denmark pursued very liberal trade policies throughout the whole 19th century. The very particular feature of a free trade peasantry (organised in Denmark's Liberal Party) shared in the responsibility for that strategy. As elsewhere, a number of World War I regulations only gradually withered away in the mid-1920s. The same was the case in Sweden. The turn to a system of preferences and higher tariffs following the Ottawa 1932 conference was a shock. Denmark secured bilateral agreements which made England increasingly important as a trading partner (the British share of Danish imports went from 15 percent in 1931 to 38 percent in 1937). A system of foreign currency quotas was introduced from January 1932. Imports of raw materials (including fodder) and machinery were given priority. A trade agreement with Germany based on a clearing system was signed in 1934, and the German share of Danish exports went from 13 percent in 1933 to 20 percent in 1936.[176]

In 1917, Finland inherited a Russian customs system with relatively low tariffs. World War I brought regulations, but as these were dismantled, Finland had to construct a whole new system of trade treaties in a period when protectionist sentiments in Europe were growing. In the 1930s, Finland followed the other Nordic countries, agreeing to prefer certain British products in exchange for termination of customs duties on their main export products (pulp, paper, bacon).

The free trade orientation of the Nordic countries was visible in the so-called Oslo Convention of 1930 which made a plea for a halt to the trend in customs policies and argued for the blessings of free trade. A number of other small countries also supported the Convention, but in practice, it came to nothing.

A historical investigation has concluded that Nordic trade policies in the 1930s provided substantial protection for the domestic market, whose importance for aggregate demand increased in that period. But the effects of trade policies can scarcely be isolated from the effects of other crisis policies. Throughout these years for instance, electricity networks were extended to provide energy for even rural households and this stimulated the demand for certain consumer durables. The upturn in British construction activity 1932-33 was a very important external factor.[177]

Trade policies relate to exports and imports, but when Senghaas classifies the Nordic countries as associative/dissociative, dissociation may have other meanings than just protectionist trade policy. For the case of Norway, he refers to the passing of several concession laws in parliament around 1907. These laws established a number of requirements to be fulfilled by international investors who wanted to establish firms to exploit Norway's natural resources (especially waterfalls, but also forest and fish resources). Most likely, such legislation also existed in the other Nordic countries, at least in Finland and Sweden. A further investigation of this question is not possible here.

Postwar State Interventionism

The postwar era has become famous as the era of the active, Keynesian, interventionist state. To finish off this section on the state, we shall look at some results of comparative work on the postwar state in the OECD area. Comparing postwar macroeconomic performance, M. G. Schmidt has argued that the historically developed structure of the state and the bureaucracy must be taken into account. His general term for this is: "modes of regulating economic and class conflicts".[178]

Following Lembruch, Schmidt distinguishes between three types of policy coordination: first, a corporatist mode, i.e. tripartite cooperation, in and across policy areas. The second is a pluralist-sectoralist mode, which "involves a low degree of policy coordination across policy areas", but does not "preclude tripartite networks within certain policy areas". Finally, the third is a pluralist mode, characterised by the absence of "integrated policy networks and an underlying consensus between labour, employers and the state".

At times, Schmidt indicates that these systems of policy coordination are connected to the long term distribution of power resources, as analysed by Korpi. The corporatist mode of regulation relies on a power balance between labour and capital, a balance which influences the structure of industrial relations, power relationships in parliament and the prevailing ideological hegemony of "solidaristic" values in the electorate and in political elites. These countries also have strong welfare states. Tripartite relations are dominated by compromise and equal exchange, and such principles also influence the timing and the content of economic and labour market policies. The pluralist-sectoralist mode corresponds to a larger variety of power distributions. If mass unemployment develops, it is softened by welfare state provision.[179] In the pluralist mode, non-socialist tendencies dominate, and the welfare state is very weak: social policies tend to be of the liberal, "marginalist" type.

Schmidt predicts that due to failures of policy coordination, the latter two cases may be hit by mass unemployment. But comparative studies of the 1970s and 1980s show that even in some countries in which labour is very weak, and the welfare states are less developed, full employment has prevailed (Japan and Switzerland).[180] To account for these cases, Schmidt introduces a fourth mode, called "paternalist bilateral and social partnership". In this way Schmidt saves the notion of corporatism as a distinct pattern which integrates labour. But he also argues that consensus may also rely on another type of social partnership which excludes labour, but still goes for full employment for paternalistic reasons.[181] By including "conservative reformism",[182] Schmidt attributes a certain autonomy to the nature of the state and its bureaucracy, since here, there is no connection to any underlying power balance. In fact, private business tends to be strongest. Schmidt's comparison is summarised in Table 8.5.

TABLE 8.5
Schmidt's Typology

	MODE OF REGULATING THE ECONOMY AND CLASS CONFLICT			
	Developed welfare state		Less developed welfare state	
	Corporatism	*Pluralist, sector-oriented*	*Pluralist*	*Paternalist bilateral & social partnership*
WORKING CLASS				
Strong	Austria, Norway Sweden			
Weak		Belgium, Denmark, Finland France, Germany Ireland, Italy Netherlands England	US, Canada, Australia	Japan Switzerland

Note and sources: This is our own version of Schmidt's typology (Schmidt himself does not explicitly use the strong/weak dimension). For different versions of Schmidt's typology, see M. G. Schmidt, "The Role of the Parties in Shaping Macroeconomic Policy", in F. C. Castles, editor, *The Impact of Parties*, p. 159; M. G. Schmidt, "Labour Market Performance and Inflation in OECD-Nations — A Political-Institutionalist View", in H. Gerlach, W. Peters and W. Sengenberger, *Public Policies to Combat Unemployment in a Period of Economic Stagflation. An International Comparison*, Frankfurt & New York 1984, p. 44; and the most elaborate version, Manfred G. Schmidt, "The Politics of Labour Market Policy", in F. Castles, et.al., editors, *The Political Management of Mixed Economies*, Berlin 1987, Table 2.

Schmidt implies that both corporatism and paternalism may involve a political-administrative apparatus with strong coordinative potential. In that sense, the Japanese and Swiss cases may not be so different from Austria, Norway or Sweden. But whether their performance is due to particularities of their state apparatus, or to superior national systems of innovation (in which the state of course is involved, c.f. Figure 7.1), or to elements of paternalism and conservatism in their civil societies, is not easy to determine. Schmidt attributes the Swiss success to the longstanding "New Deal" social partnership, designed to avoid 1930s-like disasters.[183]

The main point here is that our case countries are found in three out of Schmidt's four groups. If his classification is relevant, the state apparatus in Austria, Sweden and Switzerland has strong coordinating abilities, but in the latter case, labour does not play a crucial role. Rather, there is some kind of consensus with a certain amount of paternalism involved. Finland is classified with Ireland in this comparison, indicating that economic policy management may not be strong enough to generate full employment. Instead, welfare state measures serve as compensation. As we shall see, however, Finland's labour market performance was much better than Ireland's in the 1970s and 1980s.

More detailed accounts of the state in the contrast cases are included in Chapter 9.

8.3 SUMMARY

Chapters 6, 7 and 8 have provided some material on the contrast countries, organised according to Senghaas' scheme. Within the framework of this project, a full explanation of their different development patterns — virtuous and/or vicious circles — is beyond reach. Our aim, after all, is to provide material which can be fed into a comparison with the Irish case.

We have indicated a certain scepticism towards Senghaas' emphasis on the distribution of agrarian holdings and of income. This criticism will be substantiated in Part III below. But it should be noted that this criticism is not a rejection of Senghaas' approach altogether. We may have challenged his inclination to present the structure of land holdings as the crucial variable, but it is plain to see that in reality, his approach is a multi-causal one. This is where the real difficulty lies, and we need both deduction and induction: deduction is needed because Senghaas' list of factors needs to be discussed more systematically, since he himself at times collapses conditions and results. Induction is needed in the form of further indepth comparisons.

Despite this criticism, Senghaas' formula for the Scandinavian development pattern, as already indicated in Chapter 4, seems a relevant account of the virtuous circles involved: In the last quarter of the 19th century, export incomes were converted into funds for import substitution, and the domestic market expanded as a consequence of increasing demand for equipment and consumption goods. The export sector lost its enclave nature, a "national" and "domestic" market was constituted. Local linkage effects surpassed a certain threshold. Socio-structural conditions explain the broad nature of these effects. In this situation, price competition from stronger competitors leads to "innovative responses".[184] Given the property, resource and income distribution in Scandinavia, as well as the peculiar socio-institutional developments, rural incomes were broadly spread, and import substitution became "broadly effective". Similar dynamics were certainly involved in the Swiss case, and also in Austria.

Senghaas' scheme is relevant for the periods throughout which an auto-centric development pattern became firmly established. This had occurred in the Nordic area with the late 19th century surges of industrialisation and adjustment to the "great depression" of that time, a development which was consolidated by the integration of working class and farmers' organisations in the "historic compromises" of the 1930s. The response of these countries to the economic problems of the early 1930s may be seen as evidence of their auto-centric development pattern. Despite major problems — unemployment and financial disorder — they all had an industrial base, and they all experienced an inward orientation in which the domestic market interacted with this base. Political developments, on the other hand, were different: Switzerland remained stable (and later neutral), Denmark, Sweden and even Finland developed social democratic, red/green alliances, and Austria developed Austro-Fascism. In Switzerland the consolidation of the 1930s rather implied the emergence of strictly consensual politics, with all major parties represented in government. In Austria, however, the final consolidation did not occur until after

World War II. The compromise pattern established in Scandinavia was to prove crucial throughout the Golden Age until the early 1970s. In Austria, postwar developments towards a highly centralised and consensual system were driven by the "Urangst" — the fundamental fear — of a new civil war.[185]

The postwar economic policy models emerge as these domestic conditions interact with the establishment of new international regimes and the diffusion of U.S. norms of production and consumption during the cold war period after 1947.[186] Chapter 9 compares these postwar economic policy models.

CHAPTER 9

THE POSTWAR ECONOMIC POLICY MODELS

9.1 SWEDEN

Swedish economic policies relied on traditional Keynesian demand management techniques in the 1945-47 period. The particular Swedish model of economic policy was not launched until the first large scale application of selective employment policy during the 1957-8 recession.[187] Then followed two periods of response to international economic instability: the mid-1970s are classified as a period of fumbling (or muddling through), and from 1980 onwards Swedish neo-liberalism comes to the fore. Elements of the Swedish model, namely employment policy, have been maintained throughout the neo-liberal phase, just as some Keynesian elements survived in the Swedish model. The latter two periods will be discussed in Part V.

Some crucial structural aspects of the Swedish economy must be kept in mind. As we saw above, large export-oriented corporations emerged in the early 20th century. The degree of concentration increased dramatically in the second half of the 1960s. In the 1970s and 1980s, export shares of Swedish production rose rapidly. In the mid-1970s there was also a major increase in the share of foreign production by Swedish firms in their total foreign sales.

Labour had an absolute majority in parliament in 1945. The experience of running a wartime economy had shown that there was large scope for intervention (taxation, public spending, compulsory accumulation of capital). At the ideological level, the 1930s idea of the "people's home" had been reinforced. It was emphasised that Sweden had done better than Nazi Germany, while keeping the democratic system intact. Sweden's social democrats had defended Sweden as a geo-political unity, protecting also the Swedish welfare state. Historians regard this shift from the capitalism/socialism, to the dictatorship/democracy dichotomy as a way in which the social democrats tried to overcome the embarrassing fact that Sweden had not participated in the struggle against fascism.[188]

The early postwar years saw a very strident debate on economic planning, but the social democrats proved very strong in the 1948 election. After that, Swedish business accepted the political dominance of social democracy until the early 1970s. But due to a polarising debate on economic planning, and also an overheated economy just before the elections, there was little room for generous reforms. The dominance of the social democrats was not so self-evident during the 1950s. They remained in power, however, thanks to their homogenous and well-organised movement, with a very effective leadership, a new red-green alliance between Labour and the Agrarian party, and the fact that the new large white collar and middle class strata shared a belief in the welfare state. It should also be noted that none of the cold war accusations of communism could be applied to the Swedish social democrats.[189]

As for economic policies, during the Keynesian phase 1945-1957, fiscal policy was the main instrument to secure full employment and economic stability. It was

counter-cyclical, but predominantly expansive. Monetary policy was passive, and the interest rate was kept low. Wage stabilisation was pursued to avoid inflation and trade deficits. In addition, there were a number of ad hoc measures, that is many direct regulations during the war and immediately after. Sweden revalued the krone in 1946 (17 percent) to counteract inflation, but devalued following sterling (30 percent down) in 1949. The latter action generated a profit boom and excess demand had to be eliminated by investment and export surcharges.

The social basis of this Keynesian accord was the home market industries. The accord dated back to the famous 1938 Saltsjøbad-agreement. The quarrels on planning soon faded and the employers' association (SAF) settled on a neutral attitude towards the union confederation (LO). Actually SAF proposed coordinated wage agreements, since the sheltered sector industries wanted to counteract destabilising wage compensation following wage drift in the export sector. The export sector was more inclined to go for decentralised wage settlements, but since the coordinated system gave moderate wage increases, they accepted it. Profitability was good at that time. There was little tension between firms oriented towards domestic market and export-oriented industries. There were current account deficits in the late 1940s, but in the first half of the 1950s, devaluation and the Korean boom created a surplus.

The trade union movement was very strong, but made few demands at that time. The radical postwar programme had been moderated by the opposition of business and bourgeois parties. The strong parliamentary position of the social democrats was also important. In addition, the Liberals under Bertil Ohlin shared the Keynesian views. The Agrarian party actually took part in government, favouring low interest rates and expansionary fiscal policy. In sum, there was consensus. The inflationary consequences of Keyensianism at full employment were counteracted by government demands for wage moderation. Incomes policies were more or less compulsory. There were also ad hoc measures to prevent cost-increases from pushing up prices.

Sweden had not been in the war, and could deliver raw materials, semi-finished goods and investment goods — i.e. input commodities — which were in high demand after the war, as reconstruction began. Thus, the existing industries (wood, engineering, iron/steel) could continue. Productivity grew due to catching up with U.S. technology. Innovations mainly occurred in the old firms. The general postwar international climate stimulated entrepreneurship: it was not entrepreneurship as such which created a high rate of growth.

The economic policies of the Keynesian phase, especially the 1949 devaluation, encouraged low-tech exporters, competing mainly on costs, not to be very import-intensive (and thus, not much hit by the post-devaluation rise in import prices). The forest industry, another low-tech exporter, was also favoured by increasing raw materials prices during the Korean boom. The low rate of interest was also favourable to capital-intensive, low-tech industries (wood, pulp, iron/steel). But all industries (with a few exceptions) benefited from high profitability. Erixon opposes the claim that the high profits stimulated r&d-intensive investments. Rather, he argues that in the Keynesian period, high profits and a generous profit tax system (a remnant from the 1930s) gave rise to "locking-in effects". He concludes that Swedish welfare capitalism did not succeed in creating future-oriented "development blocks" in the Swedish business sector. The pharmaceutical industry for instance, did not really start to renew itself before the second half of the 1960s. Economic policies contributed only weakly to industrial renewal. The very large firms were the main elements of strength, with long experience as exporters, and with a strong tradition of labour/capital consensus.

The Swedish model characterises the period 1958-76. As early as in the late 1940s, LO economists pointed out problems connected to the Keynesian approach: excess demand spurred inflation, and high profits amplified this by generating wage-drift and competing wage claims. Increasing inequality of distribution weakened the cohesion of the union movement. Inflation, together with current account problems, forced authorities to turn to contractionary policies which threatened full employment. But direct regulations were not regarded as an alternative. Such problems were felt in many countries, but only in Sweden was a programme launched to secure full employment without the negative effects of Keynesianism.

Rudolf Meidner and Gösta Rehn, the famous pair of LO economists, in the mid-1950s proposed a model which intended to combine growth and wage stability in an original way. A generally expansive economic policy would spur inflation, while restrictive economic policies would increase unemployment. The instances of overheating of the economy during the Keynesian phase had shown that the combination of labour shortages and high profits would create wage-drift. The model proposed restrictive fiscal policy to handle excess demand and reduce wage inflation. But not even coordinated collective bargaining would guarantee wage restraint if profits were allowed to become very high. Thus, a reduction of wage-drift required a reduction of profits. To ensure that the squeeze on profits did not hamper capital accumulation, the model required that public savings would be high. The state would, as a part of the fiscal policy strategy, tax the companies, recycling these funds at a low interest rate. Furthermore, labour shortages would be avoided, and full employment would be achieved, through selective labour market policies in the form of training programmes, stimulation of occupational and geographical mobility, regional policy, and labour market information. Finally, the model reflected the strength of the labour movement by devising a solidaristic wage policy. This reflected the norms of fairness and equality: equal pay for equal work, and reduction of sectoral wage differentials. But such a solidaristic wage policy would also speed up structural change by eliminating unprofitable firms or forcing them to rationalise. A "rational wage structure" would counteract competitive wage increases. The model reflected the view that LO could only increase wages for its members by contributing to increasing productivity. With business becoming more productive, it could sustain higher real wages and a more solid revenue basis for the welfare state. The model assumed that wage bargaining would be the task of the labour market organisations, but that the state would intervene, conducting fiscal, monetary and manpower policies. It was also consistent with Sweden's world economic integration, since free trade would ensure that firms did not pass their

increased costs on to consumers. The model spurred concentration of capital, favouring large, export-oriented firms.

However, reality did not correspond to all these ideas. Nevertheless, the following Rehn-Meidner elements can be discerned in the 1958-78 period: an active labour market policy was first implemented in the 1957-8 recession, and in the mid-1960s. It was organised by the AMS (the labour market management board), which had an employee majority on its board. Fiscal policy was contractive or weakly expansive in the 1960s and early 1970s. But the fact that recessions were not counteracted by expansive policies was possibly more a result of bad timing, than of deliberate implementation of the Swedish model.

Nybom argues that the "social democrats started building an alternative state apparatus, often in open confrontation with the existing one". The National Labour Market Board (AMS) had been set up in 1948, and other parts of this "reform bureaucracy" were the National Housing Board, The National Board for Vocational Training, The Board for Social Affairs, and the Social Insurance Board. The AMS was the "crown jewel". It broke deliberately with the cannons of traditional bureaucracy (e.g. seniority, formal competence), being staffed with a number of cadres from the labour movement, "reliable scientific experts and ideologies". Given the Rehn/Meidner-model, this reform bureaucracy obtained a crucial position in the Swedish institutional system.[190]

Sweden's macroeconomic performance did not differ markedly from other OECD countries, except for more redistributional effects in Sweden than in the other countries. The effects of solidaristic wage policy were felt in the 1960s. The decrease in wage differentials between different manufacturing sectors over 1960-76 was a Swedish peculiarity. Sweden (and Denmark!) are the top OECD countries regarding male/female wage equality (Table 7.2). The public share of total gross savings also increased strongly (35.8% in 1962, 44.7% in 1970), due to the collective pension schemes.

Counter-cyclical policy was not excluded by the Rehn-Meidner model. But the model was specified only for an economy with permanently high demand, reflecting Golden Age conditions. There were counter-cyclical elements: Erixon mentions the turn to an active monetary policy (linked to housing financing); interest rate penalties; rules for liquidity and cash accounts in commercial banks, ceilings on commercial lending, and discount policies. From the late 1950s to the mid-1970s, there was a system of investment reserve funds: firms could deposit pre-tax deductions from profits in such funds, on the basis that an amount was put into the Central Bank at zero interest rate. The funds could be released again if the Central Bank judged that this would be useful for stabilisation purposes. Empirical studies suggest that the policy had some effects, especially in the 1960s.

The public sector expanded, becoming a force in the policy for increased equality. The state was financed by progressive taxes and increased payroll taxes during the 1960s. As for industrial policies, there was a government investment bank and the industry department, with state-owned firms as a particular (but very small) group. But such policies were not very important for restructuring.

The main social force behind this Swedish Golden Age model was a united LO, strengthening labour's resources together with the Social Democratic party. Both the low unemployment rate, and the generous provision of welfare state services, increased the bargaining power of labour. The unionisation rate among white collar workers grew both in the private and in the public sector, but due to solid collaboration between LO and TCO [191](the union confederation for white collar workers), the situation was in many respects close to the situation with one homogenous wage-earners' organisation (as in Austria).

As shown in Chapter 6, the Swedish industrial structure in the early 20th century consisted of raw materials-based export industries (mining, steel, forestry), export-oriented engineering firms (rather craft-oriented and labour-intensive), as well as a number of home-market industries, relying on skilled or unskilled labour. During the 1930s and throughout the war (when Sweden was neutral), a new segment appeared in the Swedish industrial structure. The firms in this segment produced consumer durables, implementing the new management principles connected to mass production (the assembly line, time/motion studies, etc.). Among the Nordic countries, in the postwar period, Sweden had the most flourishing Fordist sectors, like Volvo and Electrolux. "Employing semi-skilled labour, they expanded by catering to domestic demand, but became increasingly export-oriented in the course of the boom. Fordist mass producers thus occupied an intermediary position between domestic and export industry, and also between the two traditional types of export industry. More so than other firms, they benefited from both sides of the postwar growth regime (supply-side measures to promote rationalisation and labour adjustment, on the one hand, and demand-side measures to promote full-employment and raise the living standard of working people, on the other). It is no accident that Volvo emerged in this period as the principal representative of the "collaborationist" wing of the business community."[192]

Politically, there was no full consensus on the Swedish model. In fact, selective employment policies were one main reason why the Social Democrat/Agrarian coalition broke up in 1957. In addition the collective pension fund system and the industrial policy of the late 1960s were contested matters. Business opposed the selectivism and the profit squeeze policy. But some sections benefited greatly from the model. The solidaristic wage policy and the investment reserve fund system were very advantageous for large Swedish corporations.[193] Women were recruited to the public sector, while industry partly used foreign labour for unskilled jobs.

In the late 1960s, the historical compromise on which the Swedish model was built became increasingly difficult to maintain. At the grass roots level, an increasing number of wild-cat strikes reflected claims for increased economic democracy. The growth strategy of the social democrats was criticised. The response of the social democrats emphasised the work environment and co-determination reforms. Referring to the two earlier steps of the "Swedish model", Korpi interprets this as a decisive "third step" on the peaceful "third way" to socialism. In particular, the wage earners' fund proposal was interpreted as a move towards gradual socialisation of investments. The demands for worker influence on the work environment and investments actually rejected the historical compromise, which presupposed that the

labour movement would accept that investment and work organisation decisions were the privileges of business management only. We shall return to these developments in Chapter 16.

9.2 FINLAND

The Finnish economy was in the 1950s and 1960s marked by a cyclical movement, and economic policies tended to be procyclical. Among the Nordic countries, Finland has experienced the most dramatic structural changes in the postwar era: as late as in 1960, the share of the working population in agriculture had barely reached the level attained by the other countries in 1930. In 1980 however, Finland had reached the "normal" Nordic distribution: agriculture 10 percent, manufacturing 30 percent and services 60 percent.

During the postwar period, Finland also developed an advanced manufacturing sector. The point of departure was the USSR's demand that war reparations should be paid in the form of manufactured goods through the late 1940s.[194] The relationship to the Eastern neighbour had mainly been cut off during the unruly interwar period. But we have seen above (Chapter 6) that this relationship was quite important for Finland's earliest surge of industrialisation, and in the postwar period it proved its importance once more. Responding to this impulse, Finland developed its big shipbuilders, iron-/metal- and machine-industries.

It is interesting to study the different Finnish business elite networks in relation to the east/west dimension. During the fifties there seems to have been a tension between, on the one hand, an "east-oriented", state-supported or owned group of firms in the emerging manufacturing sector and, on the other hand, the traditional, western-oriented, privately owned wood/paper/pulp industries.[195] However, the strategies of President Kekkonen successfully laid the basis for both political and economic integration through the late 1960s and the 1970s.[196] As is well known, his foreign policy always struck a balance between east and west. At the domestic level, this made possible a gradual integration between two business elite networks: the wood industry diversified into manufacturing sectors, and Finnish manufacturing and machine industries were able to conquer Western market shares. An extensive bilateral trade with the USSR was maintained and gained crucial importance in the 1970s.

Finnish industrial policies were relatively unselective in the postwar period, aiming at creation of additional industrial jobs to absorb the flows of labour from the primary sector. There was general support for investments (through accelerated depreciation), and a low interest rate. Towards the end of the 1960s, particular emphasis was given to structural change in the manufacturing sector. But with Finland's general pro-cyclical economic policy model, there was not much selective support for sectors which were threatened by international protection.[197]

Correspondingly, a process of political centralisation took place. This must also be seen in the light of the very rapid structural changes in Finland. In a way, political conditions changed to approximate a more typical postwar "Nordic" pattern. In 1967 the union movement reunited into one central organisation.[198] Since then, unionisation has soared. At the same time, a broad centre/left government took office. This government was a coalition between agrarian (The Centre Party) and working-class interests (both the Social Democrats and the People's Democrats, the latter including the Communist Party majority). However, when it came to economic policies, these governments maintained the routines of the traditional Finnish model. Economic policies were still largely pro-cyclical, and large export gains were still followed by massive strike-waves. This protest however, had no marked impact on parliamentary policies, as both the agrarian and the working-class parties were "responsible" members of the government. This emerging "corporatist" pattern (with leftwing representatives as "hostages") would gain in importance through the 1970s.

Finland's Golden Age model was very different from the Swedish one. The Swedish one was generally tight, but with some counter-cyclical measures. The Finnish one was pro-cyclical: tight in hard times, but forced by high levels of conflict to be generous in good times. There was no active labour market policy in Finland, rather a significant labour surplus was exported as foreign workers to Sweden. This latter feature explains the relatively moderate rates of unemployment (cf. Table 4.1, lower than Belgium and Denmark).

With very different economic policy models, both Sweden and Finland attained high levels of economic growth (Table 4.1) throughout the Golden Age period. This shows that success was possible in that period with quite different types of economic policies. (But not with just any type of economic policies, as the case of Ireland may show, cf. Part IV). Since Finland's pro-cyclical, non-consensual model of the 1950s and 1960s is hardly a model for emulation, we refrain from more detailed discussion of it here.

9.3 DENMARK

Constructing a Danish Golden Age model is more difficult than constructing a Swedish or a Finnish one. As we have seen, agriculture has been the dominant Danish export sector, with an adjustment from corn exports to dairy and meat products in the late 19th century. In the 1950s, however, the continued dominance of agrarian exports was one of the reasons why Danish growth was not so impressive (cf. Table 4.1).

Denmark was not much damaged after World War II, but it was necessary to readjust from a war economy, which implied abnormal supply conditions and heavy state intervention. There was an attempt to liberalise trade with England in the fall of 1945, as the Danes used their inflated liquidity to buy consumption goods that the sterling area had available. A large trade deficit developed towards England, which could not extend credits, and thus imports had to be restrained.

In 1947, a social democratic government took over, and in 1948-50, national budgeting got under way. Liberalisation started again in 1949, as terms of trade for agricultural exports improved and the Marshall Aid was effective. Throughout this

period, the long term bond interest rate rose from 3.6 percent to 4.6 percent. In 1949, the liquidity situation was normalised. However, credits for housing were cheaper, since specific state loans were granted.

In 1949, Britain devalued by about 30 percent against the dollar. Most other OECD countries, including Denmark, followed, devaluing by the same percentage.[199] Danish terms of trade deteriorated: dollar imports became much more expensive, inflation increased, and from the end of June 1950, the Korean war added to the problems. A deterioration of the current account was expected. The discount rate was lifted from 3.5 to 4.5 percent. Devaluation was never considered as a solution to the problems.[200]

The period 1950-7 was marked by "current account-restrained growth", due to the weak foreign exchange earning by agriculture (2/3 of export incomes in 1955). Agriculture was hampered by over-production as most foreign markets in this field were regulated. Any domestic upswing would quickly drain the currency reserves, and it was difficult to borrow abroad. This stop-go policy created problems for manufacturing industry in particular.[201] Productivity growth was slow.[202] The trade-off was between full employment and Denmark's need for international liquidity. Increased borrowing seemed legitimate as long as it was used to buy investment goods, which gave sufficient returns, compared to the prevailing interest rate.[203] In the 1950s, the current account squeeze explains the level of unemployment.[204]

By the mid-1950s, the doctrine of low interest rates was broken, and monetary policy became part of the stabilisation policies. The public sector borrowing requirement fell after 1954-55, and there was a surplus 1959-60. The low foreign exchange rate earning ability of Danish agriculture squeezed industrial investments. In contrast to the Northern neighbours, Denmark had rather high unemployment (a minimum 4-5 percent against Sweden's 2-3 percent and Norway's 1-2 percent). Denmark now proved to have the most open credit markets (especially towards Germany) among the postwar Nordic countries. The interest rate often went above the international average. Denmark had flourishing and large markets for private bonds, private savings and institutions for private pension schemes, c.f. Chapter 4.1, on the capital-product based financial system. The Central Bank maintained a high interest rate in order to force firms to borrow in international financial markets, thereby financing the chronic balance of payments deficit.[205]

The dominant social forces of the early 1950s had been well-off farmers, large scale agribusiness and trade/finance interests. These were the major forces behind the Liberal party (really a party for the big farmers), and the Conservative party. But external events created problems for this bloc. The different trade liberalisation agreements (the GATT-rounds, EFTA and EEC) towards the end of the 1950s, did not encompass agricultural exports. For political and military reasons, all Western countries were motivated to shelter their national agricultural sectors.

Economic prospects were regarded as poor in 1957-58 due to a business cycle setback, and an EEC without England (and consequently without Denmark). At the same time, a stalemate political situation provoked major strikes and broad social unrest in 1956-7. A majority "triangle" government took office in 1957. This coalition may be analysed as a kind of compromise between the labour movement (represented by the Social Democrats) and the "new" industrial bourgeoisie (temporarily represented by the Radical Liberals, since the traditional Liberal party was still a shelter for agricultural interests). Furthermore, from 1960, Denmark became a member of EFTA, with Norway, Portugal, Switzerland, Austria, Sweden and England.

This was due to a number of positive factors, "one-time advantages": first, improvement in the terms of trade after 1957; second, there was foreign currency to finance investments and expansion of employment. Third, there was a demographic wave: higher birth-rates during the 1940s resulted in 100,000 more entering the labour market (compared to the 1930s generation), and this was a very mobile labour force. Fourth, there was a labour supply from agriculture, whose use of extra labour declined. Fifth, most restrictions on foreign trade were dismantled. In the late 1950s, trade in manufacturing goods was liberalised and convertibility made it possible to convert the agricultural sterling incomes into dollars that would buy up-to-date machinery. With the traditional export sectors restrained, Danish manufacturing producers had new opportunities: traditional sectors, like textiles expanded, but in particular, a group of medium-sized, quite productive producers of niche products suddenly made impressive progress.[206] For the first time in Danish history, manufacturing exports exceeded the share of agricultural exports.

The second, third and fourth circumstances gave a growth of labour power for non-agricultural sectors of about 300,000 (15 percent of the labour force). Productivity went up by 6 percent p.a., employment grew at only 2 percent, but it increased faster than the labour force. In four years 1958-62, Denmark had arrived at full employment. Unemployment was down to one percent in 1962. 1957/8 gave the most definite improvement of the current account/unemployment trade off. At that point (1958/9) the current account was 2.5 percent (of GDP)[207] in surplus, and total national debt was close to zero, brought down from more than 10 percent in 1950. But — from that point it was to rise again! Due to this major change, our delineation of a "Danish model" does not include the 1950s. Rather, we hold that the "Golden age" model reflects a departure from the dominance of the agricultural sector.[208]

The new government implemented a series of economic policy reforms favouring the newly expanding export industries. Thereby, Denmark was able to reap the full benefits of the generally expansive mood of the Golden Age world economy of the 1960s: full employment, increasing real wages, increasing industrial investment (to 1966), high productivity gains, rising housing standards, defence of agriculture and small industries.

In the 1950s, economic policies had to emphasise the current account problem, neglecting the concern for growth. "The time horizon was short, currency reserves small and goal-conflicts pronounced."[209] In the 1960s, the concern for growth became more important, and wage differentials narrowed. The number of wage earners was expanding particularly rapidly in the 1960s.

There was activism in several economic policy fields throughout the 1960s. There were even regional policies, interest rate subsidies and new credit institutions sponsored by the state, with a system of care for the elderly, disabled, and survivors ("The social reform commission"). There was a rationalisation and concentration of agriculture, but at the same time increased subsidies. A framework for protection of social citizenship was set up in the form of an extended welfare state. Also short run allowances, like unemployment and sickness compensation, were improved. As for pension systems, Denmark followed the Swedish universalist flat-rate system in the late 1950s, but never went on to a full-fledged ATP-reform.[210] The balance of payments deficit was now accepted even by the bourgeois parties. In contrast to 1950s pessimism, optimism now reigned: the deficit-financed investments in manufacturing industry were bound to pay off later. From 1961 net debt abroad started to increase again. Now Danish authorities gave private persons and firms increased options concerning lending abroad (this indicates a higher interest rate at home than abroad). Between 1957 and 1970, Denmark had a higher yearly GNP growth rate than Norway and Sweden, above the EFTA-average. Manufacturing industry increased its share of export incomes from 35 to 60 percent in the same period.

In 1964-5, there was a tightening of liquidity: the interest rate jumped. This gave rise to a system of "bond rationing" from 1965, i.e. limitations on the amount that the mortgage institutions could lend. The objective was to differentiate loans according to their use, not according to creditworthiness.

Politically, this was the high time of Social Democracy. In the 1960s and 1970s, the Social Democrats took 42 percent of the vote, more than ever since the war. A bourgeois majority government took over in the period 1968-1971. The 1957-60 Social Democratic/Radical Liberal government and the bourgeois government 1968-71, have actually been the only two majority governments in Danish postwar history. In the period 1960-72, the public share of national income increased from 25 to 50 percent, with stronger growth in the days of the bourgeois government. Two tax reforms (1962 and 1967) increased the automatic stabiliser effects of fiscal policy. Following the reform of housing finance in 1958, construction of private housing expanded rapidly. The burdens of taxation (1960-72) increased considerably, since the balance of payments were in deficit. As a consequence, the elections of 1972 produced a tax revolt (as we shall see).

Despite the success of the new manufacturing sectors, the traditional interest groups were still strongly represented in Danish political life. Representatives of the farmers, of agrarian export industries and sheltered sectors all wanted their shares of the growth. Several programmes supporting the farmers followed through the 1960s. Both the so-called "Total Solution" of 1963 and the later more decentralised incomes policies settlements gave large improvements for all wage-earners and made public employees wage leaders. The total solution was actually the only successful case of government-coordinated, centralised incomes policies in the 1960s. It coordinated income across sectors and granted a productivity-linked wage increase to manufacturing workers. The total solution was one imposed by the state.[211] In fact, 1963 turned out to be the only year since 1960 that Denmark had a surplus on its current account.[212] Later attempts to coordinate wage developments came unstuck, however. Efforts at active labour market policies (1969) were also largely unsuccessful.

The year before the "Total Solution" (1962), an "Economic Council" of "wise men" — modelled after the Western German "Sachverständigten-rat" — had been founded to give advice on incomes policies. This might be seen as an attempt at corporatism, since the Council includes representatives of the most important interest organisations, the central bank, the economic ministries and some specialist economists. It has a "formandskap" (group of chairmen) of three professional economists, leading a corps of economists/bureaucrats. Its task was originally to establish the latitude for the growth of money incomes, wages in particular. It actually advised the total solution, but it has since then not had major importance.[213] Since the early 1970s, it has evaluated the economic situation more generally. The Council was not able to influence government or parliament in any significant sense.

Fiscal and monetary policies were expansive. The labour market organisations emphasised wage increases, not concerning themselves with long term effects. Fiscal policies over the period 1958-74/5 were expansive as the level of spending increased.[214] But there was a budget surplus in order to finance a private savings deficit. This private deficit was related to residential construction.[215] This means that the public sector, and "non-residents" did most of the saving during the postwar period.[216]

In the period 1958-73, 200,000 people left agriculture. Public employment increased from 250,000 to 500,000. But employment in manufacturing industry was unchanged 1962-73. This surge of economic growth gave rise to bottlenecks, with strong wage increases.[217] Frictional unemployment was the only type of unemployment. This is the background to the heavy inflationary pressure which existed as the crisis struck in 1973/4. The labour market was very tight, and wages grew by 20 percent more than abroad. There was a pressure on firms, forcing them to restructure, but few survived. Employment expanded in sheltered sectors. Already during the Golden age, a "skævtrækning" — a "lopsiding" — of the Danish economy took place.[218]

In the period 1959-73, a larger current account deficit than 1950-58 developed. This reflected both political priorities and the fact that in the 1960s — in contrast to the 1950s — international capital markets agreed to finance a Danish savings deficit.[219] By the mid-1960s, demand for imports, also driven by public spending and housing, fed the current account deficit. The deficit increased fastest in 1961-2, 1964 and 1965-70, when growth of domestic demand was strongest. "It was no longer possible to accept the deficit by referring to the satisfactory returns from foreign loans. But this point of view was not mentioned in the debate".[220]

Currency trouble began in the mid-1960s. Sterling was devalued in November 1967. Unlike 1949, only a few European countries followed England. One group were agricultural exporters with many exports to England, and Denmark was among them, due to concern for its growing current account deficit. Denmark devalued by 7.9 percent, half of the British devaluation. Following this, the Social Democratic government tried to abolish an indexation clause due to the inflation following on

devaluation. But the government fell on this proposal. The majority VKR (Liberal, Radical Liberals and Conservatives) government took over in 1968.[221]

In the spring of 1969, instability again was felt in international currency markets. At this time the international level of interest rates was above the Danish level. Thus, Danish residents began to switch their private short term loans (contracted abroad) to Danish loans. There was immediate pressure on currency reserves. Between March and May 1969, the discount rate had to be increased from 6 to 9 percent.[222] The long term bond rate went to 9.5 percent in April and in the summer it passed 10 percent for the first time, and has been there ever since (except for October 1972 and the spring of 1986). But conditions were favourable. While unemployment had increased in 1968, it went down again in 1969. Export prices developed favourably, so that net debt did not increase dramatically. In 1969, there was an important turning point in monetary policies.[223] Earlier, monetary policy had focused on investments (volume and composition). From 1969, defence of the currency reserves became the overarching concern, as the interest rate differential increased in order to push residents to borrow abroad.

The problem for the VKR-government was partly that a strong growth of the public sector was determined in advance. Since their strategy was based on the abandonment of incomes policy, they could not employ such solutions. Thus, the government tried a tighter fiscal policy instead (but there were not any well-developed ways of judging whether it was in fact restrictive). They also lifted the rationing of bonds. As a result, the housing sector started booming again.[224]

A Social Democrat government (minority) ruled from the fall of 1971. An import surcharge was announced (1971-April 1973). As an attempt to create wage moderation (in a situation of international boom, low unemployment, increasing inflation), a law on "economic democracy" was proposed. Note that only in the early 1970s were planning models introduced to improve the basis for economic policy making.[225]

The period 1968-73 saw the end of the boom. The increasing importance of public employees reflected the massive extension of the welfare state, within education as well as through the provision of social security and health services. The modernisation of education was due to new qualification requirements, since the structural changes (urbanisation, continuous restructuring of the productive apparatus, etc.) defined both new technological challenges and new tasks for the social sector. Public spending and tax rates grew faster than in any of the other Nordic countries in the 1960s. Among the sheltered sectors, housing was particularly important. This sector attracted large resources through the expansionary period of the 1960s, and this consolidated both the importance of craft workers and real estate owners within Danish capitalism. Housing, construction and the public sectors were the only sectors that expanded their share of Danish employment during the 1960s.[226] Most analyses of Danish postwar capitalism agree that such trends served to hamper the ongoing expansion of new manufacturing industries.[227] The sheltered sectors absorbed too large a share both of employment and of financial resources (heavy state loans and much private speculation consolidated a high level of interest rates).[228] In 1969, the discount rate jumped from 6 to 9 percent. The Danish manufacturing export sector therefore remained too small to finance the broad spectrum of imports that escalated with the strong transformation of the economy and society through the 1960s. The result was an increasing balance of payments deficit. Both internal and external pressures proved so strong that the Danish "Golden Age" model was in ruins already before the international crisis hit the country in 1974/5.

9.4 AUSTRIA

We start our survey as Germany loses World War II.[229] The Moscow declaration of 1943 implied that Austria was a free state. But in 1945 the country was divided in 4 occupation zones (USSR, France, England, US). The August 1945 Potsdam agreement gave the Soviets the right to seize German assets in their occupation zones as reparations. Both in the later DDR and in parts of Austria, factories were dismantled and machines sent off to the USSR. A Soviet-controlled corporation seized more than 400 industrial enterprises in Austria. As a response, the Austrian parliament in July 1946 and March 1947 passed far-reaching nationalisation laws, liquidating many German assets redefining them as "Austrian property". In this way continued Soviet confiscation was precluded. The occupying powers disapproved of this, but the Austrian government anyhow managed to take control of about 70 of the largest industrial enterprises, among others a number of chemical and electrical-engineering industries. Private capital was scarce. Investments were rather controlled in the period 1945-55, since Austria (as well as Greece) received some of the largest payments for postwar recovery. More than $136 million from the United Nations Relief and Rehabilitation Administration 1946-8, then a large share of Marshall Aid ($1.6 billion) was received in aid in this period.

A currency reform was attempted in the late 1940s, but successful reform came only in 1951. In this so-called Raab-Kamitz era the economic situation was stabilised. In monetary policies, Austria pursued the hard currency option, pegging the Austrian Schilling to the DM. This was combined with Keynesian fiscal policies and moderate wage/price policies. The economy gradually picked up, and in particular 1954 and 1955 were boom years (GNP growth rates of 8.6 and 11.1 percent). Since 1958, Austria has had counter-cyclical policies like Sweden and Norway.

The economic recovery was the economic basis for the State Treaty of 1955 which gave Austria its full independence. Part of the agreement was that Austria should deliver to the USSR $150 million in specified goods over a six year period. In addition, the Soviet Union also got some oil deliveries and a cash refund for handing back the Danube Shipping Company. (By February 1964, Austria had formally fulfilled its payments to the USSR.) As a consequence of the Treaty, Austria was relieved of the costs of the occupying armies (the U.S. had paid its own costs since 1947, but the Soviets only waived them in 1953, and Britain and France only in 1954). Occupying forces and the control measures of the Allied powers finally disappeared. The Second Republic got its own constitution, stating that Austria should be a neutral country. It was these circumstances, and certainly no ideology of nationalisation, which determined the large share of public ownership of heavy industry.[230]

There was a high rate of investment in fixed assets throughout the early postwar period: at about 27 percent of GDP, this was at the level of other peak countries like Norway and Switzerland. Investment was concentrated in sectors of production with growing markets and/or sellers' markets. In the 1950s, these sectors were basic industrial goods: steel, metals, paper and refractory stones. There was also a boom in Alpine tourism. The state did not involve itself in economic planning. Public firms have been run like private firms. In the late 1960s, the Austrian Industrial Corporation (ÖIG) was created to coordinate the nationalised industries.[231]

The reorganisation of the business community in 1946-7 involved a fusion of two historical traditions of business representation. The principle of chambers, as noted in Chapter 8, dates back to 1848. Austria's professional organisations, however, descended from the ancient guilds, and their influence had so far been confined to the regional level. "By combining the territorially organised, centralised economic chambers with the functionally organised, decentralised professional associations, Austria gave its postwar business community great political cohesion"[232]. The Federal economic chamber (*Bundeswirtschaftskammer*) has six sections (commerce, industry, trade, banking/insurance, transportation, tourism). It covers practically all Austrian enterprises (about 250,000 members), both private and public. The business community thus speaks with a single voice, and resolves conflicts of interest within the organisation. The Federation of Austrian Industrialists, (VÖI; *Vereinigung Österreichischer Industrieller*), on the other hand, is much smaller, organising only 4,000 firms. Its linkage to the Chamber is with the industry section, of course. The VÖI represents larger, more export-oriented firms, but it adjusts to the broader concerns of the Chamber.

The events of the 1930s and 1940s — the "legacy of political conflict and economic adversity" — "had created a durable consensus among competing party elites".[233] The Allied Commission for Austria allowed three political parties: The Conservative "Peoples party" (ÖVP: Conservatives or Catholic Christian Democrats), The Social Democratic Party (SPÖ: Labour) and the Communist KPÖ. Karl Renner again led the first provisional government. According to the "parity" principle, each party had a third of the government ministers. The first elections in November 1945 returned ÖVP (Conservatives) and SPÖ (Labour) as the two large parties, while the Communists gained little support. ÖVP had an absolute parliamentary majority, and had the prime minister (Bundeskansler), while SPÖ had the president. This was the start of the "Great Coalition" between Reds and Blacks, between Social Democrats and Christian-Democrats, as ÖVP continued the Christian Social approach. Both sides were organised according to the "Bündliche prinzip", that is, as pillars. The black side united employers, farmers, and workers. In this way, interest differences which the Christian Social party had failed to master in the interwar period were contained. Employers and farmers were the strongest elements.

The Austrian parliament has two chambers: one is the national assembly (Nationalrat), the other one consists of representatives of the individual member states of the federation (Bundesrat). ÖVP (Conservatives) and SPÖ (Labour) ruled in coalition from 1945.[234] SPÖ won most votes in 1953 and 1959, but the electoral system made ÖVP the largest party in terms of MPs. Both parties organise a large number of members, partly for pragmatic reasons: in Austria, one's career may depend on party membership. A school headmaster, for instance, must be a member of one of the two major parties, the large majority of white collar railway employees are red, and the party preferences of public employees in different counties seem to vary with the dominance of party.[235]

All political parties took part in the reconstitution of the Austrian union movement after the war. A fully centralised union confederation (ÖGB) was established. It is independent, and in contrast to the Arbeiterkammer (The Labour Chamber), membership in the ÖGB is voluntary. The union confederation was willing to collaborate with the state, and pushed for incomes policy collaboration, which would also include agreements on monetary and fiscal policies.

In the inflationary chaos of the immediate postwar period, five important wage/price agreements were established. In July 1947 food prices exploded: ÖGB, the Labour Chamber and the chamber of the Employers made the first price and wage agreement. Farmers did not take part. Both unemployment and inflation were high in this period. This kind of coordination was institutionalised in 1951 ("Wirtschaftsdirektorium"), lasting until 1954. The period 1951-57, however, saw relatively decentralised price and wage formation. In 1957, the threat of inflation reappeared. From that time on, collaboration became fully institutionalised. As already noted, the Austrian economic miracle (*Wirtschaftswunder*) had started already in 1947-54: GNP growth was on average 11.2 percent, in 1955-64 it was down to more normal 5.7 percent. The early start is important, since at that time eastern markets were largely cut off, full sovereignty had not really been achieved, and, although there were incomes policies, the "Sozialpartnershaft" system had not been fully developed (the Joint Commission — outlined below — was still not in operation). Thus, there was an early postwar surge of growth before some of the main institutions that have been regarded as crucial to the later Austrian model were established.

SPÖ (Labour) controlled the Ministry of Social Affairs, and according to Esping Andersen and Korpi, their chief goal was to "abolish the corporatist organisation of social insurance schemes, to place the benefits and rights of workers on a par with those that obtained for salaried employees, to enhance the position of workers within the self-governing social insurance institutions (which play a significant role) and, finally, to improve the benefit levels of social insurance"[236]. The reform of the social insurance system, however, was determined by a compromise between the two large parties. There was no full unification of existing insurance bodies, but a certain centralisation. SPÖ pushed for a system of "general people's insurance", but was countered by the ÖVP (Conservatives). In 1955 a "general social insurance law" was passed, with some improvements, but no "general people's insurance".[237] A new offensive followed in the 1970s, during the one-party SPÖ government. In 1974 continuation of wage payments during sickness was provided for workers, a privilege which had earlier only applied to salaried employees. In 1979, a lump sum of compensation in case of lay-offs was granted also to workers, again equalising workers and salaried employees.

In the early 1950s, economic policies were restrictive. Not until the 1958-60 recession did the labour movement succeed in implementing an expansive, Keynesian policy. After 1961, registered unemployment hovered below 3 percent. But policies have been general, rather than "active" in the sense of Swedish labour market policies. The state-owned firms have played a certain anti-cyclical role.

FIGURE 9.1

The Austrian Joint Commission on Wages and Prices its Structure as it Developed in the Early 1960s

<table>
<tr><th colspan="6">Institutions</th></tr>
<tr><td colspan="6">Assembly of the Joint Commission (formal)</td></tr>
<tr><td colspan="6">"Presidäntenvorbesprechung" - Regular Meeting of the Presidents (informal, usually once a month)</td></tr>
<tr><td colspan="2">Subcommittee on wages (formal)</td><td colspan="2">Subcommittee on prices (formal)</td><td colspan="2">Council for Social and Economic Questions (formal)</td></tr>
<tr><th colspan="6">Members (Voting)</th></tr>
<tr><td></td><td>["Red" pillar]</td><td colspan="2"></td><td colspan="2">["Black" pillar]</td></tr>
<tr><td>SPÖ</td><td>(Labour)-dominated</td><td colspan="2">ÖVP</td><td colspan="2">(Conservatives)-dominated</td></tr>
<tr><td>—</td><td>Federation of Trade Unions (v)</td><td colspan="2">—</td><td colspan="2">Federal Chamber of Commerce (c)</td></tr>
<tr><td>—</td><td>Central Assembly of the Chambers of Labour (c)</td><td colspan="2">—</td><td colspan="2">Conference of Presidents of the Chambers of Agriculture (c)</td></tr>
<tr><th colspan="6">Members (non-voting from 1966)</th></tr>
<tr><td colspan="6">Cabinet (Federal Chancellor as chairman)</td></tr>
</table>

Note: (v) — voluntary; (c) — compulsory. While the chambers of labour and commerce are organised at the national level, the chambers of agriculture are organised at the federal level. Thus, compulsory membership in the latter case means that each farmer must be a member of his/her respective regional chamber, while the conference of regional presidents is the institution represented in the Joint Commission at the national level. Furthermore, criteria for relating the chambers/unions to the red or black pillar, is the fact that, for instance in the agricultural chambers, the association of conservative farmers have always maintained strong dominance, similar to the dominance of the social democrats in the trade union federation and the labour chambers.

Source: Anton Pelinka, "Austrian Social Partnership", in Alan Matthews & Eda Sagarra, *Economic Performance in Two Small European Economies: Ireland and Austria Compared*, Dublin 1988, p. 63

In 1957, there was the threat of inflation arising from the Korean war. From that time, the "Joint Commission for Price and Wage-questions" (PK — "Die Paritätische Kommission für Preis- und Lohnfragen") became the central institution in the coordination of incomes policies, the "Prime council" in which economic and social questions were discussed.[238] The four main social partners are represented on this commission. First, the Federal Economic Chamber, that is the employers' organisation; second, the umbrella organisation uniting the regional agricultural chambers (*Die Präsidentenkonferenz der Landwirtschaftskammern*); third, the Central Assembly of the Chambers of Labour (AK), organising all wage earners;

and last, OGB, the central labour union. The first have leaders with close connections to the Conservatives (ÖVP) and the two latter have close connections to Labour (SPÖ) (cf. Figure 9.1).

"Paritätisch" means "equality of status". The two opposing interests have equal shares of the votes. All decisions are unanimous. This is the independent part of Austrian social partnership. Representatives of the state are only marginally involved. (The converse "dependent" part of Austrian social partnership comprises the numerous state-appointed committees, etc to be discussed below). In a full meeting ("Vollversammlung") the government has two representatives, and each of the four associations have two.[239] The PK is led by the Prime Minister, and other ministers take part. The activity of the Joint commission was extended from prices (1957) to wages (1962) and more general economic issues (1963). One sub-committee deals with wages, and another sub-committee with prices (but not all prices). Coordination is informal. There is no constitutional base for The Meeting of the Presidents (see Figure 9.1). As is often said, it does not even have an address. The whole commission was in fact intended to be temporary! The commission is not legally based, while the chambers are.[240]

In sum, the chambers form a traditional statutory system (compulsory membership), the entirely homogenous and concentrated union confederation, ÖGB, is a voluntary organisation, and the PK is a fully informal, non-constitutional arrangement.

The policy-making process involves all major pressure groups, promoting cooperation and integration. The two major principles of the Joint Commission are: first, unanimity, that is full consensus, meaning that any group can veto any decision. Second, no publicity: the public is not allowed to witness the decision-making process, they are only informed afterwards. Thus, this system violates two major conditions of any parliamentary system: majority rule and publicity. Pelinka actually argues that the Joint Commission is "a representative institution like a parliament", but it is also a version of "consociational democracy", different from competitive democracy.[241] In a historical perspective, Katzenstein regards the Joint Commission as a synthesis of the two ideological opposites of the First Republic: Christian-Social corporatism and nationalised socialism.[242]

The Meeting of the Presidents seeks compromise if the subcommittees have failed to reach agreement, and they define the agenda of the Assembly meetings. The Assembly only approves, so the Regular Meeting of the Presidents is the "hard core" of the whole Austrian system of industrial relations. This means that there is a strong concentration of power in the hands of a few peak leaders, sometimes termed an "oligarchy".

About every third month there is an "economic discussion" (Wirtschaftliche Aussprache) in which the peak leaders meet with the director of Austria's Economic Research Institute to discuss the most recent information on economic development.

The subcommittee on wages does not dictate the outcome of collective bargaining, but approves initiation of negotiations for new agreements, and in some cases influences the duration of contracts.[243] Government officials are not represented on

this committee. ÖGB members submit requests to the ÖGB leadership, which influences the subcommittee in its queuing of requests for wage increases. Wage policy has generally been countercyclical, but the system allows wage drift, which has been contained within "responsible" limits, except for a 1974/5 wage explosion.[244]

Individual firms and branches must submit requests for price increases to the Federal Economic Chamber. They must argue that the increases can be justified in terms of increasing costs. If the price affects the whole economy, the request is passed on to the Joint Commission. The Commission covers about 33 percent of prices, and a further 20 percent are determined administratively (food, energy, public services).[245]

The third leg (see Figure 9.1) of the system — a council for social and economic questions — was intended as an application of French indicative planning.

While Austria's Social Partnership took the shape of a grand parliamentary coalition, the Joint Commission has been dubbed a "paracoalition". Pelinka quotes seven conditions of this system: 1. A stable consensus between the main social groups; 2. A highly concentrated organisation of all groups (e.g. there can be no competition between different union confederations); 3. Very close relationship between pressure groups and parties: with overlapping between leading pressure group members and members of parliament; 4. Acceptance of the social status quo by all major groups; 5. A mixed economy with both private and public elements (as for the latter: nationalised firms and banks, as well as a generous social welfare system); 6. De facto acceptance of the present income distribution; 7. Agreement on economic growth — not the altering of income distribution — as the main goal of economic policies.[246]

Turning now to the role of the state apparatus, Katzenstein argues that what distinguishes the Austrian state is "its centralised, publicly licensed economic chambers, in which membership is compulsory".[247] As already noted, the most important private interest groups, ÖGB and VÖI, collaborate closely with their respective chambers.

The Austrian state bureaucracy seems quite strong (and certainly has a legacy back to the old German-style paternalism), and the federal system quite weak. But on closer inspection, it turns out that the network of partnership institutions (a comprehensive system of advisory councils) is the real core of the system, and that the Joint Commission is the core within this core. State bureaucracy is one, but not the most important actor. Bureaucrats are "neutral" brokers, preferring informal, secretive and centralised bargaining in the network. "Rather than initiating political strategies, the Austrian government is expected to ratify decisions reached in negotiations between Austrian interest groups; it insists on consultation but not co-determination in the shaping of critically important economic and social choices. (...) The government trades its partial political emasculation for a predictable formulation of policy and its easy implementation".[248] In Austria's corporatism, both business and labour have potential veto power.

The relationship between the political parties and interest groups requires sophisticated balancing: interest groups must not be too autonomous (loss of democracy), but neither can they be too dependent on the political parties (segmentation, breakdown of consensus). The result is strictly "Proporz", as shown in the case of the Joint Commission. "The government's intermediary role in group bargaining tries to assure, on the whole successfully, that the potential veto power of each side does not lead to stalemate."[249] Katzenstein argues that business/ÖVP (Conservatives) prefer a broad interpretation of social partnership (protection of private property), while the labour movement/SPÖ (Labour) prefer a narrow interpretation (managing a small, open economy). One might here identify a contrast with the Swedish case, where business prefers a narrow interpretation of the mixed economy (economic management), labour prefers a broad one (redistribution, "the third way").

Katzenstein also quotes Uwe Kitzinger's statement that a major purpose of elections in Austria is to "furnish a revised index of strength according to which the organised groups can bargain to settle their differences".[250] Parties work mainly through a bargaining system to interact with the social partners, not mainly through parliament to influence bureaucracy.[251] This is one additional reason why bureaucracy may be considered as weak in Austria. Its role is to facilitate agreements between the main interest groups (and thereby parties), rather than to impose its own solutions. In addition, even bureaucracy is polarised: "Austria's higher civil service is staffed largely by university graduates who are members of the ancillary academic organisations of the two major parties".[252] In the era of the Great Coalition, decision making took place in government and the higher civil service, because both camps were represented. After the 1966 breakdown of that coalition, and the turn to a one party government, there was a shift, with top level decision making taking place in the party elites and their "ancillary interest groups". The reliance on social partnership institutions increased. After 1966, it was decided that the Cabinet representatives in the Joint Commission should not vote. Bureaucracy could not present independent initiatives, e.g. on industrial policies. Due to such a politicisation, it was also impossible for the one-party government to make bureaucracy its instrument. "In the late 1960s, the establishment of numerous powerful advisory councils to various ministries, including the important Ministry of Finance, greatly enhanced both the access and the power of the SPÖ opposition, and it left Austria with the odd combination of a one-party government heading bipartisan ministries. Staffed according to the power of the two parties in Parliament (Proporz), these councils typically relied on the principle of unanimity and were powerful in the formulation and implementation of policy."[253]

Political parties not only bypass and penetrate the state, but they also "encircle it through numerous institutions that they control through their many ancillary organisations, including the major producer groups". A number of advisory, semi-official committees (jointly staffed), councils and boards deal with a wide range of matters (there were around 60 at the federal level in the late 1970s, according to an incomplete count). Such institutional mechanisms also exist at the federal level.[254] Such groups often have their own staff, and they also have an osmotic

relationship to bureaucracy. With a weak parliament, the executive is still able to avoid loss of legitimacy since interest groups are participating in the policy making process anyway. According to Lembruch, a specific trait of Austrian politics is that its neo-corporatist system spills over from incomes policies to issues of investment, employment, and broader issues. Interest groups now take part in matters of economic forecasting, labour market policy, and questions of agricultural, social, industrial, regional and commercial policy.[255]

All this implies that real participation by the citizens in the Austrian political system is quite low. Softening of conflicts softens the interest in politics. Austria provides "government for the people", rather than "government by the people".[256] Austria also has the lowest level of strike activity in the free world, perhaps apart from Switzerland.

Clement argues that the specificity of this system lies not in arrangements at the macro or micro level, but in the "integrative power of a macroeconomic level". It secures coordination: "Individuals and collectivist agents are linked by a dense network of groups and organisations". Clement also describes the network as "a pre-parliamentary and pre-governmental policy-making arena."[257] The centre of decision-making rests with organisations and corporate bodies. They meet in various committees, which form the "nerve centre" of the system. They provide very quick information on problems, since groups have immediate access to first-hand information, e.g. on market signals. This may shorten the time-lag before action is taken. Since groups communicate, they can "to a certain extent anticipate to what degree the partner is able to compromise without losing face". In this network "continuous multilateral bargaining" is involved not only in the most standard trade-off between wage growth and job security, but also in bargains like a profit squeeze in exchange for direct investment subsidies, wage restraint for tax reductions.

Economic growth was of the "extensive" type until 1962. In 1962, Austria was hit by an international recession, and there were signs of a structural crisis and increasing inflation. At this time, the Economic and Social Advisory Board was set up. In 1962-7, the real GDP growth rate was below the OECD average. Some commentators argued that the problem was that the tourist industry and other service activities grew too fast compared to manufacturing industry. Little was done, it seems, before the so-called "Koren Plan" was launched by the new ÖVP (Conservatives) government (1966-70) to spur the modernisation of Austrian industry. At that time, also a "Verbändekomitee" was established, to prepare and negotiate policy coordination between private industry and government. New financing institutions (e.g. *Entwicklungs- und Erneuerungsfonds*) were set up. A labour promotion law of 1968 implemented a more active labour market policy. 1967-74 again saw a real GDP growth rate above the OECD average. The rate of investment peaked in 1972.[258] Austria became a member of EFTA in the early 1960s, but with 60-65 percent of her exports going to the 12 EC countries, this did not really compensate for the costs of remaining outside the EC. In 1972, however, just before the international crisis, an association agreement with the EEC reduced these disadvantages: tariffs on industrial goods were gradually reduced.[259]

In their comparison of social policies, Esping-Andersen & Korpi conclude with the following contrasting of the Austrian and the Swedish models: "From the point of view of social policy, then, the great difference between Austrian and Swedish social democracy is that the former has lacked the power of initiative exercised by the latter over the past four decades. For the Austrian SPÖ, the price of full employment has been a sanctioning of the remnants of corporatist status segregation in the welfare state, unbroken guarantees of wage restraint, and, perhaps most significantly, the tolerance of high wage, income and property inequalities. Despite repeated programmatic promises to attack such inequalities, there is little to suggest that the SPÖ governments have achieved any major redistributive changes. What scanty data exist suggest mounting inequalities over most of the post-war period, resulting in one of the most inegalitarian overall income distributions in the West".[260] These differences reach further than social policies alone. They show that in Austria, elements of the interwar type corporatism prevail to a larger degree than in Sweden. The Austrian model displays certain roots in earlier and more unstable periods of Austrian history, not least to the brief Austro-fascist interlude.

The two pillars of the Austrian system are not simply labour and capital. Labour is influential in the "black" pillar and some of the "black" groups are influential in the "red" pillar. The Austrian system constrains the power of the business community: ÖVP (Conservatives) is a coalition of three federations, namely The Business League, the Federation of Employees and Workers (ÖAAB), and the Peasant League. The power of the first within the ÖVP (Conservatives) has in fact declined in the 1970s. ÖAAB represents the Christian Democratic union, which is the fourth largest union in the trade union federation, dominating public sector unions.[261] Katzenstein points out that this union functions as a social democratic element within ÖVP (Conservatives), which would therefore never be able to pursue aggressive business-oriented policies. But at the same time ÖVP (Conservatives) in a sense reaches into the union movement, for instance through many of the white collar unions! The large nationalised business sector, and the influence of the state concerning procurement and investment subsidies show the organised aspects of the Austrian model through its restrictions on the market. The business sector accepts the price- and profit-dictates of the Joint Commission. Katzenstein also emphasises that "Austria's business community relies, probably more than the business community of any other advanced industrial state, on the services and political contacts provided by its peak association".[262] Price controls have become routine: "Uncertainty about multiple potential sanctions in Austria's complex policy network and anticipation of strong, hostile union reaction, exercised either directly or indirectly via the government, result in private businesses limiting their own power to set price levels for their products."[263]

In contrast to this, the Scandinavian political economies are to a larger extent polarised along class lines, and the non-socialist side is further divided by certain cultural cleavages. In Sweden, thus, it was much easier to establish a social democratic hegemony throughout the Golden Age. This generated (and maintained), as Esping Andersen and Korpi emphasise, a more solidaristic system of social policies.

9.5 SWITZERLAND

We have seen that four of our contrast cases have quite strong labour movements, Sweden and Austria in particular. Switzerland is often mentioned as a country in which labour is very weak. According to traditional measures (cf. e.g. Table 8.2), trade unions and social democracy are very weak in Switzerland. But still, they participate in decisions to a large extent. In Chapter 8, four important Swiss traditions were mentioned, and among these, proportionality seems a decisive feature if we want to understand why labour still participate. Since World War II, the Swiss have extended their system of allocating a share of the government positions to the main parties, which roughly represent religious and socio-economic pillars. Such a system is not really in line with the ideas of representative, parliamentary democracy. The Swiss give priority to regulation of conflict by consensus, rather than by majority. The phrase "Konkordanzzwang" — meaning that achievement of consensus is imperative — is often used.

Between 1848 and 1891, the Radicals, that is the protestant forces, dominated the government (Federal Council; *Bundesrat*). Since 1891, Catholics were granted one member, increased to two since 1919. Labour was admitted in 1943. "This progressive incorporation of opposition into government was in fact a strategy consciously adopted by Swiss ruling elites to defuse conflict outside the parliamentary arena. This strategy finds its fullest expression in the admittance of a Socialist to the government coalition by the conservative bloc at the height of the Nazi threat during World War II."[264] The development of this proportional system since 1943 is summarised in Table 9.2, which shows that the government always reflects a larger share of the votes than is required for a simple majority. The principles of parliamentarism are quite diluted, and as for the representative aspect, MPs and members of government are not really committed to the positions of their parties.

The 2:2:2:1-formula has been in operation since 1959 (see Table 9.2), and is often called the "magic formula" (*Zauberformel*). According to that formula, three parties — Freisinnig-Demokratische Partei (the "Radicals", a mainly Protestant party), Christlich-Democratische Partei ("The Catholic Conservatives") and the Social Democrats — have two seats each in the government, while the Swiss People's party (the agrarian party) has one. Note that the 2:2:2:1 formula "is the hallmark of proportional rule practised, in varying degrees, at all levels of government through Switzerland."[265]

Given that the system emphasises consensus, it is not surprising that Switzerland has numerous corporatist channels. Corporatism here means a system of interest intermediation in which private interest groups, economic, social and professional associations, exert direct influence on the state apparatus and government policies. There is also influence from the state on the associations. Developed as a response to the recession of the 1930s, there is a consultative procedure (*Vernehmlassungsverfahren*), which requires the Federal Council to consult all interested parties before a bill is submitted to parliament. There is also the system of direct democracy — leading to extensive use of referendums — mentioned in

Sweden, it reflected a situation where the employment rate declined, as both the demand for and the supply of labour diminished. In the other European full employment cases, the employment rate increased, so supply and demand of labour both increased. We shall discuss this further in Chapter 17.

9.6 COMPARISONS

Our contrast cases consist of three Nordic and two Alpine countries. We have found similarities and differences between all of them, but it seems that the similarities between the members of the Nordic group are greater than the similarities within the Alpine group. Austria, in fact, appears to be a country marked by the strength of labour, which is in contrast to Switzerland. Is it similar to the Nordic group? In the following section we present some reflections on this question. Finally, we compare the two Alpine countries.

Austria and Scandinavia

According to Korpi's power resource indicators (Table 8.2) both Sweden and Austria score very highly. In fact, Austria has both salaried employees and manual workers in the same highly centralised trade union confederation, while Sweden has the LO and the TCO. Both in Sweden and in Austria there are close ties between the Social Democratic Party and the union confederation. But all the Nordic countries have a fragmented non-socialist side, with Conservative parties, Farmers' parties and Liberal and/or Christian parties. In contrast, Austria's Conservative party (ÖVP) encompasses the whole right wing. Swedish Social Democrats managed to dominate governments until the 1970s, while the SPÖ in this period was a junior partner.

More important, however, is the fact that the whole Austrian system is pillarised with two pillars (red and black). As for the union confederation, for instance, this means that religious and political cleavages exist as major elements within it. In the Nordic countries, only the left, i.e. social democracy, managed to build a "pillar", so if a "pillarised" socio-political system requires a minimum of two pillars, the Nordic systems cannot be counted as such.

As for private business, Austrian capital is perhaps weaker than Swedish capital, due to the large nationalised sector.[277] Nordic social democracy did not imply much nationalisation, although the principle was often supported. In Austria, there was full consensus on this matter, since nationalisation related to the threat of Soviet confiscation. But again, the nationalised sector is influenced by a balance between the red and the black pillars. If social democrats are in a majority position in a Nordic country, the need to balance another pillar is not an imperative throughout the system. To the extent that the Nordic systems implied class compromises, these compromises implied greater organisational autonomy of the left.

The most striking difference between Austria and Scandinavia is the compulsory chambers. Visions of such a strongly corporatist system may have been floating around also in the Nordic area in the immediate postwar period, but they never came to anything.[278] Thus, when it is stated that the Nordic countries have quite centralised

organisations, which link up with the state in a corporatist fashion, these organisations are always voluntary organisations in civil society. Austria, in contrast, has overlapping interest representation, with both compulsory and voluntary organisations. Of the four major organisations taking part in the Joint Commission, ÖGB is the only voluntary one, while the three chambers are compulsory (see Table 9.1). The employers' association, for instance, has to channel its influence through the chamber. Furthermore, the parliament is possibly less important in Austria than in any of the Nordic countries. Parties have to maintain specific relations to the Chambers: ÖVP (Conservatives) to the agricultural and trade chambers, and SPÖ (Labour) to the labour chamber and to ÖGB.

Even in the Nordic cases, varieties of corporatism surely exist, particularly in the form of committees, consultative procedures, and informal influence. But the chambers make Austrian bureaucracy and parliament more dependent on the social partners. In the Nordic cases, bureaucracy and other state institutions are not staffed according to any principle requiring proportionality between reds and blacks. The Nordic countries have committees like Austria's dependent part of Sozialpartnerschaft, but not institutions like the independent Sozialpartnerschaft.

In Austria (and in Switzerland), the main parties are 'in', while smaller parties are 'out'. This might make the Alpine party systems more stable than the Nordic ones. The party systems of Scandinavia seem more vulnerable to change than the Alpine ones. In Austria or Switzerland, new parties may challenge the old structure, but have trouble breaking into the system. In the Nordic cases, such new challenges more easily influence the other parties.

As already hinted at (cf. the end of Chapter 8.1), the "consensual systems" of Austria and Scandinavia have different origins. The Scandinavian system developed from below in the interwar period, via red/green compromises. Austria, on the other hand, had Austro-Fascism and then Anschluss to Nazi Germany. In Scandinavia, the party systems survived the difficult 1940-45 period. In Austria, parties were reconstituted after the war. All the Nordic countries regained their independence (only Sweden was able to remain neutral, like Ireland), while Austria was supervised by the allied forces until 1955. At that time, neutrality was written into the Constitution of the Second Republic. The party system of 1945 reinforced the pillarisation of society into black and red pillars, and as indicated, this dichotomy was built into most institutional arrangements. In Scandinavia, this was not possible, since the non-socialist side was split into three, four or more parties. Scandinavia may have a "red" pillar, linked to the labour movement, but lacks the encompassing type Christian-Democratic movement, which mobilises both business interests, many white collar workers and farmers. Thus, there is no "black" pillar.

One might say that the Nordic non-socialist side is more 'pillarised' according to class lines, since there are separate Conservative and Farmer parties. But pillarisation is not the right word, since the Nordic systems do not entail proportional representation by the representatives of the 'pillars' throughout the system. Due to the fragmentation of the right side in the Nordic area, the social democratic "pillar" was central in a bargain which resulted in relative social democratic dominance in the political sphere, accepting that business forces maintained their decision making power in the economic sphere of the mixed economy. In the Alpine cases, the state was never taken over by the social democrats, since proportionality and compromises exist at all levels of the state. If there is a social democratic government in Austria, its policies are tempered by consensual mechanisms throughout the political-administrative system. Of course, there are mechanisms creating consensus in the Nordic cases too, but not ensured by proportionality. Thus, the chances that Labour would succeed in getting through more distinctly social democratic policies seem higher in the Nordic cases. Income distribution might be one example.

As indicated in Chapter 7, the income distribution of Austria is relatively skewed, compared to those of the Nordic countries. Whether this difference reaches back to roots in early history, or whether the welfare states of postwar Scandinavia have been successful in their aims at redistribution, involves difficult empirical investigations. In terms of rhetoric, at least the Scandinavian social democracies were always eager to point out their efforts to create equality, while the acceptance of the status quo seems more typical of the Austrian situation.

Another example might be the social security system. While there is a postwar discontinuity in the Austrian party system, the Nordic countries have a postwar continuity in their social security systems: they instituted universal pension schemes in the early postwar period. In Austria, it seems, if Korpi is right, a highly stratified system was maintained. The old "estate" approach lived on in ÖVP (Conservatives). In Scandinavia, the continuity of social democracy was stronger, there had been no fascist detour. While the old social security approach — with a good deal of paternalism and occupational segregation — survived in Austria, a new approach was launched in Scandinavia. In Austria, there was a Grand Coalition, dominated by ÖVP (Conservatives), in Norway and Sweden (partly also in Denmark), there was social democratic hegemony.

Austria and Switzerland

Referring to data on the orientation (national or international) of the business community, the strength of unions and social democracy, as well as institutional centralisation of business and labour, Katzenstein concludes that Austria and Switzerland are "polar types of democratic socialism and liberal capitalism".[279]

But Katzenstein also emphasises one common feature, namely the centralisation of the dominant actors (business, unions). Thus both versions of "democratic corporatism" lead to "similar political consequences": state and society are closely integrated. "Relying on broadly based, centralised internal consensus, they leave the state bureaucracy relatively passive and lacking in autonomy. The policy process in both countries is predictable. Continually modifying and reaffirming the consensus on political strategies and structures, it relies on intricate political bargaining between peak associations and the state to compensate for the relative passivity of the state bureaucracy. Finally, it incorporates virtually all important sources of potential opposition."[280]

As we have seen, labour market policies more effectively marginalise certain groups in Switzerland, but not even Austrian politics show much concern with the distribution of income.[281] The latter is certainly a difference compared to the Nordic setting. The Nordic countries have higher employment and participation rates, particularly for women. This will be discussed in Part V.

Katzenstein argues that the relationship between labour and capital in none of the two cases consists of "'natural' convergence" between actors with about the same amount of power resources (while such a statement possibly fits the Nordic cases). Rather, the relationship is "a deadlock forced by the need actors perceive for political cooperation within the constraints and opportunities of corporatist structures."[282] As power differences narrow in the two societies, the corporatist arrangements are strengthened.

The similarity between the two Alpine countries is that the checks and balances of civil society in both cases extend into the political and bureaucratic system. Austria has its great coalitions, Switzerland its "magic formula". Austria has two pillars, blacks and reds, while Switzerland — in our most simplified account — has four: one related to farmers, one to labour, and two conservative ones, related to Protestants and Catholics respectively. In Switzerland, economic chambers do not play the role they have in Austria. Parliaments and state apparatuses are weaker than in the Nordic cases.

9.7 SUMMARY

This chapter has presented as much information on the five contrast cases as could be gathered, organised and analysed during the short project period. Early history has been covered only very briefly, certain aspects of 19th century and interwar history have been discussed, while the 1945-73 period has been analysed in somewhat more detail. The Nordic area has probably been more thoroughly analysed than the Alpine area, due to the author's specialisation in Nordic matters. The period since 1973 will be analysed in Part V. Certain remarks have been made on comparative contrasts and similarities. But full-fledged comparative analyses have not been conducted. Such analyses follow in Part IV, where we introduce the chronology of the Irish experience.

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4. John Casparis, "The Swiss Mercenary System: Labour Emigration from the Semiperiphery", *Review*, 5, 4, pp. 593-642; John Casparis, "Core Demand for Labor from Southern Europe: The Case of Switzerland", in G. Arrighi, editor, *Semiperipheral Development: The Politics of Southern Europe in the Twentieth Century*, London 1985.
5. The following sketch relies on Stein Rokkan, "The Growth and Structuring of Mass Politics", in Erik Allardt, et. al., editors, *Nordic Democracy*, Copenhagen 1981, and Yvind Sterud, "Configurations of Scandinavian Absolutism", in P. Torsvik, editor, *Mobilisation, Center-Periphery Structures and Nation-Building*, Oslo 1981.
6. This perspective was employed in Mjøset, "Nordic Economic Policies in the 1970s and 1980s". For small countries, these dominant export sectors will generally be the point of departure for their national systems of innovation, i. e. what Porter's "diamond" is about: determinants of a nation's competitive advantages.
7. Lennart Jørberg, "The Industrial Revolution in the Nordic Countries", in Carlo M. Cipolla, editor, *The Fontana Economic History of Europe*, Vol. 4.2., London 1973, p. 543 argues that this, as well as the perisistence of craft production, made for low productivity increases in the Danish economy.
8. *ibid*, p. 453.
9. *ibid*, p. 394, p. 417, p. 456. "In Denmark, the agrarian sector played a leading part. In Sweden its role was as important as that of industry. In Norway, where there was a big service sector, both agriculture and industry played a smaller part in developments, while in Finland agriculture had only a minor effect on economic development."
10. *ibid*, p. 378.
11. *ibid*. p. 387. Denmark had a continuous growth of per capita income 1885-1905, while Norway had a spurt 1870-75, then a long period of weak growth.
12. Ulrich Menzel und Dieter Senghaas, "Autozentrierte Entwicklung im Weltsystem - Versuch einer Typologie", in Jochen Blaschke, editor, *Perspektiven des Weltsystems. Materialien zu Immanuel Wallerstein, "Das moderne Weltsystem"*, Frankfurt a. M. & New York 1983, p. 181 f.
13. In a population of 1.8 million inhabitants at that time, there were only 10 towns with more than 5000 inhabitants. In certain rural disticts, as high a share as two thirds of the population was occupied in industry. 90 percent of world demand for watches was met by Swiss suppliers. B. M. Biucchi, "The Industrial Revolution in Switzerland", in Carlo M. Cipolla, editor, *The Fontana Economic History of Europe*, Vol. 4.2., London 1973, p. 631.
14. For a detailed treatment of the 1780-1850 period, see Ulrich Menzel, *Auswege aus der Abhängigkeit. Die Entwicklungstheoretische Aktualität Europas*, Frankfurt a. M. 1988, Ch. II.1.
15. Menzel & Senghaas, *op. cit.*, p. 182. Cf. Biucchi, "The Industrial Revolution in Switzerland", p. 631: at the time of the industrial revolution, England (with a population of 8 million, Ireland and Scotland excluded) absorbed 58 percent of world cotton, but Switzerland (with less than 2 million inhabitants) absorbed 23 percent. The cotton industry employed 150,000 workers at the eve of the industrial revolution.
16. *Menzel*, op. cit., p. 548.
17. Michael Porter, *The Competitive Advantage of Nations*, London 1990, p. 322.

18. *ibid*, p. 325: Switzerland has "relatively small industries and with relatively focused strategies, concentrating on highly differentiated, high-quality segments. Success in industries involving high-volume mass production is rare. This pattern is a function of a small home market, high wages, and an expensive currency".
19. Biucchi, *op. cit.*, p. 636.
20. Saul, "The Economic Development of Small Nations", (reference in Part II, note 50) p. 113 f notes that there was also an element of free riding behind Switzerland's industrial success: "Switzerland had no patent law to 1887 and it was partly for this reason that French dye makers crossed the border in the 1860s to manufacture fuchsine dye when they were being frustrated by patent holders in their own country. The Swiss Law of 1887 left all processes unprotected, covering only inventions that could be represented by a model. The ability of the Swiss chemical industry to concentrate successfully on the production of speciality dyes depended on the fact that German dye firms were unable to patent their own processes in Switzerland. The manufacture of aluminium in Germany made little progress before 1914 basically because of difficulties in sustaining the patents for the Héroult process. Consequently the A. E. G. group, holding the Héroult rights, set up their plant at the Rhine Falls in Switzerland where all the process patents for aluminium were ineffective." As for World War 1 and World War 2, Porter, *The Competitive Advantage of Nations*, p. 328 notes that many of the Swiss industries "gained important advantages from the invalidation of German patents and because German industry was cut off from world markets, advantages made particularly significant by the similarities that already existed between successful Swiss and German industries."
21. The present situation will be discussed in Chapter 10.
22. Menzel & Senghaas, *op. cit.*, p. 177 f.
23. Felix Butschek, *Die österreichische Wirtschaft in 20. Jahrhundert*, Stuttgart/Wien 1985, p.22f.
24. Alexander Gerschenkron, *An economic spurt that failed*, Princeton 1977 is an analysis of this period, providing an interpretation of Austria in terms of his famous model (cf. footnote 48 to Part II), according to which latecomers require a stronger interventionism (by large banks, in this case) in order to succeed in industrialising.
25. Butschek, *op. cit.*, p. 26, on the interwar period, p. 28-64.
26. A. Milward and S.B. Saul, *The Development of the Economies of Continental Europe 1850-1914*, London 1977, p. 296.
27. Jørberg, *op. cit.*, p. 404 f.
28. Claudius H. Riegler, "Emigrationsphasen, Akkumulation und Widerstandsstrategien. Zu einigen Beziehungen der Arbeitsmigration von und nach Schweden, 1850-1930", in Hartmut Elsenhans, editor, *Migration und Wirtschaftsentwicklung*, Frankfurt a.M./New York 1978, p. 41 f. For the development of the agrarian structure, see Tables 3 & 4, p. 44.
29. Riegler, *ibid*, p. 34. The earliest emigrants had often been religious or political minorities leaving in groups. Earlier emigrants would often send prepaid tickets to relatives who were to follow. Furthermore, both shipping and railway companies advertised a lot. U.S. railway companies were interested in selling the land they had been granted to immigrants. Actually, in 1883, the Swedish government banned the activities of emigration agencies, cf. p. 37.
30. *ibid*, p. 49.
31. Jørberg, *op. cit.*, p. 439.
32. Riegler, *op. cit.*, p. 42.
33. Jørberg, *op. cit.*, p. 440.
34. The first trunk line sections were opened to railroad traffic in 1856. By 1868, 1668 km of railraod lines had been constructed; between 1871-1880, 4176 km were constructed, 80 percent of this by private railroad firms. Bengt Holgersson & Eric Nicander, "The railroads and the economic development in Sweden during the 1870s", *Economy and Society*, XI: 1968.
35. Jørberg, *op. cit.*, p. 467.
36. *ibid*, p. 470.

37. But since 1890, exports of ore (share of raw materials) increased again, due to the "Gussstahlprocess", which increased international demand for Swedish ore again.

38. Riegler, *op. cit.*, p. 46 f.

39. *ibid*, p. 52, p. 47, with reference to Reino Kero, *Migration from Finland to North America in the years between the United States Civil War and the First World War*, Turku 1974.

40. Here, there was quite close interaction with the state apparatus: ASEA, for instance, had close relations to SJ (The Swedish Railroad Co) and to Vattenfall (The State Water Power Co), and Ericsson to Swedish Telecomm (Televerket). ASEA even produced locomotives. In Sweden, railways were constructed on the basis of strict state planning. State-financed railways accounted for only 33 percent of the total railway line (1860-1914), but many of the private lines were narrow gauge lines which did not meet proper specifications. Although Sweden's railway construction started very late, at the time of World War 1, it ranked as the number one European country in terms of railroad-length per capita, only behind the U.S., Canada, Australia and Argentina. Lars Erik Hedin, "Swedish railroads 1860-1914", *Economy and History*, X: 1967, p. 5.

41. Dieter Senghaas, *Von Europa lernen*, Frankfurt a. M. 1982, p. 131 f. (English edition, p. 86)

42. Charles Edquist & Bengt-Åke Lundvall, "Comparing Small Nordic Systems of Innovation", paper to the seminar on National Systems Supporting Technical Progress, Maastricht, November 1989, p. 30.

43. *ibid*, p. 29.

44. Jørberg, *op. cit.*, p. 448.

45. *ibid*, p. 445.

46. Edquist &Lundvall, *op. cit.*, p. 10, notes that only at this historical juncture, was there an interaction between the growth of manufacturing industry and urbanisation in Sweden.

47. Jørberg, *op. cit.*, p. 448 (1890-1914).

48. *ibid*. p. 449. According to Table 6.2 below, however, Sweden had a much smaller share of the labour force in the manufacturing sector, narrowly defined, than Denmark and Norway in the period 1880-1910, catching up only in 1910-20.

49. Riegler, *op. cit.*, p. 43; Staffan Helmfrid, "Bevölkerungswachstum und Agrarstruktur. Gedanken zur demographischen Wandlung Schwedens im 19. Jahrhundert", in *Wirtschaftliche und soziale Strukturen im säkularen Wandel. Festschrift für Wilhelm Abel*, Bd. II, Göttingen 1974.

50. Riegler, *op. cit.*, p. 45.

51. Knut Wicksell, the famous economist, agitated and wrote eagerly against emigration.

52. Franklin D. Scott, "The Study of the Effects of Emigration", *Scandinavian Economic History Review*, VIII: 2, 1960, p. 169. Thorsten Gårdlund, *Industrialismens samhälle*, Stockholm 1942, p. 233 ff, later pointed out that many of the engineers that contributed to the Swedish metallurgical industry at that time had first been engineers in the U.S.

53. Scott, *op. cit.*, p. 171. The Society was later renamed "Society Home in Sweden" (*Sällskapet Hem i Sverige*). It sponsored many pamphlets against emigration.

54. G. Sundbärg, *Betänkande i Utvandringsfrågan*, Stockholm 1913, p. 890, quoted in Scott, *op. cit.*, p. 171.

55. Scott, *op. cit.*, p. 171. See the more detailed analysis in Franklin D. Scott, "Sweden's Constructive Opposition to Emigration"; *Journal of Modern History*, XXXVII: 1, 1965, pp. 307-335.

56. Jørberg, *op. cit.*, p. 398.

57. *ibid*, p. 408.

58. *ibid*, p. 406 f.

59. *ibid*, p. 407.

60. *ibid*, p. 411 f.

61. Reported in Jørberg, *op. cit.*, p. 413.

62. *ibid*, p. 413 f. This may be an important background for the fact that Denmark has had a balance of payments problem ever since industrialisation. During the last decades of the 19th century, gross investment (as a share of GNP) increased strongly and the necessary capital could not be raised on a domestic basis only. "There was a tendency for the balance of payments deficit to rise on the upswing of the trade cycle; but at the same time there was also a tendency for raw materials prices to fluctuate more than prices for finished products. Export prices, that is, rose more slowly than import prices". Jørberg, *op. cit.*, p. 414. Denmark's net debt increased from 200 mill. kr. in 1899 to more than 850 mill. kr. in 1912. This was financed by bond emission abroad (by the State, mortgage banks, and the City of Copenhagen). "During the decade prior to the First World War the deficit on the balance of payments corresponded to about 20 percent of the value of gross investment. Developments show that, owing to changed competitive conditions, price developments, and a new opening for extensive new agricultural investment during the 1890s and the first decade of the twentieth century, Danish agriculture was unable to go on financing its own and other sectors' investments out of big surpluses. Thus it is clear that Denmark's economic development was not deeply marked by the growth of her industries. Agriculture and services were much more crucial to the growth of national income. The lack of an industrial export sector was to some extent compensated for by the 'industrialisation' of agriculture. But around the turn of the century imports were about 50 percent bigger than exports, and Denmark's balance of payments deficit was about 40 mill. kroner a year. Only thanks to loans from the international market was it possible to cover this deficit and keep investments at the level necessary for further growth. But developments were to show that Denmark could not go on concentrating so exclusively on her agricultural sector. Thanks to conditions during the First World War she was able to repay most of her foreign debt. But the balance of payments problem has been troublesome all through the twentieth century." Jørberg, *op. cit.*, p. 414 f.

63. Most historical accounts present this as a Swedish invention by De Laval, i.e. a proof of the excellence of Swedish engineering skills already at that time. But Edquist &Lundvall, "Comparing Small Nordic Systems of Innovation" note that the milk separator was a simultaneous invention both in Denmark and Sweden.

64. Jørberg, *op. cit.*, p. 395 f, and p. 471: Finnish cooperatives were not able to standardise their products, and these cooperatives did not become important until well into the 20th century.

65. Kennedy also notes "the importance initially of an enterprising agricultural sector, efficient in production, technologically progressive, quality conscious and with a powerful tradition of cooperation"; Kieran A. Kennedy, "Impressions of a Visit to Denmark", *Central Bank of Ireland Autumn Bulletin*, 1975, p. 93. See Part IV below for a closer comparison between Ireland and Denmark.

66. Jørberg, *op. cit.*, p. 397 f.

67. *ibid*, p. 399. Cf. E. Jutikkala, *Bonden i Finland genom tiderna*, Helsinki 1963, p. 340.

68. Jørberg, *op. cit.*, p. 416.

69. *ibid*, p. 473 f, cf. also p. 463 f.

70. *ibid*, p. 419.

71. Jussi Raumolin, "The impact of forest sector on economic development in Finland and Eastern Canada", *Fennia*, 163, 2, 1983, p. 403.

72. In absolute numbers, the labour force in industry was 107,800. We know that Ireland had above 100,000 in manufacturing industry in 1922. In both countries, total population was about 3 million, so the Irish and Finnish shares were about equal. See also Table 20 in Jørberg, *op. cit.*, for the sectoral distribution of population. The country composition of exports is in Table 21.

73. Risto Alapuro, *State and Revolution in Finland*, Berkeley 1989, p. 32.

74. Jørberg, *op. cit.*, p. 423.

75. *ibid*, p. 421-3.

76. Raumolin, "The impact of forest sector on economic development in Finland and Eastern Canada", p. 400.

77. *ibid*, p. 402.

78. *ibid*, p. 404.

79. Alapuro, *op. cit.*, p. 34-35.

80. Jørberg, *op. cit.*, p. 400.

81. *ibid*, p. 401; Jutikkala, *Bonden i Finland genom tiderna, op. cit.*, p. 386.

82. Alapuro, *op. cit.*, p. 33-34. Studies of Norwegian 19th century development along the lines of Senghaas' scheme, show that although agriculture was very poor and had a very low productivity (even the distribution of holdings was not particularly egalitarian, although data are fragile), extra money incomes from side-activities (work related to the forest sector and to fisheries) served to bolster the development of a home market which interacted with a domestic manufacturing industry in the second half of that century.

83. *ibid*, p. 43-51.

84. This is further discussed in Part IV.

85. Eoin O'Malley, *op. cit.*, p. 53.

86. Peter Flora, et. al., *State, Economy, and Society in Western Europe 1815-1975*, Vol. II, Frankfurt a. M. 1988, Ch. 7.

87. Kristine Bruland, *British Technology and European Industrialisation. The Norwegian textile industry in the mid nineteenth century*. Cambridge 1989. Cf. also the studies published in *Scandinavian Economic History Review*, XXIX: 1, 1982 ("Proto-industrialisation in Scandinavia", edited by L. Jörberg). Some of the evidence here supports the view that it was advantageous for countries of the European periphery at this time to have its proto-industry linked to its dominant export sectors, not to the leading sector of textiles. With reference to Norwegian developments, this argument is made in Lars Mjøset, "Norske utviklingslinjer", Ch. 5 of L. Mjøset, *Kontroverser i norsk sosiologi*, Oslo 1991. The case of Switzerland, however, shows that adjustment was possible even within textiles.

88. This is further discussed in Chapter 12 below.

89. Biucchi, *op. cit.*, p. 635 f.

90. *ibid*, p. 651.

91. *ibid*, p. 637.

92. This was different from the continuing serfdom in Prussia and Russia, and also from the consolidation of large estates in Hungary.

93. Cf. especially Chs. 2 and 3 of Senghaas, *The European Experience*.

94. An index for different years between 1950 and 1964 (mainly around 1960), is provided in a standard source book; *World Handbook of Political and Social Indicators*. It is a Gini index based on the number and acreage of farms (the closer it is to one (or to 100), the more uneven is the distribution). The first edition, edited by Bruce Russett, New Haven & London 1964, Table 69, has the following numbers, ranked from the most even distribution: Denmark 45.8; Sweden 57.7; Ireland 59.8; Finland 59.9; Norway 69.9; Austria 74.0; Uruguay 81.7. (The sources are either the United Nations or FAO, and for Uruguay a UCLA Centre for Latin American Studies). To the extent that the postwar structure reflects long term historical forces, and to the extent the index can be trusted, this indicator confirms our conclusion. The case of Austria is especially striking here. Ireland is also below Norway. The case of Uruguay is included, since that country will be commented on further in Part IV. The second edition of the *World Handbook*, edited by C. L. Taylor & M. Hudson, New Haven & London 1972, provides roughly the same data, but with significant improvements for Finland and Sweden. For our discussion, the oldest data are the most relevant. The third edition of the *World Handbook*, edited by C. L. Taylor and D. A. Jodice, London 1983, Vol. 1, also give data for a second period, around 1970. In that edition, there are no data for Ireland, while a figure for Switzerland (1970) is added (49.4). Most of the 1970 figures are similar to those quoted above, only in Finland, the figures show much greater equality, ca. 1960: 35.1, ca. 1970: 25.5. Sweden was by ca. 1960 at 50.6, but in 1970: 54.6.

95. For the more detailed argument, see Lars Mjøset, "Comparative typologies of development patterns: The Menzel-Senghaas Framework", in L. Mjøset, editor, *Contributions to the Comparative Study of Development, op. cit.*

96. Jörberg, *op. cit.*, p. 461 claims that in the Nordic industrial revolutions, wages did not squeeze profits. He actually claims that income distribution was "lopsided", biased in favour of capital. But he does not provide substantial data analysis to support this claim.

97. But an analysis based on more detailed data also gathered by the Flora project, is Franz Kraus, "The Historical Development of Income Inequality in Western Europe and the United States", Ch. 5 in Peter Flora & Arnold J. Heidenheimer, *The Development of Welfare States in Europe and America*, New Brunswick 1981. Unfortunately, none of the results reported there is of relevance to the problem discussed here.

98. Tim Callan & Brian Nolan, "Income Distribution and Redistribution: Ireland in Comparative Perspective", in John Goldthorpe and Chris Whelan, editors, *The Development of Industrial Society in Ireland*, Oxford 1992. The comparative material is derived from the Luxemburg Income Study (LIS) dataset, as reported in M. O'Higgins, G. Schmaus & G. Stephenson, "Income Distribution and Redistribution: A Microdata Analysis for Seven Countries", *The Review of Income and Wealth*, June 1989, pp. 97-125. Nolan and Callan discuss lessons of the Irish experience for the debates concerning the Kuznet's hypothesis, that the relationship between economic development (as indicated by per capita national income) and income equality takes the form of an inverted U-shape, with high levels of equality before industrialisation and high levels in the mature stage after "take-off". We are not in a position to take up this debate here. It should be noted, however, that Senghaas' view — following the "growth with equity" school (cf. for instance Irma Adelman, "Beyond Export-Led Growth", *World Development*, 12: 9, 1984) — is opposed to this Kuznets' thesis.

99. Bob Rowthorn, "Social Corporatism, wage dispersion and labour market performance", in Jukka Pekkarinen, Matti Pohjola and Bob Rowthorn, editors, *Social Corporatism: A Superior Economic System?* Oxford 1992.

100. Porter, *op. cit.*, p. 323.

101. Jan Fagerberg, *Norden og strukturendringene på verdensmarkedet*, Oslo: Central Bureau of Statistics, Reports 86:18, 1986.

102. Only one of Senghaas' factors (Table 4.3) is not taken into account: The "availability of risk-oriented entrepreneurs/firms" seems to us to be much more of a dependent than an independent variable. In other words, we are in agreement with the Neo-Schumpeterian criticism of Schumpeter: it is not the entrepreneur as such which is the driving force of modern capitalism, but rather the conditions with which (s)he interacts.

103. More information relating to present day industrial structures is provided in Chapter 9, and in Part V.

104. Cf. Chapter 4 above. It should be remembered, however, that the Austrian banks also were the crucial weak links in the chain which unleashed the 1930s great depression as financial disorder spread to Europe after the Wall Street events of October 1929.

105. Studies of Sweden along the lines of Gerschenkron's thesis are Lars G. Sandberg, "The Case of the Impoverished Sophisticate: Human Capital and Swedish Economic Growth before World War I", *Journal of Economic History*, XXXIX: 1, 1979, and Lars G. Sandberg, "Banking and Economic Growth in Sweden before World War I", *Journal of Economic History*, XXXVII: 3, 1978. Sandberg discusses Sweden's extraordinarily high rate of savings in that period.

106. So far, we have not found synthetic studies of r&d activities in a historical and comparative perspective. Of course, historians of technology provide many case studies, which show that the German innovation system was highly developed around the turn of the century.

107. Cf. Chapter 9 for further comparisons.

108. Iván T. Berend & György Ránki, *The European Periphery and Industrialisation, 1780-1914*. Cambridge 1982, p. 58.

109. *ibid*, p. 55. More specific data to be found in Peter Flora, *op. cit.*, Vol. II, Ch. 10. According to this compilation, the years for introduction of compulsory schooling (but for an unspecified number of years) were: Ireland: 1831; Finland: 1866; Austria: 1774, Sweden: 1842; Switzerland: 1874 (but earlier in important cantons), Denmark: 1814 (7 years duration, but only 3 days a week). The years for 8 years (unless otherwise noted) compulsory schooling, were: Ireland: 1892 (towns only); Finland: 1921; Austria: 1869; Sweden: 1878 (6 years), Switzerland: 1874; Denmark: 1849 (7 years).

110. Berend & Ránki, *op. cit.*, p. 55. They also note that Japan already by the mid 19th century had reached the educational standard of England.

111. See reference 110 above.

112. *ibid*, p. 57. Our guess is that Ireland is relatively close to Scandinavia on this indicator, but there has been no time to search for comparative, historical time series of illiteracy rates. On indicators of adult literacy in the 1960s and 1970s, all our case countries score 98-99 percent, according to the compilation in V. Bornschier & Peter Heinz, eds., *Compendium of data for world-system analyses*, Soziologisches Institut der Universität Zürich, Bulletin: Sondernummer, März 1979, Table 5.4.1.

113. *Financial Times*, July 23, 1986. (Special report: Work.) Here there is also a reference to a more detailed study of similar plants: 14 out of 16 U.K. foremen had no qualifications, while in Germany, all 16 workers were certified craftsmen, 13 were masters and the rest working to become just that.

114. *ibid*, p. 11. Cf. also Chris Freeman, *Technology, Policy and Economic Performance*, *op. cit.*

115. Among the Japanese large firms, the system is similar to the German one. Companies become increasingly like universities. "The Japanese system, more than the German, depends for its obvious success on *the primacy of company and collective over civil society and the individual* in key respects", *Financial Times*, July 23, 1986, p. 11.

116. Porter, *op. cit.*, p. 319, and as is clear from Table 7.5, Switzerland's share of younger people in universities is the lowest among the selected countries, even slightly below Ireland.

117. Saul, "The Economic Development of Small Nations", *op. cit.*, p. 114.

118. Porter, *op. cit.*, p. 320.

119. A major overview is François Crouzet, *The Victorian Economy*, London 1982, cf. in particular Ch. 12.

120. The notion of corporatism is used in social science with a disturbing multitude of meanings attached to it. We shall encounter a state-oriented definition in Chapter 8.2, and a more restricted definition linked to centralisation of labour market negotiations in Part V.

121. Charles S. Maier, "'Fictitious bonds ... of wealth and law': on the theory and practice of interest representation", in Suzanne D. Berger, editor, *Organising Interests in Western Europe*, Cambridge 1981, pp. 27-63; and Charles S. Maier, "Preconditions for Corporatism", in John H. Goldthorpe, *Order and Conflict in Contemporary Capitalism*, Oxford 1984, pp. 39-60.

122. Göran Therborn, "Does Corporatism Really Matter? The economic crisis and issues of political theory", *Journal of Public Policy*, 7, 3, 1987; Göran Therborn, "Lessons from Corporatism" in Pekkarinen, Pohjola, and Rowthorn, editors, *Social Corporatism: A Superior System?*, *op. cit.* Therborn is sceptical of the notion of corporatism, he is more eager to identify certain national traditions.

123. Walker, Korpi, "Labour Movements and Industrial Relations" in E. Allardt, et. al., *Nordic Democracy*, Copenhagen 1980, claims that the pattern of Danish labour organisation resembles the British pattern, whereas Norway and Sweden displays a genuine "Nordic" pattern (large industrial unions), and Finland (at least until the 1970s) a more "South-European" pattern. Therborn would possibly subsume all the latter under the Germanic type.

124. Göran Therborn, "Does Corporatism Really Matter?" *op. cit.*

125. This model of social policy is analysed in greater detail in the section below on Austria.

126. Peter Baldwin, *The Politics of Social Solidarity*, Cambridge 1990, p. 62 f. Baldwin challenges the "social interpretation" (which is above all that of Korpi and Esping-Andersen), which regards this Scandinavian welfare system as the "autonomous achievement of the underprivileged classes".

127. Baldwin, "The Scandinavian Origins of the Social Interpretation of the Welfare State", *Comparative Studies in Society and History*, 31: 1, 1989, p. 23. See also Baldwin, *The Politics of Social Solidarity*, *op. cit.*, p. 112 f.

128. Baldwin, *The Politics of Social Solidarity*, *op. cit.*, p. 93.

129. *ibid*, p. 93 f, with the final comment: "The solidarity of one age has its roots in the selfishness of another".

130. Stein Kuhnle & Matti Alestalo, "The Scandinavian route", in Robert Erikson, Erik Jrgen Hansen, Stein Ringen and Hannu Uusitalo, editors, *The Scandinavian Model. Welfare States and Welfare Research*, Armonk, New York 1987.

131. *ibid*, pp. 9-10.

132. In Sweden, the Agrarian party split out from the Conservative party, in Denmark the Radical liberals (smaller farmers) split from the Liberals (large farmers).

133. Alestalo & Kuhnle, *op. cit.*, pp. 10-11. Francis C. Castles, *The Social Democratic Image of Society*, London 1978.

134. Cf. Berend & Ránki, *op. cit.*, on mobilisation processes in the Latin European world.

135. Cf. Mouzelis, *op. cit.*, comparing Southern European and Latin-American cases.

136. Cf. Senghaas, *Von Europa lernen*, *op. cit.*, on Latin-American cases.

137. Chapter 11 provides a rough comparison of Ireland and Finland.

138. Cf. his approach to the analysis of institutions, quoted in Chapter 2 above.

139. See Table 8.3 below.

140. Walter Korpi, *The Democratic Class Struggle*, London 1983.

141. George S. Bain & Robert Price, *Profiles of Union Growth*, Oxford 1980, p. 164 (Fig. 10.1) and p. 170 (Table 10.1).

142. Riegler, "Emigrationsphasen, Akkumulation und Widerstandsstrategien", p. 47, Table 6, p. 48.

143. *Kriser och krispolitik i Norden under mellankrigstiden. Mtesrapport. Nordiske historikermtet i Uppsala 1974*, Uppsala 1974, Table 1.15.

144. Riegler, *op. cit.*, p. 50.

145. The following account relies on *Kriser och krispolitik i Norden under mellankrigstiden. Møtesrapport. Nordiska historikermtet i Uppsala 1974*, p. 261-269; see also Lars Mjøset, ed., *Norden dagen derpå*, Oslo 1986, p. 60.

146. Cf. for instance the writings of the later finance minister Ernst Wigforss.

147. Riegler, "Emigrationsphasen, Akkumulation und Widerstandsstrategien", p.56.

148. In 1943, TCO, the federation for white collar public employees was formed, while a federation for private white collar employees (DACO) had been formed in 1931. These two federations fused into the new TCO in 1944. The union federation for people with an academic education (SACO), was formed in 1947. According to Thorsten Nybom, "Samhällsformation och samhällsorganisation i Sverige 1890-1975 - en principskiss", in T. Nybom & Rolf Thorstendahl, editors, *Byråkratisering och maktfördelning*, Lund 1989, p.122, this rapid organisation of white collar workers was unique, not only in international but even in a Nordic comparison.

149. Edquist & Lundvall, "Comparing Small Nordic Systems of Innovation", p.22.

150. *ibid*, p.22.

151. Biucchi, "The Industrial Revolution in Switzerland", p.630.

152. *ibid*, p.635 f.

153. The following relies on Kerr, "The Swiss party system: steadfast and changing", p.110 ff.

154. There were certainly in many cases external influences (e.g. by great powers) behind the extension of political and civil rights in this period. For an analysis in the Nordic setting, see Risto Alapura, "Interstate Relations and Political mobilisation in the Nordic Countries", in Risto Alapuro, et. al., editors, *Small States in Comparative Perspective: Essays for Erik Allardt*, Oslo 1985, pp. 93-107.

155. Manfred G. Schmidt, *Der Schweizerische Weg Sur Vollbeschäftigung*, Frankfurt/New York 1985.

156. Kerr, *op. cit.*, p.111f.

157. The following relies heavily on Pål Veiden, *Det sterrikske forhandlingssamfunnet. Historie og organisasjon*, University of Oslo: Department of Sociology, Report No. 5, 1990.

158. Butschek, *Die österreichische Wirtschaft im 20. Jahrhundert*, p. 28 f.

159. As in Germany, liberalism was quite weak, never able to mingle with the strong aristocracy. There was also a special tradition of "Austromarxism". Pioneer Austrian social democrats like Karl Renner and Otto Bauer emphasised the "balance between the class forces". Austromarxism had some influence on Swedish developments, through refugees like Rudolf Meidner.

160. Peter Katzenstein, *Corporatism and Change*, Ithaca 1984, p. 60; Veiden, *op. cit.*, p. 32.

161. Sources here are Karl Ucakar, "Die Entwicklung des Verbändewesens in Österreich", in K. Fischer, editor, *Das Politische System Österreichs*, Wien 1974; E. Tálos, "Sozialpartnerschaft und Neokorporativismustheorien"; *Österreichische Zeitschrift für Politikwissenschaft*, 3, 1982; E. Tálos, "Voraussetzungen und Traditionen Kooperativer Politik in Österreich", in G. Stourzh & M. Gradner, editors, *Historische Wurzeln der Sozialpartnerschaft*, Wien 1986. Cf. Veiden, *op cit.*

162. Gösta Esping-Andersen & Walter Korpi, "Social Policy Class Politics in Post-War Capitalism: Scandinavia, Austria, and Germany", in John H. Goldthorpe, editor, *Order and Conflict in Contemporary Capitalism*, Oxford 1984, p. 191. Their main source is E. Tálos, *Staatliche Sozialpolitik in Österreich. Rekonstruktion und Analyse*, Vienna 1981.

163. Austria is a Catholic country, and Catholic social theory is one of the important roots of Christian-social ideology. This theory rejected both capitalism and marxism, arguing for an "equilibrium" between the classes. The state was to decide fair prices and payments of interest should be banned. Karl von Vogelsang (1818-1890), Karl Lueger (1844-1910) were major contributors to such a theory. But since World War 2, the Church has not engaged in politics.

164. Esping-Andersen & Korpi, "Social Policy as Class Politics in Post-War Capitalism", p. 180.

165. *ibid, p.* 180f.

166. This relates to the preconditions for postwar social policies. The major difference in the postwar period, according to Korpi, is that the working class accumulates power resources, and as a consequence, at least in some countries (the Nordic ones), social policies are not imposed "from above". The labour movement changes from being just the object of social policies; it becomes a subject of social policies.

167. Veiden, *op. cit.*, p. 38 f.

168. Theda Skocpol, et. al., editors, *Bringing the state back in*, Cambridge 1984, James G. March & Johan P. Olsen, *Rediscovering Institutions*, New York 1989. Skocpol approaches this topic from the point of view of comparative history, while March & Olsen come from the perspective of systems theory.

169. Biucchi, *op. cit.*, p. 639.

170. *Financial Times*, April 2, 1990, Survey: Switzerland.

171. F. Arendtoft, M. Daugård, N. O. Finneman, K. Berg Nielsen, J. V. Svendsen, *Den lange vej gennem krisen*, Århus 1976.

172. Cf. Peter Katzenstein, *Small States in World Markets*, Ithaca 1984.

173. Dieter Senghaas, "Self-Reliance and Autocentric Development - Historical Experiences and Contemporary Challenges", *Bulletin of Peace Proposals*, 1/1981.

174. Biucchi, *op. cit.*, p. 650.

175. Ulrich Menzel, "The Experience of Small European Countries with Late Development. Lessons from History", *op. cit.*, p. 18.

176. This account relies on *Kriser och krispolitik i Norden under mellankrigstiden. Møtesrapport. Nordiska historikermtet i Uppsala 1974*, pp. 41-44.

177. *ibid*, p. 46.

178. Manfred G. Schmidt, "The Politics of Labour Market Policy", in F. Castles, et.al., editors, *The Political Management of Mixed Economies*, Berlin 1987. Schmidt's studies relate to the period 1973-82.

179. *ibid*, p. 45.

180. The reasons for placing New Zealand and Iceland in this group are not clear.

181. Schmidt also notes that the corporatist approach creates employment in the public sector, while the conservative-reformist approach relies on growth of total employment or rapid adjustment of the labour supply to demand.

182. Schmidt, *op. cit.*, p. 14. Terms like "corporatism without labour" and "quasi-corporatism" have also been used.

183. *ibid* p. 37 ff: The Swiss road to full employment "is unique". But elsewhere Schmidt argues that a specific feature of his approach is the distinction of "two roads" both to full employment and mass unemployment (p. 61). It seems however, that he ends up with "national models".

184. Senghaas, *Von Europa lernen*, p. 134-6.

185. Fritz W. Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, Frankfurt a. M. 1986, p. 242 f.

186. Cf. Chapters 3 and 4 above.

187. The following account relies heavily on Lennart Erixon, "Structural change and economic policy in Sweden during the postwar period", draft, 1988.

188. Thorsten Nybom, "The Swedish Social Democratic State", unpublished paper, 1991, p. 12 f.

189. *ibid*, p. 12 f.

190. *ibid*, p. 18.

191. For the origins of this organisation, cf. Chapter 8.

192. Pontusson, "The Crisis of Swedish Social Democracy", unpublished paper, Dept. of Government, Cornell University, p. 28. Cf. pp. 29-30 for an account of Swedish class unionism in terms of the interaction between the diffusion of Fordism and specific Swedish factors.

193. Erixon, "Structural change and economic policy in Sweden during the postwar period", provides a table summarising the advantages due to low growth of labour costs.

194. Cf. L. Jørberg & O. Krantz, "Scandinavia 1914-1970", in C.M.Cippola, editor, *The Fontana Economic History of Europe*, vol.6.2, London 1976.

195. The structural schism between these two decisive sectors in the Finnish industrial structure is brought out clearly in Erik Dahmén, *Ekonomisk utveckling och ekonomisk politik i Finland*, Helsingfors 1963, p. 37 ff, p.79, p. 88 ff.

196. "In a book published in 1962, *Has our country the patience to prosper?*, President Kekkonen cherished the idea that the trade unions could be lured into moderating their wage demands if a larger share of savings and investment was undertaken by the state"; J. O. Andersson, "The economic policy strategies of the Nordic countries" in Hans Keman, Heikki Paloheimo & Paul Whiteley, editors, *Coping with economic crisis*, London 1987. Studies of the late emergence of the welfare-state in Finland show that the interests of small farmers (whose party Kekkonen led) was decisive, at least in the 1945-67 phase, cf. M. Alestalo, P. Flora & H. Uusitalo, "Structure and Politics in the Making of the Welfare State: Finland in a Comparative Perspective", in R. Alapuro, et. al., editors, *op. cit.* See also M. Alestalo & H. Uusitalo, "Finland: the Development of the Welfare State after World War II", in P. Flora (ed), *Growth to Limits. The West-European Welfare States since World War II*, Berlin 1986.

197. Claudia Pichl & Peter Szopo, *Industrieentwicklung und Wirtschaftspolitik in Skandinavien und in Österreich*. Österreichisches Institut für Wirtschaftsforschung, Wien 1988, p. 128.

198. J. O. Andersson, P. Kosonen & T. Lovio, "Inkomstpolitiken i Finland", *Nordisk Forum*, 28, 4, 1980.

199. E. Damsgård Hansen, Kaj Kjærsgaard & Jørgen Rosted, *Dansk økonomisk politik. Teorier og erfaringer*, Copenhagen 1988, 2nd ed., p. 250 f.

200. *ibid*, p. 31.

201. Cf. Aage L. Rytter, "Om betingelserne for ekspansion af dansk industri", *Nationaløkonomisk Tidsskrift*, 5-6/1956.

202. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 68.

203. *ibid.*, p. 63.

204. The highest in 1948-58 among the countries in Table 4.1.

205. *ibid*, p. 65. According to Hansen, *Økonomisk vækst i Danmark*, 3rd ed, vol.II, p. 140 (Fig. XVI.2), effective interest rate (Øststifternes Kreditforening; taken from Danmarks Nationalbank (Festchrift), *Dansk Pengehistorie*, Vol. II, p. 328) was on average 5.5 percent 1951-1954; on average 6.25 1955-57, then down to about 5.75 1958-59. Here he has a break in the series, turning to the National Bank Surveys, giving the effective interest rate on a 5 percent bond: it is about 6 percent 1957-1960, about 6.5 percent 1960-64. A major jump comes during 1965, up to 9 percent, which is the average to 1969. During 1969 there is a new jump to 12 percent.

206. Cf. Jens Frøslev Christensen, *Industrikapitalen og krisen*, Roskilde 1977, kap. I.6 & 8; Esben Sloth-Andersen, *Exportudvikling, erhvervsstruktur og forskningspolitik*, Aalborg 1978.

207. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, figure II.2, p. 65.

208. Cf. Knud Erik Skouby, "Den danske model", *Nordisk Tidskrift for Politisk Ekonomi*, 15/16-1984, and I. Munk, J. Lindgaard Pedersen & K. E. Skouby, "Økonomisk udvikling og indkomstpolitik i Danmark etter 1958", *Nordisk Forum*, 28, 4, 1980.

209. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 379.

210. On Denmark's deviance from the Norwegian and Swedish patterns in this respect, see Gøsta Esping-Andersen & Walter Korpi, "From poor relief towards institutional welfare states: The development of Scandinavian Social Policy", pp. 39-74 in R.Erikson, E.J.Hansen, S.Ringen & H.Uusitalo (eds), *The Scandinavian Model: Welfare States and Welfare Research*. New York 1987.

211. For a typology, see Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 212-218, and Table, VII.1, p. 219 for all such interventions.

212. In fact, in 1990, for the first time in 27 years, Denmark recorded a balance of payments surplus. *Dagens Næringsliv* (Oslo), Febr. 16, 1991, p. 8.

213. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 210-11.

214. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 142.

215. Referring to a figure showing total private investments, total private savings, the "private sector balance" and the "balance on current account" - Damsgård Hansen, Kjærsgaard & Rosted, *Dansk Økonomisk politik*, p. 78, comment: "In most of the postwar period until 1980, there has been a savings deficit in the private sector. Private saving has been too small to cover private investments. The savings deficit to a large extent varies with the scope of investments, which until the mid-70s were rather sensitive to investments in new residential construction. The savings deficit in the private sector had to be covered by the public sector. Thus the public sector generally ran a surplus. As a whole, Denmark has since 1963 had a savings deficit, which corresponds to a surplus on the part of the foreign sector. In order words, there has been a deficit on the current account of the balance of payments."

216. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 79.

217. *ibid*, p. 70.

218. According to Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 144.

219. *ibid*, p. 81.

220. *ibid*, p. 65.

221. Due to the expectations towards this government, the long term interest rate went down from 9.5 to 8.5, Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 40.

222. The background was the turmoil connected to the 1968 devaluation of the franc. To avoid capital flight (and to force borrowers into international capital markets), interest rates had to be raised. Especially since that time, Denmark's interest rate level has been above the average of the main industrial countries. Cf. Mjøset, ed., *Norden dagen derpå*, *op. cit.*, p. 151 f.

223. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 349.

224. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 40.

225. Jørgen Rosted, "Manøvremuligheder i beskæftigelsespolitiken. Den Økonomiske politik i 1970'erne", i Mørkeberg/Rosdahl, ed. *Arbejdsløshedsundersøgelserne*, Vol. 3, *Marked, statsligpolitik og velfærdsmæssige konsekvenser*, Copenhagen 1982, p. 140-1, p. 146.

226. For the Danish failure to continue along the housing policy strategies laid down by Sweden, see Esping-Andersen & Korpi, "From poor relief towards institutional welfare states: The development of Scandinavian Social Policy", *op. cit.* A calculation of the share of housing financing which was due to the tax exemptions allowed by the very generous income tax code, showed that this percentage was 70 in Denmark in the 1960s, while it was 37 percent in Sweden and even lower in the other Nordic countries. (One could even lend money on the prospective increase in the value of one's property.) Cf. also Gøsta Esping-Andersen, *Politics against Markets*, Princeton 1985, for the classic analysis of how the cleavage between owners and tenants became more important than the worker/employer cleavage in predicting party preferences of the voters in 1972.

227. Jfr. Svend Aage Hansen, *Økonomisk vækst i Danmark*, 3rd ed, vol.II, Copenhagen 1983, p. 195. This analysis was repeated in most other analyses, irrespective of political convictions. It flourished on the left, but it was also the official view among planners, cf. *Perspektivplanredegørelse 1972-87*, Copenhagen 1973, and *Perspektivplanlægning 1970-1985*, Copenhagen 1971, cf. L. Mjøset, editor, *Norden dagen derpå*, *op. cit.* p. 211. In the late 1950s, the public sector was rather small. There were many needs to be cared for. Damsgård Hansen, Kjærsgaard & Rosted, *Dansk Økonomisk politik*, *op. cit.*, p. 346-8, for instance, argue that the strong growth of the welfare state between 1958 and the early 1970s, was the basis of the problems. Since there is a lag of up to 6-8 years from the decision to expand the finishing of projects, when the operating expenses begin to be incurred. Damsgård Hansen, et. al. argue that this was part of the basis of the later "unpredictable" growth in public spending.

228. These arguments often put the blame on the parliamentary system, in which there were few possibilities of viable majority constellations. Governments have, apart from the two exceptions mentioned above, been either minority governments or "across the middle" governments.

229. Austria had these governments in the postwar period: 1945-47: ÖVP/SPÖ, and the Communist Party; 1947-66: The Grand Coalition: ÖVP/SPÖ; 1966-70: ÖVP; 1970-83: SPÖ; 1983-87: The Small Coalition: SPÖ/FPÖ; 1987-: The revived Grand Coalition: ÖVP/SPÖ.

230. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 51. Only later did the Socialist party establish the following guidelines for the sector: its function should be the supply of raw materials and semi-finished goods to manufacturing industry at prices cheaper than world market levels, the prevention of exploitation of national wealth by private profit entrepreneurs and furthermore to serve as a flagship of social progress and job security". Helmut Kramer, "The Present State of the Austrian Economy", in Alan Matthews & Eda Sagarra, *Economic Performance in Two Small European Economies: Ireland and Austria Compared*, Dublin 1988, p. 16. These principles were opposed by the Conservative ÖVP. For the size of this sector, see Chapter 6.

231. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 65 f.

232. *ibid*, p. 62.

233. *ibid*, p. 73.

234. A large conflict in 1950 was by some regarded as an attempt at a communist coup, by others as just a "General strike". (There were many unofficial strikes at that time.)

235. Veiden, *Det østerrikske forhandlingssamfunnet*, p. 41.

236. Esping-Andersen & Korpi, *op. cit.*, p. 192. This interpretation means that they adopted the same approach as Swedish Social Democrats.

237. See Esping-Andersen & Korpi, *op. cit.*, p. 193 for details.

238. The story starts with a letter from the ÖGB (the Union Federation) leadership to the employer and farmer chambers in March 1956: It proposed that the three parties should establish a fixed institution to discuss wage/price stability. The employers rejected the idea. At that time they preferred to see the employers' chamber as an advisory body only. But less than a year later, the government urged the four large interest organisations to arrive at a policy for stable prices. ÖGB was the most enthusiastic part. On the 23rd of March 1957, the commission was founded, and it developed the way ÖGB had wanted. Cf. Veiden, *Det østerrikske forhandlingssamfunnet. op. cit.*

239. After 1966, the government ministers did not have voting rights. See below.

240. At least the chambers of the employers and employees are, while the farmers' chamber only exists in some federal states, not at the national level.

241. Anton Pelinka, "Austrian Social Partnership", in Alan Matthews & Eda Sagarra, *Economic Performance in Two Small European Economies: Ireland and Austria Compared*, Dublin 1988, pp. 9-11.

242. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 73.

243. *ibid*, p. 47, p. 61: unlike any other European trade union confederation, ÖGB encompasses blue collar workers as well as private and public white collar employees. It has 15 constituent unions, and directs their collective bargaining and overall strategies. The system is highly centralised.

244. *Ibid*, p. 69.

245. *ibid*, p. 68.

246. Anton Pelinka, "Austrian Social Partnership", *op. cit.*, p. 74, for the growth rather than redistribution point. See also Katzenstein, *Corporatism and Change*, *op. cit.*, p. 36, 39: the growth policy has left unaltered an inegalitarian distribution of income.

247. Katzenstein, *Corporatism and Change op. cit.*, p. 59 ff.

248. *ibid*, p. 68, p. 72.

249. *ibid*, p. 74 f.

250. *Quoted in Katzenstein*, *ibid.*, p. 74.

251. Which was the classic pattern, also reflected in Korpi's stylised version of the Swedish model.

252. Katzenstein, *Corporatism and Change op. cit.*, p. 76.

253. *ibid*, p. 74.

254. *ibid*, p. 76.

255. *ibid*, p. 77.

256. Pelinka, "Austrian Social Partnership", *op. cit.*, p. 74.

257. Clement, "Economic Development in Austria: a Review", *op. cit.*, pp. 125-131.

258. *ibid*, pp. 131-136.

259. Kramer, "The Present State of the Austrian Economy", *op. cit.*, pp. 9-11.

260. Esping-Andersen & Korpi, "Social Policy as Class Politics in Post-War Capitalism", *op. cit.*, p. 194.

261. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 138.

262. *ibid*, p. 138.

263. *ibid*, p. 138 f.

264. Kerr, "The Swiss party system: steadfast and changing", *op. cit.*, p. 126. The break in 1953 was due to the resignation of a Socialist Federal Concellor in 1953, but the party soon adapted its ideological programme to the idea of consensus, and entered into a new coalition in 1959. At that time, the partners even accepted its electoral strength, granting the party two seats. Proportionality is thus a result of a historical learning in the politics of accomodation.

265. *ibid*, p. 117.

266. *ibid*, p. 114.

267. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 86 f. The six largest Swiss multinationals are Nestlé, Ciba-Geigy, Hoffmann-LaRoche, Alusuisse, Brown Boveri, and Sandoz. These firms have between 95 and 71 percent of their employees (between 95 and 63 percent of their sales) abroad.

268. Jürg Niehans, "Benefits of Multinational Firms for a Small Parent Economy: The Case of Switzerland", in Tamir Agmon & Charles P. Kindleberger, editors, *Multinationals from Small Countries*, Cambridge, Mass. 1977, p. 8.

269. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 91.

270. *ibid*, p. 92.

271. *ibid*, p. 93.

272. *ibid*, p. 96.

273. As a share of the "dependent population" (or labour force), i.e. excluding self-employed, then also many farmers.

274. Manfred G. Schmidt, *Der Schweizerische Weg zur Vollbeschäftigung*, Frankfurt a. M. 1985, p. 19.

275. Kerr, *op. cit.*, 107.

276. Cf. above, Chapter 8, and the introduction to Chapter 17 below.

277. Esping-Andersen & Korpi, "Social Policy as Class Politics in Post-War Capitalism", *op. cit.*, p. 182 f.

278. For such schemes in the case of Norway, see Trond Bergh, "Ideas and realities in Norwegian macroeconomic planning 1945-67", *Scandinavian Journal of History*. 1977.

279. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 135.

280. *ibid*, p. 135.

281. *ibid*, p. 135 f.

282. *ibid*, p. 136.

Irish Historical Development in the Light of Other Small European Countries

Part IV

Contents

CHAPTER 10

EARLY HISTORY: 1600-1820

The analysis of the five contrast countries in Part III necessarily broke up the historical "continuities" of the contrast cases. Using Senghaas' scheme, an attempt was made to discuss some of the features which led these countries into auto-centric development trajectories. Although maintaining the broad distinction between socio-economic and political institutional factors, we provide in this Part a more chronological account of Irish developments. As often as possible, however, we shall engage in comparative discussion, referring back to Part II. The chronological approach is thus not a narrative; it is organised with reference to the comparative material provided in other chapters. Our aim is to trace vicious circles — or patterns of cumulative causation — which may help to explain why Ireland must be placed so much further away from the auto-centric pole (and correspondingly closer to the peripheral pole, cf. Figure 1.1, and Table 4.3) than any of the contrast cases.

As for Irish development before independence, Chapters 10 and 11 deal with the period 1601-1922. They focus mainly on two dimensions: Ireland's shifting position in an international division of labour dominated by England, and the socio-political developments leading to independence. Following Crotty's periodisation, three periods are distinguished: 1601-1660s, 1660s-1820s, 1820s-1922.

During the first period, there was an export boom for Ireland's pastoral products. The period 1660-1820 was a case of "capitalist colonisation" without peripheralisation, marked by "political integration and economic segregation". Reflecting a major change in price relations, a process of deindustrialisation can be traced in the 1820-1922 phase. In that same period, political processes led to increasing sovereignty, ending in political decolonisation. The later period represents "economic integration and political segregation".[1] The period of independence since 1922, according to Crotty, amounts to peripheralisation without capitalist colonialism.[2]

10.1 INITIAL PERIOD FROM 1601 TO THE 1660s

During the 17th century, England launched a policy of anglicisation and plantation in Ireland to secure the unstable, strategically important Irish area. Following rebellions in the 1560s and 1570s, Queen Elizabeth I completed the conquest of Ireland in 1601. Ireland was colonised by a Protestant British ruling class that was given land confiscated from rebellious Irish landowners. The British colonisers awarded confiscated land to soldiers and financiers of the British army. There was a numerically rather small Protestant upper-class, ranking above mainly Catholic lower classes except in the dense Protestant settlement of the north-eastern Ulster region, which had Catholic and Protestant underclasses.

English policy goals were to anglicise the country, to impose English law, loyalty to the crown, conformity to English manners, mores, and religion.[3] The result was a cycle of 'rebellion — military repression — confiscation of rebel lands — settling of lands with Protestants from England, Scotland, Wales'. Apart from such rebellions, Ireland was also a possible base for hostile foreign armies, and a haven where British rebels could seek refuge. England wanted to solve the "Irish question" once and for all.

In the counties which later became the Irish republic, English landowners would lease land to Irish tenants. But after the 1607 rebellion in the Ulster area, which later became Northern Ireland, settler farmers were taken in to displace indigenous agriculturalists. Settlers from Scotland (Presbyterians) and England — partly displaced by English enclosures — took over the land. This was the so-called Ulster "plantation", the aim of which was to repopulate the region with loyal Protestants, who would be a loyal garrison to secure British interests.[4] Land was the reward for their loyalty.[5] These were the roots of the future religious strife.

In 1640 there was turmoil in Ireland, as British tensions spilled over. In the 1641 Ulster rebellion, Roman Catholics wanted to win back their lands and liberties. Catholics attacked Protestant settlers in a very bloody rebellion.[6] In late 1641 also, the "Old English" in Ireland joined the rebellion, that is against their fellow Protestants, because the latter were more recent settlers. In October 1642, Irish and Old English leaders formed the "Confederation of Kilkenny", a Catholic counter-parliament. But the English struck back: Cromwell landed with 3,000 veteran "Ironsides", and in the period 1649-52, many Old English and Irish Royalists were killed or exiled.

Cromwell passed an Act for the settlement of Ireland in 1652, legitimating the seizure of the land of numerous Catholic Gaelic natives, who had been driven out of the east and centre, and forced to resettle in the infertile west. The Act established a death penalty for anybody who resisted. Fully applied, this would have wiped out 80,000 people, for many resisted. Less than one thousand were actually executed.[7] But by 1700, 90 per cent of all land was owned by Protestants (10 percent only in 1600). Tough Penal laws banned the Catholic religion and restricted the use of the Gaelic language and customs.

Appropriating clan lands as private property, England made Ireland the first colony of the modern world.[8] With the imposition of private property, argues Crotty, it was possible to profit from Irish land: "That profit was to be made by shipping livestock to England and thereby sharing in the profits that accrued to English land, and to English land alone in the sixteenth and seventeenth centuries (...). Ireland, which had previously exported little except hunted, gathered and crude pastoral products, developed under the early Stuarts an export trade in cattle and sheep that almost certainly exceeded any similar trade in the world at that time."[9]

Ireland was flooding Britain with low-cost pastoral products. This strengthened the position of the English King vis-a-vis the parliament, as the Stuart kings earned both customs duties and taxes on Irish land. In addition, the import of large quantities of Irish cattle and sheep squeezed the profits of England's landed proprietors. As a consequence of the mid-17th century English revolution, these landed interests became dominant, and founded the first modern property owners' state. From then on, English kings had to accept the decisions of parliament.[10]

10.2 SECOND PHASE 1660s-1820s.

Socio-Economic Developments

The English Restoration parliament was quick to deprive the crown of many of its advantages. The Cattle Acts 1663 and 1667 excluded Irish pastoral produce from Britain. Similarly, the Irish woollen industry was excluded by a law of 1669. For the following century, Britain "integrated Ireland politically within the imperial system but segregated it economically from its own market".[11] A triangular division of labour emerged in this mercantilist period between Ireland, Britain and overseas areas, in particular the West Indies. Britain imported and re-exported only Irish products (pigmeat, butter and grain) that complemented the British ones. In particular, Irish beef and pork (salted provisions) were exported to the West Indies as food for slaves, being exchanged for tropical and semi-tropical products. In the 1660-1820 period, Ireland developed more rapidly than Britain (in terms of population and foreign trade per capita). Crotty admits that "capitalist colonialism" stimulated growth and development in this period. There was a "fairly broadly based economic expansion" of wool and cotton industries supplying the domestic market.[12]

The North and West had more of the early cottage industry than other areas, as they were marked by high population density and a relatively landless peasantry. Linen exports began in the 1680s, and flourished in the 18th century. Linen was labour-intensive and wages were lower in Ireland and Scotland than in England. Linen was based mainly in Belfast because of the "Ulster custom", which gave tenant farmers security from rack-renting. Although England specialised in woollens, and later cotton, these activities also flourished in Ireland in the early part of the period. Spinning first took place all over Ireland. Much of the yarn was supplied to the North East (with many skilled British settlers and Huguenots) which concentrated on weaving and finishing. By 1780, the cotton sector (around Dublin, Belfast and Cork) was as large in Ireland as in Scotland (which was second only to the cotton industry of Lancashire), but the Irish industry grew more slowly than that of England or Scotland. Gradually, Belfast became the most important region for cotton spinning, as mechanisation (which had started in the 1770s) proceeded quite far there. Skilled weavers operated in the rural hinterland.

British protectionist legislation (of 1699) was repealed in 1779. Despite this, Irish cotton weaving declined from the late 18th century. This decline was only temporarily halted by the emergence of some firms based on large factories. No centre based on a mechanised wool industry (comparable to Yorkshire) ever emerged. In sum, Ireland had a strong, export-oriented linen industry, while the woollen and cotton industries were well established in the home market.[13] Eastern and coastal regions of Ireland were closely tied to the commercial-industrial expansion of Britain, as this was the high time of mercantilism.

The country composition of exports changed as the West Indies became less, and Britain more important (Britain taking 44 percent of exports in 1720 and 85 percent in 1800). Linen cloth was the largest component of exports at the time of the industrial revolution, and grain was also important.

In the second half of 18th century, the Anglo-Irish landowning and mercantile classes became increasingly prosperous. A native Catholic middle class arose, while the Catholic majority became poorer and more numerous.

About 1740, the potato (originating in the Andean highlands) was introduced to Ireland. Given Ireland's climatic conditions, the potato would support a cottier (or "coolie") class, a bottom layer in the agrarian structure, engaging in spade cultivation. "The exotic potato thus created in Ireland the agronomic conditions in which a coolie class could subsist by cultivating land without capital, other than a spade and a basket of seed potatoes. The potato made possible in Ireland the existence of a coolie class 20 degrees of latitude further from the equator than any other coolie class in the world (...). The Irish coolies provided the cheap labour on which was built an Irish economy that between 1660 and 1820 grew more rapidly than any other in Europe. The rent roll from Irish land increased tenfold, from an estimated £800,000, or one-fifth of the national income in 1670, to £8 million in 1800."[14] Especially during the reign of George III (1760-1820), price relations were favourable for Irish produce and the cottier class expanded to be the largest social class in Ireland. Cottier classes also expanded rapidly in the Nordic area at that time. Mortality declined, and there was cheap food, fuel, and housing in the rural areas. The colonial centre, Georgian Dublin, became the monument of the relative prosperity of this period. The town became larger than any English town except London.

The agrarian mechanism underlying this prosperity phase was seemingly as follows. Catholic Irish tenants (the Irish bourgeoisie) were squeezed between the landowners (the Protestant ascendancy ruling class) and the growing cottier class (the poor masses). Landowners, supported by the English colonial power, were able to extract high rents from their tenants. To make ends meet, the tenants had to grow grain and keep cows in response to the demands of the triangular division of labour. Here potatoes were crucial: "They prepared the ground for the cereals crops, of which the grain was exported and the straw provided critically scarce winter fodder for milk cows."[15] Land would be exhausted by grain-growing, but potato-growing would recover it. To achieve such a recovery, tenants sublet the land to cottiers.[16] The cottier would get a surplus of potatoes over his family's nutritional needs, and on this surplus, he would fatten a pig, the sale of which would pay the rent for the sublease. For the 1712-1831 period Crotty finds an almost perfect correlation between pig exports and population growth.[17] "Population in Ireland up to the middle of the nineteenth century was a dependent variable".[18]

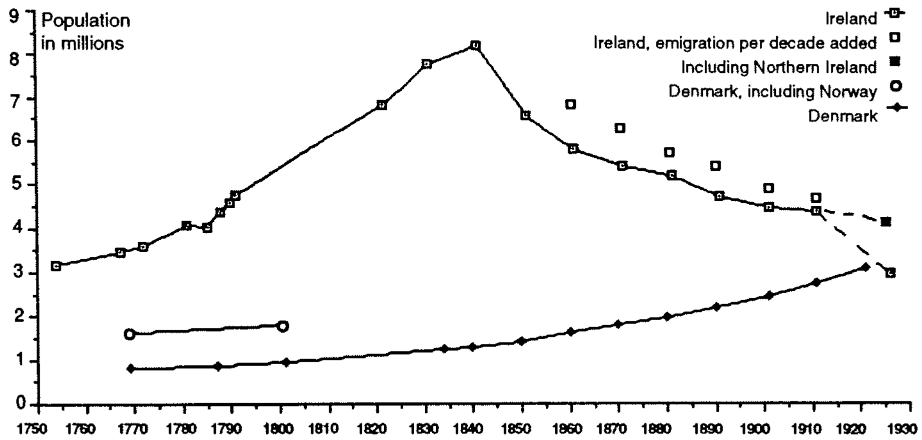
The Irish population rose from about 2.5 million in 1750 to somewhere between 8.2 and 8.4 million in 1841. Within the population working the land there were considerable differences between well-to-do farmers, smaller farmers, cottiers renting small plots on potato ground from farmers, paying partly for this by labour, and landless labourers renting even tinier patches of potato ground normally on short term leases.[19] The proportion of the lower classes grew considerably.[20]

Figure 10.1 plots Irish population movements, and as a contrast, Denmark's much smoother development. As can be gathered from Table 4.4, the population growth

of the other contrast countries was not much different from Denmark's. Thus, while the Nordic countries also had an explosion of rural poor in the 19th century, the magnitude of the phenomenon was — in comparison — truly amazing in Ireland.

FIGURE 10.1

Population Movements in Ireland and Denmark 1750-1926



Sources: Mitchell, *European Historical Statistics*, B1, Ireland 1754-91: K. H. Connell, *The Population of Ireland, 1750-1845*, Oxford 1950.

Social and Political Mobilisation

With the restoration of the English monarchy (Charles II, 1660), Royalists wanted their estates back. An Act of Settlement by the Irish parliament returned land to specified groups. The Roman Catholics were the real losers.[21] Rivalries and intrigues continued between the English and the Anglo-Irish. James II after 1685 filled key positions with Roman Catholics, planning to catholicise England with an Irish Catholic army. When William of Orange took over after 1688, James II's supporters ruled Ireland. James fought the British from Ireland after March 1689. William defeated James in the Battle of the Boyne on July 1, 1690, a Protestant victory. (A hundred years later this would give rise to "Orangeism" in Ireland, as we shall see below.) From 1695 the Irish parliament enacted a number of penal laws to deprive Irish Catholics entirely of their power: they were not allowed to carry arms, buy or inherit land, or to send their children to the Continent for a Catholic education. The consequence was to cripple the economic activity of the native Irish, resulting in a strong exploitation of the Irish by the Anglo-Irish gentry.

In the 1760s, the British King tried to tighten the grip on Irish politics. 1760-1820 — the era of George III — was a period of revolution. The subordination of the Irish parliament became increasingly problematic for the British. The Protestant Henry Grattan became the leader of the patriot wing after 1775. The revolt of Britain's American colonies in

1776 provided inspiration for Grattan, making the question of the rights of the Anglo-Irish in the empire even more complicated.

A paramilitary organisation, the Irish Volunteers was launched in 1778 (40,000 members by 1780, later 80,000—100,000 men, all beyond the control of the British government). Its stated goal was to protect Ireland against England's enemies. But it was also a force which would support Anglo-Irish efforts in reaching independence. The Volunteer movement demanded free trade (repeal of the Navigation Acts and of restrictions on Irish trade with Europe and the British colonies), as well as repeal of Poyning's Law (whereby the British parliament made binding laws for Ireland). England was squeezed in America, and in March 1782, the Irish were granted most of their demands. At this time there was a certain solidarity among the landowning classes.

Despite the fact that Grattan's Parliament (Grattan was not in office himself) was a "Protestant settler parliament", which opposed equal rights for Catholics, there was obviously some concern about a possible alliance with the Catholic middle classes.[22] Grattan and the Irish Volunteers helped pass the first Catholic relief act in 1778/9, which allowed Catholics to take long leases and inherit land. Although Grattan's Parliament lasted for 18 years — the period 1778-96, which was a "Golden Age" in the Anglo-Irish Pale (the region which the British actually controlled) — a number of problems began to emerge. The French revolution of 1789 created major divisions, but it also inspired a closer rapprochement between Protestants and Catholics. Theobald Wolfe Tone (an Anglican, but with supporters both among Presbyterians and Roman Catholics) emerged as opposition leader, with the goal of breaking down religious and political barriers. This inspired the Society of United Irishmen (founded in 1791) as a mass movement. Its basis was the minority of northern Presbyterians.

The Pitt government in 1793 passed a new Catholic Relief Act: Catholics were granted equal voting rights, and were made eligible for the highest offices. Tone's demands became more radical. In 1795 skirmishes broke out between armed Catholic and Protestant farmers in Ulster. This was the origin of the Society of Orangemen (the name referred to William of Orange, who had fought the Catholics), a paramilitary Protestant organisation, sworn to preserve Ascendancy, to keep Ireland as a British colony. This disrupted Tone's plans. Ulster was increasingly populated by Catholics, despairing of reform. In 1798, Tone launched a rebellion as a response to increasing British repression. This revolt of the United Irishmen was inspired by the French revolution and American struggle for independence.[23] The French promised military assistance. The fight was for a new social and political order, across religious cleavages. British forces, supported by Orangemen, crushed the rebellion, and imprisoned Tone (who was with a French expedition). Sentenced to death, Tone committed suicide in prison.

The prosperous late 18th century bolstered a Catholic middle class which tried to emulate the British. At that time its demands were restricted to independence under the British constitution: repeal of Penal laws, equal economic opportunity and equal rights for Catholics who owned property. While the United Irishmen represented an

alliance between certain Catholics and Protestants, most members of the Catholic middle class distrusted the egalitarianism and anticlericalism of such French-type republicanism. After the defeat of the United Irishmen, they hoped that the British government would provide them with equal rights in exchange for their support for the Act of Union.

Responding to the dramatic events of 1798, Pitt — who was concerned about strategic security and political efficiency — had to strengthen the ties between Ireland and Britain. The Act of Union was achieved (1800) by bribing Irish MPs (through pensions, titles, cash compensations: Grattan's parliament voted for its own extinction). The more ambitious purpose of the Act was "to undermine the power of the Protestant settlers, for it was to be accompanied by reforms intended to win Catholic acceptance of British rule".[24] The Catholic Church thus supported the Act, as it promised emancipation for the Catholics.

According to the Act of Union there would be 100 Irish MPs in the British Parliament.[25] Irish revenue should pay 2/17 of British imperial expenditure. Qualified Catholics were given the vote, but not the right of representation. Within the Parliament, support for the Catholic cause was the chief point of distinction between sympathetic Whigs and anti-Catholic Tories. In 1829 Catholic representation was accepted.[26] "The act of union carried Ireland's political economic, social, and religious problems into the heart of British political life, and Irish issues as well as Irish members of Parliament helped to defeat numerous ministries in the 19th century."[27] The union involved full economic integration.

10.3 A NOTE ON COMPARISONS

In this report, there is no scope for substantial comparisons of pre-19th century developments. We shall just list some of the more obvious contrasts emerging when this period of Irish history is compared with the development of the contrast cases in the same period. Austria is left out, since she was at that time part of an empire, one of the great powers, and comparison is not really merited.

As already emphasised in Chapter 4, demographic dynamics turn out to be crucial in any study of Irish developments. One interesting question is why Irish population growth was so much more spectacular than elsewhere (cf. Figure 10.1). The population explosion was largely linked to the growth of the cottier class. Such a class also expanded strongly in the Nordic countries (but somewhat later than in Ireland), and even here there is a connection to the introduction of the potato.[28] Further comparative studies might answer why the expansion was so much stronger in Ireland.

As for Switzerland, there was also poverty in rural areas at the turn of the century, but it seems that the cottier phenomenon was less important there than in any of the other countries. The main topic for comparison between Ireland and Switzerland is, however, a different one: as we have seen in Chapter 6, among our contrast cases only Switzerland had a more extensive proto-industry (cf. Chapter 4) than Ireland. While Switzerland was probably the most advanced case in terms of industrial development, we can conclude that in the 18th century, Ireland was a more advanced or developed country than any of the Nordic contrast countries. Ireland was not always a latecomer. Ireland's population was also larger,[29] although the very fast population growth towards the mid-19th century (Figure 10.1) was a warning of the instabilities that led to the famine during the next period. The contrast between Switzerland and Ireland in terms of industrial development becomes manifest early in our next period: Ireland's deindustrialisation versus Switzerland's successful adjustment, which led from proto-industry to quite broad industrialisation. Further on in this report, we shall attempt to explain this difference with reference to a much stronger Swiss national system of innovation.

Turning to political mobilisation, Switzerland again turns up as an interesting comparative case. Like Ireland, Switzerland has both Catholics and Protestants, and the French revolution had important political effects (cf. Chapter 8 above). The Swiss ability to transcend deep religious cleavages has often been emphasised. The obvious difference, of course, is the absence of an external colonising great power in the Swiss case. In Ireland, Protestantism was directly associated to colonial power until 1922.

Concerning colonisation, a comparison with Finland (and with Norway) is more relevant. One important difference is the religious homogeneity of the Nordic countries. The dominant states were Protestant states as much as the subordinate ones. As for Britain and Ireland, geopolitics and economic dominance were interlinked with the Catholic/Protestant cleavage. Still, before the Napoleonic wars, in a period with many impulses from the "democratic revolutions", Norway and Finland were colonised by Denmark and Sweden respectively. If we compare the British disciplining of its colony in the 18th century with Danish attempts to rule Norway, or Swedish attempts to rule Finland, it is clear that the British use of power was of quite a different kind. However, as a result of war and of the influence by European great powers on the regional Nordic great powers, both countries experienced a shift in their dominant powers. During the turbulence of these changes, Norway managed to establish her own constitution, which was not displaced by the new colonists. Finland could also rely on a recent constitution, as we shall see below. Both Finland and Norway could largely determine all internal matters themselves (effectively home rule). In the case of Finland, it seems that Russia's dominance was not compounded by the religious differences between Finnish Protestants and Russian Orthodox Christianity.

As for social and political mobilisation, it may turn out to be a key that all our contrast countries went into the 19th century as more or less sovereign countries. We have just seen that Ireland experienced both colonialism and religious cleavages. Switzerland had religious cleavage but was not exposed to colonial rule, while Norway had mild colonial rule, but a religious community with its rulers. After 1807, Finland was exposed to mild colonial rule, but its rulers did not share the Protestant Christianity of the country. Since Finland thus is the case closest to Ireland, we shall pursue this comparison somewhat more closely.

There were some basic similarities between Ireland and Finland in the mercantilist 17th and 18th centuries: they were both colonised by a neighbouring foreign power,

whose citizens provided most of the capital, owned most of the land and took care of colonial administration. Certain areas formed the bridgeheads for the colonists: in Ireland it was Ulster and the Pale, in Finland it was the Southwestern area around Turku.[30]

The French revolution spurred movements for national independence all over Europe. But both general conditions, and certain crucial events in the 19th century, point to important differences (the latter events will be discussed in Chapter 11.2). As for the general conditions, the Finns, as we have seen, shared the Protestantism of the Swedish ascendancy class which ruled over them. Thus, while religion was the focal point of Irish mobilisation, the Finns mobilised on the basis of language. Comparing Ulster and the Turku region, it is clear that while the former remained religiously and ethnically divided, the latter was homogenous in terms of culture and religion.

There is also a significant difference relating to national sovereignty, which must be discussed with reference to great power politics. In the 18th century, Sweden was a declining empire. Finland was for a long time squeezed between Sweden and the Russian empire. The new Swedish King in 1772, Gustavus III, introduced a new form of government. His successor, Gustavus IV Adolph, declared war on Napoleonic France. Unfortunately, Napoleon in the Treaty of Tilsit, June 1807, made the Russian Tsar (his earlier greatest rival) his temporary ally, and Finland was assigned to the Russian sphere of influence. The Finns were easily defeated, and by the spring of 1808, Finland was under Russian control. Signs of Finnish resistance, however, made Tsar Alexander's advisers adopt a cautious attitude. In the Declaration of Porvoo, March 1809, the Tsar promised to respect the Finnish constitution of 1772.[31] This became the basic legal framework for the Grand Duchy of Finland under Russian rule, 1809-1917.

The Swedish ascendancy were gradually to accept the Finnish language during the 19th century (as we shall see in Chapter 11), while there was no change in the Anglo-Irish religious split. Ireland's fate was continued dominance by England, which emerged from the Napoleonic wars as the world's hegemonic industrial and military great power. In contrast, Sweden had to cede Finland, as we have seen. Ireland experienced colonial continuity, Finland a change of colonial power.

CHAPTER 11

THE PERIOD 1820-1922

Chapter 7 surveyed the socio-economic factors listed in Table 4.3. The 19th century is particularly important in Senghaas's analysis of the development experience of small European countries. Our survey related mainly to the contrast countries, as more in-depth discussion of Ireland was postponed to this Part. The period to be discussed here contains wide-ranging transformations of Irish society: first, the development towards the dramatic famine. Following this, Ireland experienced its transformation from a traditional to a modern society. But as we shall show, this transformation in fact entailed deindustrialisation, pastoralisation, population decline and religious revival. We shall discuss the various components of this modernisation: the emergence of a dominant Tridentine Catholicism, nationalism, agrarian change and changing class relations.

As for one of the factors in Table 4.3, income distribution, we found in Chapter 7 that only recent data were available (and even these were very insufficient), so a further historical discussion of this is not possible. The other two factors, however, are discussed below: we shall compare the agrarian structure with Denmark, and as for economic institutions, we shall particularly focus on the Irish process of deindustrialisation and provide comparisons with some of the other contrast cases. In Chapter 11.2, we discuss the other elements of social change connected to the modernisation of Ireland. Here, a comparison with Finland is particularly relevant. Chapter 11.3 sums up the discussion of this period by discussing on a comparative basis some long term consequences which have influenced Ireland's 20th century development.

11.1 SOCIO-ECONOMIC DEVELOPMENTS

Agrarian Transformation — Ireland and Denmark

Among our contrast cases, Denmark is the only one besides Ireland that is an agricultural exporter. But as we concluded in Chapter 6, Denmark, like the other contrast countries, experienced industrial breakthroughs during the 19th century.[32] Ireland, on the other hand, was hit by deindustrialisation. Denmark's import-substitution industrialisation related to the country's agro-industrial complex. In the following section, we shall compare the development of Denmark's and Ireland's agrarian structures in the relevant period and also study the relationship between industrialisation and agricultural development. We shall start from Senghaas' comparison of Denmark and Uruguay. Senghaas emphasises that these two countries did not have "dissimilar" points of departure: they were small, had small populations, and lacked other than agrarian resources. They both relied on agrarian staple exports. Certainly, the same applies to Ireland. The differences, however, about 160 years after the Napoleonic wars, can be gathered from Table 11.1. As for Denmark and Uruguay, Senghaas concludes that the main difference was the different position of the primary sector. In Denmark, dense networks of

microcircuits linked manufacturing industry to agriculture and also increased agricultural productivity.[33] Such networks were absent in Uruguay.

In contrast to auto-centric cases like the Nordic countries, Uruguay has a social structure "marked by high property concentration, [in which] export earnings are translated into an income-concentration that is macro-economically fatal, as it impedes a broad-based opening up of a domestic market".[34] Uruguay's economy is marked by structural heterogeneity as defined in Chapter 2. Like Ireland, Uruguay mainly exported cattle-related products: "stock farming, which started with extensive production methods, remained basically extensive over decades and did not on the whole lead to any diversification of agriculture, was bound to prevent the emergence of an agriculture-based industry of Danish quality and density".[35] This statement could just as well be applied to Ireland.

TABLE 11.1

Basic Data on Denmark, Ireland and Uruguay 1976/77.

	Population (millons)	GNP per capita ($)	GDP distribution Agriculture/ Industry/ Service	Working population Agriculture/ Industry/ Service	Income to gainfully employed as a percentage of national income	Machine-building and electrotechnical products, ships; % of value of industrial production.	These items as a percentage of total exports
DENMARK	5.1	8040	7/36/57	8/37/55	60	26	27.3
IRELAND	3.2	2880	16/37/47	21/36/43	68	3	15.3
URUGUAY	2.9	1430	12/36/52	12/32/56	34	12	2.4

Source: D. Senghaas, *Von Europa lernen*, Frankfurt a. M. 1982, pp. 221-4 (English edition, pp. 115-118).

Senghaas' explanation of Uruguay's failure relative to Denmark's success clearly gives priority to the distribution of land holdings. Empirically, Denmark displays a relatively normal distribution, due to the dominance of family farms. Uruguay, in contrast, has a "Latin American" pattern, that is, very unequal sizes of farms and distribution of land. In Denmark, the relatively egalitarian distribution of holdings caused increasing incomes from exports and productivity increases to trickle down to large groups of the population, generating a home market, despite the small population. "These different degrees of inequality implied different development potentials of the domestic market in question. In Uruguay a highly unequal structure resulted in import/export activities on the pattern of the classical division of labour between metropoles and peripheries."[36]

For our comparative interest, the crucial question is whether Senghaas' explanation of Uruguay's failure also applies to Ireland. Ireland *is* actually discussed in Senghaas' essay, a descriptive account which leaves much to be desired. He simply states that Ireland is a "master example of evolving peripheralisation", that a classic core/periphery structure developed between England and Ireland since the 1820s. He supplies recent data on the Irish agrarian structure, but does not compare them to data on other countries. He concludes with the following statement: "In Ireland commercially successful farms coexist with highly fragmented 'minifundist' units.

Broad-based industrialisation, with a high capacity for absorbing labour freed by agricultural modernisation, did not happen. Industry remained orientated towards certain limited sectors and too insular. Even the more recent attempts to attract foreign investment for the export-oriented production of manufactures have resulted only in industrial enclaves without the necessary macro-economic spill-over effects."[37]

TABLE 11.2

Distribution of Land Holdings: Ireland and Denmark

DENMARK 1919							
ha	0.55-4.99	5-9.9	10-29.9	30-59.9	60-120	120	Total
acres	1.4-12.4	12.4-25	25-75	75-150	150-300	300	
no. of land holdings	67,256	41,889	68,858	22,552	4,039	1,335	205,929
percent	32.7	20.3	33.4	11	2	0.6	

IRELAND 1917							
acres	-15	15-30	30-50	50-100	100-200	200	Total
no. of land holdings	130,178	93,813	55,995	46,805	20,467	9,315	356,573
percent	36.5	26.3	15.7	13.1	5.8	2.6	

IRELAND: Below 50 acres: 78.5% Above 100 acres: 8.4%
DENMARK: Below 50 acres: 69.7% Above 100 acres:10%

Note: 1 hectare 2.4711 acres. In order to be able to compare the two categories "below 50 acres" and "above 100 acres", we assume that in the 25-75 acres category, half (50 percent) of the farms (that is 16.7 percent of all farms) were below 50 acres, and we assume that in the 75-150 acres category, two thirds of the farms were larger than 100 acres. For the results, see the text.

Sources: *Commission on Emigration and other Population Problems 1948-1954: Reports;* Dublin: Stationary Office, 1955, Table 28, p. 43; Hans Chr. Johansen, *Danish Historical Statistics 1814-1980*, Copenhagen 1985, Table 2.1 b.

This description is not misleading, but Senghaas fails to note that the distribution of land was not very different between Denmark and Ireland. Since Senghaas emphasises the importance of land distribution in the early stages of the catching up process, we would prefer as early data as possible. But since Danish statistics use the complicated measure of *hartkorn* for the 19th century, the earliest data which are more easily comparable stem from 1917-19 period. Even these data are not classified (partly due to the different measures of hectares and acres) in a way which make them directly comparable. But introducing some simplifying assumptions (see Table 11.2), we reach the following results, referring to the categories used by Senghaas himself in his account of the Irish agrarian structure. In Ireland at that time, 78.5 percent of the holdings were smaller than 50 acres, against 69.7 in Denmark. In Denmark, however, about 10 percent of the farms were larger than 100 acres, against only 8.4 percent in Ireland.[38] In other words, if Ireland had somewhat more small farms, Denmark had somewhat more large farms. Although these data are probably most fragile and although this is a rough calculation, Table 11.2 must count

as a rejection of the claim that the distribution of land holdings was more unequal in Ireland than in Denmark. (As for the inequalities in the earlier 19th century, they will be discussed in Chapter 11.2).

Thus, the Irish case forces us to question Senghaas' most heavily emphasised independent variable: the distribution of land holdings. What Senghaas simply states in a descriptive fashion, should — given his framework — be a major enigma: why, despite a distribution of land holdings which is roughly similar to the Danish one, was there no broad consolidation of the Irish economy? More specifically, as is also clear from Senghaas' reference to the enclave nature of Irish industrialisation, why did so few linkage effects (or "micro-circuits") spread from Irish agriculture, why did Irish manufacturing industry not grow like the Danish one? Let us start by a closer comparison of the timing of certain crucial agrarian and institutional developments (Table 11.3).

Denmark had long enjoyed independence, with agrarian reforms long before the late 19th century crisis connected to the transport revolution (cf. Chapter 4). In the 1781-1807 period, large farms were split up and a broad middle class of (family) farmers emerged (and further fragmentation was avoided by the legal arrangement of impartible inheritance) long before the restructuring of agrarian exports (beginning in the 1870s). There was a second reform period in the late 1840, as the cottiers (*husmænd*) became fully liberated. The short period of the Continental blockade spurred textile and metals production, like most other Continental countries, but this was followed by a severe postwar crisis in the 1820s. Ireland, on the other hand, was an agrarian region within England until 1922. The transition to owner-occupier family farms took place in Ireland about hundred years later than in Denmark.

Although land reforms occurred much later in Ireland, the structure of holdings was not very different in the post-famine period preceding the reforms. The main change in the late 19th century was that the Catholic tenants got ownership of the land. Actually, the traditional nationalist interpretation of 19th century Irish agricultural developments could be quoted in support of Senghaas' interpretation. It argued that insecurity of tenure and rackrents imposed by absentee owners destroyed any incentive to improve farms. After the Napoleonic wars international price movements favoured livestock rather than tillage, but due to intense population pressure, the change to pasture did not take place until the Great Famine (1846-50). During the post-famine situation, Catholic tenants improved their position and the land wars of 1879-82 produced an efficient system of land holdings, based on peasant proprietorship.[39]

TABLE 11.3
The Timing of Danish and Irish Development

	DENMARK	IRELAND
SOVEREIGNTY		
Status of country	Longstanding sovereignty Kalmar union with Sweden (1389-1523). Dominating Norway until 1814. Lost Schleswig/Holstein 1864.	Gradual integration with England. 1600-1800: political repression, mercantilist protectionism. 1800-1922: economic integration/gradual concessions to the nationalists. Independence 1922, loss of Northern Ireland
AGRARIAN REFORMS		
Agrarian system preceding reforms	Feudal tenure system in which aristocrats use their political power to force peasants to stay on the land, and to expropriate their output.	Absentee ownership; peasants compelled by market forces to pay rackrents in competition for access to land.
Period of transition to owner-occupier farming	1788-1807	Land wars 1879-82; reforms 1870s-1910s.
ADJUSTMENT IN DIFFERENT PERIODS		
Industrial structure preceding first crisis	Only moderate extension of cottage industry	Extensive cottage industry
Response to first crisis 1790 onwards	Specialisation in corn exports	Corn exports rising until the 1840s. From the 1820s: pastoralisation, animal husbandry, specialisation in exports of live cattle.
Performance during the high tide of British hegemony; the period of international liberalism 1840s-60s	Relative success :Proto-industrialisation as basis for industrialisation	Interaction between industrial crisis and agricultural crisis: the famine 1847-9, i.e. fullblown peripheralisation (an English region).
Response to the second crisis 1870s onwards	Specialising in animal husbandry, strong linkages	Further sectors hit by deindustrialisation. Continued pastoralisation.

Note: Dating of crises from Table 4.7.

This interpretation was seriously challenged by Crotty. His point of departure was Ireland's maritime climate, which makes the country highly suitable for grass (the costs of grassland farming are very low), and unsuitable for tillage (costs are higher). Thus, while gross returns from intensive tillage are much higher than from extensive pasture, net returns are fairly similar. Irish farmers therefore have the unique possibility of altering the value of their gross income, thereby simplifying their managerial problems, experiencing only a slight decline in their net farm income. Thus, Crotty argues that the low gross output since the 1820s was not due to insecurity of tenure, but to the low proportion of tillage. The Great Famine was no great break with these trends, and the land reforms consolidated them: since a land tax was not established, there was no penalty for inefficiency, land was seriously misallocated and farming methods remained increasingly conservative.[40]

In the period following the Napoleonic wars, Denmark was affected by the same changes in world market prices for agricultural goods as affected Ireland. The expanding British economy had effects on both. Even Denmark had, since the 1850s, virtually free trade with Britain (although transport costs were probably somewhat higher). But while, as we have seen, Irish farmers specialised in cattle, Denmark's response was a specialisation in corn. British customs duties on corn were gradually reduced, and especially after the repeal of the Corn laws (1847-8, spurred in fact by Ireland's Great Famine), Denmark experienced an "unparalleled boom in corn exports".[41] During this boom, the value of agricultural product tripled. The share of corn in agricultural production went from 23 percent in the early 1820s to 32 percent in the 1850s and 1860s. In the 1820s, 12 percent of agricultural produce and 33 percent of the corn was exported; in the early 1870s, these rates were 36 and 54 percent. Although cattle and butter also counted, this was above all a corn boom. Thus, while Irish agriculture in the period became more extensive, Danish agriculture became more intensive. The one-sidedness of the export structure caused some worries. The first agricultural college was founded in 1856, and such worries were seemingly one reason for this action.[42]

Then followed a change away from corn, one which has traditionally been interpreted as an adjustment to the problems of the second crisis of the 1870s.[43] In the late 1870s, corn prices slumped, due to the price effects of the transport revolution (the first refrigerated load of Argentinean meat arriving in Europe in 1877) and the post-Civil War extension of the frontier via railways in the U.S. Cattle had, before that, been an appendix to tillage in Denmark. Corn prices declined more immediately and more steeply than prices for animal products. This lag and difference was exploited by Danish farmers, who gave up corn (Denmark became a corn-importer), and began to export more butter, pigmeat and eggs, which were products with high income elasticity.

Crotty proposes a somewhat different view in his comparison of agricultural adjustments in Denmark and Ireland during the last half of the 19th century. His explanation is "largely in terms of the very different climatic conditions obtaining in the two countries". These differences are summarised in Table 11.4.[44]

TABLE 11.4

Crottys Comparison of Geo-climatic Differences

	SPRING	SUMMER/FALL	WINTER	CONCLUSION
DK				
	Good natural drainage: early cultivation of land possible	Warm, dry — easy growth of tillage crops — easy harvesting — pastures produce little grass	Long, cold — harmful to pastures — dependence on winter fodder	Comparative advantage in tillage
IRL				
	Poor natural drainage — heavy rain leaches out the humus	Cool, wet — weed growth diseases — difficult, uncertain harvesting — high level of pasture growth (very long growth season)	Mild — continued growth of pasture — smaller winter feed requirements — unhoused animals produce less farmyard manure	Comparative advantage in pasture

Source: Raymond Crotty, *Irish Agricultural Production*, Cork 1966, p. 70.

Small initial differences obviously started processes of cumulative causation. Irish climatic conditions made tillage relatively unattractive since such land tends to deteriorate, since it must periodically be converted into grassland again to restore its fertility. "Once farmers in both countries had started to develop their patterns of farming along these disparate lines, subsequent events made it more difficult to change. Thus, Denmark's initial concentration on milk gave her a lead in creamery butter production, and cows which were good milkers but produced poor beef cattle. Only a revolution in the butter/beef price ratio could cause the Danish farmer to shift from milk to beef once he had embarked on a milk producing programme. On the other hand, Ireland's concentration on store and fat cattle production led to the development and improvement of markets for these cattle in Britain. Their beefing quality improved while simultaneously their milking quality received little attention and may well have deteriorated. The longer this situation continued, the more difficult it became for Irish farmers to revert from dry cattle production to dairying."[45]

In the 1850s, as just noted, there was pressure for a more intensive system in Denmark. Corn prices increased. The repeal of the corn laws further depressed the prices for Irish and English farmers. "The very factor which depressed Irish corn production stimulated corn production in Denmark".[46] Danish attempts to intensify the production of corn met with problems: more diseases and reduced fertility. In this situation, livestock production allowed Danish farmers to use fallow either for

grazing or for growth of root crops[47], and animals produced more farmyard manure which increased the fertility of corn-growing. In Denmark in the period 1850-70, livestock and tillage were complementary, while in Ireland, they were clearly competitive. At this point, Crotty questions the old interpretation of Denmark: "It is a common misconception that the expansion of Danish livestock was caused by the falling price of corn in the 1870s, and that Danish farmers turned from corn production to livestock production as a result of it. This is quite incorrect; the expansion of Danish livestock production started off in the 1850s at a time of rising corn prices, and the role of the additional animals was primarily to enable the Danish farmer to produce more corn, not less."[48] Clearly, this put Danish agriculture in a favourable position in view of the world market shock they would soon experience.

But there were major differences in livestock development. Denmark expanded its dairying cattle (i.e. the number of cows), while Ireland expanded its dry cattle (good-quality, beef-type bullocks, as well as heifers under a certain age). Dry cattle expanded also in Denmark, but the main part of this expansion was not bullocks, but young heifers (replacement stock for cows). Thus Ireland specialised in the beefing qualities of cattle, Danish policy concentrated on improving milk yields.[49] Table 11.5 compares the land-use in Denmark and Ireland, which are certainly related to these differences in specialisation patterns. Table 11.6 shows the more intensive land use of Danish agriculture.

TABLE 11.5

Uses of Land In Denmark and Ireland

PERCENTAGES OF TOTAL AREA, 1929	*Denmark*	*Ireland*
Tilled (excluding fallow)	61.0	22.0
Permanent grass	13.1	46.9
Non-agricultural land	25.9	31.1

PERCENTAGES OF TOTAL AGRICULTURAL AREA	*Cereals*		*Root & other crops*		*Hay, pasture*	
	IRL	DK	IRL	DK	IR	DK
1871	11	45	10	3	79	52
1901	7	43	7	7	86	50
1911	7	43	7	14	86	43
1933	6	41	6	18	88	41

Source: J. P. Beddy, "A Comparison of the Principal Economic Features of Eire and Denmark", *Journal of the Statistical and Social Inquiry Society of Ireland*, XVII, 1943/1944, p. 195.

In the period between 1871 and 1933, there was only a slight reduction in the proportion of land used for cereals in Denmark. The proportions of hay and pasture fields fell and the amount of land used for root and other crops was considerably raised. Already in 1871 a greater share of Irish agricultural land was used for hay and pasture than in Denmark. This difference increased considerably during the following 60 years, as the proportions of Irish hay and pastures rose and the proportions of cereals and crops fell.[50]

Crotty discusses the factors behind this different specialisation. It is based on natural conditions and on scarcity of labour (which was increasing in Denmark, and contracting in Ireland). According to the Irish tradition, it was unnecessary to house dry cattle during the winter. As for the labour element, Denmark's climate required farmers to keep animals indoors during the winter. It was necessary to build farm buildings for the animals as well as for the storing of fodder, and to grow crops and cereals for fodder.[51] The constant care of livestock was associated with regular, non-seasonal production and marketing of livestock products. The Danish beef industry was a side activity related to dairy production. In Ireland it was the other way round.

Costs of increasing labour for milking were higher in Ireland than in Denmark.[52] In both countries, Crotty concludes, "it is certain that, for a given feed input, cows had a higher gross output than dry cattle; out of this excess the farmer paid the additional costs associated with cows. But it seems equally certain that the excess value return from cows as compared with dry cattle was far greater in Denmark, the cause of this being basically the great variation between summer and winter feeding costs in Ireland."[53] He concludes that "the expansion of dry cattle production in Ireland from 1850 onwards, in contrast to a simultaneous expansion of dairying in Denmark, can be explained in terms of three factors: (a) the relatively higher prices for beef than for butter in Ireland, (b) the high variability of Irish feed supplies, resulting in a low feed conversion rate for dairy cows, (c) the high cost of non-feed inputs, labour and housing, of dairying in Ireland."54

We must here beware of incorrect generalisations: Ireland had been specialising in cattle for a long time, while Denmark increasingly specialised in cattle during the second half of the 19th century. But their agrarian export baskets still differed: Ireland largely exported live cattle, with meat as the main alternative (somewhat more processed). Denmark also exported meat (and had a more sophisticated slaughterhouse business, as we shall see), but mainly processed dairy products, like cheese and butter. As we have seen, the Irish trend was towards pastoralisation, while in Denmark it was towards intensification. The Irish pattern of cattle-rearing involved less wide-ranging spin-offs, in particular the development of a complex network for fattening, marketing and exporting of cattle. The "virtuous" circle of intensive farming continued to characterise Danish developments, the "vicious" extensive circle marked Irish agricultural development.

Tillage farming in Denmark was not abandoned, but it was made more dynamic. Commercial production of cereals was replaced by production of different types of fodder crops to be used on the farms. The production of fodder crops tripled 1875-1927.[55] In fact, earlier grassland was now tilled. Fodder was sold between farmers. This fodder production was supplemented by imports of fodder to such an extent that many Danish farmers were free-trade oriented.[56] Thus, commercialisation proceeded far. Denmark's move to exports of products derived from cattle was due to partially imported fodder and intensification of agriculture, while in Ireland cattle exports grew due to pastoralisation, meaning increased inputs of natural resources readily available as pasture.

The increased amount of fodder was used by Danish farmers to increase the animal stocks on the farms, mainly cattle, pigs, and poultry. Increased manuring combined with fertiliser imports raised fodder productivity. Bulls were exported alive, while the milk production of the cows was the input of a growing dairy industry. The remaining thick milk of the cream - and butter production was used to feed the pigs. There was therefore a positive connection between milk, cattle stocks and pig stocks. Pig meat was the input of the Danish bacon export industry. The waste from the pig slaughtering was used to feed poultry. Therefore there was also a positive connection between the pig stocks, and the poultry stocks, encouraging the production for the home market and export of slaughtered birds and eggs.[57]

TABLE 11.6

Animals per 100 Acres of Crops and Pasture 1938

	HORSES	COWS	SHEEP	PIGS	POULTRY
DENMARK	72	204	24	301	3497
IRELAND	38	110	275	82	1687

Source: J. P. Beddy, "A comparison of the principal economic features of Eire and Denmark", *Journal of the Statistical and Social Inquiry Society of Ireland*, XVII, 1943/1944, p. 198.

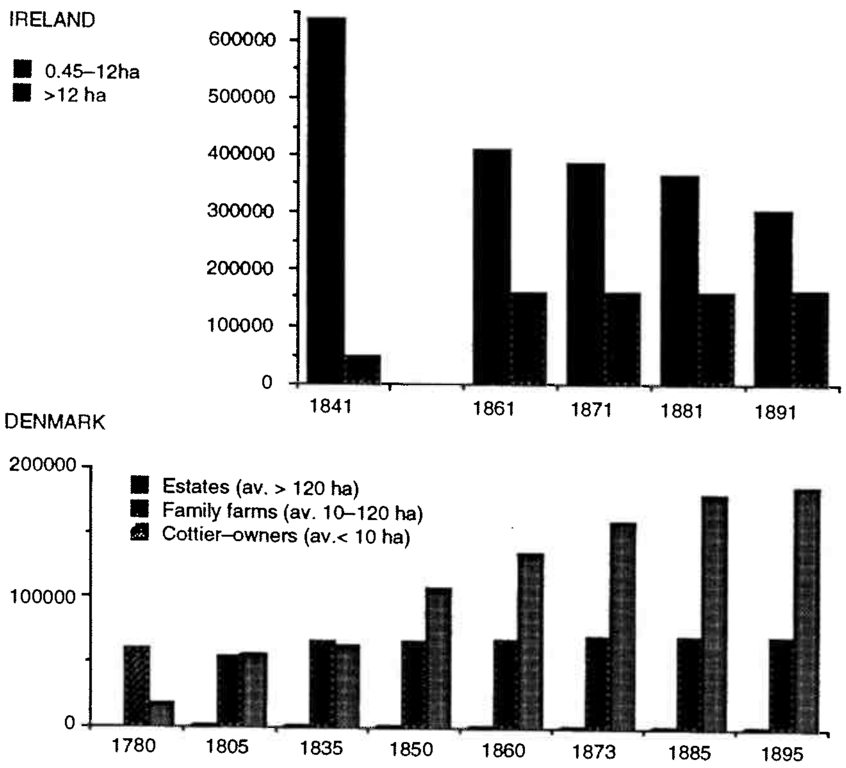
The animal husbandry of Denmark was more intensive than the Irish in terms of animal density as well. Table 11.6 shows that except for sheep, animal density was far higher in Denmark. According to Beddy, Ireland would have had 1.1 million more milch cows, 660,000 more cattle[58] and 3.25 million more pigs if its animal density had matched that of Denmark. Not only the number of animals, but also their productivity was higher in Denmark. The milk productivity per cow was 50 percent higher in Denmark, a result of the Danish specialised milk breed as contrasted with the Irish dual purpose milk and beef breed. With the exception of hay and potatoes, tillage yields[59] were also higher in Denmark than in Ireland despite the fact that poorer soil had to be used in the land-extensive Danish tillage system. Finally, more capital was invested not only in buildings and livestock in Denmark, but also in machinery.[60] All these factors contributed to a far higher family remuneration per acre in Danish agriculture.

Danish agriculture furthered industrialisation to a larger extent than agriculture in Ireland. Foodstuffs and the dairy industry became the leading export industries in Denmark. As industrial production of agricultural inputs grew, Danish home industries prospered due to the increased incomes generated by agriculture. In 1935 the value of gross industrial output in Denmark was £219.6 million as compared to £81.2 million in Ireland. In Denmark the agrarian complex now exports rather sophisticated food products and during the 1960s a number of specialised manufacturing industries also emerged.

Figure 11.7 compares very roughly the sizes of holdings in the second half of the 19th century. Although categories are not fully comparable, the figure indicates that there was a quite constant number of family farms and larger farms in both countries. As for the development of small farms the figure shows opposite trends: in Ireland the number of small farms declined strongly, while in Denmark, the number grew. Ireland saw a considerable concentration process, most pronounced in the period around the famine. In Denmark, on the other hand, there was a marked growth of small plots owned by cottiers.[61] These farms were too small to support the whole family, so the cottiers had to take on work as agricultural labourers on the estates. This seems strange in view of Menzel and Senghaas' emphasis on the pattern of land distribution, while it is readily explained by Crotty as a consequence of the more intensive farming in Denmark: there was a much larger demand for agricultural labourers.[62]

FIGURE 11.7

Number of Landholdings According to Size, Denmark & Ireland, 19th Century



Note: These figures say nothing about the share of total agricultural area covered by the different farm types. For Denmark, we know that in the 1880s, estates were 15 percent of that area, family farms about 73 percent and cottiers about 11 percent.

Sources: U. Menzel, *Auswege aus der Abhängigkeit*, Frankfurt, A.M. 1988, Table 23, p. 167; R. Crotty, *Irish Agricultural Production*, Cork 1966, p. 351.

Crotty's approach combines certain basic features of climate and geography with the hard facts of price movements. A quite different view was launched in the 1940s by J. P. Beddy. In his view, Ireland could have developed a system of animal husbandry close to the Danish one.

"Eire (..) with her heavier soils, her milder winters, and her ample rainfall, adopted a system of animal husbandry based upon grass, and hence the decline in cereal and other tilled areas and the increase in hay and pasture areas. Unlike Denmark our selection had not the same element of compulsion. While our choice was not open to Denmark, hers were not closed to us. Our system in the particular manner in which it was operated, involved pure grazing for livestock exports and seasonal — and hence restricted — production of livestock products partially for exports at the most highly competitive period of the year to markets with which our dealings had not the advantage of regularity. There resulted less employment, less activity on the land, fewer farm buildings and less farming capital".[63]

While Crotty emphasises rational adjustment to objective conditions, Beddy emphasises the element of choice. This cannot be an "either or" question, and in the following section, we shall try to discuss some of the socio-political factors which may help to account for the choices made in Ireland. While we have rejected the one-sided emphasis on the distribution of land holdings, Senghaas' scheme may still be of help as far as political-institutional features go (Chapter 11.2). First, however, we shall compare industrialisation and deindustrialisation.

Irish Deindustrialisation Versus Industrialisation in the Contrast Countries

There had been considerable proto-industrialisation in Ireland in the 18th century. As Chapter 10 showed, wool, linen and cotton industries supplied the domestic market.[64] Liberalisation of trade between England and Ireland started in the last phase of mercantilism, as Irish export interests triumphed against English protectionism. Already at that time, it seems, indigenous industry began to come under pressure. The Act of Union 1801 removed some barriers, but tariffs on woollens and cotton goods were gradually reduced and finally removed in the early 1820s.

After the Napoleonic wars, Ireland's integration in the world economy changed dramatically. "Demand in the metropolises shifted from energy-rich bread and butter to protein-rich beef and mutton; or from labour-intensive grain and milk to labour-extensive sheep and cattle. That shift in demand, which marked too a shift from mercantile, to factory, capitalist colonialism, was reflected in the long run (i.e. 1820-1970) rise in the price of cattle fivefold relative to the price of wheat and threefold relative to the price of butter."[65]

Cattle exports (alive and dead) had been constant for 160 years, but increased sixfold between 1820 and 1870. Exports of sheep (the poor man's cattle) increased thirteenfold.[66] The trade balance on grain went into deficit in the period after 1840.[67] As just noted in the comparison with Denmark, a massive capitalisation of agriculture occurred, one which was of "a distinctive, pastoral character, for which the closest parallel is twentieth-century Latin America."[68] Being "low output" production, cattle grazing supplanted other agricultural enterprises with a higher output/acre ratio. It drove people off the land. As grazing became more profitable, farms became more concentrated. The number of people earning a living in agriculture declined. The live trade to Britain increased at the cost of a meat trade to more distant markets. Cheap grain (also from Denmark) was now more competitive than Irish grain.

In the same period, Irish proto-industry was hit by "peripheralisation pressure". This pressure was even a challenge for Switzerland, but that country, as we have seen, proved able to adjust (Chapter 5 above). Ireland in contrast, became a standard example of the kind of deindustrialisation process mentioned in Chapter 4.

The decline of the Irish textile industry was obvious from the 1825-26 depression and onwards. By 1838, only 14 percent of the home market was supplied from Irish sources. The textile industry became concentrated in Glasgow and Lancashire. Other industries like milling, brewing, iron-founding, shipbuilding, rope-making, paper and glass-making expanded in Britain. Even in these sectors there was concentration, but it did not reach a harmful level. The gross effect, however, was that an increasing number of Irish cottage industries were forced out of business. Labour- and capital-intensive commodities from the core were exchanged for land-intensive cattle from the Irish periphery. The non-agricultural workforce declined, the urban population declined, and wages fell. Irish demand was depressed and the unit costs in native Irish industries increased. Imports thus expanded, while exports narrowed. Ireland also exported labour (through emigration) and capital, since this could be put to more profitable use abroad. Due to this pattern of transferring savings, Ireland has maintained a large share of the longest surviving commercial banks in the world. From the 1840s, there was also pressure on Irish graingrowing, since Britain was also able to buy at lower grain prices after the repeal of the corn laws. In this context — marked by an interaction between an agricultural crisis and a crisis of proto-industry — the Great Famine broke out.

The change in price relations made the Irish tenant farmers allocate less land to grain, and consequently less land (or land of a lower quality) was available for the cottier class. The development of agrarian capitalism in England had started off with enclosures — in the specific sense of establishing private, individual property rights to pastoral land — in the 16th and 17th century. Now, according to Crotty, Ireland was the only other European country to experience enclosures. In addition (and probably connected to these changes in agricultural ownership patterns), the potato crops failed in 1817, 1821, 1829, in most of the 1830s. Already at that time, emigration had become established. Finally, between 1845 and 1847 Ireland was hit by the disastrous potato famine which destroyed the staple food of the underclasses. During and after this crisis the population of Ireland was significantly reduced by starvation, starvation-related deaths, and emigration (Figure 10.1).

The number of excess deaths due to the famine amounted at least to 1.1 million.[69] There was no absolute shortage of food, but unemployment and lack of access to sufficient land among the rural poor, together with the vulnerability that stemmed

from their specialisation in potatoes, gave rise to the catastrophe.70 Now the enormous Irish overseas emigrations began (about a million left as a direct result of the famine), while birth rates were significantly reduced. The Irish population fell from about 8.2 million in 1841 to about 4.4 million in 1911 (Table 4.4, Figure 10.1). The famine and the subsequent emigration reversed Irish social development as the poor were the ones who mainly died during the famine or emigrated. The share of Irish tenant farmers increased. The political mobilisation of this tenant group changed the social conditions of rural Ireland. While earlier, the custom of partible inheritance had dominated, now impartible inheritance became increasingly common.

These events implied the constitution of a new Irish demographic regime, marked by: "exceptionally late marriage with low levels of illegitimacy or cohabitation, natural fertility within marriage, corresponding relatively low levels of overall fertility compared with other 19th century natural fertility populations which married earlier. [...] The whole system was overshadowed, and its specular features made possible, by the institutionalisation of very high rates of emigration. This enabled high rates of natural increase to continue for over a century without feeding back on population size. After the famine, Irish population fell throughout the 19th century, another characteristic which was unique in Europe. There was therefore no demographic incentive for a reduction in marital fertility. Irish emigration was also peculiar in that it included a higher proportion of females than males, as well as having a death rate unfavourable to females. Ireland therefore acquired an unusual sex ratio (which it has only recently lost) with more males than females. Among other things this depressed the marriage chances of bachelors relative to those of spinsters, giving some substance to its depiction as 'a nation of elderly bachelors'."[71]

The famine implied a dramatic reversal in domestic demand. Despite the fact that decline had begun (as just shown), there was in the years just before the famine, a considerable industrial sector in Ireland. One third of all Irish counties had more people in manufacturing, trade or handicrafts than in agriculture in 1841. One fifth of the working population (700 000) was in textile manufacturing.[72] From this time, the contraction of industrial employment started. Table 11.8 gives data for Ireland including the Northern counties. The trend indicated continued, as we shall see later.

TABLE 11.8

Share of Labour Force in Manufacturing Industry and Agriculture. Ireland 1841-1881.

	MANUFACTURING	AGRICULTURE	TOTAL LABOUR FORCE (1000)
1841	27.3	50.9	3626
1851	22.8	48.4	3015
1861	20.7	43.0	2734
1871	19.5	40.7	2567
1881	16.0	41.6	2375

Source: Paul Bairoch, dir., *La Population active et sa Structure*, by T. Deldycke, H. Gelders & J.-M. Limbor, Bruxelles: Université Libre de Bruxelles, Institute de Sociologie, 1968, p. 104-105.

Crotty's explanation of deindustrialisation is related to price-competitiveness, that is, peripheralisation pressure was mainly felt via the lower prices of British goods and increasing costs of Irish inputs. Adding to such an explanation, O'Malley argues that rising barriers to entry made it increasingly difficult for Irish industry to produce at a scale that would enable it to compete with the British. In England, there was strong centralisation and increasing economies of scale. Irish textile industry was too decentralised. It did not develop the kind of large factory that the industrial revolution generated in England. In this situation, "only the few largest, most favoured regional centres of an industry at the time when mechanisation got under way were able to develop successfully, disposing of lesser competitors as they did so".[73]

In terms of Tilly's typology (Table 4.6), Ireland's cottage industry displays the "flight" (or "exit") option, a flight of both capital and labour out of Ireland. The one major exception — a case of local change in speciality — is the case of Belfast, the only industrial centre which survived. After 1850, Belfast became the largest centre of linen-manufacturing in the world. In 1900-1910 Belfast shipyards produced one quarter of the entire U.K. tonnage.[74] Belfast cotton mills changed to linen from the 1820s. This adjustment was successful. Belfast became the centre of mechanised fine linen spinning.[75] Spinning disappeared as a side activity in north-eastern rural households, being concentrated in Belfast. English and Scottish centres of linen production declined. The linen activities implied backward linkages to engineering: the construction of steam engines involved boilermaking, and these skills were important in the building of iron ships. (Here are the origins of Harland and Wolff). Another backward linkage from linen textile production was the making of machines for preparation and spinning of flax (and other hard fibres), as flax was the basic raw material for linen. For such spinning, one could not use cotton-spinning equipment. There were also further backward linkages: in the 1930s, Belfast producers had about 70 percent of the world market for tea-drying equipment. The reason was that flax preparation and spinning necessitated solutions to problems of ventilation and heating. Skills in making such equipment could also be applied to the problem of tea-drying. In sum, Belfast developed a centre which was a world leader in linen and flax-related machinery, as well as further spin-offs. In these fields, as well as in the building of iron ships, user/producer interaction was crucial. This centre maintained skills and a marketing organisation, despite the fact that the home market declined.

Strikingly, population decline was less pronounced in Ulster than in other parts of Ireland. Between 1841 and 1911 population declined by 33.8 percent in Ulster as compared to an Irish average of 46.4 percent.[76] The decline had levelled out by 1911. Even more striking, in the period 1841-1951, there was an overall population decline of 54.7 percent in the 26 counties which became the Irish Free State, while the decline in the six counties which became Northern Ireland was only 16.7 percent.[77] The North Eastern Ulster counties were always more closely linked to the British industrial regions than other areas. While Belfast was the island's industrial centre, Dublin was the administrative centre.

The decline of all industrial development (except Belfast) became more pronounced in the great depression of the 1870s. Methods of large-scale production were

spreading throughout the industrial great powers. "In Ireland, the relatively small, declining and dispersed nature of local markets (as a result of a declining agricultural population since the 1840s and the earlier failure of textile-based industrialisation) gave Irish firms little incentive to introduce new methods of large-scale production. But British or European firms, with larger growing markets nearby, had that incentive and they could then go on to capture export markets such as Ireland. Irish industries which declined from this time included iron-founding, milling, paper, tanning, chandling and rope-making."[78] From the late 19th century and onwards, new developments in British manufacturing industry created further pressure. The production of consumer-oriented metal goods was mechanised. New products like sewing machines, bikes, motor cars, and electrical goods required precision engineering. They were located in the belt from London to Birmingham, where such "light precision engineering skills" already existed (partly based on firearms production). It seems that the well-known economies of scale and specialisation logic operated here. Ireland, however, lacked a growing domestic market, had only very poorly developed engineering skills, had no earlier industrial centre in this line of production, and possessed no resource base for industrial developments outside agriculture.[79]

The contrast between Ireland's 19th century deindustrialisation and the industrialisation processes of the other cases was noted already in Ch. 6.6, and will be further discussed in Ch. 11.3 below. Our discussion above, however, indicates that these different economic dynamics cannot be explained solely with reference to the distribution of land and income. We must therefore proceed to focused comparisons relating to social and political mobilisation.

11.2 SOCIAL AND POLITICAL MOBILISATION: AGRARIAN REFORMS AND NATION BUILDING

Chapter 4 mentioned Rokkan's general rule, that the national revolution precedes the industrial revolution. This general rule, however, does not hold for Ireland. Being a peripheral region of the country which nourished the first industrial revolution had, as we have just seen, quite dramatic effects on industrial development. The notion of "industrialisation" is simply not specific enough when applied to the Irish case, since Irish industrial development was so muted, first by the competitive pressure from Britain (the English industrial revolution largely meant deindustrialisation for Ireland), then by the loss of the Belfast region in 1921/2. As we shall see, national cleavages completely overshadowed other kinds of cleavages.

The fact that Ireland had for long experienced English military and bureaucratic rule would seem to indicate that there was fertile ground for Irish nationalism. As we have seen in Chapter 10, there was a long record of revolts against English rule. On the other hand, with the Act of Union 1800, Ireland was fully represented in Westminster, and England made many efforts to integrate the Irish region. For Ireland's 19th century political development, the paradox is that despite this direct rule from London and direct representation there, the country was "in all other respects, essentially colonial, with the typical cultural and economic dependencies and native/settler antagonisms characteristic of colonial countries. Many of these antagonisms were resolved *within* the framework of the old two-island United Kingdom prior to secession; the present-day Irish Republic itself is an end result of the United Kingdom's inability to solve these part-colonial and part-religious antagonisms by any means short of secession."[80]

In other words, England's attempt at assimilation could not contain the strength of nationalist sentiment in the 19th century. The integration of the region in the core of the British empire stimulated Ireland's claim to a separate identity. The Catholic middle class, experiencing British dominance in Westminster and the position of Protestant Ascendancy at home, decided not to aim only at regional dominance, but national dominance. In Miller's terms, the Catholic middle class combined two projects: an "external" project of national independence, and an "internal" project of becoming the dominant class in Ireland.[81] Without this mobilisation, Ireland would have remained an English regional problem.[82]

Phrased in Rokkan's terms, one may ask whether 19th century Ireland was "a periphery of the United Kingdom, or was it a colony of Britain?" Garvin answers "that it was a colony, with its own acknowledged corporate identity up to 1800, which London attempted to convert into periphery in the nineteenth century by means of bureaucratic modernisation policies. London almost succeeded, but in succeeding in the linguistic and economic assimilation of Ireland to Britain, political equality had also to be accorded, thus reviving or unleashing unsolved religious, regional and class animosities deriving from the *English* national revolution of Tudor and Jacobean times. Thus, within the *United Kingdom* context, Irish nationalism was a classic example of a movement of peripheral protest, reinforced by religious differences, economic contrasts and, of course, both agrarian and urban labour/employer tensions, often entangled in the traditional religion-based caste distinctions".[83]

Miroslav Hroch finds that nationalist movements in 19th century small European countries or regions developed in three stages: first a phase of scholarly interest, where groups of intellectuals discover the language, culture and history of the oppressed nationality, followed by a second phase of patriotic agitation, ending in a third phase with the rise of a mass national movement (cf. Chapter 4). The first two phases establish a national myth, or an "imagined community" between the members of the nation. Modern communications systems — the press, railways, postal system — spread this image and gave it mass appeal. Through a process of political socialisation the "nationalist myth" acquires a "homogenising power". The media for such a socialisation were the schools, places of religious worship, the press, penny songbooks and the home.

The mid-19th century transformations changed the patterns of Irish protest against English oppression. While the earlier tensions between the English and the Irish had reflected the strategies of various elite strata, the growth of nationalism in the 19th century involved a more powerful kind of mass mobilisation. But it was not initially driven by the discovery of a national myth as such, rather nationalism became blended with an assertive Roman Catholicism. The process of national mobilisation implied a gradual consolidation of Irish Catholic influence over important

institutions. The alliance between the nationalists and the Catholic Church was a crucial feature of the Irish experience.

Irish nationalism was not spearheaded by attempts to recover a separate language. Although from the sixth century and onwards, Irish had been the first western European language to replace Latin and Greek in learning and education, there had been a decline since the Reformation. Quite contrary to Hroch's sequences, the question of a national language came up only very late in the Irish nationalist struggle.[84] A Gaelic League language campaign in the 1890s came too late, efforts after independence in 1922 achieved little, and the first official Irish grammar was actually only available in 1953. Thus, Rokkan & Urwin conclude that "the failure of the nationalist movement to make the old language an efficient medium of everyday communication" is an Irish peculiarity.[85] Instead of Hroch's intellectual rediscovery of the national past, the first phase in Ireland is the devotional revolution of the Catholic church. As we shall see, emigration was one of the conditions of this revolution, and the English language was consolidated by these population flows. Also in connection with the Church's control of the educational system, maintenance of English was preferred.[86] English became the main medium of communication.

The culmination of the Irish nationalist struggle was conditioned by changes in the social structure following the Great Famine. Emigration had begun before the famine: 1 million Irish emigrated across the Atlantic between 1814 and 1844. Despite this outflow, there were numerous conflicts in the countryside, with peasants forming secret agrarian societies to resist evictions, low wages, unemployment and commercialisation.[87] We have seen earlier that as a result of the famine, about 750,000 died from starvation and disease, and more than a million emigrated 1846-55.

In the context of population decline and pastoralisation of agriculture, the Irish tenant farming bourgeoisie prospered. The squeeze from the masses below was partly relieved. The Anglo-Irish Protestant elite of absentee land owners was under pressure from the rising industrial bourgeoisie in Britain. Thus, the Irish Catholic middle class launched their attack on these English masters. This middle class, the tenant farming bourgeoisie, formed the backbone of nationalist mobilisation, allying both with the Roman Catholic Church and with exiled political radicals, and recruiting "footsoldiers" from remaining cottiers.[88] The Irish "diaspora" of these years created a "greater Ireland" overseas. In the urban slums of the new world, "anglophobia" among Irish emigrants financed and inspired the Irish struggle for freedom.[89]

As for working class mobilisation, it was hampered not only by the small size of the working class, but also by the Catholic-Protestant divide. Industrial activity was mainly controlled by Protestants who preferred Protestant labour. Labour unions in Belfast and Dublin were split between Protestants and Catholics. Politically, the prevailing garrison mentality made it difficult to defend separate labour organisations. As the core constituency of the nationalist movements in Southern towns came from the upper middle classes, labour demands were hardly raised.[90] Garvin argues that the "subordination of the urban and rural working classes to nationalism becomes quite comprehensible in view of the fact that the cleavage lines of the combined British-Irish political system overlapped and reinforced each other, giving rise to the peculiarly irreconcilable nature of the opposition. Separatist nationalism based on resistance to the encroachment of the British state, economic protectionism due to the pressure on outmoded craft industries from the British factories, religious differences and anti-city sentiment together formed an 'ideological package' composed of elements which in other countries might be thought to be unconnected or even opposed; as we have seen, Irish socialists, clericalists, anti-clericals, conservatives, liberals and even landlords could be persuaded to see something in the package for themselves."[91]

Unlike the nationalism of countries like Denmark, Sweden or Switzerland, Irish nationalism implied a process of decolonisation. Among our contrast cases, only Finland was in a similar situation. While the other contrast countries had been sovereign states for a long time, Finland attained sovereignty at about the same time as Ireland. If we disregard the quite different background, Finland and Ireland at the time of their independence can be classified as latecomers in the industrialisation process. Among the countries for which Table 6.1 gives data on manufacturing employment and share of the labour force in agriculture, Finland is the only one which — at the turn of the century — has a lower share than Ireland. Still, Finland is one of our contrast countries, which through the 20th century has become rich and successful in comparison with Ireland. We shall thus give priority to comparisons with Finland, although some of the other contrast countries will also be mentioned.

The similarity of the Irish and the Finnish cases was noted by Rokkan. Comparing the political consequences of the liberation/secession struggles in seven smaller European nations,[92] he found that both countries belonged to the periphery of Europe, they had been subject territories under representative regimes, and they had struggled long to establish a national identity, being latecomers among the countries with political sovereignty. They were thus similar in terms of his model of the "institutionalisation of formal mass democracy".[93] But investigating the cleavages that gave rise to the party systems, he found that they differed substantially.[94] Trying to account for these differences, Rokkan compared three phases of national liberation in Ireland and Finland: restricted franchise, extended franchise (Ireland from 1885, Finland from 1907), and national independence (Ireland 1922, Finland 1917). He also discussed the three great requirements of the Irish nationalist struggle — justice for Catholicism, land reforms and national independence — and notes that these could be met one at a time.[95] We shall include comparisons with Finland and Denmark while discussing each of these stages.

Integration of Catholics and the Rise of the Catholic Church

In the 17th and 18th centuries, as we have seen, British penal laws banned the Catholic religion and restricted the power of Catholic groups. The Act of Union had promised Catholic emancipation, but this was not approved by George III. Grattan's support for emancipation had been an exception. The Protestant settlers (many of whom received large sums as absentee landlords) lobbied in Westminster, and succeeded in obstructing it for thirty years. Under the leadership of Daniel

O'Connell,[96] the Catholic middle class now became the carriers of nationalism, increasingly radicalised. In May 1828, O'Connell won a seat in Parliament. The Duke of Wellington, and Peel concluded that further resistance to emancipation was futile. At about that time (1834), there were 6.4 million Roman Catholics in Ireland, against 0.85 million members of the Church of Ireland, 0.64 million Presbyterians and about 20,000 other Protestant dissenters.[97] 1829 saw the removal of all civil disabilities (penal laws restricting political and economic activities) against Catholics.[98] But it did not strike out the religious and ethnic prejudices against Irish Catholics in England.

After the Famine, O'Connell pursued repeal of the Union. The situation in England was unruly, with Chartism, and attacks on the corn laws. But his "Repeal Association" did not make much progress. "Young Ireland" was a Protestant-Catholic younger idealistic nationalist movement. It became more militant, and was expelled from the Repeal Association. Young Ireland launched a rebellion in 1848, and as a result, its leaders were deported. In the 1850s and 1860s, another political underground movement, the Fenians, mobilised to overthrow the British by means of dynamite and firearms.[99] Due to the large Irish diaspora abroad, this movement became an international conspiracy, financed mainly by Irish-Americans.[100] But like earlier violent anti-British movements, they remained outsiders, with a lack of means and support. Many were arrested.

O'Connell established the alliance between the nationalist movement and the Catholic Church. In the 1830s, Irish tenants began to refuse payment of tithes to an "alien" (Anglican) Church of Ireland. Tithes in 1838 were converted to a fixed rent paid by the landlord. As a result of the Famine, the Catholic middle class and the Catholic church gained more support from a more affluent, literate and smaller population. Gladstone pursuing a policy to "pacify Ireland" disestablished the Anglican Church in Ireland in 1868. Even after this Catholic victory, Ireland's Protestant Ascendancy, above all the landlords, remained very powerful.

This Catholic victory stimulated the development of an autonomous Irish civil society. Traditional peasant practices and outlooks were challenged by the views of middle-class farmers, clerics and townsmen. Views on proper social, religious and political behaviour were strongly influenced by the Church.[101] The fusion of nationalism and the Catholic Church implied what has been called the "devotional revolution" in Ireland. The ratio of priests per capita increased from 1/3000 in 1840 to 1/900 in 1900. The number of nuns also increased strongly. The standard of education of the Catholic clergy improved.[102] The period after the Famine was the main period for Ireland's shift from Gaelic to the English language. Literacy spread particularly in 1871-91 period.[103] Throughout the third quarter of the 19th century, the Irish Catholics became more devout in their practice.[104] The Irish nationalist struggle became virtually devoid of anti-clericalism. In many other countries, the labour movement represented a counterforce to Catholicism, but as we have seen, the labour/capital cleavage was nearly fully displaced in Ireland.

By taking part in the struggle for full professional and political privileges for Catholics, the Church won full control over primary education. Britain granted educational concessions in 1879. The new educational institutions, teacher-training colleges and new university colleges in Dublin, Cork and Galway gave many Catholics their first opportunity of acquiring a kind of higher education acceptable to their religious conviction.[105] Parish priests and the schools were important local contributors to the process of nationalist socialisation.

In Finland, no split comparable to the Irish one between Catholic masses and the Protestant Ascendancy developed. There was a relative homogeneity between the Finnish-speaking majority and the Swedish-speaking local upper-class. As Sweden lost Finland to Russia in 1806, the local Swedish upper classes were cut off from the Swedish state apparatus, while the new Russian rulers had to balance their relations to the Swedish-speaking local upper classes and to the Finnish majority.[106] The new rulers subscribed to another version of Christianity (Russian Orthodox), but unlike the Irish cleavage between Protestants and Catholics, the Finnish distinction between Russian Orthodox and Protestant Christianity was not deeply embedded in the Finnish social structure, and did not become the basis of mobilisation.

As shown earlier, Finland, although under Russian rule, was a separate entity in internal governmental, financial, and religious affairs.[107] The established political and social institutions inherited from the Swedish period remained, an estate based on a four chamber diet, which, however, was not convened between 1806 and 1863.[108] There was a Senate which acted as the Finnish government in day-to-day matters. Swedish was the language of government and the court. In the case of Finland, Hroch's sequence is confirmed. In the early 19th century, the Finnish national legacy, e.g. folk literature, was rediscovered by intellectuals. *Kalevala*, the first collection of folk tales, was published in 1835. It was also argued that Finnish should be the language of instruction in various schools. Both the Russians and some Swedish-speaking administrators resisted the use of Finnish within official life. This began to change as J. V. Snellman, a leading person in the mobilisation to promote the use of the Finnish language, became a Senator in 1863. In the following years, as attempts were made to strengthen Russian dominance, the Finno-Swedish elite yielded on a number of questions such as increased use of the Finnish language, and equalisation between Finns and Finno-Swedes.

The Diet was called in 1863, meeting more frequently from 1868 onwards. A national currency, the Finnish mark, was first issued in 1860. At the turn of the century, Russian nationalists pushed the weak Tsar Nicholas II (1894-1917) to pursue a policy of Russification in Finland. In 1878, the Finns had been allowed to raise their own conscript army to defend the "homeland", but a Decree of 1901 dissolved the Finnish army and placed Finnish units under Russian officers, increased the use of the Russian language and required Finnish conscripts to enlist in Russian regiments. The Finns protested, referring to their constitutional rights, thereby clashing with the absolutist Tsar. At this point, Finnish leaders split into Constitutionalists, opposing these Tsarist measures, and Compliants, aiming at a compromise with the Russians. The Swedes tended to support the former, while some Finnish-speakers favoured the Compliants, hoping to bargain for wider use of the Finnish language.[109] Under the pressure of the 1905 Russo-Japanese War, the Tsar had to suspend the Military Service Law, and the Finns were exempted from

conscription in return for a levy of 10 million marks. A number of Constitutionalists were dismissed from public service. The remaining Compliants succeeded in using the Finnish language to a larger extent.

According to Alapuro this remarkably smooth linguistic conversion was the outcome of the egalitarian Scandinavian-type social structures; the weakness of the upper classes as landed classes, and their position within the state. Their structural position was not based on exploitative agrarian structures bolstering an aristocratic anti-peasant ideology, and their positions within the polity were not threatened by the Finnish movement.[110] The spread of the Finnish language implied a nation-building process that would eventually threaten Russian control, but as noted above, the Russian authorities inadvertantly stimulated this process by supporting the increased use of Finnish as a means of counterbalancing Swedish influence.[111] Around the turn of the century the Finnish bureaucracy also needed peasant allies to counter the dominance of Russia.[112]

Referring to the Irish split between the Catholic mass and Protestant upper classes, Rokkan contrasts the integrative importance of Finland's Protestant Church with the Catholic mobilisation against the dominance of the anglican Church of Ireland.[113] What is more important, however, is that when the Catholic Church gained strength in Ireland, with the devotional revolution, it became an integrative institution of much greater importance than the Finnish Protestant Church, and the long term consequences of its role in nationalist socialisation was also much more important than that of Protestantism in Finland, as we shall see below.

Land Reforms

Equal rights for Catholics and an independent Church were won before 1870. But the landlords retained their influence and from the 1870s, mobilisation countered this influence. The electorate became more politicised, and Irish nationalism stronger. Tenants required a strengthening of their rights, i.e. land reforms, and landlord rule was also challenged by the cry for Irish Home Rule. There was much distress in agricultural districts. Isaac Butt led the Home Rule League, becoming an MP in 1871. In Parliament, an Irish party developed. An increasing number of representatives were elected on Home Rule principles. Michael Davitt, a nationalist with socialist inclinations, organised the Land League.[114] The agricultural bourgeoisie and the Catholic commercial and professional middle classes were the main bases of the nationalist movement.[115] During the 1870s the League managed to attract all kinds of rural discontent and direct them at the landlords.[116]

The skilled and charismatic Charles Parnell, a Protestant landlord, radicalised Butt's case (Butt died in 1879).[117] He became chairman of the Irish Parliamentary party (61 seats in the general election of 1880). In 1878-9, he negotiated support from the Land League and the Irish Republican Brotherhood[118], for home rule. At the same time, the land wars (1879-82) represented the first phase of mass politicisation of Irish farmers.[119] These wars above all involved attempts by tenants to postpone rent payments by legal action and other means until they were threatened by concrete physical eviction from the farm (paying their "rent at the point of the bayonet").

Gladstone's second ministry (1880-85) was really troubled by Parnell's skilful manoeuvres. The British tried to counteract the agitation for Home Rule by granting land acts. The Catholic Church supported the nationalists, thus strengthening the identification between Catholicism and nationalism.

In Chapter 11.1, the pastoralisation of Irish agriculture was analysed. Ranch farming had grown since 1850, with large numbers of dry cattle and sheep spread over huge holdings. Various kinds of people became graziers: commercial middling tenants, townsmen like solicitors or shopkeepers, various types of middlemen. The landlords tended to prefer that graziers rather than tenants rented their land. Graziers could pay a higher rent, and were more likely to present the full rent punctually. It was cheaper to administer one grazier rather than many tenants. Ranchers often had multiple holdings, and were non-residential occupiers. Their attitudes were more commercially-oriented than the normal tenant farmer, who had customary ties to the land.[120]

The emergence of the railway system helped develop a system of trade between various areas, with some graziers fattening herds, while others would store cattle, while developing the bones and muscles of the animals. There were also English or Scottish buyers ("shippers") and local cattle salesmen. During the land wars (1880), a conflict between graziers and peasants ensued. There were public rallies and mass demonstrations, illegal removal of cattle from the graziers' land, and boycotting.[121] This was a part of the general mass opposition to the landlord system. The land wars created an organisational structure within the peasantry, which also served to coordinate protest against graziers. The main problem was the extensive character of ranch farming. The graziers hired pasture, often on short term contracts, thereby driving up the rent. The rancher did not need to invest in fixed assets like barns, drainage systems, manure, ploughs or agricultural machinery. Grazing was not very labour intensive.[122] These features made grazing very flexible.

The Land Acts of 1881 legalised the "three Fs": fixity of tenure, fair rents, free sale of tenant land. The tenant's right in the land was accepted. It was very unpopular among the Protestant landlords. Parnell was imprisoned for compaigning on the basis that the Act did not go far enough. Released in 1882, Parnell took up his constitutional agitation. In May 1882, the Chief Secretary in Dublin (the English representative) was assassinated by the "Invincibles". This was a set-back for Parnell, but he still won 86 seats in the November 1885 general election and thus held the balance of power between Conservatives and Liberals. Gladstone now admitted that "responsible self-government" was the only way to deal with the Irish question. This created a "Home Rule Panic" which split his party (the Liberals), as the Liberal Unionists were founded as a splinter party. In 1886, Gladstone was defeated on the Home Rule Bill, which would have granted Ireland partial autonomy. The Unionist bloc in Northern Ireland emerged in response to the Third Reform Act of 1884, and the Home Rule Panic of 1885-86.

Conservatives won the subsequent election of 1886 and provided the government for almost two decades. The nationalist movement experienced several splits into factions.[123] The Conservatives first ruled with support from the Liberal Unionists.

This unionist coalition used coercion and conciliation. The Land Purchase Acts of 1888 and 1891 were intended to enable tenants to buy their land. Agrarian crime declined. Parnell was not able to regain his position in the home rule movement, which now split up into diverse quarrelling factions. (Parnell died in 1891.) Gladstone presented a second Home Rule Bill in 1894, but it was defeated in the House of Lords. Ireland was at that time experiencing economic and cultural resurgence, but the constitutional movement was in ruins.

The Unionists were in power again in 1895, and again tried to contain the Home Rule movement by legislative kindness and firm government. They held that a solution to the land question would kill off Irish nationalism, and thus continued the land reforms started by the Liberals: 'killing Home Rule with kindness'. Successive legislation encouraged the sale of Irish land by Protestant landlords to their tenant farmers. There was a new Land Act in 1896. A Department of Agriculture and Technical Instruction was founded in 1899 to spur economic transformation. The 1898 Local Government Act implemented elective county and district councils. Thus Catholic majorities now assumed many of the functions traditionally performed by Protestant magistrates. The 1903 Wyndham Land Act gave a cash bonus of 12 percent of the sale price if estates were sold to tenants, who could repay loans on reasonable terms. The English state subsidised the difference between what landlords wanted and what tenants could pay. These rents based on the (English) loans taken up by the tenants were about 28 percent below the "judicially fixed rent" (paid by those who were already owner occupiers, with about 11 million acres of land) and this was about 20-40 percent below the hypothetical competitive rent.[124]

This indicates the key strategy: Unionists tried to undermine Irish nationalism, and to relieve their main allies (Anglo-Irish landlords) from financial and political distress. 175,000 tenants received £63 million between 1903 and 1921. By 1920 nearly 9 million acres of land had changed hands irreversibly reducing the influence of Irish landlords.[125] Protestant Anglo-Irish absentee owners were wiped out. By 1917, two thirds of the farmers were owner-occupiers. Following these land reforms, the immobility of land — i.e. the virtual absence of a market for land — has been a characteristic of Ireland. Most peasants remained poor and underprivileged. The agrarian reforms were mainly consistent with the interests of the Irish Catholic elites. They made Ireland a property holders' democracy. It is quite significant that emigration remained high during this period of nationalist struggle and land reforms.

The end result of the land reforms (see Table 11.2 above), was a distribution of land holdings relatively similar in Ireland and Denmark. Thus, the most striking difference is not the size of Irish holdings (as Senghaas might suggest), but the change to a pastoral approach, as analysed in Chapter 11.1. Following the land reforms, more tenant farmers turned away from tillage to cattle, and the specialised group of ranchers (or graziers) developed further.

The 1903 Land Act made many tenants owner-occupiers, so they became less interested in selling their land to ranchers. This made graziers look for untenanted land (about 20 percent of all agricultural land). If landlords provided such land to graziers on an eleven month letting, the requirements of land-reform could be evaded. The so-called "eleven month system" became the most important source of marketable pasture, so it was called "the landlord's last defence". By 1901, between 30 to 50 percent of commercial pasture and ranch land was untenanted. In this way, ties between landlords and graziers were strengthened. While the latter had initially benefited from the land reforms, which had provided much land ready for sale, they now were increasingly against more radical reform. They did not want a redistribution of untenanted pastures.

The graziers increasingly tried to ape the gentry and the professional classes, attempting upward mobility, but they were not entirely accepted into the landowning and professional social circles. In their rural neighbourhoods, however, they did not enter into traditional mutual aid schemes. Many of the ranchers even lived away from their land most of the time. They thus became detached from peasant society and therefore did not become leaders with great social influence. After 1900, they virtually disappeared from community organisations. This group was important for Ireland's export trade, but in the period leading up to independence, their political role was not important. After independence that would change.

National Independence

Remaining Catholic resentment about British tax policy and Protestant dominance within the administration kept alive a drift towards secession.

A "New nationalism" surged as Home Rule seemed a more and more remote prospect. After Parnell's fall, the nationalist struggle increasingly shifted to the cultural arena, with emphasis on gaelicisation and de-anglicisation of Irish society. Only in the period between 1890 and World War I was the notion of the "Irish people" constituted. The self-definition of the nationalist movement was also influenced by the consolidation of "sectarian confrontationism" in Protestant Ulster, which sharpened between the first Home Rule Crisis of 1885-86 and the more militarised crisis of 1912-13.

Political violence grew. Sinn Fein was founded in 1905 by Arthur Griffith. The Irish Socialist Republican party (led by James Connolly), and IRB turned increasingly anti-parliamentarist. These movements were connected with Gaelic revival, cultural initiatives like the Gaelic Athletic Association, the Gaelic league, etc. Such movements worried the Irish Catholic hierarchy.[126]

In 1904 the Unionist alliance, more or less in power in Britain since 1886, was abruptly ended. The Liberals returned to power in 1906. They attempted small concessions towards John Redmond's United Irish party, but did not grant Home Rule. Ulster unionists increasingly created problems for British governments. In Ireland, secret and extremist groups became more active.

The Liberals established University College Dublin, 1908, and revised the Wyndham Act in 1909. Given the results of the two last general elections, the Liberals in late 1910 were dependent on the support of Redmond's party. Asquith's cabinet produced a Home Rule Bill. As a 1911 Parliamentary Act curbed the veto power of the House of Lords, Westminister was now ready for an Irish Home Rule

Bill. The third Home Rule Bill became law in 1914, but was suspended until the end of World War I. In the northeast, the Ulster Protestant community began to organise to defend the union with Britain, supported by British Tories and with covert support from many levels in the British Army and Civil Service. The latter groups saw Irish independence as a dangerous sign to other colonies of the Empire. The delay gave the Ulster Volunteers time to arm. The Protestant unionists established a provisional government, designed to function when Home Rule came into effect.

There were several reasons why the Northern Protestants feared Home Rule. First, a number of the naked forms of discrimination against Catholics would no longer be possible, and they probably even feared retribution, as Catholics had been badly mistreated. They also feared that they would be persecuted for their religious beliefs ("Home Rule is Rome Rule"). They also emphasised that the Ulster industrial enclave must not be dominated by the rural society prevailing in the rest of Ireland. As we have seen, the industrial enclave of Belfast was owned and worked in by Protestants, and had Britain and the Empire as its main markets. In the case of Home Rule, protectionism and support for Irish companies in the South was feared. In Northern Ireland, the Official Unionist Party became a party more reactionary than the British Tories, commanding a huge cross-class Protestant support.[127]

Protestant paramilitary organisation was emulated by Catholics.[128] The Irish Republican Brotherhood founded the Irish Volunteers, a militia which would oppose the Ulster Volunteers, defending the emerging Irish regime. During industrial disputes in 1913, Connolly founded the Irish Citizen Army to protect workers against the police. Irish volunteers welcomed German victories in the world war, and stepped up anti-recruiting campaigns. One of their leaders (Sir Roger Casement) even went to Germany to investigate military assistance.

As for the social background of the revolutionary elite, foreign experience was important. In the early 20th century, over 40 percent of this elite had lived for a period outside Ireland, mostly in either Britain or the U.S. This return emigrant syndrome they shared with the Fenian radicals, 60 years earlier. As for the geographical background, the southern province of Munster was clearly over-represented. Garvin even claims that the idea of "a stabilised, conservative, egalitarian, petit-bourgeois Irish republic dominated by the yeoman farmer" was inspired by late 19th century developments in Munster.[129] Munster was an area of dairy rather than cattle farming, focused on local rather than English markets. Sinn Féin in many ways was a Munster organisation.

An insurrection was planned by Pearse, Connolly, Casement and other extremists in 1916. The IRB had penetrated the Volunteers. On Easter Sunday, April 23, 1916 the rebellion started, and on the Monday, the rebels proclaimed the Irish republic, almost capturing Dublin Castle. The British intercepted a German ship carrying arms to Ireland, arresting Casement. The Volunteers and the Citizens Army held out against superior British forces until April 29, when they surrendered. The uprising was based on the urban lower and lower-middle classes, but was led by an intellectual elite. The uprising signified the end of an era of land questions and constitutional agitation by middle class Catholics, supported by the Irish Catholic hierarchy. Irish public opinion was shocked by the rebellion. Pearse and 14 other leaders were executed. Many moderate nationalists however now became more estranged from the British. Hundreds of insurgents were deported to England and Wales. Casement was hanged for treason in London. Sinn Fein gained thousands of new recruits.[130]

Lloyd George in 1917 tried to solve the Irish question by a multilateral Dublin conference. Sinn Fein and the Ulster Unionists declined to take part. The British repressions after the Easter Rising and the Irish Conscription Act of 1917 (the threat that many young Irishmen would be drafted into the British army in 1918) strengthened Sinn Féin, as this political party was now controlled by the insurrectionists. The European armistice of November 1918 implied no peace for Ireland. Sinn Féin grew to be the nationalist mass party of Irish secessionism, winning nearly all seats (73 members) outside Eastern Ulster in the British General Election of December. They refused to be MPs, instead declaring themselves members of Dail Eireann, i.e. the Irish parliament. Eamon De Valera became president of the provisional government. He escaped from prison in April 1919, going to the U.S. to mobilise support.

The British tried to suppress the provisional government. The Irish Volunteers now became the Irish Republican Army (IRA), the military branch of Sinn Fein. The IRA launched a guerrilla war against local authorities, fighting with the Royal Irish Constabulary, which was supported by the British army. In 1919, the IRA and Sinn Féin emphasised their commitment to an "underground republic", encompassing all Ireland. This struggle lasted for three years. The atrocities of 1919-21 generated contempt in the U.S. and Britain, and there was more pressure on Lloyd George's ministry. A ceasefire was arrived at in July 1921, with negotiations between Sinn Fein and cabinet ministers following. A settlement was reached and a Treaty was signed on December 6, 1921, constituting the Irish Free State within the British Commonwealth.[131] It was to have a dominion status similar to Canada. Its members of parliament were required to swear allegiance to the British Crown.

The fact that there had been no integration between the Irish people and the Anglo-Irish elites — a major contrast to the Finnish case, according to Rokkan — created very difficult negotiations in 1921, producing the Ulster secession with all its tragic consequences. Six counties in Ulster (out of 32 in Ireland as a whole) were provisionally excluded from the treaty.[132] These six became Northern Ireland, making permanent the provisional arrangements to stay within the Union. This division had a wide range of consequences on further political developments: "The Orange-Catholic polarisation made it practically impossible to organise politics on class lines in Ireland; the Land Acts and the remittances from the overseas emigrants took the brunt off the grievances of the rural proletariat and the only solid basis for an industrial labour movement was, ironically, found in the centre of the Northern enclave, in Belfast."[133]

Finland's independence was also the result of interaction between nationalist mobilisation and external events. From the start of the Russo-Japanese war in 1904, the Finnish liberation struggle interacted with revolutionary mobilisation in Russia. A Social Democratic party was founded in 1903, carrying further the work of the

1899 Labour party. There was a Finnish general strike in October/November 1905. By 1906, the Tsar had to accept the replacement of the four estate Diet with a 200-member, single-chamber parliament (the *Eduskunta*), elected by all citizens over 24 years of age, applying a system of proportional representation. Finland was the earliest European country to grant equal voting rights to men and women. But the Russians maintained executive power, and continued the attempts at Russification. The parliament soon became the major voice of the Finnish opposition, and the Social Democratic party grew to be the largest party in the 1907 election, even gaining an absolute majority in 1916, nominating in 1917 the world's first democratically elected socialist premier. But the Tsarist regime still tried to bar the development of Finnish independence. When the Tsar was overthrown in 1917, the Kerensky government dismissed the Social Democratic government and called a new election which gave an anti-socialist majority. On the 6th of December 1918, after the Bolshevik revolution, Finland declared its independence from the new Soviet Union.

TABLE 11.9

Irish Agricultural Classes 1841 and 1881.
Agrarian Households in Finland by Class 1815-1901.

IRELAND[1]		1841	1881
Farmers and farmers' sons		42	60
Farmers > 50 acres		4	9
Farmers > 20 < 50 acres		9	14
Farmers < 20 acres		15	17
Farmers' sons		14	20
Labourers			
Labourer - landholders		30	12
Landless labourers		26	26
Other		2	3
FINLAND	1815	1870	1901
Landowners	75000[57%]	83000[39%]	103000[35%]
Crofters[2]	38000[28%]	68000[32%]	49000[17%]
Agr. workers	19000[15%]	60000[29%]	139000[48%][3]

1 Estimated percentage of adult male agricultural labour force
2 Includes other tenant farmers as well
3 Due to reclassification, the decline of crofters/increase of agricultural workers is somewhat exaggerated.

Sources: Ireland: Samuel Clark, *Social Origins of the Irish Land War*, Princeton 1979, p. 114; Finland: Risto Alapuro, *State and Revolution in Finland*, Berkeley 1988, p. 47.

Comparing Ireland and Finland, we see that the element of military mobilisation was much weaker in Finland. The absence of a Protestant/Catholic split linked to social inequalities and different relations to the colonialist great power seem to be the main explanatory factors. Finland also lacked a large diaspora abroad. Finland became independent without any territorial division. The region with the largest Swedish speaking population never saw any mobilisation to become part of Sweden and its importance for Finnish industrial development was in no way comparable to Belfast's within Ireland.[134] No region had any expressed wish to remain with Russia either.

Civil War

Due to the developments discussed in Chapter 6, Finland saw the growth of large-scale rural poverty in the late 19th century before the onset of mass politics. The magnitude of the problem is illustrated in Table 11.9 which shows that the number of landless agricultural workers more than doubled between 1870 and 1901, making this group nearly 50 percent of all agrarian households. In Ireland, in contrast, the number of landless labourers (roughly comparable to the category agricultural workers in Ireland), stayed constant in the same period. As noted above, both Ireland and Finland experienced famine,[135] but the major contrast is Ireland's massive emigration, related to the push factor of agrarian pastoralisation and the pull factor of closeness to and language community with England and the U.S.

In Finland, language-based polarisation between Swedish-speaking elites and Finnish masses faded, and was replaced by a polarisation on class lines. The Swedish ascendancy was gradually integrated, while frustrations cumulated among the poor in the early decades of the 20th century. The increase in class tension was the combined outcome of the Finnish timber boom, late industrialisation, and limited emigration. Emigration from Finland developed much later than from the other Nordic countries, peaking as late as in the 1901-19 period (cf. Table 4.5). Even at that time, it remained lower than Norwegian and Swedish emigration. In Finland, both elites countered the mobilisation of poor, working class radicals, many of them from rural areas. The strength of this mobilisation was due to inconsistent Russian policies: a sudden granting of mass democracy in 1906, and a total absence of efforts to deal with social and economic inequalities. The Socialist party won its famous majority, as just mentioned. That victory was a main factor in the escalation towards the civil war between Reds and Whites. The close-by Russian revolution in 1917 made all property owners fear the mobilisation of the poor. In the Finnish civil war, the underprivileged party sided with a dominant external power (USSR). The socialists seized Helsinki and two other industrial towns in 1918, but were countered by troops under the command of the new, right-wing government. By May 1918, the uprising was defeated. 20,000 reds — that is 14 percent of total labour union membership — died in prison camps. 8,000 of them were executed. The war was, as Rokkan points out, a struggle between social classes within the once subject population, while the Irish civil war was a fight over diverging strategies regarding Ulster and independence.[136]

In Ireland, the civil war was not related to class differences. It was the disagreement over whether Ireland should have dominion status which split the Government. Eamon de Valera, the president of the Sinn Féin Government, and two of his ministers left the Government. All the nationalist organisations (Sinn Féin, IRA, IRB, Irish Catholic Society) were split between those who wanted to accept the compromise settlement with Britain, and those who wanted to fight on for an all-island republic, i.e. not accept the border between the republic and the unionist

secessionists in the North.[137] Despite stern opposition the Treaty was accepted by the Dáil in January and the pro-Treaty factions won the elections of May. But the increasingly militant opponents within the IRA refused to recognise the Treaty, starting a tradition of terrorist republicanism. Violence spread in the countryside, and a civil war started in June 1922.[138] The government responded, using courts-martial. 77 republicans were executed. De Valera finally told the republicans to suspend hostilities. In May 1923 the war ended with defeat of the IRA.[139] Elections in August 1923 returned 63 Free Staters, 14 Labour and 44 opposition Republicans.

In sum, the fact that both the Irish and Finnish nations were baptised in civil wars is only a formal similarity. The Finnish civil war (1918) was a clash between classes (especially in the rural economy), the Irish one broke out between radical and moderate nationalists. Thus, a national-democratic cleavage accounts for the Irish civil war, whereas the Finnish civil war to a large extent originated from an industrial revolution cleavage.

The pragmatic wing of the nationalists became the leading elite of the Free State: "It could be argued that only one quarter of the population of the island was actually separatist, another quarter being Unionist. The rest were mildly nationalist. Few wanted social revolution, and few were interested in the restoration of the Irish language. The anti-treaty faction sometimes tried to cope intellectually with the extreme moderation of the Irish electorate by portraying the population as intimidated by the British, the Free State, and the clergy. It soon became evident that republicanism was, as it always had been, the creed of a minority, although a large and intense minority in a population that had a vague and lukewarm sympathy with republicanism but was more interested in a quiet life. One of the many ironic effects of partition was that this minority was rendered far more important than it would have been in a united Ireland."[140]

It was noted above that Sinn Féin was largely a Munster-based organisation. It was also in Munster that the later split in the movement developed (1922-23), and the last uncompromising republicans withdrew in the last phase of the civil war: "later, with the development of democratic electoral politics, Munster was to be rivalled by political forces based on the western peripheries, partly because Munster had become so divided in 1922-23."[141] Before we turn to Irish developments after independence, we shall discuss some long term consequences of the historical developments we have traced so far.

11.3 LONG TERM CONSEQUENCES

Relying on several studies by historians and social scientists, we have tried to gain an impression of the peculiar modernisation process which Ireland went through between the Famine and Independence. It would however, be quite premature to conclude that these unique features readily contain the explanation of Ireland's dismal economic development in the 20th century (Chapter 2). Judgement in these matters is very complicated, not only because the nationalist movement has given rise to a number of stylised explanations which all boil down to blaming the English for any problem, but also because social science has not really developed comprehensive theories about the relationship between institutional transformations (such as those analysed in Chapter 11.2) and economic growth performance. In this concluding section, we try to discuss a number of possible explanations, trying to combine elements discussed in Chapter 11.1 (which discussed elements close to the process of economic growth), and Chapter 11.2 (which discussed elements where the relationship with economic growth is more difficult to assess). We shall discuss the following topics: the impact of national sovereignty, agro-industrial links, questions relating to nationalism, the state and the Church, the question of mentality and social structure.

National Sovereignty and Economic Development

According to the nationalist interpretation, national sovereignty was a condition for economic development: "It is surely impossible to resist the conclusion that there is some connection between the legislative independence and the economic prosperity of Ireland: so that Ireland can never be a rich and prosperous country until her independence is restored."[142] Projecting this view backwards, it was claimed that British legislation blocked Irish industrialisation in the 17th and 18th century, and that Grattan's parliament was responsible for the industrial growth in the late 18th century. Free trade after the Act of Union was responsible for Irish deindustrialisation in the 19th century.

These nationalist studies were published around the time of independence, clearly supporting a policy of protection. A revisionist view has been launched since then.[143] J. J. Lee argued that the problem in the 19th century was that no Irish large scale industries took over when local industry declined. Lee pointed to the Belfast contrast, concluding that a "lack of entrepreneurship" was the root cause of the problems of the rest of the country.

Even more recently, parts of the nationalist argument have been restated. Relying on modern non-neoclassical development economics, O'Malley argued that Ireland has been an industrial latecomer, suffering from barriers to entry.[144] Foreign firms are protected from the competition of latecomers by barriers like superior positions with respect to scale, technology, finance and marketing, as well as external economies from the availability of specialists, skilled labour, and large adjacent markets.

In the following section, we shall discuss these three explanatory approaches in the light of our contrast cases. Ireland, as we have already implied several times, must be classified as a major case of deindustrialisation in Tilly's sense (Chapter 4 above), while all the contrast cases must be placed in Tilly's "proto-industrialisation - concentration" type, with the qualification that proto-industry was very weak in Scandinavia. As we have seen in Part III, each of the case countries had started their specific industrialisation processes by the second half of the 19th century, at the latest (cf. Chapter 6).

The nationalist argument concerning the 19th century links the fact of industrialisation to national independence. Among the contrast cases, Denmark,

Sweden and Switzerland had uncontested sovereignty and a constitution which institutionalised conflict resolution. (Austria was a faltering great power, so it is left out, but it also enjoyed full sovereignty.) In a weaker sense this was even the case in Finland, which however had to defend its constitution and Home Rule against absolutist Tsarsist attempts at "Russification". Finnish nationalists could rely on a specific Finnish Diet (from 1863), and later (from 1906) on the Finnish parliament (Eduskunta), while Irish nationalists could not use such an institution as their base.

Ireland was a part of Britain, fully exposed to free trade and with no chance of choosing its own economic policies with reference to an independent constitution. If Ireland as a whole had remained part of England, it would have remained a British "regional problem", and we would have had many cases to compare with, as noted in Part II. In Ireland, however, nationalist mobilisation secured independence, and thus a problem of regional industrial development became a problem of national industrial development. If Southern Italy — to quote an example — had become independent around World War I, the same redefinition of problems would have occurred there.

A consequence of being a region is complete free trade with other regions. However, a state may also decide to conduct a free trade policy, and one of the contrast cases, Switzerland, pursued such a policy for most of its modern history. We shall therefore first discuss other ways in which the union might have influenced Irish industrial development.

The first possibility is direct use of power. Ireland was a region strongly influenced by policies of control by a colonial administration. In the 18th century, Catholics had been prevented by law from engaging in certain economic activities. But with the Catholic Relief Acts, such legal constraints were abolished.[145]

As for the second possibility, a recent restatement of the nationalist position argues in a comparative perspective that the 19th century independence of Belgium, Sweden and Denmark gave these countries "the opportunity to adjust the fiscal system in response to threats".[146] The argument, however, that fiscal adjustments mattered must be assessed in connection with other factors, both general and specific. At the general level, we know that the typical 19th century state was a liberal non-interventionist one. Given the small size of the public sector and the extremely rudimentary state of economic statistics, one may ask whether fiscal adjustments had any major impact anywhere.[147] The claim must at least be specified to mean trade policies, or exchange rate adjustments. As for the movements of the pound sterling in the early and mid-19th century, however, they did not seem to inhibit British industrialisation.

A third possibility is more difficult to assess. It relates to the late 19th century. We have seen that Finland had Home Rule, while Ireland fought for Home Rule, and full national independence followed as a consequence of the setbacks in that struggle. Finnish nationalism could thus use representative institutions, while Irish nationalists had the more restricted option of trying to influence the balance of power in the British parliament. Thus, with less impact by representative institutions, Ireland had a stronger tradition of secret, military action than Finland.

Activists of the Irish diaspora returned to Ireland to participate in the struggle for independence. The importance of return migration for economic entrepreneurship was mentioned in the case of Sweden. Irish return migrants in the same period were preoccupied with nationalist mobilisation, possibly at the expense of economic entrepreneurship. The absence of Home Rule, it could be speculated, drained the energy of young, active people into covert operations and destabilisation of British rule, away from economic activity. Such speculations, however, are difficult to transform into testable hypotheses. At least, it may be concluded that the environment was not a stable one, not one that invited risk-taking in economic matters.

As for the argument concerning the absence of trade policies, i.e. a policy of protection to nourish infant industries, O'Malley's recent statement seems to be the most elaborated one. He does not blame the union as such.[148] Rather, late industrial development, given a free trade regime, created the problems, whether the more advanced industrial competitors were English firms (as they mostly were), or French or German ones. But Ireland cannot unequivocally be defined as a latecomer in the 1750-1850 period. Rather, deindustrialisation made Ireland a latecomer. Earlier, the Scandinavian countries had certainly been less developed than Ireland.

Let us then compare Ireland and Switzerland more closely. Both countries (as we have seen in Chapter 6) had flourishing proto-industries in the late 18th century. Switzerland was cut-off from England during the Continental blockade, but following that, its industrialisation took place under conditions of full world market association. In the same period, effective economic adjustment bolstered the perhaps strongest national system of innovation to be found among the cases we discuss here. Looking at Switzerland only, one might claim that a relatively well-developed proto-industry was a guarantee of a smooth transition to factory capitalism and import substitution. But the case of Ireland is evidence against such a view: its relatively advanced proto-industry was hit by deindustrialisation. But the basic lesson from this comparison is that barriers to entry are obviously not absolute. Referring back to our discussion of the Swiss case in Part III, we conclude that in spite of free trade, internal Swiss features — the successful evolution of its national system of innovation — secured strong industrial development.

O'Malley claims that all other 19th century latecomers which industrialised after Britain would use protection, at least temporarily. This is not correct with respect to Switzerland (or Belgium). The Nordic countries, however, would temporarily revert to protectionism, thus they belong to the "associative-dissociative" group in Senghaas' typology. However, their trade policies were quite liberal until World War 1. That was especially the case in Denmark.[149] The impact of a certain natural barrier in terms of high transportation costs might be emphasised both for Scandinavia and Switzerland. But with the transport revolution in the late 19th century, the importance of this feature was probably reduced. We have already shown that the episode of general free trade in the mid 19th century stimulated industrialisation in the Nordic area. As noted in Chapter 6, except for Denmark, their growth processes were export-led. If it is true that the horrors of the Great Famine in Ireland were one of the crucial factors which made Peel speed up his efforts at

repealing British protectionist legislation, we arrive at the tragic irony that the sufferings of the Irish promoted international institutional changes which stimulated growth and transformation in the Nordic domain.

A general weakness, however, in all the explanatory attempts we have surveyed so far, is that they solely refer to external forces. The strength of the Schumpeterian explanations is their emphasis on internal factors. But there are at least two versions of these explanations. Lee's approach is close to Schumpeter's own classical emphasis on the voluntaristic actions of the *entrepreneur*.[150] As emphasised in Part II, Neo-Schumpeterian approaches are more interested in the institutional environment of the entrepreneur. O'Malley's critique of classic Schumpeterianism in fact points in this direction,[151] and his specific analysis of the Belfast linen production centre can be squared with a supply side oriented neo-Schumpeterian approach.[152]

While such an approach provides the necessary detail with respect to the manufacturing supply side, i.e. industrial networks, user/producer interaction, etc., we also need to take certain broader internal features into account. The importance of these features have been proven in our earlier comparisons. They are: the trend towards pastoralisation of agriculture (next subsection), and emigration. These developments, as we shall see in further subsections below, were related to the dominance of the Catholic middle class tenant farmers and urban traders in Ireland's late 19th century modernisation process. Certainly, British rule cannot be made fully responsible for these economic adjustments by the middle classes with respect to price developments and British reforms. Their adjustments were determined by class interests under the constraints of Irish geo-climatic conditions. We need to look at the internal structures which evolved, internal features which are displaced by explanations which refer to English oppression. After all, British control gradually receded, and social structures specific to Ireland evolved in that process.

We have established that Ireland was probably not more of a latecomer than the Nordic countries in the early 19th century. But in contrast to the Nordic and Alpine countries, which experienced import substitution from about the mid 19th century, Ireland experienced emigration in a context in which import substitution had not really developed. In the Scandinavian and Alpine contrast countries emigration had not yet reached high levels and, there are reasons to believe that Senghaas is right in claiming that their domestic markets were growing.[153] Ireland, on the other hand, experienced a contraction due to emigration. In Ireland it seems that emigration, deindustrialisation and adjustment towards extensive agriculture interacted to block further import substitution (except in Belfast).

Towards the end of the century, however, emigration did develop also in Scandinavia (see Table 4.5 above). But in contrast to Ireland's vicious circle, Swedish emigration since 1870 (simultaneous with its first great surge of industrialisation) may have been part of a virtuous circle. Analysing Sweden, Senghaas proposes a Lewis dual economy-type argument. Since import substitution had proceeded to a certain level, the response to increasing scarcity of labour reinforced a virtuous circle of economic development driven by the interaction of an economic and a political mechanism.

First, increasing labour costs forced firms to go for technical change in order to increase efficiency. This economic pressure spilled over into the political level. As we showed in Chapters 6 and 8, the bargaining power of labour increased, mobilisation became effective, democratisation was achieved, labour could organise, and farmers broke away from larger parties, forming their own separate parties. In sum: "the growing scarcity of labour, induced by growth and emigration, increased its political weight and with it the income opportunities of wage-earners".[154] The interaction between increasing real incomes and productivity growth was reinforced, and the social democratic turn to reformism bolstered such "growth pacts" (which brings us up to the interwar period).

The unique feature of Ireland's emigration is the absolute decline in population (Figure 10.1), and its very unbalanced demographic pattern.[155] Even in Sweden and Norway, the Nordic countries with the highest levels of emigration, population never declined in absolute terms. As noted in Part II, there is in fact no country in the modern developed world with which to compare. Of course, such large scale emigration increased the per capita income of those remaining, and emigrants supplied remittances.[156] But these counter-forces could not stem the vicious influence of a contracting domestic market. Rather, a vicious circle, marked by a contraction of the domestic market, low demand, pastoralisation of agriculture and paternalistic family relations ensued.

We have sketched an explanation which is more multi-causal (emphasising circles of cumulative causation) than those presented earlier. Certainly, we have only provided a rough sketch, and much research would be needed to spell it out in greater comparative detail. Whatever the result of such a test would be, it seems that three perspectives must be combined: an emphasis on the demand side (especially on the dynamics of the domestic market), on the supply side (especially on linkages and national or local systems of innovation, along the lines of the Neo-Schumpeterian tradition), and finally, on the external forces of barriers to entry.

Our main conclusion is that in all the contrast cases — and even in Finland, the Nordic latecomer — a functioning national system of innovation came into being in the second half of the 19th century. In Ireland, a proper system of innovation developed only in Belfast. An effective system of innovation in other parts of the island could only have developed in close interaction with the transformation of agriculture. Ireland was, after all, an overwhelmingly agricultural economy. However, the trend towards pastoralisation, and the focus on live cattle as the major export item, did not encourage the nurturing of "micro-circuits" of the type which emerged during the Danish development towards a more intensive type of agriculture.[157] The much more important role of the cooperative movement in Denmark, compared to Ireland, illustrates this main contrast.

Agro-industrial Links

The land reforms implied victories for Irish farmers on questions of rent control and land purchase. But they did not succeed in continuing their mass mobilisation with respect to other matters. In the 1906-13 period, they split on the issue of cooperative

organisation. Horace Plunkett (another influential Protestant) and friends set up the Irish Agricultural Organisation Society in May 1894. At that time, 33 dairy societies had already been formed, and the number grew to 876 ten years later. The organisation related primarily to milk and butter, organising many cooperative creameries. Cooperatives were supported mainly by farmers on medium-sized holdings. "Large farmers, especially graziers, had little personal use for cooperatives. Thus, on this important question as well as on other issues, their interests were not bound up with those of smaller farmers. To the extent that graziers involved themselves directly in the marketing of livestock, there was a conflict of interest. Schemes for the cooperative marketing of livestock, put forward on a number of occasions, threatened existing channels of distribution and were consequently resisted."[158] Only in the mid-1950s did discussion about cooperative ventures related to cattle develop. By 1958, 17 cooperative livestock mart societies had been formed, and there was also discussion of cooperatives for poultry and eggs.[159]

The contrast to Denmark is striking. Even the livestock and meat sector was organised cooperatively from the start in the late 19th century. Already in the late 1880s, when the first Irish dairy cooperative was formed, one third of all Danish farms participated in cooperative dairies. There were also marketing cooperatives, above all for meat and related animal products. The first cooperative slaughterhouses were established in 1887, gaining full dominance of the market. Also eggs and poultry were organised by cooperatives. Products improved. The cooperative societies also played an important role in purchase and sales of fodder, tools, machines, fertilizers. They became a vital link between users and producers of agricultural equipment. Senghaas points out that the cooperative movement in Denmark combined the advantages of small scale family farming with the scale effects (standardisation, etc.) implied in large scale agriculture.[160] In this way, the family farmer challenged what remained of large farmers. The cooperative movement thus provided numerous "micro-circuits" which increased agricultural productivity. The development of such circuits can turn what seem to be unfavourable terms of trade changes into advantages. This was the case when lower corn prices stimulated Denmark's agricultural transformation and Denmark ended up exploiting the low corn prices to import cheap fodder.

In postwar Denmark, about 90 percent of milk, butter, and pork have been distributed through cooperatives and much of other output also.[161] There was strong centralisation of cooperatives, and joint liability has been replaced by a limited personal liability. Democratic rule is now indirect, as local members elect representative delegates to larger assemblies. There are now about thirty central organisations, representing all branches of the agricultural cooperative movement, collaborating in a Central Cooperative Committee, strengthening the contact between the various branches. The Irish cooperative movement has not caught up with the Danish one since independence. Irish cooperatives remained narrow. They really only developed in the area of processing, there were few supply cooperatives and very little emphasis on collaboration concerning technical change, exchange of information, etc. They were not involved with financing: Nordic farmers' banks are unique. Irish cooperatives had no agricultural research service and no involvement in human capital investment. Nordic cooperatives, on the other hand, emphasised education. In the crucial period between 1930 and 1960, Irish cooperatives expanded but they did not become a social movement with an educational emphasis. Not before the 1960s was there an agricultural research service (developed originally on the basis of Marshall Aid funds), a generation after similar institutions had been set up in the Nordic countries. Only in the 1970s were colleges established by the cooperative movement. Since 1980 there is a standardised qualification available through agricultural highschools.[162]

These differences reflect major differences between agro-industrial linkages in Ireland and Denmark. The cooperative movement had a decisive impact on Danish industrial development. It has been claimed that by the turn of the century, three models of industrial development competed in Denmark: early ideas of large-scale urban mass production, the cooperative model, and the artisan model of "networks of small workshops".[163] Denmark developed a "hybrid" form of industrial organisation, synthesising traits from each of these models. Due to the cooperative movement in rural areas, urban mass-production never really captured these markets. Instead, a number of small industries flourished in the railway towns, where there was lot of interaction between the cooperative and artisan movements. The railway town became a "smallholders' republic" linked to the rest of the country by at least two types of networks: the railway and the educational institutions. The educational system became a vehicle for cooperation between urban and rural artisans, and through the union movement, skilled workers and artisans influenced each other, thus influencing even the organisation of larger firms. The folk high schools founded in the mid 19th century were an important leverage for the cooperative movement (through adult education of rural people). However, the largest firms in Denmark were always the urban trading firms, like the Danish East-Asian Company, the largest Nordic firm until the 1960s.

This peculiar "hybrid economic organisation" was under attack both in the 1930s great depression and in the postwar period. In the first period, it adjusted flexibly by taking up production of simple new products for the home market. Even in the postwar period, it responded to the challenge of the mass production paradigm, as we shall see in Chapter 12. In the 1970s and 1980s, it has been argued, the cooperative organisation became an inert factor in Danish industrial development. This, however, cannot alter our conclusion that Denmark's cooperative movement illustrates the strength of the Danish national system of innovation in the 1870-1970 period.

The Post-colonial State

Land reforms, nationalist mobilisation and decolonisation were processes benefitting certain groups in Irish society, those who remained in the country.[164] Crotty emphasises the parallels between the Irish case and a general pattern typical of most third world decolonisation processes. "The colonial independence movements (...) were concerned to conserve, and to remove the impediments to the further development of, a social order originally established in the colonies by the

metropolitan powers. Independence movements were not generally protests against the established social order, but against what were generally perceived by the elites of that order as continued, unwarranted intervention by the metropolitan powers; which denied them the full potential benefits of the social order. Insofar as there was mass discontent, that discontent was deflected away from the social order and directed against the metropolitan power. The metropolitan power, rather than the social order it had established and protected in its early, vulnerable years, was perceived as the source of social evils. National independence rather than social reform was seen to rectify the evils."[165]

In the Irish case, the "metropolitan order" — according to Crotty's understanding — means the appropriation of clan lands as objects of profit making (cf. Chapter 10.1). This however, is a very general notion (and also has a certain nationalist flavour, with its reference back to ancient Gaelic modes of organisation). If we go for a more specified notion, we see that the agrarian order established in the period between the Great Famine and independence was generated through the interaction between metropolitan influence from Britain, Irish processes of social mobilisation, and certain specific Irish conditions. (Similarly, as we shall see, the Irish post-independence state apparatus emerged as a unique product of the British Whitehall administrative system *and* the Irish social order which emerged after the Great Famine.)

As for specific Irish conditions, we have seen in Chapter 11.1, that Crotty found that geo-climatic factors largely accounted for the difference between Danish and Irish developments. However, he obviously holds that, even given the constraints of climate and geography, Irish land is not operated efficiently. Here, there are certainly more than geo-climatic factors at work.[166]

The outcome of land reforms in Ireland was that the state made land available free to the privileged. Crotty claims that Ireland is now virtually without a land market. Irish land (relative to GNP) is the highest valued in the world. As we saw above, under Irish conditions, net returns from intensive tillage and extensive pasture are quite similar.[167] Crotty takes the "Georgist" position that a land tax would solve this problem.[168]

The fundamental reason why, according to Crotty, Denmark has a tax system which enables the country to make effective use of its resources, while Ireland is unable "to mobilise resources so as to meet the needs of their people", is that Ireland is a former capitalist colony, whereas Denmark is a Western continental country where institutions have developed organically. As shown in Part II, Crotty's theory is not the dependency one which focuses on unequal exchange. He also rejects any version of the claim that the legacy of the colonialists still haunts the colonised people. Many countries have been independent for quite a long time now, and still they do not develop. The key factor which blocks development is the state as already noted in Part II. The problem is that Crotty claims that *all* institutional developments in the Republic after independence can be reduced to the effects of the "out of context" imposition of institutions that worked well in the Western capitalist sphere. We argued in Chapter 4 that the problem of the determinants of institutional development is more complicated than this. Crotty provides no thorough study of the formation of institutions in Irish civil society and their interaction with the state to prove his case.

It was also mentioned in Part II that Crotty's framework of analysis is particularly weak when it comes to industrial development. It may well be that the system of capital-intensive agriculture imposed on Ireland was an alien one,[169] but modern industrial development is relatively independent of the natural conditions of a country. As a consequence, Crotty's claim that the state determines the factor price of capital is also a very strong one, and it is also dubious (as much criticism of neoclassical theory has shown) to use such a homogenous notion of capital.

In a less generalist perspective, the class-constellation at Irish independence influenced the Irish mode of development. It would be possible to imagine a counterfactual scenario in which land reforms would have been pushed further, thereby improving the efficiency of Irish agriculture.[170] If the Catholic middle classes had been weaker relative to agricultural and other workers (e.g. as a consequence of less emigration), and if industrial development had been stronger (through a more effective national system of innovation), a more radical tax reform might have followed. In such a scenario, the Irish cooperative movement might also have been stronger. We have seen that in Denmark, as a result of the late 19th century agricultural adjustment, modernising owner-occupiers allied in a strong cooperative movement, exploited increasingly dense agricultural-industrial interactions.

Crotty also refers to political brokerage by politicians to secure re-election. We shall study the interaction between administrative development and political brokerage in later sections. Here we shall only very briefly trace its origins. In the 19th century, the colonial administrative system was dominated by the Anglo-Irish elites. Their bureaucracy became more accommodating as nationalist mobilisation won its gradual victories through the century. Local politics were largely run by landlords together with some law and order officials. At the local level there were grand juries and boards in charge of public works and care for the poor. The peasant mainly had access to these institutions through his patron, the landlord or his agent.[171]

In the following section, we shall specify how the development of the Irish state was crucially influenced by the process of nationalist mobilisation and by the Catholic Church.

Nationalism, Catholicism and the State

A unique feature of the Irish nationalist mobilisation was its interaction with the Catholic Church. Earlier we noted that the "devotional revolution" was an integral part of the modernisation of Ireland. To illustrate the long term consequences of Irish "Catholic nationalism", we shall study some contemporary comparative evidence.

In much too stylised accounts of modernisation processes, it is claimed that modernisation leads to secularisation. Secularisation may be defined as a "decline in attachment to ecclesiastical institutions and/or their modes of interpreting reality".[172] As an approximate index of secularisation, it is customary to use national

levels of weekly church attendance (or more specifically, the percentage of the population which attend Sunday Morning services). In the mid 1960s, the following were the levels for our countries: 90 to 96 percent in Ireland, 34.5 percent in Austria, 2.7 percent in Sweden and Finland, and between 1.7 and 4.2 percent in Denmark. In the European Catholic camp, the country closest to Ireland is Poland, with 30-35 percent in cities and 70-75 percent in rural areas.[173]

Strikingly, the Scandinavian countries have very high formal membership of the Lutheran State Churches (Sweden 98, Denmark 95 and Finland 92 percent of the population). They also use their churches very intensively for rites of passage such as baptism, confirmation and burials, and have the highest levels of listening to religious broadcasts in the Western world. But while these Protestant state churches "may provide a basis for an amorphous general consensus, they seem to have little capacity to give meaningful experiences to adults".[174] This indicates that although the Nordic countries, as well as Ireland, are homogenous in terms of religion, the influence of ecclesiastical institutions on the daily life of the population (including possibly their mode of interpreting reality) has been decisively stronger in Ireland.

It has thus been argued that "Catholicism has had greater success in enforcing ecclesiastical norms of, for example, church attendance than Protestantism, and it is further likely that this success stems in some measure at least from the theological legitimation of salvation through the institutional structures of the Catholic Church and its clergy, rather than through individual striving. The explicit definition of Catholic norms, the authoritarian basis of its dogma, its hierarchical structure, its maintenance of a celibate priesthood and a variety of other cohesive mechanisms might also be suggested as relevant to success in norm enforcement."[175]

But the difference in church attendance between the two Catholic countries, Ireland and Austria, is greater than between Austria and the Nordic countries. In fact, it seems that the historical relationships between church and state are of crucial importance. In Austria, the church was made a part of the absolutist state in the 18th century, being described as a "police institution in service of the state". As a consequence, when the middle classes, and later the working classes, mobilised in the 19th and early 20th century, introducing the influence of the French and industrial revolutions, a separation of church and state was demanded. Due to such mobilisation, educational institutions, as well as social policies (relating for instance to the family), became increasingly autonomous from the church. By the 1960s, it was reported that the Austrian Catholic church had renounced its political influence on Christian parties.[176] As another case in point, Portugal may be quoted, in which Catholicism was associated with the rule of the upper classes, integrating only those classes while alienating large segments of the lower classes.[177]

In the Nordic countries the relations between church and state were more harmonious, but the processes of social mobilisation and nation building did not identify enemies whose dominance was linked to another religion. The impact of the church on these processes was balanced by many other forces. Secular forces dominated the development of the state apparatus. In contrast, during Ireland's struggle for independence, Catholicism defined the identity of the Irish majority against the colonialists and their Protestant landowning adherents. As additional factors, Rokkan mentions the low level of urbanisation in Ireland, as well as the crucial fact that the Catholic Church never was a major owner of land.[178]

The dominance of nationalist mobilisation, and the importance of the Church in this process, also help us to understand the emergence of Ireland's peculiar party system after independence. Garvin notes the existence of cleavages of the types which in the Nordic case gave rise to separate parties (labour/capital, Catholic/Protestant, Gaelic/English, urban/rural, centre/periphery), and finds some traces of them in the Irish party system.[179] But he notes one major difference: "unlike popular Protestantism, and like continental Catholicism, Irish Catholicism is intensely bureaucratic and centralised, being very much a reformed Catholicism of the Counter-Reformation. It thus combined the strengths of popularity and centralisation".[180] When political forces reminiscent of the Scandinavian ones developed, "these forces had to work in the context of a society integrated traditionally by a very united and authoritarian clerical bureaucracy with a long tradition of political leadership. Furthermore, the effect of the ecclesiastical and military models on the development of the Irish party organisations in the nineteenth century may have been to encourage the emulation of ecclesiastical organisational styles." Added to this was the tradition of militant secret organisation. "These centralising and unifying influences were further intensified by the existence of single-party politics and by the extremely well-developed communications system which had put all of Ireland within a few hours reach of Dublin by the 1880s".[181]

Several scholars emphasise the long term importance of this interaction between national and Catholic mobilisation: "The basis for the Church and State partnership dates back to the mid-nineteenth century when the Church worked in close co-operation with Catholic political movements that won successive battles with the UK government to gain control over schools for Catholic children and to disestablish the local Episcopalian church. It also evolved a substantial role in the provision of hospital facilities. So, when the new southern State gained independence, the Catholic Church could build on its base as the 'church of the people' and on the shared experience of the long struggle against a foreign oppressive power."[182]

From this very powerful position, with strong influence on social policies, the Church exerted an influence on the family. Before the famine, women were essential to the family economy. But the destruction of cottage industry, the Famine and the pastoralisation of agriculture, squeezed the strata in which the status of women was most equal. The importance of women for the economy declined after the famine. The dowry became more important and there was a declining marriage rate of women (by 1926, 25 percent were unmarried at the age of 45, against 10 percent before the famine). Such a share of unmarried women was exceptionally high by international standards. Female emigration was thus higher from Ireland than from most other European countries. The age gap between man and wife increased (by the early 20th century, about 50 percent of the men were more than ten years older than their wife, against 20 percent before the Famine). This increased the control of the husband, who developed to be the only earner of the family. Farmers refused to dower more than one daughter. The Church emphasised the evils of sex and the

virtues of disciplining the sexual urges of the young. As Lee writes, it was "crucial to maintain the economic dominance of the new order that all thoughts of marriage in Ireland should be banished from the minds of the majority of Irish youth".[183]

The Catholic Church was a crucial influence on the agrarian family relations which grew up after the Famine: the "stem family", marked by impartible inheritance, the dowry system, and postponed marriage. Summarising his study of the influence of the Catholic Church in Ireland, Inglis distinguishes between two stages of modernisation. The first stage was the agrarian transformation away from the conditions which had brought the Famine (subdivision of farms increasing rural poverty): "the new moral discipline aided the adoption of postponed marriage, permanent celibacy and emigration. These practices became the principal means of consolidating farm sizes and raising the standard of living. Homes, like churches and schools, became well-ordered, supervised spaces in which there was a time and place for everything, and everything was in its proper time and proper place."[184] The second stage of modernisation may be connected to the phase which we have dubbed the Fordist mass production/mass consumption phase, a phase whose roots are in the inter-war period, but which dominated the West European postwar Golden Age. We shall see below that Ireland was perhaps the only West European country which was not particularly influenced by this second stage of modernisation. According to Inglis, the Catholic Church was — due to its opposition to materialism, consumerism, and individualism — one of the inhibiting factors in this respect: "In effect, Ireland has gone through two stages of modernisation and it was because the initial stage took place in and through the Catholic Church, that the Church became such a power bloc in Irish society, thereby delaying the advent of the second stage."[185]

The importance of the connections between nationalism and Catholicism is also underpinned by the fact that similar connections can be traced in the other European Catholic country with a high degree of religious participation, namely Poland. The strength of the Catholic Church's influence on social interaction in Ireland and Poland can be inferred from demographic indicators. Commenting on the very high fertility in the Irish case, Coleman writes: "The only circumstances in which Roman Catholic fertility differentials were important, or even detectable over and above the socio-economically expected level, were when Roman Catholicism acquired particular authority through being a focus for the national sentiments of a minority in a larger population, when that minority were in a politically or otherwise disadvantageous position — that it was more connected with ethnocentrism and group survival. This formulation helps with the apparent Polish and Irish exceptions. In both, the Catholic church has been the only institution surviving as a focus for national identity during the absorption of the society into a wider polity. Neither has been a 'Minority' for seventy years, so the survival of this response for religious reasons in Ireland may seem surprising."[186]

This survival must obviously be related to the continued strength of the Church after independence, and its very close ties to the state, thereby influencing important social sectors. It became much more influential in matters of divorce, sexuality, and marriage than in any of the contrast countries (even in comparison with other West and Southern-European Catholic countries). It contributed decisively to the maintenance of the paternalist family structure which had been strengthened during the last half of the 19th century. "This combination of authoritarian family patterns and an authoritarian Catholic Church, provided the historically active ingredients for what outside observers saw as an archaic quality that made Ireland, in the middle of this century, quite distinct from the rest of Europe. (...)"[187]

In sum, until the 1960s at least, anti-clericalism has been nearly completely absent in Ireland, and the political setting remained virtually pre-secularised far into the 20th century.[188] All the contrast cases in this study developed autonomous civil societies (cf. Chapter 4.2). So also did Ireland, but the influence of secular forces was weaker than in any of the contrast cases. Thus, Ireland's civil society became a Catholic one, and Catholicism also represented a close tie to the state. State, Church and civil society were more strongly linked together than in any of the contrast cases.

Mentality and Social Structure

We have seen that the period of modernisation in Ireland implied the establishment of emigration as a routine, as well as a major increase in the power of the Catholic Church. The importance of emigration for the modern Irish social order was briefly mentioned in Chapter 4.2.

This topic is at the core of Lee's account of Irish 20th century history. Discussing the Irish "character", Lee argues that the Irish "socio-economic system" is one that "decreed mass emigration and national population decline as prerequisites for the comfort of the survivors".[189] He points out that the "Irish way of life" resulted in a "personality type" that is often dubbed "the begrudger": "The begrudger mentality did derive fairly rationally from a mercantilist concept of the size of the status cake. The size of that cake was more or less fixed in more or less stagnating communities and in small institutions. In a stunted society, one man's gain did tend to be another man's loss. Winners could flourish only at the expense of losers. Status depended not only on rising oneself, but on preventing others from rising. For many, keeping the other fellow down offered the surest defense of their own position."[190] In no other country was emigration so crucial as a means to conserve a social structure.[191] "No other society found itself obliged to rationalise so remorselessly the subversion of the national and family ideals inherent in the emigration 'solution' to the problem of social structure."[192]

Lee employs a dichotomy between the "possessor" and the "performance" principle which seems inspired by Schumpeter. The possessor principle has been the "dominant ethos" of a century, owing its power "to attitudes deeply rooted in social structure and historical experience".[193] In the pre-Famine situation of intense population pressure relative to employment opportunities, it was crucial to hold on to property in land (or in employment). The loss of this right spelled disaster. Land was equated with security. After the famine survivors held on to their farms. The Land Wars of 1879-82 proved that there were gains from collective action, but proved nothing about the value of individual performance. Economic success in Ireland was mainly dependent on the movement of British prices, while the climate

itself induced a certain complacency.[194] The time horizon of the Irish farmer was on the one hand a very long term one (savings at a low interest rate for the daughter's dowry), and on the other hand, a very short term one: the "fair day" and the "Bargain". A medium term perspective was non-existent.[195] Performance was ranked below status. A land tax would have supported performance, but as we have seen, proposals for such a tax always failed.[196] This "mentality", according to Lee, is generalised in modern Ireland: "the slow pace of industrialisation in post-Famine Ireland allowed these agricultural attitudes to continue to infiltrate the non-agricultural sector which in any case had its own inherited share of them".[197]

It seems that there is more of a class dimension to this mentality than is clear from Lee's analysis. Focusing less on mentality and more on class interests, Kerby Miller discusses nationalist dilemmas concerning emigration. He argues that nationalist rhetoric created the myth of emigration as exile, forced by the British on the Irish. At a very fundamental level, Miller claims that the traditional Irish Catholic world view, rooted in secular, religious and linguistic aspects of the old Gaelic culture, tends to devalue individual action, especially when such action seems innovative, thereby threatening customary behaviour and such values as duty and conformity.[198] There is also the view that the kind of modernisation which Ireland experienced created the need to ensure a social and psychological equilibrium, and that, as a consequence, the emphasis on "deference to family obligations, patron-client ties, and communal authority figures" in fact increased during the period of modernisation.[199] Specific ideological adjustments, however, were determined by the new social structures and power relations which developed in post-Famine Ireland. Thus, the urban and rural Catholic middle classes were crucial to those adjustments.

The main stages of the nationalist struggle may be seen as ways in which this middle class established its ideological hegemony. First, there was the alliance with the Catholic Church. The Church became patriotic, and was also in a position to influence governmental, educational and social policies. Second, the land hunger of the lower classes was mobilised for the nationalist crusade. More radical reforms like those of Davitt were strongly rejected, resulting as we have seen in the absence of a land tax. Third, the myth of a "Holy Ireland" was nourished.[200] The old image of emigration as exile became an integral part of this myth.

The Church and the nationalists of course publicly condemned emigration. Clerics criticised the U.S. as a materialistic society that would demoralise good Irishmen. But the blame for emigration was put on landlordism and British oppression. In reality, however, the success of the middle class depended on emigration. The huge flow of emigrants was one of the conditions for the modernisation of Ireland after the Famine. It made possible a relatively conflict-free consolidation of the holdings of graziers and larger farmers (the turn to impartible inheritance), as well as a stabilisation of family farming (which had earlier been squeezed by the cottiers). Larger farmers, graziers and shopkeepers were the main supporters of piety and patriotism in connection with the "stem family". Furthermore, emigration generated about £ 1 million in annual remittances, and much of the church-building, agitation and insurrection was financed by the Irish diaspora. Thus, emigration also was a condition for the "devotional revolution".[201] It is also claimed that the Church contributed to emigration via "the clergy's stifling impact on social life and personal expression".[202] The latter view (if correct) could be one mechanism by which Irish society forced its most innovative members to emigrate.[203]

The nationalists lamented emigration because it possibly drained Ireland of many potential entrepreneurs and consumers, but above all because it weakened mobilisation: without emigration as a safety valve, manifestations of discontent against British rule would probably have been stronger. The nationalists largely succeeded in arguing that national sovereignty would obviate the need for mass emigration. As we have seen, many of the foot-soldiers of the nationalist movement were landless labourers, farmers' non-inheriting sons and urban workers. If the nationalist middle class leaders struck a bargain with the British, however, nationalist unity might be disrupted.[204] The major dilemma was that "mass departure by the dispossessed and discontented would vitiate nationalist movements, while their presence in Ireland might disrupt or divert those movements into unacceptable channels."[205] The basis for this dilemma was that the material position of the leading nationalist groups depended on continuous emigration of the disinherited and dispossessed: "their very affluence and authority derived from existing socio-economic structures and institutions which could not flourish or perhaps even survive if emigration ceased."[206] The middle class farmers and townsmen opposed further redistribution or nationalisation of land, as well as the cooperative movement, as we have seen.

To displace these realities, the myth of "Holy Ireland" was strongly emphasised, influenced by the papal crusade against secularism, by nationalist criticism of England, as well as by bourgeois sentimentalism. A religious myth inter-acted with a nationalist myth. Ireland was seen as traditional, indifferent to material wealth and to the "false Gods of urban-industrial civilisation".[207] Irish ideals implied a static, organic and paternalistic society, an agricultural economy, based on the peasant stem family. Such an understanding, as we have seen, was spread via the Church's control of education. In sum, "the basic appeal of emigration as exile lay in its symbolic resolution of the discrepancies between the reality of social fragmentation and the ideal of organic community".[208]

Hannan and Commins have tried to locate the most influential farming interests geographically. The Western areas (Connaught and West Munster), were the most impoverished areas with the highest rates of emigration. As a result, between 1870 and the 1920s, economic rationalisation created a relatively diversified economy (with less than 50 percent being farmers or relatives assisting). Here was a "relatively comfortable small farmer class whose social structure appeared so stable and "traditional" that Arensberg and Kimball depended not only on functionalist explanations for the high degree of mutually supportive relationships present, but also on the cultural explanation of "immemorial custom": a custom, however, (...), had a very brief history indeed."[209]

Hannan and Commins accept Arensberg and Kimball's description, that the institutionalised family interaction on these farms was marked by high gender

differentiation in tasks, patriarchal authority relations, and highly differentiated emotional roles. In their account, these Western small farmers become an ideal type, representing the "overwhelming social and cultural conservatism" of Irish farmers, and thus, of the Irish social order as such.[210] But they even state — in connection with the political influence of small farmers — that "the strongly nationalist minded small-holders of Connaught and West Munster" particularly dominated the Fianna Fail party.[211] We shall return to this analysis in the final section of this chapter.

Like Miller, Hannan and Commins note the correspondence between the "historical dominance of the petit bourgeoisie", and a "rural fundamentalist ideology", which argued — in line with Catholic social thought — for the superiority of rural living and for agriculture as the basis of national prosperity.

The relationship between economic development and mentality has been a classic topic in sociology ever since Weber's discussion of the Protestant ethic. Like Weber, we shall beware of monocausal answers in these matters. And contrary to Weber's view, it must be emphasised that the influence of the Catholic church is perceived to relate, not so much to its ethic, as to its nature as a bureaucratic organisation which strives to maintain its position and influence in society.[212] Catholicism has probably been one ingredient in the mentality discussed here, but in interaction with specific class relations, a specific pattern of nationalist mobilisation, and a peculiar process of agrarian adjustment.

We have seen that Lee argues that the possessor mentality spread from agriculture to the non-agricultural sector due to the slow pace of industrialisation.[213] But given the fact that in an economy such as that of 19th century Ireland, the main linkages would have had to develop in interaction with agriculture, there might even have been a more direct connection. As soon as agriculture had experienced its initial modernisation, the stem family, encouraged by the Catholic Church, became a force for conservatism, postponing by several decades a demographic transition in line with the rest of Western Europe.[214] The thesis of a connection between the Church and the slow economic transformation has been rejected by L. Kennedy,[215] but in view of the smoother agrarian and demographic adjustments in the contrast cases, it is hard to avoid the conclusion that such a connection did exist. As we have indicated, however, this connection interacted with several others.

CHAPTER 12

THE IRISH ECONOMY AFTER INDEPENDENCE

12.1 IRISH ECONOMIC OPENNESS AFTER INDEPENDENCE

The position of Ireland in the international division of labour remained heavily dependent on exports to Britain until Ireland joined the EC in 1973. In 1929, 89 per cent of Irish exports went to the United Kingdom. This share did not fall during the trade war between the two countries (1932-1938), but by 1960 it had declined to 75 percent. Ireland was also dependent on imports from the United Kingdom. The import share of the U.K. remained stable at around 50 per cent between 1938 and 1968.[217] Today, Ireland is a very open economy. Exports of goods and services were 60 percent of GDP for Ireland in 1985, only 40 percent for Austria.[218]

TABLE 12.1

Country Composition of Exports.

1. IRELAND

	G	UK	US	NI
1924-29	0.7	85.3	1.0	13.0
1930-39	1.8	85.9	1.2	11.0
1945-57	1.9	79.0	2.6	16.5
1958-68	3.9	71.9	8.1	16.1
		÷13.4		

2. DENMARK

	G	UK	US	F	S	N
1924-29	22.2	63.7	1.0	0.8	8.1	4.2
1930-39	19.9	66.5	1.1	1.3	6.7	4.4
1945-57	19.7	51.2	8.5	4.5	9.8	6.3
1958-68	23.7	34.2	11.3	4.1	17.9	8.7
	÷29.5					

3. FINLAND

	G	UK	US	R	S
1924-29	20.8	57.7	9.3	7.2	5
1930-39	16.7	62.6	12.9	1.9	5.6
1945-57	8.2	41.9	8.3	31.5	10.1
1958-68	17.9	34.5	9.2	24.8	13.6
	÷23.2				

4. SWEDEN

	G	UK	US	F	DK	NL	N
1924-29	19.3	36.6	15.3	8.0	8.8	5.2	6.8
1930-39	21.0	34.8	15.1	6.7	8.3	5.1	9.1
1945-57	18.2	29.5	9.8	8.8	9.2	9.8	14.6
1958-68	21.5	22.3	10.3	7.6	13.6	7.9	16.9
		÷14.3					

continued

5. SWITZERLAND

	G	UK	US	F	I	A
1924-29	27.9	27.0	16.1	13.4	9.7	5.9
1930-39	28.0	21.1	12.8	20.7	13.0	4.3
1945-57	20.7	9.7	28.2	19.2	17.3	4.9
1958-68	29.7	12.4	18.5	15.5	16.1	7.8
		–14.6				

6. AUSTRIA

	G	UK	US	CH	I	CZ	HUN	POL	YUG
1924-29	22.4	5.3	3.9	7.8	13.0	16.1	11.8	8.4	11.0
1930-39	23.4	7.4	3.1	9.0	15.6	13.2	12.4	6.4	9.5
1945-57	32.7	7.3	7.6	8.3	26.0	4.3	3.4	4.9	5.4
1958-68	40.1	6.7	6.8	11.0	20.1	3.6	3.9	3.1	4.6

Note: Percentages of export value at current prices. Percentages only out of the countries listed. "" indicates reduction in U.K./British share. These data do not always seem to cover the full range of trade partners. For instance, no exports to France from Austria are listed. There is not an "others"-category. However, we have chosen to reproduce the data here, trusting that they give a rough overview. As a minimum, they give an impression of the size of the countries' trade with Britain.

Abbreviations: G — Germany; U.K. — United Kingdom (Great Britain in the case of Ireland); U.S. — United States of America; F — France; N — Norway; SW — Sweden; R — Russia; CA — Canada; DK — Denmark; NL — The Netherlands; B — Belgium; A — Austria; I — Italy; CZ — Czechoslovakia; HUN — Hungary; POL — Poland, CH — Switzerland; YUG — Yugoslavia; NI — Northern Ireland.

Source: Calculated from B. R. Mitchell, *European Historical Statistics*, London 1975, Table F2.

Table 12.1 puts Ireland's trade dependence into a comparative perspective. Our six small European countries have been ranked according to the British share of their export earnings in four periods. Ireland's is more than 20 percent higher than the second in the first period and about 37 percent higher than the second ranking in the golden age of the 1960s. Thus, excepting Austria (with a British share below 10 percent), Ireland also shows the smallest reduction of the British share through these periods. All the other countries have a much more varied selection of trade partners. For the Nordic group, Britain had been the most important destination, but Germany seems to catch up during the postwar era. For the additional Continental European countries, Germany has been the most important trade partner, and its share has been increasing in the postwar period, but it is still much lower than the British share in Irish exports, *and* — more important — (West) Germany has been a booming economy and an increasingly sophisticated market through the postwar period, while Britain has been the famous stagnant case in postwar Western Europe. Thus, in relative terms, Ireland has suffered from its focus on the sluggish British market in the postwar era.[219]

It may be that this experience spurred Irish enthusiasm for membership of the EC, an enthusiasm which caused Irish politicians to choose to remain outside EFTA when that free trade area was formed in the late 1950s. Ireland only became linked to EFTA via its ties to Britain, that is as a consequence of the 1965 Anglo-Irish free trade area. This implied a link between Ireland and EFTA, one year before the full completion of EFTA's industrial free trade area.[220]

Since Table 12.1 may not be fully reliable in every respect, Table 12.2 provides more recent data for Ireland and one of the contrast cases, Austria. The 1963 numbers confirm the importance of the U.K. for Ireland and of Germany for Austria, but the Table also shows that into the 1970s and 1980s, the weighting of these dominant neighbours has diminished. In particular, the British share of Irish trade was halved in the 20 years between 1963-83. This trend will be commented upon later.

TABLE 12.2

Country Composition of Exports — Ireland & Austria

	AUSTRIA			IRELAND		
	1963	**1973**	**1983**	**1963**	**1973**	**1983**
EC	49.9	49.2	53.7	7.5	76.0	69.0
Germany/UK	36.4	21.8	30.8	72.0	54.7	36.9
EFTA	16.6	18.2	10.7	73.1	3.1	4.6
Eastern Europe	17.5	11.9	12.1	—	—	—
Other OECD	6.4	9.0	7.3	21.4	20.9	14.5
Developing	9.6	11.7	16.2	—	—	11.0

Note: EC & EFTA figures apply to the member countries in the year in question. Germany refers to Austrian exports, U.K. to Irish exports. EFTA figures for Austria include Yugoslavia in 1963 and 1973.

Source: Alan Matthews, "Austria and the European Community", in Alan Matthews & Eda Sagarra, *Economic Performance in Two Small European Economies: Ireland and Austria Compared*, Dublin 1988.

Reflecting this trade dependence, the Irish pound remained fixed to sterling until 1978. The Irish banking system was well developed at an early stage. When Ireland was a region within the U.K., the Irish banks would channel much of Irish savings (which had mainly been the savings of the Anglo-Irish elites) into the British financial system. The fixed link with sterling implied a monetary union, lasting 150 years, with the U.K., continuing after independence and even after Ireland had entered the EEC. The sterling link added to inflationary expectations. On the other hand, it relieved Irish authorities from having to conduct an independent monetary policy, and it also removed any capital constraint. British conditions determined the interest rate and conditions for credit. Thus, in the financial sphere, Ireland continued as a British region, with no capital controls whatsoever. Only with its membership of the European Monetary System in 1978, did the Irish pound break the link with sterling.

12.2 THE 1922-32 PERIOD

Our bird's eye view of Irish economic openness supports the conclusions often made about Ireland's independence from England. Ireland gained political independence, but remained economically dependent. Analysing the first period of independence, we start at the socio-political level, to trace the complicated interaction between the nationalist legacy, reform of the existing state apparatus, and emulation as well as

rejection of English political paradigms. We shall focus on the formation of the Irish party system and the post-colonial state apparatus.

Social and Political Mobilisation

In Chapter 11.2, we compared the development towards civil war in Ireland and Finland. As a consequence of the different situations we analysed, very different party systems emerged: In Finland, the Socialist party was very strong, uniting rural and urban poor. In the interwar period, this homogenous left wing was split into moderate Social Democrats and a Communist party soon forced to go underground. With a certain lag, this system in the postwar period developed towards the Scandinavian ideal type of a homogenous left wing facing a split right wing.[221]

In Ireland, the pro-Treaty politicians in office organised the new party Cumann na nGaedheal (later renamed Fine Gael). Its mass appeal was weak, as the party organisation hardly amounted to more than a parliamentary coalition. As noted earlier, the elected Sinn Féin opponents of the Treaty boycotted the Dáil after the civil war. They were therefore forced to build an extra-parliamentary mass organisation to survive politically. But in 1926 Sinn Féin split on the issue of abstention from the Dáil. De Valera founded Fianna Fáil and that party re-entered the Dáil in 1927. It managed to attract the majority of Sinn Féin's old mass following. Fianna Fáil was favoured by its superior party organisation.[222]

Thus, the cleavage between different positions in the nationalist struggle generated the two main pillars of the Irish party system. According to Garvin, Irish nationalism produced an "ideological package" which was a "blended ideology of separatism, majoritarianism and Catholicism". This became a permanent "belief system in Irish popular political culture", with "very deep and old roots in the traditional culture". The post-1922 party system was conditioned on the system of the pre-1922 period: "This earlier system was based on religious communal identity and, in the Catholic areas, it tended to be non-competitive, single party and factional, rather like the American Solid South".[223]

From these origins, both the main Irish parties developed into catch-all parties, with an increasingly blurred constituency. Thus, the Irish party system differs from the party systems of all the contrast cases. In Denmark, Finland and Sweden, the labour/capital cleavage interacted with nationalist or other kinds of cultural cleavages in the formation of the party system. That was the case even in Austria, and with the reconstruction of the party system there in the postwar period, the labour/capital cleavage was the main dimension defining ÖVP versus SPÖ (cf. Chapter 9). The Nordic countries were all homogenously Protestant. Austria is the only one among the contrast cases which is homogenously Catholic, like Ireland, but as we have seen above, Austria has a cleavage between a secularised state and the Church, like the other continental Catholic countries. These countries all have one large Christian Democratic party opposed by other more secular parties. In Ireland, both the two large parties are nationalist, and thus 'Catholic'. Switzerland, finally, has a party system which is not so strongly influenced by the labour/capital cleavage, but there, the party system is partly defined by religious pluralism, with one large Catholic party, while the other important parties (liberal and radical) are tied to Protestantism.[224] In sum, we can safely conclude that the Irish party system, dominated by two catch-all parties in a setting strongly influenced by homogenous Catholicism is unique among the cases we deal with, a uniqueness that most likely would be retained even if further West European cases were considered.

When the Irish Free State was formed in 1922, the state apparatus that was taken over consisted of a complex system of administrative units. There were 47 departments, numerous boards of commissioners and other executive offices. There had been a division of labour with Westminster, so when the new ministries were set up, many people had to be hired to do functions earlier done at headquarters offices in London. The general political framework was taken over from the British, with emphasis on liberal democracy and parliamentarism. So was the general model of administration, i.e. the British Westminster system with its classical theory of administration, based on the top-down administrative model, including the idea of ministerial responsibility (bureaucracy implementing the decisions of the government), and the division between execution and administration.

The Ministers and Secretaries Act of 1924 established a new system of administration, with 11 (later extended to 17) government departments, each controlled by a minister; a new judicial system in which unpaid magistrates were replaced by district justices; and an unarmed police force, the Civic Guard. In 1927, a system of state-sponsored bodies was added to the system of departments, bringing back, in a new form, the older system of autonomous boards. These bodies were under ministerial control, but outside the structure of the civil service. By the 1970s, there were about 80 such bodies.[225]

However, neither the personnel of the bureaucracy, nor its size (about 25,000 civil servants) changed much. A commission which looked into the Irish Civil service in 1932-5, concluded that "the same main tasks of administration continued to be performed by the same staffs on the same general basis of organisation and procedure."[226] It also seems that the Irish Department of Finance continued to display the famous attitudes of the British Treasury-Central Bank complex.[227] This Department of course controlled state finances, and remained under the same secretary from 1922 until 1957.[228]

In the 1920s, the bureaucracy was very subservient. The bureaucratic elites, shielded by the tradition of the British civil service, wished to retain full neutrality towards the new regime.[229] The Catholic preference for voluntary civil society activity over state intervention may also have influenced disinterest in economic development.

Concerning the electoral system, Ireland did not emulate the English single-member plurality system. But its particular version of a *proportional representation* (PR) electoral system still betrays strong influence from England. Ireland became the only country to implement the STV — single transferable vote — system in 1922. This system employs one list, comprising all the candidates of the constituency, regardless of party. It implies competition both between parties and between candidates from the same party. This particular PR system was launched first by a British pressure group (the "Proportional Representation society"), founded in the

late 19th century to press for PR/STV in British elections. In 1911, they promoted STV as a way to defuse the Home Rule crisis, as it would secure minority representation. The Society hoped that success in Ireland would spur interest in electoral reform in England. As a result of this proposal, a PR Society was founded also in Ireland, and this pressure group influenced the choice of electoral system in the Republic. While STV is only one of many PR systems, in Ireland PR was for a long time simply identified with STV.[230]

As noted in Chapter 11, in the 19th century, a clientelist system had developed between peasants and landlords. But this system was weakened as the land reforms created a stratum of peasant-proprietors, while the landlord class disappeared (moving to Northern Ireland or England) after 1923. The post-colonial state was dominated by the moderates of the revolutionary elite, with a middle or lower-middle class background. These became TDs, and established "political machines".[231] At that time, however, members of county councils (MCCs) had more influence on public benefits than the TDs. Thus the revolutionary elite, as TDs, competed not only among themselves, but also with MCCs. Within the STV-system, competition between politicians at various levels led to the competitive formation of clientelist networks. We shall later see how this competition developed, and discuss whether the electoral system was responsible for these problems.

William T. Cosgrave became president in August 1922. The Dail drew up a constitution. After the Civil War, the Cosgrave government functioned successfully; a national loan was secured; a Land Act completed the conversion of soil to ownership by tenant farmers; agriculture recovered from civil war ravages. In 1925 water power was developed (in collaboration with Siemens) to supply the whole country. In 1925 also the government accepted the decision of an international commission to maintain the boundaries with Northern Ireland. Their hopes that the counties with Catholic majorities (Tyrone, Fermanagh) would be given to the Free state were thereby frustrated.[232] In exchange, however, the Free State was relieved of paying a share of Britain's national debt. The government generally pursued national reconciliation.

Socio-Economic Developments

It has been mentioned that in 1841 one third of all Irish counties had more people in manufacturing, trade or handicrafts than in agriculture. Table 12.3 shows that in 1841, one fifth (20 percent) of the working population (700,000) were in textile manufacturing. By comparison, Denmark at that time had 20 percent of its labour force in all crafts and manufacturing industry together.[233] From that time, the contraction of industrial employment started. In the process of decolonisation, as already mentioned, the Unionists succeeded in keeping Northern Ireland outside the republic. The political troubles thus created are just one side of this coin, the other being that the Republic became cut off from the island's only industrial centre, with linen production, engineering and shipyards.

As a result of both partition and deindustrialisation, according to the 1926 Census of Industrial Production, the Irish Free State in the 1920s had only 8 percent of the labour force in industry (about 100,000, with building, electricity and gas included). Only 4.3 percent — or 56,400 persons — were in manufacturing industry.[234] The Danish share was up to 29 percent in 1921 and 33 percent in 1930.[235] As for agriculture, in 1926, 55 percent of the male labour force was in family employment.

As a point of comparison with Ireland's partition, it should be noted that Denmark in 1864 lost Schleswig/Holstein to Prussia, thereby losing 40 percent of her population, including the most advanced industrial areas. Denmark's famous response was to "win internally what had been lost externally". This gave rise to large projects of land reclamation in Jutland. We have earlier mentioned the judgement that the exclusion of Schleswig/Holstein benefited Danish industry by keeping out a number of very competitive firms.[236] As we have seen, industrialisation in Denmark was not linked to one specific area comparable to Belfast in Ireland. This confirms the earlier analysis of the stronger nature of agro-industrial ties in Denmark.

TABLE 12.3

Labour Force Developments, 26 Counties 1841-1911

	Irish labour force (mill)	Percentage of British labour force	Total population (millions)		Percentage of labour force (26 Counties) in	
			26 Counties	All Ireland	Textiles	Industry
1841	2.7	38	Ca. 6	Ca. 8.2	20	
1911	1.3	7	Ca. 3	Ca. 4.2		8

Source: Eoin O'Malley, *Industry and Economic Development. The Challenge for the Latecomer*, Dublin 1989, p. 39 f; R. Crotty, *Ireland in Crisis*, Dingle 1986, p. 2. L. M. Cullen, *An Economic History of Ireland since 1660*, 2nd ed., London 1987, p. 120.

Despite the loss of the industrialised Belfast region, there was optimism concerning the development of an indigenous industry. The liberal prerequisites for industrialisation were seemingly in place: low taxation, absence of national debt, no heavy burden of military spending, large external capital reserves, an extensive banking system, a large supply of labour, a high level of literacy, an extensive railway network and good communications. Emigration meant that a large surplus of poor people left the country. The Catholic middle class, including the farmers, had been strengthened, and such owner-occupier farmers — according to Senghaas — are an important condition for interactions between agriculture and industry. But Ireland failed to industrialise. The problems of industrial development, which had already been clearly visible before independence (cf. Chapter 12), continued throughout the interwar period.

In the first period, Irish trade relations with the United Kingdom were unrestrained by the political break of 1922. The Irish government stuck to free trade as it considered good economic relations with Britain to be a precondition of stability. This policy accorded well with the better-off farm interests (commercially, export-oriented agriculturalists) that dominated the Cumann na nGael Party. We have also seen that the bureaucracy wanted to remain as passive as possible. High

agricultural prices were seen as more important than self-sufficiency and the reduction of unemployment. The political opposition in the Dáil was weak, as the more radical nationalist elements abstained from parliamentary participation until 1927. The consumer interests which were hit by high prices had the option to emigrate instead of fighting for different policies. There were few established home industries with an interest in protection.[237]

TABLE 12.4

Sectoral Composition of Irish Manufacturing Industry

	1929	1951	1960	1978
Food				
— Employment	30.3	22.4	23.1	20.9
— Gross output	51.4	35.9	37.2	40.8
— Exports	56.3	30.4	27.8	36.5
Drink & Tobacco				
— Employment	13.6	7.6	6.5	5.1
— Gross output	24.5	14.8	13.6	6.8
— Exports	37.6	13.5	13.4	12.7
All others				
— Employment	56.1	70.0	70.4	74.0
— Gross output	24.1	49.3	49.2	52.4
— Exports	26.8	6.2	14.7	48.3

Note: Employment and gross output as percentages of the total. Exports as a percentage of gross output.

Source: Eoin O'Malley, *Industry and Economic Development. The Challenge for the Latecomer*, Dublin 1989, Tables 4.2, 4.5, 4.10, 5.3.

Table 7.1 provided a rough overview of the components of a national innovation system. The Danish innovations, as we have seen, were crucially influenced by the cooperative movement (cf. the comparison with Ireland in Chapter 12). In Table 7.1 "interactive learning" between the firm and the public was one of the important relations. But Ireland, with its weak manufacturing sector at independence, was clearly in an unfavourable position with respect to such learning.

The broader educational system is an important aspect of the national system of innovation. As we have seen, as a result of the importance of the Catholic Church during the process of nationalist mobilisation, the impact of the Church on these matters has been stronger in Ireland than anywhere else in Europe. All first level and most of second level education were under direct Church control. Despite the formal similarity of high levels of literacy, the Nordic countries had much more secular educational systems. Furthermore, the Irish educational system took over many elements of the British tradition, with its strong humanistic orientation towards letters and the liberal arts, while both the Nordic and the Alpine countries were influenced by the German model with more emphasis on technical matters and linked with a fully fledged apprenticeship system.[238] As for Irish second level education, it is "seen by many as 'inflexible' and as having an 'over-academic bias', and may be 'directing young people to forms of employment which are declining'."[239]

12.3 THE 1930S AND WORLD WAR II

Socio-Economic Developments

The world economic crisis of the 1930s changed Irish trade policy dramatically. Emigration was reduced. According to Figure 12.8 below, yearly net emigration went below 10,000 in 1931-33 and there was even net immigration in 1939-40. This increased the pressure to create employment in Ireland. Fianna Fáil had entered Irish politics as the radical nationalists had withdrawn their boycott of parliamentary activities. The new party propagated a protectionist policy to reduce economic dependence on Britain, as well as to provide employment and reduce emigration. The Fianna Fáil ideology of isolationist nationalism was more in line with working class interests than the earlier policy. The working class was mainly employed in smaller firms (cf. all others in Table 12.4). But it was above all in the interest of smaller farmers, which were mainly home market oriented. In agriculture, Fianna Fail encouraged a policy of mixed farming, emphasising tillage. De Valera ruled with only two breaks from 1932 to 1959.

Industrial protectionism would create employment through import substitution. The first phase of this policy was the economic war with Britain,[240] followed by isolation during World War II. But even through this period, foreign ownership remained important, as many foreign (especially English) firms kept their plants to preserve Irish sales.[241] This experience Ireland shared with third world countries which embarked on a protectionist, import-substituting strategy at that time (e.g. most Latin-American countries).[242]

Table 12.5 summarises the commodity composition of Ireland's foreign trade. The legacy from the 1820-1922 period is clearly visible in the dominance of specific agricultural items, especially live animals and foodstuffs. The share of Irish agricultural exports was increasing during the interwar period and the share of manufacturing exports was declining. The continuing dominance of live animals exports indicates the inability of Irish exporters to increase the share of products with a higher value added. Manufacturing exports remained low until the 1950s.

Imports were dominated by unfinished goods and finished consumer goods, but their proportions changed during the 1930s due to the Irish import substitution strategy supported by heavy tariffs. The share of imported finished consumer goods was declining. However, import substitution increased the need to import inputs for the new industries. This is indicated by the increased share of 'other materials for further production'. Thus import substitution was changing the country's foreign dependence rather than removing it: "In some respects this made the country even more dependent on the international market since now employment, as well as consumption, depended on being able to import."[243] Despite a serious balance of trade deficit, Ireland did not experience a balance of payments constraint. Apart from substantial foreign reserves (dating back to the boom in agricultural prices during

World War I), this is explained by Ireland's peculiar financial integration with Britain (investment income, British pensions, sweepstake receipts), and its "labour market integration" with both Britain and the U.S. (emigrants' remittances).[244] The opposition of agriculture towards industrial protectionism was limited due to the few industrial inputs of the extensive cattle agriculture.

TABLE 12.5

Commodity Composition of Irish Merchandise Trade.
Selected Years 1929-85. Percent.

	1929	1938	1950	1950*	1960	1970	1980	1985
Exports: Commodity composition								
Live animals	42	50	42	38	30	14	5	3
Other food	33	31	35	35	30	33	30	20
Beverages & tobacco	11	10	7	7	5	3	2	2
Crude materials, fats and oils	12	8	16	8	10	10	5	6
Manufactures	—	—	—	7	19	36	54	64
Other	2	1	1	6	6	4	4	4
Imports: Main use categories								
Finished producers' capital goods	5	7	8	—	11	17	14	13
Finished consumer goods	45	31	28	—	21	23	25	25
Materials for further production								
— Agriculture	11	3	3	—	5	4	4	5
— Other	36	57	60	—	58	55	57	57
Unclassified	3	2	1	—	5	2	0	0

Note: * Export figures: new basis. For 1929, 1938 and 1950: manufactures are included with crude materials, fats and oils.

Source: Kennedy, Giblin & McHugh, *The Economic Development of Ireland in the Twentieth Century*, London 1988, Table 9.2., p. 184-5.

Industrial employment increased strongly in the protectionist phase. O'Malley claims that such a growth was anomalous among European countries, but corresponds to the experience of Argentina, Brazil, Chile, Mexico, and South Africa.[245] With industrial employment indexed at 100 in 1931, O'Malley shows that it had risen to 150 by 1938. This was perhaps anomalous compared with large European countries, and possibly also with Austria and Switzerland, which were quite seriously affected by the interwar crisis.[246] But O'Malley is not correct with respect to the Nordic contrast countries. Finland's industrial employment probably grew faster than the Irish.[247] Index numbers for Denmark and Sweden in 1938 were 135 and 120 (with 1930=100). It is difficult to refute the barriers to entry approach with reference to this period, since the rise of industrial employment in the Nordic countries might in itself be explained by this approach, that is by protectionist trade policies. The fact, hinted at several times above, however, that industrialisation in the Nordic countries gained pace during the free trade era of the 19th century, leads us to conclude that the effects of barriers to entry are not absolute: they may be counteracted if a relatively solid national system of innovation develops.

Ireland's import substitution strategy — unlike the Latin-American countries — experienced a setback during the war. This was mainly due to its one-sided dependence on England. There were numerous bottlenecks, such as a lack of materials, fuel imports, etc. Irish industrial expansion 1929-51 related to consumer goods and technically mature intermediate products. While such infant industries grew, they were not able to transform themselves into exporting firms.[248] This, as well as the fact that a major crisis developed in the 1950s (as we shall see), supports our general view that Ireland — unlike all the other contrast countries — had not developed a well functioning national system of innovation in the interwar period.

Social and Political Mobilisation

Before independence, autonomous working class mobilisation had been displaced by religious and nationalist mobilisation. Working class politics remained weak after independence. As Table 12.3 showed, Ireland was left as a largely rural area, with a significantly reduced proportion of urban working classes. The proportion of rural labour was also reduced by emigration. The tradition of mass emigration made "protesting with one's feet" an easy "exit alternative" to "political voice" and may have siphoned the working class and other potential opposition groups of their most able spokesmen.[249] This is a major difference compared to our contrast cases. While the start of the Irish Republic implied deindustrialisation, we have seen that the contrast cases were all industrialising. Already before World War I, Finland, the case closest to Ireland, had sold sophisticated products in the Russian market and unsophisticated products in western markets.

In Chapter 8 we analysed the conditions for Sweden's turn to a "voice" strategy. As Table 12.6 above shows, union density was much lower in Ireland than in both Sweden and Denmark during the 1930s, and as we also showed, union density in crucial Swedish industrial sectors was even higher (Table 8.1).

TABLE 12.6

Union Density, 1930-1940

	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
IRL	20	19	19	20	22	23	23	24	25	25	26
SW	36	38	38	38	39	41	44	48	51	54	54
DK	32										42

Sources: Ireland: William K. Roche, "A Model Working Class?", in Goldthorpe & Whelan, editors *The Development of Industrial Society in Ireland*, Oxford 1992, Figure 2; Sweden and Denmark: G. S. Bain & R. Price, *Profiles of Union Growth*, Oxford 1980, Tables 7.1 and 8.1.

Political organisation of labour did not start until 1930, when the Irish Labour Party grew out of the trade union movement. Labour remained weak due to its position as regards the nationalist split. Though implicitly accepting the Treaty, Labour chose to regard these issues as symbolic and concentrated on economic issues. This choice weakened its position further. The weakness of Irish labour is clear from the fact that it has never had a voting share above the two major parties as shown in Table 12.7 below.

Following the changes of the late 1920s, the modern Irish "two and a half party system" (Labour being the half-party) emerged in the early 1930s. During the depression, Fianna Fáil mobilised support on a mixture of social issues and nationalism. De Valera formed a government in 1932 with the unofficial support of Labour. The Economic War with Britain strengthened Fianna Fáil's position. The declining Cumann na nGaedheal merged with the Irish fascist National Guard in 1933. The new party was named Fine Gael.[250] As for the cleavage between primary producers and secondary producers, the conflicts over free trade and protection did not give rise to new parties.

TABLE 12.7

Share of Votes by Irish Parties

	Fianna Fail	Fine Gael	Labour	Clann na Talmhan	Clann na Poblachta	Others
1932	44.5	35.3	7.7			12.5
1933	49.7	30.5	5.7			14.1
1937	45.2	34.8	10.3			9.7
1938	51.9	33.3	10.0			4.8
1943	41.9	23.1	15.7	10.6		8.7
1944	48.9	20.5	11.5	12.1		7.0
1948	41.9	19.8	11.3	5.4	13.1	8.5
1951	46.3	25.7	11.4	2.9	4.1	9.6
1954	43.4	32.0	12.0	3.1	3.8	5.7
1957	48.6	26.6	9.1	2.3	1.7	11.7
1961	43.8	32.0	11.6			12.6
1965	47.8	33.9	15.4			2.9
1969	45.7	34.1	17.0			3.2
1973	46.2	35.1	13.7			5.0
1977	50.6	30.5	11.6			7.2
mean	46.4	29.8	11.6			8.2

Source: R.K. Carty, *Party and Parish Pump: Electoral Politics in Ireland*, Dingle 1981, p. 34.

As we have seen in Part III, the interwar period was characterised by labour mobilisation in all the Nordic countries. Even in Finland, the Nordic pattern can be traced. Despite the fact that Finland had the strongest Fascist movement in

Scandinavia, the "red-green" alliance between the Labour parties and the Farmers' parties also emerged there in the 1920s.[251] It emerged late in the 1930s in a link between a strong Farmers' party and a rather weak Labour party, one which was not in control of the strongest Trade Union confederation. Despite considerable instability associated with World War II, Finland did experience thorough modernisation in the postwar period. Although the effects of Western European economic integration were less important than in the other countries (in fact, it was mainly mediated through integration with neutral Sweden), there were some astonishing positive effects on the engineering industry from Finland's obligation to pay reparations to the USSR.[252]

Fianna Fáil's electoral victory in 1932 coincided with the Great Depression, and led to more emphasis on social welfare programmes, and on national self-sufficiency. In this connection, Fianna Fáil introduced centralising administrative reforms. From this period, certain "Sinn Fein" ideas ("national self-sufficiency, austerity, cutting costs, tidying up, centralisation") were added to the general conservatism of Irish political culture.[253]

The reforms of 1932 increased the control by civil servants of central administration. By the 1950s, all local structures were controlled from the centre. Garvin notes that this was a peculiar Irish response to the 1932 elections which had strengthened rural areas: "A related effect of the reforms was to introduce a bureaucratised county manager system which was somewhat prefectorial in character and to impose it on the "Anglo-Saxon" representative council system, further increasing the power of the cabinet and of the civil servants at the expense of the local politicians. Until the 1960s the main modernising agencies in Ireland were the civil service together with the older state agencies which attempted to supply social and economic infrastructure in a context in which the private sector was very underdeveloped. The rather elegant Irish solution to the problems raised by political ruralisation was to hive off the local administrative apparatus from the local political structures and impose a rather non-responsive, sealed-off, austere and centralised bureaucratic apparatus on electoral local government. A similar separation was effected at the national level. The result, it could be argued, was the preservation of orderly and honest bureaucratic government at the price of trivialising electoral politics at local and national level."[254]

While there had been substantial polarisation on nationalist issues in the early 1920s, electoral politics now developed towards a deradicalised catch-all pattern: "the bargaining, incrementalist and particularist political style, anti-metropolitan ethos and welfarist policies encouraged by the mainly rural electorate gradually blunted the initial polarisation of the political élite groups, until by 1945 the issues of 1922 had been rendered almost meaningless. Electoral politics, because of the divorce of 'politics' from policy formation, evolved toward trivial, parish-pump issues and an all-pervading 'brokerage' style, while bureaucratic administration, shielded from politics, tended to be more and more diverted from public political life. How this 'depoliticised' administrative system was maintained and expanded despite — or perhaps because of — the populist style of Irish political life, is perhaps, the central question of Irish political development."[255]

This paradox indicates yet another respect in which Ireland is located in between the first and the third worlds. Ireland has a "centralised and honest if unadventurous administration", which is free from the "spoils system" and/or the politicised patron/client relations which make most post-colonial third world states very weak, since they depend on the political machines of strong (and very often corrupt) local elites. But on the other hand, we saw earlier that TDs competed with county councillors to develop strong political machines. The administrative reforms of the 1930s weakened the councillors, while many TDs already had become important at the local level (as councillors themselves). Thus, the TDs now developed to become the crucial brokers in the Irish political system. Their interaction with a state apparatus clever at ignoring "the wishes of its clientele"[256] will be discussed below.

The clientelism of many third world post-colonial states implies a weak state and a non-autonomous civil society. According to Mouzelis, these traits generate a predisposition towards military coups as the policy of import substitution reaches its limits.[257] Although the new Irish state by 1922 shared many problems with a number of post-colonial states — civil war, uresolved border conflict, economic under-development, lack of executive experience[258] — political authoritarianism never developed. A number of reasons — most of which we have already discussed — account for this difference: the legacy of parliamentarism and liberal democracy from Britain, the fact that emigration ensured loyalty to the regime among those who stayed on in Ireland, the fact that equal rights for Catholics had been won before independence and that the Catholic Church largely defined the identity of Irish nationalism (both factors explain how the state could be taken over smoothly). Finally, Ireland never developed strong military forces, only a national guard aiming to secure domestic law and order. As for regional security in the postwar period, Britain was trusted and Ireland seemed a happy free rider on NATO and the Anglo-American "special relationship".

12.4 THE 1950S

The U.S. had largely financed the fighting effort of the allies in the last phase of World War II. In the mid-1940s, with allied victory at hand, the U.S. authorities were eager to secure new outlets for their effective industry. One consequence of this was U.S. pressure on Britain to dismantle the sterling zone. There was for instance an unsuccessful experiment with convertibility of sterling, lasting seven weeks, in 1946. Ireland, like most other participants in the sterling zone, needed dollar imports, and between 1940 and 1948, a $65 million deficit accumulated. Only a minor part of Ireland's dollar incomes stemmed from exports, the rest came from tourism and emigrant remittances.[259] Britain, on the other hand, invoked treaties that required Ireland to export its agricultural products via Britain, which would not generate any dollar earnings. (There were similar British actions with respect to many other sterling countries.) An attempt by the Dept. of Industry and Commerce to establish a Foreign Trade Corporation to assist firms to produce exports that might earn dollars failed because of the opposition of the Finance Department and the British government.[260]

In the late 1940s, two coalitions emerged within the Irish bureaucracy. One promoted deflation as the standard answer to any economic problem, and its base was the Finance Department and the Central Bank. This deflationist faction feared both inflation and the establishment of new bureaucratic bodies that would be outside their control. The expansionists, partly based in the Department of Industry and Commerce, wanted to encourage export-oriented investments and control of industry in order to make it more efficient. The latter was not at all achieved.[261] The expansionists in 1949 succeeded in founding *The Industrial Development Authority (IDA)*. Due to the opposition of the deflationists,[262] it was not designed to control existing industry, but was given the aim of initiating proposals to attract foreign industry. At first it did not give out grants, but with the Industrial Grants Act of 1956 it was given powers to issue grants that covered the cost of land and industrial buildings.

By 1948, the cold war had come to dominate international relations, and the U.S. offered Marshall Aid to the Western European countries, both to secure an outlet for U.S. exports, but mainly to establish Western Europe as a secure bridgehead against alleged Communist expansionism. Despite its neutrality, Ireland was also offered aid. This was favoured by the expansionists, and opposed by the deflationists. The links to the old and the new hegemon are here clearly visible: the deflationists had strong ties to Britain. The Bank of England was very influential in the Irish financial Community, and the British government was eager to limit dollar imports. The new U.S. "Atlanticist" policy makers, however, sided with the expansionists. The U.S. was generally in favour of liberalisation of trade in order to restore prosperity in Europe, particularly emphasising that only in that way could Western Europe begin to pay for her own defence.[263] Acceptance of Marshall Aid money required that the receiver countries allow the Marshall Aid administration to influence its economic policies. All the receiver countries had to join the OEEC (the organisation of those countries receiving Marshall aid). This U.S. influence implied major support for the expansionist position: U.S. officials emphasised that Irish investments should be productive, rather than just purchase of "British or other securities".[264] Both the IDA and the exports board, as well as investment grants schemes, were results of influence from the ECA (the American Marshall Aid administration) and the OEEC.[265]

In 1948, a 16 year long period of Fianna Fáil rule came to an end. The measures of liberalisation which passed in the 1949-51 period came during a Fine Gael-led government. Further liberalisation followed in 1954-7, also during a Fine Gael-led government. But both large parties supported these measures. As we shall see, this was largely because of external pressure from the OEEC and experience with grave economic problems in Ireland.

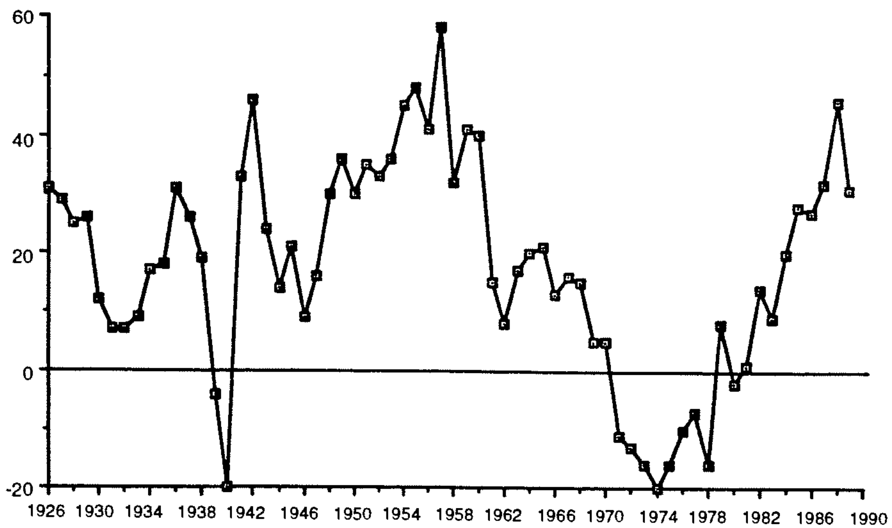
In the period 1949-51, the OEEC pushed for liberalisation of trade by requiring removal of quantitative import restrictions: 50 percent of all import quotas should be removed in 1949, 60 percent in 1950 and 75 percent in 1951. The Marshall Aid and use of Ireland's sterling reserves helped improve the economic situation. But this only spelled temporary success for the expansionary lobby. The balance of payments had been in surplus during the war since imports had been restrained. But a 1951 record balance of payments deficit triggered off deflationary measures. This

generated a recession in 1952. In 1955 a new, high balance of payments deficit again gave rise to deflation, followed by a more severe recession.[266] There was very little growth of employment in industry, except for the dominant sector of food, drink and tobacco (see Table 12.4). Only 900 extra jobs were created in indigenous new industries.[267] Unemployment was as high as in Denmark.[268] The deflationary policies of the 1951-56 period indicated the hegemony of the Finance Department and the Central Bank.

In the midst of the 1955 recession, the OEEC required the removal of 90 percent of import quotas. Even the expansionist faction in Ireland feared these requirements. In particular, it was feared that quota reductions would be followed by tariff reductions. An Industry & Commerce Department Memorandum on "OEEC Liberalisation of Trade" dated March 1955 claimed that Irish industrial development would require relatively high tariff protection compared with other European countries, the reason being "our proximity to and contacts with Britain and our late start in the industrial field". Adherence to OEEC's required quota reduction could mean that Ireland sacrificed "the right to afford protection by way of quota at the very point when it is likely to be most needed", i.e. at the point where import-substitution was to go from the obvious and easy sectors (e.g. textiles) to more complicated sectors.[269] Still, the Irish authorities followed OEEC's suggestions. The economic crisis was at its deepest, and the Irish authorities also feared that expulsion from the OEEC would break Ireland's ties both to Britain and to the rest of Europe.

FIGURE 12.8

Net Migration from Ireland 1926-1989



Note: In thousands. Positive numbers represent net emigration, negative numbers indicate net immigration.

Source: NESC. *The Economic and Social Implications of Emigration*, Report No. 90, Dublin, March 1990.

By 1956, the effects of the deflationary cure were obvious: declining output, GNP and employment. The agricultural labour force continued to decrease, and the total labour force fell dramatically. Emigration was booming: Figure 12.8 plots net emigration, which reached its all time record level in 1957 (when close to 2 percent of the population emigrated), and was generally very high (above 30,000 per year) in the whole period 1948-58. This was a return to the level of the 1880s. Although data are fragile, it also seems that Britain replaced the U.S. as the main destination of Irish emigration, cf. Table 12.9.

These symptoms indicated the exhaustion of the import-substitution industrialisation strategy. As we saw earlier, throughout the phase of indiscriminate protection, it turned out that imports of capital goods, and other advanced goods that could not be produced domestically, continued to grow. As the demand for protected simple industrial goods was saturated, the small home market and negligible industrial exports reduced the possibility to proceed to production of more advanced industrial goods. This economic policy experience was shared by Latin America, and later also by the decolonised countries in Africa and Asia.

TABLE 12.9

Migratory Outflow Percentage of Emigrants To Main Destinations

	U.S.	GREAT BRITAIN
1881-91	83	
1891-1901	92	
1901-11	90	
1911-12	84	
1926-31	85[1]	
1931-36		91[2]
1936-41		91[2]
1941-46		100
1946-51		83
1951-56		83[2]
1961-71		63[2]
1971-81	12[3]	88
1981-90	14	68

[1] All emigration to the US as a percentage of total net migration.
[2] All net emigrants not moving to US or other overseas.
[3] Destinations as a percentage of total net migration.

Source: Calculated from NESC, *The Economic and Social Implications of Emigration*, Report No. 90, Dublin, March 1991, Table 2.6.

The crisis of 1956-7 changed the balance between expansionists and deflationists, leading to the introduction of a strategy of export-led industrialisation. It seems that in this process of change, indigenous Irish business was quite absent, being discredited by its performance since 1945, and also split on many issues.

Trying to explain this change of strategy, O'Hearn assumes that there is a choice between, on the one hand, a policy package involving selective protectionism, state interventionism and efficiency-oriented industrial policies,[270] and on the other hand, export-led "industrialisation by invitation". In his account, he equates the strategies of the U.S. as a hegemonic great power with the interests of transnational capital (TNC), as represented, he claims, by institutions such as the OEEC, the Marshall Aid administration, the International Monetary Fund and the World Bank (Ireland had joined the latter two in 1957). O'Hearn clearly finds part of the explanation for Ireland's choice of an export-led strategy in TNC interests.

However, as we have noted, U.S. strategies were also motivated by geo-political considerations, and more importantly, there were many smaller European countries (such as Denmark, Sweden, Norway) which, subject to the same U.S. pressure (via e.g. the OEEC), liberalised their trade in a similar way. In none of these cases, however, was indigenous industrialisation hampered the way it was in Ireland, neither earlier in the postwar period, nor later (that is, before the crisis of the 1970s). While the 1950s became a lost decade for Ireland, performance was more promising in all our contrast cases. In the 1950-60 period, Ireland's total output grew by 1.7 percent, while Austria (5.8), Finland (5.0) and Switzerland (4.4) were above or at the West European average (4.4). Even Sweden (3.4) and Denmark (3.3) had twice as high a growth rate as Ireland.[271] Irish industrial employment declined, and only in 1961 was the 1951 level reached again. In all the contrast cases, manufacturing employment increased: with 1951 equal to 100, Austria was at 112 in 1961,[272] and the other contrast countries had by 1960 reached: 110 (Denmark), 106 (Finland), 115 (Sweden) and 124 (Switzerland), while Ireland was at 97.[273]

Clearly there was international pressure on Ireland, first connected to the tension between the U.S. and England, and later mediated through international economic institutions (such as the OEEC) which reflected U.S. interests in trade liberalisation. The specific responses to this pressure, however, were largely determined by internal relations, specific to each country. In all our contrast cases, ongoing industrial transformation was stimulated. Ireland, on the other hand, responded to a situation with very sluggish development of domestic manufacturing industry by a strategy of industrialisation by invitation. Making this choice, Irish politicians and civil servants responded to a genuine and grave domestic crisis.[274] As we shall see next, a similar crisis-consciousness also evolved in Denmark at the same time.

12.5 SOCIO-ECONOMIC DEVELOPMENTS IN THE GOLDEN AGE PERIOD — 1958 TO 1973

We saw in Chapter 9 that Denmark experienced a major change in economic development around 1958. This change produced Denmark's "second industrial revolution", based on indigenous entrepreneurship. In Ireland, there was a similar awareness of the need for change, as the view of the expansionists was now accepted. In Lee's terms, the 1958 government in which Sean Lemass was Minister for Trade and Commerce, represented an attempt to break the power of the Irish "possessor" ethos, inserting instead the performance principle.[275] Their solution, however, was not the cultivation of domestic entrepreneurship, but the import of foreign entrepreneurship. The 1958 *Programme for Economic Expansion* promoted the new outward-oriented strategy.

As for the postwar period, all the contrast cases, as already hinted at several times, could successfully hook on to the spread of the technologies linked to what the Neo-Schumpeterians call the fourth or "Fordist" (or mass production/mass consumption) long wave. In Ireland, this process of adaptation started much later, in the form of industrialisation by invitation. According to Kennedy, the new strategy had three elements: "(i) substantial capital grants and tax concessions to encourage export-oriented manufacturing, (ii) the attraction of foreign manufacturing enterprise, again aimed at exports, and (iii) the dismantling of protection in return for greater access to markets abroad."[276]

The first element relied on a complex of state sponsored bodies with the IDA as its core. The Industrial Grants Act of 1959 transferred grant-giving to *An Foras Tionscal (Grants Board)*, which had been established under a 1952 Act, to supply grants for development in undeveloped areas. From 1966 this institution could set up industrial estates with advance factories. It merged with the IDA (maintaining that name) in 1969. The IDA is responsible to the Minister of Industry and Commerce, but it is quite autonomous. Grants were given as shares of plant/machine costs and of buildings/land costs.[277] There are also additional grants for training and r&d. A major condition for a firm which wants to receive a grant is industrial competitiveness, so only export-oriented firms receive grants in practice. There are also separate organisations for the Shannon Free Trade Zone (SFADCO) and for the Gaeltacht (the Irish speaking zone in the west).

In 1956 an Export Profit Tax Relief (EPTR) was also introduced. It gave a tax remission on the increment of profit on exports over the previous year (50 percent in 1956, 100 percent in 1958). In 1960 the tax relief period was extended from 10 to 15 years. The idea was that the EPTR would be terminated in 1979/80, but it was extended to 1989/90. Due to EEC objections, however, it was abolished. Instead there are now low taxes on corporations (10 percent on all manufacturing since 1981 and up to 2000). The Industrial Development Act of 1958 contained further encouragements, including waiving of the Controls of Manufactures Act (from the protectionist period). This was wholly repealed in 1964, meaning that there was now no restriction on foreign ownership and control, and no restraints on repatriation of profits. These arrangements involved a considerable drain on State finances: "The incentive package involved a large and growing exchequer subsidy, and some estimates put the annual amount involved in the 1980s at the equivalent of nearly one-third of total manufacturing value added."[278]

As for the second element of the strategy, the attraction of foreign firms, the concessions mentioned above were available. The attraction of foreign firms was no goal in itself. The main idea was that existing Irish firms would develop a broader export orientation, and that new firms would supplement them. However, as we shall see, the result was an inflow of foreign direct investments with only minor linkages to indigenous Irish firms.

Free trade was a distinct, third element in the new Irish strategy. As we have seen, quotas had been dismantled, but tariffs were still quite high in 1959, when the two other elements of the strategy were in place. The move to free trade followed in connection with the general West European turn to freer trade in the late 1950s. Ireland was not interested in EFTA membership, since it gave no further advantages: its manufacturing production (however small) had free access to the British market. Following Britain, Ireland applied for EC membership in 1961. A Commission on Industrial Organisation was set up to prepare for freer trade. Many problems were brought up, and "adaptation councils" (as well as adaptation grants) were established. However, de Gaulle's famous veto blocked British EC membership (and thus also Irish) in 1963. Instead Ireland implemented unilateral tariff reductions in 1963 and 1964. In December 1965 a full Anglo-Irish free trade area was established, according to which Ireland was to remove all protection against British manufacturing imports in 10 years.[279] From January 1973, Ireland similarly agreed to remove all protection against EC manufacturing industry in five years.

As a consequence of the new outward-oriented industrial policy, a layer of foreign, multinational firms has been added to the Irish industrial structure since 1958. In the North-European area, the Irish economy is uniquely dependent on multinational firms. They are attracted not by favourable natural resources, but by extraordinarily generous government subsidies, grants and export tax reliefs provided by the Irish state. In the 1960-70 period, 74 per cent of industrial development was based on foreign capital.

In fact, Ireland has been — together with Puerto Rico - a pioneer country when it comes to attracting foreign investors. The Telesis report in 1982 concluded that, in a comparison of five countries, Ireland always proved to have the most favourable package of benefits for foreign investors, and Irish institutions (IDA, SFADCO) were very effective in providing information about investment opportunities.[280] Ireland could sustain higher wages than many third world host countries, since its favourable location, political "reliability" and similar factors reduced the risk, uncertainty and information costs for foreign investors. The latter was particularly important for small and inexperienced foreign investors. In sum, "one gains the impression that the incentive package for investment in industry and in exports particularly, and the scale and efficiency of the effort to attract foreign investment, amount to one of the most highly intensive and effective of the kind among competing countries."[281]

In comparison with our contrast cases, this conclusion is borne out by Table 12.10. On all the indicators 1 to 3, Ireland ranks well above the contrast cases. As for the percentage of employment (indicator 4), Ireland is superior in most cases, only surpassed by Austria in food and drink, paper and stone. As for the crucial electrical and engineering sectors, data unfortunately do not allow comparisons, but Austria seems quite high here. The strongest contrasts are of course with Switzerland and Sweden, in which *outward* foreign direct investment is the dominant feature.

TABLE 12.10

Indicators of the Significance of Inward Foreign Direct Investments or the Activities of Foreign-based Companies to the National Economy

1. Direct capital stock of foreign affiliates at book value as a proportion of GNP at factor cost					
IRL 1981	DK 1983	AUT 1981	FIN 1983	SW 1981	CH 1983
21.68	3.01	4.39	0.89	0.90	8.18

2. Employment in foreign affiliates as a percentage of all employment in (a) manufacturing industry, (b) all industry, (c) Exports of foreign manufacturing affiliates as a percentage of all manufacturing exports.					
	IRL 1981	DK 1984	AUT 1982	FIN 1980	SW 1975-76
(a)	34.6	14.8	26.0	3.7	5.7
(b)	—	3.5	12.0	3.9	4.9
(c)	70.0	—	13.1	—	—

3. Capital stock due to inward Investments as (a) a percentage of GNP, (b) per head US$ 1982.						
	IRL	DK	AUT	FIN	SW	CH
(a)	20.1	3.2	4.4	0.9	1.8	8.1
(b)	449.6	—	392.2	87.5	183.7	—

4. Percentage share of employment accounted for by foreign affiliates in selected sector					
	IRL 1980	DK 1976	AUT 1982	SW 1978	FIN 1980
Food & Drink	19.3	6.0	28.1	13.8	4.0
Chemicals & Allied	80.0	20.2	23.2	22.1	7.4
Metals	49.1[1]	17.8	16.4	11.4	1.8
Mechanical Eng.	—	10.3	—	—	—
Elect. Equip.	—	18.3	58.9	9.1[2]	4.9[2]
Other transport Equipment	—	—	—	—	—
Textiles & Clothing	38.4	5.7	28.4	7.2	8.2
Paper & Allied	13.6	7.5	20.8	3.8	0.6
Stone, Glass & Clay	15.4	6.7	34.4	14.8	1.5
Timber & Furniture	12.8	—	—	—	—
Other Manf.[3]	31.6	2.7	25.0	11.9	0.4

1 Includes mechanical equipment.
2 Includes mechanical engineering and other transport equipment.
3 For Ireland, including electrical equipment, other transport equipment, rubber and coal and petroleum products.

Source: John Dunning & John Cantwell, *IRM [Institute for Research and Information on Multinationals] Directory of Statistics of International Investment and Production*, Basingstoke 1987, p. 78, and Table B 6.

Table 12.11 shows that the U.S. was the main investor in Ireland in 1981, with the UK second. Only nine countries (Brazil, Mexico, Philippines, India, Malaysia, Argentina, Taiwan, Venezuela and Singapore) have a larger share of total U.S. foreign direct investments (and this indicator signifies the importance of foreign direct investments (FDI) generally). Ireland's share was 2.3 percent by 1985. Ireland may have a world record in U.S. FDI per capita.[282]

TABLE 12.11

Ireland: Total Foreign Direct Capital Stock. Distribution by Source Countries and Sectors. Percentages, 1981

MAIN SOURCE COUNTRIES			
USA			62.7
EEC			37.3
of which:	West Germany	4.8	
	UK	32.5	

Total foreign direct capital stock: 2259.5 million IR£ in 1981.

1 German investments not included.
2 Includes U.S. investments in property.

Source: John Dunning & John Cantwell, *IRM [Institute for Research and Information on Multinationals] Directory of Statistics of International Investment and Production*, Basingstoke 1987; Ireland, Table A6.

Foreign firms that have received grants payable since 1952 (designated areas) or 1956 (other areas), increased their share of manufacturing employment from 1.7 in 1960 to 6.2 percent in 1973. Counting all foreign firms, their share of manufacturing employment increased from 30.7 in 1973 to 41.5 in 1987 (two-thirds of these firms had been started since the 1950s). The gross output of new foreign industry as a percentage of total gross output increased from 2.3 in 1960, to 15.9 in 1973 and 39.9 in 1985.[283] In the 1980s, employment in foreign-owned industries declined. The export share of output (1980) was about 85-90 (in new foreign industry) and about 70 percent (in old and new foreign industry combined).

Table 12.12 indicates that foreign firms spearheaded Irish modernisation. Among advanced countries, most of the FDI activity is related to oligopolistic competition, that is local market-oriented FDIs induced by protectionism, such as Ireland had in the 1930s. That was also typical of Latin America. Ireland, on the other hand, has export-oriented direct investments. There are three motivations for such investments: first, producers may be in the final "technically mature" phase of the product cycle, where standardised labour-intensive final products are being made. Second, firms may be attracted by raw materials. Third, the firms may go for a vertical specialisation by location, locating "the relatively simple stages within a longer process of production of often quite sophisticated goods" in another country.[284]

TABLE 12.12

Sectoral Distribution of Employment in Foreign and Indigenous Manufacturing, 1986 (thousands)

Sector	Foreign	%	Indigenous	%
Metals & Eng.	36.5	48.7	26.0	20.6
Chemicals	9.0	12.0	4.1	3.2
Clothing, Footwear & Leather	6.5	8.7	10.4	8.2
Food	5.9	7.9	34.7	27.5
Textiles	4.3	5.7	6.6	5.2
Drink & Tobacco	2.4	3.2	6.7	5.3
Paper & Printing	2.1	2.8	11.9	9.4
Non-Metallic Mineral Products	2.1	2.8	11.5	9.4
Timber & Furniture	0.8	1.1	9.3	7.4
Miscellaneous	5.4	7.2	5.0	4.0
	75.0	100.0	126.2	100.0

Source: E. O'Malley, *Industry and Economic Development*, Dublin 1989, Table 7.1.

The third motivation seems to have been particularly important in world economic developments since the 1960s. The multinational is driven by factors like low labour costs; proximity to target export markets; special concessions (for instance government incentives); political stability ("docile labour"); acceptable infrastructure and communications. Such export-oriented FDIs have been most typical for less developed countries, and also for Ireland, since the late 1950s.

The foreign firms which Ireland hosts are quite mobile, being production units, requiring mostly unskilled labour. Their Irish plants could thus be located outside advanced industrial areas, marked by even lower labour costs, and better tax concessions/grant incentives than central areas. These investments were mainly linked to mature sectors. These mobile firms often ended up in small towns and rural areas, since grants were somewhat higher there, and unionisation was not so strong. The result was a quite decentralised structure of industry. This was actively encouraged by Irish authorities.[285] Older indigenous industry, by contrast, was mainly concentrated in Dublin.

We now turn to an assessment of the effects of the new industrial policy strategy. The industrial structure was transformed: there was a move towards technically more advanced branches than earlier, and manufacturing industry became more export-oriented (both as a percentage of gross output and of employment; see Tables 12.4 and 12.5 above). This trend started in the 1960s and we shall see in Part V that it gained even more pace in the 1970s. In this Golden Age period of the 1960s, foreign demand was flourishing anyway, but there was also an increase in Ireland's export shares in foreign markets.[286] This improved industrial performance was largely due to the foreign-owned firms, not to indigenous Irish firms.

As for secondary effects, it is clear that if all production aims at exports, the balance of payments effects will be generally positive. For Ireland, it is estimated that foreign firms' exports account for about half of the gross export value.[287] Preemption of indigenous industry is a familiar objection to foreign direct investment. This has not happened in Ireland. Competition for skilled labour, scarce capital or local primary goods, has not been important. The currency union of 1922-1979 with England removed any capital constraint. The clue is that there are few negative, but also few positive effects of these foreign investments.[288]

As for the absence of positive effects, let us first return to the earlier comparison of other countries with large shares of U.S. FDIs. Among the nine countries quoted, only Singapore is small like Ireland. The fact that FDIs are mostly a very small share of other countries' total investments in a host country, indicates that such investments are no panacea at all. Ireland is one of the few countries with a really large share of such investments, but this has not helped Ireland to solve its unemployment problem.[289]

Most investigations show that the Irish economy is not marked by widespread linkages. Like the agricultural export sector earlier, the new sector of foreign firms developed only very weak linkages to domestic manufacturing industry. Irish domestic industry remains low-skill, without r&d, a high import content, low value-added, and marked by an absence of capital goods production. There are very few traces of the Fordist complex which was absorbed by the contrast countries. As for linkages, O'Hearn concluded that TNC-related fiscal linkages (taxes and import duties contributing to the state's resources) are probably negative due to the generous tax provisions and the absence of import duties. Neither are there many forward linkages (further processing of TNC output by other firms), since TNCs export most of their output. Thus, only backward linkages (TNC purchases of local products) need closer consideration. Even in this case, however, O'Hearn finds that the rate of TNC-related backward linkage is very low,[290] half of that of domestic firms. Ireland has virtually no local-content regulations to counteract this. It even appears that new domestic firms create few linkages.

According to O'Malley, the main problem is not the strategy of industrialisation by invitation, but the simultaneous turn to a free trade policy.[291] He argues that to the extent that indigenous Irish firms[292] have not been able to escape the high entry barriers in export markets, they were squeezed as protectionism was replaced by free trade.[293] These entry barriers, as we saw in Chapter 3, are market imperfections, such as economies of scale, various external economies, on the job experience, and positions far along the learning curve. On most such variables, Ireland's latecoming industrial firms have very weak scores. As for r&d-barriers to entry, a 1966 report showed that industrial research was "relatively non-existent" in Ireland. It seems that r&d spending by all businesses declined somewhat in the 1970s and increased somewhat in the 1980s.[294]

As for economies of scale, that barrier is a particular challenge to existing large firms when trade is liberalised. O'Malley shows that most of the industrial employment decline has been in large, exposed firms, established prior to 1973. There has been a growth of employment in smaller, export-oriented firms, which belong to the group which escapes entry barriers.[295]

A liberal trade policy may fail in a world in which the organisation of modern, exporting business firms implies a series of market imperfections. The weakness of this view, however, as mentioned several times, is its neglect of other small countries in which trade was liberalised just as in Ireland, similarly influenced by the interaction of pressure from the U.S., the OEEC and the mobilisation of an internal expansionist alliance. The contrast cases we have analysed all had relatively efficient national systems of innovation,[296] while in Ireland, the system was (at most) rudimentary. In the postwar era, it seems that a weak structure of linkages developed in domestic economic activity, but not that related to exports. Ireland has many small indigenous firms in metals and engineering, wood furniture, and other engineering. Here there is a small, domestic market. Firms are influenced by agriculture and by fluctuations in construction industries. Problem sectors, experiencing strong penetration — such as textiles, clothing & footwear, chemicals — are sectors with few entry barriers, implying that many NIC-countries can successfully compete, especially due to their lower wage level. But this weakness is not peculiarly Irish, it is general.[297] Indigenous chemical firms are very small and troubled by entry barriers like large economies of scale, high r&d costs and marketing. (NET — Nitrigin Eireann Teoranta — a fertiliser producer, is heavily subsidised).

As has already been noted several times in this report, Denmark, being an agricultural exporter, is the case closest to Ireland insofar as economic structure is concerned. Denmark was even more integrated into the U.S. postwar sphere of influence than Ireland, since Denmark even became a member of NATO. In Chapters 6 and 7 we have traced Denmark's industrial development and the transformation of its agriculture. Earlier we noted the much higher density of agro-industrial linkages in Denmark. *We shall now look at Denmark's postwar development.*

It was noted in Chapter 6 that Denmark's industrial development was "derived", a function of her general economic development, especially agricultural development. The specific Danish development model, as presented above, was under attack in the 1930s, and even more so in the postwar period. The idea of modernisation based on the American ideal of productive organisation was promoted for instance by the Marshall Aid administration, and supported by the Social Democrats and the Central Trade Union Federation. But it ran counter to the principles incarnated in the Danish hybrid model. "As international trade was liberalised where the Danish hybrid was weakest, in the industrial sector, and protectionism survived where it was strongest, in agriculture, market forces enforced the political attack on the hybrid structure of the Danish economy".[298] But there was no complete victory for mass production principles. In Danish industry, the new managerial ideologies were adapted to the existing artisanal system via the educational system, so that "mass production institutions have changed their meaning through their competition with the craft educational complex to become an extension of the craft character of the labour force".[299] Since the mid-1960s, the average size of firms did not increase, and niche production developed, indicating that the small/medium sized firms sought markets where they did not need to compete with mass producers.

Studying Danish industrial development from the "vertical production" point of view, we see that there are networks integrating both large and small enterprises.[300] The "agro-industrial" complex may be defined as all economic activities with linkages to the agricultural sector. These traditional dominant export sectors in Denmark include production of inputs to the agricultural sector (fertilisers, agricultural and food-processing machinery), production of agricultural products, as well as further processing of such products (food and beverage industry).

A recent study defines Denmark's "internationally competitive exports" as products with a world market share larger than 1 percent (in 1985). The list of products account for 45 percent of total Danish exports, and out of these, two thirds of the products stem from the agro-industrial complex.[301] It has been roughly estimated that the complex accounted for 18 percent of GDP in the late 1970s, with the rest of manufacturing industry contributing 20 percent.[302] Thus the late 19th century transformation of Danish agriculture is still reflected in Denmark's pattern of export specialisation.

The delimitation of this complex — or development block[303] — is a question of convention. Denmark's pharmaceutical industry, for instance, which is sometimes seen as crucial in a particular "health service complex" (based on public sector demand),[304] developed partly through use of waste products from Danish animal breeding, e.g. lungs of calves, and the pancreas of pigs.[305] The latter is a crucial input to the Danish production of insulin. The Danish firm NOVO is also the world's largest producer of enzymes, and is one of the few European firms with an established tradition in biotechnology.[306] This is obviously also linked to the dominance of agriculture as an export sector. Other complexes have been traced. One is related to households, consisting of production of furniture, ceramics, household equipment, etc. Two other blocks of importance until the 1970s, were shipping/shipbuilding (Burmester & Wein, especially their ship-engines), and construction (industrial cement, cement-processing machinery and production systems).

Edquist and Lundvall argue that the agro-industrial block consists of two different modes of development (or types of innovation). First, the farmer-owned cooperatives, and secondly, the big private food-processing firms (many of them originating from semi-public enterprises, many controlled by the Danish East-Asian Company). While genuine Fordist branches (durable consumer goods, cars, steel) play a limited role in the Danish industrial structure, the cooperative slaughterhouses and dairies are closest to the Fordist model. Even their management philosophy has been quite close to the Fordist one.

While the Fordist manufacturing philosophy (the assembly line, the Taylorist division of labour and the separation between planning and execution) may be applied to many industrial sectors, we may also define a number of core Fordist sectors which have been central to postwar growth. Table 12.13 includes data which show that Irish indigenous firms are weak in Fordist sectors thus defined. O'Malley notes that if Ireland had been closer to the average in these sectors, unemployment would have been avoided. These industries would have a high value-added and be export-oriented, creating no balance of payments problem.[307]

TABLE 12.13

Sectoral Distribution of Employment in Irish Indigenous (1978), Danish (1984) and EEC Industry

NACE CODE	INDUSTRY	(1) EMPLOYMENT (%) EEC		(2) EMPLOYMENT (%)		(2/1) RELATIVE SIZE	
		1978	1984	Irish Indigen-ous	Danish	Irish/ EEC	Danish EEC
412-23	Food	6.9	7.6	28.4	16.7	4.1	2.2
44	Leather Products	0.5	0.5	1.5	0.3	3.0	0.6
424-28	Drink	1.5	1.5	3.7	3.0	2.5	2.1
247	Glass, Glassware	1.1	1.1	2.8	0.7	2.5	0.6
241-46	Cement, Concrete	2.3	2.2	5.3	3.0	2.3	1.3
45	Footwear, clothing	5.3	5.2	10.9	3.9	2.1	0.8
46	Wood, Furniture	5.3	3.5	10.9	6.2	1.9	1.8
47	Paper, printing	3.6	5.9	7.0	8.4	1.7	1.4
429	Tobacco	0.5	0.5	0.7	0.7	1.4	1.4
49	Miscellaneous	1.1	1.0	1.1	1.3	1.0	1.3
43	Textiles	6.0	5.1	5.5	3.3	0.9	0.7
31	Metal Articles	8.8	8.8	8.4	7.5	0.9	0.9
48	Rubber, Plastics	4.0	4.2	1.9	3.3	0.5	0.9
25	Chemicals	7.1	7.5	2.9	6.7	0.4	0.9
36	Other Transport	3.8	3.8	1.4	5.1	0.4	1.4
34	Elect. Eng.	11.3	12.3	3.0	9.3	0.3	0.8
35	Motor Vehicles	8.4	8.6	1.6	1.2	0.2	0.1
32	Mech. Eng.	10.9	10.6	2.6	15.4	0.2	1.5
37	Instr. Eng.	1.6	1.4	0.3	1.3	0.2	0.9
22	Metals	6.3	4.8	1.0	1.3	0.2	0.3
248	Ceramic Goods	1.1	1.1	0.1	0.8	0.1	0.8
33	Office/Data Proc. Machinery	0.8	2.9	0.05	0.3	0.1	0.1
26	Man-Made Fibres	0.5	0.1	0.02	0.0	0.04	0.0
		100.0	100.0	100.0	100.0		
"Fordist" sectors		56.0	57.3	15.0	44.7		

Note: The lower half of the table (from NACE-category 48 and down) are defined as "Fordist sectors". It is also assumed that there has been no significant redefinition of categories between 1978 and 1984.

Source: Ireland 1978: O'Malley, *Industry and Economic Development*, Table 6.13; Denmark 1984: Eurostat, *Structure and Activity of Industry*, 1984/1985.

The table is based on EC data, so among our contrast countries, only a comparison with Denmark is possible. But Denmark is in any event the closest case. Danish numbers are provided in the table. It is assumed that since industrial structures change only slowly, the picture is not distorted by comparing Ireland 1978 with Denmark 1984.[308] The Danish numbers cover all Danish firms, not only indigenous firms. This should be no great problem, since Table 12.10 shows that foreign investments are not very important in the Danish economy.

This comparison gives a striking result. The average EC share of Fordist sectors, certainly determined by the large economies of Germany, France and Italy, is 56-57 percent of total employment in the sectors listed. The Danish share is 45 percent, that is below average and a confirmation that Fordist sectors are not very important in Denmark. The Danish share, however, is far above the share for Irish indigenous industries, which is only 15 percent (Table 12.13). One may here return to Senghaas' notions, stating that while Ireland still seems only an export economy, Denmark is certainly an exporting *national* economy. *This reinforces the impression that unlike all the contrast countries (and in fact all other West European countries), Ireland failed to reap the benefits of the postwar Fordist boom.* "The structure of Irish indigenous industry remains more typical of a less-developed economy than an advanced industrial country."[309] While the late start of Irish industrial development (and the corresponding difficulty for exporting firms of passing barriers to entry) may be part of the explanation, another part — borne out by the comparison with Denmark — is that in Ireland, the national system of innovation, and more generally linkages between export sectors and the rest of the economy, have been very weak. Some of the reason for this must be found in the socio-political and social structural features which we shall discuss in the next section.

This section has mainly dealt with industrial policies, which were certainly the most distinctive feature in a comparative perspective. Other aspects of economic development and economic policies will only be mentioned briefly. General economic policies were more expansive in the 1960s, and particularly in the 1970s, when there was less concern about external deficits.[310] There was continued support for the dairy and cattle sector.[311]

As for incomes policies, there were as early as (March) 1948, attempts to establish a "National Pay Policy". This attempt to tackle the problems of the immediate postwar period (inflation), could not be sustained. An Industrial Relations Act in 1946 had established a Labour Court. The 1950s and 1960s saw no successful attempts at incomes policy coordination. The Employer Labour Conference (ELC) was set up in the 1960s, but became important only in the 1970s. It consisted of the Executive Council of the Irish Congress of Trade Unions, and an equal number of representatives from the Federated Union of Employers, other employer bodies, state-owned/sponsored enterprises and the public service. Throughout the 1960s the problems of accelerating inflation, as well as a gap between pay increases and productivity growth, was experienced. The government introduced a Prices and Incomes Bill in 1970, forcing the social partners to opt for collaboration in collective bargaining. Throughout the 1960s and 1970s, the Irish wage level moved closer to that of the U.K. Average weekly earnings in manufacturing industry went from 65 percent of the U.K. level in 1963 to 93 percent of the U.K. level in 1978.

12.6 SOCIAL CHANGE DURING THE POSTWAR PERIOD

We shall first study developments in the relationship between the state apparatus and the activity of politicians and citizens. Arising from the crisis of the late 1950s, the need for administrative reform was taken up. Earlier, bureaucracy had little interest in questions of industrial development. With Whitaker's *Economic Development*, and the later *First Programme*, there was a more positive attitude towards state interventionism. This coincided with a generational change in the civil service, as many young people had been promoted in the 1920s, during the first decade of the new administration. These began to retire in the 1950s.

The administrative system was, as we have seen earlier, based on 19th century British administrative ideals. With increasing state interventionism, some major problems of this system became visible. More interventionism necessarily meant — as modern theories of organisation showed — that bureaucracy had to take or at least influence an increasing number of decisions. But nothing was done to facilitate this at the institutional level.

Before we specify these problems, the following difference between the Irish and the British administrative systems should be noted. In the Irish case, there are no entry barriers requiring high level education. There is strong competition in entrance examinations, but candidates join mainly from secondary school and then rise to become senior level bureaucrats. A 1963 investigation found that 60 percent of senior civil servants had joined the administration from secondary school. More specifically, about "three-quarters of the administrative, executive, and clerical classes received their secondary education from the Christian Brothers. This religious order, established in the last century to provide an education for poor Catholic boys, has traditionally tended to concentrate on examination successes".[312] These pupils are very able, and unlike English civil servants, with a background in elite schools, they are recruited at an early stage. But a number of drawbacks concerning the type of education they received have been mentioned: a narrowly practical orientation, inability to reflect on long-term ends, and acceptance of the system with little question.[313] This was about to change in the early seventies, as the change to more accessible university education made it less attractive to join the civil service as a way to gain grants for university studies.

British canons of administration did not distinguish formally between administrative and executive work. Civil servants were mainly educated in the ministries doing executive work. When they were promoted to administration, such training was more or less irrelevant. Higher officials would end up "insufficiently acquainted with modern management skills and methods of information handling and processing."[314] The old pattern of recruitment assumed the ideal type of a generalist administrator, but the departments were too small to generate such experience. In addition, there was little mobility between departments. Promotion based on seniority also tends to produce mediocrity. The principle of ministerial responsibility tends to channel much work up to the senior level, not allowing minor matters to be decided at junior or middle level. Such problems were dealt with in the Devlin Report by the Public Services Organisation Review Group, which had been set up in 1966.[315] The report

insisted that since the tasks of bureaucracy had changed dramatically, the organisational structure had to be adapted to these changes.

Whether the Devlin report led to practical reforms we shall not consider here. We shall only assume that the above description provides a snapshot of the Irish administration during the Golden Age period. To see how this bureaucracy interacted with citizens, we must look at the activity of politicians.

We have earlier seen that there was a process of administrative centralisation in the late 1930s and 1940s. A system was established in which many TDs were also county councillors. The revolutionary elite of the 1920s had now retired, and the new generations of TDs could not rely on the legitimacy that their predecessors had possessed.[316] A system developed in which a TD would spend much of his time and resources in Dublin to investigate the different problems and questions of his clients.[317] But mostly, the outcome cannot be influenced. This means that the Irish political system does not imply clientelism in any strong sense of the word. This is so because the administration is very centralised, which means that the patron cannot guarantee the public goods in demand, and also because the patron cannot be fully sure of the clients' support in elections.[318] But politicians try to create the image that they are effective *brokers*, i.e. that they can provide easy access to bureaucratic institutions which are difficult for ordinary people to interact with. Politicians compete "with one another to create followings, often by taking credit for influence they do not have and by de-emphasising the rights to state services which the voters have. There is great doubt, however, about the actual amount of influence which politicians have over state allocations".[319]

One consequence of this system is that politicians will make many efforts to retain information on the outcome of decisions before they are passed on to the applicants.[320] In this way, the illusion of assistance is created. If the TD succeeds in maintaining a solid following, he will rise to higher positions in his party. The local public employees obviously take part in this routine, since in return, politicians do not raise questions about accountability and formal procedures.[321]

The interaction of such routines with the peculiar Irish electoral system has been debated. Traditional criteria for an electoral system are whether it provides proportionality and government stability,[322] Gallagher shows that in this respect Ireland's PR/STV system is not worse than other electoral systems in Western Europe.[323] The debate on reform of the STV system has thus mainly related to the question of whether it influences the relation between deputies and citizens.

In the case of an STV system dominated by two catch-all parties, intra-party rivalries are often so strong that politicians can be described as "professional paranoids". As we have seen, they may exaggerate their importance as brokers. The broking activity of TDs may lead to over-emphasis on relatively unimportant questions, which may weaken state capacity for long term planning: "the long term interests of the state are sacrificed to the short term interests of individual citizens."[324] TDs tend to emphasise personal and local matters, and this may make politicians behave as consumer representatives rather than legislators. Similarly, Higgins suggests that the system is wasteful in terms of state resources, since such resources are allocated due to very particularistic considerations, and with strong elements of political business cycles. It also makes TDs ill-equipped to do what TDs should do, that is scrutinise legislation and control the accountability in public finances.

Gallagher, however, convincingly argues that the STV system in itself can hardly be blamed for such problems. However, he confirms that these problems are important in the Irish context. We can now extend our comparative analysis to this area.

Our contrast cases have the following electoral systems: Finland and Denmark have list systems with preferential voting, Sweden and Austria have list systems without preferential voting (i.e. the party determines the ranking of the candidates, the voter cannot change this ranking), Switzerland seems to have the closest system to Ireland, since it allows voters both to vote across party lines and to express preferences for their own party's candidates.[325]

Although there is not much solid comparative work on this, it seems peculiar to the Irish system that constituency work has a very important role in a TDs working week, and that the volume of such work has been growing steadily. The number of cases, taking into account the small number of people represented (Irish voting districts are very small), seems exceptional.[326] Roche claims that a TD processes about 140 cases per week, which gives 1.2 million cases for all TDs per year, which is approximately half the electorate![327] Comparative evidence suggests that this is an "exceptionally high" level of voter/deputy contact.[328]

Comparative arguments, however, also suggest that the type of electoral system is probably not the reason why this is so. Switzerland, as mentioned, has a system very similar to the Irish one, but an average deputy responds to less than 40 requests (140 in Ireland) from their constituents a week.[329] The reason for this much lower level of brokerage is probably that citizens have other forms of redress, for instance via the party organisation or via the professional group to which one belongs. This relates to our demonstration in Part III that civil society (or social integration) is strong and includes a number of channels of influence.

As for Denmark, its electoral system allows voters to express preference for candidates within a party. Also in the Danish case, there is little casework contact between deputies and voters (such contacts are in fact insignificant all over Scandinavia). The reason seems to be that local government is quite strong. Thus, problem-resolution or grievances related to provision of many services are solved at the local, rather than the national level. Furthermore, citizens seem to have good information about which offices within the administrative structure to contact.[330] Thus, the causes of the high amount of brokerage "must be found in other aspects of Irish politics and society."[331] Brokerage, as Bax showed, existed in Ireland before the STV system, that is in the 19th century.

As for the argument that such a level of brokerage weakens the Dáil and displaces work on other parliamentary duties, Gallagher is rightly sceptical. It is difficult to argue that the Dáil would be strengthened if TDs were more active in Dáil debates or more active in formulating legislation. But the Dáil lacks a proper committee

system. It relies on rather outdated methods to gain information about policy and administration (that is, to evaluate the results of policies.) Gallagher admits that if the Dáil had a strong committee system, more time allocated to committee work would strengthen the parliament. Austria, for instance, has a strong committee system,[332] but it is also highly penetrated by interest groups. However, we have noted that this ensures conflict resolution at the "appropriate level". A committee system may increase the accountability of government.[333] Gallagher also states the obvious fact that of course some of the case-work done is valuable for the constituents.

These contrasts put Ireland's centralisation into perspective. Higgins notes that this suggests an explanation. He also points out that at "the county level, Irish politics is administratively centralised to a unique degree by European standards. The County Manager holds effective power of administration which consists of relaying state decisions down to county level."[334] Our Scandinavian contrast countries all have strong local governments, and Switzerland and Austria are both federations, which implies that much decision making takes place at the "Länder" level.

But this centralisation *also* puts Ireland apart from third world countries with clientelism in a strong sense of the word. This means that Mouzelis' theory of the parliamentary semi-periphery cannot be applied to Ireland.[335] A number of differences arise here: Ireland had no legacy from a patrimonial empire, but was included as a region in England before 1922. Thus, Ireland's parliamentarism before 1922, with a large group of Irish MPs at Westminster, can hardly be compared to the oligarchic parliamentarism Mouzelis discusses. The closest we may get is to start in 1922, arguing that deindustrialisation and loss of Belfast made Ireland a late industrialiser, and that the timing from then on was parallel to the cases discussed by Mouzelis.

Even with such a modification of the argument, however, the crucial question is whether we can trace in Ireland the dependent/vertical kind of relationship between the state and the organisations of civil society. A simple answer to this question does not exist. We have seen that there are major differences between the Irish system and the ideal type, third world clientelism (a variety of which is also found in certain Southern European countries). Ireland's strong and centralised administration, and the corresponding weakness of local government structures, is probably quite different from other post-colonial societies. Another indicator is that the Irish state has been able to extract quite high taxes from its citizens, at least in some areas.

According to Mouzelis, absence of vertical ties implies a strong civil society. In the Irish case, we can trace strength in one particular respect, which is a strong Catholic civil society. This probably shows that Mouzelis' distinction between vertical and horizontal ties is too crude. Rather, in all our contrast cases, we have stepwise vertical ties (strong local government) and strong civil societies (horizontal ties). Ireland rather has direct ties, that is, a strong central administration. But Irish civil society involves a particular type of patriarchal family structure, reinforced by the Catholic Church. This shows that the content of civil society matters, rather than just the formal feature of horizontal ties. In all the contrast cases, then, there was a stronger influence by secular elements in the social structure, securing a more balanced relationship between religious and secular influence.

Again we find that Ireland is located in between the first and the third worlds. It is different from the cases discussed by Mouzelis: the state seems stronger, there is no breakdown of liberal democracy, there is populism, but in the form of brokerage with uncertain effects. Finally, we know that the outcome, i.e. military dictatorship, is not found in Ireland.

Returning to the topic of Ireland's particular social structure, we shall start by quoting Coleman's summary of Irish demographic peculiarities. In comparison with other industrialised countries in the 1980s, "Ireland has the highest natural increase which is more than balanced by the highest proportional rate of out-migration. This makes it one of the very few developed countries which is already losing population. Irish fertility [...] is the highest of any developed country with the exception of the USSR and Albania. Cyprus (TFR3.32), Romania (2.30) and Poland (2.20) are the only close rivals; the rest are all below 2.0. Correspondingly, Ireland has the lowest proportion of first births and by far the highest proportion of fourth and higher order births (almost four times the industrial average). Age at first marriage and age at first birth are close to the European average, but prolonged childbearing means that almost half of all births are to mothers over age 30, compared with an average of little more than a quarter. As a consequence of this high fertility, the Irish population is the most youthful of the industrial world with 29 percent of the population under age 15. Ireland is unique in having no divorce and in Europe shares with Belgium the distinction of not permitting abortion for any purpose. However abortions on Irish residents in the U.K. bring this figure up to a minimum ratio of 69 per 1000 live births."[336]

It comes as no surprise that Coleman points to emigration to explain the persistence of high fertility: "It has destroyed demographic feedbacks from the high natural increase at the population level. Without emigration, population growth and density would have become uncomfortable many decades ago, increasing land values, access to agricultural holdings, rents and prices and emphasising the impossibility of creating jobs at the level of population growth. Studies on other high fertility, high emigration countries have shown the alternative nature of emigration or fertility reduction as demographic responses to population growth and the way in which long term high emigration retards the modernisation of fertility."[337]

The interaction between nationalism and Catholicism crucially influenced modern Irish developments. Coleman shows that the position of women fits into this pattern: "The low status of women, as evidenced by the unfavourable female death rate and other, more direct evidence, is another factor. It is not a typical attribute of European Catholicism and appears to be another factor particular to Ireland. It helps to explain why large family size did not generate negative feedback by wives through objection to frequent pregnancies, and a consequent interest in family limitation, at an earlier period. Emigration does nothing to relieve this micro-demographic pressure at the family and household level, because young people do not emigrate without their family until they have reached adult status. Older members of the family may even help to relieve this pressure through emigration if they send remittances home."[338] The general pattern is that the influence of Catholic moral principles on class and marriage behaviour is reinforced by agricultural modernisation and industrial transformation.[339]

These comments on Irish demographic peculiarities indicate that the forces which were analysed earlier still continued to influence the Irish social structure in the 1960s. But the period did also see considerable modernisation. Let us look at the changes in social structure.

As in the late 19th century, emigration was a major life chance in the 1950s. There were two other major life chances: inheritance (those few in trade or agriculture who had a prospect of inheriting the family business and house) and education/training (which could secure the livelihood only for a minority). "Of those born between 1936 and 1941, by 1961 only 59 per cent remained in Ireland, and of those remaining, one in four were at work in some form of family employment."[340] In the 1950s, emigration reduced the male labour force by one-seventh. As a result, Ireland ended up later with a dependency ratio much higher than other Western European countries: "Approximately one person out of every five born since the foundation of the state and resident in 1951 had emigrated by the end of that decade. [...] That disproportion in the age distribution was accentuated by natural increase so that by 1979, 31 per cent of the population was less than 15 years old and 11 per cent was over 65 years of age. The result is a dependency ratio far higher than that of any other EEC country and a rapidly expanding labour force."[341]

TABLE 12.14

Distribution of Males At Work by Class Categories 1951-1979

	1951	1961	1971	1979
Agriculture				
—employers	3.1	1.8	—	1.0
—self-employed/relatives assisting	35.0	34.3	27.4	20.1
Non-agricultural activities				
—employers	2.2	1.6	—	3.4
—self-employed/relatives assisting	5.9	6.2	8.3	6.5
Employees				
—upper middle class	5.3	7.6	10.9	13.3
—lower middle class	13.7	15.6	18.0	20.5
—skilled manual	10.6	12.4	16.8	20.2
—*semi and unskilled manual*				
— agricultural	10.0	7.9	4.9	3.0
— non-agricultural	13.9	12.5	13.6	11.9

Source: David B. Rottman and Philip J. O'Connell, "The Changing Social Structure", in Frank Litton, editor, *Unequal Achievement. The Irish Experience 1957-1982*, Dublin 1982, p.70.

Throughout the 1960s, emigration was gradually reduced, and in the 1970-78 period, there was a net inflow (cf. Fig. 12.8). In the 1950s, young, unskilled people with an agricultural background had been the largest group of emigrants. The return migrants of the 1970s were to a larger extent skilled.[342] Ireland increasingly became a wage earners' society, as the percentage of wage-earners out of total employment developed from 56.1 in 1961 to 68.8 percent in 1979. Throughout this period, Ireland also developed one of the highest levels of unionisation and the highest level of union growth in the EEC.[343] Proprietary categories in agriculture declined from 36.1

percent of total male employment in 1961 to 27.4 in 1971 and 21.1 in 1979. At that time, Rottman and O'Connell claim that Ireland had ceased to be agricultural, as the predominant categories were now employers and well-qualified employees. Skilled manual workers developed from 12.4 percent in 1961 to 20.2 in 1979 (Table 12.14). Consequently, family inheritance had become less important as a factor determining the allocation of life chances, while wage bargaining became a more influential factor in determining life chances.

In comparison with our five contrast cases, however, Irish development was not spectacular. In terms of the percentage of wage-earners, Table 12.15 shows that by 1970/1, Ireland had still not reached the 1960/1 level (just catching up with Finland at that time, to be more precise). Despite the low percentage in 1960/1, Ireland did not even record the highest growth rate in the ten year period: both in Finland and Austria, the percentage of wage earners increased by more than in Ireland.

TABLE 12.15

Wage Earners as a Percentage of Total Employment

	A	CH	D	F	IRL	SW
1960/1	70.9[1]	80.7[1]	77.0	65.7	58.6[1]	85.1
1970/1	78.8	85.0	81.0	78.2	65.8	88.8
Increase	7.9	4.3	4.0	12.5	7.2	3.7

[1] Including apprentices.
Wage earners are defined as employees and workers. The residual is: employers, self-employed and family workers.

Source: Peter Flora, *State, Economy, and Society in Western Europe 1815-1975. A Data Handbook*, Vol. II, Frankfurt a.M. 1987, Ch. IX.

In line with Gerschenkron's theory,[344] it has been emphasised that as a latecomer, Ireland's development was more state-inspired than in earlier developers in Western Europe. The welfare state which had been developed (partly according to a mechanism whereby Ireland had to keep up with English reforms) provided various types of support, which were particularly important for farmers on marginal holdings and unskilled labourers. The class structure at the end of the 70s "contains a substantial number of positions that are viable only insofar as they are underwritten by state social welfare programmes".[345]

Another major life chance is education, and the opportunities in this respect increased in Ireland in the late 1960s. In a 1965 OECD/Irish government report it was found that there were significant regional and class disparities in education, and the need for scientific and technological higher education was emphasised. In particular, it was suggested that "vocational" studies should be strengthened against the dominance of "secondary grammar school type academic education". It was predicted that such a change would also reduce inequality, facilitating a transition from a non-meritocratic to a meritocratic educational system. This would make "credentials of scholarly and technical accomplishment (...) the currency of social evaluation".[346] Such views, inspired by human capital theory, spread all over the

Western world. Wickham emphasised that in most countries the social democratic notion of "equality of opportunity" influenced policies which responded to working class demands for abolition of existing inequalities in the access to education.[347] Wickham seems to claim that in most Western countries these reforms were more successful than in Ireland. The problem with Ireland, he holds, was that reforms were presented in terms of a "politics of productivity" framework, not in class terms. This corresponded to the populist attitude in the broadly based Fianna Fail government. However, it must be emphasised that evaluations of educational policies in other Western countries generally found that realities seldom corresponded to ideals.[348] This was soon also found in Ireland.

Several sociological studies concluded that an increasing level of education and free education resulted in more equality of provision but no equality of educational outcomes, which remained strongly class related. No full meritocracy was achieved. The reforms "did more to consolidate the advantages of propertied and professional middle class families than to facilitate social mobility".[349] A number of social processes acted to "ensure an essential stability in the distribution of privileges". There were improvements in the standard of living, but no reduction in the differentials between the top and bottom of the class structure. Both land and educational credentials were inherited by the children of those who had such assets already. "Educational change has not taken Ireland very far towards equality of labour market or occupational opportunity: the educational qualifications that school leavers bring into the job market continue to be strongly related to their social class origins — a state of affairs which has obvious and considerable implications for the degree of social mobility possible in Irish society. By and large, those who appear to have gained most from educational reform have been middle class — both the old middle class, who might otherwise have had to pay for their children's education, and the new middle class of families which have experienced mobility as a consequence of the massive structural shifts in the economy of the post-1958 era."[350]

We have shown in Chapter 7 that all the contrast countries had more or less elaborate systems of vocational training. In Ireland, as noted, the need to approach such a system had been emphasised in the mid-1960s. The Irish state at that time controlled primary schooling, which has a common curriculum, but the control over post-primary education — the main target of the 1960s reforms — was more decentralised. Curricula were very diverse and the physical structure of these schools was owned by individuals, trusts or religious orders. Greater educational equality required a common and comprehensive curriculum. Thus, schools would have to be amalgamated. However, many of the owners of post-primary educational institutions opposed centralisation with some success. The main constraint on centralisation was that the state did not own the schools.

In 1967, a move towards free post-primary education was implemented. As school participation rates increased, the state was unable to use its resources to build new vocationally-oriented schools, to increase the number of students going to such schools or to ensure that changes in curricula were introduced in the direction of more vocational topics. The state mainly succeeded in the small sector of technical education.[351] In sum: "Because of the State's lack of control over the system, combined, in this instance, with the introduction of one set of changes — free education — made the success of the other — the move to a more vocationally orientated system — less likely."[352]

The persistence of middle class dominance during the 1960s is striking. Earlier we have emphasised the importance of the rural agricultural way of life in nationalist ideology.[353] Hannan and Commins link this feature to a very specific group of small farmers, whose survival strategies they claim were quite successful during the Golden age.

Not all smallholders throughout the 1950-60 period were able to establish nuclear farming families. But those who did not were more successful in finding off-farm employment than the urban working class. "This system still retained a strong reservoir of self-confidence, cultural independence and sense of importance and influence within the society. This has meant that when the Irish economy started to grow rapidly in the 1960s and educational qualifications became increasingly necessary for positions in the non-farming economy, this farm family sector was in a much better position than the urban working class to make use of it."[354] Hannan and Commins show in detail that small farmers "participated in and gained from the rapid educational expansion from the mid 1960s onwards". In a situation with high labour supply (high fertility), their children acquired the education to compete for the best jobs.[355]

The Irish Land Commission, the state land restructuring agency, was first successful in subdividing large estates. But later, it was not successful in making land more mobile, despite the Commission's compulsory powers of acquisition.[356] A 1965 Land Act had included a system of retirement pensions, but this came to nothing, as it was more attractive for a farmer to remain as owner of his farm. The state also provided "smallholders' unemployment assistance". During the inflation of the 1970s, land values of course increased strongly. Since 1975, no property taxes are imposed on land.[357]

The particular location policies followed by Irish authorities when allocating foreign investments were mentioned above. Hannan and Commins, as we have seen, link this to the strength of the small farmers. Younger small farmers would take up non-farm work and at the same time increase the extensive nature of Irish farming (cf. Chapter 11.1) by turning to even more dry cattle production.[358]

Hannan and Commins emphasise that behind the successful adaptation of this class of small farmers lies very effective collective organisation. In particular, the smaller farmers have been Fianna Fail's most important backing group, and, in Government, cabinet appointments tend to be distributed according to regions. There was a mutual reinforcement between peasant survival and patronage politics.[359] This conservative force cannot of course be separated fully from other elements, such as the Catholic Church. The clergy, argue Commins and Hannan, are mainly recruited from people with a farming background.

The conclusion is that by the end of the Golden Age, that is in the early 1970s, there had been no major change in the dominant position of the Church and its particular

interaction with the paternalist family structure, despite wide-ranging socio-structural changes connected to the outward-oriented industrialisation process. We shall see in Part V how this developed in more recent years.

12.7 SUMMARY

Throughout Chapters 11 and 12, we have studied Ireland's historical development. In each section, we have provided more or less focused comparisons with one or several of the contrast countries. Discussing agrarian transformation in Section 11.1, detailed comparison with Denmark was provided, since among the contrast cases, Denmark is most similar in terms of resource basis and dominant export sectors. In Section 11.2, a range of contrasts between Ireland and Finland were spelt out, since among our cases, these are the only two countries which became independent as late as in the early 20th century. Section 12.3 on long term consequences attempts to draw some conclusions from the comparison between pre-independence Ireland and the contrast countries. It thus traces important aspects of the legacy which Ireland would start out with as she gained independence. We discussed various aspects of the relationship between national sovereignty and economic development with reference to the experiences of all the contrast countries, and we compared the limited extent of agro-industrial linkages in Ireland compared to Denmark. Reviewing all the contrast cases, we traced Ireland's peculiar fusion of nationalism and Catholicism, as well as relations between the nature of industrial development, emigration and nationalist mobilisation.

Having established these essential features of Ireland's legacy from the pre-independence period, we proceeded in Chapter 12 to study Ireland's economic transformation in the inter- and postwar periods of the 20th century. A major concern was the attempt to discover institutional features which served to reproduce the vicious circle created by Ireland's pre-independence legacy. In Section 12.1, we compared the trade structures of our six countries. In Section 12.2, the party systems and certain educational institutions were compared. In Section 12.3, import substitution patterns, as well as socio-political alliance patterns in Ireland and the contrast countries were compared. In Section 12.4, we saw that both Ireland and the contrast countries were exposed to the influence of the American offensive for reconstruction of postwar Western Europe, with quite different consequences. Section 12.5 compared Ireland's strategy of attracting foreign capital with the postwar development of Denmark's agro-industrial complex, and demonstrated the much stronger influence of foreign direct investments on the Irish economy compared to the contrast countries. Finally, Section 12.6 found that the different versions of proportional representation voting systems in Ireland and the contrast countries were probably of little importance to their different fates in the postwar period, but that the strength of local government, and/or the federal systems in the contrast countries might be important. Also problems of educational reform were briefly compared.

In sum, our survey of Ireland's historical development throughout Chapters 11 and 12 has not been yet another narrative, as each section has contained explicit comparisons with the contrast countries.

REFERENCES

1. Raymond Crotty, "Capitalist Colonialism and Peripheralisation: The Irish Case", in Dudley Seers, Bernard Schaffer & Marja-Liisa Kiljunen, *Underdeveloped Europe*, Hassocks 1979, p. 230.

2. Crotty's analysis is here consistent with world systems theory, which claims that changing patterns of the international division of labour, indicated by price movements for certain crucial products, determine the allocation of capital by entrepreneurs on a global scale, thus making "domestic developments" (like e.g. the development of the labour force, and class relations in different sectors) dependent variables. Although we do not fully accept such an explanatory approach, we still hold that Crotty's periodisation is useful. Crotty's peculiar notion of capitalism was commented on in Chapter 4.

3. Between the 12th and the 16th century, the Irish Church had been strongly influenced by the English Church. But in England, the reformation lead to a break with Rome in the 16th century. The Irish Church remained loyal to Rome, and from then on, the British rulers attempted to coerce the Irish to abandon Roman Catholicism. Conor K. Ward, "Ireland", in Hans Mol, editor, *Western Religion: A Country by Country Sociological Inquiry*, The Hague 1972, p. 295.

4. Crotty, *Ireland in Crisis*, Dingle 1986, p. 206, shows that Ulster was the only European case of such a displacement. He mentions four non-European cases: South Africa, Algeria, Kenya and Rhodesia.

5. Bob Rowthorn & Naomi Wayne, *Northern Ireland. The Political Economy of Conflict*, Cambridge 1988, p. 17.

6. As a consequence, court and country parties polarised in England, and this was one of the factors which led to the Civil War there. This is only one of numerous examples of how English and Irish political developments interacted.

7. Throughout the whole period of the 17th century plantations, 100,000 settlers and troops died, 40,000 Irish people left to serve in European armies, and 100,000 were shipped to the colonies as slaves. Rowthorn & Wayne, *op. cit.*, p. 19.

8. This is where Crotty makes his main point (cf. Chapter 4): England imposed private property in an area where such an institutional arrangement did not develop "organically". The basic objective became the gaining of maximum profits from land while a factor like labour supply became a dependent variable. In Crotty's view the pursuit of profit from land, "has determined the course of Irish life for the past four centuries to an altogether exceptional extent." Raymond Crotty, "Modernisation and Land Reform", *Journal of Peasant Studies*, 11:1, 1983, p. 106.

9. Crotty, *Ireland in Crisis, op. cit.*, p. 40. In 1601, British control of Ireland was not very extensive, encompassing only the so-called "Pale". Fish and hides were the most important export items at that time, but in the 1640s, cattle, wool and butter had become more important, according to L.M. Cullen, *An Economic History of Ireland Since 1660*, London 1976, Ch. 1.

10. Crotty, *ibid*, p. 40, notes that William Petty, the first political economist and a pioneering social engineer, drew the logical conclusion from "the fact of ownership of Irish land by metropolitan interests", as he "recommended that most of the disaffected Irish be removed to England to work there as labourers and tradespeople; that the country be converted into a cattlewalk, supporting six million cattle; these cattle to be tended by 200,000 people left in Ireland, and the cattle's produce to be shipped to England. Petty argued that the island, by the removal thus of most of the disaffected population, could be most easily secured by England against foreign enemies; and could in this way also be made to yield the greatest profit to its new proprietors. Had Petty's recommendations been implemented, there would have been no 'Irish question' any more than there has been a North American, New Zealand or Australian 'question'." Petty actually wrote this in his *Treatise of Ireland*, published in 1687, in a period when a different dynamic was already on the way, but his views turned out to be visionary concerning the third phase after the 1820s.

11. Crotty, "Capitalist Colonialism and Peripheralisation: The Irish Case", *op. cit.*

12. Eoin O'Malley, *Industry and Economic Development*, Dublin 1989, p. 34 ff.

13. *ibid*, p. 34.

14. Crotty, *Ireland in Crisis, op. cit.*, p. 42. Crotty prefers the term "coolie", while we maintain the term "cottier".

15. Crotty, "Modernisation and Land Reform", p. 106.

16. "The bourgeois tenants could not themselves rehabilitate land that was quickly exhausted by grain-growing in a cold, wet climate, in the normal way by leaving the land longer under pasture and grazing the pasture with labour-extensive cattle. This was partly because, at going price ratios, beef cattle gave a much poorer return to land than dairy cows; partly because the critically scarce winter fodder was needed for dairy cows and could not be spared for dry stock; and partly because competitive pressures forced them to plough lea land as soon as it was restored enough to grow another cereal crop and before it had recovered sufficiently to become useful grazing or meadowing land." Crotty, "Modernisation and Land Reform", *ibid*, p. 109.

17. Crotty, *Ireland in Crisis, op. cit.*, p. 43, also in Crotty, "Modernisation and Land Reform", *op. cit.*, p. 107.

18. Crotty, "Modernisation and Land Reform", *ibid.*, p. 106.

19. David C. Coleman, "The Demographic Transition in Ireland in an International Context", in John Goldthorpe and Chris Whelan, editors, *The Development of Industrial Society in Ireland*, Oxford 1992, notes that demographers still explain the population explosion with reference to the fact that traditional restraints on early marriage had been eroded due to the ease with which a family could be supported by potatoes: "Ireland's population actually grew faster than late 18th century England and anywhere else in Europe."

20. K. Theodore Hoppen, *Ireland since 1800 — Conflict and Conformity*, London 1989, p. 36-37.

21. The share of land owned by Catholics developed as follows: 60 percent in the 1640s, 14 percent in the 1690s, 10 percent in 1700 and 5 percent in 1775. Maureen Wall, "Catholics in Economic Life", in L.M. Cullen, editor, *The Formation of the Irish Economy*, Cork 1968.

22. "Some of the more radical elements in the Irish Volunteers also sought universal suffrage and the repeal of the Penal Laws against Catholics, but few of the Protestant landed aristocracy or middle class were prepared to back these demands. The landowners were especially conscious of the insecurity of their position in view of the claims of the larger population of native Catholic Irish to be rightful heirs to the land. Unlike the American colonists, for instance, they needed the security of British support and they eventually allied with Britain to oppose the radical Volunteer elements, which were mainly composed of Presbyterian middle-class intellectuals and landless men. In the end the radicals gave in without a battle." O'Malley, *Industry and Economic Development, op. cit.*, p. 38.

23. "While the great majority of the United Irishmen were Catholics, the rising was led by Protestants, many of them Presbyterian manufacturers and tenant farmers from Ulster who also suffered economic and political discrimination." Rowthorn & Wayne, *op. cit.*, p. 19. For a survey of the United Irishmen, see R. F. Foster, *Modern Ireland*, London 1988, pp. 264-270. Many Catholics joined the United Irishmen, "but inevitably in the south many of them identified Protestants with the English — and both with their landlords — and the movement there began to take on a sectarian character. In the north, Protestants, especially men of property including the relatively secure tenant farmers, increasingly saw their interests as opposed to those of Catholics. By the time of the 1798 Rebellion, Protestant participation was quite limited. But, significantly, some of the Protestant Belfast cotton manufacturers, whose interests (unlike those of the linen manufacturers) lay increasingly in economic separation from Britain, were prominent in the Rebellion." O'Malley, *op. cit.*, p. 38 f.

24. Rowthorn & Wayne, *op. cit.*, p. 20.

25. Brian Girvin, "Nationalism, Capitalism and Economic Development: The Politics of Instability in the European Periphery", unpublished conference paper, (Leuwen, Belgium), September 1990, p. 26 f, notes that Ireland was the only region of the British empire to be politically integrated in the imperial system, being granted full representation at Westminister. Formally, it was a region within the core which dominated all the colonies, not a colony.

26. Hoppen, *op. cit.*, p. 17-18.

27. L. Perry Curtis, jr., *Encyclopedia Americana*, Vol.15, p. 414.

28. The impact of the potato has been the subject of attention by economic historians in most European countries.

29. The population of Sweden was 2.04 million in 1770, Norway had a population of 0.72 million in 1769, Denmark 0.8 million in 1769, Finland 0.56 in 1770, while Ireland had 3.58 in 1772; B. R. Mitchell, *European Historical Statistics 1750-1970*, London 1975, Table B 1, and footnote 37.

30. The following relies on Stein Rokkan, "The Growth and Structuring of Mass Politics in Western Europe. Reflections of Possible Models of Explanation", *Scandinavian Political Studies*, 5, 1970.

31. Fred Singleton, *The Economy of Finland in the Twentieth Century*, Bradford 1986.

32. Senghaas sums up Denmark's development as follows: "Denmark's development thus began with *agricultural modernisation*, linked to an *agriculture-based industrialisation*. Despite a considerable export bias and despite Denmark's trade being excessively concentrated on England, the *domestic economic development potential* was progressively exploited from the very beginning. In Denmark, the disruption of the regular economic links during the world-wide economic crisis at the end of the 1920s and beginning of the 1930s resulted in a further industrialisation impulse which led to the *diversification* and *intensification* of productive capital. The postwar boom accelerated this process and resulted, by the end of the 1960s, in a structural profile which is metropolitan in every respect." Senghaas, *Von Europa lernen*, Frankfurt a. M. 1982. (English translation: *The European Experience. A Historical Critique of Development Theory*, Leamington Spa & Dover 1985), p. 129 (English edition, p. 84).

33. *ibid*, p. 157-59 (English edition, p. 98-100).

34. *ibid*, p. 120 (English edition, p. 77).

35. *ibid*, p. 169 f (English edition, p. 113).

36. *ibid*, p. 174 (English edition, p. 119). Senghaas does not provide any tabulation of the different structures of land holdings, but according to the indicator supplied in the reference in Chapter 7.1 above (reference 94, p. 184). The distribution of landholdings is much more unequal in Uruguay than in any of our case countries.

37. *ibid*, p. 188 (English edition, p. 130).

38. But the 1917 data include Northern Ireland, which had smaller farms. For the Republic (26 counties), the distribution of land-holdings was thus even closer to the Danish one. (R. Crotty, personal communication, January 1992.)

39. This presentation relies on Joseph Lee, "Irish Agriculture", *Agricultural History Review*, 17:1, pp. 64-76. Lee does not accept this view.

40. Raymond Crotty, *Irish Agricultural Production. Its Volume and Structure*, Cork 1966.

41. Menzel, *Auswege aus der Abhängigkeit*, *op. cit.*, p. 163. For the gradual reduction of British tariffs, see Menzel's Table 93, pp. 442-3.

42. *ibid, p. 170.*

43. A classic comparative study dealing with Britain, Germany, France, Italy and Denmark, is Charles P. Kindleberger, "Group Behavior and International Trade" (1951), in Kindleberger, *Economic Response*, Cambridge, Mass. 1978. Denmark's adjustment was already mentioned in Chapter 6. Jrberg, quoted at the end of that section, emphasised that the change in international prices probably hastened the Danish transition, without being its cause. This would seem to support Crotty's alternative interpretation.

44. Crotty, *Irish Agricultural Production*, *op. cit.*, p. 80 f.

45. *ibid*, p. 81. Serfdom persisted in Denmark until the late 18th century, in Ireland it had been done away with much earlier, because of the extensive type farming.

46. *ibid*, p. 71.

47. *ibid*, p. 75.

48. *ibid*, p. 72.

49. *ibid*, p. 73.

50. J. P. Beddy, "A Comparison of the Principal Economic Features of Eire and Denmark", *Journal of the Statistical and Social Inquiry Society of Ireland*, XVII, 1943/1944, p. 195.

51. This is Crotty's definition of capitalism as based on capital-intensive agriculture, cf. Chapter 4 above: That definition covers a rather narrow world region for a long historical timespan, while most other definitions cover more regions for a shorter historical timespan.

52. Crotty, *Irish Agricultural Production*, *op. cit.*, p. 77.

53. *ibid*, p. 76 cf. p. 77 for an additional argument that labour for milking involved no great additional costs in Denmark.

54. *ibid*, p. 76. Crotty separately also discusses pig and sheep production. As for pig production, Danish production increased, thanks to a safe home supply of feeding stuffs, and a favourable development of the pig-price/input-price relationship. In Ireland, there was a diminution of home supplies of feeding stuffs and a less favourable development of the price-relation. As for sheep, cf. p. 80. The number of sheep expanded more in Ireland, partly because Ireland was understocked.

55. Menzel, *Auswege aus der Abhängigkeit*, *op. cit.*, p. 191 ff.

56. Senghaas, *Von Europa lernen*, p. 152 (English edition, p. 99).

57. Menzel, *op. cit*, p. 197-198. This indicates a consolidation of the agrarian sector, with developing "micro-circuits"; Senghaas, *Von Europa lernen*, p. 153 (English edition, p. 99).

58. Not in the table, but more important for Ireland, since at that time cows were 1/4 of total cattle: 100,000 versus 400,000.

59. But note that in Ireland, these were higher than the European average; because it was so difficult to grow crops they could be grown only on the most selective areas.

60. Beddy, *op. cit.*, p. 198-199.

61. Menzel, *op. cit.*, p. 168 notes that: "The crucial question, is how these reform measures influenced agrarian developments", but he does not really answer this question.

62. "Irish land could be operated profitably without cottiers; Denmark's could not. Much followed from that." R. Crotty, personal communication, January 1992.

63. Beddy, *op. cit.*, p. 196-197.

64. O'Malley, *Industry and Economic Development*, *op. cit.*, p. 34 ff.

65. Crotty, *Ireland in Crisis*, *op. cit.*, p. 43. (The Cattle Acts had been repealed earlier.)

66. *ibid*, p. 44.

67. Crotty, "Capitalist colonialism and peripheralisation: The Irish Case", *op. cit.*, p. 228.

68. Crotty, "Modernisation and Land Reform", *op. cit.*, p. 110.

69. In terms of comparative analysis, the obvious task would be to trace the last severe famines in our contrast countries. There has, however, been no time to compile a list with the major data (on excess deaths, etc.). But given that Table 6.1 indicated that only Finland was in a comparable backward position in the mid 19th century, a Finnish-Irish comparison seems the most relevant one. Population had grown strongly in Finland in the 18th century. In the 19th century — unlike Ireland — this growth faltered. Still, there were Finnish famines in the early 1830s and late 1860s, with no parallels elsewhere in Scandinavia. Since emigration was retarded and industry only came late, the pressure on the Finnish soil was dramatic. Following the disastrous harvest of 1867, about 8 percent of the Finnish population died, that is about 137,000. Cf. Jørberg, "The Industrial Revolution in the Nordic Countries", *op cit.*, p. 473. For comparison, 1 million excess deaths out of 8 million in the case of Ireland 1847-9, gives about 12.5 percent of the population. Whereas the Irish agricultural crisis in the 1840s was the outcome of market relations penetrating the rural community in a situation with highly uneven distribution of property (cf. especially the explosion in the number of cottiers), the Finnish crises occured in a relatively egalitarian subsistence-oriented agrarian mode of production.

70. Recent studies of the Great Famine are: Joel Mokyr, *Why Ireland Starved*, 2nd. ed, London 1985; Cormac ó Gráda, *The Great Irish Famine*, Dublin 1989; Cormac ó Gráda, *Ireland Before and After the Famine*, Manchester 1988.

71. Coleman, "The Demographic Transition in Ireland in International Context", *op. cit.*

72. O'Malley, *Industry and Economic Development, op. cit.*, p. 39. This figure includes the North.

73. *ibid*, p. 40.

74. *ibid*, p. 40.

75. This account relies on O'Malley, *ibid*, p. 47 ff.

76. Joseph Lee, *The Modernisation of Irish Society 1848-1918*, Dublin 1973, p. 2.

77. Girvin, "Nationalism, Capitalism and Economic Development", *op. cit.*, p. 30.

78. O'Malley, *op. cit.*, p. 43 f.

79. A comparison with Denmark suggests that the home market is most important. As for Sweden, it may turn out that there was successful development of industrial centres, while Norway was lucky that its waterfalls could be used for energy-intensive production. Finland still relied on its forests. O'Malley *op. cit.*, rejects alternative explanations of Irish industrial decline (capital shortage, the coal price), claiming that due to the union, Ireland could not protect its industries and implement policies for development. We shall discuss this explanation further below.

80. Tom Garvin, *The Evolution of Irish Nationalist Politics*, Dublin 1981, p. 208 f.

81. Kerby A. Miller, "Class, Culture, and Immigrant Group Identity in the United States: The Case of Irish-American Ethnicity", in Virginia Yans-McLaughlin, editor, *Immigration Reconsidered. History, Sociology, and Politics*, New York 1990, p. 102.

82. Girvin, *op. cit.*, p. 27, p. 45. Few other regions within European states developed such a sense of distinctiveness.

83. *ibid.*, p. 213.

84. For the claim that Ireland fits into Hroch's sequence, cf. Geoff Eley, "The Left, the Nationalists and the Protestants", *Michigan Quarterly Review*, 22:1, 1983. For a more general presentation, see G. Eley, "Nationalism and Social History", *Social History*, 6:1, 1981. Hroch himself, however, explicitly states that the Irish national movement cannot be fitted into any of his four types. Miroslav Hroch, *Social Preconditions of National Revival in Europe. A Comparative Analysis of the Social Composition of Patriotic Groups Among the Smaller European Nations*, Cambridge 1985, p. 194, note 11. The point that the intellectual-scholarly phase in Ireland came after the rise of a nationalist mass movement, is noted in a review by Gale Stokes in the *Journal of Modern History*, Vol. 52, 1980, p. 683,

85. Cf. Stein Rokkan & Derek W. Urwin, *Economy, Territory, Identity. Politics of West European Peripheries*, London 1983, pp. 87-89.

86. Donald H. Akenson, *The Irish Education Experiment: The National System of Education in the Nineteenth Century*, London 1970.

87. Miller, "Class, Culture, and Immigrant Group Identity in the United States", *op. cit.*, p.100.

88. Crotty, "Modernisation and Land Reform", *op cit.*

89. Miller, *op. cit.*, p.116.

90. Hoppen, *Ireland since 1800 op. cit.*, pp. 105-108, 133-134.

91. Garvin, *The Evolution of Irish Nationalist Politics, op. cit.*, p. 213.

92. Stein Rokkan, *Citizens, Elections, Parties*, Oslo 1970, Ch. 3, Table 4, p. 124. As for our contrast cases, the comparison includes Austria, Switzerland, and Finland. Sweden and Denmark are not dealt with since they did not break out from larger political entities.

93. Rokkan, "The Growth and Structuring of Mass Politics in Western Europe. Reflections of Possible Models of Explanation", *op cit.*

94. Rokkan, *Citizens, Elections, Parties*, op. cit., Ch. 3, Table 5, p. 132.

95. Rokkan, "The Growth and Structuring of Mass Politics in Western Europe" *op. cit.*; with reference to David Thornley, "Historical Introduction", to Basil Chubb, *The Government and Politics of Ireland*, Stanford 1970 (the introduction is not contained in the 1982 second edition).

96. Miller, "Class, Culture, and Immigrant Group Identity", *op. cit.*, p.103 f, describes O'Connell as an organic intellectual of the Catholic bourgeoisie in the pre-famine period. In that period, the middle class was clearly separated from the Catholic masses of artisans, smallholders, cottiers and labourers, many of whom were illiterate.

97. D. Miller, "Irish Catholicism and the Great Famine", *Journal of Social History*, 9:1, 1977, p. 84.

98. At that time, of course, the franchise was narrowly restricted to the upper classes. Peter Flora, *State, Economy, and Society in Western Europe 1815-1975. A Data Handbook*. Vol. I, Frankfurt a.M. 1983, p. 123, provides the following numbers for the electorate as a percentage of the enfranchised age group (and in brackets: the electorate as a percentage of population of 20 years and older): 1831: 3.8, 1835: 4.6, 1846: 6, 1866: 14.6, 1869: 16, 1871: 17.7, 1881: 17.8, 1886: 59.1 [27.4], 1889: 62.3 [28.9], 1918: 86.3 [74.1], 1922: 90.1 [77.5], 1923: 99.9 [97]. This shows that the major extension of the franchise happened as a consequence of the British Electoral Reform 1884/5 (which still excluded above all domestic servants and recipients of poor relief), and the British adoption of universal and almost equal suffrage for male voters, extended to women over 30 years in 1918. (The numbers in brackets shows that the extension of the franchise for women took place mainly in the 1918 reform and after independence.) The Irish nationalists fought for equal rights for Catholics, while being free riders on British extensions of the franchise.

99. The names used were the "Irish Republican Brotherhood" and "Clan-na-Gael". A source of inspiration was the Irish warrior Finn MacCumhal (MacCoul), and his followers, the Fianna.

100. During the 19th century, about 5 million Irish Catholics settled in North America. Irish-American nationalism became an separate brand of Irish nationalism. In the 1860s, the Fenian movement had 50 000 American members. Miller, "Class, Culture, and Immigrant Group Identity in the United States", *op. cit.*, p.116.

101. Kerby A. Miller, "Emigration, Ideology and Identity in Post-Famine Ireland", *Studies*, 75:300, 1986, p. 518. This essay summarises his analysis in Kerby A. Miller, *Emigrants and Exiles: Ireland and the Irish Exodus to North America*, New York 1985, p. 102-30, p. 427-492. For a detailed discussion, see also Tom Inglis, *Moral Monopoly. The Catholic Church In Modern Irish Society*, Dublin 1987.

102. Emmet Larkin, "The devotional revolution in Ireland", *American Historical Review*, 77:3, 1972, p. 644, p. 651.

103. Akenson, *The Irish Education Experiment: op. cit.*, p. 140, p. 346. The illiteracy rate for Roman Catholics declined from 45.8 percent in 1861 to 16.4 in 1901.

104. For comparative indicators of religious devotion, see Chapter 11.3, subsection on Nationalism and Catholicism.

105. Tom Garvin, "The Anatomy of a Nationalist Revolution: Ireland, 1858-1928", *Comparative Studies in Society and History*, 1986, p. 485. Studying the background of the nationalist leaders, Garvin found that many of them had achieved some third level education from such institutions.

106. Rokkan, "The Growth and Structuring of Mass Politics in Western Europe", *op. cit.*, p. 71, gives the following summary: "The Finns mobilised to defend their language and their inherited culture against the Swedish ascendancy but found a common ground with their masters in the Lutheran religion: in fact, the Church was quick to open up channels of recruitment from the ranks of the Finnish peasantry and soon became an important agency of national mobilisation and integration. In Ireland there was no such bridge-building: after the defeat of the Rebellion of 1798 and the consolidation of the Orangeist alliance of the Protestant proletariat and peasantry with the English gentry elite, the counter-mobilisation was spearheaded by the Catholic bourgeoisie under O'Connell and the fight for Irish independence was defined as a crusade for the restoration of the rights of the Ancient Church." The main difference, however, was that Finland's Swedish ascendancy elite had been cut off from the Swedish state, while the Anglo-Irish ascendancy elite maintained their ties to England. In the counterfactual case of Irish independence in the late 18th century, who knows whether the ascendancy elite would have adjusted to the requirements of the growing Catholic middle classes.

107. Garvin notes the strange mix of being a peripheral region and a colony: Ireland "was and is subject to a unusually complete cultural blanketing by its erstwhile colonial metropole, and is, almost uniquely in Western Europe, a post-colonial successor state". He compares it to Finland, which was "never submerged institutionally and culturally to anything like the same extent". Tom Garvin, "Nationalist Elites, Irish Voters and Irish Political Development: A Comparative Perspective", *Economic and Social Review*, 8:3, 1977, p. 162.

108. Risto Alapuro, *State and Revolution in Finland*, Berkeley 1988, p. 21-23.

109. There is a certain parallel here between the compliants and the representatives of the Catholic middle classes in the case of the 1800 Act of Union. There is also a parallel between Constitutionalists/Compliants and radical/moderate Irish nationalists a hundred years later.

110. Alapuro, *State and Revolution in Finland, op. cit.*, p. 98-100.

111. *ibid*, p. 265.

112. Alapuro uses the Baltics as the main comparative contrast to Finland. Like Finland the Baltics were parts of the Russian empire and obtained national independence as a consequence of the breakdown of the Russian empire during World War I. The Baltic elites also had a foreign language and culture, namely German. However, the Baltics did not experience the same degree of nation-building prior to independence, as there was no linguistic conversion among the upper classes, and agrarian relations were dominated by a manorial system supported by labour-repressive means. The Baltic elites remained loyal to Russia, as they were dependent on the empire to sustain this system. Their aristocratic stance towards the lower classes made it natural for them to stick to German language and culture. Alapuro, *State and Revolution in Finland, op. cit.*, p. 223-228.

113. Cf. footnote 106 above.

114. Again, the diaspora abroad was crucial. In the early 1880s the Irish National Land League of America counted half a million supporters. Miller, "Class, Culture, and Immigrant Group Identity in the United States", p.116.

115. It is impossible here to deal in more detail with the comlicated divisions and alliances among classes and strata within Irish agriculture. Two major studies, Paul Bew, *Land and the National Question in Ireland, 1858-82*, Dublin 1978, and Samuel Clark, *Social Origins of the Irish Land War*, Princeton 1979, differ strongly, Bew emphasising class divisions within the Land League, Clarke the collective action of all Irish Catholic farmers against landlords. Cf. L. P. Curtis, "On class and class conflict in the land war", *Irish Economic and Social History*, VIII, 1981. Kerby Miller, "Class, Culture, and Immigrant Group Identity in the United States", *op. cit.*, talks about a homogenous Irish Catholic bourgeoisie, including the Church hierarchy, the urban shopkeepers and tradesmen, as well as middle to large farmers. We are basically following this rough approach, but we have at times distinguished between poorer peasants and more well-to-do tenant farmers, and we shall later make a distinction between graziers and tenant farmers.

116. Hoppen, *Ireland since 1800, op. cit.*, pp. 89, 114-118.

117. Parnell thus fought the Anglo-Irish ascendancy elite to which he himself belonged. The majority of the Protestant population, however, was against Home Rule, fearing that Home Rule by Catholics would deprive them of their special privileges which dated back to the plantations.

118. This was a secret party of republican radicals. Cf. Garvin, "The Anatomy of a Nationalist Revolution", *op. cit.*, p. 475-80.

119. Liam Kennedy, "Farmers, Traders, and Agricultural Politics", in Samuel Clark & James S. Donnelly, Jr., editors, *Irish Peasants. Violence & Political Unrest 1780-1914*, Manchester 1983, p. 366.

120. David S. Jones, "The Cleavage between Graziers and Peasants in the Land Struggle, 1890-1910", in Samuel Clark & James S. Donnelly, Jr., editors, *Irish Peasants. Violence & Political Unrest 1780-1914*, Manchester 1983. Estimating the size of the grazier element in 1901, Jones argues that among 11,338 holdings over 200 acres, (covering about 5 million acres), there were many ranches.

121. *ibid*, p. 382-4.

122. *ibid*, p. 391, with reference to James Wilson, "Tillage versus grazing", *Journal of the Department of Agriculture and Technical Instruction for Ireland*, V:2, 1905, pp. 217-35 as an early discussion of this, calculating that expenditure in pasture farming was about one-fifth of that in tillage.

123. Hoppen, *op. cit.*, pp. 121-122.

124. Crotty, *Irish Agricultural Production. Its Volume and Structure, op. cit.*, p. 82 calculates that in 1905 the truly competitive rent would have been about £ 30 million, while the rent the occupiers paid was only £ 16 million. Thus, the proposal made by Davitt at the time of the land reforms in the 1880s, a system in which "the peasant would hold his land from the state, subject to payment of taxes approximating to competitive rents" was not at all considered. Crotty, p. 82, notes that Davitt's proposal coincided with Henry George's view (*The Irish Land Question*, New York 1881) that peasant proprietorship would not solve Ireland's problems. As for the contrast with Denmark, Crotty, p. 82, writes: "Because of its political and economic dependence on the peasants, the Danish monarchy sought to strengthen their rights and welfare. The fiscal laws, being based largely on property taxes, discouraged the amassing of landed property, as likewise did legislation forbidding the amalgamation of small holdings. Continuity of social customs and values restrained the growth of population and this, combined with a predominantly tillage farming which required large inputs of labour, resulted in relatively high returns to the worker for his work."

125. Hoppen, *op. cit.*, p. 96-98.

126. Cf. Tom Garvin, "The politics of language and literature in pre-independence Ireland", *Irish Political Studies*, Vol. 2, 1987: The Gaelic League originally tried to bridge the Protestant/Catholic gap, but clerical and separatist forces succeeded in taking it over after it had become a mass movement.

127. Northern Ireland has 6 counties, four of them, Londonderry, Antrim, Armagh and Down with more than 50 percent Protestants, Tyrone and Fermanagh have between 30 and 50 percent. The Official Unionist Party ruled for 50 years without interruption (1918-68). Northern Ireland had Home Rule, and the British used very few resources to administer it. Rowthorn & Wayne, *Northern Ireland. The Political Economy of Conflict*, *op. cit.*, p. 23 ff.

128. Garvin, "The Anatomy of a Nationalist Revolution", *op. cit.*, p. 480.

129. *ibid*, p. 484.

130. This activity was strongly supported by the Irish diaspora. Up to 1916, there were many donations and great organisational activity, and in the period 1916-1921, over 800,000 Irish-Americans joined nationalist organisation, remitting over $10 million to assist Sinn Féin and the IRA in the liberation struggle. Miller, "Class, Culture, and Immigrant Group Identity in the United States", *op. cit.*, p.116.

131. Hoppen, *op. cit.*, p. 134-147.

132. *ibid*, p. 140.

133. Rokkan, "The Growth and Structuring of Mass Politics in Western Europe", *op. cit.*, p. 72. In Northern Ireland this created a cleavage between an underprivileged Catholic proletariat on the one hand, and a Protestant bloc of privileged workers with secure, intermediate jobs, communicating extensively with their employers in Orangist organisations. In most other European countries at that time, the authorities were coping with the so-called "social question" linked to the growth of a large proletariat. A main reason why such a question never really came up in Ireland was the dominance of this particular cleavage in the core industrial city, Belfast.

134. As an exercise of counterfactual reasoning, one could try to imagine the Turku area joining Sweden in 1918. But even in such a case, it seems unlikely that Finland would have problems on a scale similar to those of Ireland. Finland was religiously homogenenous with Sweden.

135. See footnote in Chapter 11.1.

136. Rokkan, "The Growth and Structuring of Mass Politics in Western Europe" *op. cit.*

137. Garvin, "The Anatomy of a Nationalist Revolution", *op. cit.*, p. 481. As already noted, a similar tension had existed in Finland, but the tensions between Young and Old Finns only took the form of electoral competition, without organisational and military consequences.

138. Hoppen, *op. cit.*, p. 174-175.

139. Garvin, "The Anatomy of a Nationalist Revolution", *op. cit.*, p. 491: "Guerrillas tended to be younger and more uncompromising. It was the pre-treaty IRA of the south and west that was to become the main heir to radical republicanism in Ireland, apparently echoing pre-1914 traditions. Defeated in

1923, they nevertheless came to dominate party politics in independent Ireland eventually, and their ultraseparatist wing was to found a "new" and uncompromising IRA tradition. The mentality of this defeated group has in many ways dominated most active republicanism in both Ireland and Irish America ever since." For the social basis of the civil war division, see Garvin, p. 489.

140. *ibid*, p. 492.

141. *ibid*, p. 484.

142. This typical statement is from the nationalist historian George O'Brien, *The Economic History of Ireland from the Union to the Famine*, London 1921, p. 351, quoted in Girvin, "Nationalism, Capitalism and Economic Development", *op. cit.*, p. 34

143. L. M. Cullen, "Irish Economic History: Fact and Myth", in L. M. Cullen, editor, *The Formation of the Irish Economy*, Cork 1968; and Joseph Lee, "Capital in the Irish Economy" in the same collection. The launching of this revisionist view seems to correspond to the new outward turn in industrial policies, cf. Chapter 12 below.

144. O'Malley, *Industry and Economic Development*, *op. cit.* Cf. Chapters 3 and 11. It can be argued that such arguments reflect the phase in which the problems of the industrialisation by invitation strategy had become manifest, cf. Chapter 12 and Part V.

145. Denis O'Hearn, "The Irish Case of Dependency: An Exception to the Exceptions?", *American Sociological Review*, 54, August, 1989, p. 579 claims that even in the 19th century, British laws "outlawed certain lines of industry and exports", but he gives neither sources, nor an indication of how long into the 19th century such legislation was maintained.

146. Girvin, *"Nationalism, Capitalism and Economic Development"*, *op. cit.*, p. 34.

147. If we venture into the foggy area of counterfactuals, it might be argued that if Ireland had won independence earlier, its reliance on British type institutions might have been even stronger than it was in the post-1922 period.

148. Similarly, Cullen argues that the Union was not to blame, since Ireland's problems of industrial development were similar to those of other small industrial centres in Britain (e.g. Norwich). The decline of the Irish textile industry was just a consequence of the concentration of the textile industry in Lancashire and Glasgow (scale advantages/external economies). Cullen, *An Economic History of Ireland since 1660*, *op cit.*, Ch. 5.

149. Cf. Dieter Senghaas, "Self-Reliance and Autocentric Development — Historical Experiences and Contemporary Challenges", *Bulletin of Peace Proposals*, 1/1981. For Senghaas' typology of trade policies, see Chapter 8.2.

150. Lee's more specific explanations will be surveyed further down in this section.

151. O'Malley, *Industry and Economic Development*, *op. cit.*, p. 53. The figures provided in Table 2.2. above, are slightly higher. Kennedy, Giblin & McHugh, *The Economic Development of Ireland in the Twentieth Century*, *op. cit.*, p. 47, notes that *one firm*, the Protestant Guinness Company, accounted for 30 percent of Ireland's total manufacturing value added in 1926.

152. Crotty, "Capitalist colonialism and peripheralisation: The Irish Case", *op. cit.* p. 229 explains the exceptions to Irish deindustrialisation as follows: "The English core produced no products directly competitive with Irish linen or whiskey; beer, as a result of the steep rise in the 1850s in the Irish excise on whiskey and of the escapist demand of a ruined society for alcohol, was the only commodity the consumption of which increased more rapidly in Ireland than in Britain in the second half of the nineteenth century; and Belfast shipbuilding owed its success to the identity of interests of protestant shipyard workers and employers in the face of a hostile catholic majority competing for jobs in an island, where for 150 years, half of those born have starved or emigrated. The close collaboration and ready innovation that identity of protestant interest generated were crucial in the technologically advanced iron shipbuilding industry of the second half of the nineteenth century." For a more detailed discussion, see Crotty, *Ireland in Crisis*, *op. cit.*, pp. 49-56. These are interesting statements in so far as Crotty refers to social mechanisms to modify his general explanation in terms of relative prices, but escapism must be analysed as a part of a broader social structure and the Protestant alliance must be seen as only one aspect of a specific Belfast-based system of innovation which must be analysed along Neo-Schumpeterian lines.

153. We have earlier discussed Senghaas' explanation. His principal explanatory factors are the distribution of landholdings and of income. This explanation has already been assessed, but one qualification is necessary: the agrarian structure traced in Table 11.2 was the result of the late 19th century land reforms, analysed in Chapter 11.2. Before the land reforms, and especially before the Famine and the huge outflow of emigrants, agrarian relations in Ireland were very inegalitarian, with wealthy absentee owners, widespread subsistence peasant activities and a large landless proletariat (cf. Table 11.9 above.) If data had been available, they might well have shown greater inequalities in Ireland than in any of the contrast cases at that time. But on the other hand, even the Scandinavian countries had a strong growth of the cottier strata, and Finland, as we have seen, experienced a large growth in landless agrarian workers later than Ireland (Table 11.9). Furthermore, we have also seen that there are other decisive differences, for instance in geo-climatic conditions, which are in any case not reflected in the different distribution of agrarian holdings.

154. Senghaas, *Von Europa lernen*, *op. cit.*, p. 138 (English edition, p. 91). Establishing his notion of a "Scandinavian" development path, Senghaas in fact collapses the Danish home-market oriented industrialisation with the Swedish export-led development of a very effective engineering industry in a situation of high wages.

155. Ireland has an abnormally high dependency ratio and a lower density of population per square mile of agricultural land than any other agricultural country in Europe. Robert O'Connor, Eoin O'Malley & Anthony Foley, *Aspects of the Swedish Economy and Their relevance to Ireland*, The Economic and Social Research Institute, Broadsheet, No. 16, December 1978, p. 100 f.

156. Franklin D. Scott, "The Study of the Effects of Emigration", *Scandinavian Economic History Review*, VIII: 2, 1960, p. 164, mentions that in the 1920s in Sweden, remittances from the U.S. were 7.5 percent of the gross annual product of the forests, 2 percent of the gross product of agriculture, and 1 percent of the incomes from manufacturing, mining and crafts. It was at the most 25 percent of the balance of payments. Calculations were made by Erik Lindahl, et. al., *The National Income of Sweden, 1861-1930*, Stockholm 1964. Miller, "Emigration, Ideology and Identity in Post-Famine Ireland", *op. cit.*, p. 520 f, notes that annual remittances to Ireland in the second half of the 19th century were about £ 1 million. As noted in Chapter 12 remittances were one of the factors which solved Ireland's balance of payments problems until the 1950s. At that time, they were surely even larger than in Sweden.

157. Eoin O'Malley, "The Decline of Irish Industry in the Nineteenth Century", *The Economic and Social Review*, 13:1, 1981, p. 35 mentions the Danish case, but notes that the possibility of agricultural machinery as a new leading sector was closed for Ireland by the small-scale, grazing-oriented agriculture.

158. Kennedy, "Farmers, Traders, and Agricultural Politics", *op. cit.*, p. 367 f. The dominant view in the Nationalist party was hostile toward the cooperative movement. Kennedy finds that this was due to the political influence of traders, and that despite electoral reforms, farmers were under-represented and traders over-represented in political life. This, he argues, shows a clear continuity between pre- and post-independence Ireland.

159. Joseph Knapp, *An Appraisment of Irish Agricultural Cooperation in Ireland*, Dublin 1964, p. 16, p. 41-42.

160. Senghaas, *Von Europa lernen*, *op. cit.*, p. 155-56 (English edition, p. 101-102).

161. Herman Stolpe, "The Cooperative Movements", in Erik Allardt, et. al., *Nordic Democracy*, Copenhagen 1981, p. 363-365; agricultural cooperation is similarly important in Finland (p. 371-3) and Sweden (p. 380-2), but since agricultural exports are not so important for the development of these countries, the comparison is less relevant.

162. I owe these points to P. Commins, TEAGASC, Dublin.

163. Peer Hull Kristensen, "Denmark — an experimental laboratory for new industrial models", *Entrepreneurship and Regional Development*, Vol. 1, 1989.

164. "The folkmyth of the nineteenth century is the struggle of the Gael to regain the land; the reality of its conclusion was a small farm pattern which ... could be sustained only by the safety-valve of emigration and by subsidisation ... This uneconomic but atavistic clinging to peasant ownership is perhaps the greatest political influence bequeathed by the nineteenth century on the twentieth, perhaps more decisive even than any issue of nationality or religion. The achievement of successive English reform administrations, from Gladstone's to Balfour's, was to convert the great bulk of the

Irish peasantry from social revolution to social conservatism. In so doing they largely dictated that the pattern of the final, national, revolution should be socially conservative." Thornley, "Historical Introduction", *op. cit.*, in Basil Chubb, *The Government and Politics of Ireland.*

165. Crotty, *Ireland in Crisis, op. cit.*, p. 219.

166. Crotty's comparison of Denmark and Ireland reported in Chapter 11.1 above accepts Irish adjustment as rational, given the natural contraints and given that free flows of labour are accepted. If a normative condition is added, namely that a country should be able to provide employment for all the people born there, then the whole analysis must look wider than just natural and climatic conditions. At this point, Crotty introduces his discussion of the relationship between land and tax reforms.

167. Cf. Chapter 11.1.

168. Cf. footnote 124 above. R. Crotty, *A Radicals Response*, Dublin 1988, p.31 contains a specified scheme for such a land tax. The first proposal for a land tax was rejected in 1882, cf. J. F. Lee, *Ireland 1912-1985*, Cambridge, 1989, p. 392.

169. Cf. Chapter 4 above.

170. Cf. the remark by Beddy, quoted towards the end of Chapter 11.1.

171. Mart Bax, "The Political Machine and its Importance in the Irish Republic", Political Anthropology, 1:1, 1975.

172. Hans Mol & Margaret Hetherton, "Introduction", in Hans Mol, editor, *Western Religion: A Country by Country Sociological Inquiry*, The Hague 1972, p. 12.

173. *ibid*, p. 16, p. 18, p. 20. No aggregate data were given for Switzerland, but more disaggregated data provided in R. J. Champiche, "Switzerland", in Hans Mol, editor, *Western Religion*, p. 516, suggests that Switzerland is somewhere in between Ireland and Austria.

174. Mol & Hetherton, *ibid*, p. 18. The fact concerning religious broadcasts is largely due to the absence of alternative broadcasting programmes in the 1960s. The Scandinavian level of church attendance (religious participation) is in fact exceptional in comparison with any other Christian country.

175. *ibid*, p. 18.

176. Hugo Bogensberger & Paul Zulehner, "Austria", in Hans Mol, editor, *Western Religion: A Country by Country Sociological Inquiry, op. cit.*, p. 48.

177. Mol & Hetherton, *op. cit.*, p. 20.

178. Rokkan, *Citizens, Elections, Parties, op. cit.*, p. 125-126.

179. The process of party formation is accounted for in Chapter 12.2. The question of whether the two major Irish parties reflect a social cleavage has been much discussed in Irish political science. Cf. particularly J. H. Whyte, "Ireland: Politics Without Social Bases", in Richard Rose, editor, *Electoral Behavior*, New York 1974. Also R. K. Carty, *Party and Parish Pump: Electoral Politics in Ireland*, Dingle, 1981, p. 93-97, criticises the attempts to trace a social cleavage-line between Fianna Fáil and Fine Gael. Carty is critical of the view that the rise of Fianna Fáil was the result of the mobilisation of the western periphery against the eastern core. He claims that the socially based mobilisation in Ireland ended before independence, and that the Irish party system is based on a purely political cleavage. Other electoral researchers, have contested this interpretation, but we cannot possibly deal with this debate here. It is at any rate clear that compared to our Scandinavian cases, the two larger Irish parties involve more elements of catch-all politics.

180. Garvin, *The Evolution of Irish Nationalist Politics, op. cit.*, p. 215.

181. *ibid*, p. 215.

182. R. Breen, D. Hannan, D. Rottman & C. Whelan, *Understanding Contemporary Ireland*, Dublin 1990, p. 107; cf. also Inglis, *Moral Monopoly, op. cit.*, p. 218.

183. J. J. Lee, "Women and the Church since the Famine", in Margaret McCurtain and Donna Corráin, editors, *Women in Irish Society: The Historical Dimension*, Westport 1979, p. 39. Cf. also Inglis, *Moral Monopoly, op. cit.*, p. 220-1.

184. Inglis, *ibid*, p. 220.

185. *ibid*, p. 222.

186. Coleman, "The Demographic Transition in Ireland in International Context", *op. cit.*. This is also very clearly brought out in Kingsley Davis, "The Theory of Change and Response in Modern Demographic History", *Population Index*, 21:4, 1963.

187. Breen, Hannan, Rottman & Whelan, *Understanding Contemporary Ireland*, p. 107.

188. "Certainly the dominant authority structure in Ireland is the church. It is in a word omnipresent. To be Irish is to be Catholic. The church's values permeate the political culture and constitutional order; its teachings and teachers dominate the socialisation system; its formal structures set a standard for social and political organisation. The Irish church is an anti-intellectual, male dominated, authoritarian, hierarchial organisation which rewards loyalty and faithful service. So are Irish political parties." Carty, *Party and Parish Pump: Electoral Politics in Ireland, op. cit.*, p. 142.

189. Lee, *Ireland 1912-1985, op. cit.*, p. 644.

190. *ibid*, p. 645 f.

191. *ibid*, p. 374. Crotty also works with such a perspective, see Chapter 4.2 above.

192. *ibid*, p. 375.

193. *ibid*, p. 390 ff.

194. *ibid*, p. 391.

195. *ibid*, p. 392.

196. *ibid*, p. 392. At this point, Lee agrees with Crotty, cf. last subsection on "The post-colonial state" above.

197. *ibid*, p. 392.

198. Miller, "Emigration, Ideology and Identity in Post-Famine Ireland", *op. cit.*, p. 516.

199. *ibid*, p. 517.

200. *ibid*, p.103 f.

201. *ibid*, p. 520 f.

202. *ibid*, p. 104. Lee, "Women and the Church since the Famine", *op. cit.*, p. 42 judges Irish society in the century after the Famine as follows: "Its social body was ravaged by the diseases of materialism and emigration. It claimed to venerate the family as the fundamental unit of society and yet insisted on depriving a higher proportion of its people of the opportunity of establishing a family than any other European country. It was a sick society, where modest wealth accumulated and men and women emigrated. No such society wants to reflect — or to hear others reflecting — that it can maintain its social structure only by constant doses of social blood letting. A traditional function of churches in such circumstances is to supply the cosmetic to conceal the sickness. In a society preoccupied with appearances, the moral beautician plays an indispensable if unheroic role."

203. In this connection it is interesting to note that the religious enthusiasm is not strong among U.S. descendants of the emigrants: In the U.S. in 1979, 44 million people claimed to be of at least partial Irish descent, but only 7.5 million (that is 17 percent) of these claimed to be Catholics. D. N. Doyle, "Contemporary Irish identity: a Roman Catholic's Reflections", *Crane Bag*, 9:2, 1985, p. 156, n. 38.

204. K. Miller, "Emigration, Ideology and Identity in Post-Famine Ireland", *op. cit.*, interprets the 1922-23 civil war as such a disruption, claiming that it was the lower strata of the nationalist movement which turned to more extreme nationalism in the 1922-23 civil war.

205. *ibid.*, p. 522 f.

206. *ibid*, p. 523.

207. *ibid*, p. 525.

208. *ibid*, p. 527.

209. D. F. Hannan & P. Commins, "The Significance of the Small Scale Farming Sector in Ireland's Socio-Economic Transformation", paper to the conference on *The Development of Industrial Society in Ireland*, Nuffield College, Oxford, 7-9 December 1990. Arensberg and Kimball made antropological investigations in the West of Ireland in the 1930s, cf. C. A. Arensberg, *The Irish Countryman*, New York 1937, and C. A. Arensberg & S. T. Kimball, *Family and Community in Ireland*, Cambridge, Mass. 1940 (2nd ed. 1968).

210. Scott, "The Study of the Effects of Emigration", p. 166 presents the views represented by Sean O'Faolain, "Look Homeward, Angel", in *The Impact of America on European Culture*, Boston 1951, pp. 37-47, "where he describes the Irish emigrants as wanting the old country to remain old-fashioned, traditional, even backward, as when they had left home."

211. Quotes from Hannan & Commins, *op. cit.*, p. 38-40.

212. Cf. Inglis, *Moral Monopoly*, *op. cit.*, p. 216.

213. Lee, *op. cit.*, p. 392.

214. Inglis, *op. cit.*, p. 223 f. At one point in his book, Lee uses the Catholic Church to prove that the possessor principle was not inherent in the Irish nature. Referring among other things to the achievements of Irish missionaries abroad, he claims the Catholic Church was the one institution which displayed performance! Thus, the power of the possessor priciple was "shaped by a specific historical conjuncture". Lee, *op. cit.*, p. 392, p. 395-396. But it might be that there is a certain discrepancy between the conservative powers of the Catholic "hierarchy" at home, and the achievement of the Irish Catholic church e.g. in the missionary fields.

215. L. Kennedy, "The Roman Catholic Church and Economic Growth in Nineteenth Century Ireland", *Economic and Social Review*, 10, 1978. Inglis, *Moral Monopoly*, p. 223 f opposes this view.

217. K. Kennedy, T. Giblin & D. McHugh, *The Economic Development of Ireland in the Twentieth Century*, London 1988, p. 183.

218. *OECD in Figures* 1988 gives the following percentages for imports of goods (not services) as a percentage of GDP: Finland 21.8; Sweden 24.8; Denmark 27.8; Austria 28.5; Switzerland 30.3; and Ireland 47.3.

219. This problem, Ireland's strong links to the country with the most sluggish postwar growth performance, is emphasised by many scholars, cf. e.g. Kennedy, Giblin & McHugh, *op. cit.*

220. Derek W. Urwin, *The Community of Europe*, London 1991, p. 127, cf. p. 140 for Irish expectations of a more diversified trade pattern as a result of EC-membership.

221. Still, some Finnish specificities remained: a 50/50 split of the left wing persisted through the postwar period. Only in the late 1980s did the decline of the Communist party reduce it to the standard Scandinavian position of oblivion. But the system stimulated compromises anyway. This was due to the strict majority rules laid down in the constitution. Also the fusion of the two labour union federations in 1968, was important. See Chapter 9 above, and Part V below.

222. Carty, *Party and Parish Pump: Electoral Politics in Ireland*, *op. cit.*, p. 89; Hoppen, *Ireland since 1800 — Conflict and Conformity*, *op. cit.*, p. 177-178.

223. Garvin, *The Evolution of Irish Nationalist Politics op. cit., p. 214.*

224. In 1960, there were about 53 percent Protestants, and 45 percent Catholics in Switzerland. Roland J. Campiche, "Switzerland", in Mol, editor, *Western Religion*, *op. cit.*, p. 523.

225. P. Pyne, "The Bureaucracy in the Irish Republic: Its political role and the factors influencing it", *Political Studies*, XXII, 1974, p. 21-22.

226. Commission Report, 1936, quoted in Basil Chubb, *Source Book of Irish Government*, Dublin 1964, p. 117.

227. The subject of some famous critical attacks, e.g. by Keynes and by T. Balogh, "The apotheosis of the dilettante: the establishment of mandarins", in H. S. Thomas, editor, *The Establishment*, London 1959.

228. Denis O'Hearn, "The Road from Import-Substituting to Export-Led Industrialisation in Ireland", *Politics and Society*, 18:1, 1990, p. 11.

229. A. Cohan, *The Irish Political Elite*, Dublin 1972, p. 38-39 mentions that the staff of the bureaucracy was one of the few groups in the new Free State which had not played a prominent role in the revolutionary events of 1916-23.

230. Michael Gallagher, "Does Ireland need a new electoral system?", *Irish Political Studies*, 1987, Vol. 2, 1987.

231. Mart Bax, "The Political Machine and its Importance in the Irish Republic", *Political Anthropology*, 1:1, 1975. In political machines, the politician (here a TD, the Irish term for Member of Parliament), is a broker operating between clients and producers of public benefits. Cf. Ch. 4 on clientelism.

232. Out of Ulster's counties, only three (with 15 to 30 percent Protestants today) — Donegal, Cavan and Monaghan — were left in the Irish Republic.

233. Hans Chr. Johansen, *Danish Historical Statistics 1814-1980*, Copenhagen 1985, Table 7. In 1855, only 12.8 percent (of these 20 percent employed in handicraft and manufacturing industry) were in textiles, cf. Menzel, *Auswege aus der Abhängigkeit*, *op. cit.*, Table 51, p. 267.

234. O'Malley, *Industry and Economic Development*, *op. cit.*, p. 53. The figures provided in Table 6.1 above, are slightly higher. Kennedy, Giblin & McHugh, *op. cit.*, p. 47, note that *one firm*, the Guinness Company, accounted for 30 percent of Ireland's total manufacturing value added in 1926.

235. Johansen, *Danish historical statistics 1814-1980*, *op. cit.*, Table 7.

236. By Jörberg, cf. Chapter 6.

237. Kennedy, Giblin & McHugh, *op. cit.*, p. 35-36; Crotty, *Ireland in Crisis*, *op cit.*, p. 70-71.

238. This was discussed in Chapter 12. The Nordic countries, however, do not have as extensive apprenticeship systems as Austria and Switzerland.

239. R. Breen, D. Hannan, D. Rottman & C. Whelan, *op. cit.*, p. 139. A. Dale Tussing, *Irish Educational Expenditures — Past, Present and Future*, Dublin (ESRI) 1978, p. 58, notes that until the 1950s, Irish first and second level curricula did not aim to prepare the youth for employment, rather the "moral, intellectual and religious" roles of schools were emphasised.

240. The Irish Land Acts involved payment of annuities to Britain. The refusal of the Fianna Fáil government to make these payments started off a vicious circle of punitive tariffs. Cf. Kennedy, Giblin & McHugh, *op. cit.*, Ch. 2 for an overview of the escalation of customs protection between Ireland and England. The two large export items (Table 12.5) were hardest hit (live animals and other food). This was a phase of rising protectionism between all countries of the world economy, so it is hard to single out the impact of the Economic War from the general protectionist trade policy and the overall great depression. At that time — as is evident from Table 12.1 — all our Nordic contrast cases had England as their single most important trading partner. They all, however, concluded preferential agreements with England, with quotas for their most important export products. Kennedy et.al., p. 45, note the possibility that Ireland would have been better off by such preferential agreements than by the Economic War. The Irish share of U.K. imports declined substantially as a consequence of that war. It may well be that Denmark, for example, won larger agricultural quotas at Ireland's expense. This topic, however, cannot be investigated further here.

241. See O'Malley, *op. cit.*, p. 63 for details: The Control of Manufactures Act of 1932-4, implied a majority clause for Irish citizens.

242. The question of whether Ireland would have experienced a development more like the contrast cases if Northern Ireland had remained in the Republic is of course impossible to answer. The more economic and technical side of this question is the extent to which maintenance of the Belfast centre in the Republic would have stimulated stronger industrialisation related to agriculture. But the political side of it is even more difficult: counterfactual scenarios as to what the politics of such a Republic would have been must be just impossible to develop...

243. Kennedy, Giblin & McHugh, *The Economic Development of Ireland*, *op. cit.*, p. 45-46.

244. *ibid*, p. 46.

245. O'Malley, *Industry and Economic Development op. cit.*, p. 59 f. O'Malley claims that the relative success of industrial development during the protectionist phase showed that barriers to entry had been a major problem. Cf. Chapters 2 and 3.

246. The net domestic product per capita declined between 1931 and 1937 in both Austria and Switzerland, while it rose moderately in Ireland and strongly in Denmark, Finland and Sweden. Cf. Peter Flora, *State, Economy, and Society in Western Europe 1815-1975. A Data Handbook*, Vol. II, Frankfurt a.M. 1987, pp. 340-365.

247. With 1930=100, Finnish industrial employment was at 150 in 1936. Although data are not available for 1937 and 1938, Finnish industrial production kept rising. Since employment had followed its curve closely since 1925, it too was probably at about 180 in 1938. Data on the Nordic countries are taken from *Kriser och krispolitik i Norden under mellankrigstiden. Mtesrapport. Nordiske historikermtet i Uppsala 1974*, Uppsala 1974, p. 210.

248. O'Malley, *op. cit.*, p. 62.

249. Crotty, *Ireland in Crisis, op. cit.*, p. 70.

250. Hoppen, *op. cit.*, p. 180-182.

251. Fianna Fáil's ascent to power represents a vague parallel to the Scandinavian red/green alliances, especially the way in which the interests of smaller farmers and industrial workers in sheltered sectors were aggregated. However, while farmers were probably dominant in the Irish case, labour was dominant in the Nordic cases. The Nordic social democratic parties were also dominated by secular forces, while Fianna Fáil emerged from Ireland's "Catholic nationalism".

252. Charles P. Kindleberger, "Finnish War Reparations", in Kindleberger, *Marshall Plan days*, London 1985. Senghaas, *Von Europa lernen*, p. 120 claims that while the egalitarian land distribution is the first explanatory factor for the Finnish success, the second explanatory factor is the industrialisation following reparations to the USSR after World War II.

253. Pyne, "The Bureaucracy in the Irish Republic", *op. cit.*, p. 23.

254. Tom Garvin, "Nationalist Elites, Irish Voters and Irish Political Development: A Comparative Perspective", *Economic and Social Review*, 8:3, 1977, p. 182 f.

255. *ibid*, p. 184. The same paradox appears in Pyne, *op. cit.*, who finds that Irish political culture has an element of "cultural authoritarianism", since the administration is highly centralised, with a focus on control rather than promotion of initiatives. But simultaneously, Pyne claims that a dependence on personal contacts rather than organisational procedures is typical of Irish political culture.

256. Pyne, *op. cit.*, p. 24.

257. Mouzelis, *Politics of the Semi-Periphery*. Cf. Chapter 4 above. Mouzelis' approach is restricted to a specific group of countries. For instance, it cannot be applied to Austria, the only one of our contrast countries which developed a dictatorship in the late 1930s. In the Austrian case, the mobilisation of an indigenous fascist movement, and the closeness to Nazi Germany, were crucial factors.

258. Brian Farrell, "The New State and Irish Political Culture", *Administration*, 16, 1968.

259. $11 million and $12 million respectively in the 1940-48-period; O'Hearn, "The Road from Import-Substituting to Export-Led Industrialisation in Ireland", *op. cit.*, p. 11 f.

260. *ibid*, p. 17.

261. *ibid*, p. 14-15.

262. *Coras Trachtala (Irish Export Board)* was founded in 1952, to advise firms that wanted to develop exports.

263. W. Wallace, *The Transformation of Western Europe*, London 1990, Ch. 3.

264. Quoted in O'Hearn, *op. cit.*, p. 20; p. 25: Then a clear proponent of the deflationist faction, Department of Finance senior official T. K. Whitaker in 1949 warned against the use of Marshall Aid to support new spending programmes.

265. *ibid*, p. 21, with reference to archive sources.

266. O'Malley, *op. cit.*, p. 67.

267. *ibid*, p. 68-70.

268. Table 4.1. Irish unemployment was probably higher, since the Danish rate is only a percentage of unionised workers, and Denmark had virtually no emigration, so its labour force increased.

269. Quoted from the 1955 Memorandum in O'Hearn, *op. cit.*, p. 23.

270. *ibid*, p. 27.

271. Cf. Table 4.1, columns III and V. As for exports, the period of independence up to 1958 is characterised by a decreasing volume of exports during the 1930s and World War II, and a relatively sluggish recovery of export volume in the postwar period. The 1924 level was not surpassed until 1960. Kennedy, Giblin & McHugh, *op. cit.*, p. 179.

272. Comparing income levels per capita, Kennedy finds that in 1913, the two countries were at about the same level, and since Austria fared badly during the interwar period, most of the gap (Austria being in the 1980s 60 per cent "richer" than Ireland) had opened up after 1950. Austria regained pre-World War II levels in 1953, while Ireland reached that level in 1960. Kieran A. Kennedy, "Economic Development and the Entrpreneurial Environment", in Alan Matthews & Eda Sagarra, *Economic Performance in Two Small European Economies: Ireland and Austria Compared*, Dublin 1988.

273. Calculations are based on census data reported in Peter Flora, *State, Economy, and Society in Western Europe 1815-1975. A Data Handbook*, Vol. II, Ch. IX. If data had been available for 1958, the situation for Ireland would probably have been even more grave.

274. Even the Irish authorities made international comparisons at that time. The report which signalled the new late 1950s departure in industrial policies, *Economic Development*, 1958, illustrated Irish performance in the 1950s by noting that in 1956, average income in Ireland was "roughly one-half of that in Denmark and Britain, one-third of that in Canada and one-fifth of that in the United States...between 1949 and 1956 the volume of gross national product increased by 8 percent as compared with 21 percent for Britain and 45 percent for OEEC countries generally...The increase in the volume of industrial output between 1949 and 1956 was 30 percent as compared with 62 percent for OEEC countries." Quoted from O'Malley, *op. cit.*, p. 79.

275. See Lee, *Ireland 1912-1985, op. cit.*, p. 373-397 for a discussion of the importance of Lemass. Lee specifically shows that Lemass and Whitaker's ideas about a new strategy were connected to their conviction that emigration had to be taken seriously as a major drawback for Irish development. Cf. p. 385. As we saw above, Whitaker had earlier been an ardent deflationist.

276. Kennedy, "Economic Development and the Entrepreneurial Environment", *op. cit*, p.116.

277. O'Malley, *op. cit.*, p. 72-82: In 1959, maximum grant rates were 50 (33) percent for plant/machine costs and 100 (66) percent of buildings/land costs in designated (other) areas. In 1969, the legal maximum for new industry grants were 60 (45) percent of all capital costs in designated (other) areas. "Designated" are underdeveloped areas.

278. Kennedy, "Economic Development and the Entrepreneurial Environment", *op. cit.*, p. 116.

279. On the effects, see O'Malley, *op. cit.*, p. 105.

280. NESC, *A Review of Industrial Policy. A report prepared by the Telesis Consultancy Group*. Report No. 64, Dublin, Oct. 1982.

281. O'Malley, *op. cit.*, p. 76 f, p. 171.

282. O'Hearn, "The Irish Case of Dependency: An Exception to the Exceptions?", *op. cit.*, p. 582, Table 3, estimates Ireland's FDI assets (end of 1978) to be 35 percent of GDP, which is higher than any other LDCs on his list. The closest ones are Jamaica: 34; Singapore: 22.2; Malaysia: 18.5; Hong Kong: 15 percent.

283. O'Malley, *Industry and Economic Development, op. cit.*, p. 101-2 (current prices for gross output).

284. O'Malley, *op. cit.*, p. 160, p. 164. A classic study focusing on this type of foreign investment was H. Fröbel, J. Heinrichs & O. Kreye, *Die Neue Internationale Arbeitsteilung*, Reinbeck 1976.

285. D. Hannan & P. Commins, "The Significance of the Small Scale Farming Sector in Ireland's Socio-Economic Transformation", *op. cit.*, note that the government spread foreign industries around the country in order to minimise internal migration and population dislocation. "The IDA's policy of rural industrialisation can claim much credit for the revitalisation of rural areas generally in the 1970s. Between 1971 and 1979, only two counties (Leitrim and Cavan) had net outward migration, compared to 21 counties in 1966-71. During 1971-81, only two counties (Leitrim and Roscommon) failed to show an increase in population in their aggregated rural areas". While Ireland thus has specialised in emigration, internal migration has obviously been minimised. This policy seems to correspond to the ideas expressed when the Church supported the peasants' hunger for land, believing that a rural existence was best for the spiritual welfare of their people. D. Miller actually quotes a bishop, who stated in 1903 that industrialisation should only take place "for the purpose of keeping the people at home and rooting them, if possible, in the soil", adding that Irish governments since 1922 actually have pursued such a policy of industrial development. D. Miller, "Irish Catholicism and the Great Famine", *op. cit.*, p. 93.

286. O'Malley, *op. cit.*, p. 94.

287. *ibid*, p. 174-5.

288. Here O'Malley's results differ from the more orthodox application of dependency theory to the Irish case by O'Hearn, "The Irish Case of Dependency: An Exception to the Exceptions?", *op. cit.*, who tries to show that through the phase of export-led industrialisation (1955-85), there is *decapitalisation*, in the sense that TNCs' negative transfers (profit repatriation, high transfer prices for subsidiaries' imported input) are larger than their direct investments (p. 582-584). For this to squeeze indigenous industry, however, it must be shown that capital is unavailable (or available at impossible prices) to domestic investors. As Irish capital markets were fully integrated with Britain until 1978, the effects of this monetary union would need to be considered, but this is not at all discussed by O'Hearn. It is still possible that there is a squeeze on domestic industry, but the reasons for this would be related to the capital movements between England and Ireland, and not to the influence of TNCs. O'Malley rejects the view that a lack of capital has been the problem of Ireland.

289. O'Malley, *op. cit.*, p. 157.

290. O'Hearn, *op. cit.*, p. 584-6. This even holds relative to other countries with much FDI, such as India and Mexico. Cf. also Part V below.

291. Only to the extent that full free trade was necessary to attract FDIs is there a connection. However, there are several examples of NICs (newly industrialising countries) that have gone for export-led industrialisation without full free trade. The NICs had export-oriented zones, with TNCs invited on vary favourable terms. But they have strong state interventionist, Japanese type support for indigenous industry. To the extent that protection was the reason why they succeeded, one may argue that free trade is the basic problem in Ireland. But we suspect that there is a range of other reasons too.

292. O'Malley, *Industry and Economic Development*, *op. cit.*, p. 123. The ideal definition of indigenous industry is: "Industrial firms which originated in Ireland (rather than first appearing there as subsidiaries in existing foreign companies), including those which subsequently passed into majority foreign ownership and those which may be effectively dominated in important respects by foreign firms." But this definition cannot be fully operationalised, so O'Malley's data on indigenous industries excludes firms which have passed into foreign ownership. See p. 99 f.

293. O'Malley, *op. cit.*, intends to show that the "strongest performances in indigenous industry occurred in activities which are *not* subject to the constraints imposed on latecomers by barriers to entry" (p. 115). He studies three groups. (1) Products with a low value-added, implying processing of local primary products. This is the Irish food industry, meat processing and dairy industry. (Food is the dominant indigenous manufacturing export sector, with 40/42 percent of employment in indigenous firms 1973/1980.) This sector is sheltered by high transport costs for the final product (butter, meat, sawn timber), compared to the primary product (milk, live animals, felled trees). The largest firms are mainly producers' cooperatives or meat processors, sheltered by "proximity to the source of supply of inputs for low value-added processing." As a result, there are many firms of about the same relative large size, "widely spread throughout the country so that each can have its own catchment area for primary inputs" (p. 146). The second group is a number of long established firms in drink and tobacco (Guinness, Carrolls, Irish Destillers). Being old, they have had time to overcome the main entry barriers. The fact that they remain the only ones in such lines of production, indicates that barriers to entry hamper newer firms (p. 116, p. 133). The third group is non-traded industries. One subgroup is building materials, which enjoy natural protection due to high transport costs, another group depends on flexible interaction with local customers, for instance printing and packaging, as well as clay, glass and cement. (Smurfit, Ireland's largest firm, originated in the printing and packaging business). As for printing and packaging, O'Malley holds that Irish firms are "prospering in relatively sheltered areas, and being squeezed out of traded activities characterised by significant economies of scale in advanced countries" (p. 118).

294. O'Malley, *op. cit.*, p. 125 f. As for the focus of government r&d appropriations, Ireland's was strongly biased towards the agricultural field, unlike even Denmark, cf. Conor Maguire, *Research and Development in Ireland 1977*, Dublin 1979, Figure 8.8. A more active technology policy was proposed e.g. in OECD, *Reviews of National Science Policy — Ireland*, Paris 1974, C. Cooper & N. Whelan, *Science, Technology and Industry in Ireland*, Report to the National Science Council, Dublin 1973.

295. O'Malley, *op. cit.*, p. 124f. This point was also made in NESC, *A Review of Industrial Policy. A report prepared by the Telesis Consultancy Group* (1982).

296. The national system of innovation, may also — by the way — be described as a series of market imperfections, that is, non-market factors influencing economic performance.

297. O'Malley, *op. cit.*, p. 121.

298. Kristensen, "Denmark — An Experimental Laboratory", *op. cit.*

299. *ibid*, p. 11.

300. For a conceptual treatment, see Bengt Åke Lundvall, *Product Innovation and User-Producer Interaction*, Research Report, No. 28, Aalborg 1985; Bengt Åke Lundvall, "Innovation as an Interactive Process: From User-Producer Interaction to the National System of Innovation", in G. Dosi, et.al., editors, *Technical Change and Economic Theory*, London 1988, and Bengt-Åke Lundvall, editor, *National Systems of Innovation*, London 1992. Cf. also Ch. 1 above.

301. Klaus Møller Hansen, "International konkurrencedygtige danske industrier", in Kim Møller & Henrik Pade, editors, *Industriel Succes*, Copenhagen 1988, p. 28.

302. Bengt Åke Lundvall, Niels Marbjerg Olsen & Ivan Aaen, *Det langbrugsindustrielle kompleks*, NIKE Research Report, No. 28, Aalborg 1983.

303. Edquist & Lundvall, "Comparing Small Nordic Systems of Innovation", *op. cit.*, p. 24-5 for a definition.

304. *ibid*, p. 24-5.

305. Møller Hansen, *op. cit.*, p. 28.

306. Another of the small agro-exporting countries in Western Europe, The Netherlands, also shows strength in bio-technology. Despite Ireland's position as a major agricultural exporter, such linkages do not seem to have developed here.

307. O'Malley, *op. cit.*, p. 130 f. For the notion of Fordism, indicating the dominant growth sectors of the Golden Age, see Part II above.

308. It is often noted that inert features of the Fordist model are characteristic of the economic crisis of the 1970s and 1980s (cf. Chapter 4.5). But here we use these statistics to indicate the industrial structure which evolved in the 1960s.

309. O'Malley, *op. cit.*, p. 139, p. 141. See p. 140 f for an account of the 18 sectors (about 39 percent of indigenous industrial employment) on which a possible recovery may rely.

310. The catch-all nature of the two largest parties was important in this respect. The two parties have "competed more and more for the centre, following pragmatic economic policies that are often indistinguishable from each other. Irish politics has not provided a hospitable reception for strong economic ideologies, whether of the left or of the right. Even the very moderate socialism of the Labour Party in Ireland has never commanded the votes of more than one-sixth of the electorate." Kennedy et. al. *The Economic Development of Ireland in the Twentieth Century*, *op. cit.*, p. 33f.

311. Bernard Schaffer, "Regional Development and Institutions of Favour: Aspects of the Irish case", in Dudley Seers, Bernard Schaffer & Marja-Liisa Kiljunen, editors, *Underdeveloped Europe*, Hassocks 1979.

312. Pyne, "The Bureaucracy in the Irish Republic", *op. cit.*, p. 27, cf. also S. Ó. Mathúna, "The Christian Brothers and the Civil Service", *Administration*, 3:2-3, 1955.

313. Basil Chubb, *The Government and Politics of Ireland*, 2nd ed., Stanford 1982, p. 266 f.

314. Pyne, *op. cit.*, p. 29.

315. Pyne, *ibid*, p. 23. Within the present project, it has not been possible to conduct a closer comparison with the administrative systems of the contrast cases. Such a comparative study, however, should not be limited to a formal comparison of the constitutional system. Several of our contrast countries also have constitutions with a commitment to the doctrine of ministerial responsibility. Thus, the main question would be whether these administrative systems, with the same formal constitutional arrangements, in fact implement and practice this doctrine differently.

316. The phenomenon of family continuity in Irish politics is mainly related to the families of the revolutionary elites (who had become "politicians by accident"). In the mid-1970s, 14 out of 148 TDs were sons (and one daughter) of former deputies, most holding seats that had earlier been occupied by their fathers. Chubb, *op. cit.*, p. 94 f.

317. Michael D. Higgins, "The limits of Clientelism: Towards an assessment of Irish politics", in Christopher Clampham, *Private Patronage and Public Power. Political Clientelism in the Modern State*, London 1982

318. Lee Komito, "Irish Clientelism: A Reappraisal", p. 178. *Economic and Social Review*, 15:3, 1984. Komito distinguishes *clientelism* from *brokerage*, the latter relating particularly to larger political systems, where brokers monopolise the access to scarce resources provided by outsiders such as state agencies.

319. *ibid*, p. 178. This view is sceptical of Bax' interpretation based on earlier anthropological research. Bax argued that patrons can deliver prizes. As examples he mentions information-seeking and expediting cases, which are prizes which are compatible with Komito's notion of brokerage. However, he also mentions more tangible features such as grants, benefits, favours, jobs, licences, renting of a county council house, which are prizes typical of clientelism in a strong sense. Such prizes are produced mainly by the local government and the civil service. He argues that patrons (i.e. politicians) can influence their appointments and promotion, via networks of friends and relatives. They can also manipulate such contacts, putting bureaucracy under pressure to help. Later research, however, has doubted the existence of such mechanisms. The centralised and relatively autonomous nature of bureaucracy has been emphasised.

320. Higgins, *op. cit.*, pp. 118-125 gives a pointed description of the operation of this system.

321. Higgins, *op. cit.*, p. 124 suggests this explanation.

322. P. Katzenstein, *Small States In World Markets*, Ithaca 1985, shows that all the small countries have proportional representation electoral systems. Such systems ensures more or less proportionality, thus allowing many parties to emerge. The British system is contrary to this: the SMP-system: single-member plurality, which favours the largest parties and thus tends to produce single-party majority governments. The claim often made by the British, however, that only such a system secures stability, is easily rejected by looking at for instance Sweden and Austria: both have PR-systems, but also very stable government patterns.

323. Gallagher, "Does Ireland need a new electoral system?". *op. cit.*, Today, Malta and Tasmania are the closest cases using such an electoral system. A comparative study does exist: Declan O'Connell, "Proportional representation and intra-party compeition in Tasmania and the Republic of Ireland", *Journal of Commonwealth and Comparative Politics*, 21:1, pp. 45-70.

324. R. J. Lawrence, "Reflections on the Devlin Report 1", *Administration*, 17, 1969, pp. 414-15.

325. Alistair H. Thomas, "Members of parliament and access to politics in Scandinavia", in Vernon Bogdanor, editor, *Representatives of the people?* London 1985.

326. Gallagher, *op. cit.*, p. 35.

327. Richard Roche, "The high cost of complaining Irish Style", *IBAR — Journal of Irish Business and Administrative Research*, 4:2, 1982.

328. Michael Gallagher, "Social backgrounds and local orientations of members of the Irish Dail", *Legislative Studies Quarterly*, 10:3, 1985.

329. Christopher Hughes, "The relationship of the citizen to "his" member of parliament in the Swiss system of government", in Vernon Bogdanor, editor, *Representatives of the people?* London 1985.

330. Thomas, *op. cit.*, pp. 218-220.

331. Gallagher, *op. cit.*, p. 32.

332. This is the non-autonomous part of Sozialpartnerschaft, cf. Chapter 9 above. For Austria's strong committee system, see John Lees and Malcolm Shaw, editors, *Committees in legislatures: a comparative analysis*, Oxford 1979.

333. Gallagher, *op. cit.*, p. 37-8.

334. Higgins, "The limits of Clientelism: Towards an assessment of Irish politics", *op. cit.*, p. 137.

335. Cf. the presentation in Chapter 4.2 above.

336. Coleman, "The Demographic Transition in Ireland in International Context", *op. cit.*, The measure of fertility refered to is Total period fertility rate (TFR), which for Ireland in 1987 was 2.34.

337. *ibid*, p. 26. and Davis, "The Theory of Change and Response in Modern Demographic History", *op. cit.*

338. Coleman, *ibid*, p. 26.

339. Breen, Hannan, Rottman & Whelan, *Understanding Contemporary Ireland*, *op. cit.*, p. 111.

340. David B. Rottman and Philip J. O'Connell, *op. cit.*, p. 69-71.

341. *ibid*, p. 78. In his comparison of Austria and Ireland, Kennedy, "Economic Development and the Entrpreneurial Environment", *op. cit.*, looks at the working population out of total population (Austria: 43 percent, Ireland: 30 percent). The difference reflects a lower unemployment rate in Austria, a higher proportion of persons in the working age population in Austria (more old and/or more young people in Ireland), and finally, a greater participation rate of females in the labour force. Ireland and Austria had OECD's lowest population increase 1913-85 (see also Table 1.6 above). But behind this lie very different patterns: Ireland had a secular decrease of population to 1961, then a very rapid growth in the 1970s. Austria has enjoyed the blessings of a stable population. Ireland had huge migration, and a higher birth rate than Austria. Austria could easily achieve full employment, and had few reasons to fear unemployment if productivity was raised. For Ireland, productivity increases were a mixed blessing.

342. Rottman and O'Connell, *op. cit.*, p. 79. But those emigrating in the 1970s proved to have higher skills than earlier emigrants. We shall discuss this problem further in Part V.

343. *ibid*, p. 74.

344. Briefly mentioned in Chapter 4 above.

345. Rottman and O'Connell, *op. cit.*, p. 72.

346. *ibid*, p. 73.

347. A. Wickham, "National Educational Systems and the International Context: The Case of Ireland", *Comparative Education Review*, 6:4, 1980, pp. 323-37.

348. Wickham's interpretation exaggerates the distinction with respect to other European countries. It should be emphasised that for U.S. historian Charles S. Maier, who coined the notion of "politics of productivity", the notion was intended as an analysis of Western Europe as such.

349. Rottman and O'Connell, *op. cit.*, p. 73.

350. Breen, Hannan, Rottman & Whelan, *op. cit.*, p. 139. It has not been possible within the present project to pursue more detailed comparisons as to whether reforms were relatively more succesful in the contrast countries.

351. *ibid*, p. 138.

352. *ibid*, p. 137.

353. Cf. the notion of "Holy Ireland", discussed earlier.

354. Hannan & Commins, "The Significance of the Small Scale Farming Sector in Ireland's Socio-Economic Transformation", p. 11.

355. *ibid*. p. 20.

356. *ibid*, p. 33.

357. *ibid*, p. 34.

358. *ibid*, p.38.

359. *ibid*, p.39 "Even with the development of the corporatist state and the establishment of social partners, farmers have retained privileged access to the bargaining table. And although the issues articulated in national negotiations may reflect primarily the concerns of the larger farmers, the fact remains that the small farmers receive still greater attention than say, the lower working class. In this connection, since the social base of the dominant political party, Fianna Fail has been dominated by the petit bourgeoisie, and particularly the strongly nationalist minded small-holders of Connaught and West Munster, the consistently favourable political treatment of that class — in rural industrialisation policy, income maintenance arrangements, very favourable taxation and social insurance arrangements, etc. — can hardly be unexpected. So both the general cultural and institutional (inter-personality) context of Irish politics and the specific social bases to the dominant political party — could help to explain the relatively biased political treatment of the small-holding class."

Economic Policy Adjustments in the 1970s and 1980s

Part V

Contents

CHAPTER 13

AN OVERVIEW

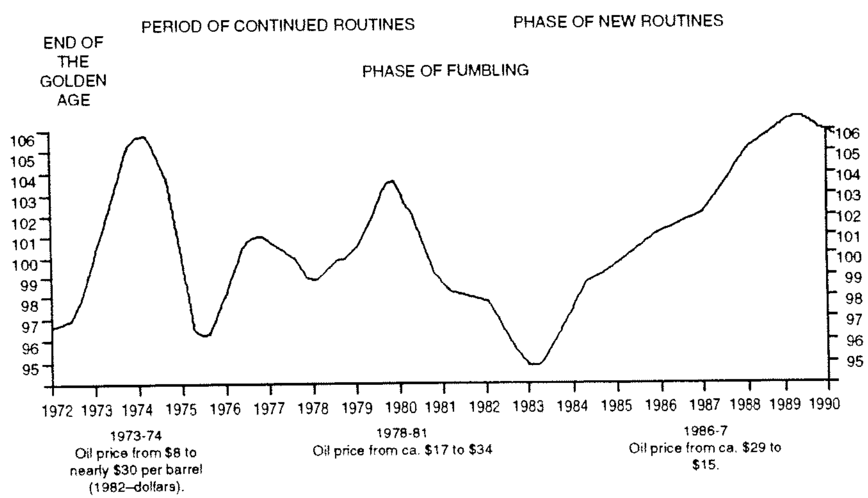
This chapter surveys the economic policy responses of our case countries in the troubled period since the first oil shock of 1973/4.

The discussion of the different countries will be uneven. We shall focus on features which seem relevant in comparison with Ireland, not intending to give a comprehensive analysis of all the contrast cases. The Danish experience will be treated in some detail, since we have seen that there are close similarities between Ireland and Denmark. There is also a striking similarity of problems: relatively high unemployment, and a current account deficit which creates a heavy debt burden. However, Ireland experiences these problems to a greater degree.

The project description that has given rise to this project specifically requires it to consider the relationship between consensus-sustaining institutional frameworks and economic performance (cf. Chapter 2.1). We shall, in Chapter 14, touch upon some earlier studies of this relationship, studies which relate to the recent period of world economic instability (1973 and onwards). But it is clear that we have chosen — within the limited time resources available — to give priority to the study of earlier time periods.

FIGURE 13.1

Business Cycle Movements Since 1973



Note: Western European industrial production. Cyclical movements around the trend line.

Source: Norwegian Central Bureau of Statistics.

This reflects our conviction that the roots of the different developments in Ireland versus the contrast countries really lie in these earlier time periods. After all, Table 13.1 below shows that the growth of Irish GNP in the period 1973-89 was at the OECD average, while three of the five contrast countries grew at a much lower pace. The gap must have opened up earlier. In fact, we may in this chapter be able to demonstrate that in certain respects, institutional legacies from earlier periods also influenced the particular problems that Ireland encountered during this troubled period.

All the countries we analyse are small countries, heavily dependent on what goes on in their economic environment. Figure 13.1 provides a glimpse at the fluctuations of industrial output in Western Europe, as a proxy for the business cycle movement of that period. The figure also includes a rough periodisation of Western European economic policy routines,[1] and a specification of some major movements in the oil price.

TABLE 13.1

Growth of Real GNP/GDP, 1973-89

	AUT	DK	FIN	IRL	SW	CH	OECD-AV
1973	4.9	3.6	6.6	4.0	4.2	3.2	5.7
1974	3.9	-0.9	3.1	4.3	3.2	1.2	2.3
1975	-0.4	-0.7	1.1	2.1	2.7	-6.7	-0.8
1976	4.6	6.5	0.3	0.5	0.4	-0.8	4.5
1977	4.5	1.6	0.1	7.0	-1.5	2.4	2.7
1978	0.1	1.5	2.2	5.5	2.0	0.6	3.0
1979	4.7	3.5	7.3	2.7	4.0	2.4	3.6
1980	2.9	-0.4	5.3	2.7	1.4	4.4	1.7
1981	-0.3	-0.9	1.6	2.6	0.0	1.4	0.3
1982	1.1	3.0	3.6	-0.7	1.1	-0.9	0.8
1983	2.0	2.5	3.0	-1.6	1.8	1.0	1.7
1984	1.4	4.4	3.1	2.3	4.0	1.8	2.6
1985	2.5	4.3	3.3	1.0	2.2	3.7	2.6
1986	1.2	3.6	2.8	-1.2	2.2	2.9	2.8
1987	2.0	-0.5	3.3	5.0	2.8	2.0	2.7
1988	3.9	0.9	5.4	1.4	2.3	2.9	3.8
1989	4.0	1.1	5.2	5.0	2.1	3.5	3.5
1990	4.6	1.6	0.0	5.7	0.3	2.6	2.6
TOTAL	47.6	35.0	57.3	48.3	35.4	27.6	45.8
AV 73-79	3.2	2.2	3.0	3.7	2.1	0.2	3.0
AV 80-89	2.1	1.7	3.7	1.7	2.0	2.2	2.3

Note: OECD computation on the basis of 1987 GNP/GDP weights expressed in 1987 US dollars. GNP for Ireland.

Source: OECD, *Economic Outlook*, 49, July 1991, Table R 1.

Before we turn to a more detailed treatment of each case, we shall comment on some aggregate figures, to show that the measure of success during this period depends to some extent on the indicators used.

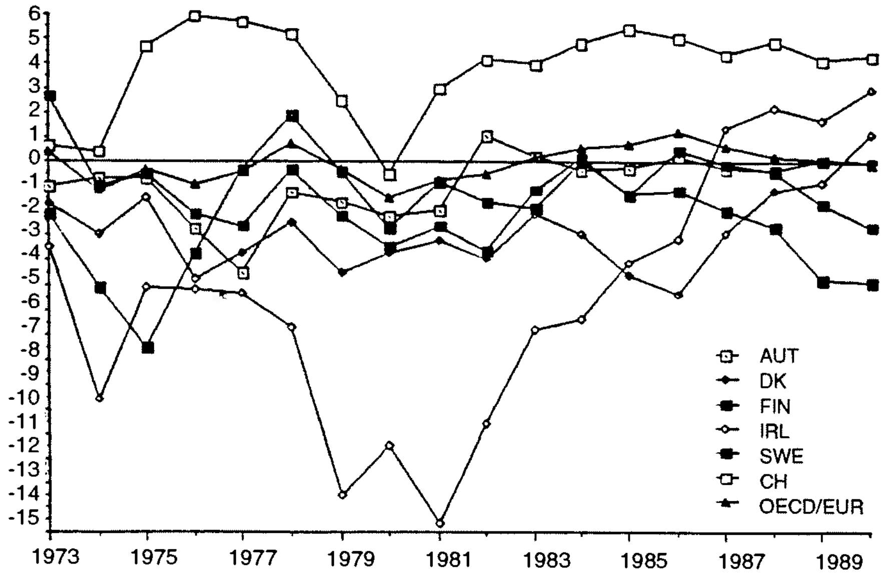
If we look at aggregate growth (GDP, GNP in the Irish case; Table 13.1), it turns out that Ireland did quite well, at least in the 1970s. Considering growth from 1973 to 1989, Ireland (total growth of 42.6 percent), was roughly at par with Austria (43 percent), second only to Finland (57.3 percent). Sweden (35.1 percent), Denmark (32.2 percent) and especially Switzerland (23.3 percent) had much lower total growth. In the 1973-9 period, Ireland was the fastest growing country, and annual average growth was higher than the European OECD average, meaning that Ireland was at that time catching up with OECD-Europe.[2] The big setback for Ireland, as Table 13.1 shows, was the period 1982-86, with negative growth rates in 1982, 1983, and 1986, and below average growth all through the period. 1987 and 1989 growth rates show strong improvement again, with top ranking in 1987 (Ireland had also ranked first among the countries here selected in 1974, 1977, 1978 and 1981). But of course, the point of departure was low: Ireland's level of GNP was much lower than all the others.

Other indicators, however, show that the adjustment problems faced by Ireland were much harsher than those faced by the other countries. As Figure 13.4 shows, Ireland's level of inflation was much higher than that of the others, and as we shall see below, the same goes for the current account deficit, unemployment and the debt burden.

Note that our crude empirical exercise with growth rates above indicates that there is no clear-cut connection between the rate of economic growth and the ability to solve the problems of current account deficit, unemployment and external debt. In a more detailed investigation, Glyn & Rowthorn found that economic growth was only loosely correlated with unemployment.[3] It may therefore well be that the institutional features which help explain differential performance with respect, for example, to full employment may not help explain differences with respect to economic growth.

Among our case countries, Ireland and Switzerland often turn out to be polar cases. While Ireland had some of its best years in the 1970s (1974, 1977, 1978), Switzerland had some of its worst years (1975, 1976) at that time. This contrast may be generalised: while the 1973/4 downturn mainly created problems in the core of the world economy, third world countries did not really face major problems before the second oil shock struck in 1979/80.[4] Most of the large Western countries actually used third world markets to compensate for the glut of demand for production inputs in the core, and third world countries contracted cheap credits to repay these expenses. At that time, offshore credit markets were overliquid (partly thanks to the so-called petrodollars generated by the first oil price shock), real interest rates were negative and aggressive financial institutions easily talked third world governments into further borrowing. But in the late 1970s, U.S. monetary policies changed. Being the hegemonic core of the world economy, U.S. domestic policy changes had repercussions throughout the whole world economy. The debt crisis of the third world unfolded throughout the 1980s.

FIGURE 13.2
Current Balances (Percentage of GNP/GDP) 1973-1990



Source: OECD, *Economic Outlook*, 49, July 1991, Table R 22.

A look at the current account position (Figure 13.2) of our case countries in the 1973-85 period clearly confirms the view that Ireland was closer to the third world pole. Again, the polarity of Ireland and Switzerland is brought out. Being a world creditor nation, Switzerland runs a persistent high surplus (with the exception of 1980).

A look at the general government financial balance (Figure 13.3) confirms this picture, with a skyrocketing Irish deficit in 1977-82. Table 13.2(A) shows that by 1988, the indebtedness of Ireland was much graver than that of any of our contrast countries. At that time, Ireland's debt/GDP ratio was the highest among industrialised countries, and in fact maybe (with Israel) the highest in the world.[5]

TABLE 13.2 *The Irish Debt Burden*

A. IN A COMPARATIVE PERSPECTIVE (1988)

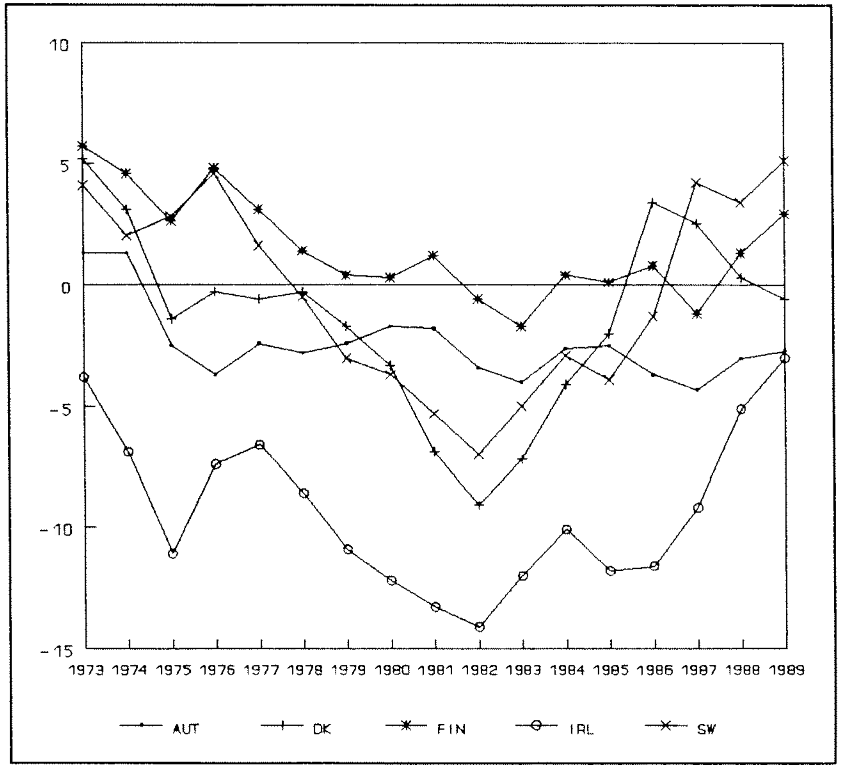
	GENERAL GOVERNMENT DEBT % OF GNP/GDP	NET GOVERNMENT EXTERNAL DEBT % OF GNP/GDP	NET INVESTMENT INCOME PAID ABROAD % OF GNP/GDP
IRELAND	132.8	54.4	11.4
SWEDEN	59.0	14.2	1.6
AUSTRIA	58.6		
DENMARK	55.6	18.4	4.1
SWITZERLAND	17.5		

B. EVOLUTION 1971-1988

	DEBT/GDP			DEBT SERVICE/GDP	
	Total	*Domestic*	*Foreign*	*Domestic*	*Foreign*
1971	64.8	59.5	5.3		
1975	72.3	57.4	14.9		
1980	87.7	63.2	24.5		
1982	96.3	51.6	45.0	5.9	4.1
1987	136.6	80.7	56.0	7.9	4.1
1988	141.3	n.a.	n.a.	8.3	3.8

Sources: (A) OECD, *Economic Surveys: Ireland*, 1988/89; (B) Rudiger Dornbusch, "Credibility, debt and unemployment: Ireland's failed stabilisation", *Economic Policy*, 8, 1989, p. 197, Table 11.

FIGURE 13.3
General Government Financial Balances
(Percentage of Nominal GNP/GDP)

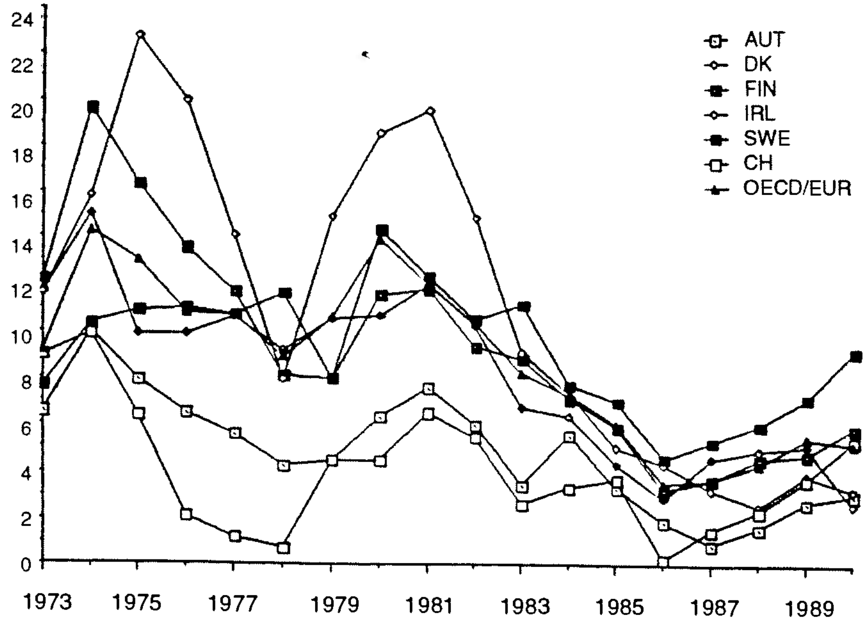


Source: OECD, *Economic Outlook*, 49, July 1991, Table R 14.

Since we shall refer to it in the later analysis, we also provide a figure for inflation (growth of the consumer price index). Even here Switzerland and Ireland are polarities. Ireland had the highest rate of inflation among the six in the period 1974-77 and 1979-84, while Switzerland generally had the lowest rate. We shall later comment on the convergence between the two in the late 1980s.

FIGURE 13.4

Inflation (Private Consumption Deflators)

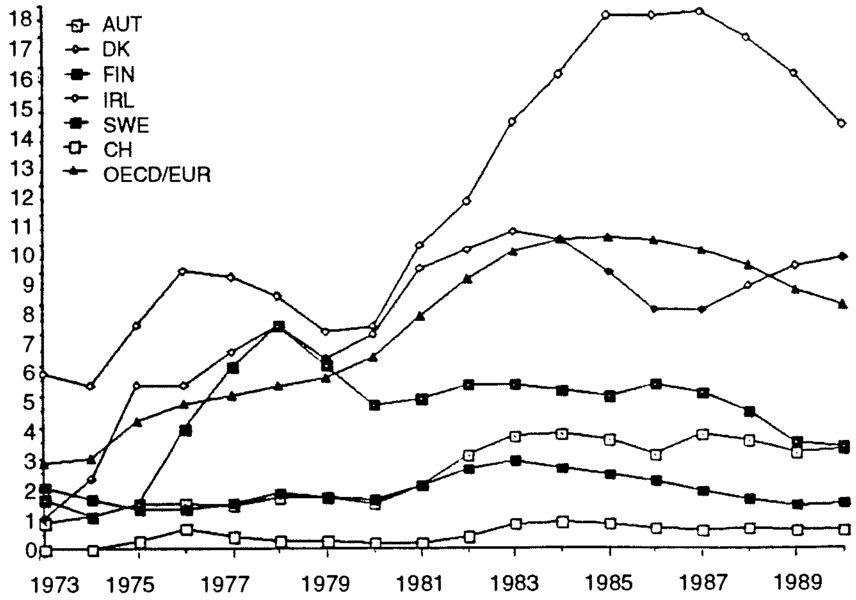


Source: OECD, *Economic Outlook*, 49, July 1991, Table R 11.

Another indicator of the larger degree of structural heterogeneity in the Irish case is unemployment. In connection with this indicator, Chapter 14 provides a more detailed discussion. The aggregate picture is provided in Figure 13.5, but note that the figures are not strictly comparable, since they are based on national definitions (stardardised unemployment rates are not available for Switzerland, Ireland or Denmark).

FIGURE 13.5

Unemployment Rates (National Definitions) 1973-1990



Source: OECD, *Economic Outlook*, 49, July 1991, Table R 20.

CHAPTER 14

COMPARATIVE STUDIES OF LABOUR MARKET PERFORMANCE

There have been several comparative studies of labour market performance in the period since 1973. Some early studies investigated the correlation between full employment and social democratic dominance, but it was soon noted that a commitment to full employment survived also in countries where the elites displayed a paternalist concern for the working masses.

Evidence of this conservative road to full employment in the crisis was provided by Japan and Switzerland. But note that in addition to the alleged paternalism, these countries dispose of quite excellent national systems of innovation.

A classification of countries according to their modes of policy coordination was presented in Table 7.2.[6] It showed that the European countries are generally those with a high or medium strong working class, while non-European countries like the U.S., Canada, Austrialia, are characterised by weak labour movements. Using this classification, Schmidt often employs an overall dualism between strong and weak welfare states. Both are subdivided into two groups.

The strong European welfare states with corporatist regulation are full employment cases. In the pluralist/sector oriented case, a medium strong working class has succeeded in getting generous compensation to modify the effects of unemployment. Schmidt puts Ireland in this group. But it is open to discussion how close this correspondance between modes of regulation (corporatism and the pluralist-sectoralist mode) and working class power really is. As we already mentioned in Chapter 8, Schmidt also finds full employment and mass unemployment cases among the countries with a weak welfare state. The mass unemployment cases are the countries with a pluralist mode of regulation.

The paternalist cases of Japan and Switzerland are the cases in which the correspondance between mode of regulation and working class power really breaks down. We refer back to Chapter 9 for a discussion of the special features of Switzerland, which generates such a full employment result and a social security system without generous compensation despite a "non-European" distribution of class forces. Switzerland even has decentralised wage negotiations, that is, an absence of corporatism in that sense either.

Full employment is a result which can be achieved in many different ways. To evaluate labour market performance more properly, a broader range of indicators (provided in Table 14.1) must be studied, as has been done both by Therborn and by Rowthorn and Glyn.

TABLE 14.1 *Labour Market Indicators*

	UN			EMP			PAR		
	TOT	F	M	TOT	F	M	TOT	F	M
CH	0.9 0.9	1.1 1.1	0.8 0.8	70.7 -8.9	52.7 -2.7	88.9 -11.9	71.4 -8.1	53.2 -1.6	89.4 -11.2
SW	2.8 0.4	2.9 0.2	2.7 0.5	79.7 8.2	75.9 24.7	83.4 -3.1	82.0 8.6	78.2 24.9	85.8 -2.5
AUT	4.2 3.2	3.6 2.0	4.6 4.0	63.0 -6.8	48.8 -4.5	77.7 -9.0	65.8 -3.7	50.6 -2.5	81.5 -5.1
FIN	4.9 2.7	4.4 2.2	5.4 3.1	72.7 -0.1	70.3 12.9	75.1 -10.2	76.4 2.8	73.5 15.6	79.3 -7.2
DK	7.3 6.5	8.2 7.1	6.6 5.9	74.2 0.4	68.4 5.6	79.9 -3.7	80.1 7.4	74.5 13.8	85.5 2.4
IRL	17.6 11.9	13.5 9.9	19.7 13.3	49.9 -16.0	31.7 -3.4	67.5 -20.9	60.6 -8.3	36.6 3.6	84.1 -13.5

Notes: UN — unemployment rate, EMP — employment rate, PAR — participation rate. First line: 1985. Second line: change 1973-85, under EMP: changes in the employment/population rate.

Source: OECD, *Labour Force Statistics, Economic Outlook.* Calculated in B. Rowthorn and A. Glyn, "The Diversity of Unemployment Experience Since 1973", in Stephen Marglin and Juliet Schor, editors, *The Golden Age of Capitalism*, Oxford, 1990. Table 6.5.

The most aggregate figures of Table 14.1 may be synthesised into profiles of unemployment, cf. Table 14.2.

TABLE 14.2

Profiles of (UN)Employment in Descending Rank from a Labour Point of View

	UNEMPLOYMENT		EMPLOYMENT		EMPLOYMENT GROWTH	
NORWAY	Low	(2.5)	High	(75.4)	High	(12.9)
SWEDEN	Low	(4.8)	High	(79.7)	Medium	(8.2)
AUSTRIA	Low	(4.2)	Medium	(63.0)	Negative	(-6.2)
SWITZERLAND	Low	(0.9)	High	(70.7)	Negative	(-8.9)
FINLAND	Low	(4.9)	High	(72.7)	Negative	(-0.1)
DENMARK	High	(7.3)	High	(74.2)	Medium	(0.4)
NETHERLANDS	High	(13.0)	Low	(51.2)	Negative	(-6.9)
BELGIUM	High	(12.3)	Low	(54.4)	Negative	(-10.2)
IRELAND	High	(17.6)	Low	(49.9)	Negative	(-16.0)

Note: This table uses the same criteria as G. Therborn, *Why Some People Are More Unemployed Than Others*, London 1986, Table 32, p. 88, but for the period 1973-85. High unemployment = above 10 percent in 1985, low = less than 5 percent; high employment = above 70 percent of population of working age 15-64 in 1985, low = below 60 percent; high employment growth 1973-85 = growth higher than 10 percent. Within identical categories, countries are ranked according to the underlying absolute figures.

Source: Table 14.1, with Norway, Belgium and the Netherlands added from the same sources.

According to Therborn's typology Norway and Sweden are the "general success stories", since low unemployment goes together with high employment and growth of participation. Austria and Switzerland are "selective successes". Finland is a case of "mediocrity plus". Ireland would surely be placed with the U.K., Holland and Belgium, as "labour market disasters", "general failures". Denmark is described as a "special failure", due to its ability to maintain a high level of employment. In Belgium, Therborn finds that "huge gender and generational divisions significantly affect the way that class structures the labour market". Belgium has a "compensated exclusivist unemployment": it hits women and youth in particular, and the long term share is high. Unemployment benefits are generous, and of unlimited duration. Denmark has a "compensated shake-out unemployment": no large youth unemployment, an even male/female distribution, and relatively generous unemployment compensation. Ireland has much higher unemployment among men than among women (who have much lower employment and participation rates, the difference in the participation rates between men and women — according to Table 14.1 — being 11 in Denmark, 23 in Belgium, 35 in the Netherlands, and 50 in Ireland).

As for labour market policies, Therborn employs the following typology of labour market policies:[7] *Preventive* policies influence the demand and supply sides of the labour market by measures which further labour mobility, retraining, public works and employment subsidies. *Restrictive* policies limit the supply of labour (early retirement, reduction of foreign labour supply, discouraging female workers, reducing working hours). Finally, *compensatory* policies compensate for unemployment by means of unemployment benefits, disability pensions, etc. Denmark and Ireland obviously have mainly compensatory policies, while Sweden is the standard example of preventive labour market policies. Finland is perhaps somewhat more like Sweden. In the "paternalist" Swiss case, labour market policies were obviously restrictive. As we shall see, foreign workers served as a safety valve, and also the participation rate was reduced. If the number of foreign workers and the overall participation rate had remained constant since 1973, unemployment would have been 15 percent in 1983. Austria has elements of the same mechanism.

Rowthorn and Glyn strongly emphasise the role of structural change, establishing the two following conditions for maintaining a low unemployment rate:

"(i) *Industrial Employment.* Wholesale redundancies must be avoided and any decline in industrial employment must be gradual. If this condition is not satisfied, the result will be structural unemployment which cannot easily be eliminated through the creation of additional service employment.

(ii) *Service Employment.* Sufficient service employment must be created to absorb new entrants to the labour market (be they young or married women) plus transfers from the industrial sector (on the modest scale assumed under condition (i)). If condition (ii) is not satisfied the result will be an increase in measured unemployment even if industrial employment holds up reasonably well."[8]

Glyn and Rowthorn discuss the three undisputed full employment cases in our selection: Switzerland, Sweden and Austria. In the 1973-85 period, they share the characteristics listed in Table 14.3.

TABLE 14.3

Common Features of the Full Employment Cases

	SWEDEN	AUSTRIA	SWITZERLAND
STRUCTURAL CHANGE			
Only a gradual decline in employment	+ slow decline	÷ fast fall	÷ dramatic fall
Service employment grows to absorb potential labour surplus	+ service employment up	0 — growth rate as OECD average	÷ stagnation of service employment
INDUSTRIAL PRODUCTION			
Growth of industrial production	÷ very slow	+ quite high growth	÷ stagnation
WAGES AND CONSUMPTION			
Consumption per cap.	Maintained	High growth	Stationary
Pre-tax real wages growth	Down from 1977	High growth	High
Employment	Large increase in female employment	Medium* (level)	Lower* (level)

Note: Data refer to 1973-85. * Therborn's judgement, cf. Table 14.2.

Source: Rowthorn & Glyn, as in Table 14.1, p. 240-243.

As for Austria and Sweden, Glyn and Rowthorn regard them as varieties of the "democratic corporatism" model, which they relate to centralisation of labour market negotiations, rather than features of state policies (as in Schmidt's definition). They argue that a "durable compromise between social classes", with employers and workers represented by "encompassing" organisations, allows "full employment to be maintained as a main objective".[9] Sweden (and Norway) are quoted as countries which show such a unique degree of solidarity.[10] In Sweden manufacturing output and industrial production per capita were almost stagnant 1973-85. But government policy ensured that industrial employment declined slowly and that many service jobs were created. This state support for labour hoarding, as well as extensive labour market programmes and the policy of increasing public sector employment have been criticised. The extent to which Sweden was able to restructure its industrial base under conditions of full employment will be discussed in Chapter 16. Unlike Norway, which had oil revenues, Sweden had to import all its oil and faced stagnant industrial production: "The full-employment programme was therefore financed through a combination of wage restraint and higher taxes. This meant a considerable fall in real take-home pay for the average worker. There were, of course, compensations. Public services were greatly improved and family pay was often boosted through the provision of additional work for married women. Even so, the policy required enormous restraint on the part of well-organised workers in the more secure areas of the economy. Of all the OECD-countries, Sweden exhibits the highest degree of social solidarity in the face of adversity over the past 15 years. The basis of this solidarity is a well-organised, disciplined and politically conscious working class."[11] According to Rowthorn and Glyn, Sweden's (and Norway's) success relied on "'post-tax' wage restraints in order to finance the expansion of employment in the public services and programmes to temper the rate of, and ease the burdens of structural change (slowing down the decline of old sectors and, in the case of Sweden, financing retraining programmes)."[12]

Others have claimed that the general notion of corporatism obscures the many peculiarities of labour market arrangements in different countries. Therborn argues that the difference between "the all-embracing 'Social Partnership' in Austria", and "the informal coordination of labour market organisations in Sweden", organisations which jealously guard their independence, is too significant to allow the use of one overall concept like corporatism.[13] Therborn finds no single indicator which explains low unemployment, but strongly emphasises the "national context",[14] and pleads for a comparison of national models. His most explicit conclusion is that: "The existence or non-existence of an institutionalised commitment to full employment is the basic explanation for the differential impact of the current crisis".[15] This institutionalisation involves an "explicit commitment to maintaining/achieving full employment", and it may be found both in cases with a dominant labour movement, and in conservative regimes with concern for social order. There must also be Keynesianism, or rather "the existence and use of counter-cyclical mechanisms and policies". Also required are "the existence and use of specific mechanisms to adjust supply and demand in the labour market to the goal of full employment", as well as "a conscious decision not to use high unemployment as a means to secure other policy objectives". For instance, Switzerland and Austria have adjusted labour supply (through immigration policies); Sweden has influenced labour demand, as well as the quality of labour supply; Japan, Norway and Austria have used investment policies and Norway and Austria have also influenced price and cost structures.

This emphasis on national political voluntarism is not satisfactory. It fails to take into account the fact that the nature of the pressure may differ from country to country and between periods. As for country differences, we shall see below that Ireland is a case in point. As for differences in external pressures across periods, we need to draw a distinction between the 1970s and the 1980s.[16] Studying oligopolistic "inflation games" at the national level, Scharpf has provided such a distinction. The players are the government and the union movement. In the 1970s, incomes policies became more important, since a key objective was to make wages a policy variable. The problem, however, was that in Western liberal democracies unions are not parts of the state. A social democratic government gives priority to full employment. This puts unions in a strong position. If unions push their wage claims too far, however, the resulting inflation may undermine the government's parliamentary strength. Hence, attempts were made to arrive at corporatist exchange solutions in the early 1970s.[17] If unions would adjust their wage claims, ensuring that unit labour costs did not exceed the inflation rate, the state — especially in the cases where social democrats ruled on the basis of a considerable accumulation of power resources by the labour movement — would tackle the unemployment problems by a traditional expansionary mix of fiscal and monetary policies. Economic policies would be

coordinated by means of a division of labour in which unions restrained wage growth, and the government would look after demand. This would secure full employment. (see Figure 1.6, In Schmidt's terms, this is exactly the coordinative advantage of corporatism as a mode of regulation.) Scharpf finds that the institutional legacy of the high growth, Golden Age, period determined whether the attempts at concertation of monetary, fiscal and incomes policies succeeded.[18]

With competitiveness as the main goal, governments through the 1970s could work on the creation of new jobs, pursuing new goals regarding the environment and energy, defining aggressive technology policies, conducting regional policies, implementing measures for small and medium sized firms, pursuing labour market policies for increased mobility and education of labour power, conducting rescue operations for firms in trouble, supporting various economic sectors, and providing export insurance and financing. The instruments employed were direct subventions, such as credit on beneficial terms, coverage of credit costs, once and for all transfers, public venture capital, support for wage payments and public guarantees. There were also indirect instruments such as tax escape clauses, as well as non-financial instruments: advice and diffusion of information.[19] As for subventions, Sweden and Norway had defensive and quite high support, while Finland had lower support.[20]

Scharpf concludes that a coherent social democratic or Keynesian economic policy — one which gives priority to the full employment goal — was "objectively possible" in the 1970s.[21] The comparison with England shows that such a policy required an institutional framework marked by encompassing organisations, but the case of West Germany shows that this was not a sufficient condition: in addition, a coordination of government and central bank strategies was needed.

This argument can be put more generally, with reference to the periodisation in Figure 13.1 above.[22] During the first years of the crisis, economic policies generally reflected the priorities as set by the domestic policy process. In this phase, the Golden Age routines, relying on the domestic power distribution, were largely maintained. In many countries this was the phase of reliance on Keynesian macroeconomic policy management. Finland, however, with its procyclical model, illustrates that during the Golden Age, many approaches worked. But whether the original routines were Keynesian or non-Keynesian, the reliance on old routines produced largely unintended outcomes, usually (but not always) in the form of a combination of external imbalance and growing unemployment. This led to a phase of "fumbling" (or "muddling through"), which reflected the contradiction between domestic priorities and economic feasibility. In this phase neo-liberal and Keynesian policies uneasily coexisted. Policymaking was disoriented because it suddenly seemed to lack the means to fulfil the traditional goals of economic policy. These two phases — continued routines and muddling through — are characteristic of the 1970s. During the phase of muddling through, a number of structural changes in the world financial system occurred. The crisis of 1980-2 marked the transition from muddling through to a new set of policy routines, often called "neo-liberal".

The new routines gained dominance at various points early in the 1980s. In this third phase, the conflict between domestic priorities and economic feasibility was resolved through a change of domestic priorities. Internationalisation of financial markets requires that the process of domestic policy-making is "emancipated" from the specific requirements of the national distribution of power. The trend was for macroeconomic policy to reject the responsibility for the short term development of unemployment, and to focus instead on stabilising prices and improving the external balance. At the same time we see the increasing importance of industrial policies in trying to deal with industrial restructuring. The new routines (even in the most social-democratic/corporatist countries like Austria and Sweden) might have solved the dilemma between domestic priorities and economic feasibility. But the solution created a new dilemma at the international level. Through the stress by these policies on a positive external balance and international competitiveness, there is a real danger of a vicious circle of "beggar thy neighbour" policies at the international level.

According to Scharpf, this new type of external pressure makes the social democratic strategy of the 1970s impossible to realise in the 1980s. Corresponding to the full deregulation of international banking, a "conservative-monetarist constellation" evolved at the national level, one which implies an inevitable "compulsion to supply side-oriented redistribution". None of his four case countries (Britain, Austria, Sweden and Germany) have tried to insulate their capital markets. Deregulation of financial markets and rejection of monetary policy autonomy is a general trend. In the late 1980s, even small countries were forced to admit that their currency is the object of international speculative transactions. Scharpf concludes that there is no way around a policy of cost reductions and improved international competitiveness: "with the internationalisation of capital markets and the rising level of international interest rates, the "terms of trade" between capital, labour and the state have been altered in favour of capital. This is why in the early 1980s the attempt to defend or recapture full employment in the private sector can only be paid for by a massive redistribution in favour of capital incomes. At most, the question is by whom and in what way this price shall be paid".[23]

The social democrats have great difficulties in responding to the conservative-monetarist constellation. Social democrats lack an explicit theory for "the inevitable adjustment of national economies to the compulsion of international capital markets".[24] Austria and Sweden have muddled through, but the real effect has been redistribution in favour of capital. Scharpf notes that Swedish real wages declined more than in comparable countries in this period.[25] Neither Swedish nor Austrian wage earners have been better protected against the pressure for redistribution than have their British or Japanese colleagues.

In such a problematic economic situation, claims Scharpf, unions are very vulnerable. The British experience brings this out: a conservative-monetarist government pursuing stability as its major goal is in no way dependent on encompassing collective actors. But social democratic governments in a "conservative-monetarist constellation", must not necessarily alienate a centralised union movement. Scharpf rejects the neoclassical arguments about a trade off between union strength and full resource utilisation. Centralisation may counteract monopoly on the employer side, improving economic efficiency. Furthermore, there

is no effective competition between employed and unemployed, which is assumed in the market model. Wage formation is a collectivised process. Rather, medium sized, decentralised unions may push up wages, due to a combination of scarcity wages and comparability claims. With a strong central organisation, responsible action and concern for solidarity is more likely. In the late 1980s, unions must accept that a larger share of the net product is not their ultimate goal: "granted that the full employment goal still has priority, and furthermore assuming that under the given economic conditions full employment can only be achieved through a dramatic increase in profits, then income renunciation need not be interpreted only as a sign of economic weakness, but also as a proof of the organisational strength of solidaristic unions".[26]

Thus, even in the supply side oriented 1980s, the centralisation of unions is still important. Decentralised unions (like those of the U.S., Japan, and England) are likely to be egoistic on behalf of their specific sectors or firms. They are of no help to a government which aims at distributing the costs of adjustment in a "fair" way (what Scharpf calls "socialism in one class"). For that purpose, the recent policies in Sweden and Austria have proven more effective. Scharpf holds that the defence of full employment in the present situation must either rely on an active labour market policy (as in the case of Norway or Sweden), or on more work sharing (which is Scharpf's proposal in the German case). In the first case, wage earners must accept a rather high tax burden to finance the labour market policies. In the second case, the available jobs must be shared without wage compensation.

If we prefer to use the term corporatism, we must be aware that the term has entirely different implications in the 1970s than in the 1980s. In the 1970s, some optimism was perhaps warranted, since full employment was possible to achieve. In the 1980s, corporatism is a second best and quite defensive approach.[27] It seems like a last resort for labour after a major redressing of the balance of power between labour and capital. It expresses the loss of power on the part of labour, rather than of power equilibration.[28] As we shall see below, Ireland's labour relations in the 1970s were closer to the British case, so attempts at corporatism failed. After the major setback in the 1980s, however, the "defensive" type corporatism also emerged in Ireland.

Scharpf shows that different labour market policies may still make a lot of difference, given a strict restraint on macroeconomic policies. It must be emphasised that the restraints that emanate from open financial markets are purely quantitative (they only require stable currency relations). Such restraints do not necessarily lead to high unemployment. However if an unemployment problem develops, it becomes virtually impossible to fight it by means of traditional macroeconomic policies. The traditional measures — expansive fiscal or monetary policies — are all blocked by the external restraint. But within these quantitative limits, there are qualitatively different policies available, and there will be an interplay between national structural conditions and institutional legacies. Two types of "qualitative" policies seem particularly important: active labour market policies (as emphasised by Scharpf) and industrial policies. Although an active labour market policy may require substantial funds and therefore is subject to similar constraints as expansionary demand management policies, its employment creating potential must be considered far greater. One reason for the good Swedish employment performance lies in its preference for labour market policies rather than traditional demand management policies.

The following Chapters provide overviews of economic policy adjustments in our six case countries. We distinguish three phases of adjustment (continued routines, fumbling (muddling through), and new routines), and we also discuss industrial restructuring in a somewhat longer term perspective.

We shall pay specific attention to financial deregulation. As already mentioned, this seems to be a crucial external factor involved in the emergence of the new routines. Among our case countries, the specific position of Switzerland in world finance has already been spelled out. As for Sweden, Finland, and Austria, we saw in Part III, that they all developed "credit based" financial systems during the Golden Age. Such financial systems are dominated by financial intermediaries. The opposite type is the capital market-based type, dominated by organised capital markets. These are the financial systems of the U.S. and Britain, where the stock exchange was always a very important institution.[29] We shall see below that the credit-based type was exposed to pressure for change. The changes in financial systems were due to stronger real integration and external imbalances in the 1970s.

CHAPTER 15

DENMARK

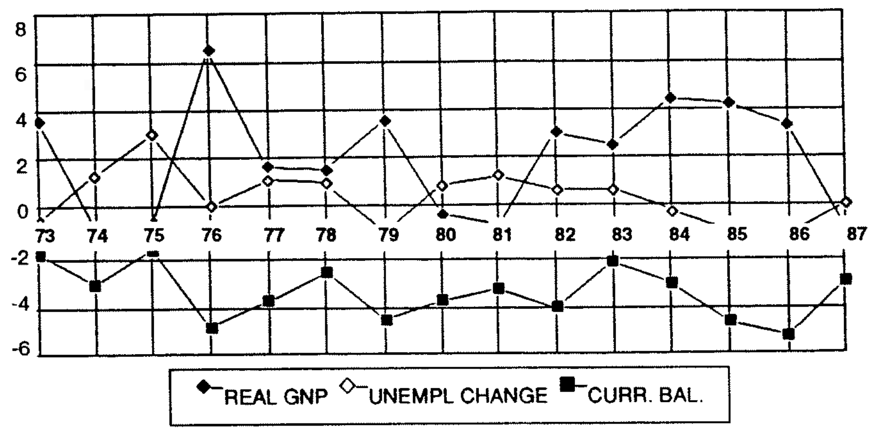
Continued Routines 1973-1979

A general feature of Danish adjustment since 1973 has been the re-emergence of the stop-go pattern, a trade off between an emphasis on the current account balance and on reduction of unemployment. Economic policies 1973-90 have taken the form of "packages", "total solutions", "diets", "cures", all designed to solve the imbalance between the internal balance (level of activity, avoiding unemployment) and the external balance (current account), i.e. a problem of compatibility between an internal and an external equilibrium. Table 14.3 indicates the trade off relationship: if unemployment increases (positive change in the figure), the current account deficit is reduced. Whenever unemployment stops growing or is reduced (1976, 1979, 1984-86), Denmark records its worst current account deficits.

Following the first oil price shock, "the balance problems in the Danish economy had changed (...). Until the first energy crisis, the problem was a relatively moderate external problem in a society with high economic growth. Since then, the situation is marked by large external and internal balance problems in a society characterised by sluggish growth. This change cannot be explained from external relations alone. The problems must be explained with reference to a reduced ability to conduct adjustment in the economy."[30]

FIGURE 15.1

Denmark — Current Account, Changes in Unemployment and Real GNP



Source: OECD, *Economic Outlook*, 44, Dec. 1988, Tables R 1 (Changes in real GNP), Table R 20 (Current balance in percent of GNP), R 18 (Changes in unemployment, commonly used definition).

Unlike, for example Sweden, there was no immediate Keynesian, i.e. expansive, response to the problems of the mid-1970s. In 1974, the government argued that the disequilibrium which had evolved in 1973 was still too strong, so expansive fiscal policies could not be pursued.[31] During the first half of 1974 fiscal policies were further tightened. Unexpectedly, the downturn lasted (cf. Fig. 13.1). At that time, the unemployment problem was felt for the first time since the late 1950s. In the second half of 1974, some restrictions on fiscal policy were lifted, relating to residential construction and public investments. Direct taxes were reduced on January 1, 1975. An international upturn in 1975 was expected. Some not very effective attempts were made to conduct incomes policies.

By September 1975, it was evident that the short term expansive policy had counteracted unemployment, but worsened the current account deficit. Decision makers concluded that the current account restricted their freedom of action: in the short term, there were few possibilities to reduce unemployment by stimulating domestic demand. Reduction of unemployment was inevitably dependent on an external upswing. If the necessary exports were to be achieved, the long term strategy had to ensure that Danish costs were kept down (long term structural policies would move resources to the "competitive" sectors, i.e. "balance of payments sectors"). But the real result of the (moderately) counter-cyclical experiment was to stimulate demand which involved many imports. In this sense, Danish policy makers also continued "Keynesian routines", but not as enthusiastically as, for example, Norwegian or Swedish policy makers. The re-emergence of the external deficit/unemployment trade off in 1975, signalled the departure from demand management policies (based on Phillips curve considerations), to an emphasis on competitiveness.[32]

As for monetary policies, Denmark, unlike Finland and Sweden, never experienced negative real interest rates as an unexpected consequence of the continuation of routines. The Danish krone has always been strongly linked to the Deutsche Mark. There was a "passive" exchange rate policy, i.e. following the D-mark. The Danish capital market has been very open, and since the late 1960s the level of interest rates had been high. Monetary policies were tight, with high interest rates in the mid-1970s. The upward movement of nominal interest rates at the international level did not create immediate problems for Denmark. Later, however, the high interest rates were to be a major problem for Denmark because of its high external debt.

The 1976 upturn became much weaker than expected. The current account deficit grew while the unemployment situation did not improve (Figure 15.1). Denmark was the victim of lags: the first turn to expansion had come too late, and it had been too strong, partly due to a lowering of income taxes (effective from 1975), which was not countered by less generous public spending.[33] In the second half of 1976, a delayed restrictive response followed.

If action had been taken earlier, the effects on unemployment would have been better and the current account would not have deteriorated as strongly. The expansive fiscal policies were not linked to incomes policies aimed at reduced costs. As for labour market policies, there were employment plans, and even talk of "working time politics", but such policies have been applied only to a very limited degree in the "active" Swedish sense, as a tool of structural policy.[34] Continuous current account

deficits from 1976 increased the balance of payments restraint. This imposed tighter limits on the extent to which economic policies could deviate from European (and international) conditions. This restrained options for expansion. A long term policy based on more pessimistic judgements was launched. It had four elements: wage/price policy, increased taxes and surcharges, public savings, and employment/labour market policies. These policies were to switch demand away from "import-heavy" to "employment-heavy" economic activities. This was an attempt to solve the Danish paradox, i.e. to reduce at the same time the current account and unemployment.[35] Taxes and surcharges were raised, in order to squeeze private consumption, which had a high import content. Simultaneously, there were employment programmes intended to support demand with a lower "import-content".

Compromises in the Parliament during August 1976 and 1977 tried to grapple with this dilemma: areas such as energy-saving, and support for employment creation in local government were given priority.[36] Despite this commitment to full employment, this period has been characterised as an exercise in "learning to live with unemployment".

The SV-Government (of the Social Democrat and Liberal parties) in 1978 declared that their goal was to reduce the current account deficit. If an external debt was allowed to accumulate, they argued, there would be less chance of reducing unemployment. The public sector budget deficit had to be reduced by spending cuts and the creation of new incomes.

As for monetary policy, the currency appreciated until early 1977, then there was stability to early 1979, then devaluation. Devaluation and incomes policies blocked cost increases, an "effective policy for competitiveness".[37] The new oil shock of 1979/80 obscured these good results. Rosted claims that the 1977-79 adjustment was successful: demand was switched, labour market policies increased employment (with reduced unemployment in 1979).[38] Taxes and surcharges restrained import-heavy consumer demand. In 1977-79 incomes policy brought wage growth down below the international average.[39] The current account deficit was reduced in 1978, but in September 1979, the second oil shock again worsened Danish terms of trade.

The new deterioration of the current account triggered off a new tightening of economic policies in the summer of 1979. Without the second oil shock, OPEC II, claims Rosted, the current account deficit would have been brought down gradually, by means of a combination of "moderate incomes policies", "mild fiscal austerity" and "employment-creating arrangements", giving a balance in the mid-1980s.[40]

Given the worsening external conditions, the requirements on the export sector became still more demanding. To expand production enough to reduce the current account deficit, its competitiveness would have to be very strongly improved (by 2-3 percent per year). The Social Democrats argued in the fall of 1980 that their long term goal was a balance on the current account in the second half of the 1980s. This balance would make it possible to reduce unemployment. Together with investment, private demand has the strongest impact on the current account. Since investments were needed to promote export competitiveness, private demand had to be held down. At this point, the growth of the public sector was questioned by several parties. It was claimed that it crowded out private sector activities, and that its growth rate should be brought down to zero.

Productivity growth had been very slow in the period since the crisis started (1973/4-82), partly due to expansion of public and private services (with inherently low productivity). In the period 1973-82, another 250,000 were added to the 500,000 already working in the public sector. Female participation increased, reaching the second highest level among the countries in Table 14.1 (but the growth was slower than many others).

Rosted claims that the only limit to such demand switching — which effectively reduced the problem of the "double balance" — is public opinion.[41] The switching operation reallocates resources to the public sector. But that requires tax increases, which alienates public opinion, since it squeezes private consumption. Such a fiscal policy *is* politically impossible without tax increases. To avoid this dilemma, wage policy and exchange rate policy were added in the 1970s. Such policies are effective in a medium term perspective. They led to profitability increases. The labour/capital distribution was tilted in favour of capital. The expectation was that this would lead to increasing investment, increased production and increased employment. To accept this workers require either guarantees that their wage restraint will actually lead to investments or concessions regarding economic democracy, so that they can take part in investment decisions. Employers have rejected this. Rosted's conclusion is that "basic conflicts and class contradictions in the present social system" block economic policies.[42] The attempt to implement such a policy led to the break-up of the SV-Government, which was followed by minority Social Democratic governments 1979-82.

Fumbling 1979-82

In response to the second oil shock, there was a temporary reorientation of exchange rate policies. This is the *only example* in the postwar era where exchange rate policies were used actively to improve the competitiveness of the export sectors. Generally, inflationary risks connected to a devaluation have created a "fear of devaluation" throughout the postwar era in Denmark.[43] This fear or "pessimism" was broken only in the 1979-82 period, but this happened in connection with a more "general feeling of crisis and disaster" in Danish economic development.[44]

From 1979, the DKK was strongly devalued. Denmark joined the European Monetary System (EMS) from the start in 1979, but devalued via the realignments. Wage growth was contained.[45] There was a net devaluation of about 20 percent (1979-82). Real wages fell by 8 percent in 1980 and 1981. Although this caused profits to soar for firms, there were few effects on investment in the competitive sectors: "The reason was the dismal international business cycle situation, and a too generous fiscal policy. The growing deficit both on public account and on the current account generated expectations of continued devaluations and this led to a strong rise in the level of the interest rate."[46] Private investment activity faltered. The

external debt started soaring, and from 1982 the debt problem gained the status of Denmark's major problem. In the first half of 1982, however, there was instability in the EMS, involving Belgium and Denmark.[47] Denmark experienced significant capital outflows, bolstering the high level of interest rates.

In 1982, the Social Democrats faced the following dilemma: there was no more room for devaluation, and incomes policies would only work in the very long term. The public budgets had to be tightened strongly, and the Social Democrats could not do it. The government simply gave up, and the non-socialist "four-leaf clover government" lead by Poul Schlüther, took over in September.[48]

Neo-Liberalism 1982-87

Responding to the monetary turmoil, the new government explicitly declared its monetary policy to be a "hard currency" one. The crucial decisions (wage agreements, fiscal arrangements and exchange rate decisions) were made between October 1982 and May 1983. The expectations of further devaluations were to be removed, and the interest rate differential reduced.

The new government indicated new priorities; previously the current account balance had always ranked above the reduction of unemployment, but now a reduction of both the public deficit and inflation also ranked above it.[49] With the announcement of the hard currency option, the whole responsibility for competitiveness was laid on incomes policies alone.[50]

In a sense Schlüter could cash in on what had been prepared by the Social Democrats. In 1982-3, wage growth remained low (Danish wage costs dropped 16 percent compared to other countries), while international conditions improved. Fiscal policy was still geared to "demand switching", but increasingly tight. All fiscal spending would be frozen, except contributions to structural change and spending on unemployment measures.[51] At that time, the advantages of the new mix of exchange rate policy and wage policy could be reaped. As fiscal policies had become tighter,[52] investment optimism spread and expansion in private sector employment took place.

In incomes policies, a price and wage freeze was implemented: in the long term, a 4 percent wage increase was the goal. Indexation was suspended for the settlement period 1983-5. These measures were passed into law by the Parliament. Total wage growth in each firm was to be restrained by the employers' association (DA) in collaboration with the firms. Adjustments would be allowed only 3 times during the two years. These were "the most wide-ranging incomes policy measures ever seen in the Danish economy".[53] As a result of these policy measures, the capital outflows were halted.

Following the changes in monetary policies, the government set out to dismantle the few remaining restraints on international capital movements between Denmark and the wider world. From May 1, 1983, Danish residents could buy assets in other countries, and non-residents could buy Danish treasury bonds. The final restraints on residents' options of buying financial assets in other countries were lifted on January 1, 1984. Further liberalisation of currency restrictions on June 1, 1985, made it even easier to borrow abroad. By 1987/88 there were very few restrictions left.[54] The 1983 measures generated a certain stability and large capital imports followed (net sales of krone-denominated bonds abroad). With the liberalisation of capital movements an independent Danish monetary and interest rate policy was no longer possible. Foreigners now have a leverage on Denmark as capital movements are free and there are large numbers of "krone" bonds abroad.[55]

As for incomes policies, the "four-leaf clover" government agreed with the Radical Liberals in the spring of 1984, that suspension of indexation was to be continued. This implied a reduction of ambitions with respect to distribution. Transfers were to grow by only 2 percent in 1985/6. Furthermore, tripartite discussions would be conducted after March 1984. There were discussions on work time flexibility in September 1984. Later the government made "suggestions" about moderate wage developments, but no quantitative guidelines. Labour market policies culminated in 1983, and mostly created more employment in the public sector. From July 1984, the job creation programme was dismantled.[56]

Indexation has not been reintroduced since 1983; instead, the state defines the room for negotiation. In 1985, a direct law established a 3.5 percent limit for wage increases in 1985-7. There was even some regulation of profits, but mainly this was a wage policy.

The hard currency monetary policy and stricter incomes policies explicitly aimed at an increase in the profit share at the cost of the wage share. Together with reduced inflation, this would lead to increased private sector employment, the public deficit would be abolished, and the current account would be balanced. In this way, Denmark would manage the two deficits, even with a fixed exchange rate.

In the spring of 1985, negotiations became very complicated. The "official mediator" gave up, and by March 1985, there was a major dispute, terminated by law a week later. Wage growth was 2 percent in 1985 and 1.5 percent in 1986. There was a one hour reduction in working hours with full compensation. The employers' association, DA, was still expected to restrain wage drift among its members. Only two rounds of negotiations would be possible in the two years. This "total solution" involved a reduction of employers' social security contributions, and also regulated non-wage-earners' incomes. The solution was no great success, the problem was partly wage drift.

Domestic demand grew slowly 1983-4, but accelerated 1985-6, as the savings rate was reduced. Private consumption increased by 5 and 4 percent (1985-6), production and employment grew at about 3.4 to 4 percent yearly. Tight fiscal policy and moderation, both regarding taxes and public spending, were intended to generate "crowding in".[57] Reduction of the budget deficit was to be achieved by cuts in public employment and in transfers.

The crowding in effects of the tight fiscal policy came faster than expected.[58] 1984-6 saw the interest rate falling,[59] with investments in services and housing going as projected. But, as just noted, consumer demand adapted much faster than expected to the falling interest rates and increasing personal wealth. Thus, the current account

deficit reached a record 5 percent of GDP (Figure 15.1), despite the international upturn and terms of trade improvements in 1985/6. This was mainly because of an increased propensity to consume (dissaving) on the part of the households. Domestic expansion became stronger than planned, imports of consumer goods surged. On the positive side, this reduced unemployment somewhat.

As a response to the consumption boom, it was decided that domestic consumer demand and expansion in the housing sector should be moderated. What followed was the most contractionary policy ever seen in Denmark's postwar history. In October 1986, the so-called "potato cure" was accepted by Parliament. This cure took the form of a 20 percent surcharge on the net interest rate payments of households. The idea was to strangle consumption based on credit and to spur savings.[60]

Unemployment was reduced more rapidly (see Figure 13.5), and the budget balance turned into surplus in 1986 more rapidly than expected. It was of some importance that incomes policy towards public employees was successful, but above all tax-pressure was simply increased (against the promise of the government).[61] The successful fight against the budget deficit 1982-6, was "astonishing and without international parallels".[62]

But in this period, as employment grew in the private sector, there was surprisingly little productivity growth.[63] The consumption boom proved that incomes policies were insufficient, and pessimism spread as to the possibilities of a quick solution to the balance of payments problem. "The question of the structure of the economy and more long term economic growth now had to be emphasised more".[64] Short term demand management received less attention, and the question of competitiveness was increasingly linked to structural policies.

As a consequence of the new policies, competitiveness (in terms of Unit Labour Costs) improved by about 20 percent. Throughout 1976-79, the profit squeeze had depressed investment. In the period 1983-86, we observe adaptation to the new situation created by incomes policies and devaluation. Growth of GNP was above the OECD average (Table 13.1): growth of employment in the manufacturing sector was high by international standards, and investment soared. But in 1985/6, balance of payments problems exploded (Figure 13.2 and Table 14.3), and the positive development was brought to a halt. GNP growth stagnated (Table 13.1), while the rest of OECD-Europe grew at around 3 percent. Employment also stagnated. Danish firms lost market shares both in the domestic market and in international markets. The improvement in wage-cost competitiveness was successful in the short term, but if competitiveness is judged according to market shares, it deteriorated in the medium term.[65] If the basic idea behind these policy choices was that major cost reductions for firms would translate into improvements for firms involved in international competition, this idea had not survived the test.

Productivity growth was very sluggish through these years. A recent Danish investigation argues that few firms responded to the profit boom of the 1983-6 period in a rational way.[66] Rather, it found a number of different responses: some firms simply transformed higher profits into a more moderate pace of work, both for workers and management; other firms over-invested in both new employees and new technologies, while others again accepted a reduction of productivity in the short term in order to work towards a long term improvement (experimenting, for instance, with new technologies and management strategies). The investigation points out that while investment in new technologies lagged before 1983, the short phase 1983-86 saw a very rapid acceleration of high-tech investments. Many firms tried to solve organisational problems by introducing new technologies. In fact, there is evidence that they were victims of an exaggerated fascination with new technologies. The single most important reason for the weak development of productivity in the mid-1980s, according to this investigation, was a disregard of human capital and an absence of emphasis on management in a situation in which many new employees were hired into the relatively small/medium-sized Danish firms.[67]

In 1987, wage negotiations were decentralised and concluded long before the deadline. There was a four year agreement, with negotiations after two years. Between 1987-1991, weekly working time would be reduced (stepwise) from 39 to 37 hours, with full wage compensation.[68] The possibility of local wage negotiations was restricted.

It was expected that this settlement would reduce wage competitiveness somewhat, since reduced unemployment would create more wage drift. In decentralised negotiations, employers are more concerned about the single firm. Also, there would be a reaction to the tight regulations of 1983 and 1985. There were also still inflationary expectations among the organisations. By 1987, this development was seen as a threat by DA (the employers' association). In December 1987, tripartite negotiations agreed to improve competitiveness.[69] Employer taxes were reduced and there was an "export package". Tripartite negotiations on this continued during 1988.[70]

Industrial Restructuring

Certain postwar developments in the Danish industrial structure were discussed in Part III. We shall here briefly discuss some developments in the 1970s and 1980s.

The success of Danish agro-industry since 1973 must be understood in the light of EC's Common Agricultural Policy. In 1974, an EC committee cancelled export subsidies for cheese exports to the U.S. Instead, Denmark received subsidies for exports to the Mediterranean countries. Technological developments in the Danish dairy industry made it possible to produce feta cheese from cow milk, although it has traditionally been made from goat milk. This resulted in a famous "cheese adventure" for the Danish dairy industry since the late 1970s. Cheese exports to the Middle East boomed and Iran, in particular, became a major outlet. But this success rests on vulnerable conditions, not only because of the instability of these parts of the world, but also due to the fact that the whole subsidies system of EC agricultural policies are subject to change.[71] It has also been argued that EC membership revived some of the most traditional parts of the Danish agro-industrial complex.

According to Edquist and Lundvall, except for the cooperative slaughterhouses and dairies, Denmark's industrial structure is largely "pre-Fordist". This, however, also

means that it has elements of "flexible specialisation". There is a prevalence of small and medium-sized firms. The average size of firms is the lowest in the OECD, and Denmark has the lowest share of multinational companies per capita. Small size makes internal communication easy, and unproductive lines of production cannot be maintained for long. On the other hand, small firms may have problems in export markets, since they lack subsidiaries in foreign markets to help to distribute and market the products of the parent firm. The costs of firing employees are very low in Denmark. This gives flexibility, but flexibility means that the links between management and workers are loose. Given that adjustment to technological change (shifting paradigms) requires learning and development of new qualifications at the firm level, then this flexibility may delay adjustment. "Human capital" is regarded as one among many semi-finished inputs, not really as an asset that firms should try to conserve and develop further. This deficiency may be compensated if the educational system excels in providing broad qualifications and an ability to learn. But Danish labour market policies show certain deficiencies: most resources simply must be allocated to employment relief. This purely compensatory policy fails to educate and retrain the unemployed. The qualifications of the long term unemployed tend to wither away. While the Danish educational system is generally very good at experimenting, this is not fully the case with respect to education of apprentices and other forms of technical education.

In the field of labour market policies, there was a change from job-creation measures to attempts at influencing the supply of labour power, particularly the qualifications of the workers. Educational policy and labour market policy have been knit more tightly together.

Denmark's industries are less influenced by unions, and less science-oriented than Sweden's. Unions are craft-based. It seems that the Danish system is much more "fearful" of technical rationalisation than the Swedish system, which may be related to the fact that the class compromise is weaker than in Sweden. The innovation process is self-organised, not organised by large firms or by the state. The small scale limits funds for r&d, so Danish firms mainly innovate through user/producer interaction, rather than through their own r&d laboratories. The only development block is the self-organised, cooperative agro-industrial complex, which promotes the product innovations of small firms.

R&D spending is low in Danish firms. Danish high-tech firms have found small and specialised niches. Edquist and Lundvall compare them to Sweden: "While the Swedish specialisation in engineering is one where products, normally not regarded as r&d intensive, are incrementally developed through heavy investment in r&d, Denmark, on the other hand, tends to produce r&d intensive products without investing too much r&d effort into them. In the long run both models might prove problematic. The weakness of the Danish approach is becoming more and more apparent. The niche firms have very weak linkages to the rest of the economy and they are, increasingly, taken over by foreign capital. The Danish high-tech position becomes more and more similar to that of Ireland."[72] Neither Sweden nor Denmark have many firms in the most rapidly growing high tech-sectors.[73]

Earlier development blocks related to construction, shipping and agriculture now face falling or stagnating demand, and there is no coherent new high-tech block.[74]

Rather than emphasising a general feature like flexible specialisation, an assessment of Danish possibilities should emphasise the ambivalence of the agro-industrial complex. As the forward and backward linkages leading on to biotechnology show, this sector may generate a number of new processes and products that make the future look bright for Danish competitiveness in the present technology race. But on the other hand, there are many elements of inertia in this complex. The family farm system, earlier a strong factor in the Danish innovation system, now has problems of growing indebtedness, over-investment and a younger generation which hesitates to continue in the farming business. It has also been claimed that the cooperative parts of the agro-industries are in need of new organisational patterns that can further diversification and lessen dependence on agricultural inputs alone. The two separate Ministries of Agriculture and Industry have often hampered the integration of the agro-industrial complex.

Denmark's manufacturing industry, strongly oriented towards niches in international markets has been quite independent of the state. Only the agro-industrial complex has traditionally enjoyed a lot of support and subsidies. The Ministry of Agriculture has been an important link, very concerned with the needs and demands of the farmer's organisations.[75] "The most important function of the Danish state in this context has been, mostly unintentionally, to support innovation through organising and financing professional and advanced demand for specific products. Among important examples of products, originally developed for public induced demand but later becoming high-tech niche products with big international market shares, we find hearing-aids, mobile communication technology, medical instruments and wind-mill technology."[76]

As regards industrial and technology policies, Denmark may safely be characterised as a latecomer. The whole cooperative structure of the agro-industrial complex went together with a disinterest in industrial policies on the part of the State. Still, much of the support is "crisis help", and much of this help is defensive. It seems that most of this amounted to saving shipyards.[77] This changed very slowly through the 1970s, and only in 1985 were some major reforms made which put the "Technology Council" as the core of more aggressive industrial and technology policies.[78] The approach is a general "pick the winner" one. In sum, the experience of Danish trial and error, both in industrial and labour market policies, is that general policies have proven ineffective.

A recent study of Danish productivity problems concluded that Denmark's agro-industrial complex is no longer a "dynamic" development block. Earlier, the cooperative farmers' movement was really able to be an agent of transformation. But the cooperative type of ownership and control today hampers adjustment. In the 1990s, there are no centres of power (private or public) that will be able to promote efficiently the development of a new dynamic bloc.[79] Elites connected to the old complexes make the decisions about readjustment. The continued predominance of the old complexes condemn Danish exports to markets in which demand is mostly below average. As technologies get more complex and systems-based, this lacuna becomes more grave. Foreign capital seems to take over most of the Danish niche firms.

In Chapter 10, we reached the conclusion that the Danish system of innovation was much stronger than Ireland's. This brief survey of Edquist and Lundvall's conclusions, however, shows that even a national system of innovation which adapted quite flexibly to Golden Age change may be hit by increasing problems in a more troubled economic environment. It also shows that an emulation of Denmark's successful Golden Age system can be no solution for Ireland in the present period.

CHAPTER 16

SWEDEN

First Phase — Continued Routines

Sweden had an "equilibrium" parliament 1973-6, with a Social Democratic government. In 1976, a bourgeois government took over after 44 years of social democrat rule. Various constellations of the right wing and middle parties formed governments in the 1976-82 period, but after 1982, the Social Democrats were in power again. In September 1991, however, they lost the parliamentary elections, and a Conservative-led coalition took over.

A process of radicalisation and a labour offensive had been developing since the late 1960s. Industrial policy was made more aggressive and there were moves towards industrial democracy. (This development may be seen as a response to the increased push for productivity gains as Sweden's main postwar export sectors began to experience loss of market share). The Codetermination Act of 1976 required management to negotiate with the unions over any corporate decision affecting the workplace. Earlier such consultation had been informal.[80] Finally, LO in 1976 endorsed the 1975 Meidner Report, which proposed wage-earner funds.[81] Large firms would be required to issue new stock corresponding to 20 percent of their yearly profit. Shareholder voting rights would be managed by a board consisting of members chosen by the unions and by the firms' employees. This would moderate the wage claims of workers in profitable firms, since their moderation would generate reinvestments within the firm. Trends towards concentration of wealth would be counteracted, and collectivisation could be achieved in about 35 years, since by then, wage-earners would own 49 percent of the stocks of an average firm. The proposal was made in response to an immediate problem with the strategy of a solidaristic wage policy. This policy had led to super-profits in the early seventies. The answer was to be collective profit-sharing. But the proposal also implied a radicalisation in the sense that the labour movement would aim for more than just control and influence; the movement would start to accumulate property rights. LO accepted the Meidner plan as an inventive solution to an immediate problem, but they also saw the "long term, system-transformative implications".[82] The wage earner fund proposal could be regarded as an attempt to sustain the momentum towards greater equality created by the Rehn/Meidner Swedish model. But it was launched to deal with the problem of an overheated economy. As soon as the depression developed, the views on economic policy strategies began to differ more than before.

As for economic policies, Austria, Sweden, Finland and Norway were all hit by a wage-boom and inflation in the aftermath of the 1973/4 downturn. These forces were stronger in Scandinavia than in Austria. The bourgeois government which took over in Sweden in 1976 was neither able to curtail the unions' wage claims, nor willing to reject the full employment goal. Many routines developed through social democrat rule during the Golden Age were continued. In some respects, the

government even increased state intervention: larger doses of active labour market policies, bailing out firms in trouble. In contrast to Austria, the Swedish state had so far not owned many firms, but starting in the 1973-6 period, the state began to take over crisis sectors, especially shipyards and steel.[83] This was a response to the deteriorating competitive position of Sweden's traditional export sectors. Furthermore, public employment was expanded, including female part-time labour. The cost of this policy was very high taxes. According to Scharpf the conditions for coordination between the three peak wage earner organisations in Sweden (LO, TCO, SACO) had deteriorated in the 1970s.[84] Wage growth could not be curtailed, which was also partly a result of instabilities created by the sequence of a raw materials boom and recession.[85]

A major instance of continued routines, which also separates Sweden even from its Nordic neighbours, was a selective employment policy, and in particular its company-oriented elements (stock-piling support, in-plant training to meet the threat of lay-offs, temporary employment assistance to firms employing elderly persons, and to firms of significant regional impact). This genuine "preventive" labour market policy had first been applied to relieve the 1958 downturn, later being used to manage the labour market through the Golden Age. From 1974 it again became a main weapon against unemployment.[86] While Swedish GDP declined, the unemployment rate decreased during the recession.

During the counter-cyclical period of 1976-8, the current account deficit grew (÷2.1 percent in 1976, ÷2.6 percent in 1977; Fig. 13.2). As a consequence of a total devaluation of 16 percent (see Table 16.1), the deficit had nearly disappeared in 1978, but at that time a new deficit began to accumulate. This deficit had to be covered by borrowing abroad, and monetary policies were tightened considerably to stimulate Swedish private residents to contract these credits abroad.[87] But the interest rate was kept low, due to traditional concerns for cheap credits for residential construction. Another requirement was that the central government budget deficit should be financed without the creation of too much liquidity. As long as the budget deficit was mainly financed by placing state papers (treasury bonds) in the banking system, such an increase of liquidity could not be avoided.

The correlation between industrial expansion and domestic demand growth became weaker. Towards the end of the 1970s, there was a stronger emphasis on a policy of cost competitiveness, rather than a Keynesian policy of stimulating domestic demand. It also turned out that large export-oriented firms managed the crisis better than smaller ones. The share of domestic market oriented industries (like textiles, food, construction) declined throughout the 1970s. Multinationalisation weakened labour. The foreign production of the 12 largest Swedish multinationals increased strongly in the periods 1973-7 and 1979-81 and they could now more easily respond to a profit squeeze by moving out. Engineering, especially, became more foreign-oriented. The new SAF (employers' association) leadership of 1978, perhaps strengthened by the non-socialist electoral victory, cancelled the neutral employer strategy, instead opposing more firmly the wage-earner fund proposal.[88]

An early departure from the Rehn/Meidner model was the decision — as early as the mid-1970s — no longer to use the investment reserve funds as an instrument of stabilisation policy. Rather than counter-cyclical ambitions, the ambition was to improve the liquidity of firms.

The Phase of Fumbling

The distinction between continued routines and fumbling is not easy to draw. We shall here argue that the last three years of the centre-party dominated governments represent the Swedish phase of fumbling.

From 1979, the problem of the external balance became more pressing (between 1978 and 1984, the central government budget deficit exceeded 8 percent of GDP, peaking at 13 percent in 1982; Fig. 13.3). There was also the second oil shock (record current account deficits in 1980 and 1982 at 3.6 percent, cf. Figure 13.2) and the increase in international interest rates. Swedish interest rates responded: the discount rate moved to 9.5 percent in 1980, and the "issuing interest rate" on long state loans from 9.5 percent 1979 to 12.5 percent in 1980. Until 1982, the routines of monetary policies were entirely geared at regulating the supply of credit by banks; thus, it remained a credit-based system with critical prices administered by government.[89]

The Central Bank — closely collaborating with the Department of Finance — influenced the conditions for the banks' loans. But there was also more direct regulation under the mid-1970s "Law on instruments of credit policy". Its origin was the programme for residential construction, which used "liquidity quotas" whereby banks were required to place some of their funds in housing and Treasury bonds (state paper).[90] There was also a system whereby other financial institutions had to apply for permits to issue bonds, and there was direct regulation of the banks' interest rates. There was, from time to time, even direct regulation of the banks' loans (through a ceiling) for other than housing purposes, but borrowing abroad could be exempted from such a ceiling. The rule of thumb was that the domestic credit market should be just so tight that direct investments, export credits, etc. were balanced by a private inflow of capital, while the balance of payments deficit should be covered by state borrowing abroad. This system of regulation enabled the Central Bank to manage total credit, thus keeping interest rates lower than in the case of a free market system.

As regards monetary policies, we see in this phase that continuation of the old routines led to unexpected consequences. Given the problems of the early 1980s, monetary policy had to block the liquidity creation which followed as a consequence of large budget deficits. In line with the old routines, the Swedish government tried to lock as much "state paper" as possible into banks and credit market institutions, applying a ceiling on lending and on regulation of the interest rate. Regulations became increasingly tight, but also increasingly ineffective. To evade regulations an

unrestricted "grey market" developed outside the banking system. Here interest rate formation was unrestrained, and increasingly moved away from the regulated level. The flourishing financial innovations emerged from financial institutions, but also non-financial firms. Banks were squeezed, and started to bid up the interest rate on business sector deposits. A number of well-known international financial innovations, such as certificates of deposits related both to banks and firms, emerged to mediate between liquid firms and firms which were in need of credit. An expansion of credit occurred, one which did not show up in the balances of the banks. The expanding credit volume was fed by the budget deficit liquidity flow to firms, and by the good profits in these years.

Fumbling can also clearly be seen in the fate of the wage earner reform proposal. While LO had endorsed it in 1976, the Labour Party was more sceptical. Various joint party/LO committees worked on the proposal, and in 1981, a much more moderate version was launched. The earlier plant-specific approach implied that a part of the profits would be transformed into shares, not to be sold on the market but kept in the firm as a basis for votes by workers and local representatives. The new approach was a tax on profits and wages, to be collected in a central pool and redistributed to regional funds, where workers and local representatives would vote on how to allocate them. In 1978 there was a joint LO-SAP proposal for wage-earner funds, which started the dilution of Meidner's proposal. Following big conservative gains in the 1979 elections, both TCO and the middle parties (Liberals and Agrarians) became increasingly critical of the wage-earner fund idea.[91] The Liberals had initially worked for a compromise with Labour over the funds, but now retreated.

The employer's association (SAF) not only firmly opposed the wage-earner funds; even the whole solidaristic wage policy was rejected, as larger wage differentials were demanded. These tensions led to the "great conflict" of 1980, a lock-out over wages. In addition, a nuclear power referendum created unusual divisions. At this time it was quite obvious that the consensual elements of the Swedish model had broken down. It has been argued that this increasing level of conflict reflected the determination of the labour movement to challenge capital's power.[92] But it seems more realistic to see here a case of fumbling for new routines and institutions. The result of the first really serious confrontation between the Swedish labour market parties was a stalemate. The deteriorating economic performance at that time — zero GDP-growth in 1981 (Table 13.1) record current account deficits (Figure 13.2), record budget deficit (Figure 13.3), inflation at peak levels (Figure 13.4), and unemployment on the rise, although from a very low level (Figure 13.5) — deprived the bourgeois governments of any credibility. When Labour won the 1982 election, however, there was no return to the Rehn/Meidner model, nor to the wage-earner funds. Rather the Social Democrats tried to find a "Third way" which would reduce the cost pressure on Swedish firms without creating unemployment. This approach was promoted as differing from both Thatcherism and Keynesianism.

TABLE 16.1

Devaluations (per cent) in the Nordic Area

Month/Year	DK	FIN	NOR	SW
10/1976	4		1	3
4/1977	3	6	3	6
8/1977	5		2	10
10/1977		3		
2/1978		8	8	
10/1979	3			
11/1979	5	-2		
3/1980		-2		
10/1981				10
2/1982	35			
8/1982			3	
9/1982			3	
10/1982		8		18
3/1983	3			
7/1984			2	
4/1986	2			
5/1986			12	
1/1987	3			
Pegging to ECU	*	**3.6.1991**	**22.10.1990**	**17.5.1991**

* Member of EMS since its founding in early 1979.

Source: 1976-83: Johan A. Lybeck, *Devalveringar — ett inslag i de nordiska ländernas stabiliseringspolitik.* Stockholm 1985, Tabell 2, p. 22. After 1983: Per Anders Edin & Anders Vredin, "Devaluation Risk. Evidence from the Nordic countries", [Central Bank of Sweden, Working Paper], January 1991.

New Routines

Labour devalued (by 18 percent, according to Table 16.1) on their first day in office in 1982. Between 1983 and 1988, they eliminated the budget deficit (Table 13.5), avoided cutting welfare entitlements, achieved more stable growth (between 2 and 3 percent, cf. Table 13.1), turning the trade deficit into a surplus, and lowered the rate of unemployment. They were re-elected in 1985.[93]

Pushed by the LO, Labour had to present a bill to establish wage-earner funds. Business declined to take part in the discussions on how to organise them. The final proposal was even more limited in scope than the earlier ones. Five funds would operate in a fashion similar to private portfolio investors, being essentially passive owners. The party also emphasised that no further legislation would follow. The bill has been interpreted as a way in which the party ensured further support by LO for its policy of devaluation and public sector austerity.

Whereas in the 1970s new public sector jobs had been created, the Social Democrats now accepted the view that the growth of this sector was bidding up wages, interest rates and inflation, hampering investment in the private sector. Thus, fiscal policy was held generally tight, and slimming the public sector would, it was argued, create crowding in effects.

The new strategy — also supported by the Liberals — basically implied emphasis on cost competitiveness, full employment, public sector restraint and tax reform. Export industries would gain market shares through low relative prices and high industrial profitability. Through the 1982-6 period, the approach was to devalue and change the composition of the currency basket. This had to be supported by incomes policies. There was wage restraint, and Swedish real wages declined more than in comparable countries.[94] The argument was even that cost competitiveness would improve employment (a view that in the 1950s would have been discarded as "pre-Keynesian"). The main aim of the policy was to improve the balance of payments by cost reductions, avoiding a one-sided demand restraint. As in Denmark, a profit explosion resulted. The profit share of value added rose to 1950s levels and the rise was steeper in Sweden than in any other OECD country.

As for wage settlements, there has been a decentralisation of bargaining: peak-level bargaining between LO and SAF broke down completely in 1983-4.[95] There was a separate agreement between engineering employers and their workers. But since 1985, there has still been coordination within the union movement concerning wage settlements, although the system is no longer formally centralised. By the end of the 1980s, statistics on wage dispersion did not show any major departure from the principle of solidaristic wage policy, while on the other hand there was no further closing of wage gaps. And it should be remembered that even in the Golden Age period, centralisation did not exclude the acceptance of numerous local claims at a decentralised level.[96] The employers' push for decentralisation is somewhat ambiguous, since they have benefited from solidaristic wage policy and the responsibility exerted by the central union movement. Actually, Erixon argues that without social democracy, such a policy involving unfavourable real wage development with a profit (and stock market) boom, would not have been possible.

As for labour market policy, earlier routines were continued, but training programmes became increasingly tied to the demands of export industries. Due to this policy, unemployment remained low.

We saw that during the phase of fumbling, attempts to hold down the interest rate became increasingly difficult. As a response to these problems, an entirely new way of financing the central government deficit was devised in 1982: the state would borrow in the market outside the banks, that is from firms and the general public. This made it possible to avoid strong liquidity creation. The result was a more market-oriented monetary policy, with less rationing and more latitude for interest rate policy. The domestic interest rate would move towards the international level. In 1983, liquidity quotas were abolished. Short term money market interest rates (CDs and state debt bills), which had been up to 16 percent in early 1981, were down to about 11 and 12 percent in early 1983.

By 1983, the Euromarket interest rate (LIBOR) was rising, and there were problems of capital outflows. The Central Bank conducted open market operations and increased the penalty interest rate, raising money market interest rates to 14 per cent by mid-1984. In 1984, exchange controls were moderated. The government decided not to borrow abroad, leaving it to private actors to balance Sweden's external accounts. But there were more capital outflows in 1984 and in the Spring of 1985. The domestic interest rates were up to 16 percent by mid 1985. In 1985, interest rate regulation was discontinued and the ceiling on lending for banks and insurance companies abolished. The interest rate differential towards Eurodollars was 8 percent. This gave rise to capital inflows, and the interest rate moved down to about 12 percent by late 1985, being further lowered by 1986. However, a "safe" interest rate differential was maintained.

The deregulation implied a redirection of funds from the "grey" to the official credit market. There were still attempts to restrain the credit volume. Reserve requirements were increased from 1 to 3 percent, and an "interest rate ladder" was introduced to vary the interest rate according to the size of the sum the bank would borrow from the Central Bank (relative to its own capital). Penalty interest rates were no longer needed. Open market operations were used more often.[97] Following the deregulations of 1985, credits from the financial institutions have boomed, both from investment banks and from housing institutions.

In 1986, there were improvements thanks to the decline in the oil price and the dollar exchange rate. The Swedish current account moved from a 1 percent deficit in 1985 to a 1 percent surplus in 1986 (Fig. 13.2). In these circumstances, a credit-based consumption boom could not be avoided in 1986-7. From about 1986, a fixed exchange rate policy has been followed. But due to the basket pegging, there has been a certain de facto depreciation: about 4 to 5 percent, since the heavy weight of the dollar in the basket has dragged the krone down. Depreciation against the DM has been 14 percent (1986). The Central Bank has managed to keep the interest rate differential down. It was at 3 percent in 1986, but the real interest rate has moved slightly upwards (from 4 to 5-6 per cent in the fall of 1986), since inflation has been reduced. The interest rate could not be reduced due to the persistence of a large central government deficit (1982-86; Fig. 13.3). Inflation is still somewhat higher in Sweden than in its "most influential competitor countries".

At that time, Sweden had proceeded towards full liberalisation of capital movements. Transactions relating to the financing of trade and to external borrowing by Swedish firms are in practice deregulated. Firms can also use "leads and lags", i.e. manipulate the time of payments, thereby creating capital movements. Multinationals can move funds between different subsidiaries. This may explain many of the recent capital movements in and out of Sweden. In the case of devaluation expectations, "leads and lags" cannot be prevented, but Sweden maintained regulations which prevented firms from paying back their foreign debts too early. Such accelerated repayments could have been a dangerous pressure on reserves. "Exchange regulations have in this way held down capital outflows in times of devaluation expectations, thereby easing the pressure on interest rate policy".[98] A 1985 report noted that only measures which are decisive in securing a satisfactory monetary and exchange rate policy

should be excluded from liberalisation.[99] The report referred particularly to short term capital flows (both foreigners moving into SEK, and Swedes moving into foreign currencies) which are strongly sensitive to expectations relating to the interest rate and the exchange rate. Still, Thunholm in 1987 found that there is a close similarity between the movements of Swedish and Euro-interest rates. Even the long term interest rate is starting to correlate.

This sequence may be typical of the countries which maintained a state-regulated credit-based system into the 1980s. There was first a period in which the domestic financial system is deregulated. By 1987, the only instruments left for Sweden's Central Bank and government were the regulation of the commercial banks' cash ratio, interest penalties (concerning commercial banks borrowing from the central bank), discount rate regulation, and open market operations. Then followed a next phase, where external control was deregulated. In Sweden's case, this period was 1987-91.

We do not intend to analyse all aspects of the transition from domestic to external deregulation here.[100] Let us just note that in the case of an expected devaluation with capital controls, people holding the national currency cannot move into another currency (as they would do in the absence of capital controls). Instead, they may turn to objects that may earn them gains due to inflation. In this perspective, investments in housing, in art or other precious objects may serve as functional equivalents to capital flight. This may have been one factor behind the Swedish *consumption boom* of 1986-7. Attempts by labour parties to control this are discouraging, as their political opponents can easily criticise the "command economy" principles in which they seem forced to engage.

However, it would seem that the domestic financial system could be deregulated, without further external deregulation. Evasion at that level is more difficult than at the domestic level, and firms' creation of capital movements by means of leads and lags can be controlled. It turns out, however, that the Swedish Social Democrats moved on to accept even repeal of capital controls.

In the late 1980s, a number of problematic consequences of the new economic policy strategy began to be visible. Swedish exporters did not lower their prices. Hence, their profits soared, but not the volume of production. The current account, in fact, benefited more from the American import boom. By 1988, domestic inflation had cancelled out the effects of the devaluation. Swedish industry again faced problems in international competition. Inflation was also fuelled by deregulation of financial markets which created a massive credit boom. Furthermore, productivity growth was slow. Tax reform tried to address this problem, which was also very marked as bottlenecks emerged in the labour market by the late 1980s. This situation, together with the new and more decentralised bargaining system, stimulated wage drift.

The current account deficit was back to the 1982 level (Fig. 13.2), despite very low growth of wage costs. Thus, expansion triggered off by devaluation (as well as by favourable prices on traditional export items) and the profit explosion had generated an overheated economy, leading to a wage-price spiral, and a setback for the solidaristic wage policy. The main failure was not so much the 1982 devaluation as the failure to revalue in 1986, as signs of overheating and current account surplus (Figure 13.2) had become clearly visible.[101]

As if there was a correlation, support for the Social Democrats started to crumble once these problems emerged. Support for SAP in the polls started to falter in 1989 following the tax reform, modelled on the American supply side tax reform of 1986. The economy was overheated and inflation was above the OECD average (cf. Figure 13.4). To cope with inflation, the government presented an austerity package in February 1990. While in other case countries, like Denmark and Ireland, governments had resigned due to the non-acceptance of such packages by parliament even in the early 1980s, this was the first time such a thing happened in Sweden. With just a few changes, however, both the government and the package came back. Austerity measures involved various expenditure cuts, but not the ban on strikes which had originally been proposed.

While the traditional rhetoric of the "Swedish model" of the 1960s had pictured social democracy as innovative, the point has been made that both the expansion of the 1982-88 period, as well as the austerity measures, were not very original. Economic policy initiatives were similar to those of the neo-liberal 'blue' wave all over Europe, and also in line with the ideas of earlier bourgeois governments: focus on cost-competitiveness, partial privatisation, deregulation of financial markets, reorganisation of public services, and tax reform. Furthermore, the sudden application for membership of the EC during the summer of 1990 was a response to pressure from organised business and the bourgeois parties. Sweden was no longer a model for the rest of the world.[102] Furthermore, the austerity strategy with a profit explosion and wage restraint had created severe tensions between the Labour party and LO.

Industrial Restructuring

The heyday of the Swedish (Rehn/Meidner) model corresponded to the spread of Fordist sectors in the Swedish industrial structure. The formula "Fordism and standardisation combined with welfare and democracy" is an apt one.[103]

As already emphasised, the Golden Age model implied pressure on the weakest firms. Labour market policies also promoted structural change by upgrading the qualifications of the labour force. Both the Swedish and the Danish states had extensive labour market policies, but in Sweden resources are directed to retraining and re-employment, while in Denmark, most spending consists of unemployment insurance payments. In Denmark, there are few restrictions on the employer's rights to lay off workers, while in Sweden this freedom was restricted in the 1970s. It has been claimed that the Swedish class compromise has influenced the focus of the Swedish innovation system on process technology and rationalisation rather than on development of new products.[104] High wages and a solidaristic wage policy may also have contributed to such a bias. This may also be connected to the dominance of engineering industries (e.g. the car industry), and the high concentration of manufacturing industry in Sweden.

Sweden is the only Western country that has kept pace with Japan concerning the

diffusion of automation in the engineering industry during the period of crisis. Edquist and Lundvall argue that this is not only because of the importance of the car industry in Sweden, but also due to the fact that the Swedish class compromise pattern make workers positive towards structural change, since they know that the Social Democratic government maintains a commitment to full employment. In addition, official technology policies contribute towards this feature.[105]

The work enrichment efforts may be regarded as a response to the combination of full employment and a solidaristic wage policy. As wages could not be increased very much, work enrichment and a very good work environment became functional equivalents to wage drift. Profit-sharing, bonus systems and other "non-collective bargaining remunerations" have also been used. The labour/capital relationship now shifts towards corporatism at the firm level. Despite the talk about Sweden's high density of industrial robots, etc., productivity growth has been slow, and the recovery strategy may have alleviated the pressure on firms to innovate, since corporate profits were allowed to explode, and wage solidarity was undermined.

In the late 1960s, there was an intensification of rationalisation efforts, leading to numerous mergers. But from the mid-1970s, the potential for this was being exhausted. At this time, the Fordist sectors (as well as the other parts of engineering industry) became more export-oriented, and the connections to the older sectors (steel, shipbuilding) faltered as production became more knowledge-intensive. Pontusson holds that three consequences of this have undermined the Swedish class compromise: multinationalisation of capital, less willingness by firms to finance investments by borrowing capital, and management strategies to promote flexiblity (cf. Chapter 4.5 above).

Concentration of business is high in Sweden (as in Switzerland). In 1981, 20 corporations accounted for 50 per cent of Swedish commodity exports, and 10 corporations accounted for 36 per cent. As noted in connection with Table 7.4, these firms spend considerable amounts on r&d, in fact as much (in relative terms) as Japan (and the U.S.). But the share of high-tech exports in total Swedish exports has been quite low. According to Erixon this is not a paradox: "Most of the largest Swedish corporations were established before World War I and have gradually received a strong position in oligopolistic world markets. In "mature" markets where major innovations already have taken place, high r&d expenditures for product differentiation and higher production efficiency are necessary to retain and strengthen a competitive position."[106] However, the Fordist engineering firms of the interwar period must be emphasised. The five largest are Volvo, Electrolux, Ericsson, ASEA and SKF. They accounted for 20 percent of total value added in manufacturing in 1982, accounting for a quarter of total exports in 1976.

In Austria, firms with a workforce greater than 500 account for 65 percent of r&d spending, while this share in Sweden is 95 percent. The large firms are also important as users of high-tech inputs. An OECD study found that, in the sectors where advanced technologies were most widely diffused (metal-working, machinery, surface-treatment, electronics), production of automation technologies was also very important (following Japan and the U.S., Sweden is the world's third largest producer of industrial robots). In Austria, on the other hand, large firms in the electronics sector were not important as demanders of high-tech inputs.[107] These features together help to explain the high rate of diffusion of advanced technical and organisational solutions in the Swedish production process.

It also turned out that the large Swedish firms coped with the 1970s crisis much better than smaller firms. Sweden's problems were mainly connected to middle sized and small firms. The Swedish system of investment support also discriminates against small firms: tax advantages for investment funds, for instance, are larger for large firms. The priority given to the large firms has created a dualistic situation that may not be a blessing for Sweden in the future, since there are reasons to believe that smaller, more flexible firms cope better with present day challenges.[108]

Sweden's strength has been a very high rate of diffusion of advanced technology and organiational solutions. As for the Swedish weaknesses, Edquist and Lundvall state that "while Sweden seems to be very strong in its capacity to absorb new process technology, its capability to establish production of new product families, developed elsewhere, seems to be quite limited."[109] We have seen that by the early 1970s, Sweden's continued specialisation in a number of mature products created many problems. Developments in biotechnology and materials technology may create continued problems in the form of dwindling demand for some of these traditional export items: wood products, pulp, paper, iron ore, steel. Furthermore, a major problem is that home-based multinationals are increasingly emigrating. The old model was based on the mutual dependence between the social democratic state and the big firms, but this dependence is no longer present.

While the Rehn/Meidner model devised a permanent squeeze on profits, the social democratic 'third way' of the 1980s created a profit explosion, as we have seen. It has been claimed that the policy of cost reduction has hampered the rationalisation of Swedish industry, as more firms with low productivity could continue, and the movement for restructuring of production was slowed down.[110]

As capital becomes increasingly mobile internationally, a profit explosion like that of the 1980s may lead mainly to investment abroad. Swedish firms have not escaped to places with lower wage costs; rather they have tried to position themselves within the EC, and they have acquired firms in other countries in order to improve their sales organisation.[111] The lack of willingness to borrow is generally due to increased uncertainty and higher interest rates, and the higher risks associated with r&d investments today. Borrowed capital is no longer a good substitute for equity capital, so following the devaluations Swedish firms increased their profit margins (rather than their market shares via lower prices), basically to raise equity captal. SAF changed their definition of the latitude for wage increases; rather than referring only to productivity in the exposed sectors, it would now refer to total productivity (which included the public sector, with a low productivity growth). The government had abandoned its approach to industrial policy and collective ownership (wage earner funds), and thus, they had no way to ensure that profits would be devoted to productive industrial renewal.

In sum, it would be misleading to claim that the non-socialist government which took office in the fall of 1991 is about to start the dismantling of the Swedish model. Such a dismantling, as we have seen, started with the new strategies of the Social Democrats from the early 1980s and onwards.

CHAPTER 17

FINLAND

Analysing Sweden and Denmark, we have distinguished a sequence of continued routines — fumbling — neo-liberal routines', adding a final discussion of industrial restructuring. The following brief account of recent Finnish developments is organised somewhat differently: Finland experienced an initial crisis in 1976/77, signifying phase of continued routines. But then, from the late 1970s and all through the 1980s, the Finnish economy prospered. We briefly analyse industrial restructuring as one element behind this relative success. In a final subsection, we discuss the present crisis of the Finnish economy.

The Finnish Golden Age model was a non-Keynesian one. The discretionary aspect of fiscal policy very often worked in a procyclical way. It was mainly limited to management of demand aggregates. Supply side measures that would influence prices and costs were less important. As mentioned in Ch. 9, Finland's "soft currency" approach — with devaluations about every tenth year[112] — was different from all the other contrast cases, and also from Ireland. As in Sweden, monetary policies were credit-based and government-directed, mainly aiming to provide beneficial financing for exposed sectors. Interest rates were held low. The money supply was managed through the banks' need for refinancing in the Central Bank.[113]

As for regional integration, Austria and Finland are the only ones among our case countries with large eastern exports in the postwar period. The USSR is Finland's main trading partner, with around 15 percent of Finnish exports in the 1980s, while other Eastern European countries accounted for 3 percent. Austria, on the other hand, shipped about 11 percent of its exports to other Eastern European countries and only about 3 percent to the USSR.[114]

The early seventies were marked by distortions of relative prices, affecting many raw materials, not just oil. These distortions influenced the Nordic countries. In the years before the 1974-6 crisis, escalating raw materials prices strongly stimulated to the dominant Nordic export-sectors, such as the wood and metal industries of Finland and Sweden and the Danish food-exporting sector. Profit margins in these sectors increased.[115]

Real wages increased rapidly through the boom 1971-73. At the same time, Finland experienced a wage explosion and labour unrest was particularly strong in 1973. Then the international downturn was felt. As Figure 13.2 shows, the Finnish balance of payments deficit worsened in 1974, becoming the largest among our case countries in 1975. Efforts to reduce inflation and to improve competitiveness were now given first priority. Both monetary and fiscal policies were kept tight. The public budget surplus increased in 1976 (Figure 13.3). Growth of real-wages tapered off earlier than in Sweden. Domestic demand was reduced. Unemployment reached a postwar record of 7 percent in 1977. Thus, Finnish wage earners in the mid-1970s experienced a reduction of real wages and increasing unemployment, while in the same period, wage-earners in Denmark enjoyed increasing real wages, but also increasing unemployment, and Sweden's wage-earners enjoyed both increasing real wages and full employment.

As for credit policies, Sweden, as we have seen, maintained insulated credit markets in order to secure an interest rate at a lower level than the international average, despite internationalisation of credit markets and a rush of financial innovations at the global level. Even Finland defended a low interest rate. With the quite unexpected surge in inflation, real interest rates became heavily negative. This might have modified the tightness of Finnish policies, but such effects are difficult to judge, since the distribution of credits are determined by a complex network of institutions. Depending on these institutional arrangements, expansionary credit policies may support private consumption or industrial investments or public investments, but not necessarily all at the same time.

While there are similarities between Sweden and Finland in terms of credit policies, the fiscal policy routines were Keynesian in Sweden and non-Keynesian (procyclical) in the Finnish case. Finland refrained from implementing expansionary measures in 1976. Austerity continued. Through 1977, however, a new (but weak) upturn was on its way. At that moment Finnish policy-makers started to show concern for unemployment. Policy then became expansionary, lowering the tax level and supporting firms in trouble. With the Finnish Markka linked to a basket of currencies, there had been a slight revaluation in 1972-6. But in 1977 the government devalued the currency, a traditional move in the Finnish model.[116] The external deficit diminished, inflation came down and the public finances improved. Increasing demand would now primarily follow from exports and private investment, whereas public investments were supposed to grow at a slower rate.

In terms of effective exchange rates there were devaluations, starting from 1977 in Finland and Sweden, and from 1979 in Denmark.[117] Such a trend towards competitive devaluations disturb trade relations, and this may be one of the factors behind the decline in inter-Nordic trade in the 1970s, compared to the 1960s.[118]

Towards the end of the 1970s therefore, the situation in Sweden and Finland had changed from one of low interest rates and revaluation to one of higher interest rates and devaluation. But in 1979/80, there was again a revaluation of the Finnish Markka. Since 1983, there has been a stable nominal effective exchange rate. The high real interest rates are due to a restrictive monetary policy, and institutional changes (discontinuation of interest rate control, openness). Denmark, with a different organisation of its financial system, displayed chronically high interest rates. As for industrial investments, higher interest rates added to the pressure against sectors with a low degree of self-financing (although this could be counteracted by systems of interest subsidies). It also harms countries with a high debt burden.

A main motivation for the policies pursued in Finland and Sweden up to 1981, was the wish to compensate a deteriorating position with respect to labour costs and to improve returns for industry. But despite incomes policies this approach was only partly successful. Especially in Finland, real wage increases — except for 1977-78 — overshot the gains in price competitiveness. Despite a more corporatist pattern of policy making than in the 1950s and early 1960s, wage earners mobilised,

struggling to regain the losses they incurred due to the devaluation. Broad wildcat strikes occurred in the late 1970s, but the FCS (the central trade union federation) was passive.

At the political level, the system of broad collaborative Centre-/Left-governments — established in the late 1960s — prevailed.[119] Neither red nor green protest waves have been able to disturb this parliamentary alliance.[120] The most articulate voice of protest has been the Communist party minority, but its loud protests against consensus-policies and its support of any strike has only served to promote deep splits within the party, since the Majority holds a reformist view and did (until 1983) take part in the government. During the worst year of unemployment and protest strikes, a Communist labour minister remained in office. In the autumn of 1985 the Majority expelled the Minority. These splits weakened the party and frightened voters away from the electoral association (People's Democrats) led by the Communists. Here one may trace a possible "Scandinavisation" of Finnish politics: the left-wing of the Social Democrats will be split in small parties and the position of the Social Democrats will improve.

From 1983, the broad Sorsa government consisted of the Social Democrats, the Agrarians, with the two smaller parties SF (Svenska Folkpartiet; The Swedish People's Party) and LP (Landsbygdspartiet; The Rural Party). Following the election of 1987, however, an entirely new alliance emerged. As a consequence of the rather unstable 1950s and 1960s, Finland had 34 governments (omitting 6 short periods with governments of "non-political experts") since 1940. The Agrarians had been part of 32 out of these 34. In 1987, they were out, while the Conservatives (Samlingspartiet) — a party which had only taken part in 4 governments, the last one in 1966 — entered the government. For the first time, the prime minister was a Conservative (Harri Holkeri), and also for the first time, the Conservatives allied with the Social Democrats. Such a blue-red government alliance, could not have been arranged in any other Nordic country. Throughout the 1987-90 period, this government presided over a hectic superboom at the end of the long 1980s boom. In 1987, the FIM was revalued. By 1988, Finland had the highest current account deficit among the countries plotted in Table 14.3. In 1989-90, the unemployment rate went down to its lowest level (around 4 percent) since the mid 1970s (Fig. 13.5). This period saw banking deregulation and a housing boom. We cannot analyse this period in detail here, but there were obvious similarities with Sweden's devaluation, as analysed above. When problems started to accumulate, the blue-red government was accused of playing a game of political business cycles, implementing loose fiscal and incomes policy, while being unwilling to see the clear signs of overheating of the economy in 1989.[121]

Industrial Restructuring

Finland turned out to be the Nordic "economic miracle" of the late 1970s and 1980s. In the late 1970s, Finland's price competitiveness did not improve. Relative export prices rose, and there was a less "favourable" development of RULC (Relative Unit Labour Costs) compared to Sweden in the early 1980s. But despite this, Finland won market shares. Finnish export industries managed well during this period.[122]

Aggregate growth was also spectacular, as Table 13.1 shows, Finland's growth rate of 7.3 percent in 1979 was the highest in the 1973-89 period among our case countries. In a broader comparison, it was in fact only surpassed in the 1980s by Japan's.

Throughout this period, Finnish trade with the East has been of great importance. Trade relations with the Soviet Union were a continuation of the postwar reparations, which Finland had to pay to the USSR by means of manufacturing products in the late 1940s. Each of the two large oil price increases (1973, 1979) served to increase the value of the Russian oil imported to Finland. Hence, the value of Finnish exports to the USSR also rose, since this trade was organised as semi-barter trade in which Finland swapped advanced manufacturing goods for Soviet oil. This is actually one of the few counter-cyclical aspects of the Finnish political economy.

In 1974-6 Finnish manufacturing exports also benefited from the advantage of being less involved in markets in which there was a change from oligopolistic to competitive pricing. This problem hit Sweden much harder. But thereafter relative export prices — as already mentioned — have also increased in Finland.

The "counter-cyclical" timing of the oil-price increase was even better in 1979/80 than in 1973. In 1979/80 additional exports were so huge that deliveries to the West had to be delayed. Quite apart from the fact that oil prices rose again in 1979, there were also new credit arrangements which made possible a Finnish trade surplus with the USSR.[123] The share of Eastern trade in total Finnish exports increased from 16 percent in 1979 to 29 percent in 1982.[124]

However, there is a significant difference between 1973 and 1979. In the wake of the 1973 export boom there were huge increases of imports due to the familiar inclination of the export sector to over-invest. The result was an increasing balance of payments deficit, which spurred the pro-cyclical austerity policies of 1974-5, as mentioned above. A certain rise in imports occurred also in 1981, and policies were tighter during 1982-3. There was an 8 percent devaluation of the FIM in connection with the Swedish devaluation late 1982 (cf. Table 16.1). But the balance of payments deficit did not increase. In comparison with the Swedish manufacturing sector, the Finnish manufacturing sector also made progress in Western export markets in 1979-80. This occurred despite the fact that Finnish large firms have become nearly as concentrated as Swedish ones.

These features indicate a shift in the structural conditions of the Finnish model. Besides the counter-cyclical effects of Eastern trade, this must be explained by the successful adaptation of the Finnish manufacturing export sector to external conditions. Some particularities of Finnish firms may help explain this. Let us start by comparing with Austria and Sweden.[125] Austria's large firms are either owned by the state or by foreigners. Privately owned domestic industries are mainly small or middle-sized. Sweden has a large group of home-based multinationals, and very few firms are owned by the state or by foreigners. Finland is quite similar to Sweden, but the large firms are not as internationalised as the Swedish ones. Finland also have more state-owned firms. In fact, most of the large Finnish firms were founded by the State. If we compare only the large private firms in Finland and Sweden, the Finnish ones have clearly emerged from traditional staple-based activities. In comparison with the ten largest private Swedish firms, the ten largest private Finnish

firms are concentrated in paper, wood and steel. But if the state-owned companies are included, the production structure looks more modern: state-based companies like Nestle, Valmet and Kemira were founded not only to process domestic raw materials and to secure the supply of energy, but also to diversify the industrial structure. Finnish machinery exports are particularly concentrated in wood-processing machinery, based on linkages to mining, food-processing and the chemical industry. It has been argued that since Finnish firms are less "mature" than Swedish ones, their investments were more aggressive than those of Swedish firms through the seventies. It is also interesting to note that throughout the whole postwar period, Finnish firms have been protected from challenges by foreign capital. The Restricting Act of 1939 "not only limits foreign equity ownership to 20 percent, and under special permission up to 40 percent, but it also prohibits foreigners from establishing businesses in key areas like refining, mining, forestry, shipping, real estate, transportation and securities trading".[126]

In sum it seems clear that the economic structure of the Finnish model has been adjusting more flexibly to the external pressures than the Swedish economic structure. The political alliances within the Finnish model were to a large extent able to contain internal pressures. Since there was also a remarkable lack of external pressure, Finland was in the late 1970s and until the late 1980s, the most successful instance of crisis-management in Scandinavia. There was even a weak trend towards counter-cyclical policies. At that time, the Finnish model seemed unique among the Nordic models in that things actually changed for the better during the crisis. A more thorough discussion of trends in the Finnish national system of innovation cannot be given here. Only such a discussion would enable us to decide whether the Finnish success of the 1980s is explained only by the favourable environment, or whether throughout this period, Finnish firms have been able to improve their potential for further adaptation. If the latter is the case, the Finnish economy may be able to recover again from its present deep crisis, to which we now turn.

Recent Developments

The discussion so far has clearly shown that the Finnish constellation of industrial diversification and stable corporatism was very dependent on the development of Eastern trade. In the period 1973-86, the cycles of this trade have been linked to the movements in oil prices. In 1986, however, this was about to change. At that time, we wrote: "But more recently, oil prices have dropped. The West may face a downturn without increasing oil prices in the late 1980s. In this case, Eastern trade may not work in a perfectly counter-cyclical fashion for the Finnish economy".[127] We also argued that since favourable external and internal conditions largely explained why the Finnish model had not really changed, it might still respond in a similar way to the new downturn: "the Finnish model has in itself not changed: If there had been an increasing current account deficit, a new and traditional dose of austerity measures would probably follow".[128] This seems to have happened in 1990-92. By the end of 1991, the Bank of Finland could conclude: "Both external and domestic factors have contributed to the downturn as a simultaneous shrinking in both exports and domestic demand have pushed the Finnish economy into its worst peacetime recession in this century."[129]

Part of the explanation was, as predicted, a Western downturn without rising oil prices. In 1990-92, Finland's Western export markets (especially Sweden, England and the U.S.) were very weak. However, without the dramatic crisis in Eastern Europe, Finland's eastern exports would at least have remained. But a chain of external events completely destabilised the situation in Finland's Eastern export markets. In the early 1990s, the semi-barter arrangement with the USSR was abruptly terminated, and other Eastern export markets also disappeared. Finland's GDP started to contract by the middle of 1990, and in the middle of 1991, GDP had declined 6 percent since a year earlier. Exports declined. The most important single factor is the dramatic decline in exports to the Soviet Union, being more than 60 percent below the 1990 level. Of the 6 percent fall in GDP, 2.5 percent are explained by this setback.[130] Lower capacity utilisation and profitability reduced the volume of private sector investments. There was a sharp fall in the number of new housing starts. The government tried to respond by deficit spending, but budget cuts have been proposed for 1992. In September 1991, the unemployment rate was at 9 percent, and the labour market participation rate was declining, hiding even higher unemployment. Inflation was down, and the trade balance improved. The current account deficit also improved 1990/91, since the crisis resulted in sluggish imports.

Following the March 1991 elections, the Agrarians were back with the Prime Minister (Esko Aho), in a government with the Conservatives. This is the first government without Social Democrats in 25 years.

The new government pegged the Markka to the ECU in June 1991 (Table 13.2). This reflected the government's (and also business') conviction that the economic problems could be moderated by a much closer integration of the Finnish economy with the rest of Europe. As the cold war had ended with the breakdown in Eastern Europe, Finland's earlier concern for neutrality was no longer important. In the same month, the Bank of Finland dismantled all controls on the contraction of credits abroad, thereby completing the abolition of Finnish exchange controls. There was also a package of measures to support the open sector of the economy. The interest rate differential towards the ECU narrowed, but only briefly.

Even before the March 1991 election, it was reported that groups within Finnish industry were asking for a devaluation.[131] With the ECU-pegging, and the crisis already evident, rumours of devaluation started to spread. Politicians repeatedly denied such rumours. The Minister for Finance even accused certain factions within business of organising a capital flight to put pressure on the Finnish government and the Bank of Finland to devalue.[132]

In August, Moscow saw the abortive attempt at a coup to restore the old regime. The consequence was a ban on the Communist Party, Gorbachev's resignation, and the full fragmentation of the USSR. Finnish elites acted ambivalently during the coup, a fact which symbolises their uneasiness with respect to the events in the Eastern trade: many of their closest contacts had been with the old USSR elites. This may explain why Finnish firms have not so far been able to utilise their experience in Eastern markets to become pioneers in the present attempts at constructing market economies in the Eastern area.

The difficult economic situation in Finland made the weakness of the banks manifest. High interest rates interacted with lower asset prices and increased credit losses. The

fourth largest bank in Finland, Skopbank, was threatened by a liquidity crisis, due to a heavy risk burden acquired in the boom years of 1987-9. Arising from concern to maintain confidence in the banking system, the Bank of Finland took control over Skopbank on Sept. 19, 1991.

But interest rates began to rise again due to negative expectations related to the 1992 draft budget. The interest rate differential increased to 4 percent in October. There was strong capital outflow. By mid-October, Finland was very close to a devaluation, and the Central Bank interest rate to banks peaked at 20 percent.

Major budget cuts had been proposed in the early Autumn, and there was a stalemate, with employers asking for 10 to 15 percent wage cuts, while unions signalled that they could accept zero growth. On the suggestion of President Koivisto, incomes policies were tried in order to avoid devaluation. Negotiations were very difficult, and the Government had to appoint a mediator who presented proposals in October 1991. These proposals implied an overall wage cut of 7 percent in employers' wage costs.[133] Nominal wage costs would be reduced by 3 percent, and employers would also be relieved of some of their contribution to earnings-related pension schemes. This implied that workers would face about a 2 percent cut, work longer hours and get a reduction of their holiday allowance.

This, however, could not prevent a new run against the Markka, in early November. The interbank interest rate how went as high as 50 percent, and currency reserves were down in a few months from 35 bn FIM to ca. 20 bn. On November 14, 1991, the Finnish government declared that the fluctuation limits of the FIM relative to the ECU basket had been raised by 14 percent, corresponding to a 12.3 percent devaluation.[134]

The devaluation spelled trouble for incomes policy negotiations. Metal had accepted the 7 percent wage cuts, but now became sceptical, arguing that export industries (especially forests) now had very generous privileges. The vicious circle of devaluation and compensation claims — so typical of the Finnish model in its earlier days — seems to be back again.

The trouble is still not over. There was renewed pressure in April 1992, and the interbank interest rate also went very high. However at this time, there was support from other Nordic central banks, and from the Bundesbank. Unemployment is expected to emerge at 10 percent for 1992 as a whole; at present (Spring 1991), it is at 14 percent. As for the banking sector, not only Skopbank has troubles, even one of the two financial pillars in postwar Finland, KOP (Kansallis-Osake-Pankki), is in difficulties.[135] Net foreign debt will rise to 33 percent of GDP, and 9 percent of this is central government borrowing. Interest rates are at 13 to 14 percent. Private consumption dropped by 3 percent in 1991. By 1995, the net foreign debt may be 38 percent of GDP. In the period 1975 to 1988, it was between 15 and 20 percent of GDP.[136]

The government has been seeking a 2/3 majority for new cuts. This has caused great strains. One of the most popular ministers from the Prime Minister's own party (the Agrarian party) resigned from the government, arguing that with such an economic policy, there was no need for a Minister of Social Affairs in the government.

CHAPTER 18

SWITZERLAND

Continued Routines

Switzerland was hit hard by the crisis of the early 1970s. The basic goals of Swiss economic policy have been to fight inflation and restrain public spending.[137] Once inflation threatened, exchange rate and monetary policies implied a harsh cure for industry and labour. Inflation was partly caused by a higher inflation at the world level, but also by domestic factors.

In 1971-2, all attempts to manage the economy failed, since the Central Bank was obliged to exchange dollars for Sfr. In January 1973, Switzerland became the first country to float its currency, leaving the exchange rate realignment arranged by the Americans in connection with the dollar crisis in the early 1970s (the "Smithsonian agreement"). The choice of floating (rather than pegging to the DM), was intended to fight inflation. While in the 1960s exporting industries had benefited from an undervalued Sfr, inflation had now become a problem. There were also labour market bottlenecks. The choice of floating was based on expectations created during the Golden Age that international monetary flows would be based on movements of goods. Thus, floating would not significantly change the effective exchange rate. But capital movements were also based on the need for safe deposits, and Switzerland (conservative, neutral, socially stable, with excellent performance on most economic indicators) was very much trusted. There were expectations of revaluation, so that the Swiss banking system attracted short term capital. There was a large inflow of dollars, seeking security in the stable Swiss context. The Swiss Franc was revalued by 15 percent in the 1971-73 period.

This implied a very strong deflationary pressure on the Swiss economy. There was a fear that the currency would become uncontrollable, and that the real economy would suffer. In 1975, monetary policies were made more expansive, with lower interest rates, and a loosening of credit control. Despite this policy change, the revaluation pressure persisted, and in interaction with other elements, spurred a crisis in the real economy. Judged from the development of GDP in 1975-6 (Table 13.1), Switzerland was worse off than any of our case countries. In the period 1973-9, average GDP growth was 0.2 percent, the lowest among our cases. Real GDP declined by 6.7 percent in 1975.

In a sense, such a dismal economic performance is surprising. Schmidt notes that in the early 1970s, Switzerland should have been well prepared to face the crisis.[138] Its industrial structure seemed flexible, with many small and medium sized firms, with no large "crisis sectors" like steel and shipbuilding. Furthermore, the emphasis on pragmatism, consensus and co-operation should facilitate adjustment.

Still, the Swiss Golden Age model was vulnerable to the kind of external pressure encountered in the 1970s. As we have just seen, a deflationary bias existed due to the fact that Switzerland is the only small European country which is a world financial centre, that is the only small country with a world currency. Financial instability made this situation very difficult in the early 1970s.

But Switzerland's problems in the mid-1970s must also be related to structural aspects of the earlier growth phase. Through the postwar period, the employment rate had increased strongly, reaching 78 percent in 1973, the highest in the OECD area.[139] Furthermore, while our historical statistics (Table 6.1) showed the persistently high share of industry in Swiss employment, it has been claimed that Switzerland was "over-industrialised". Despite the much celebrated flexibility, there were structural problems. Often, the introduction of foreign labour served to postpone labour-saving technological change, and only in the 1970s there was a rush into such change under the pressure of increased competition. Third, the Swiss worked long hours, and there were no efforts to change this as the number of jobs started to decline.

Furthermore, the Swiss model was marked by a lack of state interventionism.[140] Switzerland lacked the Keynesian-type "embedded liberalism" which prevailed in most other Western European countries. Its model of political economy, as well as its quite decentralised poltical system, involved few compensatory mechanisms against the impact of a generally liberal foreign economic policy. There was no tradition of demand management. There was no labour market policy, except for the restrictive policies which implied that foreign workers served as a safety valve.[141] Although Switzerland could solve the unemployment problem by means of such restrictive strategies, the exit of foreign workers also caused overall demand to decrease. These features made the Swiss slump particularly grave.

Not only was the "objective pressure" stronger in Switzerland than in many other countries. The pressure was also more immediately transferred to the labour market than in most other countries, due to openness and the absence of interventionist routines. The norms of the market are more persistent in Switzerland than elsewehere in Western Europe. Employers have more latitude in their decisions about employment. Switzerland had at that time fewer legal defences against layoffs than most other Western European countries. Schmidt holds that the Swiss social partners had become so used to postwar prosperity that such arrangements seemed unnecessary. A restrictive labour market policy has procyclical effects, since the costs are easily shifted on to other groups, like foreigners, women, older and younger wage earners. Swiss policies against various categories of immigrant workers serve to 'divide and rule' these groups. As for women, their employment pattern is unfavourable. The public sector, which in other countries employs many women, is relatively small, and furthermore, most women are employed in low-skilled and/or part-time jobs. A return to female tasks in the household is very legitimate in the Swiss social structure (as in Ireland). Most women will not register as unemployed at all, and therefore, much of the Swiss unemployment is invisible. A final specificity is that once an upturn is again on the way, many of the "problem groups" are reabsorbed into the labour market.

In this respect, it is clear that many of the features which work in a procyclical way also spur the upturn: a weak system of warning signals in the case of unemployment, low social costs (other employment-related costs are also low), and the low skills and low wages of these groups.

Employment (Table 14.1) declined more strongly than in any other OECD country in the mid-1970s. Before 1977, Switzerland had no compulsory unemployment insurance. As the crisis hit in 1974, only 20 percent of the employed were insured against unemployment. Thus, numbers for the registered unemployed are very distorted. Most of those hit by unemployment either left the labour market (joining the "quiet reserve army"), or left the country.[142] As noted in Chapter 4.2, in the absence of restrictive labour market policies, unemployment would have been 15 percent in 1983, that is, if the number of foreign workers and the participation rate had remained constant. The number of jobs declined by 10 percent in the 1970s.[143] The very strong openness of the Swiss economy in itself contributed to the problems. The decline in employment particularly hit the watch industry and textiles/clothing, the two dominant domestic export sectors,[144] and also affected construction trades, wood/furniture and the graphical industries (probably more oriented towards the domestic market).

The total reduction in employment in the mid-1970s amounted to 330,000. The number of foreign workers declined from 897,000 in 1974, to 650,000 in 1977, a reduction of 27.5 percent.[145] Thus, foreigners carried about 1/3 of the burden. But 115,000 Swiss (among these 50,000 women) also lost their jobs. These numbers may be compared to the movement of registered unemployment, which was only 1975: 10,000; 1976: 21,000; 1977: 12,000.

From 1977 onwards, monetary policies turned more restrictive again. Further revaluation of the SFr implied a continuing squeeze on Swiss exports and on the tourist business. At that time a major change took place, from a stability-oriented management of the money supply to a deliberate exchange rate policy. In October 1978, the SFr was pegged to the DM, but in a more flexible way than in the case of e.g. Austria. This was due to the status of the SFr as a key currency. From 1980, a more moderate money supply goal was implemented. There was a convergence — despite the absence of explicit co-ordination — of the economic policies of Switzerland and West Germany. Since then, the Central Bank has insisted on applying a money supply target, rather than a goal of exchange rate stability.[146]

Adjustments During the 1980s

In the second period of economic downturn (1980-2, cf. Fig. 13.1), Switzerland again experienced low growth rates. At this time, among our cases, only Ireland did worse according to this most aggregate growth indicator (of course disregarding the level, cf. Table 4.2). Once again, export sectors like watches, textiles/clothing, together with machinery, suffered most.

In the 1982/3 crisis, employment declined by only 65,000, which was much less than in the former crisis, which was described above. Now, more unemployed were covered by compulsory unemployment insurance. Furthermore, by that time, there was a permanent increase in the number of foreign workers, so only Swiss workers had to carry the later crisis.[147]

Switzerland experienced an upswing from 1983 through to 1989. The general world economic upturn (Figure 13.1) implied flourishing demand for Swiss exports of capital goods (machinery and chemicals are the two largest items in the Swiss export basket, watches are third). There was growth of employment and soon there were bottlenecks in the labour market. The labour force increase was mainly due to immigrant workers.[148] In the late 1980s, foreigners comprised 32 percent of the labour force and 17 percent of the population.[149] The economy was simply overheated, with a shortage of manpower and there was even a lack of space for new industrial sites.[150]

In 1987-8, there was an over-relaxation of monetary policies. The Central Bank tightened monetary policies after 1988, and this, together with higher oil prices, higher interest rates and a 10-15 percent over-valuation of the SFr, once again produced a squeeze on industry, especially machinery and chemicals, and on construction activity. Switzerland traditionally had some of the highest labour costs in the world. Previously, this had been compensated by a low interest rate, but the globalisation of financial markets put an end to this also.

Industrial Restructuring

Among our case countries, as mentioned in Part III and in Ch. 12, only Switzerland and Sweden have very strong homegrown multinationals. Such multinationals are even more important in Switzerland than in Sweden. In a ranking of countries most dependent on outward investments in 1982 (indicated by foreign direct capital stock as a proportion of GNP), Switzerland was first with 41 percent, Sweden only came seventh with 7.5 percent. Employment in foreign affiliates as a percentage of domestic manufacturing employment was 26 percent in Sweden (1978), and 70 percent in Switzerland (1980).[151] The output of foreign manufacturing affiliates as a percentage of manufacturing exports from the home country was 44 in Sweden (1975) and 149 in Switzerland (1980; 87 largest multinationals). Finally, the output of foreign manufacturing affiliates as a percentage of manufacturing exports from the home country was 44 in Sweden (1975) and 149 in Switzerland (1980).[152]

It was emphasised in Chapter 6 that Switzerland not only has such strong multinationals, but also a strong group of domestic producers. Table 17.1 traces the most competitive export sectors of the Swiss economy, without distinguishing domestic producers and multinationals. It is interesting to note that not all from multinationals are in complexes which Porter defines as the most competitive. Nestle, for instance, is in food production, which does not feature among the most competitive export complexes. It is, however, closely related to the health complex (pharmaceuticals — conservation techniques). And of the five largest Swiss multinationals in the 1980s, the other four are all related to the most competitive export activities: in metalworking, there is Alusuisse, in chemicals/health, there are Ciba-Geigy (pharmaceuticals and chemicals) and Hoffman-la-Roche (pharmaceuticals), in precision machinery, there is Brown-Boverie & Cie (machine tools, recently merged with Sweden's ASEA).[153]

TABLE 17.1

Main Swiss Complexes in the 1980s

Upstream Industrial and supporting functions	Chemicals	8.0	Organic chemicals, rubber, polymers.
	Multiple business	28.1	Various machine tools (metal-working); electrical/mechanical hand tools; optical instruments, counters, surveying instruments; precious jewellery, diamonds, coins, artworks; jet reaction engines, fans, blowers; trading, commercial banking, money management, reinsurance, tourism
Final consumption goods and services	Textiles apparel	11.0	Various sophisticated textile fabrics, sewing, knitting, weaving machines and parts; fibres, yarns, synthetic organic dyestuffs.
	Health care	7.0	Provitamins, vitamins, vegetable alkaloids, hormones; hearing and orthopedic aids.
	Personal	8.0	Perfume substances, watches, clocks.
Total		62.1	

Source: Derived from M. E. Porter. *The Competitive Advantage of Nations*. London 1990. p.325 ff.

Porter concludes that Swiss industry has an astonishing breadth of advantage compared to his other cases. This is so certainly also in comparison with our cases. We have seen, however, that there has been considerable pressure on Swiss industry since the early 1970s and that the economic crisis — despite full employment — of the early 1970s and 1980s was quite grave. Still, concerning the present industrial restructuring race, Switzerland's position is in many — but not all — respects, quite good. The country seems to have a strong manufacturing base, capable of restructuring flexibly. But Switzerland is weak in telecommunications and in computers.[154] Whether the Swiss will be able to maintain their solid tradition of industrial centres cannot be discussed further here. A more worrying scenario for the Swiss might consist of increasing problems of economic policy management, trends towards deindustrialisation, and increasing social conflicts (for instance between domestic manufacturing interests and internationally oriented banks).

Recent Developments

The long upturn came to a halt in 1990. At that time, there was a slowdown of GDP growth, and very high interest rates. Real growth of GDP was 0.7 percent in 1991, despite booming German demand for Swiss merchandise exports, and inflation peaked at 6 percent, the highest rate since 1981. Unemployment doubled to 1.3 percent in 1991.[155] By March 1992, 76,000 perople (2.5 percent of the workforce) were unemployed. Unemployment benefits are now more generous, and more people disregard the social stigma traditionally connected to unemployment benefits in Switzerland. Women and foreign workers now do not retreat from the labour market as much as they did before.

Even the Swiss had to feel the effects of deregulation and loosening up of the financial system. Until the late 1980s, mortgage interest rates had been determined according to a carefully balaced compromise. Deregulation, however, introduced the principles of the market even in this area, and the Summer of 1990 saw the climax of a conflict between banks and tenants.[156] This aspect of the present crisis in Switzerland could be compared to the similar problems in Sweden and Finland, but such a comparison cannot be pursued further here.

Present economic policy problems will surely interact with debates on Switzerland's role in the new Europe emerging in the 1990s. As we have seen in Ch. 2, the Swiss approach through all of the 20th century has been to "stand alone" (*Alleingang* — literally going alone). In 1986, Swiss voters rejected membership of the U.N. by a ratio of more than three to one. The question of reform of Switzerland's political system of federalism and direct democracy (26 nominally independent cantons in a federal structure based on direct democracy and a doctrine of neutrality) will probably grow more urgent if further internationalisation emerges as the general answer to the present economic problems. The many referenda are examples of popular restraints that may well hamper the government's ability to manage the economy. For instance, Swiss farmers enjoy some of the world's highest subsidies and also exert great political influence. Any attempt to tamper with their interests is bound to lead to a referendum, and the way these are organised, farming regions are favoured.[157] Parliament sits for only four three-week sessions a year. The cabinet size is only seven ministers, distributed according to the 'magic formula' with concern also for regions and language groups (cf. Ch. 9 above).

As for economic collaboration, Switzerland has taken part in EFTA's modest integration. But trade is increasingly concentrated on the EC. In 1988, 56.8 percent of Swiss trade was to the EC, and only 7.2 percent to EFTA. Since 1987 — as it became clear to politicians and corporate decision makers that the programme of the single market was about to be a success — the EFTA countries have been eager to redefine their relationship to the EC. This has been a very important factor in their economic policy strategies ever since. The question of whether Switzerland will allow EFTA to establish closer ties with the EC (via the EEA agreement, signed in early May 1992), or whether this will be blocked by a referendum, is one of the interesting questions today.[158] There are also other external challenges, such as the competition from newly liberalised financial centres, and the U.S.-led initiative for international cooperation in the war against drug trafficking, which challenges Swiss bank secrecy acts. Problems also relate to transit transport through the Alps: mountain cantons refuse to cede the 28 tonnes limit, while the EC requires access for lorries up to 40 tonnes.

For Swiss multinational firms and banks, there is no great problem: they are already strongly integrated into the EC, more so than the firms and banks of certain EC member countries. Swiss banks have subsidiaries in the EC, central bankers meet in Basle, and most European banks have subsidiaries in Switzerland.

The challenge of internationalisation has shown that, despite the celebrated liberal orientation of Swiss politics, a number of protective regulations have been maintained. Swiss bank secrecy acts have been mentioned. There are also company laws which allow Swiss owners to make use of a number of anti-takeover devices, there are restrictions on land-ownership by foreigners, there are restrictions on skilled foreign workers, and other regulations of the labour market. Swiss company law does not ban cartels and Swiss industry is marked by a very high degree of centralisation. Such regulations are unpopular among investors. According to the Swiss Central Bank, further rigidities include indexation of rents to mortgage rates, and increasing public sector charges.[159]

It has recently been claimed that Switzerland declined as a financial centre in the 1980s: much of its equity market has moved to London, and foreign exchange trading is increasingly concentrated in London, Tokyo and New York. Zürich still seems competitive only in asset management.[160]

The value of the Swiss Franc has declined after years of over-valuation. Switzerland is not a member of the EMS, and has only periodically pegged its currency to the DM. The decline has created problems for the Central Bank's struggle against inflation. Thus, Swiss membership of the EMS is now being discussed.

We have seen that the decisions of Finland and Sweden to apply for EC membership were clearly linked to the unfolding economic crisis. Similarly, EC membership will surely be debated as a solution also to the Swiss crisis. (Only Austria applied for EC membership without any such manifest connection to economic problems.) In Switzerland, a decision in October 1991 made EC membership official government policy.[161] The EEA was declared only a first step. But the members of the government are divided. As soon as the question of EC membership comes up, however, the extremes of the Swiss case will be visible, on the one hand, the tradition of "Alleingang" and the system of direct democracy and federalism all work against such membership, while the openness and degree of internationalisation indicate that membership will not make much difference.

CHAPTER 19

AUSTRIA

Continued Routines

Just as in the case of Sweden's response, the Austrian model implied an attempt to bridge the gap when economic problems accumulated in the early 1970s. As noted in Part II, there was an SPÖ (Labour) government between 1970 and 1983. The "Austro-Keynesian" approach of this Kreisky period attempted to compensate for sluggish external demand by supporting domestic demand. It thus involved, first, an expansive monetary policy, maintaining low interest rates, in order to stimulate private investment and employment.[162] It also, second, implied conventional Keynesian deficit spending to stimulate output and employment. Job promotion in nationalised industries was important as employment policy.

As a third component, reflecting the close integration between the Austrian and the German economies, Austrian policy makers maintained the pegging of the currency to the DM, thereby aiming to import the always very low German inflation rate. This meant that the Austrian Schilling appreciated in train with the DM. It has been argued that a hard currency approach does not really allow a counter-cyclical policy. However, in the 1973/4 downturn, the expansive fiscal and monetary policy was consistent with a similarly expansive stance in the German Bundesbank after the end of 1974.[163]

Finally, as the fourth component, the social partnership complex secured wage moderation in incomes policies. As we have seen in Part III, not only wages, but also a large part of consumer and industrial prices are regulated by the Joint Commission.[164]

The hard currency approach is the main difference from Sweden.[165] While there are institutional similarities between Austria and Sweden (interventionist traditions in monetary policies and strong influence by government on the central bank), exchange rate policies played different roles in their policy mixes in the late 1970s and the early 1980s. The Nordic countries used devaluations, aiming at constant nominal-effective exchange rates. Austria has since 1976 only linked to the DM, causing the nominal effective exchange rate to appreciate. In Austria, the direct effect of the hard currency line is to reduce imported inflation, while the indirect effect is that it defines the latitude for the social partners in incomes policies. In Sweden, the soft currency approach aims to maintain price competitiveness. It is an instrument related to the external balance and to employment. Also long term assignments differ: In Sweden, "internal terms of trade" are altered, devaluation leads to an increase in exposed sector profits, investments increase, and resources are moved from the sheltered to the exposed sector, increasing the profit of the exposed sector. A main argument supporting Austria's hard currency approach, on the other hand, is that it puts the exposed sector in a profitability squeeze, thus provoking structural adjustments, forcing firms to improve their competitive potential by innovation which boosts long term productivity.

In the 1970s, the Austro-Keynesian strategy was a success. There was interaction between several of the four elements. For instance, the hard currency policy would also restrain domestic inflation by creating predictability with respect to the outcome of wage settlements. Full employment was secured and inflation was comparatively low, but both the current account (Fig. 13.2) and the budget deficit increased (Fig. 13.3). Average growth of GNP 1973-9 was (like Ireland's) above the average of OECD's European members, while all the other contrast cases were below (Table 13.1). The success was probably due both to an accumulated demand for labour following the boom between 1969 and 1974,[166] and the deliberate use of nationalised industries and the public sector to solve the employment problem.[167]

It was pointed out in Ch. 9 that the Austrian state as such is weak. For a brief period in the early 1970s, it seems that the state was somewhat strengthened. It is also said that Kreisky tried to move towards a more Scandinavian model, constructing an alliance between farmers and workers, squeezing the business side of Austria's social partnership. This highlights the difference between the Scandinavian and Austrian models, as the former models do not have pillars. Kreisky's approach would effectively have implied a "depillarisation" of the Austrian model. In particular it would imply the break-up of the close relationship between the farmers and the ÖVP (Conservatives). This policy, however, soon failed, and Kreisky returned to reliance on the traditional partnership structures.[168]

Austria's adjustment in the 1970s has been compared with adjustments in Britain, Sweden and West Germany. Scharpf finds that only Austria fully succeeded in coordinating its economic policies.[169] Wage moderation occurred immediately, and both monetary and fiscal policies worked countercy-clically to defend full employment (in 1975-80, unemployment was below 2 percent, quite similar to Sweden's experience, cf. Figure 13.5). All three crucial policy fields were perfectly "tuned". Sweden was not as successful: a boom in wages together with expansive fiscal and monetary policies pushed the inflation rate up (cf. Figure 13.4). The difference between Sweden's and Austria's inflation rates developed from very little in 1973/4 to more than 5 percent in 1978. Austria's average rate of economic growth of 3.2 percent compares favourably with Sweden's 2 percent in 1973-79 (Table 13.1). A further difference is that Sweden's full employment included rapid expansion of employment and a rising labour force paticipation rate, while Austrian employment increased only moderately (foreign workers were no longer hired) and the participation rate stagnated. In that respect, Sweden's performance at full employment was more impressive, since the country expanded employment in a situation of modest growth, while Austria avoided open unemployment in a situation of high growth. In tandem with these different employment experiences, labour productivity dropped in Sweden while staying high in Austria.

Scharpf explains these different national strategies by reference to the postwar history of these two countries. They both differ from Britain by way of their centralised union movements, but their corporatist systems are different. As we know from Ch. 9, the Austrian variety of corporatism included cooperation between capital and labour via a large state sector, consisting of both firms and banks. Within this "Proporz" system there was an "unbreakable identity"[170] of interests and

perspectives between unions and the state. The Swedish model involved less formalised balances, to the extent that some scholars deny that it can be described as corporatist.

It seems that incomes policies in Scandinavia depend solely on systematisation of collective bargaining between the two voluntary peak organisations. There is no compulsory system of institutions involved. To the extent that constitutionally-backed intervention is involved, it is in the form of a weaker "national arbitrator" function. If negotiations fail and a conflict develops, then the state may establish a committee to enforce a solution (Norway). There are few possibilities for the state to exert influence in advance. In Sweden, even such a national arbitrator institution is absent. More dramatic moves, such as state-imposed solutions in Denmark, do not point towards the Austrian type, since the Nordic countries have to apply state compulsion ex-post, while Austria has a system in which consensus is achieved in advance. The Austrian system may be better when it comes to containing tendencies towards fragmentation, but it is more vulnerable to problems of legitimation, at least if its pillars erode.

While both Sweden and Austria defended full employment, Scharpf ranks Austria as his ideal case, since Austria had "optimal institutional conditions"[171] for concertation. In other words, fewer changes were made in the Austrian model than in any other West European model of economic policy. However, it should be noted that the Austrian policy of wage restraint was devoid of any redistributional ambitions. Swedish type solidaristic wage policy has never been a part of the Austrian tradition.[172] Neither should the structural conditions of Austria's success be forgotten. Austria's success must be explained as a consequence of lagged development, with very low wages, increasing foreign investment, and the fortunate timing of the repeal of tariffs towards EC products.

Modifications of the Model

Elements of fumbling may be traced since 1977. In 1975-6, there was a marked deterioration in the current account (Figure 13.2). This led to severe capital outflows, threatening the external equilibrium.[173] As a response, the Austrian government set out to curb demand: increasing taxes (e.g. introducing VAT on luxury items, mainly passenger cars), social security payments and reducing depreciation allowances. The budget deficit was reduced to 2.5 percent of GDP in 1977. Furthermore, the Central Bank reduced the money supply. This produced a domestic recession 1977/78, but a world economic upturn was expected.

In 1978, there was a new turn towards expansion, especially in monetary policies, but unlike 1974/5, the German Bundesbank was restrictive. The German interest rate was higher than the Austrian one. The immediate result was much stronger capital movements than earlier. In 1979, Austria lost about one third of official foreign reserves, and demand had to be curbed once again. By the early 1980s, interest rates had to be increased to match the German ones. In 1980, the international business cycle (Figure 13.4) slumped, and unemployment (Figure 13.5) began to rise, hitting specific regions, and also younger age groups. The slower growth had to be accepted as permanent: the average 1980-89 rate was slightly below the OECD/Europe average (Table 13.1), about the same as the other case countries, except Finland. Although there was still a Socialist Chancellor, the goal of full employment could no longer be maintained, and it was in practice changed to "as little unemployment as possible". Policy goals were expressed as medium term rather than short term.

As a consequence of tighter fiscal and monetary policies, the current account deficit was eliminated by 1982 (Fig. 13.2), and by then, more expansive measures were tried. The budget deficit (Figure 13.3) however, became worse, and taxes had to be increased again. There were further restrictive measures to restrain demand in 1984-5. The priority was now to ensure external equilibrium. The federal budget was to be balanced. Since the public debt and social policies accounted for increasing shares of expenditure, there would be austerity in all fields relating to public investment. There was also tax reform, reducing marginal taxation of incomes by doing away with numerous tax exemptions; and third, a "restructuring of the nationalised enterprises partly by dividing them into more flexible units and partly by privatisation".[174] The latter measure, implying that nationalised industries could no longer be used as effectively as before to support full employment, will be further discussed below.

During this period, the Austrian financial system also changed. This system, as shown in Part III, was traditionally a credit based state-interventionist one, with rationing and non-market mechanisms. It had only a weak stock market, with many state-owned and foreign firms. This was similar to Sweden and Finland, but it seems that adjustments in Austria started earlier. Due to earlier "under-valuation" of shares, there was a boom in shares in the early 1980s. For the first time, international actors became interested in the Austrian stock market. There was a lack of venture capital, and a number of measures making investment in stock more attractive were implemented.

In the 1970s, the Austrian money market consisted mainly of an inter-bank market. In the first half of the 1980s, there was considerable differentiation. Besides deregulation, there were institutional changes influenced by the government and the Central Bank, such as the introduction of short term state paper. The revival of the market for "interest-bearing papers" was mainly due to deficit-financing.[175] The large public sector deficits have been reduced in recent years, but in 1991 the target was not met. The external part of national government borrowing has been decreasing (from 31 percent in 1981 to 15 percent in 1990). An auction system for domestic issue of government securities will allow the Austrian government to raise most of the debt in the internal market.[176]

The Austrian banking sector was quite sheltered, with sharp divisions between the savings, cooperative and commercial sectors. Since the late 1970s, these divisions have been dissolved. Austria is still considered over-banked and over-branched. As interest rates were regulated and competition increased in the late 1970s, banks competed by setting up branches. By the early 1990s, Austria still has less than 1,000 inhabitants per branch (including post offices), the lowest figure in Europe.

Privatisation and concentration will proceed, but still have far to go. As for foreign exchange controls, the final vestige, which limited individuals' rights to open bank accounts abroad, was lifted in November 1991.[177]

In sum, the two expansive components of the Austro-Keynesian approach had disappeared: fiscal and monetary policies. Monetary autonomy — the ability to control interest rates and monetary aggregates independently of external influences — has been shrinking. Such external pressure weakened the position of the social partners. The interest rate could no longer be controlled, and internationalisation restricted the ability of the Joint Commission to influence price formation. Some commentators ironically remarked that Austro-Keynesianism had become Austro-monetarism, as only two of the four elements were left: one is the hard currency policy, and the other is social partnership, implying that the Joint Commission can still organise wage moderation.

Since the mid-1970s, there have also been a number of internal pressures on the Austrian model, in particular important new social movements, addressing issues not covered in the postwar compromise: women's rights (feminism), peace and ecology. In 1978, the social partners could not agree on the question of nuclear power. For the first time in the postwar era, there was a referendum, deciding by a small margin that the already completed Zwentendorf nuclear plant should not be opened. By the mid-1980s, this plant cost about $75 million a year in repayments and maintenance charges.[178] A similar event was the blocking of the plans for a dam on the river Danube in 1984/5. In 1984, a Green Party won seats at the regional level, and in 1986, they won 8 (out of 183) seats in the parliament (*Nationalrat*).

In the political system, there has also been a challenge from the right. When the Social Democrats lost their absolute majority in 1983, the small FPÖ (Austrian Freedom Party) had been included in the "small coalition" government as a junior partner to the SPÖ. In 1986, the party elected a new leader and changed its policies significantly. While earlier a centre liberal party, it now became a right-wing populist party influenced by the ideas of German-oriented nationalism. In the 1986 election, the party increased from 12 to 18 seats.[179]

Following that election, the Social Democrats chose to return to the grand coalition with the ÖVP (Conservatives). With crucial questions like Austrian membership of the EC coming up, both large parties obviously considered a new grand coalition useful. Trade with the EC is crucial to the Austrian economy: 66 percent of Austria's exports went to the EC in the late 1980s, against 55 percent for Switzerland and 45 percent for Sweden. Unlike Swiss and Swedish multinationals, Austrian enterprises have not established plants inside the EC. Membership of the EC was considered so important for Austrian industry that concerns for independence and neutrality were disregarded: an application for membership was presented to the EC in 1989, even before the events in Eastern Europe signalled the end of the Cold War, and independent of problems related to economic policy management.

Industrial Restructuring

In Chapter 9, we mentioned the origins of the nationalised industries in the postwar period. In the late 1980s, 25 percent of Austrian employment was in state-owned firms (including assets of state-owned banks), while foreign-owned firms and private domestic firms accounted for about 37.5 percent each. About 20 percent of the manufacturing sector was owned by the state. More than 95 percent of the iron ore, iron, steel, natural gas, lignite, and more than 85 percent of the bituminous coal, and about 70 percent of the aluminium output was produced by nationalised industries. The textiles sector is also mainly owned by the state. Nationalised industries account for around 25 percent of Austrian exports. The electricity supply sector was largely in state hands, as well as two nationalised banks, which again controlled another 15 percent of the enterprises. The state-owned Danube Shipping Co. was the largest firm, involved in both passenger and freight services, with Linz, Vienna and Krems as major ports. Linz and Vienna, along with Solbad Hall and Graz also have free trade zones, for display, storing or repair of foreign goods, zones which have become permanent display areas for foreign products.

Lumber and paper are among Austria's most important exports. There is a paper/pulp complex, but firms in this sector are mainly owned by foreigners. As for services, the Winter sports industry is of course quite important. The large tourist industry, twice the size of Switzerland's, relieved Austria of serious current account problems in the 1970s. But saturation appeared in that sector in the late 1970s. Austria thus decided to tax transit trade as a compensation. This is still not done by Switzerland.[180]

Nationalised industries were concentrated in the raw materials and semi-finished goods sectors. The ÖVP (Conservatives) during the 1960s opposed an upgrading of these firms towards production with a higher value added content. In the 1970s, it seems that these obstacles were overcome, but the restructuring of Austrian state industry was perhaps hampered by a late start. Voest, the nationalised steel corporation tried to move into production of turn-key plants and into electronics, but was hampered by a weak technological base. In the late 1970s and 1980s, capacity in the steel sector was cut all over Europe, only "Austria continued to adhere to the philosophy of adjusting its steel industry by means of internal diversification to new products."[181] Katzenstein found serious structural problems in Austrian industry, with "persistent and probably growing technological dependence". Austria was, in his view, trapped in electrical-mechanical engineering products, importing most of the electronic steering components. While Austria has a number of state institutions supporting foreign trade, Katzenstein, referring to the early 1980s, notes that there is a growing consensus that a more liberal "Swiss model" of export promotion is the right strategy for the next decades. A similarity to Sweden is that Austria, arising from its neutrality, has a large defence industry (e.g. Steyr-Daimler-Puch), one which has faced severe legitimation problems in connection with its eager promotion of weapons sales in the third world. The same has occured in Sweden.[182]

Reform of the nationalised industries started in the mid-1980s, following a scandal connected to state patronage of one such firm. Numerous workers were laid off, restrictions on competition removed and a programme of privatisation started. The

state also makes it clear to banks that there are no guarantees for loans to state companies. But as we have seen, the nationalised industries were still important in the late 1980s. "Austrian industries", a state holding company, accounted for 14.2 percent of industrial sales and 24.8 percent of investment in 1990. As part of a privatisation programme, this firm will issue its first shares in 1992, or 1993, depending on the strength of the stock market, but it will take five years at least before less than 50 percent of the firm is state-owned. Privatisation has thus started, but it is far from completion.[183] Schemes for investment and interest rates subsidies have so far been maintained.

Four elements of the Austro-Keynesian model were discussed above. There was also a fifth feature, namely structural policies for import substitution to reduce the balance of payments deficit. In some sectors this took place, but generally, the Austrian governments seemed content with the effects of the hard currency stance on industrial restructuring. The limited efforts at structural policies were stepped up from 1975 onwards. In contrast to Scandinavia, but like Ireland, Austria tried to attract foreign multinationals.[184] Austrian authorities engaged in a "courtship of foreign multinationals" in order to promote modernisation: large financial incentives, often in direct competition with Switzerland (and Ireland for that matter): high depreciation allowances, low corporate tax rates, credit at subsidised rates. These firms' share of industrial employees went up from 18 percent in 1977 to 28 percent in 1987. The most famous example is probably General Motors, which established a gear-box plant outside Vienna, subsidised at about 1 million Schilling per job created. Many of these firms only do assembly work in Austria.

While this is similar to Ireland, the share of foreign firms is much larger in Ireland. Furthermore, in Austria, foreign investments interact with an environment which is formed by a long tradition of domestic manufacturing production.

Recent Developments

We have seen that the Austrian model has not really changed. It has, however, been reduced, and now consists above all of the hard currency exchange rate policy and corporatist incomes policies. Certain elements of employment policies also remain.[185] As Table 13.1 shows, Austria has recorded high growth rates since 1988. Both foreign and domestic demand have increased. This has happened, as Figure 13.4 shows, at very low levels of inflation. At the time of writing (Spring 1992), optimism reigns in Austria. A recent survey described its economy as "one of the most robust in Europe".[186]

This prosperity stands in stark contrast to the Finnish crisis (Chapter 19). No comprehensive analysis of this striking contrast can be given here, save for a couple of suggestions. First, we have seen in Chapter 19 that Finland's trade was mainly with the USSR, and that the crisis exploded as the semi-barter oil/industrial goods exchange was abruptly terminated.[187] One only needs to look at a map of Europe to understand that Austria's trade is mainly with the smaller Eastern European states. Despite their problems, these are better off than the USSR.[188] Some of the present optimism in Austria is based on the conviction that there is an "Austrian edge" in dealing with Eastern Europe. Vienna is very close to the central areas of Poland, Czechoslovakia, Hungary, and is expected to regain its pre-1914 position as a major regional centre. These areas share a common inheritance from the Hapsburg bureaucracy, and German is the second language in the neighbouring Eastern countries.

Furthermore, it has been claimed that Austrian manufacturing exports are gaining market share in the West. In particular, the fact that German reconstruction (following the reunification of Germany) sustains a high level of activity regardless of costs and interest rates, strengthens the Austrian economy. Finland, on the other hand, has not been able to compensate for its crisis by increasing sufficiently deliveries to fast-growing markets.[189] The growth of domestic demand is too sluggish. This is mainly due to the financial crisis. Austria's financial sector seems to have managed the transition out of a credit-based, government-dominated financial system better than both the Swedish and Finnish ones. We have seen that deregulation of the housing market and tax reforms are important elements in the escalation of the Nordic financial crises. Even in Switzerland, whose financial system is much more internationalised, the housing sector has created problems recently. It is not possible to investigate this topic further here, but future research might study the fact that Austria's housing market still has not been fully deregulated,[190] while tax reforms have aready taken place. In the Nordic cases, the timing of such reforms was more unfortunate, with housing deregulation coming earlier, before the incentives to credit-financed housing speculation had been removed from the tax system.

Eastern events have also influenced Austrian labour market developments. The strong inflow of workers from the East, willing to work at low wage levels, legally or illegally, adds an element of market pressure to the already moderating social partnership system.[191] The influx of foreign workers is the main reason for the 6 percent unemployment rate. This means that there is a downward pressure on wages, even if there is a very high rate of job-creation. The main labour market problems are long term unemployment and illegal work.[192] In the case of Finland, there is no such inflow of immigrants.

The Nordic experience, however, may also be turned into a warning for Austria. We have shown that fewer policy instruments are now at the disposal of the government. A constellation involving a solid recession encompassing Germany and the Eastern areas, financial instabilities interacting with a deregulated housing market, large lay-offs in the remaining nationalised industries, increasing unemployment, and continuing large inflows of cheap labour from the east, could create severe destabilisation of Austria's political economy. Such factors would most likely undermine support for the social democratic pillar. Adjustments in connection with EC-membership might alienate farmers and many liberal professions, thus weakening the conservative pillar.[139] Both the Green and the Freedom parties might gain even more support. While so far Austria's solid social partnership system has succeeded in keeping these challengers out of the corporatist networks, it remains to be seen whether dislocations like those sketched above would be great enough to bring down the whole solid social partnership system.

CHAPTER 20

IRELAND

1973-79 — Continued Routines

Irish policy makers applied a massive fiscal stimulus during the 1970s. Only in the early 1980s was there a "small and delayed" shift in a restrictive direction.[194]

In the 1973-79 period, GNP growth seemed impressive. Ireland had the highest average among the countries we compare. GNP growth was below 2 percent only in 1976. But there were signs of instability. The current account deficit was much greater than in any of the other case countries over the period 1973-84 (with the exception of Finland in 1975, Figure 13.2). Government financial balances (Figure 13.3) show far larger deficits than in any of the case countries, with the deficit increasing 1973-5, 1977-82 and 1984-5. This had to be financed: the debt burden increased by 3.1 percent of GDP every year between 1975 and 1980 (Table 13.2). Inflation was the highest among our countries in 1975-77 and 1979-82, and as we shall see later, an abrupt change to a much lower level followed after 1982 (Figure 13.4). Unemployment increased from 5.3 to 9 percent 1974-6, went down to about 7 percent 1977-79, but then skyrocketed in the next period (Figure 13.5).

TABLE 20.1

Ireland, Composition of Governments 1945-92

YEAR	LABOUR	FINE GAEL	FIANNA FAIL	OTHERS	PRIME MINISTER
45-51	X	Y		X	Costello
51-54			Y		De Valera
54-57	X		Y		Costello
57-59			Y		De Valera
59-61			Y		Lemass
61-65			Y		Lemass
65-66			Y		Lemass
66-69			Y		Lynch
69-73			Y		Lynch
73-77	X	Y			Cosgrave
77-79			Y		Lynch
79-81			Y		Haughey
VI/81-1/82	X	Y			Fitzgerald
II-XI/82			Y		Haughey
82-87	X	Y			Fitzgerald
87-89			Y		Haughey
89-92			Y	X[1]	Haughey
92-			Y	X[1]	Reynolds

1 — Progressive Democrats   Y — Party with the prime minister.

Source: NESC Secretariat.

In Chapter 12, we showed that Ireland, unlike all the contrast countries, has a party system marked by two catch-all parties. Studying the postwar period until the late 1960s, however, it is hard to support the view that more class-based or more polarised party systems are more suited to promote economic growth and industrial transformation than a system of two catch-all parties. In the more troubled period of the 1970s and 1980s, however, a connection can be hypothesised: in a situation with pressure on state finances, the energetic competition for votes in a system of two catch-all parties may spur a spiral of overbids by each of the parties in terms of welfare benefits and reforms, thus increasing the national debt burden.[195] Table 20.1 shows that from 1973 onwards, the long spell of Fianna Fáil rule was broken and governments shifted between Fianna Fáil and the Fine Gael/Labour coalition. Ireland's particular variety of clientelist connections, discussed in Part IV, may also have contributed to such a vicious circle.

There were some fatal delays in the Irish economic policy adjustments in the late 1970s and early 1980s, compared to the contrast countries. A comparison with Austria, for instance, concluded: "Austria responded more promptly and more effectively to the external shocks than Ireland. It had a programme of adjustment in hand even prior to 1979 and it acted quickly when deficits began to rise in the early 1980s. Its institutional system provided flexibility in wages, taxation and government expenditure at a critical time. For various reasons — bad luck, availability of apparently unlimited sources of foreign finance, weak government and under-estimation of the magnitude of the adjustment required of it by external events — Ireland postponed adjustment. It paid a heavy price for procrastination. We are now talking of national recovery, not macroeconomic stabilisation."[196]

As for the 1970s, we have seen that wage moderation within a corporatist setting was one of the factors which facilitated adjustment in Austria, and also — although to a lesser degree — in Sweden and Denmark. Ireland is an interesting case when it comes to corporatism. On many of the aggregate variables (like union density, the concentration of labour market partners, etc.), Ireland seems to score high enough to count as a potential neo-corporatist success. And in fact, from 1970, there were attempts to build a social partnership. In the 1960s, with emphasis on technocratic economic planning, there had been corporatist connections between the state apparatus, state-sponsored bodies and private business interests, mainly in connection with the outward-oriented industrialisation strategy. In the late 1960s, a number of conflicts related to incomes issues emerged. Thus, attempts were made to include labour in a more extensive tripartite state/business/labour relationship, focusing more closely on incomes policies.[197] The first "National Wage Agreement" in 1970 covered only state employees. The "13th round" from January 1971 was successful, even promoting socially sensitive goals.[198]

In this first phase of the National Wage Agreements, the government was only involved as an employer. General economic policies in that period were moderate. There was no current account deficit. The first deficit was permitted in 1972, reflecting optimism concerning the further expansion of export-oriented indusrialisation. Between 1972 and January 1975, a counter-cyclical approach was followed. State revenues were mainly based on taxation of wage earners. The largest

trade union federation, ICTU, tried to link acceptance of NWAs to state guarantees that the tax code would be reformed.[199]

At that time, both the FUE (Federated Union of Employers) and the Central Bank favoured ideas of a "social contract", partly inspired by similar attempts in Britain at that time. Thus, in 1975, a second period of NWAs can be specified, marked by indirect government intervention. In that year, when inflation peaked at around 23 percent (Figure 13.4), the government intervened to offset the rising costs of living. NWAs had become tripartite, not just bipartite deals. This implied an increased public sector borrowing requirement. Government grants were conditioned on a renegotiation of the NWA which satisfied certain conditions. The 1975 NWA did not imply that a direct trade-off between pay and public policy commitments had become a principle, but it created expectations of close links between NWAs and the budget in future situations as well.

New negotiations in 1977 turned out to be the first round of negotiations explicitly referring to budget provisions. This came after a crisis. Employers wanted a pay pause or decentralisation of negotiations. The state had to intervene in this deadlock. The FUE offered an interim pay settlement if a later social contract was negotiated, one with direct government intervention. Employers were in fact the most enthusiastic promoters of tripartism. Pay would be coordinated by government policy on taxation and inflation. Economic planning would be an extension of collective bargaining.[200] Just days before the January 1977 budget, the terms were ready, implying tax reductions, a promise to reconstitute the profit share, a reduction of negotiated income increases, compensated by government intervention.

In November 1978, the unions withdrew from further NWAs, due to strong grassroots pressure against the highly centralised negotiations. In 1979, NWAs were to be replaced by an even broader National Understanding. Employers remained a main force behind the push for even closer tripartism. Furthermore, control of inflation became increasingly important for the government. This was seen as a key to promote the government's ambition of restoring full employment in five years. Furthermore, Ireland's membership of the EMS from March 1979 would leave the government with more responsibility for the control of inflation. Ireland had chosen to participate in this system, abandoning the century-old pegging of the Irish pound to sterling. As England stayed outside the EMS, this above all implied that exchange rate fluctuations between sterling and the Irish pound would now influence the Irish economy, which still of course had numerous trade connections with England.

Tax reforms turned out to be a main problem, and the ICTU hesitated, rejecting a proposal for a package in March 1979. A new initiative from the employers was accepted in July 1979. The First National Understanding focused strongly on the employment problem, implying direct government measures to increase employment. It also included commitments to changes in social welfare and income taxation. The latter was a response to a very strong controversy on the distribution of the tax burden during those years. As for the pay element, it was higher than expected, with much local wage-drift (reflecting many strikes), and scepticism concerning the Government's non-pay commitments. The budget deficit continued to increase (Figure 13.3), but policies were still expansive into 1981. The government established a commission on Tax Reform, which in 1980 started to work on a documentation of the situation. Thus, in the short term, very little was done on the non-pay issues.

In January 1980, the depth of the economic crisis was admitted by the Taoiseach.[201] Continuing the First National Understanding proved very difficult because of the second oil crisis. The employment objectives would obviously not be met, and employers felt that the understanding did not prevent the spread of industrial conflict. However, by personal intervention the Taoiseach convinced the employers to take part, thereby securing a Second National Understanding in October 1980. The restrictive 15 month pay agreement involved a pay-pause and increase well below the rate of inflation. Like the former settlement, this agreement included a number of social guarantees (reform of industrial relations, tax reforms, improvements in health care, housing, education and training). When this settlement expired in 1981, it was not possible to reach agreement on a new one. The situation in mid-1981 was very turbulent and in this context, there was a return to decentralised negotiations.

Judging from Hardiman's analysis, the pressure on the government was too great.[202] This pressure was related to three major features of the Irish model. First, the outward-oriented industrial policy made it impossible to tax foreign firms to any substantial degree. Since farmers had so far also been quite successful in resisting an increased tax burden, most of the burden was on the shoulders of wage-earners.[203]

Second, the problems were related to Ireland's peculiar demographic pattern. Due to the partial success of the export-oriented industrialisation strategy in the late 1960s, Ireland in the 1970s experienced net immigration for the first time in its modern history. The outward looking strategy and the more expansive fiscal policies attracted a return flow of earlier emigrants. The total labour force was 1.1 million in 1960, increasing to 1.2 million in 1979. The fact that the Irish population actually grew (Table 11.6), created a large unemployment problem once the pace of the world economic growth levelled out. In the 1975-80 period, unemployment hovered between 7 and 9 percent.

The Phase of Fumbling 1981-87

The revision of economic policies started only with the second oil-shock. Economic growth was negative in 1982 and 1983 (Table 13.1). Unemployment doubled between 1980 and 1983 (Figure 13.5). Inflation was halved in the same period. Debt servicing and heavy increases in taxation implied strong deflation.

As we have seen, the move towards broader tripartism implied by the National Understandings could not be sustained, and there was a return to decentralised bargaining. Commitments to tax reform and employment creation were not met. On the other hand, the government did not succeed in reducing public spending either (cf. Figure 13.3). As for tax reform, the reports by the Commission on Taxation were awaited, but when these were published in 1982-5, Fianna Fáil was no longer in office. Meanwhile, the tax burden on average and low paid employees probably increased.

The first general election under the new Fianna Fáil leadership was June 1981, and the result was a hung Dail.[204] Fianna Fáil lost its majority (being left with 78 seats) and a government was formed by the coalition between Fine Gael (65 seats) and Labour (15 seats). This FitzGerald government lasted only for half a year. In late January, its budget collapsed, and in a new March 1982 election, the result was again a hung Dail. This time, Fianna Fáil gained 81 seats (2 short of a majority), and formed the government. Haughey established a working majority for this government by means of an agreement with independent socialist TDs. Even this government, however, lasted only half a year, which was a very turbulent one politically.[205] In November, the Irish went to vote in their third general election in 18 months. There was a setback for Fianna Fáil (75 seats), and FitzGerald's Fine Gael/Labour coalition (70 and 16 seats) returned.

TABLE 20.2
EMS Realignments

	IRISH POUND	DM
4.10-81	Unchanged	5.5 % appreciation
2.2-82	Unchanged	
12.6-82	Unchanged	appreciation
21.3-83	3.5 % devaluation	
6.3-86	Unchanged	3 % appreciation
2.8-86	8 % devaluation	
12.1-87	Unchanged	3 % appreciation

Source: Rudiger Dornbusch, "Credibility, Debt and Unemployment: Ireland's Failed Stabilisation", *Economic Policy*, 8, 1989, p. 182.

Not only politically, but also economically, instability peaked in 1982. As can be seen from Table 20.1 there were frequent changes of government. The interest differential with Germany peaked at about 9 percent towards the end of 1981. It declined again as a political consensus emerged in early 1982, accepting the positive and high real interest rates. Following the brief Fianna Fáil interlude in mid-1982, this new orientation prevailed in economic policies throughout the 1982-7 period. There was a hard currency approach within the EMS. Even in the mid-1982 EMS realignment, the Irish pound was kept unchanged (Table 20.2), but there was a small devaluation in early 1983. Fiscal policy was bent on reducing the budget deficit. As regards incomes policies, decentralised agreements continued. There were government/public sector agreements with modest pay increases. In the private sector, real pay probably stagnated in this period.

With Ireland in and Britain outside the EMS, sterling depreciated strongly against the EMS in 1986-7. Since Britain was still Ireland's main trading partner, the Irish economy was squeezed. Thus expectations of devaluation gathered, and Ireland had to cede by the second 1986 realignment (8 percent devaluation against the EMS currencies; see Table 20.2). The GNP growth rate again turned negative in 1986. Among the case countries, only Denmark had a somewhat similar downturn in the mid-1980s. In Ireland, there were new problems with the budget deficit, resulting in capital outflows. Monetary conditions were strongly tightened, with the interest rate rising strongly, increasing the interest rate differential to the DM. Pressure on the Irish pound disappeared only when sterling stopped declining.[206]

Some economists would argue that EMS gave Ireland a "firm domestic anchor" which enabled her to disinflate. Dornbusch, however, argues that stabilisation was a failure. Unemployment stabilised at a very high level, far above any of the contrast cases from 1980 onwards (Figure 13.5). The peak was just below 18 percent 1985-7. The full extent of the problem is illustrated if the new surge of emigrants is added: the net immigration of the 1970s was soon replaced in the 1980s by renewed net emigration. And now the brain drain element was also stronger: more skilled, middle class youngsters tended to emigrate. As Table 11.7 shows, emigration was now more to Britain than to the U.S. Furthermore, the debt/GDP ratio grew to world record levels. Table 13.2 indicates that Irish debt increased by about 7 percent (of GNP) every year in the period 1980-7.

According to Dornbusch, several factors explain the poor performance 1982-87. First, fiscal contraction reduced real aggregate demand, as there were no expenditure switching policies (real exchange rate appreciation and rising real interest rate). Second, relative labour costs were rising. Budget cuts did not generate crowding in, and the over-valued currency made fiscal adjustments very expensive. Third, Ireland could finance its debt and maintain low inflation thanks to unlimited access to capital. Political stability and the many return payments from immigrants had made Ireland a very attractive borrower for the over-liquid Eurobanks of the 1970s, and even in the 1980s Ireland commanded more credibility than third world borrowers.[207] Fourth, monetary policy also worked to avoid crowding in. Higher real interest rates are a worldwide phenomenon, but the Irish level also reflected the hard currency policy in a situation where the country did not command full credibility: "Irish interest rates, even with a fixed exchange-rate policy and near-German levels of inflation continue to exceed those in Germany."[208]

As the mid-1980s recession evolved, difficulties gathered for the Fine Gael/Labour coalition.[209] Economic policies also created tensions. As we shall see in the final subsection below, there was no employment creation in old foreign and domestically owned firms. In January 1987, it was clear that the four Labour ministers could not accept Fine Gael's tight budget proposal. While Fine Gael had blamed the tight policies on earlier governments' mismanagement, this argument had no longer much weight. Fianna Fáil mobilised support by their criticism of the government's "monetarist" austerity policies. There were many conflicts related to decentralised bargaining. In many firms and in the public sector, industrial relations deteriorated to the point were some trade unionists feared fully-fledged Thatcherism.

Attempts at Adjustment 1987 and Onwards

The breakdown of the coalition government led to a new election in January 1987. Again there was a hung Dail, with Fianna Fáil at 81 seats, Fine Gael down to 51 seats, Labour at 12 seats and the new Progressive Democrats (led by two former Fianna Fáil deputies, but taking votes mainly from Fine Gael) were in with 14 seats.

Fianna Fáil was back in office, but the party was in a difficult position: the crisis made control of public spending absolutely necessary, but throughout its opposition period, the party had criticised such tight fiscal policies. Also the unions at that time recognised their weak bargaining position. They sought shelter from the trends towards Thatcherism in Irish working life, trends which had become marked in the 1982-87 period.

The launching of the Programme for National Recovery in early 1987 was a response to this grave crisis.[210] The Taoiseach invited the unions along with the other major social partners to take part in an effort to spur recovery by means of consensus. The programme was concluded in October 1987, despite considerable differences in the preferences of the various collaborators. The settlement was a concertative agreement in a much more explicit sense than the earlier National Understandings, with a clear linking of the pay agreement and government inputs. For the trade unions, the point of departure was not pay increases, but the wish to regain influence over issues like jobs and social inequalities.[211] They wanted measures against unemployment, improvement for workers on low pay, and some concessions on taxation.

The PNR included tax reform, i.e. a reduction in income tax and an extension of the population paying tax. Also the farmers were now included in the tax base. Other fields affected by the PNR were social security and education. Very importantly, a Central Review Committee was established, i.e. a formal institutional arrangement to monitor the agreement.

But there were strict limits to the reforms that could be afforded. Huge deficits and debt forced the government to conduct very austere policies. The main objective was to achieve income restraint and expenditure cutbacks, which allowed for very little compromise with the unions. This fits the description — in Chapter 14 above — of the 1980s as a phase in which attempts at corporatist concertation give few benefits to unions.

Employers were sceptical towards the PNR at the outset, but soon experienced the advantages. In contrast to earlier periods, the profit share in national income increased, and cost pressure was relieved. This was more satisfactory than the outcomes of decentralised collective bargaining.[212]

In the period 1987-1990 incomes policy settlements were much more restrictive than during the 1970s, with pay increases below the expected level of inflation. Labour costs compared to main trading partners improved. Strike activity declined strongly 1987-1990. Growth of GNP (Table 13.1) was above the GDP growth of all the contrast cases except Finland. Inflation was down below the average of OECD/Europe (Table 13.4). The current balance of payments was in surplus throughout the period (Figure 13.3). The debt/GNP ratio declined from 130 to 123.[213] Real disposable incomes increased somewhat between 1987 and 1990. Hardiman judges the strategy as "consistent and effective", claiming that in contrast to e.g. Denmark, which "had addressed their problems of fiscal deficit through a strategy which minimised reliance on union cooperation, Ireland's approach had been quite different, and depended centrally on the bargained agreements reached between government and the major economic interests."[214] But unemployment persisted. In 1990, the unemployment rate was down to 14 percent from about 18 percent in 1987, but the differential over the OECD/Europe average had only been reduced from 8 percent in 1987 to 6 percent in 1990.[215] The government's employment creating incentives had little effect on employers.

In sum, except for unemployment, Ireland's development was favourable during the PNR period. But as the NESC emphasised, this was not just due to the consistence, continuity and credibility of the PNR, but also due to external factors, such as the general upturn in the world economy (cf. the business cycle movement in Figure 13.1).[216]

Based on the positive experience, major collective actors in Ireland began to discuss a long term strategy in which macroeconomic policies aiming at low inflation, low interest rates and control of the national debt would hopefully be combined with fundamental structural reforms, radical tax-reform, and a major offensive to fight long-term unemployment and improve social services. The "social market economy" of Germany was mentioned as one model.[217] While the PNR mainly implied short term coordination, a longer term strategy would need to address the problems of unemployment, emigration, and lack of indigenous industrial development. In the following section, we discuss some aspects of Ireland's industrial restructuring in the 1970s and 1980s.

Industrial Restructuring

According to the analysis in Part IV, a main contrast between Ireland and the other cases considered here, is the weakness of Ireland's national system of innovation. Earlier, the emergence of the export-oriented strategy was analysed, and in Chapter 12, the fact that the new group of foreign-owned firms had relatively few linkages with the rest of Ireland's manufacturing sector was emphasised.

Since the 1970s, competition for foreign direct investments from third world countries became fiercer. But in comparison with Ireland, Less Developed Countries lacked conditions such as infrastructure, political stability, proximity to markets, efficient host organisations (IDA, SFADCO), membership of the EC, and cultural ties and a language community with the U.S. and Britain. However, even more developed contries emerged as competitors in this game, including other EC countries. By the 1970s, as we mentioned in Part IV, the wage gap between England and Ireland was about to disappear.[218] Still, recent studies show that many small and internationally inexperienced TNCs continue to choose Ireland as their first country.[219]

The 1970s and 1980s have seen a new layer of foreign firms locating in Ireland. Earlier, mobile capital sought cheap, unskilled labour in rural areas. Since the early 1970s, the sectoral composition of foreign investment has changed: chemicals are now more important, as well as pharmaceuticals, instrument and electrical engineering, office/data and electronics. Although these firms do not relocate their key technological and business functions, they still require a more skilled and professional workforce than one finds in the third world.[220] In aggregate trade

statistics showing the high tech content of exports, Ireland looks like a really advanced high tech exporter in the 1970s and 1980s. These firms tend to locate in central regions, where people with professional and technical skills live. This also brings the firms closer to universities and colleges. Due to this development, demand for skilled personnel is increasing by Irish standards, despite the fact that the skilled staff in the Irish divisions of such internationalised firms are fewer than in the divisions located in more advanced economies.[221] After all, the Irish divisions are mainly doing assembly work. But due to the somewhat higher skill content, O'Malley indicates that external economies may develop in such sectors.[222] On the other hand, he also notes that the skill-level of the Irish labour force has not been raised significantly. There may have been some improvement regarding managerial skills.[223]

The situation regarding linkages, surveyed in Part IV, has not improved significantly. Purchase (backwards) linkages have increased somewhat. In 1974, foreign industrial firms (outside the food sector) purchased about 11 percent of their materials in Ireland. In 1983, this share was up to 25 percent. O'Malley estimates that the 25 percent amounted to 6 percent of the sales of indigenous industry, so in that sense, foreign firms made no "major contribution" to the development of indigenous firms. This means that linkages between indigenous and foreign firms are still weak, and such a connection would be crucial for the emergence of a stronger national system of innovation. Indigenous firms spend a larger share of their incomes in the Irish economy than foreign firms. The fastest-growing foreign firms are those with the least spending in Ireland.

Agriculture is still a very important sector in the Irish economy. But even here, linkage effects have largely been barred. Following entry into the EC in 1973, there was a "productivist attempt" to increase agricultural output. Since the mid-1980s, EC policy has tried to change towards production containment, decoupling income support from measures to increase productivity. Given these rural development programmes, the pressure for land consolidation is certainly not so strong. Today, diversification into forestry, agri-tourism, etc. is proposed. "Thus, EC policy-making echoes the concerns of national policies of 25 years ago. It is a context in which the persistence of small unproductive farms is inevitable — even desirable. The expansionary productionist model of agricultural development has been replaced by an agri-social orientation in agricultural policy."[224]

Industrial development in the 1980s created a paradox for the development of the total economy. In 1980-85 Ireland had a record growth of industrial output. Above all, output in the new high productivity sectors (pharmaceuticals, office/data processing machinery, electrical engineering, instrument engineering, "other food") increased. There were also large export increases. But none of these increases was reflected in the development of domestic incomes and employment. Manufacturing employment had peaked in 1979, but as a consequence of the deteriorating conditions and the policy changes since the second oil shock, it again started to decline. Between 1982 and 1987, manufacturing employment declined by 20 percent, the largest reduction since 1922. Although employment grew in new foreign firms, this was more than outweighed by the decline of employment in the rest of manufacturing industry, that is in old foreign and indigenous industries.[225] The growth of national income was also below many other OECD-countries (Table 13.1). It seems that the high growth sectors form an enclave, to which most inputs are imported, and from which profits are repatriated. Only a low proportion of their recorded output is a real contribution to the Irish economy.[226]

Evaluating industrial development in the 1980s, O'Malley asks whether the new foreign industries will pass through a life cycle with respect to employment. If that is the case, a permanent stream of fresh foreign investments will be needed: "the overall trend of employment in foreign-owned firms has been increasingly influenced by the large stock of relatively old declining plants, so that an ever greater inflow of new first-time investors would be needed to maintain any specified growth rate."[227] He notes that it is not fully clear why there is such a life cycle pattern with respect to employment. As for the mature firms, such a pattern may be explained by a weak growth of demand, and by the growing pressure (since the early 1970s) of low-wage NIC-type competitors. As for the newer firms — e.g. in chemicals, instruments and electronics — they were established in Ireland at an early stage of their life cycle. But the activities undertaken in Ireland, as we have seen, are mainly technologically undemanding parts of the production. These parts may also face competition from LDCs. Furthermore, there are indications that high-tech life-cycles are becoming shorter.[228]

As shown earlier, in the 1980s indigenous firms were in a depressed situation, as the home market contracted. These firms have poor marketing skills, and low levels of technological innovation.[229] O'Malley's diagnosis is that the decline in indigenous industries in the 1980s was not a cyclical, but rather a structural phenomenon. The enclave nature of the foreign firms is not sufficient to explain this. O'Malley argues that if there is a dualism in the industrial structure, foreign firms cannot be held responsible for it. As we have seen, he notes that these firms did little to hold back indigenous firms, but neither did they promote modernisation. He holds that it is the existence of such firms at the level of the world economy which is decisive: "the established competitive strength of large advanced firms — as represented to a great extent by multinational firms *worldwide* — greatly limits the possibilities of latecomers' indigenous development. This constraint applies no matter how Modernised' or dynamic are the attitudes and culture of the latecomer."[230] In this report we have argued that internal factors are probably more important. The problem is above all that the strategy of export-oriented industrialisation has not spurred the development and consolidation of a genuine Irish national system of innovation.

CHAPTER 21

SUMMARY

In Part V we have surveyed economic policy adjustments in all our case countries since the early 1970s. Our periodisation indicates that there has been a sequence starting from continued economic policy routines in the early 1970s, via a phase of fumbling to a situation in which austerity policies prevail in the late 1980s. In this new situation, policy makers have fewer economic policy instruments at their disposal than before. This development must be explained by the interaction of external and internal dynamics. There are interesting similarities and differences between the various contrast countries, some of which have been commented upon above. For a conclusion, however, it suffices to sum up the comparison between Ireland and the contrast countries.

Considering total growth (Table 13.1), we can conclude that the gap in economic development between Ireland and the contrast cases had opened up before the 1970s. We tried to account for this lagging behind in Part IV above. Ireland's total growth in the 1973-89 period was above the OECD/Europe average. Studying other macroeconomic indicators, however, it is striking that fluctuations are larger in Ireland than in the contrast cases: the current balance of payments deteriorated dramatically 1978-74 (Figure 13.2), the budget deficit and unemployment were far larger (Figures 13.3 and 13.5), inflation was higher before 1982 and then disinflation was dramatically quicker than in the other cases (Figure 13.4). Finally, an enormous debt burden has accumulated (Table 13.2).

As for the factors contributing to delayed adjustment and the ensuing vicious circle, most of them are familiar to us from Part IV: the competition between two quite similar catch-all parties, the emphasis on export-oriented production with few linkages to national industries, the fluctuations of population movements, and Ireland's integration with Anglo-American finance.

As for the period of adjustment after 1987, starting with the PNR, no full analysis can be provided here. But while it has been indicated that the corporatist settlements of the late 1980s entailed few direct benefits for the labour movement, Ireland's experience with the PNR is better than the experiences in most of the other countries. This may be due simply to the depth of Ireland's crisis in the 1980s, but also to the fact that certain reforms (e.g. of the tax system), had been delayed for such a long time that they were bound to produce a more favourable situation when they were at last implemented.

It has been argued that Ireland's loss of indigenous manufacturing employment during the 1970s and 1980s is much more grave than similar processes in more advanced industrial countries such as the contrast cases: "there is an important difference in so far as these other countries were starting (in the early 1960s) from a much more advanced position in industrial development, such as Ireland had never reached, and were shifting resources increasingly into services in line with a changing pattern of demand as high income levels are attained. Ireland, on the other hand, was simply failing to attain anything like a comparable level of indigenous industrial development (which would have entailed continuing growth of indigenous manufacturing employment long after it had slowed down in more advanced countries). The persistence of unemployment and/or emigration in Ireland indicates that there was a persistent failure to mobilise productive resources, not simply a proportionate shift of resources from employment in Industry to employment in Services as happened in more advanced economies."[231]

The challenge for Ireland is now to mobilise productive resources in a much less favourable world economic environment than that of the 1950s and 1960s West European Golden Age.

Further conclusions based on the survey of economic policies in Chapters 12 to 20 are included in the first part ("Overview and Conclusions") of this report.

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3. Bob Rowthorn & Andrew Glyn, "The Diversity of Unemployment Experience Since 1973", in Stephen Marglin & Juliet Schor, editors, *The Golden Age of Capitalism*, Oxford 1990.
4. CEPII, *Économie mondiale: La montee des tensions*, Paris 1983, Table I. 12. 2, p. 64.
5. This is the judgement of Rudiger Dornbusch, "Credibility, debt and unemployment: Ireland's failed stabilisation", *Economic Policy*, 8, 1989, p. 194. Similarly, Crotty emphasises that Ireland could "borrow more money relative to GNP than any other state in the world, and three times as much as Peru, the Latin American country with the relatively largest public debt." Crotty, *A Radical's Response*, Dublin 1988, p. 58.
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11. *ibid*, p. 253.
12. Glyn & Rowthorn, "West European Unemployment", *op. cit.*, p. 199.
13. Therborn, *op. cit.*, p. 131. Cf. also, Göran Therborn, "Does Corporatism Really Matter? The economic crisis and issues of political theory", *Journal of Public Policy*, 7, 3, 1987, pp. 259-284.
14. Therborn, *Why some People are More Unemployed than Others*, *op. cit.*, pp. 41, 48, 43.
15. *ibid*, p. 23. This is close to Schmidt's conclusion, referred to above.
16. F. W. Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, Frankfurt a. M. 1986. (Our references are to the German edition, but a translation is now available: F. W. Scharpf, *Crisis and Choice in European Social Democracy*, Ithaca 1991.)
17. See Figure 1.6 above for a stylised version of such corporatist exchange mechanisms.
18. Britain is famous for its fragmented pattern of unionisation, with the TUC being very weak as a peak organisation. After years of very strained solutions, concertation broke down in the Winter of Discontent 1978/79. The Labour government was unable to secure a full employment solution in its game with the unions, and had to implement restrictive monetary and fiscal policies. This was one major condition of Mrs. Thatcher's victory in May 1979.
19. The list is given in Claudia Pichl & Peter Szopo, *Industrieentwicklung und Wirtschaftspolitik in Skandinavien und in Österreich*, Österreichisches Institut für Wirtschaftsforschung, Wien 1988, p. 131 f.
20. *ibid*, p. 141-4, p. 139.
21. Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, *op. cit.*, p. 295.
22. The following relies on Lars Mjøset and Ton Notermans, *Unemployment and Employment Performance*, unpublished paper, Institute for Social Research, Oslo 1990.
23. Scharpf. *op. cit.*, p. 306.
24. *ibid*. p. 307.

25. *ibid*, p. 310.

26. *ibid*, p. 311.

27. Scharpf rejects the idea that such corporatism has anything to do with an "exchange" between full employment and moderate wage-growth; Fritz W. Scharpf, "Inflation und Arbeitslosigkeit in Westeuropa. Eine spieltheoretische Interpretation", *Politische Vierteljahresschrift*, 1989, p. 31. The state and unions are forced to agree on redistribution, without any guarantee that capital's gains will be used for productive investments.

28. Comparing small, open economies it seems that the only difference between corporatist and non-corporatist cases is that the corporatist ones are able to achieve voluntarily what the others must do by direct state dictate.

29. John Zysman, *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*, Ithaca 1983. Cf. the presentation of Zysman's typology in Chapter 4 above.

30. E. Damsgård Hansen, Kaj Kjærsgaard & Jørgen Rosted, *Dansk Økonomisk politik. Teorier og erfaringer*, Copenhagen 1988, 2nd ed., p. 354.

31. Jørgen Rosted, "Manøvremuligheder i beskæftigelsespolitiken. Den Økonomiske politik i 1970'erne", i Mørkeberg/Rosdahl, ed. *Arbejdsløshedsundersøgelserne*, Vol. 3, *Marked, statsligpolitik og velfærdsmæssige konsekvenser*, Copenhagen 1982, p. 157 f.

32. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 349.

33. Rosted, "Manøvremuligheder i beskæftigelsespolitiken", p. 163.

34. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 348, p. 326.

35. *ibid*, p. 145, p. 187, p. 347 calls this the idea of a "demand twist". They refer to a "philosophy" of the late 1970s, that "increased supply of public services could be used to combine the wish for increased employment and improvements in the current account."

36. *ibid*, pp. 329, 330, 331.

37. Rosted, *op. cit.*, p. 172 f, with reference to effective exchange rates. But note that in 1976-77, there had been devaluations within the snake. The effective exchange rate, however, remained unchanged, due to a continued fall of the dollar and sterling exchange rates.

38. *ibid*, p. 168.

39. For details on incomes policies, see Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 222, and Svend Auken & Jacob A. Buksi, "Den indkomstpolitiske problematik i Danmark", *konomi og Politik*, 3/1975, and on the period 1975-82, Svend Auken & Jacob A. Buksi, "Resultater i en brydningstid", in LO (Denmark), *Midt i strømmen. Bog til Thomas Nielsen*, Copenhagen 1984.

40. Rosted, *op. cit.*, p. 167.

41. Rosted, *op. cit.*, p. 176.

42. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, pp. 354, argue that the Danish current account-deficit cannot be explained as a consequence of investment. Denmark borrowed money to finance welfare and housing. The reasons for the deficit lie in the domestic political decision-making process. A political struggle rages, over (i) the size of real wages, (ii) wage structure (solidaristic wage policy), (iii) size of social transfers. Together these factors strongly influence the current account problems.

43. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 264.

44. The minister of finance, Knud Heinesen, resigned in 1979, and before he left, stated that the Danish economy was on the brink of the precipice — "på afgrundens rand".

45. There was a change in indexation, to halt wage compensation claims, see Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 146. At the same time, Parliament passed a law which froze indexation and introduced an index which did not include energy prices.

46. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 146.

47. For an account, see Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 252 f.

48. On the "package" proposed, the one which failed & led to the governments' resignation: see Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 224.

49. Helge Brink, "Den ny økonomiske politik", *Politica*, 19:2, 1987.

50. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 348 f.

51. The "fiscal effect" was neutral, according to Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*

52. *ibid*, p. 147.

53. For a list of measures, see Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 225. Transfer payments were changed. Wages would not grow by more than 4 percent, or more specifically, public wages were limited and there was a "suggestion" to the private sector to stay within this limit. Indexation was suspended from 1983.

54. Peter Erling Nielsen, "Danmark", in Marianne Stenius, ed., *Penningpolitik i Norden*, Lund 1987.

55. Brink regards this as "politics". Brink, "Den ny økonomiske politik", *op. cit.*, p. 167 f.

56. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 331 f, p. 334.

57. *ibid*, p. 49.

58. In 1985 the fiscal effect was zero, in the other years it restrained economic activity by about 1 percent of GDP, Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 147f.

59. The interest rate differential came down 1982-6. But the main reason was the growth of M2 relative to GDP, which the National Bank allowed after 1982. Brink wonders why they did not go for this even earlier, during the social democratic government, Brink, "Den ny økonomiske politik", *op. cit.*, p. 169. The post-tax real interest rate was 1 percent in 1983-6, against -1 percent 1978-82. In this sense the government did not achieve its aim of bringing the interest rate down.

60. This still involved a kind of demand management, cf. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 348.

61. *ibid*, p. 167.

62. *ibid*, p. 77.

63. This is all the more paradoxical, as the government started out with some good conditions in 1982: an international upswing, falling energy prices, appreciation of the dollar and yen. Furthermore, Denmark benefited from more domestic supplies of oil and gas. Brink claims that the Schlüter government "was too interested in the wrong deficit"; Brink, "Den ny økonomiske politik", *op. cit.*, p. 177.

64. *Damsgård Hansen, Kjærsgaard & Rosted, op. cit.*, p. 348.

65. Allan Næs Gjerding, Björn Johnson, Lars Kallehauge, Bengt-Åke Lundvall & Poul This Madsen, *Den forsvundne produktivitet. Industriel udvikling i firsernes Danmark*, Copenhagen 1990.

66. *ibid*, Chs. 5, 4.8, and 14.3.

67. *ibid*, p. 131. Their more general perspective is that the dismal development of productivity 1984-87 must be explained by the interplay between international challenges (a shift of the technological paradigm, cf. Chapter 4.1, 4.5 and 4.6 above), specific structural problems and the specific business cycle at that time.

68. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*,

69. *ibid*, p. 231.

70. It is unclear, according to Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 87, whether incomes policies since 1983 have created new (that is lower) inflationary expectations.

71. Jesper Strandskov, "Mejerisektoren", in Kim Møller & Henrik Pade, editors, *Industriel Succes*, Copenhagen 1988, p. 139.

72. Edquist & Lundvall, "Comparing Small Nordic Systems of Innovation", *op. cit.*, p. 45. As our report shows, however, differences between Denmark and Ireland are still substantial.

73. We shall here provide some comparative numbers concerning r&d spending. For the 1970s and 1980s, there are OECD measures of high-tech products available. High-tech products are defined by high levels of r&d spending, and OECD uses a typology of nine product areas with such high levels. (Airplane & space technology; office machinery and computers; electronic devices and building elements; telecommunication; pharmaceutical high-tech products; scientific instruments (measuring, control, etc.); electric machinery (generators, transport supervision); non-electric machines; chemical high-tech products. Cf. OECD, *Science and Technology Indicators*.) An Austrian investigation compared the export specialisation of some of our case countries in these product areas (which are specifically only the r&d intensive parts of the sectors) in 1984/5. It was found that Sweden was above the average in telecommunications and machinery, while it was weak in computers, office machinery and building elements. Finland (and Norway) was not above the average in any of these product groups, but Finland was close in telecommunications (here its specialisation was increasing) and electrical machinery (Norway was close in chemicals). Switzerland displayed a strong above average specialisation in pharmaceutical products, chemical products, scientific instruments and electrical machines. Austria was high in four groups: pharmaceuticals, electrical products, machinery and in chemicals. Austria was not above the average in any of the electronics product groups. Pichl & Szopo, *Industrieentwicklung und Wirtschaftspolitik in Skandinavien und in Österreich*, *op. cit.*, p. 35 ff and Table 3.4. (Denmark is not included in this study.) OECD also calculates r&d quotas in manufacturing industry (r&d spending as a percentage of the output of domestic manufacturing industry). These were 2.4 percent for Sweden, Finland: 0.9, Austria 0.8. (OECD, *Determinants of the Impact of Technology on Employment and Investment*, DSTI/IND/86.14, Paris 1986, quoted from Pichl & Szopo, *Industrieentwicklung und Wirtschaftspolitik in Skandinavien und in Österreich*, p. 37, who claims that the Austrian rate — if properly calculated — would be somewhat higher.) For both Austria and Sweden, they are neutral countries with a significant armaments industry, which pulls them high up on this indicator. Finland lacks an armaments sector.

74. Edquist & Lundvall, *op. cit.*, p. 46 f.

75. *ibid*, p. 19.

76. *ibid*, p. 20.

77. Damsgård Hansen, Kjærsgaard & Rosted, *op. cit.*, p. 238, p. 270, p. 292, p. 348.

78. Peter Munk Christiansen & Niels Chr. Sidenius, "Forsknings- og Teknologipolitik i Danmark — Politik og Institutioner." *Politica*, 20:3, 1988, 246-268.

79. Edquist & Lundvall, *op. cit.*, refer to strong banks and internationalised business as such promoters in Sweden and Germany in the postwar period.

80. As mentioned in Chapter 9 some commentators regarded this as a cancelling of the postwar class compromise, with labour challenging capital's control over the organisation of production. Walter Korpi proposes such an interpretation, but it can also be found among the employers.

81. Rudolf Meidner, *Employee Investment Funds*, London 1978 is a revised English translation. The Meidner Commission had been appointed by government in 1974.

82. Jonas Pontusson, "Radicalisation and Retreat in Swedish Social Democracy", *New Left Review*, 165, 1987, p. 14.

83. For an overview, see Bo Carlsson, "Industrial Subsidies in Sweden: Macroeconomic Effects and an International Comparison", *Journal of Industrial Economics*, XXXII, 1, September 1983.

84. Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, *op. cit.*, p. 246.

85. Lennart Erixon, "Structural change and economic policy in Sweden during the postwar period", draft version, The Swedish Centre for Working Life, June 1988,

86. For an overview of the labour market policies, see Gösta Rehn, "Swedish Active Labour Market Policy: Retrospect and Prospect", *Industrial Relations*, 24, 1, 1985. A law on Increased Employment Security was passed in the early 1970s.

87. L. E. Thunholm, "Sverige", in Marianne Stenius, ed., *Penningpolitik i Norden*, Lund 1987.

88. Erixon, *op. cit.*, p. 28-30.

89. Cf. Chapter 4.1.

90. These were first applied for housing credits, then to involve banks in financing the central government deficit. It seems (Thunholm, "Sverige", p. 93) that the maximum level was increased from 32 percent (1975) to 50 percent (1983) — presumably of the large bank's reserves.

91. Pontusson, "Radicalisation and Retreat in Swedish Social Democracy", *op. cit.*

92. Korpi, *The Democratic Class Struggle*, *op. cit.*, p. 47.

93. Jonas Pontusson, "The Crisis of Swedish Social Democracy", Dept. of Government, Cornell University, March 1991.

94. Scharpf, *Sozialdemokratische Krisenpolitik in Europa*, *op. cit.*, p. 310. Cf. also Glyn and Rowthorn, "The Diversity of Unemployment Experience", *op. cit.*, surveyed in Chapter 14 above.

95. Analysed in detail in Nils Elvander, *Den svenska modellen: Löneförhandlinger och inkomstpolitik, 1982-86*, Stockholm 1988.

96. Erixon, "Structural Change and Economic Policies", *op. cit.*, p. 32.

97. See Stenius, ed., *op. cit.*, summary p. 14: Denmark had effective second hand markets for bonds for a long time, since its system had been a capital market based one (cf. the typology in Chapter 4). Denmark had no grey market problems. In Sweden, we see now that its credit-based system is being weakened. Effective second hand markets came first in the 1980s as the central government deficit was financed by short term treasury bonds.

98. Thunholm, "Sverige", *op. cit.*, p. 100.

99. SOU (*Swedish Official Reports*)1985:52.

100. I am indebted to Ton Notermans for the following points.

101. Lennart Erixon, "Rehn-Meidner-modellen — en ny tredje väg!", *LO-Tidningen*, No. 4, January 26, 1990. Pointing to the similarity between the situation of the late 1950s and that of the late 1980s (labour scarcity and profit explosion), Erixon argues that the Rehn-Meidner model could be applied again today. He argues against the view that financial openness makes this impossible. Pontusson, "The Crisis of Swedish Social Democracy", *op. cit.*, however, argues that the Rehn/Meidner model could possibly only work under the specific conditions of the Swedish Golden Age period, that is when the Fordist sectors were being diffused in Sweden. Given the increased internationalisation of Swedish firms, especially the engineering firms, Pontusson argues that they will no longer accept the profit squeeze implied by the Rehn/Meidner model.

102. Pontusson, "The Crisis of Swedish Social Democracy" *op. cit.*, p. 7-8. The application to the EC was accepted by parliament in May 1991, and formally presented to the EC in July 1991. A general condition for Sweden's application was the demise of the cold war in 1989/90. Before that, Sweden's neutrality had barred any rapprochement with an EC dominated by NATO members.

103. Edquist & Lundvall, *op. cit.*, p. 37.

104. Figure 7.1 notes a possible influence from the class compromise via the state to the production process.

105. Edquist & Lundvall, *op. cit.*, p. 40 f, cf. p. 18. Denmark, in contrast, maintains craft-based, quite pre-industrial forms of organisation and training systems. The Danish innovation system turns out to be more focused on product innovations.

106. Erixon, "Structural Change and Economic Policies", *op. cit.*, p. 4.

107. OECD's studies are summarised in Pichl & Szopo, *op. cit.*, p. 94 ff. OECD's own summary emphasises five factors: strong firms in key fields, important large end users of advanced technology, workers and unions which are receptive to technical change and have negotiated agreements in such fields, high labour costs, low wage differentials (squeezing weaker firms out of business).

108. Cf. our account in Ch. 9., Cf. also Pichl & Szopo, *op. cit.*, p. 97.

109. Edquist & Lundvall, *op. cit.*, p. 44. Exceptions are ASEA/ABB's robots, and Ericsson's mobile telephone system. But Ericsson failed in computers.

110. Erixon, "Rehn-Meidner-modellen — en ny tredje väg!", *op. cit.*

111. Pontusson, "The Crisis of Swedish Democracy", *op. cit.*, p. 33 argues that the decision to apply for EC membership was a direct response to the outflow of capital during the fall of 1990.

112. 1957: 39 percent, 1967: 31 percent: For the devaluations of 1977/78, 1982 and 1991, see below.

113. Pichl & Szopo, *Industrieentwicklung und Wirtschaftspolitik in Skandinavien und in Österreich*, *op. cit.*

114. *ibid*, *p.* 59-63.

115. Cf. data on profit margins in T.P.Hill, *Profits and the Rate of Return*, *OECD*, Paris 1979; *OECD, National Accounts 1964-81*, Paris 1983, Vol.2, Annex III.

116. Since it is not possible to conduct incomes policies through broad compromises, economic policy elites turned to devaluation, which improve conditions for export sectors. The response of wage-earners is a struggle to regain the losses they face due to higher inflation generated by the devaluation. The state may ward this pressure off for some time, but such forces then spur procyclical policies in the next business cycle upturn.

117. Cf. OECD, *Economic Outlook*, July 1982, and Niels Thygesen, "Exchange-rate experiences and policies of small countries: some European examples of the 1970s", *Essays in International Finance, Princeton University*, No. 13, December 1979.

118. For a full analysis, see Jan Fagerberg, "Norden — en framtid gjennom Økt integrasjon og samhandel?", Nordisk Forum, 42, Vol.19, No.2, 1984.

119. This bias is connected to the Finnish Constitution, which, for reasons which go back to 1906, requires a 2/3 majority for a "law at the constitutional level", and in practice any bill that introduces or raises a tax is such a law. This requirement was originally designed to prevent left-wing dominance of the parliament (the fear that the fifty percent majority — which in fact was a reality in the first election, cf. Ch. 8, above — would abolish private property). Qualified majority ensured broad government, and has worked well. At present, however, it is more controversial. It has been claimed that in the present problem situation, the 2/3 requirement ties the hands of the government, which in fact must win the support of the Social Democrats, now the largest opposition party. *Financial Times*, October 4, 1991, p. 31.

120. With economic prosperity and at the same time a low level of welfare state expenditure (a ceiling on tax increases and a smaller public sector than in Sweden or Denmark), Finland did not experience a blue wave in politics. On the other hand, a green wave persists, which is stronger than in most other countries. This was partly an effect of the 1980s prosperity, partly a reaction against corruption in certain local governments, but also an effect of the fact that Finland went through very rapid structural changes in the 60s and 70s: in 1950 the share of population in agriculture was still at Sweden's 1930 level — in 1980 this difference was evened out. Such a rapid depopulation and structural transformation of agriculture provoked defensive populist protests (Vennamo's Rural Party in particular). Apart from Vennamo's right-oriented version, there is also a more left-oriented "urban" green movement.

121. *Financial Times*, October 4, 1991, p. 30.

122. Mjøset, "Nordic Economic Policies in the 1970s and 1980s", *op. cit.*, Table 6.c. Pichl & Szopo, *op. cit.*

123. In 1990, the Bank of Finland published for the first time estimates of Soviet debt to Finland, which at that time stood at FIM 7.2 bn (= \$1.96 bn), and 4 bn of this debt was hard currency claims owed by Sovet firms, not by the central government. *Financial Times*, 12. 10. 1990.

124. OECD, *Economic Outlook*, July 1983.

125. Pichl & Szopo, *op. cit.*, p. 100.

126. *Financial Times*. October 4, 1991, p. 31-32, emphasising that if Finland wants to join the EEA (the agreement between EFTA and the EC), repeal of this act, as well as stricter anti-trust laws, is absolutely necessary.

127. Mjøset, *op. cit.*, p. 455.

128. Lars Mjøset, editor, *Norden dagen derpå*. Oslo 1986, p. 275.

129. Arto Kovanen & Martti Lehtonen, "Recent Economic Developments", *Bank of Finland Bulletin*, 65:11, Nov. 1991.

130. Kovanen & Lehtonen, "Recent Economic Developments", p. 3.

131. *Dagens Næringsliv*, 12. 3. 1991.

132. *Dagens Næringsliv*, 6. 9. 1991.

133. *Dagens Næringsliv*, 23. 10. 1991.

134. *Financial Times*, 16 & 17. 11. 1991. The Head of the Central bank, Rolf Kullberg, who accused the government of making a too large devaluation, threatened to resign, but President Koivisto made him stay. Social Democrat Sorsa left the board of the Central Bank, thereby increasing his chances in the upcoming presidential election. In early 1992, Kullberg resigned and a new head of the Bank of Finland was appointed.

135. A comment in *Financial Times*, October 4, 1991, p. 30, points to the similarities with the turbulence in the banking sectors elsewhere in Scandinavia, arguing that this is the result of the "step-by-step deregulation that started in the early 1980s". But this is correct only for Finland, Sweden and Norway, which had credit-based, government-directed financial systems. A later analysis in the same business newspaper puts things right: "Only Danish banks appear to have successfully weathered the storm, with prospects that profits will improve this year"; "Banking crisis echoes in the north", *Financial Times*, October 15, 1991.

136. *Financial Times*, October 4, 1991.

137. Ton Notermans, "Arbeitslosigkeit und Inflation. Belgien, die Niederlande, Österreich und die Schweiz", *Centre for Economic and Political Studies Amsterdam, Occasional Papers*, Series B, No. 1, 1988, part 3.2.2.

138. Manfred G. Schmidt, Der *Schweizerische Weg zur Vollbeschäftigung*. Frankfurt/New York 1985, Ch. 3.

139. This was obviously linked to the high number of male foreign workers. In 1985, when the overall employment rate (according to OECD, *Labour Force Statistics* was down to 70.7, the difference between the male and female employment rate was 88.6 ÷ 52.7 = 35.9 in Switzerland. This is a difference similar to the Irish one: 67.5 ÷ 31.7 = 38.5, but very different from the Nordic ones: Sweden 83.4 ÷ 75.9 = 7.5, Finland 75.1 ÷ 70.3 = 4.8, Denmark 79.9 ÷ 68.4 = 11.5, while Austria is towards the lower end: 77.7 ÷ 48.8 = 28.9.

140. Katzenstein, *Corporatism and Change*, Ithaca 1984, p. 96, mentions some activism to promote exports, thus avoiding import restrictions.

141. Schmidt, *op. cit.*, p. 40. As already mentioned in Chapter 14 above, the Swiss case of full employment relies completely on restrictive labour market policies, that is policies which limit the supply of labour by different combinations of early retirement, reduction of the foreign labour supply, discouragement of female workers, and reduction of working hours. For Switzerland (and to a lesser degree also for Austria), the reduction of foreign labour supply has been of major importance. This is actually a parallel to Ireland: as long as Ireland fails to stem the outflow of emigrants, Irish authorities conduct an at least implicitly restrictive labour market policy. But the industrial tradition is obviously entirely different. Switzerland's labour market policy is based on exit of immigrants, with very good timing in the 1970s. Ireland's is based on exit of emigrants, but fails with respect to timing in the 1970s.

142. *ibid*, p. 27.

143. As for the debate on neo-corporatism and unemployment, Switzerland emerges as an outlier. The corporatist exchange mechanism, mentioned in Chapter 14, requires well-organised collective actors. Switzerland, however, has a fragmented union structure (like cantons, each union is largely autonomous in legal terms). There is no centralised peak employers' organisation. Wage settlements are made at the regional or even firm level. Despite this decentralisation, unions have turned out to be very moderate.

144. Katzenstein, *Corporatism and Change*, *op. cit.*, p. 96. Export shares are 60 percent for machinery, 85 percent in chemicals, and more than 95 percent in watches. For the watch industry, the Japanese challenge was particularly troublesome.

145. It should also be noted that the large reduction in foreign workers was (perhaps silently) welcomed by some politicians, since there had been political sentiments in Swiss society, worrying about a too large share of foreigners in the country.

146. Notermans, *op. cit.*, part 3.2.2.

147. Schmidt, *op. cit.*, p. 28-31.

148. OECD, *Economic surveys: Switzerland*, Paris 1989, p. 34 f, p. 17. Female labour force participation did not increase much (being constant at slightly more than 50 percent). Switzerland is in this respect equal to Japan (at about 56 percent), Austria (at about 50), and Ireland (at about 35). An historical overview (p. 65) shows that Switzerland had strong out-migration 1913-17, and also 1917-31, then migration inflow 1945-1970, with a peak in the early 1960s. Then there was a new outflow (as described above) 1974-9, and thereafter an inflow again.

149. *Financial Times*, Dec. 12, 1990.

150. *Financial Times*, April 2, 1990.

151. John Dunning & John Cantwell, *IRM Directory of Statistics of International Investments and Production*, op. cit., Table B 13 and A 9.

152. *ibid*, Table A.9, referring also to F. Wehrle, "Veränderungen der Weltwirtschaftlichen Rahmenbedingungen und die Internationaliserung der Schweitzer Industrie", *Discussion Paper, University of Basel*, No. 2, 1983.

153. Porter notes that in all the sectors in which Swiss industry is competitive, there is more than one active firm. Only in some non-competitive sectors are monopolistic conditions found. Porter, *The Competitive Advantage of Nations, op. cit.*, p. 325.

154. *ibid*, p. 325.

155. *Financial Times*, 9.5.1992, p. IV.

156. *Financial Times*, Dec. 12, 1990.

157. *Financial Times*, April 4, 1990. Only 100,000 signatures are required to force a plebiscite, the requirement being unchanged throughout this century, except for a doubling when women got the vote in 1977.

158. The referendum will be arranged in the middle of 1993.

159. *Financial Times*, 9.5.1992, p. II.

160. *ibid*, 9.5.1992, p. II.

161. At the time of writing, the most recent news is that the Swiss government (four against three votes) has decided to apply for membership of the EC. This decision followed the conclusion of a referendum in which the majority of Swiss people voted (May 17th, 1992) in favour of Swiss membership in the International Monetary Fund and the World Bank. This has been seen to prove that more Swiss citizens — after the end of the cold war — are becoming positive towards international collaboration. It is, on the other hand, clear that Brussels expects very difficult negotiations with the Swiss.

162. The Austrian interest rate was not always low in the postwar period. But there were arrangements which would relieve investors of the effects of higher interest rates, such as tax-based support for private investment, interventions in resource allocation, and support for state industry.

163. Notermans, "Arbeitslosigkeit und Inflation", *op. cit.*, section 3.2.1.

164. Brigitte Unger, "Possibilities and Constraints for National Economic Policies in Small Countries: The Case of Austria", *German Politics and Society*, No. 21, Fall 1990, p. 68.

165. The following relies on Pichl & Szopo, *Industrieentwicklung und Wirtschaftspolitik in Skandinavien und in Österreich, op. cit., p. 188, Ch. 9.4. Sweden is picked for comparison, but the difference is the same with the other Nordic countries.*

166. Helmut Kramer, "The Present State of the Austrian Economy", in Alan Matthews & Eda Sagarra, editors, *Economic Performance in Two Small European Economies: Ireland and Austria Compared op. cit.*, p. 14 does not only refer to social partnership to explain this success: "My explanation would

be that in a period of very dynamic expansion of manufacturing production and investment between 1969 and 1974 there accumulated a backlog of demand for labour in the service industries and also for government officials of any type (police, teachers, military personnel and so on), which could only be satisfied after 1975".

167. Katzenstein, *Corporatism and Change, op. cit.*, p. 40 f, Austria's labour market policy is not as far-reaching as Sweden's.

168. *ibid*, p. 71.

169. Austria avoided both unemployment and high inflation; Sweden avoided unemployment, but not inflation; FRG avoided inflation, but not mass unemployment; Britain had both inflation and mass unemployment.

170. Scharpf, *Sozialdemokratische Krisenpolitik in Europa, op. cit.*, p. 231.

171. *ibid*, p. 241.

172. Fritz Scharpf, "Economic and Institutional Constraints on Full-Employment Strategies", in John H. Goldthorpe, editor, *Order and Conflict in Contemporary Capitalism*, Oxford 1984, p. 274.

173. Notermans, *op. cit.*, Section 3.2.1.

174. Helmut Kramer, "The Present State of the Austrian Economy", *op. cit.*, p. 18.

175. Pichl & Szopo, *op. cit.*, Ch. 8.

176. *Financial Times*, 9.10.1991.

177. *ibid*, 9.10.1991.

178. Katzenstein, *Corporatism and Change, op. cit.*, p. 78.

179. Anton Pelinka, "Austrian Social Partnership", in Matthews & Sagarra, editors, *op. cit.*, p. 74. The FPÖ's share of the votes went from 9.7 percent to 17.6 percent in the October 1990 election. In late 1991, the party was at 20 percent in the opinion polls. *Financial Times*, 9.10.1991.

180. Katzenstein, *op. cit.*, p. 58 f.

181. Kramer, *op. cit.*, p. 16.

182. Katzenstein, *op. cit.*, p. 80-83. It is somewhat striking that Katzenstein, who is focusing on flexible adjustment in connection with the industrial policies of small states, emphasising the importance of corporatism in this respect, actually has to conclude that Austria's industrial policies have not been very effective. It is plain, namely, that Austria's social partnership model represents the perhaps most solid case of "democatic corporatism" among the cases he deals with.

183. *Financial Times*, 9.10.1991.

184. Scandinavia, on the other hand, unlike Austria, has strong regional policies, due to the scattered nature of settlements. Such policies are e.g. compensation for transport costs, differentiated social security contributions and subvention of wages. Elements of such policies are found only since the late 1970s in Austria.

185. Unger, *op. cit.*, p. 70.

186. *Financial Times*, 9.10.1991.

187. *ibid*. In 1990, there was a 70 percent increase in Austrian exports to Czechoslovakia, and a 22 percent increase to Hungary. On the other hand, Austria has imposed quotas on certain imports (e.g. concrete) from the East.

188. Katzenstein, *op. cit.*, p. 54, notes disappointment as to Austria's development of this trade in the 1970s, and increasing trouble in the 1980s. Austrian financial institutions obviously granted much credit to Eastern Europe during the 1970s. Finland's bilateral trade with oil was a huge success in the 1970s, whereas Austria seemingly did not rely on such barter-type arrangements, thus being more vulnerable to financial difficulties. In the early 1990s, the situation is obviously reversed, as Austrian exports increase.

189. Finland's exports to Germany did increase strongly in 1990, but other export markets were not as vigorous.

190. This applies particularly to the capital city. The City of Vienna is the largest estate-owner in Europe.

191. Currently, asylum rules are being tightened. However, Austria has a low birth rate and the Interior Ministry claims that 30,000 immigrants can be integrated per year, according to *Financial Times*, 9.10.1991.

192. Unger, *op. cit.*, p.71 f.

193. Austrian farmers will probably oppose EC-membership. The Austrian government pays even higher subsidies to its farmers than the EC pays in CAP: food prices are on average 30 percent higher than in the EC. Reforms have been discussed, but the strength of the farm lobby within the ÖVP (which is now in the grand coalition) has precluded real action so far. A GATT agreement in the Uruguay round could provide a leverage, since that would force Austria to replace fixed prices by higher direct subsidies, which the government cannot afford. *Financial Times*, 9.10.1991. Also the craft sector is more regulated and sheltered than in the EC. This goes also for banking and insurance, although changes are now on the way. A referendum on Austrian EC-membership will probably be held in late 1993.

194. OECD, *Economic Survey: Ireland*, Paris 1987, p. 9.

195. Tom Garvin, "The Road to 1987", in M. Laver, P. Mair & R. Sinnott, editors, *How Ireland voted. The Irish General Election 1987*, Dublin 1987, points to the well-known fact that the two large Irish parties occupy about the same centre-right position on the ideological spectrum (as judged by voters), and claims that consequently, these parties have engaged in various versions of the "game of ideological beggar thy neighbour". Until the mid-1950s, they tried to "out-Catholic" each other, then each one tried to favour welfarism, tariff reductions and economic planning more than the other, in the 1970s, they competed on welfarism, and, finally, in the 1980s, on anti-welfarism, while at that time, also the "politics of piety" reappeared under the pressure of economic insecurity and cultural change.

196. Dermot McAleese, "Ireland and Austria: A comparison of Adjustment Strategies", p. 35 in Alan Matthews & Eda Sagarra, *op. cit.*

197. Breen, et al, *Understanding Contemporary Ireland*, *op. cit.*, Ch. 2.

198. Ferdinand von Prondzynski, "Social Partnership in Ireland and Austria: Lessons from Two Countries", in Matthews & Sagarra, *op. cit.*

199. Niamh Hardiman, *Pay, Politics, and Economic Performance in Ireland 1970-1987*, Oxford 1988, p. 60-61.

200. *ibid*, p. 66.

201. Geraldine Kennedy & Colm Boland, "Triumphs and Tensions of 12 Turbulent Years", *Irish Times*, 31.1. 1992.

202. Hardiman, *op. cit.*

203. With reference to the 1980s, Dornbusch emphasises that both labour and consumption are strongly taxed in Ireland, while the average level of taxation is not significantly higher than in the rest of the OECD-area. "The major problem is that the tax structure is very inefficient, with large segments of the potential tax base almost completely excluded from taxation. As a result labour and consumption are the main targets of taxation, with taxation of corporations, capital including land or wealth practically non-existent." Rudiger Dornbusch, "Credibility, Debt and Unemployment: Ireland's Failed Stabilisation", *Economic Policy*, 8, 1989, p. 198.

204. Source for election results is the yearly reports by Mackie & Rose in the *European Journal of Political Research*, various volumes.

205. Kennedy & Boland, *Irish Times*, 31/1/1992, *op. cit.*

206. Dornbusch, *op. cit.*, Sections 3.2 and 3.3.

207. In comparison to the Latin American countries, the similarity is that public finance first went out of control, followed by exchange-rate over-valuation and the budget was financed by massive external borrowing. The main difference is that none of the Latin American countries could go on borrowing. In Latin America, therefore, the IMF's policy of conditionality led to budget cutting and real depreciation with high inflation: "Ireland continues to enjoy external financing and therefore has been able to indulge a low inflation experience. But this has come at the cost of dramatic unemployment because of a lack of crowding in." Dornbusch, *op. cit.*, p. 195. The lack of crowding in must also be analysed in connection with Ireland's weak national system of innovation. Cf. below.

208. *ibid*, p. 196. Dornbusch also mentions seigniorage: with strong growth and moderate inflation, the government can finance part of the budget deficit by money creation.

209. Niamh Hardiman, "The State and Economic Interests: Ireland in Comparative Perspective", in John Goldthorpe and Chris Whelan, editors, *The Development of Industrial Society in Ireland*, Oxford 1992.

210. NESC, *A Strategy for Recovery*, Dublin, November 1986, involved all the social partners represented on NESC defining a common perspective on the problems. For the first time, there was no opposition.

211. Hardiman, "The State and Economic Interests: Ireland in Comparative Perspective".

212. But underlying differences between foreign owners and Irish owners persisted. The former most often bargain at firm level and use their membership in the employers' association for information only. They are, furthermore, less sensitive to wage costs, and more willing to pay higher rates. Their commitment to employer solidarity is thus probably less than in Irish-owned companies. Hardiman, *op. cit.*

213. Summarised in NESC, *A Strategy for the Nineties*, Dublin 1991; Dermot McAleese, "Ireland's Economic Recovery", *Irish Banking Review*, Summer 1990. As one important condition, Hardiman, *op. cit.*, notes the gradual reduction of the organisational fragmentation of the trade unions during the 1970s and 1980s. Especially, the merger between ITGWU and FWUI early in 1990, creating SIPTU (Services, Industrial, Professional and Technical Union) was important, constituting more than 40 percent of the ICTU membership. The PNR confirmed that the unions' decision to move away from the "British model" was a viable strategy.

214. Hardiman, *op. cit.*

215. This is a rough assessment based on Figure 13.5 which relies on national definitions of unemployment rates, which are not comparable in any exact sense.

216. NESC, *A Strategy for the Nineties*, *op. cit.*

217. This was the vision of ICTU. It was hoped that pay restraint and cooperation would facilitate more union influence at the workplace level. "Ireland 1990-2000: A Decade of Development, Reform and Growth", ICTU, October 1990, quoted from Hardiman: "In devising the strategy we should also learn from the achievements of small open economies such as Austria, Denmark and Finland which have more developed economies, higher living standards and lower unemployment than Ireland. These they achieved through National Programmes agreed participation and involvement at the level of the individual company".

218. Considering the electronics industry (office/data equipment and electrical engineering) in detail, O'Malley notes that many EC-states now try to attract "mobile, European-oriented, foreign investment". Ireland's earlier coloniser, England, is itself very active, and also the new EC-countries: Greece, Spain and Portugal. There were in the late 1980s some indications of a weakening of FDI inflows. If this is right, Ireland needs more firms in a situation where the supply is in itself smaller and more countries are competing for these investment flows. The 1984 White Paper on Industrial Policy showed some awareness of these problems, and emphasised the need for more active industrial policies. O'Malley, *Industry and Economic Development*, *op. cit.*, p. 188 ff.

219. *ibid*, p. 169. Other such countries are Puerto Rico and Mexico.

220. *ibid*, p. 171, p. 167, with reference to the Telesis report. Ronan O'Brien, "Technology and Industrial Development: The Irish Electronics Industry in an International Context", in J. Fitzpatrick and J. Kelly, editors, *Perspectives on Irish Industry*, Dublin 1985, gives the following percentages of unskilled employees in the early 1980s: 60 in Ireland, 90 in Hong Kong, 34 in the U.S. and 39 in Denmark. R&D expenditure as a percentage of sales is below 1 in Ireland, while it ranges between 6.4 and 10.8 in Japan, Finland, Denmark, England and the U.S.

221. This, however, could not halt the new outflow of skilled emigrants.

222. O'Malley, *op. cit.*, p. 172.

223. *ibid*, p. 182.

224. Hannan & Commins, "The Significance of the Small Scale Farming Sector in Ireland's Socio-Economic Transformation", *op. cit.*, p. 38.

225. Old foreign are defined as those which received no grants; O'Malley, *op. cit.*, p. 184.

226. OECD, *Economic Survey: Ireland*, Paris 1987, p. 15-16 points to the importance of profit repatriation to explain why an Irish export boom generates very little value added. As for the outflow of foreign firms' profits, it amounted (as a percentage of GDP) to 2.8 in 1980, 7.6 in 1985 and 6.6 in 1987. It has been estimated that foreign firms in manufacturing account for about 80 percent of the profit outflow. O'Malley, *op. cit.*, p. 181, p. 90 f.

227. O'Malley, *op. cit.*, p. 186, p. 188.

228. Cf. Rob van Tulder & Gerd Junne, *European Multinationals in Core Technologies*, Chichester 1988.

229. Employment is concentrated in middle-sized plants (50-500 workers). 20 percent of employment was in plants with 500 or more workers, and average plant has 812 workers. O'Malley, *op. cit.*

230. O'Malley, *op. cit.*, p. 183.

231. *ibid*, p. 273, note 3.

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