

Political Conditions for Documentation - Comparative Studies of ICT-policies

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Project Abstract

The following paper is one part of the research project “Media Policy and ICT-policy Convergence: A Comparative Study of Liberal Market Economies and Coordinated Market Economies”.

The media policies and ICT-policies of nation states are affected by global technological developments as well as by the globalization of policies. How is the interrelationship between media policies and ICT-policies handled by national governments in the presence of globalization? In the European context, what is the impact of the EU on the media policy/ICT-policy response of nation states to globalization?

One thesis of the project is that different varieties of capitalism (different systems of political economy) among nation states will mean different national policies regarding the media and ICT, i.e. different responses to globalization. Therefore, the degree of convergence/divergence regarding media policy and ICT-policy in nation states is an empirical question. First, the study will explore variations in policy convergence within media policy and ICT-policy among nation states including the Nordic countries, Germany (coordinated market economies (CMEs)), the UK, Ireland, the US, and Canada (liberal market economies (LMEs)). Second, this overview of media policy and ICT-policy convergence processes in different economies will make it possible to address crucial research questions regarding the way nation states adapt to globalizing forces, questions about change within media policy and ICT-policy sector institutions in addition to questions concerning change processes involving moving from one variety of capitalism to another.

In Ireland, economic globalization has been handled by policy responses seen in very few other countries, if any. The political economy has been transformed through responses grounded in historical institutional conditions conducive to policy change: First, the institutions of the political system like the Department of the Taoiseach have had the capacity to initiate and implement policy change and institutional change. Second, the institutions of industrial policy have had the capacity of policy learning and innovation, and have been able to formulate and implement policies based on this knowledge.

The Irish political economy has moved in a different direction than predicted by the theory of varieties of capitalism. This move has had vast implications for the conducting of industrial policy and for its achievements. The next question is: do changes in political economy follow the Irish pattern anywhere else, and is this pattern reflected also in other policy areas than industrial policy? The policy fields of media policy and ICT-policy are very interesting because they are fairly new policy areas, and these areas could be expected to be more prone to change than older more established policy areas. Is the convergence of ICT-policies and media policies more pronounced in LMEs than in CMEs? Do we see convergence at all in CMEs? What are the implications for the theory of varieties of capitalism? The basis for answering these questions will be the knowledge of ICT-policies and media policies acquired in the project. This knowledge will be of importance also for studies of national policy making. In addition, knowledge of policy making both nationally and internationally is a starting point for formulating better national policies for the media and the ICT-industry.

The cases are selected on the bases that some of them are clearly LMEs (the US, the UK) and clearly CMEs (Germany). Ireland and also Canada have traditionally also been regarded as LMEs. However, especially regarding the Irish case this is at best in doubt. On the other hand, the Nordic countries have been regarded as CMEs. Developments from the 1980s have increasingly made this an oversimplification. The Nordic countries have made different adjustments to globalization regarding the political economy, industrial policy and ICT-policy. Today, they can perhaps be said to cover some kind of middle ground between LME and CME status, and it may be difficult to include all of them in the CME category.

The US and the UK on the one hand, and Germany on the other, are the “ideal models” representing each category of the LME-CME dichotomy that the other nation states can be measured against. Is the variation in integration of media policies and ICT-policies relative to LME-CME position, does globalization within the media policy/ICT-policy field contribute to increasing LME like market orientation also in CMEs, or is globalization met with national policy responses unrelated to the CME-LME divide, but related to nation specific institutional traditions? These traditions can

most likely be found in the in-between countries. The following paper is a study of the difficulties inherent in the variety of capitalism approach concerning institutional change and policy change, and develops the theoretical foundations of the project.

Varieties of Capitalism and Change: Irish Corporatism and Industrial Policy 1987-2000¹

Abstract

One influential and fruitful theoretical perspective on economic development is the “varieties of capitalism” approach. It claims that national economic development and economic policies in developed economies follow path dependent trajectories of two kinds according to type of economic institutions: LME (Liberal Market Economy) or CME (Coordinated Market Economy). For example, change impetuses from the global economy will mean market-oriented policy responses, or coordinated policy responses, respectively. This paper presents one deviation from this pattern: The changes in the Irish (moving from LME towards CME) political economy after 1987.

The innovative role of the Irish State in responding to the challenges of the global economy makes an interesting contrast to the predictions of the model of varieties of capitalism. Economic and industrial policies were seemingly changed radically, from one type of capitalism to another, and it happened non-dramatically with broad-based political support. However, within the variety of capitalism framework even punctuated equilibria or critical junctures due to economic crisis are not supposed to challenge path-dependent trajectories.

The varieties of capitalism typology fails when static. The complexities of changing political economies as shown in the Irish case need to be reflected in the theoretical framework. Changes transgressing the varieties of capitalism divide between LMEs and CMEs happen. Evolving institutions and their institutional legacies seem to play a crucial role in explaining change.

Introduction

In the 1990s, many observers viewed the phenomenon of economic growth as well as technological innovation as the privilege of liberal market economies, i.e. primarily the Atlantic economies of the USA, Britain and also Ireland (the Irish Republic) (Schlesinger 1997; Zuckerman 1997). On the other hand, coordinated market economies found in continental Europe and Scandinavia, as Germany and Sweden were doomed to stagnation and technological backwardness (Benjamin 1994; Shlaes 1994). Even today the perceived success of the Atlantic economies in the 1990s seems an important reason behind the drive for economic reforms in coordinated market economies meaning deregulation of the labour market and the cutting of welfare benefits. However, in terms of economic growth in the 1990s (1989-2000), average real GDP per capita growth rates in Britain (1.8%) and the US (2.2%) were only marginally higher than in Germany (1.4%) with its costly unification process, and in the EU Euro Zone (1.7%) (OECD 2002b). Irish growth rates were quite different (6.6%), and are exceptionally high. It is even more astonishing that the Irish growth corresponds with the introduction of corporatist institutions and incremental innovation policies typical of CMEs, rather than the more radical mission-oriented approach to industrial innovation found in LMEs.

One influential and fruitful theoretical perspective on economic development is the “varieties of capitalism” approach (Hall and Soskice 2001b; Soskice 1990; Soskice 1999). According to this approach, there is no empirical evidence that coordinated market economies (CMEs) are inferior regarding economic performance (Hall and Soskice 2001a). It claims that national economic development and public policies in developed economies follow path dependent trajectories of two kinds according to type of economic institutions: LME (Liberal Market Economy) or CME (Coordinated Market Economy). For example, change impetuses from the global economy will mean increased economic liberalization in LMEs or more coordination of the economy in CMEs, respectively; i.e. change of variety is incompatible with this approach. Even so, changes of variety do happen. Contrary to the theory of varieties of capitalism it is well known that nation states (e.g. Australia and New Zealand) have changed variety of capitalism, and that the change processes in general have been unidirectional from CME to LME (Schmidt 2002). It is also an overall trend towards liberalization and reform even among CMEs. Still, this picture is too simplistic.

Institutions and practises similar to the CME model have been evolving as seen from the resurgence of centralized wage bargaining in the southern European and traditionally non-neo-corporatist countries of Italy, Portugal, Spain as well as in the Netherlands and Ireland (Molina and Rhodes 2002:309; Rhodes 1998:190-91; Thelen 2002:380). However, a move from LME towards CME as in Ireland is unheard of. The mechanisms of the change processes and the institutional dynamics are not very well understood (Thelen 2002; Thelen 2003). Even when the role of national governments in maintaining coordinated production regimes is acknowledged, it is the role of the state as a facilitator of existing employer dominated regimes and a junior partner to business that is described (Wood 2001). The capacity of the state for institution building and for mixing elements from different varieties of capitalism is under-communicated. The varieties of capitalism literature can be described as excessively deterministic as to the paths national economies will take, i.e. either the LME-path or the CME-path.

A new wave of varieties of capitalism literature maintains that the old version inadequately deals with the dynamism of institutional change and paints a static and functionalist picture (Blyth 2003; Jackson 2002). Case studies of the process of institutional change and policy change among LMEs and CMEs can amend the static view of the two varieties. This study of Irish “competitive corporatism” and industrial innovation policy depicts how Ireland as an LME moves considerably towards CME-status. This underscores the need for modification of the varieties of capitalism framework relating to institutional change and dynamism. Two types of questions are relevant in this context: How change happened, and why it happened? In this paper, the focus is on how change came about in Ireland. The full investigation into the question of explaining institutional change calls for a second paper. Economic crisis was a catalyst for corporatist reform and new industrial policies/innovation policies in Ireland. This happened in a context of historical-institutional policy legacies and strong actors that made change a viable option. The Irish experience can inspire one direction of research into the varieties of capitalism as well as being useful for policy experts.²

After this introduction the paper contains a presentation and discussion of the varieties of capitalism perspective in relation to change in the institutions of the political economy and in the institutions of public policy, especially regarding the role of government institutions in wage bargaining and industrial innovation. Secondly, I will present the Irish case as an illustration of why the variety of capitalism tool-kit needs to be supplemented. Thirdly, interesting alternative institutional explanations for the Irish exception will be considered briefly, and in common with the variety of capitalism approach, these alternative explanations will be criticized for downplaying the role of political institutions in maintaining and also in changing production regimes.

Changing varieties of capitalism

The "varieties of capitalism" perspective is a very influential theoretical "framework for understanding the institutional similarities and differences among developed economies" (Hall and Soskice 2001a:1).³ The approach claims to be actor-centred and firm-centred (Hall and Soskice 2001a:6). The political economy is viewed as made up of multiple rational actors acting strategically. National economies are compared according to how they handle the coordination problems firms face in relation to other strategic actors: in industrial relations, in vocational training and education, in corporate governance (finance and investment), in inter-firm relations, and in relation to employees (Hall and Soskice 2001a:6). Two main ideal types of political economies are identified: liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall and Soskice 2001a:7). In LMEs, coordination takes place primarily through markets and hierarchies, competition and formal contracting being the main coordination mechanisms. In CMEs, non-market relationships are more important for the actors' coordination with others, entailing relational and incomplete contracting, more informal networks, and the competencies of businesses are built through collaboration rather than through competition. Strategic interaction among firms and with other actors, are relatively more important to the outcomes of firms as opposed to the dominance of market competition in LMEs. The institutional types of economy are stable and self-reinforcing systems that determine the behaviour and organization of firms, unions and employers associations as well as governments regarding public policies (e.g. innovation policies).

The proponents of the varieties of capitalism approach criticize most studies of comparative capitalism for lacking a sufficient perspective on change in national economies (Hall and Soskice 2001a:62). The varieties approach sees systemic forces both tending towards inertia as well as dynamism. For example, in face of the challenges of the global economy the theory is able to predict change responses, change strategies, and change mechanisms according to type of economy (Hall and Soskice 2001a:62-66). Within the varieties of capitalism theory, change impetuses to national economic systems are understood as a result of frequent economic shocks from the world economy. Adjusting to economic shocks, firms and governments will try to recreate and maximize their comparative advantage, including comparative institutional advantage, i.e. keeping their existing model of capitalism. In the processes of adjustment, existing institutions for coordination in the economy will be activated. The change processes can be complex and difficult involving crucial adjustment of belief systems, but they do not mean fundamental changes involving change in variety of capitalism.

However, changes within LMEs and CMEs that entail non-market coordination are held to be harder for LMEs than for CMEs that are used to this kind of coordination in the first place. CMEs have the common knowledge required for strategic interaction, i.e. understanding of the roles of the participating parties and having trust in the relevant institutions. Accordingly, it is very difficult for an LME to become a CME. It also follows that it is somewhat easier for a CME to deregulate and become an LME because market institutions are not in need of the common knowledge specific to coordinated systems. On the other hand, inertial opposition to change can be expected in any institutional structure, also in CME institutions. Many firms and interest groups depend on these structures for comparative advantage.

As already noted, the Irish case of economic development 1987-2000 reveals that the Irish LME in many respects acquired the institutions of a CME. This is very different from what you would expect from the varieties of capitalism approach. One possible explanation that springs to mind at this point is that the theory of varieties with its emphasis on adjusting existing national economic systems to external shocks cannot accommodate shocks that have truly radical impact, and that will transform economic systems and create new institutions. Still, the Irish case challenges the limits of the

professed dynamism of the varieties of capitalism theory in a more subtle way. In fact, Ireland seems to switch type of economy in a comparatively low-key and uncontroversial manner, and this should definitely be contrary to the predictions of the varieties of capitalism framework.

Critiques the Varieties of Capitalism and Change

The varieties of capitalism theory is a highly fruitful approach to almost any question within the political economy. Most economic and political phenomena can meaningfully be related to the varieties of capitalism: innovation, the welfare state, any public policy etc. One major critique of the varieties of capitalism approach is that the two varieties are held to be fixed entities seemingly impossible for national economies to opt out of (Blyth 2003; Jackson 2002; Thelen 2002; Thelen 2003). (This stasis applies even in the face of “external shocks” meaning punctuated equilibrium like situations (Hall and Soskice 2001a:62-63).)

Mark Blyth contributes to the criticism of the non-dynamism of the varieties of capitalism perspective by challenging the explanatory potential and inherently the meaningfulness of the approach. He is trying to show how the two archetypes of the US and Germany have moved away from the original LME and CME positions (Blyth 2003). He claims that the American economic success when interpreted as its employment success in the 1990s has nothing to do with its status as an LME. Many of the potential American unemployed are in prison (Blyth 2003:11-12). Adjusted for the prison population, 1995 unemployment rises from 7.1 per cent to 7.4 per cent in Germany while the US figure rises from 5.5 per cent to 7.6 per cent. On the other hand according to Blyth, Germany is no longer quite the CME it was because of for example lower levels of employer participation in employer confederations and the undercutting of collective agreements, codetermination is less frequent, and training institutions decrease in numbers (Blyth 2003:9). However, this analysis seems a little bit on the puritan side, in that the varieties of capitalism perspective is an analytical tool that also acknowledge that LMEs and CMEs change in relating to external change impetuses, but that the changes are of an incremental non-variety changing nature (Hall and Soskice 2001a:62-66). Additionally, in the American case it can be said that unemployment is not the only indicator of economic performance. Regarding Germany, the main outline of CME institutions still is in place, although changes

(reforms) are introduced as ways of preserving the system as a whole (Thelen 2001). Blyth does by no means demonstrate that the US has become a CME and Germany an LME although his article makes a contribution towards questioning the foundations of the variety of capitalism approach.

A more focussed critique of the static nature of the varieties of capitalism, discusses its not very dynamic theory of institutional change. Kathleen Thelen invokes that the institutional arrangements of the varieties of capitalism although involving stasis and path dependence through self-reinforcing processes, need to be opened up and viewed as historical phenomena and distinctly political outcomes of the past, and also as outcomes of political processes of the present (Thelen 2002:389,397). Institutional change is not just a matter of institutions depending on efficiency for survival. Thelen also points to the mechanisms for institutional change. Over time institutions change as they and their constituent parts are exposed to diversified external influences in the form of international markets and organizational fields. This happens through the mechanisms of institutional conversion and institutional layering. In brief, institutional conversion means that, while institutions also are products of external shocks, adaptation to external forces implies that the organization takes on new goals and tasks; institutional layering signifies that the external developments are internalized through the creation of new institutional compartments, creating multi-layer institutions. Over time, the different institutional layers will generate different responses to the same environment impulses and thus come into conflict creating institutional transformations through clashes of interests (Thelen 2000; Thelen 2003). Thelen's work on institutional change implies that it is not unlikely that national economies can change their varieties of capitalism in adapting to changing cultural norms and power relations over time, even change from one variety of capitalism to another.

As for Thelen, Gregory Jackson finds that the variety of capitalism approach in order to develop further needs "to generate a more dynamic theory of institutional change" (Jackson 2002:4). For this the historical development and change of the models of capitalism need to be studied. In line with the pluralism in the development of national economies inherent in Thelen's concepts of institutional layering and institutional conversion, Jackson suggests a new vocabulary of institutional change by

using concepts as hybridization of the models of capitalism and bounded innovation (Jackson 2002:49). Moreover, these forms are held to be the mainstream outcomes of institutional change processes, while institutional convergence and path dependence in fact are the outliers.

The critique of the variety of capitalism approach relating to institutional change calls for empirical studies. Do national economies in fact change from one variety of capitalism to another or at least develop into hybrids? Before taking on this big question, we need to specify theoretically the institutional domains within which we are going to study the phenomenon of change in the varieties of capitalism.

Political Regimes and the Varieties of Capitalism

The varieties of capitalism literature has perhaps somewhat unfairly been criticized for neglecting the role of political institutions for economic performance. Hall and Soskice, and especially Stewart Wood, have given due emphasis to the effect of political institutions and economic policies in relation to the LME/CME typology (Hall and Soskice 2001a:46-50; Wood 2001). Even so, politics is still given a subordinate rank compared to the economy. Changes in the institutional arrangements of the political economy cannot readily be instituted by governments. The political regime is the product of production regime, not vice versa. Having said this, national governments influence, strengthen and condition the type of political economy (production regime), but they are not able to change type of production regime, i.e. they do not have the ability to switch from one variety to another.

The Hall/Soskice/Wood argument is that the rationale of economic policy making is to induce more effective cooperation between economic actors. This is possible only if economic policies are incentive compatible, complementary to the coordinating capacities embedded in the corresponding political economy, LME or CME. In LMEs coordination is achieved primarily through policies that strengthen the functioning of market mechanisms like e.g. competition policies, while in CMEs economic policies will relate to other forms of coordination outside the market like contributing to the establishment of national wage agreements. In this respect, innovation policy is one way of creating economic cooperation, and, assuming complementarities, innovation policy will vary according to type of economy.

Changes in policy as well as changes in economic institutions seem impossible when they imply crossing the varieties of capitalism divide. Policy changes are a product of policy regime and ultimately proscribed by the structural set-up of economic institutions (Wood 2001:248). Policy regimes derive from the different patterns of business-government relationship in the two different varieties of capitalism.

While production regimes are important for the content of public policy, governments also have other policy commitments in the form of ideology, political institutions and the electorate, that influence public policy. The more prominent these other policy commitments are, the greater is the possibility for significant policy change. Within the varieties of capitalism framework the capacity for policy change is held to be far more developed in LMEs than in CMEs. This is due to the stronger governments associated with LMEs; typically strongest in the UK with its first-past-the-post electoral system that consistently produces majority governments, and its Westminster institutions. This means an unstable policy regime for the economic actors. On the other hand, policy regimes with many veto-points, including coalition governments produced by proportional representation electoral systems, are typical of CMEs and are stable regimes due to weak governments. However, in his comparative study of British and German business and labour market policy Wood finds that the “strength” of the British government is only short term in that departures from LME policy strategies and company preferences over time will be corrected towards equilibrium status because of the costs of neglecting business preferences.

Wood concludes the article by noting that effective policies and effective policy regimes in CMEs and LMEs are those that are in line with the two production regimes. On the other hand, it is not in doubt that the capacity for policy change is greatest in LMEs, and with as few veto players as possible. Wood develops the arguments of the variety of capitalism approach regarding public policy, and finds that governments are locked in path dependent policy trajectories. Transformative policy experiments are “fruitless” (Wood 2001:274).

I will argue that “transformative” “policy experiments” are possible in that they have been done, and that they can be economically very effective. The Irish economic

boom in the 1990s was partly the result of a government induced transformative break with LME policies involving CME reforms in the form of nationally coordinated wage agreements and an incremental innovation policy.

Summing up, the question of change and the varieties of capitalism is: Do national economies change from one variety of capitalism to another or do they develop into hybrids? Secondly, what are the Irish changes in CME direction and how did they come about, and what role did political institutions play in the process?

The introduction of social partnership in Ireland from 1987 is unheard of in an LME, while the introduction of social pacts is not exceptional in the 1990s. Southern European countries and the Netherlands have moved in the same direction, but they are not LMEs. Also regarding the strategy for innovation policy, Ireland stands out in introducing diffusion-oriented policies typical of CMEs.

Global change, varieties of capitalism and innovation policy

The ubiquitous concept of globalization has a wide variety of meanings (see e.g. Bairoch 2000; Bartelson 2000; Garrett 2000; Held et al. 1999a; Held et al. 1999b; Meyer 2000; Prakash 2001; Skogstad 2000; Therborn 2000; Wallerstein 2000). A definition that is wide enough to incorporate much of this variety and still remain useful for our purposes, is the following by David Held (2000:395): “Globalization connotes the stretching and intensification of social, economic and political relations across regions and continents”. This way, global economic, political, and social processes, present a big challenge to the economic policy and innovation policy of nation states, i.e. how to promote sustainable economic growth in the era of globalization.

According to the varieties of capitalism approach, the type of production regime will determine how nation states adapt to the processes of the global economy and thereby shape the paths of economic development also in the era of globalization. Further, the type of economy will determine how countries respond to the frequent external shocks presented by the world economy (Hall and Soskice 2001a:57,62). In LMEs the response to increased globalization in the form of increased economic competition is predicted to be deregulation as a way of making the economy more competitive.

Firms will pressurize the government, and the labour unions will give in, in the face of threats of relocation (Hall and Soskice 2001a:57); threats that have been facilitated and accentuated by globalization.

In CMEs, globalization will create a different political dynamic. Governments will be less inclined towards deregulation because of the threat to national comparative advantage. The same applies to businesses that derive their comparative advantage from contracts established through networks with other firms (Hall and Soskice 2001a:57), and made possible by regulations guaranteed through the corporatist system involving labour organizations and government. Because of their comparative advantage nations prosper, and convergence towards one type of economy is therefore not likely. Fifty years of increased international trade have not changed this (Hall and Soskice 2001a:58).

In promoting economic development, the state can be expected to take different roles in LMEs and CMEs. The ultimate policy for economic development is innovation policy; the policy for securing future economic growth in changing economies. A policy made even more important due to globalization. According to the variety of capitalism approach, radical innovation is typical among LMEs, while incremental innovation is typical for CMEs (Hall and Soskice 2001a:39-40).

Consequently, LME innovation policy will be directed towards radical innovation and CME innovation policy directed towards incremental innovation. Radical innovation policy concentrates on promoting the development of entirely new products and/or new production processes. Incremental innovation policy focuses upon piecemeal improvements of existing products and production processes. Some products as computer software and biotechnology are held to be better suited for radical innovation policies, while incremental innovation policies work best with capital goods as machine tools and consumer appliances.

Innovation in CMEs takes place by diffusion of technology through highly coordinated inter-corporate networks. The corresponding incremental or “diffusion-oriented” innovation policy means to “diffuse technological capabilities throughout the industrial structure, thus facilitating the ongoing and mainly incremental

adaptation to change” (Ergas 1986:14). The instruments for implementing this include policy tax credits, educational programmes, and state support to initiatives for industrial standards (Ziegler 1997:36). In LMEs innovation policy is radical or “mission-oriented”: “it focuses on radical innovations needed to achieve clearly defined goals of national importance” (Ergas 1986:14). Instruments are huge, centrally coordinated projects enjoying some form of autonomy from other government operations (Ziegler 1997:36).

In his analysis of the policies for industrial development in three “developmental states” or newly industrialized countries (NICs), Brazil, India, and South Korea, Peter Evans makes a distinction between two different workable developmental strategies (Evans 1995:13-14,80-81,210). On the one hand, the strategy of “midwifery” that means state support for the start-up of companies. “Husbandry”, on the other hand, involves continued support and assistance to ensure company success implying a more active industrial policy in the sense of company development. Picking the winners through midwifery is a strategy that should be well suited to the LME business environment where survival in the marketplace is the only criterion of success. Further, state involvement would be seen as threatening to the position of free competition and the state would not have the necessary contacts with the business sector to be able to follow the winners. Thus, husbandry is an economic policy strategy highly relevant for CMEs with their strong involvement with business, labour, and their organizations; with the embeddedness of CMEs in society.

The Irish Economy 1986-2000

In the year 2000, the Irish economy was one of the richest in the world. Among the OECD-countries Ireland (USD 28.504) came number six on the GDP per capita ranking list (using current PPPs⁴) only after Luxembourg, Norway, the USA, Switzerland, and Denmark (OECD 2002a). The EU average was USD 24.545. The Irish 2000 annual growth in real GDP per capita was 10.2 per cent (OECD 2002b). The EU average was 3.0 per cent. Between 1989 and 2000 the annual real GDP per capita growth rate was 6.6 per cent in Ireland, while the EU average was 1.7 per cent. In the context of post-WW2 Irish economic history, the wealth of today is extraordinary. As late as 1986 the Irish GDP per capita (current PPPs) was USD 7.921, while the EU average was USD 11.841 (OECD 2002a). In other words, GDP

(PPP) per capita in Ireland was just 66.9 per cent of the EU GDP (PPP) per capita, by the year 2000 the figure had increased to 116 per cent.

The 1980s were more or less a permanent crisis in the Irish economy with high unemployment, high emigration, high inflation, and low growth, although growth picked up slowly and inflation was significantly reduced after 1986 (Bradley 2000; CSO 2000; Fitz Gerald 2000; Ó Gráda 1997). It was only in the 1990s and especially in the latter half that Ireland became the Celtic Tiger on most economic indicators (Bradley 2000; CSO 2000; Fitz Gerald 2000; O'Connell 2000).

Since 1987, what have been the driving forces behind the Irish path of economic development? What are the main structural developments of the economy? The available data indicate that the extraordinary growth comes primarily in high technology manufacturing.⁵ Overall, manufacturing has contributed almost 30 per cent of the total value added to the Irish economy through these years (OECD 2001a:63), while services vary very little around 55 per cent value added to the economy. However, shifts within services have made ICT-services more prominent in the 1990s both in terms of value added and in terms of employment (CSO 1995; CSO 1998; CSO 1999).

When studying changes in export value, the dramatic changes in the manufacturing industrial structure are revealed. Exports are very important to the Irish small economy, and the value of total exports in 2000 was 94.9 per cent of GDP in Ireland (CSO 2001). In comparison, the percentages for Norway were 46.7, Sweden 43.7, the UK 25.8 and the US 10.7 (1999 figures) (OECD 2000a). The total value of manufacturing exports from Ireland grew on average at an annual rate of 13.3 per cent between 1990 and 1999 while 4.4 per cent for the EU (OECD 2001b:209).

In addition, the export figures show that high technology industries, consisting mainly of the computer industry and pharmaceuticals, increased its share of the total manufacturing exports from 35.5 per cent in 1990 to 49.2 per cent in 1999, and the annual growth rate was 17.4 per cent (OECD 2001b:207,209). These are by far the highest values among the OECD countries. It is 11.9 percentage points ahead of number two regarding high technology export shares, the US. In terms of high

technology export growth only Mexico, Turkey and Finland match Ireland. Summing up, Ireland is among the top high technology manufacturers and exporters among the OECD countries.

After this short and eclectic overview of the development of the Irish economy with an emphasis on high technology development over the last ten years, it seems clear that one of the keys to understanding the economic miracle of the 1990s are provided by the developments in the Irish high technology industry. From economic crisis in the 1980s, Ireland witnessed unprecedented economic growth in the 1990s. From 1987 onwards, economic policy was reformed introducing macro economic austerity measures, and centralized wage bargaining. The social partners were also involved in the making of economic policy and innovation policy.

Social partnership

In the political economy literature, Ireland is seen as a liberal market economy (e.g. Hall and Soskice 2001a:19-20). This picture is strongly underpinned in surveys of key economic indicators, e.g. in the "Globalization Index", where Ireland is the most globalized nation with the US in 12th place and the UK as number 10 (Foreign Policy Magazine 2002). In the 2001 "Economic Freedom Index" Ireland is ranked 7th among the nations of the world with the US ahead and the UK behind (The Economist 2000). Many political economists find that this development accelerated in the 1990s and that the Irish economy was getting increasingly "neo-liberal" or "free" (e.g. Krugman 1997; O'Hearn 2000; O'Hearn 2001; Sachs 1997).

From 1987 the Irish system for wage bargaining changed and took on a broader and more important economic and social policy-making role. Ireland thus moved towards a coordinated market economy. A formerly more or less decentralized system of pay bargaining was replaced by successive national tripartite (the third party being the state) three-year agreements relating to pay and social issues (Aust 1999; Hardiman 2000; O'Donnell and O'Reardon 1997). This incomes policy together with monetarist policies for macro-economic stability, created a beneficial environment for business and economic growth. The social partnership programs have been described as originating from a system of "competitive corporatism" signalling that the business side of the agreements has been more central than in the traditional continental

European and Scandinavian neo-corporatist welfare state model. At the same time Irish industrial policy became more directed towards indigenous high technology industry development in addition to the traditional policy of attracting foreign Trans National Corporations (TNCs) originating in the late 1950s (Ó Riain and O'Connell 2000).

The introduction of social pacts in Ireland is part of a European trend towards competitive corporatism (Rhodes 1998). What is exceptional about Ireland is that it happened in an LME. The Irish brand of social partnership is also a fairly inclusive package covering social policies as well as industrial and innovation policy as seen from e.g. from the 1986 NESC report “A Strategy for development 1996-1990 (NESC 1986) (see below).

Innovation Policy for Industrial farming

The economic crisis of the 1980s meant that new avenues of policy were explored. Employment in domestic manufacturing fell by almost 25 per cent during the decade (O'Malley 1998), and even in the foreign direct investment sector employment fell by 6.8 per cent. From the late 1950s to the 1980s, government managed economic globalization almost exclusively by attracting foreign direct investment (FDI), mainly American based TNCs (Ó Gráda 1997:114-119). In the 1990s, indigenous industry also witnessed expansion.

From 1980 onwards, policy makers gradually came to realize that the policy of attracting foreign investment could not alone sustain Irish economic growth at an acceptable level (Jacobsen 1994:150-153,163,168-169; Ó Riain 2000:318-319). A significant contribution came in 1982 with the publication of a report funded by the National and Economic Social Council (NESC), a representative body set up by the social partners. This so-called “Telesis Report”, named after the consultancy firm that made it, was strongly critical of government industrial policy: “foreign-owned industrial operations in Ireland with few exceptions do not embody the key competitive activities of the business in which they participate; do not employ significant numbers of skilled workers and are not significantly integrated into traded and skilled sub-supply industries in Ireland” (Telesis 1982:151). The report created debate within policy-making institutions (Ó Riain and O'Connell 2000:319), and in

1986 the NESC-report “A Strategy for Development 1986-1990: Growth, Employment and Fiscal Balance” took the debate nearer to the actual formulation of a new industrial policy (NESC 1986). The report recommended macroeconomic restraint on the one hand, and on the other hand microeconomic action by recommending an active industrial policy directed also towards indigenous industry (Jacobsen 1994:163,183; NESC 1986:257-277,313-316)

The 1986 NESC report’s recommendations were the product of the main social partners and forged a political consensus on the way out of the economic crisis. The report was written into the policy of the new Fianna Fail government from 1987 and served as the basis for the Programme for National Recovery (1988-90) corporatist agreement on pay and social issues; (Mac Sharry, White, and O'Malley 2000:44-80). The programme envisaged greater attention to the indigenous sector (Programme for National Recovery 1987).

The new policy emphasis on indigenous industry was expressed in the reorganization of the major innovation policy apparatus in the early 1990s. The major player in Irish industrial policy, the IDA (Industrial Development Authority) was established in 1949, and its main objective soon became attracting foreign industrial investment to Ireland. From 1969, the IDA was responsible for government planning as well as for industrial grants (Jacobsen 1994:105-106; Mac Sharry, White, and O'Malley 2000:183-197; Ó Riain 2000:178). The IDA became a quasi-independent state agency and the central actor in formulating and implementing industrial policy. Thus, the IDA was the central agency also for indigenous industry. However, the main focus on attracting foreign investment was retained (Ó Riain 2000:178-179). When through the 1980s and especially in the late 1980s industrial policy begun to change towards also prioritizing indigenous industry and towards a greater selectivity in grant giving (Ó Riain 2000:174), this new policy was implemented by other state agencies than the IDA. The IDA had institutionalized the policy of attracting FDI and the main focus did not change when its remit was extended to include indigenous industry. The economic crisis of the 1980s and the Telesis report initiated change in industrial policy. In 1987, the IDA went through another major overhaul of its policies and organization. The proportion of its resources devoted to indigenous industry

increased, the number of employees were reduced, and results were measured in a more realistic manner, actual job numbers rather than projected numbers.

In 1992 the Culliton Report's review of industrial policy advocated splitting the IDA (Industrial Policy Review Group 1992). This resulted in the establishment of Forbairt (1994) as the agency for indigenous industry (Mac Sharry, White, and O'Malley 2000:223,228; Ó Gráda 1997:119). Its name was changed into Enterprise Ireland in 1998. The IDA kept the foreign industry portfolio. Before this seemingly parsimonious institutional structure was established, a plurality of institutions had been working since the early 1980s, and have kept working, within a plurality of networks involving universities, technology and innovation centres, as well as industry and trade industry science associations, in assisting indigenous high technology industry (Ó Riain 2000:179, 174-177).

The pluralism of institutions and networks are reflected in the variety of ways indigenous industry has been supported (Ó Riain 2000:174). One thing is greater selectivity in grant giving, but far more important is it that an active picking-winners-strategy has been supplemented by an active making-winners-strategy. The state agencies have gone from being funding agencies to doing company development. Husbandry and a very proactive approach have thus been crucial in the Irish industrial support system. The state has also been the protagonist in establishing industry associations. This diffusion-oriented innovation policy and the establishment of industrial networks are what would be expected from a CME in the making.

The Flexible Developmental State

Seán Ó Riain has emphasised the active role of the government as crucial in bringing about the successes of the Irish economy and industry in the 1990s in general, and in particular the success of the indigenous software industry (Ó Riain 1999; Ó Riain 2000; Ó Riain and O'Connell 2000). In describing Irish economic and industrial development, he develops the theory of the flexible developmental state. This involves the government as an active partner to industry in industrial development, i.e. in a husbandry role and in a diffusion-oriented role. In this capacity, the state has been active in creating networks between companies and the scientific community. As we already know, the government also entered into social partnership agreements with

business and labour. Together with stringent monetarist policies, this provided a stable macro-economic environment. Inflation was been kept in check. Substantial tax-cuts have underpinned the incomes policy.

Ó Riain explains the genesis of the active industrial policy of the Irish government by two phenomena: First, by participation in the EU-regional support system – The European Structural Funds – the Irish State has become a master of networks and flexibility in relation to industry and in relation to external markets (Ó Riain 2000:179). Second, that Ireland as a small, open economy follows the example of active response to the forces of globalization typical of small, open economies as found by Katzenstein (Katzenstein 1985; Ó Riain and O'Connell 2000:310-311).

No doubt, the policy learning process through the EU Structural Funds has been successful and this is an important factor in the development of the network governance capacity of the Irish State. Part of the answer can possibly be found in policy learning because the state needed EU-funding, and that developing corporatist networking skills were important to achieve this. The participation in the structural funds system reveals one way the Irish State learned to manage its network relations to indigenous industry, but does on its own hardly explain how this innovation system and industrial policy came about. The question is why the state as an LME started pursuing diffusion-oriented policies in the first place. The Structural Funds were made available to Ireland only in the run-up to the establishment of the Single European Market in 1992 (Ó Riain 2000:179). The Funds were a policy instrument to prepare the peripheral regions of the EU for the market reform. Many of the Irish industrial networks developed in the 1980s.

The thesis by Katzenstein that small, open economies react to globalization in an active CME-like manner is interesting in the case of Ireland (Katzenstein 1985), but does it apply to all small nations – also LMEs - or just CMEs? Katzenstein studied only European CMEs. Hence, it does not follow from the small states hypothesis that Ireland, as an LME should respond to globalization with a diffusion-oriented innovation policy.

Another hypothesis that Ó Riain cites in pursuing his argument of the flexible developmental state is the effect of national industrial culture on economic development and industrial policy (Biggart and Guillen 1999). This is one variant of the theory of industrial networks and societal embeddedness. Local industrial culture with its associated institutional baggage will determine what type of industry that will prosper. The introduction of effective globalized industrial practises must be compatible with existing institutional logics and institutional culture. From this institutional perspective on industrial development Spain is a success in auto assembly and in the manufacturing of auto parts, while Argentina is a disaster, because of differences in the institutional ideology of the political systems (Biggart and Guillen 1999:736-740). Argentinean political populism made it impossible to open the economy for foreign multinationals without restrictions in the same way as Spain. Basically, this institutional perspective on industrial development is one alternative way of expressing the same kind of argument as the varieties of capitalism approach; it makes little contribution to explaining the economic and political change processes in question.

The theory of the flexible developmental state brings out the context and some detail of how the Irish state implements innovation policies typical of CMEs. But, having so far not found any satisfactory explanations for the changes in the LME Irish economic model even when applying the theory of the flexible developmental state, it is time to focus on the institutional change processes themselves. Hopefully, an investigation of the change processes and what precipitated the change processes can provide explanations that are more adequate.

Institutional layering of CME-institutions

The active diffusion-oriented role of the Irish State within industrial policy and innovation policy has developed through institutional layering, rather than institutional conversion. Throughout its lifetime, the IDA has focused on attracting foreign investment. The new industrial policy goal of promoting indigenous industry was implemented through a plurality of new organizations and new organizational forms. Rather than institutional conversion of industrial policy and the industrial policy making institutions, what happened was the creation of a multitude of new

institutional compartments of industrial policy in the form of more or less independent organizations and innovation policy networks.

In the strict sense, the reorganization of the IDA in 1994 may be said to be a case of institutional conversion within the field of industrial policy in that Forbairt took over IDA's responsibility for indigenous industrial policy, and that the IDA was able to devote its attention fully to foreign industry. On the other hand, the primary institutionalized objective of the IDA was never in doubt, i.e. for the IDA the change was not very pronounced. The IDA itself did not take on any new goals, but did actually become leaner in terms of organizational layers.

Institutional layering can be a way of resolving conflicting policies. Still, layers will eventually meet, and such meetings are reservoirs of policy tension. In organizing "policy layers" in different institutions, rather than in institutional compartments within the same organizations, institutions can work more independently and this has probably been a precondition for the success of the Irish industrial policy for indigenous industry as well as for the success of the strategies of industrial policy themselves. Conflicts between the policy of attracting FDI and the policy for indigenous industry was taken out of the jurisdiction of the IDA and placed on the ministerial level for decision. The Irish case is thus a clear example of how institutional reproduction can mean institutional change and policy change. How did this transformation happen?

Change of Variety of Capitalism and Political Institutions: The Irish Transformation

As noted, Wood has underlined the importance of political institutions for the maintenance and stability of the two main varieties of capitalism, economic policies, and economic performance. However, politics is not given the role of a possible change agent outside the boundaries established by the two economic models. But in LMEs with Westminster type political regimes fairly radical change is regarded as a likely outcome. This is seen as threatening to economic stability and therefore a negative policy alternative. The possibility of radical change crossing the boundaries of the LME/CME models is not mentioned, and certainly not that this can be a viable policy alternative within the varieties of capitalism approach. On the other hand, the

Irish transformation moving from LME status and adopting distinct CME traits in the form of social partnership, and through innovation policies, has clear roots in the decisions of Irish political institutions responding to economic crisis.

The institutionalization of a new industrial policy directed towards indigenous industry grew out of the crisis of the 1980s. This was not just the result of the new 1987 Fianna Fáil government, but also due to an adjustment of policy meaning the implementation of a wider range of industrial development alternatives since at least the early 1980s and the Telesis Report (Ó Riain and O'Connell 2000:320). In the 1990s the state supported indigenous industry in three major ways (Ó Riain and O'Connell 2000:320-21): First, the state defined what kind of indigenous industries that were to be supported, primarily export industries like software design. The IDA developed the supply sector to the TNCs. This mainly consisted of software manual printing and electronics. Second, the state followed an active line of funding company development, of making winners rather than just picking prospective winners. Third, the state created industry networks already from the early 1980s; and especially from the late 1980s into the early 1990s, many programs and institutions were set up. The National Board for Science and Technology (1977) was the most important institution outside the IDA system. From the mid-1980s, the science and technology policies were given an enhanced institutional position through the establishment of a new Office of Science and Technology under its own junior minister in the Department of Industry and Commerce. This process of institutionalization of the government agencies for indigenous industry folded up with the creation of Forbairt/Enterprise Ireland encompassing the national innovation sector.

The transformation from LME to a “partial” CME status can be traced to the response to the economic crisis of the 1980s. This led to the social partnership agreements of competitive corporatism, and to a new diffusion-oriented policy for industrial innovation, involving the creation of networks for innovation and a proactive company development approach to industrial development. Both new economic policy institutions and innovation policy institutions were established. The new economic policy meant the breakthrough for industrial development ideas developed since the early 1980s. The new corporatist institutions, made the process of institutional layering within the innovation sector possible. The corporatist institutions

were not themselves products of institutional layering, but the products of a political consensus on how to respond to the economic crisis involving both macro economic constraint and a deliberate incomes policy. This response was really most unlikely considering how most LMEs at the time responded to economic crisis by relying solely on increased deregulation and the implementation of neo-liberal policies.

In Ireland, the Taoiseach (the Prime Minister) Mr Charles Haughey built the national compromise of competitive corporatism on a foundation of monetarist macro economic policies. Regarding industrial policy Mr Haughey in 1987 started out very critical of the IDA (Mac Sharry, White, and O'Malley 2000:212). In later reviewing IDA plans, which included a new emphasis on high-technology firms rather than just focusing on the maximum number of jobs (Mac Sharry, White, and O'Malley 2000:207), he apparently changed his mind. In 1991, Haughey's Fianna Fail government through the Minister for Industry and Commerce Mr Desmond O'Malley commissioned the Culliton Report starting the process that in 1993 made the IDA reorganize into two agencies dividing indigenous (Forbairt, later Enterprise Ireland) and foreign-owned industry (IDA Ireland) between them.

The protagonists in the economic change process were of course the politicians in power. Taoiseach Haughey and his new Fianna Fail government were the forerunners, but also the leader of the opposition Mr Alan Dukes from the Fine Gael party and the social partners, that provided the extraordinary political and economic consensus, played important roles (Jacobsen 1994:177; Mac Sharry, White, and O'Malley 2000:78-86). Yet, without the people in the different networks and institutions putting forward their experience and ideas the new industrial policy would have been a non-starter. The Irish recipe for innovation policy change is both politicians and administrators with a vision and with power, exploiting and widening the window of opportunity provided by the economic crisis situation by reorganizing economic and industrial policies and institutions. However, underlying the different agents of change is a specific political institutional structure providing the agents the institutional instruments needed for change.

The Transforming institutions

One factor that reinforced the powerful policy-making role of Mr Haughey is the stronger role of his office, the Department of the Taoiseach. It is generally recognized as one of the strongest in Europe, and this is reflected in its policy-making capacity and its policy coordination activities (Elgie 1999:237-238). The Department has over 300 staff members organized in various policy sections (An Taoiseach 2002; Elgie 1999:240). The Department of the Taoiseach has ministerial status. In comparison, in another small north European country, Norway, the Office of the Prime Minister is a secretariat of 50 persons that does not formulate and implement any specific policies in any important area (OPM 2002; Skjeie 2001:186). On the other hand, the Department of the Taoiseach has for example been responsible for the formulation and implementation of the Irish Government's policies for the Information Society (Information Society Ireland 1998; Vårheim 2000).

On the question of actors, Mr Haughey is recognized as one of the strongest among Taoisigh⁶, a "chief" rather than a "chairman" (Farrell 1993:186). This is also evident in how he reorganized his department building up its administrative capacity, and in 1987 his departmental secretary in large measure both negotiated and oversaw the implementation of the agreements with the social partners (Farrell 1993:178-179). The strong institutional position of the office of the Prime Minister in Ireland seems to be the main factor in making shifts in policy both feasible, and also making the implementation process more "easy going".

The position of the Irish prime minister and Government is remarkable in a multi-party political system that does not consistently produce majority governments, and still is strong enough to move the economy in the direction of a CME and produce CME type innovation policies. Successive British Labour governments have not succeeded in this, in spite of much more favourable institutional conditions. This is clearly in conflict with the varieties of capitalism approach and Wood's predictions of the impossibility of change of varieties and the long-term result of equilibrium, meaning path dependence and little institutional evolution.

Regarding industrial policy institutions, the Irish case is a clear case of institutional change through institutional reproduction involving institutional layering. The

institutions of industrial policy have had the capacity of policy learning, and have been able to formulate and implement policies based on this knowledge. The tradition of the IDA for active involvement with its industrial clients in attracting inward investment, is continued in relation to company development for indigenous firms and in creating networks for industrial innovation. This is also in contradiction to the varieties of capitalism approach and the predictions of path dependent trajectories in line with the two economic models. Institutions certainly have path dependent features, but they also evolve.

Whether Ireland is best categorized as a CME or a hybrid form of LME/CME is in large measure a question of taste. Nonetheless, a strong reading of the CME category means that a hybrid form is the most correct term because indicators of the varieties of capitalism like vocational training, corporate governance and inter-firm relations have not been discussed in this paper.

In relation to the question of the handling of the influences of the global economy the Irish institutional changes from 1987 onwards reveal an institutional policy making capacity able to deflect the effects of globalization both regarding economic policy and policies for industrial innovation.⁷

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Notes

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² The case of Ireland deviates from the predictions of the varieties of capitalism approach, and can thus contribute in questioning the theory and possibly lead to its modification (Emigh 1997).

³ This far Hall (2001b) is the most elaborate presentation of the varieties of capitalism approach. Compared with Soskice's earlier work (e.g Soskice 1990; Soskice 1999) the main difference lies in the detailing of the LME-model.

⁴ Purchasing Power Parities (PPPs) are the rate of currency conversion, which eliminates the differences in price levels between countries. They are used to compare the volume of GDP in different countries. PPPs are obtained by evaluating the costs of a basket of goods and services between countries for all components of GDP.

⁵ Before 1990 relevant data on industry sector development in Ireland is lacking (OECD 2000b).

⁶ Plural form of Taoiseach.

⁷ This process of deflection has also been described as more subtle form of adaptation to neo-liberalism (Kirby 2002:162-163). This interpretation is shared by a senior Irish politician considered a forerunner for neo-liberal policies in Ireland, the founder of the Progressive Democrats (the PDs) (Interview with Desmond O'Malley 2002). Nevertheless, all governments adjust to international developments, and the Irish version is special in that it involves introduction of corporatist institutions and active industrial policies.