

Is Ireland a 'real' small open economy? And how does that matter?

Professor Seán Ó Riain
Department of Sociology
Maynooth University



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Outline

- The Small Open Economy Model and Ireland's Dilemmas
- Three Challenges of Openness
- Can Smallness meet the Challenges of Openness?
- Back to Ireland's Dilemmas

Varieties of European Capitalisms

- The Small Open Economy Model

- International Discipline
- Domestic Capacities
- “Social Compensation”
- Mutually reinforcing

- Data from before the bubble/crisis →

	Banks as % of all Profits in the Economy	Average 'Structural' Fiscal Balance 1999-2007	Social Spending 2002 (% GDP)	'Social Investment' 2000 (% GDP)	Average Business R&D Investment 1999-2007 (% GDP)	% 'Learning' Organisation of Work, 2000 (Lorenz & Valeyre)
Nordic Social Democracies	4.7	0.3	36.6	11.3	2.26	53
Continental Christian Democracies	5.5	-1.7	32.5	9.6	1.42	47
Liberal (UK & Ireland)	11.9	-2.5	27.5	8.1	0.97	29
Mediterranean	6.3	-4.0	26.6	7.0	0.40	24

4 Intractable Dilemmas of Ireland's Contemporary Political Economy

- Economic: Low, unequal wages and moderate competitiveness
- Social: Tackling inequality by cash distribution across persistent divides
- Financial: Borrowing with Poor Investment
- Fiscal: Narrow tax base with poor ability to pay for many outside the tax base, both employers and employees

Challenges of Openness I: Exports and Economic Development

- The Export Sector in the SOE Model
 - In the classic model, the export sector is where wage discipline and economic upgrading are negotiated
 - Spreads through economy, usually through bargaining; typical bargains included the trade off of wages for services (eg Denmark since 1990s)
 - This then also involved 'creative destruction' of low productivity sectors
 - Typically these were substituted by public sector
- Irish export sector different because of FDI
 - Key concern is tax levels rather than wage/productivity
 - Doesn't spread as automatically to rest of economy
 - Irish policy based on co-existence of low and high productivity sectors, not on high driving out low
 - Smaller public sector e.g. childcare; public sector rarely substitutes for low productivity private services

Challenges of Openness II: The Changing Nature of Openness: From Trade Discipline to Unstable Finance

- Globalisation
 - Trade
 - Production Networks
 - Financial Flows
- What difference does Financialisation make?
 - Intertwining of speculation and productive investment
 - Rarely ends well
- Ireland's Financialisation
 - From passive banking to speculation (see Patrick Gallagher forthcoming PhD)
 - Weak productive investment

Challenges of Openness III: International Relations

The 'Multiple Interface Periphery' (Ruane)

- US: FDI and Trumpism
- UK: Brexit
- EU: what follows Brexit?

The Changing Meaning of “National Autonomy”

- Mjoset, 1992: National Innovation and Social Solidarity key to taking advantage of international ties
- Still Missing European Project: The Triangle of Developmentalism, Welfarism and Fiscal Security

Smallness: Will It Deliver?

- Smallness
 - Facilitates, doesn't determine
- Coordination but also clientelism, brokering, groupthink etc
- Same applies to homogeneity

- Institutions are crucial
 - If we had first past the post would Taoiseach be meeting Opposition re Brexit?
- Ireland's institutions
 - Central government
 - Networks of key people at the top of organisational hierarchies
 - Effective informal networks at the bottom (where things work); but this is very patchy
 - A missing "associational" level that could make the most of 'smallness'
 - E.g. local/regional government, mission-oriented innovation, networks of agencies and departments, social partnerships, bargaining structures

Back to the Dilemmas: Building Major Changes on Existing Institutions

- Economic: Low, unequal wages and moderate competitiveness
 - ***Broadening and Deepening Enterprise Policy (EI meets local innovations)***
- Social: Tackling inequality by cash distribution across persistent divides
 - ***Intensifying Social Services to support Active Participation (Developmental Welfare State)***
- Financial: Borrowing with Poor Investment
 - ***Creating an Active Indigenous Financial System (Transforming Banking and Investment Capacities)***
- Fiscal: Narrow tax base with poor ability to pay for many outside the tax base, both employers and employees
 - ***Employer Social Security and Stronger Income Tax Base (strong enough to pay that because of the above)***