5. Economic Foundations of Social Progress: Ireland Through a Nordic Lens[25]

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Why a Nordic Lens?

A central question in realising an egalitarian society with strong social protections for all its citizens is the economic feasibility of these social arrangements. Equality is said to undermine incentives while social protection adds a high cost to these disincentive effects. This paper addresses the question of the economic foundations of social progress through an examination of the key features of the Nordic social democracies (Denmark, Finland, Norway and Sweden), societies that have combined economic dynamism with equality and social protection more successfully than any others across the world in the past sixty years.

There are numerous potential starting points for an examination of the economic foundations of social progress. A model can be posed that reconciles economic dynamism and social progress and societies assessed against this (for example, in discussions of 'Pareto optimality' or Rawlsian or Habermasian discussions of ideal societies). Particular criteria can be established as desirable and used to form indices along which societies can be compared (for example, in the Human Development Index). This paper begins from a different starting point. It identifies the Nordic social democracies as societies that have provided sustainable, dynamic economic foundations for significant (although far from perfect) patterns of social protection, solidarity and equality. It then asks what the key features of these societies' economic models are and uses these features to provide deeper insight into the challenges facing Ireland in advancing economically sustainable social progress.

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25 A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "a future worth living for".

In contrast to the approach of theoretical modelling, this approach has the advantage of being based on real world existing examples of such workable societies. In addition, compared to the 'index' approach, it allows for an examination of how the various elements of such societies interact and mutually influence and depend upon one another. We should not assume that the Nordic societies are presented here as ideal societies, however. There are many areas where improvements in those societies are possible and there may well be significant limits to the social transformations possible within them[26]. Nonetheless, Ireland's economic and social record is so significantly behind those of the Nordics that they are a useful benchmark for comparative assessment. They are also a relevant comparative yardstick, as the countries share the characteristics of small, open, European economies with strong agrarian traditions (if largely different religious cultures). While the Nordic lens is not the only one that can be held up to the Irish situation, it is a relevant, useful and challenging one.

We should nonetheless avoid focussing the argument on questions such as 'how can we become Denmark?' It is well established how difficult it is for societies to emulate other national societies, or even specific institutions or programmes from within those societies – the general failure of societies to produce their own German style apprenticeships or Silicon Valley style high tech regions is clear evidence of this. The approach taken here is to extract the central principles of the Nordic models, and in particular their 'social democratic' elements, and then to use these principles of social organisation to examine the critical elements of economically sustainable social progress in Ireland. Finally the paper concludes with a discussion of the dilemmas of economic and social transformation in Ireland and in the ever more important European context.

The Social Democratic Nordic model

The Nordic social democracies are generally associated with high levels of economic equality and social protection, secured through an extensive welfare state and high levels of taxation and spending. There is a great deal of truth to this account. However, there are interesting wrinkles to this story that suggest the overall picture is more complicated. For example, while

[26] For example, this paper does not deal seriously with issues of gender, racial and ethnic inequality or environmental sustainability – although the Nordic societies do significantly better than Ireland on gender and environmental issues at least.

levels of equality and social spending are high, the relationship between them is not clear. Table 1 illustrates this by comparing income inequality in Ireland and the Nordics in 2008, before and after taxes and transfer payments. While the Nordics are more equal than Ireland on all measures, this not due to transfer payments (which significantly reduce inequality in all societies). The Nordics' direct redistributive effort is arguably not particularly strong and Ireland's transfer payments reduce inequality more than those in the Nordic societies. The more significant element of the Nordic equality advantage in disposable income is their greater equality in market income. It is also worth noting that this equality is greatest between employees themselves, as the share of national income going to employees and the self-employed (rather than to capital) is no higher in social democracies than in liberal economies (Flaherty and Ó Riain, 2013).

Table 1: Income Inequality in Ireland and the Nordic Social Democracies

(a) Gini coefficient, 2008

	Pre-Tax and Transfers	Post-Tax and Transfers	% decline
Denmark	.40	.24	40%
Finland	.47	.26	45%
Norway	.41	.25	39%
Sweden	.43	.26	40%
Ireland	.54	.29	46%

(b) Gap with Ireland, 2008

	Pre-Tax and Transfers	Post-Tax and Transfers
Denmark	.14	.05
Finland	.07	.03
Norway	.13	.04
Sweden	.11	.03

(c) Gini coefficient, Average 2005-7

	Pre-Tax and Transfers	Post-Tax and Transfers
Denmark	.42	.24
Ireland	.51	.30
Gap between Ireland and Denmark	.09	.06

Furthermore, as is well known, the Nordic economies are consistently among the most 'competitive' in the world (Table 2). While these rankings have many problems, the high GDP and trading success of the Nordic economies testify to their consistent strong performance on even the narrowest economic indicators.

Table 2: Global Competitiveness Rankings

	2012-13	2007-8
Denmark	15	3
Finland	3	6
Norway	11	16
Sweden	6	4
Ireland	28	22

Source: World Economic Forum

So what are the features that characterise the Nordic economies? Figure 1 briefly outlines my view of these key features. Social protection is central to the Nordic model. But it relies particularly heavily on (broadly universal) social services rather than on transfer payments as the main mechanisms of the securing of social welfare and, since these services are typically widely used, social solidarity.

However, these high levels of service provision are balanced by very high levels of economic activity across the population. While they have not undertaken punitive forms of workfare, for the most part, social democracies

have exceptionally high labour force participation rates and strongly emphasised labour market activation, including significant decreases in benefits for the long-term unemployed combined with very generous short-term replacement rates but also, at least as importantly, a strong emphasis on active labour market policy (Huo, Nelson and Stephens, 2008).

These 'social' measures are integrated with the more strictly 'economic' policies, targeting capital and firms. Despite a variety of periods of financial liberalisation that resulted in crises (particularly in the early 1990s and to a lesser extent since 2008), finance in the Nordic economies has been channelled towards productive uses to a greater degree than in the liberal political economies. This has partly been achieved through bank based finance but also through public channelling of private market based financing. The competitive performance of the Nordics is also underpinned by high rates of investment within firms – including in training and R&D.

Finally, Nordic economies rely heavily on public institutions to play a significant role in both social and economic institutions and purposes. However, they have long been as Schumpeterian as they are Keynesian in their approach to macroeconomic management, favouring fiscal disciplines and export competitiveness (Erikson, 2008).

Figure 1: The Institutions of Nordic Social Democratic Economies

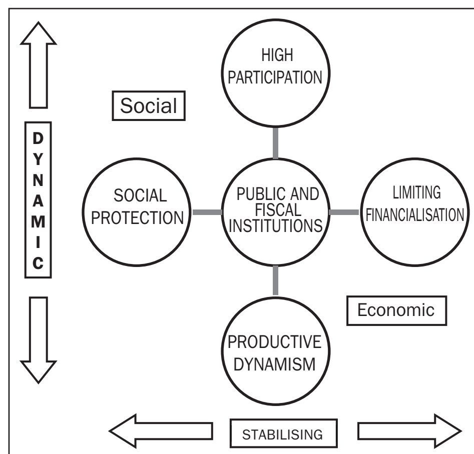


Figure 1 also indicates that the Nordic economies combine two key dualities within this structure. First, the organisation of social protections and economic performance are integrated within the overall institutional organisation of the political economy. Most narrowly, the economic performance pays for the social protections while social investment enhances economic dynamism. However, the implications are much broader and shape the degree of innovation and experimentalism within the society and economy (Kristensen et al, 2009). Second, each of these in turn has a dynamic element (driven by productive investment by firms and high rates of labour force activity) and a stabilising force (controlled finance and collective social provision). These dualities are held together by the interdependencies between these elements but also by the collective provisions and central facilitating role of public institutions.

Ireland Through a Nordic Lens

What does this particular Nordic lens tell us about the comparable institutions in Ireland and the Irish challenges of securing the economic foundations of social progress? We now turn to each of the dimensions identified above, drawing in large part on the analysis in Ó Riain (2014).

Social Protection

Ireland is typically classified as a liberal welfare regime based on its relatively low levels of taxation and spending and on the significant use of means testing and other qualification mechanisms for benefits. Ireland ranks very highly in Europe in the degree to which social transfer payments boost low incomes and alleviate poverty, although this should be tempered by the fact that part of the reason that transfers are effective is because underlying rates of inequality and poverty are comparatively high in Ireland relative to the rest of Europe, with a particularly high proportion of 'jobless households' (Whelan et al, 2012). Nonetheless, rates of consistent and relative poverty rose steadily in Ireland during the crisis (CSO, 2013).

However, there are a variety of aspects to the welfare state in Ireland which distinguish it from the pure ideal type of the "liberal welfare regime". Ireland's welfare state is better understood as a "pay related" welfare state (Ó Riain and O'Connell, 2000), or what Castles (1985) has called a "wage earner welfare state" in the "antipodean" welfare states of Australia and New Zealand. In this model a basic, relatively low level of universal payments

and benefits is provided with significant opportunities for topping up those benefits through occupational or contribution based schemes. In the Australian and New Zealand cases this is focused more heavily on benefits linked to occupation and worker status, while in Ireland it operates primarily through the use of contribution-based schemes or the ability to use market income to gain access to public supports or to enhance them. This contrasts with other liberal welfare states such as Canada and the UK with weaker wage earner elements but where some of the major expansions in welfare were related to historical moments that allowed the building of national public institutions - for example, the National Health Service in the UK. While there are some welfare and wage earner elements in the US system, it conforms much more closely to the classic liberal ideal type of an exceptionally low safety net.

Evaluated as an overall model of welfare spending, this is clearly a version of the liberal model. However, from the perspective of those citizens who can afford to top up the State provided benefits, privately provided social supports have been heavily subsidised by the public purse. In practice the growing middle classes of the 1990s received extensive public subsidies for their pensions, healthcare, housing and education. For the middle classes that were growing through the private sector these subsidies came largely in the form of tax incentives and reliefs. For the growing public sector, many of these supports were directly linked to their public employment (Ó Riain and O'Connell, 2000). Supports for the growing professional classes went beyond education to health, housing, pensions and other crucial factors shaping an internationally competitive labour force (see Table 3). Even as personal taxes were lowered, the Irish middle classes benefited from public subsidies and tax breaks – and so, by extension, did their employers. In short, the welfare state was in some respects strengthened for the middle classes even as it remained a minimalist support for the most excluded. The state did not withdraw – it provided crucial supports, but on an unequal basis. The professional classes in high tech and related sectors benefited from this two-tier system, as did their employers (Ó Riain and O'Connell, 2000). Not all policy developments are in the same direction, of course, with some dilution of the 'wage earner' aspect of social security through abolition of pension and job seeker pay related benefit in 1984 and through gradual erosion of entitlement to pensions and working age wage earner entitlements (Murphy, 2013) and ongoing reductions in tax reliefs for pensions and insurance.

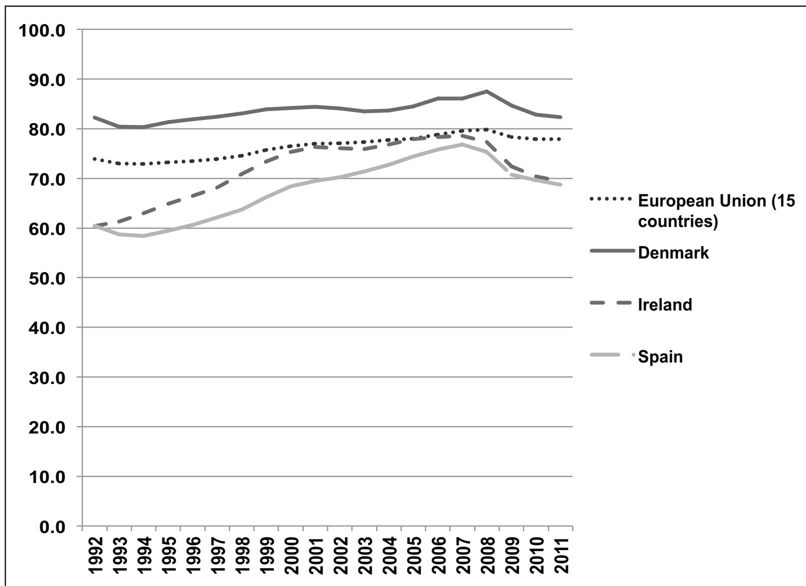
Table 3: Elements of the Wage Earner Welfare State in Ireland

Policy Area	Universal Elements	Wage-Earner Welfare (Occupational or Pay-Related)
Social Protection	Unemployment Assistance and other Benefits	Unemployment Benefit
Education	Public Education, Primary to Tertiary	Subsidised Private Schools Occasional Schemes Allowing Tax Relief on Educational Fees
Childcare	Child Benefit Payments Pre-School Payment	Maternity Leave – Statutory Minimum with Higher Public Sector Rates
Health	Public Access to Hospital Care System Means Tested Medical Card Access to Doctor Care Drug Subsidies (with Means Tested Element)	Private Insurance Allows Priority Access to Public and Publicly-Subsidised Private Providers National Treatment Purchase Fund as Market for Private Providers
Housing	Limited Provision of Social Housing	Mortgage Interest Tax Relief
Pensions	State Pension	Public Employee Pensions Tax relief on private pension contributions Contributory Old Age Pension

Both the low level of social spending in the welfare mix of citizens and the pay related nature of Ireland's welfare State have militated against an expansion of universal social services as a key component of the Irish social compact.

Employment Rate
Figure 2 shows the speed at which Ireland 'caught up' in the percentage of the population at work during the boom, although remaining behind most other European economies. The employment rate is preferred to unemployment as it captures the overall level of activity among the population and the focus is on 25 to 54 year olds to control for different educational and retirement policies and practices. The figure compares Ireland to Denmark, the EU15, and Spain, which has undergone a similar trajectory of development to Ireland.

Figure 2: Employment Rate, 25-54 year olds, 1992-2010



Source: Eurostat

In 1992 Ireland was alongside Spain in its exceptionally low level of employment among 25 to 54 year olds. We see a surge through the 1990s with Ireland's employment rate increasing to that of the EU-15 by 2000. Through the 2000s, albeit a period of significant immigration, Ireland's employment rate did not increase above the EU-15 average. Ireland never managed to close the gap on the UK or particularly Denmark, Finland and

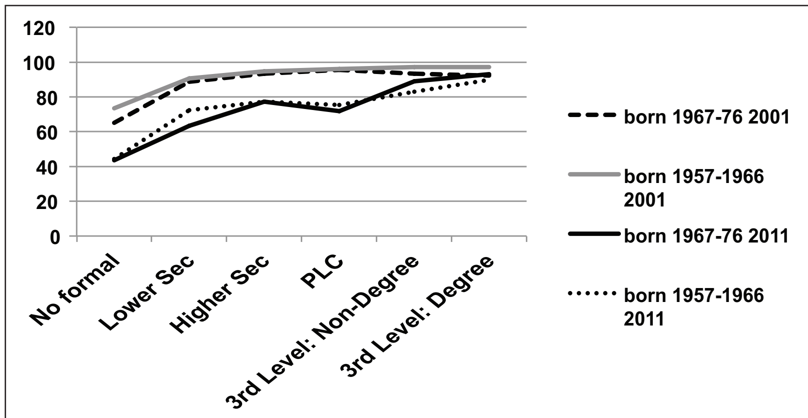
the Netherlands (although the Dutch rate is composed of large amounts of part-time work). From 2007 onwards Ireland's employment rates dropped disastrously once more, falling well below the EU-15 average and falling once again to Spanish levels. Despite a spectacular growth in absolute employment, the Irish economy was still dependent on a relatively narrow base of employment to sustain the population as a whole.

The early years of the crisis saw a sharp rise in unemployment which was not halted until the second half of 2012 (CSO, 2013). Growth in information and communication technologies, professional services (e.g. legal and other services) and high tech manufacturing (e.g. pharmaceuticals) added to full time employment during these years. However, many other sectors saw decline in full-time employment with some expansion of part-time positions, with male part-time employment increasing particularly rapidly during these years. Moreover, there was also significant evidence of various forms of exit from the labour market, including emigration, increase in the numbers of inactive workers and a suggestion in 2012 that some unemployed workers were returning to small scale farming.

Figures 3 and 4 show how these trends in different sectors intersected with the structural inequalities in the labour market, linked to class, gender and education. These tables track the experience of two cohorts of workers between 2001 and 2011, showing how workers aged between 25 and 34 and between 35 and 44 in 2001 were faring ten years later. Most striking is the effect of education as the probability of remaining in employment ten years later is strongly related to educational level. While there is almost no difference in the employment rate of workers with a third level education ten years later, there is a 15 to 20% gap between the employment rates in 2001 and in 2011 of those with low levels of education. For women, this effect is particularly pronounced among the younger cohort.

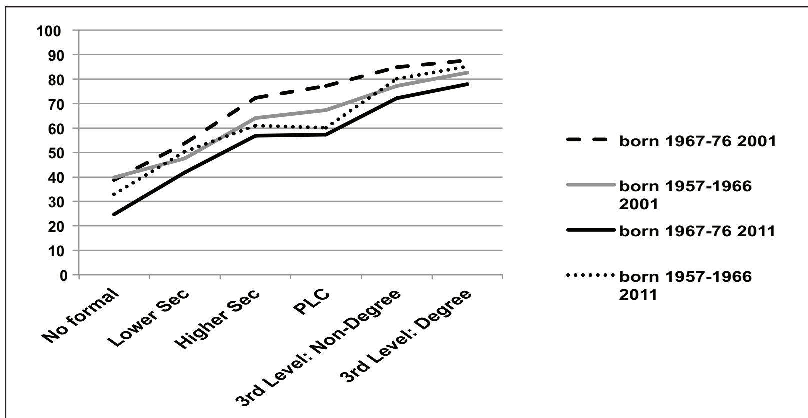
Significant gender differences in participation rates are obvious and the crisis appears to have intensified this gap when we look at the experience of men and women in the younger cohort. The effect of the crisis on employment was dramatic but also dramatically uneven. In addition, these trends would only be reinforced by the nature of the employment growth in 2012 and 2013 which was largely in areas that employed those with higher levels of education. The major effect on the employment of those with third level education was in the new cohorts entering the job market.

Figure 3: Employment Rate in 2001 and 2011 for Men Born between 1957-1966 and 1967-1976; by Level of Education



Source: QNHS Microdata, Central Statistics Office

Figure 4: Employment Rate in 2001 and 2011 for Women Born between 1957-1966 and 1967-1976; by Level of Education



Source: QNHS Microdata, Central Statistics Office

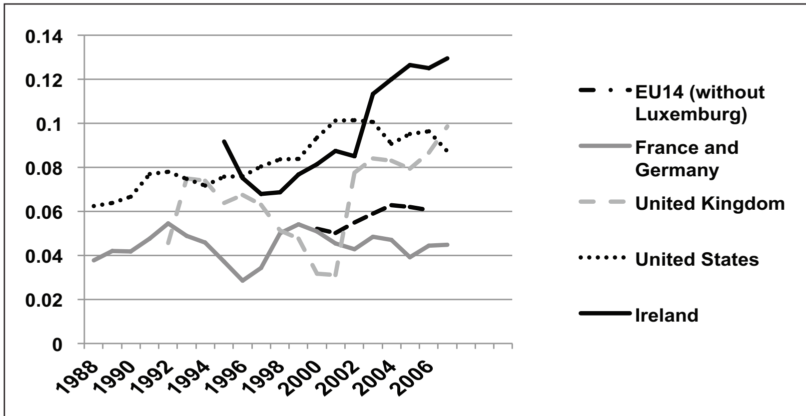
The Irish experience is one of relatively low employment rates, despite some improvement during the boom and bubble. The fragile nature of this improvement is evident in the return to a much lower employment rate in the crisis, characterised by deep inequalities. Ireland's low employment rate

is in practice intertwined with the class and gender inequalities within education, the labour market and society.

Finance

The details of Ireland's financial disaster need not be rehearsed here (see Ó Riain, 2012). However, some key features should be outlined. Ireland's financial expansion was only one leg of a 'triple financialisation', also including Anglo-American financial systems and the financialisation associated with European integration and the euro in the 2000s. While the US was always more financialised than the European core, that gap widened significantly over the 1990s, and financialisation is most closely associated with 'liberal market economies' (Hall and Soskice, 2001) such as the US, UK and Ireland. However, the EU economies closed the gap somewhat from 2001 onwards – with France and Germany showing a small surge in the 2002-4 period although generally remaining significantly less financialised than the liberal economies (see Figure 5). Nonetheless, the continental European bank-based system of financing was increasing marketised during the past two decades, laying the foundations for the structural weaknesses that emerged in the crisis of 2008.

Figure 5: Proportion of all corporate profits (Gross Operating Surplus) going to the 'financial intermediation' (banking) sector, 1988-2007



Source: OECD STAN Database
Note: EU14 and the France and Germany measures are an average of national rates, not a total of all profits across those countries

Ireland's financial system was distinctive in a number of ways. Banks have historically played a relatively insignificant role in financing developments in Ireland. Honohan (2006) documents the very limited role that the financial system played in the economic boom of the 1990s. Private venture capital, while active during the boom years, was often led by State programs rather than driving economic recovery through early State investments in difficult times.

Transnational corporations have been the primary source of private sector investment in Ireland. In addition to expanding production and employment, many of them used Ireland as a centre for transfer pricing and related financial activities. In many respects, this expansion in 'entrepôt' activity in Ireland (Honohan et al, 1998) was the equivalent of the financialisation of non-financial corporations documented in the US by Krippner (2011: Chapter 2). Nonetheless, this was a negotiation with industrial capital whose dominance of investment in Ireland favoured production, at least from the perspective of the domestic economy.

Although the state has used tax incentives to promote industrial development, the focus of public policy has been on direct engagement with firms. The policy emphasis on FDI involved significant organisational interaction with major international firms. As noted previously, it is perhaps best to think of the competition to attract mobile capital not as product market competition, but as competitive bargaining between governmental providers of how public goods are provided to private capital. Ireland's success in providing these public goods to transnational corporations is well known.

White (2010) has documented private sector failure to turn liquidity into investment at the national level. He finds that from 2000 to 2008 investment in housing stock increased by 156%. Productive capital investment increased by 66%, or €70 bn. However, of this €70bn road building made up €13.5bn, another €20bn was invested in retail infrastructure (building shops etc.), public buildings took up €9bn and investment by semi-state companies and energy/ utilities companies took up a further €10bn. Ultimately, in an era when bank lending increased by three to four times, inflation adjusted productive capital stock spend by private enterprise increased by 26% between 2000 and 2008. Productive investment in Ireland has largely been driven by foreign private capital and domestic and EU-funded public funding and supports.

The excessive and foolhardy lending to the property development sector in Ireland was produced by a number of social and institutional shifts. The property-based 'growth machine', linking developers and political elites, especially in Fianna Fáil, has long been a feature of Irish society. However, it could only become the force that derailed the national economy through three crucial steps.

First, it sidelined alternative investment paths - most notably, the export oriented industries that had been the primary drivers of economic development in the 1990s. These sectors were dominated by foreign investment but were also shaped by public agencies supporting the development of indigenous firms (Ó Riain, 2004). Private banks were notably absent from the process of indigenous industrial and business development. When capital gains tax was cut and financial regulation weakened in the late 1990s, private capital was given the institutional power to decide the destination of investment and favoured property over technology (or indeed other potential productive industries, such as food).

Second, the banking sector itself came to see property lending as a rational investment strategy, despite warnings regarding the risks of a bubble. More specifically, the banking sector promoted property even after the slowdown in growth in the 2002-3 period and as property development became detached from demand. Justifications for this support relied heavily on notions of strong economic fundamentals and self-correcting markets. Competition between banks 'crowded in' the banks that were late to property lending into an enthusiastic pursuit of the profits enjoyed by Anglo Irish Bank and others. Neither managerial authority nor markets for governance through the stock market provided the necessary check on this risky activity. Instead, property lending was translated over time into a rational investment.

Third, the expansion of this activity to a scale that was disastrous in terms of the national economy was dependent on the willingness of international lenders to fund Irish banks. This occurred most dramatically between 2002 and 2007 and was encouraged by the liberalisation and internationalisation of significant sections of German and French banking and the financial integration associated with the euro. However, the specific ties between international and Irish banking were made possible by the translation over space of Irish lending into an internationally tradable asset through the work of credit rating agencies.

These steps together linked the general process of financialisation and the specific features that characterised it in Ireland. The existence of a broader process of financialisation facilitated its expansion in Ireland. However, that broader process itself is constituted out of the interaction of a variety of national systems of finance – for example, the early financialisation of the US encouraged banks in Europe to pursue strategies based on trading in international financial markets in place of patient lending to domestic business, which in turn enabled the expansion of Irish property lending.

The Irish case also shows the importance of market liberalism as a force promoting financialisation of the economy. In Ireland, this had three major dimensions. The first dimension was the *institutional power of capital markets*, as legal, institutional and taxation changes made private capital the primary arbiter of investment in the economy and sidelined the public agencies and private enterprises that supported productive investment and export-oriented firms.

Second, the market based financial system in Ireland (and elsewhere) does not operate in practice through sets of buyers, sellers and rules but through a *network of market institutions*. However, while these institutions – competitive markets, stock markets, managerial authority, and credit rating agencies – were crucial aspects of a liberal market system, they did not enforce prudence and discipline but in practice encouraged speculation and indiscipline.

Finally, the third dimension consists of the various rationalities and justifications of action that actors draw upon in making and interpreting conditions and decisions. In a liberal market system, these rationalities rely heavily on *market talk* – justifications that give a central position to the autonomous effects of market processes. Chief among these in Ireland were the appeal to economic fundamentals and the belief in the self-correcting properties of markets.

Productive Economy

In the productive economy we can compare a variety of social compacts across Europe, including measures of the welfare regime, the production regime and the macroeconomic order (Table 4). These include the contribution of business to the productive economy through investment in R&D and other forms of industrial upgrading as well as the organisation of labour in the workplace, as measured by the participation of workers in "learning" organisations. Social spending is included as an indicator of

public investment in social reproduction, while public deficits and fiscal balances are included as a summary measure of the balancing of this social spending with available resources. Current account balances for the 2000s are also included to indicate the structural economic position underpinning the social compacts.

Table 4: Social Compacts in Europe: Welfare, Production and Macroeconomic Regimes

	Average Fiscal Balance 1999-2007 (% GDP)	Current Account Balance, 2003-2007 (% of GDP)	Average Business R&D Investment 1999-2007 (% GDP)	Social Spending, 2002	'Learning' Organisation of Work, 2000 (Holm et al, 2010)
	Christian Democratic				
Austria	-1.8	3.98	1.63	34.5	47.5
Belgium	-0.5	6.66	1.35	30.4	38.9
Germany	-2.2	12.54	1.74	33.4	44.3
France	-2.7	-0.32	1.35	36.7	38.0
Netherlands	-0.5	15.58	1.02	27.4	64.0
	Social Democratic				
Denmark	2.4	0.62	1.67	38.6	60.0
Finland	3.8	4.99	2.39	33.3	47.8
Norway	12.6	30.25	0.89	32.4	-
Sweden	1.3	4.04	2.73	38.0	52.6
	Liberal				
Ireland	1.6	-5.37	0.8	27	24
UK	-1.4	-9.54	1.13	27.9	34.8
	Mediterranean				
Greece	-5.3	-5.65	0.18	-	18.7
Spain	0.2	-8.04	0.56	23.7	20.1
Italy	-2.9	-4.42	0.54	28.8	30.0
Portugal	-3.6	-22.90	0.3	27.3	26.1

This table shows that there are significant differences in the underlying social compacts across the various worlds of capitalism in Europe. In addition to the differences in fiscal policies (discussed further below) we can see that there are major differences in the current account balances of the different clusters of countries. The Christian democratic and social democratic countries ran huge current account surpluses from 2003 to 2007, the height of the bubble era. These are reflected in major current account deficits in the liberal and Mediterranean cases. But these differences are themselves rooted in deeper differences in social and business investment and organisation. Social spending is not surprisingly higher in the Christian democratic and social democratic countries but so too is business investment, with business R&D investment running well above the liberal and especially Mediterranean countries right across the period.

Furthermore the organisation of society and economy in the workplace is structured differently. Drawing on work by Holm et al (2010) the final column shows what percentage of workers in each country work in a "learning" system of work, which emphasise worker skills and learning, autonomous decision making and theme work among other features. Learning systems of work are much more prevalent in Christian democratic and social democratic economies – even than in the putatively innovative liberal economies of the UK and particularly Ireland. More detailed results in Holm's (2010) study show that Mediterranean economies had very high level of traditional work organisation based on low levels of formalisation of work and high managerial discretion, while liberal economies tend to emphasise "lean" systems of work organisation, emphasising worker input and team work but within a framework of managerial control and hierarchy. The countries with the strongest external economic performance and the greatest fiscal discipline are also those countries with the greatest social spending, business investment and the strongest emphasis on worker input and participation in the workplace.

The Irish institutions that most clearly attempted to integrate these various elements were the social partnership agreements from 1987 to 2008. Ornston (2012) compares corporatism in Ireland unfavourably to the forms of corporatism in Denmark and Finland. He argues that there are three main kinds of corporatism – a "conservative" version which sought to manage employment relations in a stable economy (and which was the primary form analysed in the literature on 'old' social pacts); "competitive" versions

which controlled inflation, managed public spending and delivered wage restraint in order to make industry competitive; and a more dynamic, innovative "creative" form in countries such as Denmark and Finland where corporatist agreements allow for institutional innovation and the negotiation of often profound adjustment to economic change. In the creative model of corporatism, politics was able to both promote and shape the direction of dynamic change within the economy and society.

Ornston identifies the provision of risk capital, the provision of supports for training and other forms of labour market adjustment, and the provision of supports for research and development to facilitate industrial adjustment and upgrading as key policy measures in creative corporatist systems. While acknowledging that Ireland made efforts in all of these areas, Ornston ultimately classifies Ireland as a competitive corporatist economy. However, a closer look at Ireland in comparative perspective suggests a more complex pattern. Table 5 provides a comparative look at "competitive" Ireland, "creative" Denmark and Finland, "conservative" Austria and Belgium and the liberal UK for each of these three key policy areas, for both private business and public sector. The analysis provides indicators for both the late 1990s and mid-2000s, with the specific periods indicated in the table notes. Most of the indicators are offered as a percentage of GDP and it should be noted that this generally underestimates Ireland's efforts in these areas because of the significant gap between GDP and GNP.

Looking first at the late 1990s there are a number of important aspects to Ireland's comparative position. Firstly, it is strikingly different from the UK, especially in the area of public supports for business, which are much higher in Ireland, and in public spending on active labour market policies, which is almost non-existent in the UK but was very significant in Ireland in the late 1990s. This is particularly important given that these spending figures relate only to active labour market policies and not to "passive" spending such as unemployment assistance. Ireland differs significantly therefore from the liberal UK in the activism of its public agencies in support of business and labour activity. Comparisons with other small open economies in Europe are also instructive. Except for research and development investments, where Ireland has historically been particularly weak, Ireland's efforts to develop business through risks capital and public aid and to activate labour were significantly higher in the late 1990s than in the classically "conservative corporatist" countries of Austria and Belgium.

Table 5: Key Indicators of Types of Corporatism in Selected European Economies, Late 1990s and Mid-2000s

		Ireland		Denmark/ Finland		Austria/ Belgium		UK	
		Late 90s	Mid-2000s	Late 90s	Mid-2000s	Late 90s	Mid-2000s	Late 90s	Mid-2000s
Risk Capital									
Business	Early Stage Venture Capital (% of GDP)	5.2	2.0	6.7	4.5	4.4	1.2	4.7	8.7
Public	Sectoral Aid (% of GDP)	.69	.19	.81	.55	.37	.13	.18	.08
Active Labour Market Supports									
Business	% of Labour Costs spent on Training	2.4	2.2	2.7	2.1	1.5	1.5	3.6	1.3
Public	Spending on Active Labour Market Policies (% of GDP)	0.95	0.53	1.35	1.04	0.67	0.67	0.09	0.05
R&D									
Business	Business Funded R&D	.82	.70	1.48	1.93	1.31	1.72	.86	.74
Public	Government Funded R&D	.29	.38	.78	.79	.79	.84	.55	.56

Dates:
Venture Capital, 1998-2001 and 2003-2006
Training, 1999 and 2005
Active Labour Market Policy, Sectoral Aid, R&D: 1996-99 and 2003-2006
Sources: EVCA (2012), Cedefop (2010), Eurostat
Notes: The Eurostat data on sectoral aid offers the advantage of comparison although only covering aid scrutinised by the EU. Irish data on grants and subsidies to enterprise (CSO, 2012) does not track this series directly but offers the same basic picture – with the CSO figures indicating that state aid consisted of 0.81% of GDP from 98-99 and 0.52% from 03-06. Note these figures are almost identical to the Eurostat figures for Denmark and Finland.
Figures given in % of GDP understate Ireland's spending effort, given the gap between GDP and GNP. An added 15% on to the existing figure for Ireland gives a truer measure of Ireland's share of national resources devoted to particular goals.

In the 1990s Ireland was comparable to Denmark and Finland in its levels of risk capital provision, driven by the State, and of supports for training – particularly impressive given that the Irish figures are underestimated due to the use of GDP. As an aside it is also worth noting that there are differences between Finland and Denmark. Both are high on R&D levels but Finland provides higher levels of risk capital, both through private venture capital and public State aid, and Denmark's training effort is higher in both the private and public spheres. Nonetheless it is striking that in this period of the late 1990s Ireland appears closest to the "creative corporatist" economies in its provision of risk capital and training and active labour market supports.

The 2000s present a different picture. The profiles provided at the height of the financial bubble in Europe show that in most countries and in many different categories levels of support for economic adjustment declined. While this process varied across the different types of countries and different types of supports, the shift of Europe as a whole from developmentalism to financialisation is clear in the figures. In the UK, for example, business spending on training declined while venture capital increased. Denmark and Finland weakened their efforts in all areas of promotion of risk capital and labour adjustment. Ireland's fall was particularly dramatic, except in the area of R&D where the State concentrated its resources during the period. Despite remaining at a very low level of R&D as a percentage of GDP, Ireland had one of the highest growth rates in R&D spending and personnel across the OECD. This was particularly the case in the public system. However in the areas of risk capital and labour market policy the Irish public effort declined very significantly, such that it fell well behind Denmark and Finland and, in the case of active labour market policy, even behind Austria and Belgium. Nor is it the case that Ireland simply did not need venture capital or active labour market policy in the 2000s. Indeed Ireland continued through the height of the boom to have the highest rate of jobless households in the European Union (Whelan et al, 2012). In addition, the challenges facing export industries based in Ireland in the 2000s were widely recognised and the need for significant additional support for the development of Irish owned companies, for example through the promotion of venture capital, was widely discussed.

Ornston's analysis fails to distinguish clearly enough between the Irish economy of the late 1990s and that of the 2000s. Ireland was more "creative" than Ornston recognises in the 1990s and the drop-off in this

creative effort in the 2000s was even more dramatic than he remarked. There is a significant broader point here. If Ireland's form of corporatism changed so dramatically from the 1990s to the 2000s this cannot be due to constant structural features of the economy or polity. Instead, the story of Irish corporatism is one of surprising if hidden progress in the 1990s but a progress whose promise was never fulfilled and indeed was undermined in the 2000s.

Ireland's corporatism cannot be reduced to a "competitive" form. Significant creative corporatist elements were present in the 1990s and they were relatively successful in promoting industrial adjustment. Moreover, these 'creative' Irish policy efforts were comparable to, if not quite at the level of, the more dynamic European economies. This potential was not built upon and the 2000s saw a significant erosion of creative, developmental efforts by the Irish policy system and the growing dominance of "liberal" forms of State intervention such as the use of tax incentives.

Public Institutions and Fiscal Positions

Finally, and briefly, what of Ireland's public institutions and finances? Table 6 shows that the Irish state was significantly smaller as a percentage of total employment than in the Nordics. Indeed, Ireland falls below the EU-15 average and just at the OECD32 average. Whether it is affordable or effective or not, the Irish state is far from bloated.

However, despite this smaller state, Ireland's public finances were in significantly worse shape than those of the Nordic economies, even before the crisis. Table 7 shows that significant differences persisted across countries in budget balances – both the actual balance and the 'potential' balance (calculated by the IMF to take into account the effects of the business cycle). These are contested concepts but the pattern is clear enough. The Nordic economies do best in terms of 'fiscal discipline', running an actual surplus but also balancing their books, even on the basis of the underlying structural deficit (largely because of the effects of the Norwegian oil boom on Nordic surpluses). While running deficits a little larger than the social democracies, Europe's Christian democracies remained comfortably within the Eurozone criteria. The liberal economies of Ireland and the UK appear to do better, based on their actual balance, but this masked a significant bubble as their large underlying deficits indicate. In keeping with our analysis to date, this structural deficit emerged in the

2003-7 period. The Mediterranean economies also had significant difficulties with budget deficits, which were already present in the early 2000s.

Table 6: Employment in general government and public corporations

	2000	2008
Norway	29.5	29.3
Denmark	29.7	28.7
Sweden	27.7	26.2
Finland	22.2	22.9
Ireland	15.4	14.8

Source: OECD, Government at a Glance 2011

Table 7: Actual and 'Potential' Budget Balances in the 'Varieties of Capitalism' in Europe, 1999-2007

	1999-2007	1999-2007	1999-2002	2003-2007
	(% Actual GDP)	(% Potential GDP)	(% Potential GDP)	(% Potential GDP)
Nordics/ Social Democratic	2.5	0.3	0.1	0.5
Continentals/ Christian Democratic	-1.5	-1.7	-1.7	-1.6
Mediterranean	-2.9	-4.0	-3.1	-4.7
Liberal	0.1	-2.5	-0.6	-3.8
Including: Ireland	1.6	-2.7	-0.7	-3.9

Source: Actual Balances - Eurostat; 'Potential' Balances – IMF

Table 8: Macroeconomic Policy Indicators, 1993-1997

	Deficit/ Surplus, 1994-1997 (% of GDP)	Debt 1996 (% of GDP)	Interest Rate Fluctuation, 1993-1997	Exchange Rate Fluctuation, 1993-1997 (Hard Currency Index, 1973-1993)	Current Account Balance, 1993-1997 (% of GDP)
Christian Democratic					
Austria	-4.2	68.1	1.08	1.32 (.52)	-1.98
Belgium	-4.0	127.2	1.73	1.83 (.47)	5.60
Germany	-4.5	58.5	1.24	2.04 (.60)	-0.91
France	-4.6	58.0	1.26	1.23 (.39)	1.37
Netherlands	-4.0	74.1	1.25	1.38 (.54)	5.51
Social Democratic					
Denmark	-2.2	69.4		1.30 (.42)	1.35
Finland	-4.4	57.0	1.39	6.30 (.38)	2.95
Norway	4.4	-		2.24 (.40)	6.10
Sweden	-5.3	73.3		4.06 (.29)	2.65
Liberal					
Ireland	-0.7	72.7	0.33	4.04	2.43
UK	-4.8	51.3	-	6.60 (.15)	-0.93
Mediterranean					
Greece	-7.5	99.4	-	6.07	-1.96
Spain	-6.5	67.4	1.83	3.91	-0.57
Italy	-6.1	120.2	1.66	5.93	2.12
Portugal	-5.0	58.3	2.17	1.61	-2.77

Sources:
Deficit: Average of Annual Balances, General Government Financial Balance, Annex Table 27, OECD Economic Outlook 2011
Debt: Government Consolidated gross debt (Eurostat)
Interest Rate Fluctuation: Standard deviation of official refinancing rates for Euro Area countries, 1993-1997 (Eurostat)
Exchange Rate Fluctuation: Standard deviation of Effective Exchange Rates, 1993-97 (Eurostat)
Hard Currency Index: Iversen, 2005, p. 56
Current Account Balance: Average over the period (calculated as total current account over 5 years/ total GDP over 5 years) (Eurostat)

A key factor here of course is the establishment of the euro which was created in part to "depoliticise" economic management, in part by taking certain policy instruments out of commission (such as exchange rate and monetary policies) and in part by creating limits around other sets of policies (including fiscal policies). This was designed in part to provide Governments with tests of economic stability but in the process placed a premium on financial regulation (which was greatly emphasised after the crisis, although much less so before) and on fiscal discipline (which was tackled directly in the growth and stability pact rules). The creation of the euro obviously harmonised exchange rate policies. More specifically, the euro policy regime, under the control of the ECB, institutionalised a 'hard currency' policy. In addition, the Eurozone countries shared a common set of interest rates for access to euro funds. The ECB was also mandated to pursue a low inflation policy. The combination of policies favoured growth strategies based on the weakening of currency to support exports rather than a loosening of monetary policy to support domestic demand.

As discussed above, it was largely assumed that 'the market' would be a source of stability within the Eurozone. However, despite this belief in the disciplining power of markets, Continental European governments have always taken a series of non-market measures to ensure this discipline. Faith in the self-regulating disciplinary powers of markets over governments has been accompanied in post-war Europe by strong political governance of markets themselves. Such rules were also central to the monetary union project. It was recognised that business cycle pressures would still exist and that national fiscal problems could undermine the currency, even if these problems were not treated with the urgency they deserved. Nonetheless these pressures had prompted European policy makers to accompany the single European currency with a set of rules for managing national differences in the public finances – most crucially the rules that government deficits should not exceed 3% and overall government debt should not exceed 60% of GDP.

However, the mix of policies associated directly with the Euro fell unevenly on countries within the Eurozone. Table 8 shows how a variety of different economies in Europe fit with the key policy instruments of the Euro itself. The indicators focus on the period from 1993 to 1997 as it falls between the currency crisis of 1992-3 and the advent of the euro in 1999. It is a period when the potential euro members were making strenuous efforts to reach

the Maastricht criteria for joining the euro, but also when Germany was undertaking the costs and effort of re-unification and when the Nordic economies were recovering from their financial crises of 1991-2. The table indicates the average deficit or surplus in the public finances (relating to the deficit rule), Government debt as a percentage of GDP (relating to the debt rule), interest rate fluctuations (indicating to what extent variation in interest rates was used as a significant monetary policy), exchange rate fluctuations (related to currency policies as an instrument) and the current account balance as an indicator of structural divergences within the European economy. These 'pre-Euro' indicators provide a sense of which countries' pre-existing economic policy styles and regimes were the best 'fit' for the policy regime associated with the Euro.

We can see that many of the European economies ran significant deficits through the mid-1990s but that these were highest in the Mediterranean economies and that this vulnerability in the public finances extended to the debt level of Italy, Greece and also Belgium. In addition, again with the exception of Belgium, the Mediterranean economies were much more heavily subject to fluctuations in interest rates and in exchange rates. The use of a "hard currency" policy was by far the most widespread in the Christian democratic continental core with the Nordic social democracies following behind, although more likely to use currency policies for strategic reasons (as in the Finnish cycle of devaluations (Vartiainen, 2011)). It is noteworthy that in many respects Ireland appears to be in a healthy shape in the mid-1990s with strong budgetary balance, declining debt levels and a current account surplus. However, it is also clear that it had relatively little policy experience dealing with hard currency constraints.

This analysis suggests that fiscal discipline is not rooted simply in a small state nor in national characteristics or a continental European conservatism to be contrasted with indiscipline and recklessness in the periphery. Instead, it is rooted in the institutional features of the classic European developmental model and, even more significantly, in an underlying social compact that trades off fiscal discipline against high levels of social spending and protection and that uses both of these to embed a dynamic and inclusive business sector. Even in the decade when financial liberalisation and the design flaws of the Euro threatened it most, the European model continued to operate in its continental core to stabilise the broader economies of the Christian democratic and social democratic countries. The

failure to diffuse and generalise this model to the Mediterranean and liberal economies, including Ireland, is at the heart of their current fiscal and economic crises.

Dilemmas of transformation

The transformations involved in potentially transforming key elements of the Irish political economy are very challenging. Moving from a transfer and pay related welfare state to one based on collective services and from low, unequal participation to much higher rates with much greater inclusion are profoundly challenging. So too are the transformations on the economic side – involving the controlling of a system of finance that has never worked well and that still bears the scars of the liberalisation and bubble of the 2000s, as well as the recovery of a project begun in the 1990s, but now in deep crisis, to enhance Irish social and economic capabilities. Finally, a public sector that is being cut drastically in numbers and financing and that faces major challenges to public legitimacy and internal morale is hardly an obvious candidate for leading social transformation. Is such change possible? This is a huge question that demands a more sustained treatment. The rest of this chapter outlines some possible sources of momentum for change from within Irish and European policy worlds, and details some of the sources of the dilemmas and challenges for such change.

National Transformations

In general, Ireland's recovery strategy has focused heavily on fiscal consolidation with an emphasis on cutting spending. Without examining this approach in great detail, it can be construed – and often is by Chancellor Merkel and Minister Schauble – as a move towards the continental European model of fiscal probity. However, this is a narrow construction of the European, and even Nordic, Model – based on the model of the German economy over the past two decades, emphasising fiscal discipline and wage competitiveness and neglecting strategies of social investment and business upgrading, as well as weakening living standards.

All areas have suffered from fiscal consolidation in Ireland, even the institutions of enterprise policy that are expected to drive recovery. However, we can also ask whether there are sources of institutional change within the Irish political economy that might be resources for a future move towards a more Nordic model. Some of these transformations are outlined in Figure 6,

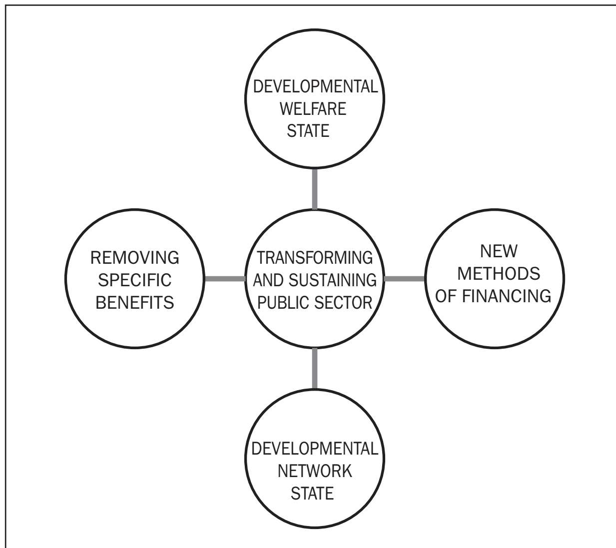
reflecting the dimensions of the Nordic model outlined in Figure 1. On the dynamic axis of these institutions, the NESC has long advocated change in the direction of a 'developmental welfare state' that combines an increased emphasis on collective services and active labour market policy with the current emphasis on income supports (NESC, 2005). The mirror set of institutions for business are those of the 'developmental network state' which similarly provides institutional supports and services as well as financial supports for smaller firms (Ó Riain, 2004). Indeed, these elements are re-asserted as key building blocks for recovery in NESC's most recent report on strategies for recovery from Ireland's 'five part crisis' (NESC, 2009, 2013).

The 'stabilising axis' of social protection and controlled finance is much weaker, however. While the removal of a variety of specific benefits is bringing Ireland closer to a system of clearer universal payments (e.g. through removing or restricting reliefs for medical insurance, mortgage interest etc.) , this is happening in a context where services and payments are being cut very significantly. While some of the institutional and structural changes may ironically be moving towards a more 'continental' model, the immediate effect is to significantly damage the welfare of citizens. The issue on questions of finance is different. Here there are some significant innovations in the provision of new mechanisms for financing business (NESC, 2013). However, there have been few significant changes in the regulation of finance or in enhancing protections against financial speculation. The productive lending operations of banks, the arbitrage activities of the International Financial Services Centre and transnational corporations, and the shadow banking sector all remain largely unchallenged – despite a number of recent innovations.

Turning to the public service, it is clear that fiscal policy looms large over Irish politics today. However, the question of state capacity will be critical as the state, never very large in comparative terms, shrinks its spending and personnel. As is well known, the number of agencies in the public service increased rapidly in the 1990s and 2000s (Hardiman et al, 2008). For our purposes, the most important question is the impact of the expansion of these agencies on the overall structure of the Irish state. These state agencies in the "public service" became the primary vehicle for the development of state capacity through the 1990s and 2000s, while public administration through the "civil service" of Government departments remained relatively stable. The classic case had been an enterprise agency, where the IDA had

begun within the Department of Industry and Commerce but had become such a successful vehicle for the administration of industrial development that over time policy formulation moved from within the Government department to public service agencies, an arrangement that was further formalised in 1994 with the formation of Forfás, an over-arching policy and strategy agency. Public service agencies became a vehicle then for many new policy initiatives and the formation of such agencies entered the repertoire of action for politicians and policy makers seeking to respond to political demands. At the same time such agencies became the vehicles for much of the innovation within public administration over this period. However they operated largely at arm's length from the existing Government departments, sometimes combining a reporting relationship to the department with an almost lobby group – like pressure upon the department. This could be dangerous territory and a series of agencies that had been set up to tackle poverty and inequality were abolished in the years just before the crisis hit for largely political rather than fiscal reasons.

Figure 6: Selected Irish Institutional Trends



The overall effect of this was to produce a new dualism within the public administration of the State itself. While the civil service departments took

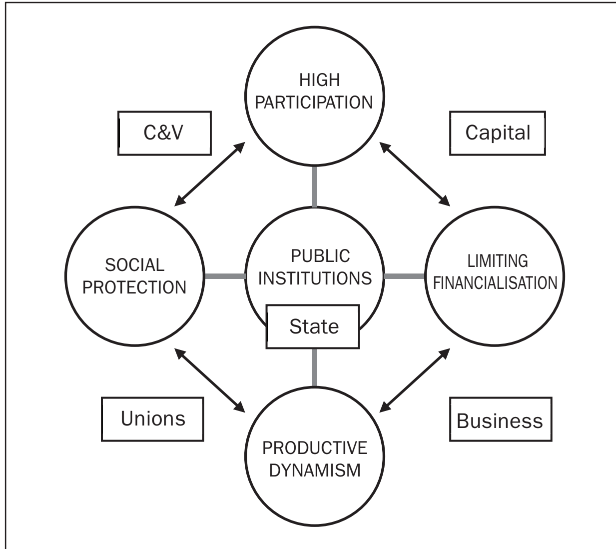
care of most of the standardised delivery of public services, much of the policy development and organisational innovation was officially located in agencies that were at arm's length from departments. In practice agencies and departments were often largely autonomous and the innovation in agencies failed to spur innovation in departments, even as co-ordination across agencies was often difficult and partial. Much of this co-ordination was heavily based on individual network ties among the key executives in agencies and departments. While "joined-up Government" was one of the catch phrases of the era, in practice the joining-up of agencies and departments was quite hit and miss, often depending on the structure of personal ties. This also produced a structure where, even with greatly expanded spending, the state layered a series of new policy initiatives and programmes on top of a relatively unchanged basic system of administration and social services. The formation of new, semi-autonomous agencies had seemed like an effective way to produce innovation without having to face substantial reform of civil service departments. However, it ended up producing a dualism between what remained a comparatively under-resourced system of social services (in international terms) and a growing set of agencies that could quite effectively undertake particular projects without substantially reforming the structure of the overall system. In effect, this new state structure reproduced the kind of dualism that we have seen in the fragmentation of the political economy and the pay related welfare regime.

Moving towards a 'more Nordic' model from the current Irish institutional structure will pose significant challenges. Figure 7 outlines these challenges in a highly schematic form, suggesting that the major actors in civil society face particular challenges linked to specific elements of institutional transformation. None of these challenges are in principle insurmountable but even in more generous times would pose difficulties in moving to a new system, at a minimum.

While social protection underpins both productive dynamism and high labour force participation in the Nordic model, there may be tensions in a move from the Irish system to a model along these lines. The C&V sector might well face issues relating to the relative advantages of allocating scarce funds to services or to direct payments while trade unions may need to trade off workplace transformations against the loss of specific protections, especially in the Irish context where protections are often linked to specific

terms and conditions of employment and not to a general structure of employment and income protection (which are relatively weak).

Figure 7: Challenges of Institutional Transformation



Similar challenges arise for business and finance. The mis-allocation of capital was at the heart of Ireland's crisis, with a financial system allocating resources to speculation rather than to sustainable productive investment that could generate infrastructure to support high levels of employment and services. The allocation of capital to egalitarian productive investment will likely require the reversing of the financialisation of the economy and the building of new structures of public and private financing. Finally, productive businesses themselves face the challenge of resisting the siren call of speculative finance and short-termist corporate cultures and building strategies that generate productive dynamism. As I have discussed at length elsewhere (Ó Riain, 2004, 2013), this will involve a central and distinctive role for creative public institutions. This is the final challenge for transformation – the transformation of public services in terms of capacity and capabilities to support the four other dimensions of the economic foundations of social progress.

The challenge in an era of austerity is that, while some institutional changes may be welcome, the overall development in each of these areas is going in the wrong direction. Weakening social protections, higher unemployment and emigration, poor investment and credit delivery and struggling SMEs pose dramatic short-term difficulties that mirror these long term challenges. National transformations towards a more 'European model' would be much easier if the European context itself was more conducive to allowing nations room for this more expansive strategy of transformation. It is to the European level that I finally and briefly turn.

Europe's Perverse Policy Mix

This leads us to the question of the specific character of the European policy response and how that might be rooted in the particular national models of capitalism in Europe and their interaction within the European Union. In many respects the core policy goal of the Eurozone response has been to enforce new mechanisms for ensuring "fiscal discipline" in the peripheral economies. Core governments demand new credible commitments from the peripheral political economies that they will place their public finances on a more secure footing.

However we saw above that in practice such fiscal discipline is broadly associated with social compacts that are only weakly developed in the peripheral and liberal economies within Europe. "Social Europe", often seen as a pleasant "add-on" to the European project, is shown to be a key condition for securing this fiscal discipline. The building of Social Europe would, it appears, strengthen the capacity of European public finances to maintain fiscal discipline. However, this itself raises profound difficulties. As Ferrera (2009) argues the "virtuous nesting" of welfare States within the EU as a whole "entails the strengthening of an EU "social space", capable of safe guarding the closure pre-conditions for multi-level social sharing arrangements" (2009: 219). This of course is not easy. Hemerijck (2013) argues that there is a "double bind of social Europe". National social compacts and welfare States are undermined by the market integration associated with globalisation and also with the European Union itself. However differences in national policies make co-operation at the transnational level and the building of a strengthened European social space very difficult. Social Europe is weakened at the national level but the national level remains strong enough to block its emergence at the European level.

Chapter Four suggested some reasons why it might be so difficult to reconcile these national models, given the distinctive profile of not only welfare but also the links between welfare, production regimes and macroeconomic management in Europe's worlds of capitalism. It documented the quite different interlocking systems at national level within Europe, even as these systems pursued a political programme of institutional convergence. These differences go deeper still as they relate not only to the dominant institutions but to the field of action within the different countries in responding to the crisis of 2008.

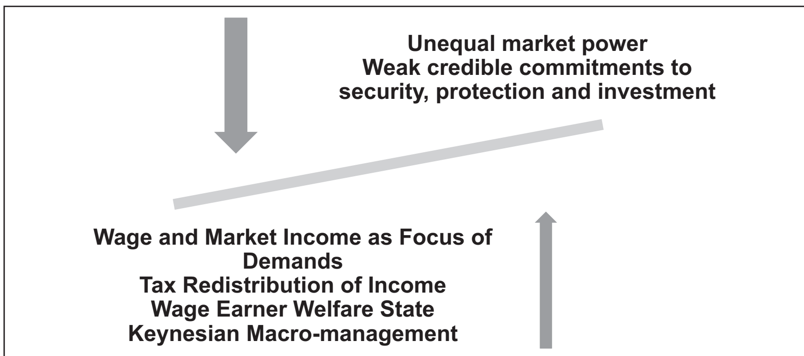
Karl Polanyi's notion of the double movement is useful here. For Polanyi, the double movement consists of firstly a movement to establish a market society, where market relations dominate social life, and, secondly, separates from within the society to protect themselves against the corroding effects of market society. Figures 8 and 9 show that this creates different dynamics within liberal and social democratic economies. In liberal political economies these movements are particularly violent because of the dominance of market society. They are characterised by strong inequalities in market power and by weak credible commitments on the parts of all actors to long-term goals and action, including economic security, social protection and economic and social investment. The promotion of market society is also a feature of social democratic societies but takes a quite different form. As Pontusson (2011) has noted, most citizens are market actors with very high levels of employment and economic participation. However, they enter the market much more empowered than citizens and workers in liberal political economies. Given this, and the strong historical development of the welfare state, most actors are in a position to make and expect strong credible collective long-term commitments.

More significant still, the nature of the second part of the double movement is different in the two different types of political economy. In liberal economies, the most realistic avenues of action mean that social protection is most likely to be pursued through market centred mechanisms. These include Keynesian macroeconomic policy, the demand for welfare state expansion linked to wages and occupational earnings of benefits, the attempt to protect wage and market income as a focus of labour's demands rather than the expansion of welfare, and the re-distribution of income through the taxation system. In macroeconomic policy, welfare state development, tax policy and industrial relations, the focus of movements

for social protection is the securing of gains in the market, as the development of large scale welfare or other programmes is a much more risky political prospect.

The double movement in social democratic political economies is quite different. The second part of the double movement relies much less on market centred social protection. Instead, universalist collective systems of social protection, strong emphasis on long-term social and economic investments, expansion of the welfare state as a compensation for wage restraint, and the distribution and redistribution of welfare through universal services and the overall size of the welfare states rather than through progressive taxation, are key features of the social democratic double movement.

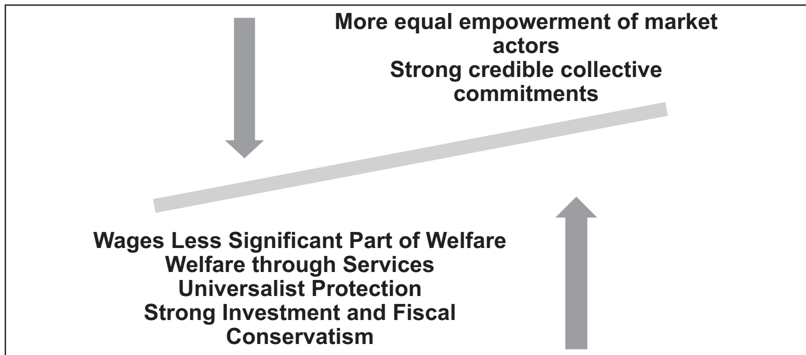
Figure 8: The Polanyian Double Movement in Liberal Political Economies



Each of the contending views of how to exit the crisis draws on different strands of Keynesianism. While Keynes is often read as an advocate of counter cyclical spending and quantitative easing, this relies purely on a reading of Keynes as macro-economic manager. Keynes also emphasised a more general role for government, particularly in securing social protection and investment and generally managing the economy and ensuring appropriate level of investment and other long term economic requirements (Block, 2012). While most commentators associate the social democratic worlds of capitalism with Keynesianism, in practice it is this more general argument of Keynes for social investments and long range planning and

management that is most characteristic of the social democratic and Christian democratic countries. The Keynes who advocated counter cyclical spending and macro-economic reflation to escape from crisis is in practice more widely favoured in liberal political economies – as seen in the persistently higher deficits run in such economies.

Figure 9: The Polanyian Double Movement in Social Democratic Political Economies



Underlying this, each political economy relies on a different system for managing risks. In social democratic countries the risk is internalised within the society itself through high levels of taxation and spending, linked to strong underlying fiscal discipline. The society insulates itself relatively effectively from the vagaries of capitalist business cycle and crises. However, in liberal political economies risk is externalised as the society tends to follow the ups and downs of the business cycle, and indeed of boom and crisis, relying on external adjustments to escape from crisis. These external adjustments include measures such as currency devaluation and international borrowing to fund domestic counter cyclical measures.

In addition, the two double movements relate to quite significantly different notions of the state and its role in the economy and vulnerability in an economic crisis. In liberal models, the state itself becomes an instrument of flexibility through monetary and currency policy. In social market capitalisms the focus is on defending the state from the vagaries of capitalist business cycles and crises. Fiscal discipline is not simply a matter of

prudence or conservatism but is based on, ironically, a view where the state (and by extension the society) needs to be protected from capitalism.

The kinds of demand made from the periphery for more Keynesian responses and similar anti-crisis measures were always likely to fall on deaf ears until some reconciliation of these different logics within European capitalism could be found. Table 9 provides a schematic outline of the typical response to economic crisis in liberal and social market capitalisms. Despite being highly schematic, the table gives us a sense of the set of typical options available within the worlds of European capitalism. The table suggests that in each world of capitalism, a contractionary response is combined with a counter balancing expansionary response. The liberal approach relies primarily on private investment to drive recovery, restricting the expansionary contribution of the public sector, but compensates for this with flexibility in expansionary monetary, currency and sometimes fiscal policy. Despite their association with Keynesian demand management, social market capitalisms are typically more conservative in terms of fiscal consolidation, at least in recent decades. However, they are willing to use state investment to drive recovery (for example, the activities of the German state investment bank after 2008).

Table 9: The European Union Response to the Crisis

	Liberal Capitalisms	Social Market Capitalisms	European Union, 2008-2012
Macro-Economic Management	Keynesian Demand Management	Fiscal Consolidation	Fiscal Consolidation
Supporting Real Economy Recovery	'Confidence' and Private Investment	State-Led Investment	'Confidence' and Private Investment

Both approaches combine expansionary and contractionary elements in their stylised 'policy mix'. However, the Eurozone-level response has emphasised the contractionary dimensions of both models without taking on the counter balancing expansionary measures. This transnational response has involved fiscal consolidation and restoring confidence in public finances in order to drive future private investment (an investment that has been predictably weak, at least where it is needed most). There was

been some discussion of Keynesian measures in the core, including loosening of fiscal policy and increase in wages to boost demand (and ideally, though not necessarily, imports from peripheral economies). However, this made limited progress and in 2013 both France and Germany were planning significant national fiscal consolidation. Less prominent in public debate were suggestions for the expansion of transnational state-led investment – and indeed the EU budget for 2014-2020 was cut by 3.3%, particularly in growth-promoting investments including R&D and structural funds for regional development. The European-level policy response has primarily combined the two contractionary elements from each national policy mix and ignored their expansionary counterweights – providing a policy mix of the worst of both worlds of capitalism.

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