



# THE ECONOMIC AND SOCIAL RESEARCH INSTITUTE

CONFLICT, CONCERTATION AND  
INNOVATION: AN ALTERNATIVE  
APPROACH TO IRISH SOCIAL  
PARTNERSHIP

**Colm O'Reardon**

March 1995

Working Paper No. 57

---

Working Papers are not for publication  
and should not be quoted without prior  
permission from the author(s).

---



**ABSTRACT:** This paper explores alternative approaches to understanding the economic implications of social partnership in Ireland. Discussion of orthodox approaches identifies a number of shortcomings, including a narrow definition of competitiveness and the lack of a conflict perspective. Previous work within the field of Comparative Political Economy suggests that Social Concertation Agreements can mitigate the effects of social conflict in a manner which is economically advantageous. The literature on National Systems of Innovation places considerable emphasis on the importance of innovation as the basis on long-term competitiveness. Innovation, however, can be a process which is fraught with conflict. It follows, therefore, that a major contribution of social partnership in Ireland may be the facilitation of innovation.

**ACKNOWLEDGEMENTS:** This paper could not have been written without continuous advice and encouragement from Rory O'Donnell. Others who were generous with their time, support and comments include Terry Baker, David Jacobson, Kieran Kennedy, Philip O'Connell, Nuala O'Donnell, and Chris Whelan. More than ever, the author is responsible for any errors, as well as the opinions expressed.



## I INTRODUCTION

The Programme For Competitiveness and Work (PCW) is the latest in a triumvirate of social concertation agreements that have been central to Irish policy-making since 1987. Yet, despite their apparent importance, they remain comparatively under-researched.<sup>1</sup> The merits or demerits of these agreements did attract some attention, particularly in the media, during the negotiations which led to the PCW, but this discussion generally took the form of debate over whether the Programme For Economic and Social Progress (or the Programme for National Recovery (PNR), its predecessor) had been successful. Hence, for most commentators, the whole question of social concertation agreements in Ireland was reduced to debate over the potential impact of a 'PESP II' on short-term economic performance, as viewed from the end of 1993.

Such a focus, though understandable, is nonetheless regrettably myopic. A more general understanding of Social Concertation Agreements (SCAs) in the Irish context is clearly desirable. This paper represents an attempt to contribute to that general understanding. As such it is not an attempt to examine the agreements that have been put in place since 1987, but rather to tease out the potential implications of social concertation agreements, generally conceived, for the Irish economy. The focus is more on what Social Concertation **could** do for Ireland, than on what it has done in the past.

Broadly speaking, a long-run perspective is adopted. Whereas previous discussion of social concertation has tended to focus on the short-term issue of wage-cost competitiveness, our focus shall be on the determinants of long-term competitiveness in the emerging world economy. This implies a concern with "technological and quality competitiveness", rather than short-term relative unit labour costs. Moreover, an attempt is made to draw on the 'non-economic' literature, both to highlight deficiencies in the orthodox economic approach and

---

<sup>1</sup> Durkan (1992), O'Toole (1993) and Durkan & Harmon (1994) are notable exceptions.

to supplement our own analysis. In this respect, particular emphasis is placed on the notion of conflict as a key force in shaping both society and economy.

The discussion, therefore, proceeds as follows. In section II below, we outline the 'orthodox' economic approach to the analysis of social concertation in the Irish context. Section III presents a critique of this approach, drawing on the 'non-economic' literature on concertation, and isolating a number of areas where we might be able to correct deficiencies in the orthodox analysis. This concern with the 'non-economic' literature<sup>2</sup> continues in Section IV, where there is more detailed discussion of the notion of social conflict and its impact on the economy; as is demonstrated by the contributions of J.H. Goldthorpe to Comparative Political Economy. Section V then introduces the Neo-Schumpeterian approach to the analysis of how technological development impacts on the economy, and in particular how profound changes in technology affect modes of organisation throughout the economy as a whole. This gives rise to an alternative way of thinking about competitiveness in Section VI. Thus Competitiveness is seen to be dependent on innovation, broadly defined. As argued in Section VII, however, innovation is a source of potential conflict. Taking this conclusion in conjunction with Goldthorpe's analysis of how concertation can mitigate class conflict, it is suggested that concertation may equally mitigate the conflict which arises from the need for innovation. Hence, it is argued, Social Concertation agreements have the potential to become an important part of Ireland's national system of innovation. Finally, Section VIII concludes.

## **II THE ORTHODOX APPROACH**

When economists discuss social concertation agreements (including those of the PNR/PESP/PCW variety), their focus tends to be on the centralised wage

---

<sup>2</sup> The term 'non-economic' literature as employed here refers to the extensive body of work which exists in Comparative Political Economy and Industrial Sociology concerning the impact of Corporatist/Concertative institutions on Macroeconomic performance. Increasingly the term 'economic' has been used to refer to analysis based purely on the supposed actions of 'rational' optimising agents. It is NOT used in that sense here.

bargaining that is generally involved in such deals. In Ireland this emphasis on pay can be related to the dominant model of how employment and growth are determined in the Irish economy i.e. the Small Open Economy (SOE) model. Briefly stated, this model suggests that in economies which are highly integrated into world markets and which are, nonetheless, unable to exert any great influence on those markets due to their size, it is the traded sector which serves as the engine of growth in employment and output. Firms in the traded sector are seen as being unable to influence the prices at which they sell their output i.e. they are price-takers. A country's share of world markets is, therefore, seen to depend on the ability to minimise production costs and a crucial role is thus afforded to cost competitiveness. Moreover, in the Irish case, where considerable importance is attached to internationally mobile investment, the share obtained of such investment will also depend on competitiveness. Hence, maintained and improved competitiveness, particularly in wage-costs, is seen as a key element in any potentially effective strategy for promoting employment and growth.

The emphasis on the direct pay-elements of national agreements is further heightened by concern over the size of the public-sector wage-bill. Given the pre-1987 fiscal experience (and indeed our supposed obligations under the Maastricht treaty) public-sector pay moderation is seen as vital in keeping the EBR (Exchequer Borrowing Requirement) within reasonable limits. This concern is also influenced by the argument that a relationship can be established between the tax wedge and the level of unemployment; with the potential for reduction of the former being seen as dependent on the rate of increase of public-sector pay. Hence, the intermediary objectives of maintaining competitiveness, of fiscal stability and of reducing the tax-wedge give rise to a major emphasis on pay-moderation.

In the light of this concern, a number of approaches can be taken to the analysis of social concertation agreements and the centralised wage-bargaining that forms part of such agreements. One such approach is rooted in traditional neo-classical labour market theory. This strand of thought, one of the principal origins of

which is Hicks' Theory of Wages, envisages the 'market for labour' as being essentially similar to that for any other commodity:

*The theory of the determination of wages in a free market is simply a special case of the general theory of value. Wages are the price of labour; and thus, in the absence of control, they are determined, like all prices, by supply and demand. [Hicks, 1963, pp1]*

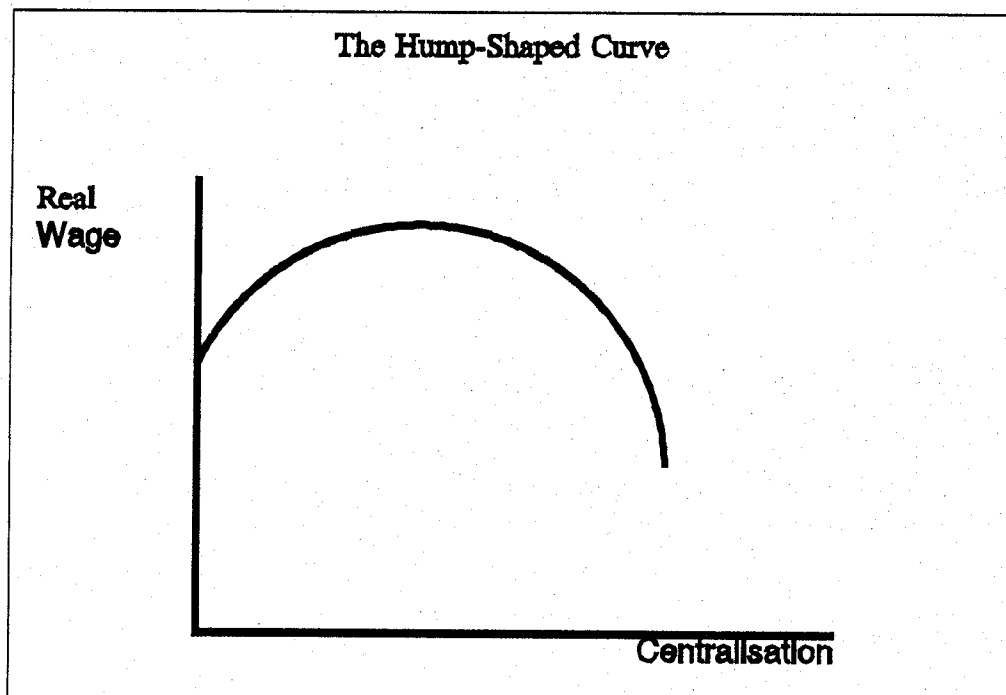
Following this logic, it is suggested that the best method of promoting efficiency and lowering wages is the same in the market for labour as in any other market i.e. through the promotion of competition. Hence, trade unions are seen as an impediment to efficiency and full employment, since they 'artificially' push wages above the level which a 'free market' would dictate. Despite various developments in labour market theory, this type of neoclassical analysis has remained prominent in mainstream economics. The experience of U.S. labour markets in the early 1980's (where the Reagan administration pursued a policy of deregulation) is often seen as a success story by those who would wish to follow up on the policy recommendations to which this type of neoclassical theory gives rise. Such an approach implies an almost inevitable suspicion of social concertation agreements. They are seen as an attempt to do outside of the market that which only a free market can do well i.e. set wages. Alternatively, a more 'Keynesian' perspective might suggest that SCAs are simply another manifestation of 'insider' power being employed to raise wages at the expense of outsiders. In either case, such agreements are seen as allowing trade unions an undue influence on the wage-setting process, and as such must almost inevitably produce inefficient results.

Recent developments in mainstream theory suggest, however, that the traditional approach may not necessarily be appropriate. As Calmfors (1993) shows, this literature has as its origin a number of cross-country studies - notably that by Calmfors & Driffel (1988). The aim of these studies was to examine the impact



of centralised wage-bargaining on macroeconomic performance. By ranking a cross-section of countries according to the degree of centralisation of their wage-bargaining structures, Calmfors & Driffel<sup>3</sup> suggested that a 'hump-shaped' relationship emerged. Figure One shows this relationship in a space with the degree of centralisation of wage-bargaining on the horizontal axis and employment performance on the vertical axis.

**Figure One**



Countries with highly centralised and highly decentralised bargaining are seen to have fared better in terms of employment than those countries with intermediate systems. According to Calmfors & Driffel, countries with decentralised bargaining structures are reaping the benefits of competitive behaviour. On the other hand, where bargaining structures are heavily centralised, the benefits of wage-restraint to the individual worker or union, as derived from the benefits to

---

<sup>3</sup> Mancur Olsen (1982) makes a similar point. The Calmfors and Driffel paper tests the theory empirically using data on a cross-section of countries, and concludes that the data is consistent with a 'hump-shaped' relationship.

the economy as a whole, can be internalised within their bargaining objectives. While in a decentralised system the worker or union may well appreciate the need for wage-moderation, the free-rider problem does not allow them to take this into account during wage-negotiations. After all, it makes little sense to accept lower wages yourself so as to increase employment or reduce inflation, if the majority of workers in the economy do not follow suit. In the case of centralised bargaining, on the other hand, the free-rider problem is reduced or eliminated, since workers\unions can be more confident of other workers\unions also accepting lower wages. It is therefore probable that lower wages will result from either highly centralised or highly decentralised systems. The intermediate cases, (where, for example, bargaining might be conducted at an industry-level), suffer because they cannot benefit from either the internalisation of external effects or from the forces of competition. Thus as Calmfors and Driffel put it

*large and all-encompassing trade unions naturally recognise their market power and take into account both the inflationary and unemployment consequences effects of wage increases. Conversely, unions operating at the individual firm or plant level have very limited market power. In intermediate cases, unions can exert some market power but are led to ignore the macroeconomic implications of their actions.*

[Calmfors & Driffel, 1988, pp 13]

Thus, an appropriate development of the Calmfors-Driffel (CD) model in the context of a Small Open Economy would appear to be the most obvious way of analysing the impact of SCAs in Ireland. The resulting analysis (which we can label SOE-CD), however, would be limited in a number of important respects.

### **III CRITIQUE OF THE ORTHODOX APPROACH**

In this section, we focus on a number of problems with orthodox economic approaches to the analysis of SCAs, and in particular on the likely difficulties of a SOE-CD approach. Much of this critique is derived from examination of the

'non-economic' literature on SCAs.

### 1. SCAs as Political Phenomena

Firstly, the CD approach fails to recognise SCAs as political phenomena. It seeks to model the impact of SCAs using a standard market model, with the SCA merely altering or constraining a single variable i.e. the wage rate. The basic analytical system remains essentially intact. In modern Western societies, however, social and political processes have an important impact on economic outcomes in a way which a standard market-based model may not fully capture. Since SCAs are political and social phenomena, a broader perspective is required if their impact on the economy is to be fully appreciated.

### 2. Limited Definition Of Competitiveness

Another problem which arises with the use of an SOE-CD model is the narrowness of the notion of competitiveness which is implicit in same. The traditional approach to competitiveness has been to focus on relative unit labour costs; with the logic being that labour costs is one of the few areas over which a small open economy might be able to exert control. As O'Donnell (forthcoming) points out, however,

*this proposition has neither theoretical nor empirical support. Available empirical evidence reveals, that in the post-war period, the fastest growing countries, in terms of exports and GDP have also experienced faster growth in relative unit labour costs, and vice versa.*

Indeed, the recent NESC strategy document *A Strategy for Competitiveness, Growth and Employment* has suggested the need for a broader definition of competitiveness. NESC argues that a distinction can be made between short-term and long-term competitiveness, with the maintenance of the former being

dependent on the latter. Thus they suggest that

*A competitive potential which is based solely on costs may prove unsustainable in the medium to long-run, especially as the progress of globalisation induces the transfer of economic activity to low cost developing countries ..... Technology and quality competitiveness, on the other hand, represents a basis for sustained performance, especially when it reflects the mastery of new technologies or successful participation in the emergent stages of new product or service markets. Successful technological competitiveness (covering qualities such as design and consumer service) eases the pressure on cost and price competitiveness in the long-run [NESC, A Strategy For Competitiveness Growth And Employment, pp105]*

Thus our analysis of the impact of concertation on the performance of the economy must focus on this latter notion of "technological and quality" competitiveness, rather than simply on competitiveness in unit labour costs.

### 3. The 'Contextual Vacuum'

An SOE-CD approach, it may be argued, would operate in a contextual vacuum, since it has an essentially mechanistic focus. The non-economic literature on SCAs, on the other hand, seeks to employ the notion of corporatism to explain some of the major developments in the economies of Western Europe in the post-war period.<sup>4</sup> The origin of much of that literature lies in the observation that,

---

<sup>4</sup> The concept of Corporatism has its origins, according to Pekkarinen et al "in nineteenth-century Roman Catholic social thought as well as in German romanticism and idealism". Where the RC church was concerned, corporatist thought had the merit of allowing them to respond to the new conditions presented by an industrial society, while still denying the validity of the Marxist class-conflict perspective. As such, classical corporatism is essentially a political

whereas the economic performance of most Western European countries in the period 1945 to 1973 was (a) remarkably good and (b) remarkably uniform, the downturn which followed the 1973 oil crisis resulted in a new and sustained variance in economic performance across countries. This variance referred in particular to the twin variables of inflation and unemployment, and demanded explanation. Various attempts have been made to do so, generally employing cross-national studies, often with the existence or non-existence of various degrees of corporatism as an explanatory variable.<sup>5</sup> Broadly speaking, this literature has come to be known as Comparative Political Economy. Mjoset & Notermans (1990) present a survey of these cross-national studies which is suggestive of a number of factors which economists might do well to take into account.

Fundamentally, Mjoset & Notermans emphasize the importance of proper periodisation when analysing Europe's recent economic experience. While a number of periodisations may be possible a primary division must be made at or about 1973. The period 1945-1973 is labelled the 'Golden Age' and is characterised by the spread of Fordism in Western Europe, the dominance of 'Keynesian' economic policies and the simultaneous attainment of low unemployment, low inflation and high growth. This period came to an end with

---

system, the salient feature of which is the role afforded to vocational organisations in the political process. While corporatist thought of this form was influential in the inter-war years, its importance declined after the second world war - partly because of a declining interest from the Vatican and partly due to its having been embraced by discredited regimes, such as Mussolini's.

While it is commonplace to remark on the difficulty of defining corporatism as discussed in more recent literature, for our purposes the term 'Corporatism' refers to centralised tripartite bargaining involving employers organisations, trade unions and the state.

<sup>5</sup> The Calmfors & Driffel (1988) paper can be seen as a contribution to this literature, in that it also uses a cross-national analysis and this latter notion of corporatism to explain the variance in employment performance amongst Western countries.

the monetary instability of the late 1960's and the first oil shock in 1973. Unemployment and inflation rose simultaneously (the so-called stagflation) and the Keynesian approach to policy-making lost its dominant position. Growth rates fell and a considerable divergence in economic performance among countries emerged<sup>6</sup>.

For Mjoset & Notermans, then, periodisation is vital. Failure to recognise these fundamental shifts in economic conditions, they suggest, must lead to flawed analysis:

*At a minimum, the division between the Golden Age and the troubled period starting 1973/74 must be taken into account ..... one major reason why we are more conscious about periodisation is that we think that the mechanisms of interaction between the main social actors in determining macroeconomic policies may only have a certain permanence within specific periods.*

An SOE-CD model, however, would not take the need for periodisation into account. Nor would it place the emergence and functioning of SCAs in the context of the European experience described above.

---

<sup>6</sup> This process of periodisation may take a number of forms. In Mjoset (1992) for example, the 1945-1975 period is placed within the context of a Kondratieff-like periodisation of the development of Western capitalism since 1790. On the other hand, Mjoset & Notermans (1990) are prepared to identify much finer divisions, by distinguishing between the periods 1973-1979 and 1980 onwards. The former, it is suggested, is characterised by the maintenance of old policy routines and various attempts to 'muddle through' the new environment using old methods. From 1979/90, however, a new realisation emerged that economic conditions had altered and that new perspectives were required. In this new 'neo-liberal' phase, many governments abandoned the 'Keynesian' commitment to full employment and focused instead on maintaining price stability and external balance.

#### 4. Need for a Conflict Perspective

Mainstream economists, while implicitly acknowledging that individuals and collectivities may have opposing interests, have developed models which produce harmony rather than conflict. General equilibrium analysis, to which considerable effort has been devoted, is a prime example. GE analysis seeks to establish that the interaction of self-seeking atomistic agents, whose interests are essentially opposing, can produce a stable equilibrium situation. Moreover, modern welfare theory employs the notion of Pareto efficiency to show that, under certain conditions, such an equilibrium is socially optimal. By definition, an equilibrium is an inert situation, so the opposing interests of agents produce harmony and stability, rather than conflict and change.

For a substantial body of sociologists, on the other hand, social conflict is a key force in shaping the development of society and its institutions. Smelser (1994) traces this influence to Marx:

*Most conflict theories in contemporary sociology derive from the formulations of Karl Marx: that all historical societies - and notably bourgeois capitalism - are based on an economic mode of production that produces a bipolar system of social classes, one exploiting and the other exploited. By virtue of that relationship the classes stand in a relation of irrevocable conflict. This conflict, moreover, is the engine of historical change in Marx's theory .... pp6*

As we shall see below, the 'non-economic' literature on social concertation has made considerable use of the notion of conflict as a key force in shaping both economy and society. On the whole, orthodox economists have not.

The foregoing discussion also highlights a key difference in analytical approach. Although the classical and pre-classical economists such as Cantillon, Smith and

Ricardo employed a notion of class in their analysis, the use of the class concept has all but disappeared from mainstream economics. Indeed, the tendency in post-war macroeconomic thought has been to insist that macro-theory be explicable in terms of the actions of 'rational' atomistic agents. Many sociologists on the other hand, have continued to employ the notion of class as a tool of analysis (see Goldthorpe & Marshall, 1994). This presents difficulties in at least two respects. Firstly, many economists may have difficulty accepting results based on class analysis as epistemologically valid, since they do not always proceed from analysis of the behaviour of rational individual agents. Secondly, it may prove difficult to incorporate results based on class analysis into standard neoclassical models. Nonetheless, this paper attempts to incorporate the notions of conflict and class in its analysis.

### *5. Country-Specific Analysis*

Where corporatism and social concertation are concerned, a further difficulty arises from the comparative nature of the major studies to date. While cross-sectional empirical analysis might point to corporatist institutions as important in determining cross-country differences in economic performance, such analyses do not specify the mechanism through which such institutions affect the economy of an individual country. Calmfors (1993) recognises that difficulty, and his research has concentrated on the development of a model which will explain the results of the cross-sectional analysis in Calmfors & Driffel (1988). While those engaged in Comparative Political Economy may be less concerned with the exact specification of such mechanisms, the traditions of economic enquiry are such that they will be required to be specified and empirically tested. Until this is done, economists are likely to continue to treat corporatist institutions as being outside the realm of their discipline. By specifically focusing here on the Irish case, we hope to isolate mechanisms through which social concertation can impact on the Irish economy.



#### IV A CONFLICT PERSPECTIVE

As mentioned above, much of the literature on comparative political economy has made considerable use of the notion of conflict in explaining the evolution of Western European economies since World War II. One of the most interesting authors on the post-war experience is John H. Goldthorpe. Three of Goldthorpe's papers are of particular concern (Hardiman, 1990) i.e. "The Current Inflation: Towards a Sociological Account" (1978), "Problems of Political Economy after the Post-War Period" (1987) and "The End Of Convergence: Corporatism and Dualist Tendencies in Modern Western Societies" (1984)<sup>7</sup>.

The notion that capitalism as an economic system has always produced conflicting interests among different groups regarding the distribution of the produce of the system is central to Goldthorpe's analysis. This conflict is often described in terms of opposing ideologies or class interests e.g. between labour and capital. Hence, for Goldthorpe, the so-called 'Keynesianism' of post-war era was more than a mere acceptance of a body of policy practices. Rather it represented

*A major political development: in effect a historical compromise  
between contending ideologies and opposing class interests*

As Goldthorpe (1987) puts it

*In one important sense the establishment of Keynesianism did indeed mark the end of laissez-faire: that is, government not only extended its central control over the functioning of the economy as a whole but, more importantly, took upon itself responsibility for ensuring the 'success' of the economy, as defined by the twin criteria of full employment and growth*

---

<sup>7</sup> As Hardiman (1990) points out, the second of these essays was actually published after the third, although the papers are listed here in the order in which they were written.

This changing role for the state was, to some extent, a 'middle way' between demands for central planning and the older, less interventionist form of liberal capitalism. For Goldthorpe, however, the settlements which arose in most of Western Europe in the post-war era were inherently unstable, as distributional conflict was to become more intense and more equally balanced. The major factors underlying this process are set out below.

### **The Intensity of Distributional Conflict**

Whereas, for the pluralist school (as typified by Kerr et al, 1960, 1973) the level of distributional conflict will inevitably decline as an industrial economy develops, and thereby make the notion of class interests increasingly irrelevant, Goldthorpe suggests that distributional conflict has, in fact, heightened in the post-war period.

Three distinct factors are isolated in Goldthorpe (1978) and subsequently developed in Goldthorpe (1984) to explain this phenomenon. We examine these factors below.

(1) *The decay of the status order.* Following a Weberian theme, Goldthorpe outlines an analytical distinction between the concepts of 'class' and 'status'. In this schema

*'class' pertains to differences in social advantage and power within the context of prevailing economic institutions. Thus, in the context of a capitalist market economy, class inequalities will reflect the pattern of property ownership and of the possession of economically valuable knowledge, expertise and skill ..... In contrast, 'status' pertains to inequalities in social advantage and power which have ultimately not a material, but rather a symbolic and moral basis. Status inequalities are ones which arise out of the differing degree to which groups or collectivities within a*

*society, by virtue of their descent, ethnicity, education, occupation, or other socio-cultural attributes, are able to benefit from - and actively exploit - prevalent beliefs and values concerning the criteria of social 'worth' or 'superiority' [Goldthorpe, 1978, pp197-198]*

While analytically distinct, the class and status orders are not independent of each other. Of particular interest here is the interaction of status with class which serves to legitimise the class order. Thus, as Goldthorpe puts it, "*status inequalities tend to stabilise class inequalities by providing them a major source of legitimation*". The status order associated with capitalist development, however, is essentially a product of a pre-capitalist era, and one which, as time goes on, will decay as a direct result of the capitalist mode of development. The decline of this status order will remove a major element of the normative basis for the class system and market outcomes. With a decline in the perceived legitimacy of market outcomes, distributional conflict will increase.

(2) *The realisation of citizenship.* The development of capitalism has coincided with the realisation of citizenship in most Western European countries i.e. a situation has developed where all members of a national society enjoy in common certain civil, political and social rights. The development of welfare states in the post-war era, for example, has extended to all members of the societies concerned 'rights' to a minimum level of real income and a range of social services. Thus to some extent at least, the individual's material welfare and command over resources is determined independently of the market.

Some sociologists have seen this development as conducive to class harmony and co-operation. The working class, according to this view, is being 're-integrated' into the national community and a new source of legitimacy for class inequalities emerges, with citizenship entailing certain basic rights and subsequent inequalities being seen as the result of meritocratic (market) system of resource allocation.

Goldthorpe, on the other hand, sees the realisation of citizenship as a process "*which has its own dynamic and no very evident resting point*" [Goldthorpe, 1984, pp320]. Following Marshall (1950) he sees the evolution of citizenship in the social sphere (i.e. the emergence of the welfare state) as part of an ongoing process which started with the attainment of civil rights. This facilitated the achievement of 'full political citizenship', which in turn led to the establishment of the "secondary system of industrial citizenship", whose key institutions were independent trade unions and collective bargaining. This in turn was essential in the "struggle for social rights" which has given rise to the modern welfare state.

Rather than diminishing class conflict, Goldthorpe sees the attainment of social rights as highlighting the contrast between the egalitarian principals of the welfare state and the "unprincipled inequalities" which the market produces. Moreover, the extension of citizenship puts those who are disadvantaged by market outcomes in a stronger position when it comes to distributional conflict. The realisation of citizenship, therefore, might well be a cause of greater conflict rather than greater harmony.

(3) *The Emergence Of A Mature Working Class.* The movement of Western capitalism into a more mature era has, according to Goldthorpe, resulted in a 'maturing' of the working classes i.e. has produced a more homogenous working class which is predominately self-recruiting. This arises because, firstly, the flow of non-urban (mostly agricultural) labour into the urban industrial workforce begins to dry up. Secondly, as the range of opportunities in the white-collar sector expands, the probability of moving down the social scale diminishes. The result is a working class which is predominately second-generation, having come neither from the white-collar classes nor from a rural social context. While Goldthorpe motivates his discussion here in terms of the British case (which is seen as having developed somewhat further in this direction than other countries), he does see a logic in this process which could result in a similar experience for

other countries. The impact of this maturity lies in the emergence of a homogeneous group, with a broadly similar life-experience, which sees the labour movement and trade unions as facts of life, and as the normal mode of action for improving ones' conditions and welfare. For this group

*their major commitment - their major stake in the existing social order - lies precisely in those of its institutional and organisational features through which the influence on their lives of market forces and of their basic class situation has been most importantly qualified; that is, those features deriving from the growth of citizenship rights, and including those essential to the effective functioning of a labour movement [Goldthorpe, 1978, pp207]*

### **The Institutional Framework**

This heightening of the intensity of distributional conflict was, according to Goldthorpe, accompanied by changes in the institutional framework through which conflict is expressed. Of particular importance are developments which took place in the organisation of labour unions in the post-war era. Citing Korpi (1983) Goldthorpe (1984) suggests that an 'organisational revolution' occurred within Western European trade unions in the post-war period. The level of unionisation increased rapidly in the interwar years and again in the period 1945-1960. While it has since fallen off somewhat, it is still true that the unionisation of labour represents a major twentieth century institutional development.

### **A New Militancy**

This organisational revolution, combined with the increasing intensity of class conflict described above, led to a new 'maximising' militancy in collective bargaining on the part of trade unions. This increasing militancy, along with an awakening interest among trade unionists in the direction of macroeconomic

policy (particularly in terms of its impact on distributional matters), was to be a major influence on the economies of Western Europe. As mentioned above, Goldthorpe sees these changes as resulting in a situation whereby distributional dissent became more intense and more evenly balanced. In the 1978 article he suggested that the inflation of the 1970's can be seen as the monetary manifestation of those changes discussed above. In Goldthorpe (1984) he generalises his argument as follows:

*The most obvious outcome of these developments, apparent in fact already by the 1960s, was that Western economies became inherently inflationary. As organisation increased the capacity of different groups to protect their incomes against unfavourable market forces, a strong downward rigidity of incomes and prices was created; and in turn, then, the response to upward shifts in relative prices that might for any reason occur was not offsetting relative price decreases and consequent changes in income distributions, but rather an upward movement in the general price level. In addition, though the increased power of labour was also crucial in undermining the effectiveness of the techniques of economic management .... On the one hand, it became apparent that where attempts were made to control inflation through policies that reduced aggregate demand, then, in the face of labour's growing ability to maintain wage levels, a larger proportion of the effect of such policies would come in the form of a reduction not in the rate of price increases but rather in real output ...[i.e.] in the form of rising unemployment. .... it was no less apparent that where ... attempts were made at reducing unemployment by policies aimed at expanding demand, then, again as a result of labour's increased bargaining strength, these policies were likely to have their intended effects dissipated in a further upturn in inflation.*

Nation-states have not remained passive in the face of these difficulties and a number of different responses have emerged. Goldthorpe discusses these responses under the dichotomous headings of 'Corporatism' and 'Dualism'. The former essentially involves governments attempting to bring order to their relations with organised interests and to the relations of interest groups with each other. Thus Corporatism involves the concertation of different interests. It must be noted, however, that this concertation extends beyond mere wage bargaining. Rather a full array of issues are included in the negotiations, including macro-stabilisation policies, tax and social welfare policies etc. The purpose of SCAs, therefore, is to attempt to remove or contain a major endogenous source of economic instability and retardation, by controlling conflict among organised interests.

## V THE NEO-SCHUMPETERIAN APPROACH

Goldthorpe's contributions to Comparative Political Economy, though substantial, are but a small portion of a substantial literature. Mjoset & Notermans (1990) present a lengthy survey of the Comparative Political Economy literature on Corporatism and SCAs, which is critical in a number of respects.

One of their most important criticisms refers to those authors who explain the post-1960s divergence in employment performance purely in terms of government commitment to full employment. Thus for some theorists, corporatist institutions allow labour movements to exchange wage-moderation for pro-employment macro-policies. Countries with corporatist institutions are, therefore, characterised by greater government commitment to full employment, and accordingly, by improved employment performance. Mjoset & Notermans suggest, however, that the change in international conditions after 1973 fundamentally altered the policy environment, such that domestic preferences over employment could not be readily translated into improved performance. Thus,

*In the open financial environment of the 1970's and 1980's ... this*

*normative foundation of economic policy comes into conflict with the market exigency of stable and predictable currency relations. Traditional macroeconomic policies in small open economies have been confronted [by] many more problems than had been envisaged in mainstream Keynesian theories. The failure to analyse the national economic process as an integral part of an international system hinders most corporatist studies to recognise that the latitude for independent macro-economic policies in small countries has become very restricted indeed.*

If some countries have managed to produce better employment performances, then, according to Mjoset & Notermans, microeconomic factors need to be taken into account. Such factors include active labour market policies (Therborn, 1986), industrial policies (Katzenstein, 1985), and investment decisions. In Western mixed economies, however, investment decisions, both in mature sectors in and new technologies, are still largely the province of private, decentralised actors. Thus Mjoset & Notermans suggest that an analytical framework is required which affords a role both to microeconomic policies and to the investment decisions of decentralised agents, and this leads them on to consideration of a literature which is characterised as neo-Schumpeterian.

One of the key aspects of Schumpeter's theory of growth and development was his notion of innovation, which he embodied in the persona of the entrepreneur. For Schumpeter, innovation and technical change were at the heart of capitalist growth and development. The Neo-Schumpeterians have taken this basic concept and developed it, in an attempt to understand the role of technological change in economic growth and the business cycle. In order to elaborate on the notions of 'technology' and 'innovation', we outline below a taxonomy of innovation which is due to Freeman & Perez (1988). They distinguish between four types of innovation as follows:

- (1) Incremental Innovations: Also known as 'learning by doing', innovation of



this type occurs continuously in any industry. It is not the result of formal R&D projects, but rather *"the outcome of inventions and improvements suggested by engineers and others directly involved in the production process, or as a result of initiatives and proposals by users"*.

(2) Radical Innovations : These are discontinuous events and are usually the results of formal R&D projects. They are unevenly distributed across sectors and across time and may involve a combined product, process and organisational innovation. Freeman & Perez cite the invention of nylon as an example of a radical innovation.

(3) Changes of 'technology system': These are *"far-reaching changes in technology, affecting several branches of the economy, as well as giving rise to entirely new sectors. They are based on a combination of radical and incremental innovations, together with organisational and managerial innovations affecting more than one or a few firms"*

(4) Changes of 'techno-economic paradigm': According to Freeman & Perez, some changes in technology systems are so fundamental that they impact on the behaviour of the whole economy. They go beyond the emergence of new products, services and sectors etc and permeate through every sector. While such changes obviously involve many radical and incremental changes, and may involve changes in technology systems, they also involve changes in *"the input cost structure and conditions of production and distribution throughout the system"*. Changes in 'Techno-Economic Paradigm' occur infrequently, and once a new Techno-Economic Paradigm is established it will remain stable for a number of years. The passage from one Techno-Economic Paradigm to another, however, is a painful process involving considerable restructuring throughout the economy.

A number of examples of such Techno-Economic Paradigm changes are to be found in European economic history, and have been associated by Neo-

Schumpeterian authors with Kondratieff long-wave business cycles. Thus Mjoset (1992) divides the economic history of Europe since 1790 into a series of five long cycles, each with a 'boom' and 'bust' (crisis) period, and each associated with a different Techno-Economic Paradigm. As Freeman & Perez put it,

*a new techno-economic paradigm develops initially within the old, showing its decisive advantages during the 'downswing' phase of the previous Kondratieff cycle. However, it becomes established as a dominant technological regime only after a crisis of structural adjustment, involving deep social and institutional changes*

Figure Two below, which is drawn from Mjoset (1992) and from Freeman & Perez, shows each Kondratieff cycle and the Techno-Economic Paradigm associated with it. The last wave is of particular interest, since it begins in the 1980s and 1990s and is associated with developments in information technology.

Mjoset (1992) in his comparative analysis of the performance of the Irish economy over a lengthy historical period places considerable emphasis on this Neo-Schumpeterian literature. In doing so, he makes particular use of the notion of a National System of Innovation (NSI) which has emerged from the Neo-Schumpeterian camp, and which Mjoset sees as representing an alternative to Corporatism as a basis on which to conduct comparative research<sup>8</sup>. Freeman (1987) defines the NSI as *"the network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies"*. He uses the concept of an NSI to explain how technology gaps arise between countries and how they are closed. Mjoset (1992) suggests that, while small countries are unlikely to develop new Techno-Economic Paradigms themselves, they are forced to adapt to them, and to establish themselves within

---

<sup>8</sup> He actually describes the literature on NSIs and on Corporatism as **parallel** research agendas.

Figure Two

NEO-SCHUMPETERIAN LONG-WAVES

Long waves	K1	K2	K3	K4	K5
	1770s/80s - 1830s/40s	1830s/40s - 1880s/90s	1880s/90s - 1930s/40s	1930s/40s - 1980s/1990s	1980s/90s - ?
Associated Technology	Early mechanisation	Steam power and railway	Electrical and heavy engineering	Fordist Mass Production	Information & Communication
Main 'Carrier Branches'	Textiles, Textile chemicals, Textile machinery, Iron working and iron castings, Water power, Potteries	Steam engines, Steamships, Machine tools, Iron, Railway equipment	Electrical engineer'g, Elect. machinery, Cable & wire, Heavy Chemicals Synthetic dyestuffs, Heavy Armaments, Heavy engineer'g, Steel ships	Cars, Trucks, Tractors, Tanks, Armaments for motorised warfare, Aircraft, Consumer durables, Process plant, Synthetic materials, Petro-chemicals	Computers, Electronic capital goods, Optical fibres, Data banks, Software, Tele-communications, Robotics, Information services

Sources: Mjoset (1992) pp70 and Freeman & Perez (1988), pp50-57. Mjoset in turn draws on Van Duijn (1984).

Notes: Years are approximations. Each wave is associated with a particular Techno-Economic Paradigm based on innovations in the "associated technology". This gives rise to rapid growth in investment and output in the main 'carrier branches', and it is these sectors which drive growth during each wave. A number of authors suggest that the 1980s and 1990s represent the start of a new K-wave, with the micro-electronics sector as the main carrier-branch.

the international division of labour which the new Techno-Economic Paradigm dictates. Where a variance develops in the employment performance of countries, therefore, an explanation may be found in the comparative strengths or weaknesses of different NSIs.

To clarify the processes involved here, let us introduce some distinctions of our own. Firstly, we suggest a consolidation of the Freeman & Perez taxonomy of innovation into a simple dichotomy between changes in Techno-Economic Paradigm and what we shall define as 'Within-paradigm' technical change. Thus we suggest that it is profitable to think of technical change taking place regularly within a given paradigm, with this paradigm being stable for lengthy periods. On occasion, however, a paradigm shift occurs necessitating fundamental changes throughout the economy i.e. a change in Techno-Economic Paradigm as described above. Secondly, we can distinguish between the state of technology and technical change internationally and that which prevails in the domestic economy. Thus we can think of the domestic versus the international Techno-Economic Paradigm, and domestic versus international within-paradigm change.

Hence the importance of the NSI, as defined by Freeman emerges on two levels. Firstly an economy must have a network of institutions which produces, promotes and facilitates within-paradigm technical change which is domestically produced. More importantly for the small economy, the NSI should promote the adoption by firms in the domestic economy of international within-paradigm change. This type of change will require continuous minor changes in different sectors, but is important in maintaining the competitiveness of a small open economy. Secondly, the nation-state must have a domestic Techno-Economic Paradigm which corresponds to the international Techno-Economic Paradigm. Since the international Techno-Economic Paradigm may occasionally change, small countries must have a network of institutions which allow them to adapt to a new international Techno-Economic Paradigm, and to effect as quickly and as painlessly as possible the major structural changes which it requires.

## VI REDEFINING COMPETITIVENESS

While the validity of the Neo-Schumpeterian analysis as a means of explaining long-waves in the capitalist economies is open to debate, the notion of a techno-economic paradigm is a useful means of analysing the impact of profound technological change on the economy.

It seems fair to suggest that such change has been and is currently taking place in the economies of Western Europe. The EU White Paper on *Growth Competitiveness and Employment* shares the view expressed by Mjoset that two core technologies are currently emerging which will have a profound impact; namely information technology and bio-technology. Indeed, the white paper puts forward the notion of an 'information society' which will open up an array of new employment-creation possibilities, particularly in the services sector. Europe should be well placed to capitalise on these developments. With its comparatively well educated work-force and its existing advantages in many of the emerging technologies, European enterprise should be in a strong position to benefit from new technologies. Moreover, it is the European economies which should be able to benefit most in terms of the creation and expansion of sectors providing new types of goods and (especially) services. Indeed, Europe may have little choice in this regard. The failure to create a high-tech, high-quality, high-wage economy could well result in European enterprise suffering at the hands of the low-cost low-wage Asian economies.

The key to the creation of such a high-tech, high-wage economy is "technological and quality" competitiveness. This, in turn, is essentially determined by an economy's capacity to innovate. Since the term "innovation" can often mean different things, it is important to clarify what it means in the present discussion.

The term "innovation" is employed here in its broadest possible sense. Thus innovation means developing new technology through R&D, using that new technology to develop new goods and services and new production processes, and adopting modes of production and organisation of work so that these new

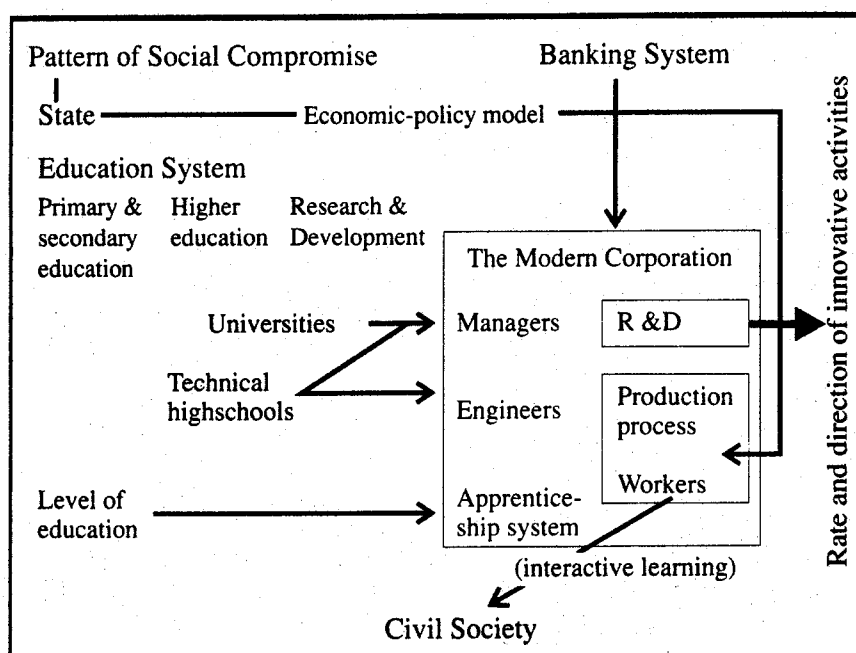
products and processes can effectively be implemented in individual enterprises. It also means investing in the kinds of physical and human capital which the new technology requires. Thus innovation means much more than just pure R&D in the traditional sense.

As we have seen, Mjoset suggests that the key to successful innovation lies in institutional arrangements, or in what he labels the 'national system of innovation'. Figure Three, from Mjoset (1992) is a depiction of the institutions and networks which constitute an NSI.

In the context of the present paper, particular note should be made of the reference to the "Pattern of Social compromise", a point which is returned to below. It can be seen that a wide variety of institutions are involved. This follows from the fact that innovation, conceived in the general sense, is a wide-ranging concept. Nonetheless, it is a central concept, since the ability to innovate, as broadly conceived, is the key to sustained competitiveness.

**Figure Three**

**A Sketch of The National System of Innovation**



Source: Mjoset(1992), pp 120

## VII INNOVATION, CONFLICT AND CONCERTATION

In the present section we attempt to bring together a number of themes in order to suggest a role for social concertation in improving the long-term competitiveness of the economy.

We noted above the reference by Mjoset to the "Pattern of social compromise". as a component of the NSI. To see why this is so, we may list some of the societal changes which Freeman & Perez list as being involved in a change in Techno-Economic Paradigm. Although within-paradigm technical change will not require fundamental changes in all of these areas and in all sectors, the list provides a good indication of the societal changes which are required by technical innovation in general.

Thus, according to Freeman & Perez, a new Techno-Economic Paradigm involves:

- (1) A new 'best-practice' form of organisation in the firm and at the plant level;
- (2) A new skill profile in the labour force, affecting both quality and quantity of labour and corresponding patterns of income distribution;
- (3) A new product mix;
- (4) A new pattern in the location of investment;
- (5) New infrastructural investment; and
- (6) New consumption patterns.

While within-paradigm technical change may only require relatively minor adjustments in the above, nonetheless it is clear that both forms of technical change are potentially socially divisive<sup>9</sup>. Indeed, rapid technological change seems liable to produce conflict in the political and industrial spheres. While

---

<sup>9</sup> This is hardly a new conclusion - the Luddites being an early example of the tensions associated with rapid technological advance.

change of this kind will produce 'winners' it will also produce 'losers' i.e. those whose position is rooted in the old order. The more rapid the technological change becomes, the more intense that conflict is likely to be.

As we have seen above, social conflict can be economically debilitating, and conflict induced by technological change is no exception. Trade unions have repeatedly demonstrated a capacity to take industrial action when the interests of their members are seen to be threatened by technical change and innovation. On the other hand, we have seen that the capacity to adapt to new technology is a key factor in determining competitiveness. The implied danger for the national economy is the development of a situation where institutional resistance to innovation results in a failure to develop the high-tech, high-wage economy described above, with the result that domestic enterprise becomes squeezed between high-tech, high-quality competition on the one hand, and low-wage, low-cost competition on the other.

One of the most interesting examples of where these issues are being played out in Ireland at present is in the semi-state sector. A number of companies which are state-owned are placed in precisely the type of areas where innovation is of considerable macroeconomic significance. Hence innovation in utilities such as telecommunications will be vital in order to develop the type of infrastructure which the new Techno-Economic Paradigm requires. Yet the semi-states have traditionally been seen as being among the most resistant to change, both among management and workforce. Recent difficulties with both Irish Steel and Team Aer Lingus are prime examples of how developments in technology and markets require innovation and change on the part of both management and workforce, and where traditional industrial relations practices have stood in the way.

What Goldthorpe's analysis suggests, however, is that SCAs may have a substantial role to play in mediating these conflicts and in effecting faster and less painful transition in the face of technical change. In concrete terms, this implies centralised bargaining on the adoption of new technologies, facilitated by



a 'big-picture' understanding on the part of the bargainers of the need for such change. Thus SCAs may constitute a vital part of the NSI in so far as they facilitate adaption to and diffusion of new technologies.

In practice, innovation is a process which must take place at plant level. It follows, therefore, that for Social Partnership to have an impact on the level of innovation it may be necessary to develop the Social Consensus model at plant level. Following the Packard dispute in late 1994/early 1995 there are indications of a government initiative in this area. This is not to suggest, however, that national SCAs cannot facilitate innovation. On the contrary, by laying down procedures for negotiation of disputes centred on proposed innovations in particular plants, national SCAs can play an important role. Moreover, since innovation throughout the economy is often dependent on innovation in certain key sectors such as transport and telecommunications, national SCAs could be developed to include direct negotiation over developments in key utilities.

## VIII CONCLUSIONS

Our central argument may be summarised as follows. Given current developments in technology, and the impact which these changes can be expected to have on the European economy, the long-term competitiveness of the Irish economy can be seen as dependent on its capacity to innovate. The term innovation refers to more than simply R&D, but rather to the process whereby technology is adopted and adapted to create new ways of producing existing products, and to devise new marketable goods and services. Innovation thus involves changes throughout an economy, ranging from work practices and firm structures to the pattern of infrastructure investment. Such innovation, we have argued, is likely to cause social conflict, since there will be both winners and losers in this process. It is suggested, therefore, that Social Concertation Agreements can be employed as a means of mitigating such conflict and furthering the innovation process.

From the outset, the objective of this paper has not been the analysis of previous

Irish SCAS. Rather the intention has been to discuss one aspect of the potential of SCAs to make a positive contribution to the economy. The example of the semi-state companies is of particular interest in this respect, since many of them are the conduit for the type of investment which the new technology requires, and yet they are traditionally among the most resistant to change.

## BIBLIOGRAPHY

CALMFORS, L., 1993 "Centralisation of Wage Bargaining And Macroeconomic Performance: A Survey", OECD Working Papers, No. 131.

CALMFORS, L. & J. DRIFFEL, 1988 "Bargaining structure, corporatism, and macroeconomic performance" *Economic Policy*, No. 6

DURKAN, J. 1992 "Social Consensus and Incomes Policy", *The Economic and Social Review*, Vol. 23 No. 3, pp347-363

DURKAN, J. & HARMON, C. 1994 "Social Consensus, Incomes Policies and Unemployment" Paper presented to the Irish Economics Association, Annual Conference, May 1994.

FREEMAN, C., 1987 *Technology, Policy and Economic Performance: Lessons from Japan*, London, Pinter

FREEMAN, C. & C. PEREZ, 1988 "Structural crises of adjustment: business cycles and investment behaviour" in Giovanni Dosi et al (eds.) *Technical Change and Economic Theory* London: Pinter

GALLIE, D., (1990) "John Goldthorpe's Critique of Liberal Industrialism" in J. Clark et al, (eds)

GOLDTHORPE, J.H., 1978 "The Current Inflation: Towards A Sociological Account" in F Hirsch & J.H. Goldthorpe (eds.) *The Political Economy Of Inflation* London: Martin Robertson pp186-213

GOLDTHORPE, J.H. (Ed), 1984 *Order and Conflict in Contemporary Capitalism* Oxford: Clarendon Press

GOLDTHORPE, J.H., 1984 "The End Of Convergence: Corporatist and Dualist Tendencies in Modern Western Societies" in John H. Goldthorpe (Ed) *Order and Conflict in Contemporary Capitalism* Oxford: Clarendon Press pp 315-343

GOLDTHORPE, J.H., 1987 "Problems of Political Economy after the post-war period" in Maier, C.S. (Ed) *The Changing Boundaries of the Political* Cambridge: CUP

GOLDTHORPE, J.H. & G. MARSHALL 1992, "The Promising Future Of Class Analysis: A Response To Recent Critiques" *Sociology*, Vol 26, No. 3, pp 381-400

GOLDTHORPE, J.H. & C.T. WHELAN (eds.), 1992 *The Development Of Industrial Society in Ireland* Oxford: OUP

HARDIMAN, N., 1988 *Pay, Politics and Economic Performance In Ireland 1970-1987* Oxford: Clarendon Press

HARDIMAN, N., 1990 "Capitalism and Corporatism" in J.Clark et al (eds) *John H. Goldthorpe: Consensus and Controversy*, London: Falmer Press

HARDIMAN, N., 1992 "The State and Economic Interests: Ireland in Comparative Perspective" in John H. Goldthorpe & C.T. Whelan (eds.) *The Development Of Industrial Society in Ireland* Oxford: OUP pp329-358

HICKS, J.R., 1963 *The Theory Of Wages*, 2nd Edition, London: Macmillan

KATZENSTEIN, P.J., 1985, *Small States in World Markets: Industrial Policy In Europe*, London: Cornell

KERR, C, DUNLOP, J.T., HARBISON, F. & C.A. MYERS, 1960/1973 *Industrialism and Industrial Man*, Cambridge, Mass, Harvard University Press

- KORPI, W., 1983 *The Democratic Class Struggle* London: Routledge & Kegan Paul.
- LINDBERG, L.N. & C.S. MAIER (eds.), 1985 *The Politics of Inflation and Economic Stagnation* Washington D.C.: The Brookings Institution
- MARSHALL, T.H., 1950 *Citizenship and Social Class*, The Marshall Lectures, Cambridge.
- MJOSET, L., 1992 *The Irish Economy in a Comparative Institutional Perspective* Dublin: NESC
- MJOSET, L., & T. NOTERMANS, 1990 *Unemployment and Labour Market Performance*, Mimeo, Oslo Institute For Social Research
- O'DONNELL, R. (forthcoming) *Ireland's Competitive Advantage: Setting an Agenda For Research and Policy*, Dublin: ESRI
- O'DONNELL, R. 1993, *Ireland and Europe: Challenges for a New Century*, ESRI Policy Research Series No. 17, Dublin: ESRI
- OLSEN, M. 1982 *The Rise and Decline of Nations*, London: Yale University Press
- O'TOOLE, F. 1993, "PESP II and the Public Sector V. Private Sector Debate", Paper presented to the Dublin Economics Workshop Policy Conference, October 1993
- ROCHE, W.K., 1992 "The Liberal Theory of Industrialism and the Development of Industrial Relations in Ireland" in John H. Goldthorpe & C.T. Whelan (eds.) *The Development Of Industrial Society in Ireland* Oxford: OUP pp291-328

PEKKARINEN, J., M. POHJOLA & B. ROWTHORN, (Eds) 1992 *Social Corporatism: A Superior Economic System* Oxford: Clarendon Press

SENGHAAS, D., 1985 *The European Experience: A Historical Critique Of Development Theory* (translated from German by K.H. Kimmig) Leamington Spa: Berg Publishers

SMELSER, N.J., 1994 "Sociological Theories" *International Social Science Journal*, 134, February, pp1-14

THERBORN, G., 1986 *Why Some People Are More Unemployed Than Others*, London, Verso.