Ireland and the ‘GIPS’ Countries

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Abstract and Keywords

Some assessments of the Euro crisis and the EU periphery treat Greece, Ireland, Portugal, and Spain—the GIPS countries—as more or less the same. A more nuanced view is developed in this chapter. It suggests that Ireland shared some similarities with other GIPS countries, particularly in terms of succumbing to hyper-consumption-led growth and of having to implement a far-reaching fiscal consolidation programme at the hands of the Troika. But the chapter also argues that Ireland stands apart from other GIPS countries in two important respects. One is that Ireland has more extensive economic connections outside the Eurozone than the other countries, which created more favourable conditions for the management of fiscal retrenchment. The other is that Ireland possesses an industrial relations system with the internal capacity to respond more quickly to unanticipated economic shocks than other GIPS countries.

Keywords: Euro crisis, EU periphery, fiscal retrenchment, Greece, Portugal, Spain, Ireland

Introduction
One of the main side effects of the Great Recession was to expose the economic and institutional weaknesses of the Eurozone. An important argument gaining influence is that the fragility of the Eurozone is not simply tied to a series of institutional design weaknesses such as the absence of fully fledged fiscal or banking unions, but to deep-seated differences in economic structure and performance between its core and periphery members (Iversen and Soskice 2013). On this account, the Great Recession exposed a wide schism within the Eurozone between a group of Northern European countries led by Germany that had generated economic growth through exporting large volumes of tradable goods and services, and a group of countries largely on the European periphery that had secured growth during the early 2000s through consumption-led, credit-financed booms (see Hassel 2014). The Great Recession not only exposed the unsustainability of the development pathway taken by the European periphery, but also the deeply flawed nature of the Eurozone as a currency area.

Greece, Ireland, Portugal, and Spain, which became known as the GIPS countries, were seen as the countries that pursued full-throttle consumption-led growth. When the financial crisis erupted in 2008, the ability of these countries to save their banks and wider financial systems was severely questioned by international money markets. As a result, what started off as a financial crisis in most GIPS countries quickly mutated into a sovereign debt crisis, which called into question the capacity of these economies to remain solvent without external help. On paper, the GIPS countries could have been rescued by Eurozone member states devising some form of European Keynesian macroeconomic regime to increase aggregate demand across the Continent. At the beginning of the crisis, there were signs that the member states might actually follow such a pathway, as fiscal policy was initially relaxed almost (p. 142) everywhere in the European Union (EU) in response to the economic crisis (Grahl and Teague 2013).

But, relatively quickly, this stance was fully reversed due to serious political and economic objections emerging across Northern European member states. Instead, under German leadership, a double-barrelled strategy was adopted to restore stability to the Eurozone. On the one hand, the economic governance of the Eurozone would be improved by introducing a battery of institutional innovations, most notably the creation
of a banking union and a new surveillance procedure to guide public expenditure in EU member states. On the other hand, the Eurozone members considered to have been economically reckless would be provided with financial support to help them address their sovereign debt problems and, in return, these countries would enact internal fiscal consolidation and structural adjustment. Thus, Euro-austerity trumped Euro-Keynesianism as the strategy adopted to make the Eurozone a better functioning currency area (De Grauwe and Ji 2013).

The purpose of this chapter is to compare the fiscal consolidation and structural adjustment policies pursued in Ireland with those implemented in other GIPS countries. In doing so, the twofold aim is to assess the usefulness of viewing the GIPS countries as a homogeneous group and to gauge whether the Eurozone has been strengthened by requiring these countries to enact far-reaching retrenchment policies. The chapter is organized as follows. The section, ‘Fiscal Retrenchment in the GIPS Countries’, sets out the nature and scale of the fiscal retrenchment policies that GIPS countries have had to implement at the behest of the Troika. The following section, ‘The Consequences of Fiscal Consolidation’, assesses the economic impact of these austerity measures. Then, in ‘Labour Market Flexibility in the GIPS Countries’, an assessment is made of the labour market flexibility programmes each GIPS country had been obliged to implement. The penultimate section, ‘Ireland: Between the Core and the Periphery’, contrasts Ireland’s experience with those of the other GIPS countries. The ‘Conclusions’ bring together the arguments of the chapter.
Fiscal Retrenchment in the GIPS Countries

A tripartite committee known as the Troika, which involved the European Central Bank (ECB), the European Commission (EC), and the International Monetary Fund (IMF), was established to design and implement economic adjustment programmes across the GIPS countries. The first country to seek assistance was Greece in early 2010, when it received a €110 billion package, consisting of loans from the IMF and some core Eurozone countries. Later in 2010, Ireland requested and received financial support to the tune of €85 billion, made up from loans from the IMF and EU. The following year Portugal received a financial support package of €78 billion to stabilize public finances. In 2012, a second IMF/EU rescue package amounting to €130 billion was put in place for Greece as the economic situation in the country remained precarious despite the initial support programme. At the end of 2012, a financial package only consisting of loans from EU sources and not involving the IMF was put together for Spain. The package provided a €100 billion loan facility specifically to recapitalize and restructure the Spanish banking sector, which had been badly affected by the collapse of the country’s housing market bubble. Thus, Spain was not formally under a Troika programme, but it came under considerable external pressure to enact fiscal retrenchment nevertheless. In the end, Spain only needed €41 billion of the €100 billion loan facility to stabilize its banking sector. Finally, a third bailout programme consisting of €86 billion had to be devised for Greece in 2015 to help the country arrest sharply deteriorating economic conditions.

Securing these financial support packages came with a heavy price for all recipient countries. Each country agreed to enact large-scale fiscal retrenchment programmes, principally through slashing public expenditure. The aim of these cutbacks was to cut government deficits quickly and decisively: Greece was committed to reducing government deficits from 13.6 per cent of gross domestic product (GDP) in 2009 to 3 per cent in 2014; Ireland from 12.2 per cent in 2012 to 3 per cent in 2015; and Portugal 9.1 per cent in 2010 to 3 per cent in 2013.

But the Troika viewed its task as not simply orchestrating fiscal consolidation in the indebted GIPS countries, but also aiding with structural adjustment. In all programmes, structural adjustment was viewed as enhancing the
competitiveness of the economy. The adjustment programmes for Greece and Portugal encouraged wide-ranging reforms to the domestic business environment: far-reaching privatization programmes; measures to liberalize the professions; initiatives to promote entrepreneurship and the development of small businesses; and so on. In contrast, the programme for Ireland was relatively silent on these matters. Overall, the theme that dominated Troika discussions of structural adjustment was labour market flexibility reforms. An IMF working paper systematically set outs the scope and nature of the macro- and micro-oriented labour market reforms demanded of the GIPS countries, considered necessary to improve their ability to withstand macroeconomic shocks in the future and to enhance the competitiveness of firms (Blanchard, Jaumotee, and Loungani 2013). Policies that were to be introduced included streamlining employment protection legislation (EPL), not only to improve the economy-wide movement of workers, but also to improve enterprise-level profitability by weakening legal rules governing internal labour markets. Other policies involved the reduction of social benefits and minimum wage levels, as well as the reorganization and weakening of collective bargaining systems to ensure that employee behaviour was more responsive to market conditions and that wages fluctuated in line with patterns of demand. The broad thrust of the reforms was to deregulate labour markets, using supply-side measures to address unemployment because any increase in aggregate demand was ruled out by the restrictive macro-policy regime that had been imposed. Behind this policy goal was the belief that labour market rigidities were widespread in these countries, causing economic sclerosis. Thus, across the GIPS countries, the quid pro quo for receiving large financial assistance was the adoption of widespread measures aimed at reducing government expenditure and promoting labour market flexibility (De Graauwe 2011).

The Consequences of Fiscal Consolidation
Table 8.1. Social consequences of fiscal consolidation in GIPS countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Public-Sector Pay</th>
<th>Public-Sector Pensions</th>
<th>Civil Service</th>
<th>Retirement Age</th>
<th>Unemployment Benefits</th>
<th>Minimum Wage</th>
<th>Reduced Budgetary Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
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<tr>
<td>Ireland</td>
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</tr>
<tr>
<td>Spain</td>
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<td>✓</td>
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<tr>
<td>Portugal</td>
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</tbody>
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*Source: Compiled by author from multiple sources.*
On the surface, just before the crisis public finances in Ireland appeared to be in a strong position. Public debt was 24 per cent of GDP and the government was running a budget surplus. But behind this positive veneer, a less healthy fiscal situation was fermenting in the country (Keane 2015). In particular, Irish Governments had become too reliant on asset-based taxes—stamp duties, capital gains tax, and capital acquisitions tax—from the booming construction industry, rather than income tax, to finance public expenditure. When the Great Recession started in 2008, the Irish Government experienced a sharp decline in tax revenue due to the virtual collapse of the construction sector. The result, of course, was an immediate deterioration in the government deficit, ballooning to near 32 per cent of GDP in 2010, mostly as a result of the government’s €64 billion bank bailout programme. No other GIPS country experienced such a sharp rise in the deficit.

Overall, fiscal consolidation in Ireland involved €11.5 billion of new tax revenue being generated and £25.5 billion being slashed from public expenditure programmes, which together roughly amounted to 20 per cent of GDP. Other GIPS countries enacted more or less the same balance between public expenditure cuts and tax increases: in Portugal, the consolidation programme was 40 per cent increased taxes and 60 per cent expenditure reductions. Spain followed a similar ratio as Portugal, whereas fiscal consolidation in Greece was evenly split between revenue and expenditure measures. The consensus is that Greece had to implement more stringent retrenchment policies than the other three countries.

Figure 8.1. GDP growth in GIPS countries, 2006–14
Source: Annual Macro-Economic Database, EC.
The nature of the fiscal retrenchment programmes was broadly similar across the GIPS countries. Table 8.1 shows that all countries apart from Spain have cut and frozen public-sector pay. Similarly, all countries have cut and frozen public-sector pensions. Civil service jobs have been reduced everywhere. Unemployment benefits have been cut across the board as have welfare and education budgets. Early retirement schemes have been made less generous and minimum wages have either been reduced or frozen. Education and welfare budgets were also cut back in all countries. Thus, the systems of social protection in all GIPS countries were a big casualty of the Troika economic assistance programmes. In addition to the squeeze on social protection, Greece and Portugal were required to launch far-reaching privatization programmes as part of the wider drive for structural economic adjustment. In Spain, the emphasis was more on financial reform, and in Ireland the Troika appeared to be particularly exercised by the government’s active labour market policies (ALMPs), which were considered wholly inadequate.
The immediate first-order effects of the tough austerity programmes that the GIPS countries were obliged to follow have been predictable enough. As Figure 8.1 shows, living standards declined immediately, with fiscal consolidation triggering a sharp fall in GDP growth across the GIPS countries. Greece has been the most acutely affected, with national income falling by over 20 per cent since 2008: austerity has shrunk the economy by more than a fifth. The picture has been less bleak since 2012 as economic contraction has abated. But the outlook in terms of economic growth remains bleak, with GDP levels almost static in nearly all countries. The only exception is Ireland where the figure shows national output increased by 4.6 per cent in 2014 and 5.6 per cent in 2015. With growth faltering, all GIPS countries experienced significant increases in joblessness. Figure 8.2 highlights that unemployment rates now stand around 25 per cent in Greece and Spain, while the figures for Portugal and Ireland are just dipping below 10 per cent, (p.147) having been nearer 20 and 15 per cent per cent a few years ago. Young people have suffered the most from the lack of job opportunities: youth unemployment stands at a shocking 53 per cent in both Spain and Greece, while the figures are 35 and 24 per cent respectively for Portugal and Ireland. In all these countries, including Ireland, emigration has provided a safety valve for labour market pressures. Unsurprisingly, all GIPS countries have experienced sharp falls in public-sector
employment due to the huge scaling back in government expenditure.

Falling national output alongside increasing unemployment not only reduces living standards, but is also likely to have an adverse impact on the fiscal position of governments. For a start, social protection budgets will have to increase massively in response to big increases in unemployment. Thus, although the fiscal consolidation programmes led to countries moving towards primary budgetary surpluses, Figure 8.3 shows that the weight of public-sector indebtedness relative to GDP increased sharply across the GIPS countries—it now stands at a massive 180 per cent of GDP in Greece. As a result, these countries remain far from fiscal stability. Fiscal retrenchment has also triggered—as was intended—internal devaluation in most of the GIPS countries. Figure 8.4 shows that unit labour costs have fallen in all countries. This is due more to falling wages than improved productivity, which, in the short run, can improve competitiveness, but whether it adds up to a sustainable development model is another matter entirely. It can be clearly seen that Ireland experienced the sharpest fall in unit labour costs. On paper, this suggests that the country has been the most aggressive in realigning its wage structure to prevailing Eurozone economic conditions, but careful work done by McDonnell and O’Farrell (2015) suggests that the decline can be almost entirely attributed to the collapse of the construction sector during the recession.

The worst years of the Great Recession for all GIPS countries were 2008–11. Since 2012, bleak economic times have started to ease, at least to some extent, apart perhaps for Greece. Figure 8.1 shows that the decline in national output

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**Figure 8.5.** Exports as per cent of GDP (market prices)

*Source: Annual Macro-Economic Database, EC.*
bottomed out in 2012 and all countries have started the climb back to positive (p.149) economic growth rates since then, with Ireland’s performance notably better than other countries. Current account balances also started to improve everywhere. Exports from all GIPS countries increased, although the rate of improvement was relatively modest, apart from Ireland, where the increase was huge. A more important factor behind improvements in current account balances in GIPS countries, apart from Ireland, was a decline in imports as a share of GDP, caused largely by depressed domestic demand. Better terms of trade have been accompanied by the rise in unemployment halting, although joblessness remains high across GIPS countries. The competitive position of the GIPS countries has also improved relative to the core member states of the Eurozone (see Hardiman et al. 2016). Improved economic conditions have led all GIPS, apart from Greece, exiting from their Troika economic adjustment programmes: Ireland was the first country to exit at the end of 2013, followed quickly by Spain in January 2014, and then by Portugal in May 2014. Greece is the only exception: political and economic conditions remained turbulent during most of 2014 and the first half of 2015, which led to the country entering into a third bailout programme.

It is starkly evident that the economic situation in Ireland has improved markedly compared to other GIPS countries. A number of chapters in the book, particularly Chapters 3 and 4, discuss at length two interrelated factors widely seen as behind the standout performance of the Irish economy. One was Ireland’s deeper economic ties with non-Eurozone countries such as the UK and USA, where economic conditions were more buoyant than inside the Eurozone area. The other was the strong export performance of the Irish economy throughout the recession apart from the beginning, a factor that would be critical to the performance of any small open economy. A growing consensus is emerging that it is these two factors and not the fiscal consolidation/internal devaluation measures that are responsible for Ireland’s stronger bounce back from the economic recession than other parts of the Eurozone periphery (see Chapter 1, this volume). A great deal of evidence can be found in support of this consensus. The trade structure of the Irish economy contrasts sharply with other GIPS countries. Figure 8.5 shows that exports from Ireland stood in 2015 at 120 per cent of GDP, whereas the
comparable figures for the other GIPS countries are Portugal 41.1 per cent, Spain 33.1 per cent, and Greece 31.9 per cent. Figure 8.5 also shows that the export performance of the Irish economy was much superior to the rest. While all this evidence is very persuasive, it might be too strong to say that the bailout programme had no influence on the turnaround of the performance of the Irish economy. It can be plausibly argued that Ireland required some level of internal devaluation to correct for the huge unit labour cost misalignment that had opened up in the early to mid-2000s with the European core, as highlighted in Figure 8.4.

Two key conclusions arise from this assessment. One is that economic recovery from the Great Recession has been more pronounced in Ireland (p.150) than any other GIPS country. The other is that Greece has performed notably worse than the other GIPS countries. Greece remains in a perilous economic state and it is hard to see how it can recover when the government is obliged to service a huge deficit at the same time as repaying loans to the EU and the IMF. Spain and Portugal are in-between Ireland; economic times have been harsh for both countries, but in each case there are signs that a slow recovery is starting. Overall, the Troika-imposed fiscal consolidation programmes have put GIPS countries through severe economic hardship. But the Troika has not only been concerned with fiscal retrenchment, it has also been trying to engineer greater labour market flexibility across the GIPS countries. In the next section, ‘Labour Market Flexibility in the GIPS Countries’, we set out the Troika-inspired institutional changes each country has made to their labour markets.

Labour Market Flexibility in the Gips Countries
Ireland

The economic recession, which commenced in 2008 in the wake of the credit crunch and the international financial crisis, is widely regarded as the most serious in Ireland’s history as an independent country, and the Irish crisis has been among the worst of all developed economies. In terms of labour market reform, successive governments, in response to the crisis, have not launched any systematic or noteworthy legislative programme to reshape the governance of the labour market (Roche et al. 2013). To a large extent, the absence of labour market deregulation measures can be explained by the Irish employment system already being highly flexible. In other words, initial conditions separated Ireland from Greece, Portugal, and Spain, in that the Troika, for the most part, did not view the country as possessing institutional rigidities that required a radical labour market deregulation programme.

Thus, the Troika did not exert any significant pressure on Irish governments to ease employment protection rules. Indicative of the attitude adopted by the Troika on the matter was the reform of Registered Employment Agreements and Joint Labour Committees, statutory instruments to legally extend pay agreements in (mostly) low wage sectors. In its initial economic programme, the Troika signalled that these arrangements should be radically scaled back. But once it realized that the government had already initiated a reform of these bodies, it relaxed this demand and allowed the domestic reform programme to run its course. Of more concern to the Troika was the need for Ireland to adopt a new ALMP regime for the employed. In particular, the Troika sought greater efficiency in the administration of unemployment and related social benefits, more stringent conditions regarding availability to work rules, the development of customized activation plans of the unemployed, and more comprehensive monitoring of job-seeking activities by the unemployed. For the most part, Ireland has complied with these demands (see Chapter 13, this volume).

For the most part, the labour market adjustment that has occurred in Ireland in response to the economic recession has focused on arranging wage reductions in the public sector and changing the institutional contours of wage bargaining both nationally and in the public sector. One of the first casualties of the Irish crisis was the ‘social partnership’ model, which collapsed at the end of 2009 (Teague and Donaghey 2015). As
highlighted in Chapter 11, after the collapse of social partnership, pay determination and industrial relations underwent a process of orderly decentralization in the private sector. At the same time, the government quickly moved to adjust downwards public-sector pay and pensions in a similarly orderly manner. To this end, in 2010, as documented in Chapter 12, it concluded, with various public-sector trade unions and professional associations, a four-year centralized Public Service Agreement, which became known as the Croke Park Agreement. An important innovation made by the Croke Park Agreement was the introduction of a third-party compulsory arbitration system into organizational change programmes for the public sector.

Assessments of this new arbitration system suggest that it has had a decisive impact on public-sector collective bargaining. Before the economic crisis, (p.152) trade union and management relations in many parts of the public sector were characterized by arm's-length accommodation, which involved management not pushing for radical organizational change and trade unions not pushing too strongly for improved wages and working conditions. The introduction of arbitration has disrupted this compromise, leading to accelerated public-sector organizational change. Whether this new industrial relations climate will endure when more buoyant economic times return remains to be seen. Overall, Irish Governments have engineered a significant internal devaluation. But even in the context of far-reaching internal devaluation, vast swathes of the institutional architecture of Irish industrial relations have remained untouched.
Greece

Under the Troika economic adjustment programme, the Greek Government was required to introduce even more extensive and rapid changes to the country’s labour law and collective bargaining systems (EC 2011a). Greece traditionally had a multilayered system of wage bargaining, with sector-level bargaining predominating over bargaining at national, occupational (national or local level), and company levels. The coverage of collective agreements is high, despite relatively low union density (24 per cent of employees in 2008 before the recession). High coverage is secured through the administrative extension of agreements to those firms not involved in the negotiations (with no opt-out possible). Moreover, firm-level wage bargaining could not lower, only increase, wages established by higher collective agreements (the so-called favourability principle). Wage setting was also traditionally influenced by the arbitration system in a way that favoured trade unions. In particular, only trade unions had recourse to arbitration when a deadlock existed between trade union and employer positions in sector-level or occupational collective bargaining negotiations; over the years, arbitration decisions normally favoured trade unions (Voskeritsian and Kornelakis 2011).

Legislative action at the end of 2010 introduced a series of reforms to this traditional collective bargaining system. Effectively, the law abolished the favourability principle associated with firm-level collective agreements and offered non-negotiating firms an opt-out from the administrative extension of collectively agreed wages. The law also reformed the arbitration system so that both trade unions and employers could resort to arbitration. In addition, the legislation required mediators and arbitrators, when dealing with a dispute, to take into consideration the competitiveness and economic performance of both the firm and the sector in which it was located (Ioannou and Papadimitriou 2013). In particular, an additional type of collective agreement was introduced—the Special Firm-Level Collective Agreement (SFLCA)—that allows employers and employees to agree wages levels less favourable than those stipulated in sectoral collective agreements. Collective bargaining was subject to further legal reform in 2012 when the metenergeia system, which allowed sectoral collective agreements that had reached the end of their time period to continue operating for
six months, was terminated. In addition, individualized forms of bargaining on pay and working conditions were made legally permissible for the first time. Salary increases linked to length of employment service, that were sanctioned by collective bargaining, were also suspended until unemployment had dropped once again below 10 per cent.

Although EPL in Greece is around the Organisation for Economic Co-operation and Development (OECD) average, legal reforms have been introduced to relax some of the rules. First of all, the notice period prior to dismissal of white collar workers was substantially reduced: for those on long tenure, it has been shortened to six from twenty-four months. The new legal provisions also lowered total severance costs for white collar workers with long tenure, in some cases by a half. No changes, however, were made to notice periods or severance payments for blue collar workers. Collective dismissals rules were also diluted to increase the threshold above which dismissals are characterized as collective—up from 4 to 6 employees for enterprises with 20–150 employees and 5 per cent (up from 2–3 per cent) or 30 employees (whichever is smaller) for those with more than 150 employees. The probationary period in a job was extended from two months to one year, and permitted fixed-term contracts for employees hired through temporary work agencies were extended to thirty-six months from eighteen months, with renewal limits abolished, thus effectively eliminating indefinite contracts for newly hired workers.

Further labour market deregulation was introduced to increase the flexibility of working time arrangements. Legislative action was taken to reduce overtime pay by 20 per cent across the board and to amend downwards pay for part-time workers. Legal changes were also made to allow firms to introduce short-time working and various forms of annualized working hours schemes (Papadimitriou 2013). Minimum wage levels have been significantly lowered. In 2014, yet more reforms were introduced, aimed at reducing salary levels and scales, as well as pension provision for certain categories of public-sector workers. In addition, across-the-board changes were introduced to make working hours in the public sector more flexible (EC 2014).

Portugal
A key element of the Troika economic adjustment programme for Portugal was reforms to increase labour market flexibility (EC 2011b). These reforms were introduced in agreement with the social partners through the Tripartite Agreement (Compromisso para o Crescimento, Competitividade e Emprego) reached (p.154) in January 2012. This agreement gave the green light to wide-ranging reforms. First of all, the collective bargaining system was reformed. Traditionally, wage levels were set through sector-level collective bargaining, which government extended as a matter of routine to other firms in the same sector that did not participate directly in the process. The reform measures sought to revamp this arrangement by decentralizing collective bargaining from the sector to the firm level. In addition, the extension of collective agreement by government was heavily constrained (under the new measures, government was only permitted to extend agreements when the involved employers’ associations employed more than 50 per cent of employees in a sector). As well as fragmenting sector-level bargaining, the 2012 reforms froze minimum wages until a full economic recovery had been secured. Far-reaching changes were introduced to shorten the duration and limit unemployment benefits. In particular, the maximum duration of unemployment benefits was reduced from thirty-eight to twenty-six months and the level of benefits was reduced by about 16 per cent on average. The aim of these changes was to encourage early return to employment, thus reducing the risk of long-term unemployment (LTU).

A series of reforms were introduced to encourage micro-level flexibility. Measures were enacted to weaken the insulated status of permanent employees. Regulation governing working time arrangements was also scaled back: in terms of overtime, employees were previously paid 50 per cent extra for the first hour of overtime worked, 75 per cent extra for additional hours, and 100 per cent extra for overtime on holidays and Sundays. These rates were reduced to 25 per cent, 37.5 per cent, and 50 per cent respectively. Further legislation encouraged firms to adopt annualized working schemes to reduce the need for overtime in the first place (Ramalho and do Rosário 2013).

Thus, as part of the wider economic adjustment programme developed by the Troika, the Portuguese government introduced a comprehensive labour market flexibility programme. Since it was first enacted in 2012, there has been
some rowing back on particular facets of the programme, especially in the area of collective bargaining (OECD 2014a). In particular, a legislative measure relating to the functioning of sector-level collective bargaining may curtail decentralized firm-level collective bargaining, and an additional piece of legislation rescinded the more stringent criterion for extending collective agreements introduced in 2012. Overall, however, the labour market flexibility programme has been implemented effectively and the first signs are emerging that it may be influencing labour market behaviour (OECD 2014a).

Spain

Although a formal Troika economic adjustment was not developed for Spain, the government nevertheless committed itself to labour market reform in (p.155) return for EU bailout finance to rescue Spanish banks. As a result, in 2012, a newly elected Conservative Government gave effect to this programme when it adopted the Real Decreto Ley 3/2012, which contained a hefty catalogue of labour market flexibility initiatives. The 2012 reform programme sought to increase macro-flexibility of the labour market by decentralizing collective bargaining from the sector level to firms (Molina and Miguélez 2013). In addition, the new law made it easier for firms to opt out of established collective agreements, enabling them, for the first time, to introduce unilateral changes to work organization and working conditions; in other words, firms were given greater freedom to pursue internal flexibility measures. These collective bargaining reforms brought to an end the last vestiges of the national social pact system that had existed in the country before the crisis, which involved trade unions, employers, and government concluding tripartite agreements.

In addition to recasting the institutional architecture of the country’s collective bargaining system, the 2012 reform programme introduced substantial changes to its employment dismissal rules. The law made it easier for firms to dismiss employees and also significantly reduced the monetary compensation employees received for unfair dismissal (Wolf and Mora-Sanguinetti 2011). These micro-flexibility reforms to employment protection regulations were aimed at reducing what was widely perceived as endemic levels of labour market segmentation in the country.
The 2012 labour market reform programme was significant, as it simultaneously sought to improve the macro- and micro-flexibility of the employment system (OECD 2014b). Initially, trade unions mounted a campaign of strong opposition to this campaign, which culminated in a general strike in May 2012. However, a more pragmatic stance now seems to prevail amongst unions. Although still firmly opposed to the direction of labour market reform, trade unions have actively sought to conclude national bilateral collective agreements with employers. For example, in an effort to maintain an autonomous national social dialogue with employers, trade unions signed up to the Inter-Confederal Agreement on Employment and Collective Bargaining, which effectively sanctioned decentralized collective bargaining and encouraged firms to use collective bargaining processes to develop internal flexibility plans.
Ireland and the ‘GIPS’ Countries

Ireland: Between the Core and the Periphery
All in all, the Troika’s insistence on ‘structural adjustment’ to the governance of labour markets appears to be having a greater impact on some GIPS (p.156) countries than others. It is difficult to argue that the Troika’s labour market adjustment programme has uprooted established industrial relations institutions in Ireland. Although the country has undergone a serious bout of internal devaluation, which delivered a knockout blow to the eighteen-year regime of social partnership, the Troika’s austerity regime has left the country’s industrial relations, rules, and traditions more or less intact. Ireland escaped from having to implement the far-reaching labour market flexibility reforms required of other GIPS countries. For the most part, this is because the Troika did not consider the country as possessing the segmented ‘Mediterranean’ employment systems institutions that were seen to be embedded in the labour markets of Greece, Portugal, and Spain.

A ‘Mediterranean’ employment system is widely seen—and not simply by the Troika—as dividing the labour market into ‘insiders’ and ‘outsiders’, with highly distortionary effects. Extensive employment protection for those on permanent contracts is seen as leading to wage rigidity, as insider employees become insulated from wider economic conditions (Bentolila, Boeri, and Cahuc 2010). Labour mobility, which facilitates economic adjustment from old to new economic activity, is considered impaired, as insider employees stay with their existing employees. Training too is seen to be harmed, as firms have little incentive to upskill employees on temporary contracts and employees on these contacts have little motivation to engage in training (Cabrales, Dolado, and Mora 2014). Finally, labour market dualism makes it difficult to integrate young people properly into work (Bentolila, Dolado, and Jimeno 2012).

The concerted drive by the Troika to disrupt these insider/outider labour markets by weakening collective wage-setting processes and employment regulation is motivated by a desire to create national industrial relations systems that are compatible with monetary union in Europe. To move closer towards an optimal currency area, the Eurozone needs its institutionally heterogeneous national employment systems to function in a manner that ensures the alignment of wages with productivity growth as well as wider labour market
adaptability. Insider/outsider labour markets are considered to do neither and thus contribute to macroeconomic asymmetries inside the Eurozone by aggravating real exchange-rate misalignments between core and periphery members. Reform efforts to curtail the functioning of Mediterranean labour markets have had a telling, yet uneven, impact. Although reforms are corroding mechanisms for employment protection and social solidarity, it is unlikely that they are fully dismantling established industrial relations systems. The only possible exception is Greece, where ongoing institutional and economic upheavals are immense.

At the same time, the Troika-imposed reforms have been strong enough to trigger widespread resentment amongst citizens in the European periphery towards the battery of regressive economic and social policies which they consider are being imposed upon them from the outside in a highly undemocratic manner. As a result, a new dualism has opened between the core and periphery inside the Eurozone, with the only common ground tying the two together being the idea that the unravelling of the Eurozone would be an even greater calamity than its continuation.

Ireland stands apart from the other GIPS countries in that its employment relations system is more institutionally aligned with the demands of Eurozone membership. A standout feature of the country’s response to the Great Recession was the ability of the collective bargaining system in the public sector to deliver a large-scale fiscal retrenchment programme in an orderly manner. In the private sector, the break-up of national social partnership and the return to decentralized pay bargaining was achieved in a similarly orderly fashion. Although employers were obliged sometimes to enact uncomfortably large-scale organizational adjustment programmes, there was little attempt to take advantage of the recession to marginalize unions. These developments suggest that Ireland’s collective bargaining system functions in a manner that is broadly consistent with the country’s highly open model of economic development, including membership of the Eurozone. An abiding sense emerges from the period that trade unions, employer organizations, and government recognized that they had to act, both on their own and in their interactions with each other, in a manner that did not compromise the credibility of the country’s model of economic development, or Eurozone membership. Thus, Ireland has an
industrial relations system with the internal capacity to respond more quickly to unanticipated economic shocks than other GIPS countries.

Conclusions

Two standout features emerge from this chapter. One is that the Troika-imposed large-scale fiscal consolidation and large-scale labour market flexibility programmes on the GIPS countries has brought the Eurozone short-term relief, but its long-term stability is in no way assured: the Eurozone still faces an existentialist threat. The incapacity of the member states to govern the Eurozone in a manner that is tolerable to all means that industrial relations systems everywhere within the EU, but particularly in GIPS countries, are likely to be placed under even more stress. The other is that Ireland stands out from the other GIPS countries in terms of the quicker, more robust manner it has been emerging from the Great Recession. The better fortunes of Ireland are not only due to its extensive economic ties with countries outside the Eurozone, but also to the close alignment between domestic industrial relations institutions and the highly open nature of the economy. This assessment suggests the prevailing tendency to lump together different groups of countries (p. 158) inside the Eurozone should not be pushed too far. Each member state has its own idiosyncratic features and a Eurozone that cannot accommodate these is likely to remain precarious.

References

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