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Immigration, Social Dialogue and Economic Growth in the Old Periphery of Europe: The Celtic and Latin Tigers?

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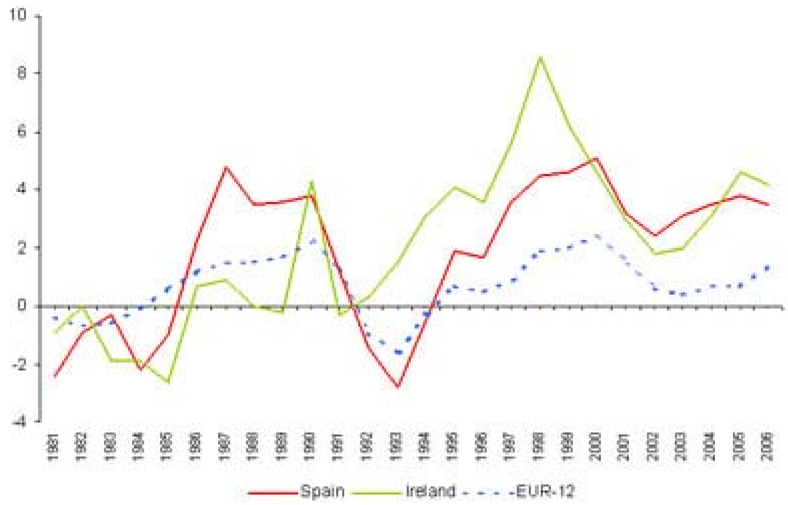
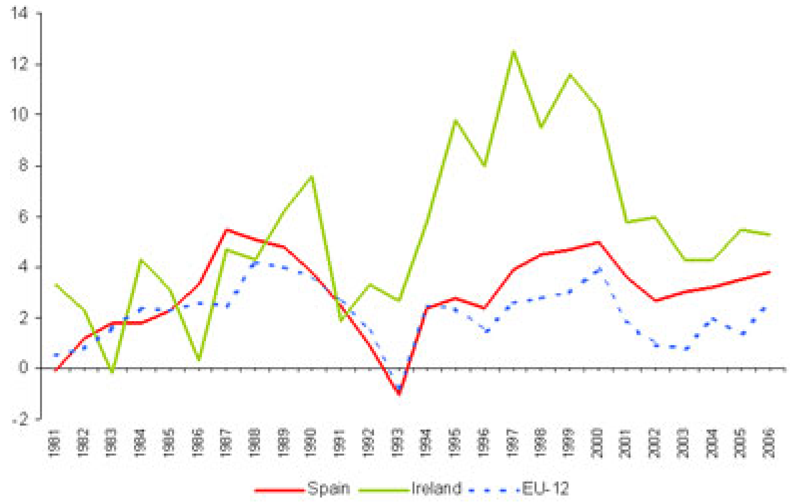
In Autumn 1990, I attended a strategy session in St. Paul, Minneapolis on how to defeat the proposed free trade agreement between Canada, the United States and Mexico, known as NAFTA, the North American Free Trade Agreement. There I met a man named Tom Laney who worked at a Ford production plant in St. Paul and was building relations between his UAW local union and the Ford workers at the Cuautitlán plant outside Mexico City, who were organising a union.

The boundaries between the so-called economic core and periphery of Europe have shifted dramatically during the last two decades, as a consequence of a catch-up by some member states, as well as the most recent eastward enlargement of the European Union (EU). Only two decades ago, the European Economic Community was sharply divided between a rich core and a poor periphery comprising all Southern European countries and extending to Ireland. In 1985, the unemployment rate reached record highs of 16.8% in the Emerald Isle and 17.8% in Spain. The same year, Gross Domestic Product (GDP) per head in Ireland stood at 68.9% of the EU-15 average, whilst Spain's was at 71.9%. Accordingly, the two countries absorbed a large share of European Community (EC) regional development funds as they strived to converge with the rest of Europe. In spite of the generosity of these funds, official statistics showed little signs of convergence during the 1980s. Instead, there seemed to be increasing divergence between a buoyant core and a sluggish periphery that struggled to catch up. By those years, many commentators and even policymakers had developed the idea of a two-speed Europe as the only way to move forward in the process of economic integration, and, more specifically, in order to make the project of a European Monetary Union viable.



Graph 1: Employment Growth. Annual % change (Source: *Eurostat*)



Graph 2: GDP Growth. Annual % change (Source: *Eurostat*)

This picture has changed dramatically during the past fifteen years. The two laggards of Europe have experienced their most prolonged periods of economic expansion in their recent economic history. This has been particularly intense in the case of Ireland, as demonstrated by certain economic indicators. In 2005, the unemployment rate in Ireland had plummeted to around 4.4%, while in Spain it had also decreased to a record low of 7.8%, close to the EU-15 average of 7%. Moreover, per capita GDP in Ireland now stands at around 130% of the EU-15 average, right after Luxembourg with the highest per capita income in Europe. In the case of Spain, this figure has reached 91%, its highest level in the post-World War II period. Graphs 1 and 2 show the performance of these two countries compared to the average of the EU-15 group, regarding the labour market and economic growth. Within the context of what some scholars have portrayed as a sluggish, rigid and sclerotic Europe, the exceptional performance of the Irish economy led some authors to compare it with the growth experiences of some Asian countries, hence acquiring the epithet of 'the Celtic Tiger'. Even though the performance of the Spanish economy has not reached the levels recorded in Ireland, it nonetheless remains exceptional both in historical and comparative terms. As a consequence of these changes, the new economic cleavages within the EU are no longer characterised in terms of north-south, but by a west-east division.

The question that arises immediately on examining this data relates to what explains these experiences and whether one can find any similarities between the two countries. For, given the increase in income levels registered in both countries, there are probably lessons to be learned from these success stories by scholars and policymakers alike. An obvious candidate to explain them would be the impact of the process of European integration in triggering economic convergence among member states. There are good grounds to support this argument if one looks at the positive impact of European funds aimed at creating physical and social capital in these two countries, or the growth-enhancing effects of macroeconomic stability brought about by their participation in the European Monetary Union. However, European integration fails to explain differences in the growth paths between countries. In this article, however, I will explore the role of other three variables whose impact has also been critical in initiating and sustaining processes of economic development: these are the role of migration and the transition from emigration to immigration countries, inward flows of Foreign Direct Investment (FDI) and national social dialogue. Difficult as it is to provide magic recipes for growth and job creation, I argue in this article that in addition to the beneficial framework provided by EU policies, the three variables just mentioned have been key ingredients contributing to boosting employment growth, achieving above EU-average economic performance and hence reversing the traditional laggard stance of the two countries analysed here.

More importantly, a close look at these two countries serves to dismiss some of the claims of a well-known globalisation thesis, according to which sustained economic growth can only be attained through opening spaces for market competition and removing barriers to the free movement of the factors of production, including protection of employees. Even though I will show how the opening of the two economies to inflows of capital and labour has been critical to achieving higher growth levels, these processes have been managed, albeit in different ways and to different extents, through the mechanism of social dialogue between trade unions, employers, civil society actors and the state. The Spanish and Irish experiences hence show that there are benefits to cooperation and that globalisation cannot necessarily be reduced to a zero-sum game. In the following paragraphs I will explore the three ingredients for growth and will discuss their role in the two countries. Finally, I will discuss some of the problems that lie ahead and will stress the need to search for innovative solutions within the consensual framework of national social dialogue in order to manage the challenges posed by global competition and migration.

<u>The keys to success:</u>
<u>1. Social Pacts and Concertation</u>

According to some of the more enthusiastic supporters of globalisation, this process is changing the shape of the world as national governments are losing their capacity to manage their economies autonomously. The increasingly interconnected character of economic and social activities as well as the significant role of multinational corporations, the argument follows, are imposing binding constraints upon the set of policies available to national actors. As a consequence, governments are powerless, and are forced to adopt a market logic in the design of their economic policies in order to suit the demands and preferences of mobile capital. The corollary of this trend is the extension of neo-liberal economic policies that according to the so-called Washington Consensus developed in the 1980s, deliver higher economic growth and employment rates, though at the cost of an increase in social and economic inequalities. More specifically, by forcing the de-regulation of labour markets and cuts in social policies, capital will be able to increase profits at the expense of increasingly lower levels of protection for employees.

The success stories of the Irish and Spanish economies in the past fifteen years however show that there are 'third ways' to achieve growth in addition to the neo-liberal one. As a matter of fact, developments in these two countries portray a very different picture to the one suggested by the neo-liberal path and the hyper-globalist thesis. Hence, rather than simply giving in to the pure market demands of transnational capital, both the Spanish and Irish government have engaged during the last twenty years in processes of tripartite social dialogue with trade unions and employer organisations whereby they have – rather successfully judging by their results - managed external pressures through domestic processes of consultation, concertation and social pacts. The first objective of these processes has been to achieve macroeconomic stability through wage moderation and the negotiation of cuts in the welfare state. The second main objective has been to introduce structural reforms in the economy aimed at enhancing their growth and employment potential. Finally, these agreements have also tried to re-distribute the benefits derived from economic growth.

Year	*Ireland*	Year	*Spain*
1987	Programme for National Recovery	1980	Acuerdo Marco Interconfederal (Multi-Industry Framework Agreement)
1991	Programme for Economic and Social Progress	1982	Acuerdo Nacional por el Empleo (National Agreement for Employment)
1994	Programme for Competitiveness and Work	1983	Acuerdo Básico Interconfederal (Basic Multi-Industry Agreement)
1997	Partnership 2000	1984	Acuerdo Económico y Social (Economic and Social Agreement)
2000	Programme for Prosperity and Fairness	1996	Acuerdo para la Reforma de la Seguridad Social (Agreement for the Reform of Social Security)
2003	Sustaining Progress	1997	Acuerdo para la Reforma de la Negociación Colectiva y el Mercado de Trabajo (Agreement for the Reform of Collective Bargaining and the Labour Market)
2006	Towards 2016	2001-2007	Acuerdos Interconfederales para la Negociación Colectiva (Multi-Industry Agreements for Collective Bargaining)

Table 1: Social Pacts and Partnership Agreements in Ireland and Spain

Table 1 shows the most important steps in social dialogue in the last twenty years. The experience of national tripartite social dialogue was initiated in Spain in the late 1970s and early 1980s in the context of the country's transition to democracy. It has been argued that a strategy of consensus with all the relevant social and political actors became the cornerstone for a successful political transition. However, social pacts in these years also had an important economic role, as the Spanish economy only started to suffer from the full effects of first oil crisis in the late 1970s. Accordingly, the social pacts served to find negotiated or consensual solutions to a situation of political, economic and social emergency. From a political perspective, social pacts served to show the strong determination of all social and political forces to consolidate democracy in Spain after more than three decades of dictatorship. The political role of social pacts became particularly clear in 1983 when a new agreement was signed right after a failed *coup d'etat*. However, the most visible contribution of social pacts and tripartite agreements was to economic stability. Even though these pacts covered a large number of issues ranging from social policy to union recognition and the labour market, the central theme to all of them was the reduction of inflation through wage restraint and changes in wage setting mechanisms.

Notwithstanding the success of these pacts in achieving the goals of political and economic stability, culminating in the accession of Spain to the European Economic Community, the last tripartite agreement was signed in 1985. The reasons for the collapse of this period of centralised wage bargaining and social pacts in Spain are manifold. On the one hand, a large section within the union movement, comprising the CCOO (Workers' Commissions), was very critical of the social pacts as they required that trade unions could not fully exploit their bargaining power in order to obtain wage increases. Moreover, the CCOO criticised the neo-liberal economic policy of the government, including the 1984 labour market reform and the fact that workers were being burdened with most of the costs of adjustment. Following some years of conflict between trade unions and the government, social dialogue was restored in the mid

1990s, initially with the employer organisations alone, then also with the government. As a consequence of this move from conflict towards cooperation, several agreements were signed. Some of these agreements were bipartite, that is, between unions and employers - like the agreements on out-of-court dispute resolution, learning and training. Other agreements were tripartite, that is, including the government, trade unions and employer associations. The most significant tripartite agreements during these years were the 1996 pact on the reform of the social security system and the 1997 labour market reform. Finally, since 2001, trade unions and employers have been signing centralised agreements containing guidelines for collective bargaining.

Social pacts, or social partnership agreements as they are known in Ireland, between trade unions, employer associations, third sector organisations and the government, have become the flagship of the Irish Celtic Tiger phenomenon. The story of centralised wage agreements started in Ireland in the 1970s. However, due to the difficulties in implementing the terms of the agreements at company level, the centralised agreements were abandoned and there followed a period of de-centralised wage bargaining. Nonetheless, a new centralised partnership agreement was again signed in 1987. The objective of this agreement was to help the Irish economy to move away from the path of low growth, high inflation and high unemployment that it had been on since the early 1980s. The success of this partnership agreement in achieving the objectives of wage moderation and macroeconomic stability led social partners and the government to renew the agreement in 1991. So far, six partnership agreements have been signed (see table 1), demonstrating a strong resilience compared to other European countries' experiences. Another key feature of these agreements is the importance of the wage component. Even though a trend can be appreciated in the widening of the number of issues dealt with in these agreements, pay remains the glue holding the partnership agreements together. Finally, some authors have also highlighted a trend towards the institutionalisation of these agreements, as shown by the almost automatic renewal of agreements every four years, notwithstanding that some conflicts have emerged in the re-negotiation phases of the last three partnership deals.

2. From outward to inward migration

Another key feature of the recent histories of Ireland and Spain has been the role of migration. For most of the twentieth century, these two countries were subject to large outward migration in search of better economic conditions. In the case of Spain, migration had both a domestic and international component. Domestically, there was migration from the southern regions of Andalusia, Extremadura and Castille towards the north. At the same time, there was significant economic migration towards other European countries like France, Germany and Switzerland. In the case of Ireland, migration occurred mostly towards the United Kingdom, the United States and Canada.

This historical pattern has changed dramatically during the last fifteen years, as these two countries have witnessed a spectacular increase in inward migration, transforming themselves into key destination countries in a European context. Statistics show that Ireland and Spain are two of the EU countries where the immigrant proportion of the population has increased to the largest extent. As economic conditions significantly improved in the recent period, the two countries have become attractive destinations. This trend has been further reinforced by the recent eastern enlargement of the EU, resulting in the large Polish and Romanian communities established in Ireland and Spain respectively.

Most of the migrant population in Spain are employed in low-skilled jobs and sectors like construction, agriculture, cleaning and catering. These are low-paid jobs that remain unfilled by the native population. Moreover, it is estimated that a considerable proportion of this migrant population has undertaken some form of activity in the underground economy due to the high level of regulation of economic activity in Spain. The stock of migrant workers available to Spanish employers has guaranteed them a high level of flexibility whilst keeping wage pressures low due to the available pool of people. However, this has come at the cost of low productivity increases and low incentives for companies to innovate due to the availability of cheap labour, thus jeopardising the future growth of the economy.

Inward migration in Ireland has come mostly from Eastern Europe and migrants are employed largely in the service sector due to the boost in demand triggered by the increase in income levels. More recently, a trend has also been observed pointing towards the inward migration of more skilled employees to work in the public sector, or to occupy middle-rank managerial positions in private companies. As Ireland remains the EU country with the lowest unemployment rate and showing evident signs of skill shortages, this trend is very likely to become even more prominent in the next few years.

3. Foreign Direct Investment and the Internationalisation of the Economy

Finally, another common trait of the recent Irish and Spanish experiences of economic growth has been the critical contribution of Foreign Direct Investment (FDI). The 1980s economic recovery in Spain was to a large extent fuelled by substantial FDI inflows, especially during the second half of the decade. The appeal of Spain as a destination for FDI was based on several factors such as relatively good and developing infrastructure, below-average labour costs, good industrial and technological bases and an expanding services sector. The prospect of accession to the EC in 1986, together with a rapidly expanding national market, provided additional incentives to multinational corporations to choose Spain as a location for investment. Even though Spain started to receive FDI in the 1970s, it was not until 1985-6 that the size of this flow became truly remarkable compared to other EC countries. Accordingly, by 1991 FDI accounted for around 5% of Spanish GDP and 17% of total investment.

The importance of FDI for the Spanish economy lies not only in its direct contribution to economic growth, but most importantly, in the knock-on effect of internationalisation. After some decades of relative economic isolation, joining the EC together with the reception of large amounts of FDI meant definitive integration into the international economic scene. Spain was becoming an open economy, as demonstrated by the fact that by the turn of the century it had become a net FDI exporter and the single most important investor in South America together with the United States of America.

There is a general consensus among scholars and policymakers regarding the importance of FDI in explaining the Celtic Tiger. A look at the data serves to confirm this perception as Ireland has attracted the lion's share of US investment in Europe since the early 1990s. By 2006, the FDI stock in Ireland amounted to almost €200,000 million. In 2005, inward FDI stock amounted to roughly 125% of Ireland's GDP. According to some commentators, Ireland operates as a conduit for US multinationals' overseas profits to take advantage of a tax exemption on patent income. Moreover, US multinationals find Irish labour market legislation more attractive compared to other European countries, as there is no obligation on companies to recognise trade unions. This allows US multinationals to be able to adopt similar personnel policies to those followed back at the headquarters. Whatever the motivations behind the investment decision, Ireland has made the most of an attractive fiscal regime in order to attract foreign investors from the US, and also from Europe. This has strongly contributed to economic growth, raising income levels and employment creation.

Concluding Remarks

The Irish and Spanish economies have been the leading runners of the EU in the last fifteen years. Once classified within the poor periphery of Europe, these two countries have undergone what some people would call an economic and employment miracle, or at the very least, a process of accelerated economic convergence. The objective of this short article has not been to provide an interpretation or an explanation for growth in these two economies in the last fifteen years. The complexity of this task goes far beyond what could be accomplished here. The article had a much less ambitious objective, as it simply aimed to highlight the existence of some common traits in these two parallel experiences of economic success: the reception of Foreign Direct Investment, inward migration and social dialogue.

The above analysis, descriptive and impressionistic as it is, serves nonetheless to extract some interesting insights. First of all, the two countries show how international openness has become a necessary condition for economies to grow and develop. Much to the disappointment of the critics of economic globalisation, the Irish and Spanish experiences show that there are benefits to be taken advantage of in order to boost growth. However, and this is the second important message coming from this piece, globalisation has to be managed. In the same way as it is necessary for any economy and society nowadays to become integrated into the international circuits of globalisation, it is equally important to domestically manage its effects. In this regard, the view supported in this article is that tripartite social dialogue, with the participation of all relevant social partners in the management of the economy, has allowed Ireland and Spain to reap the benefits of internationalisation without generating excessive tensions between social and economic groups.

That said, the risk of a market or neo-liberal bias remains present, requiring the search for innovative solutions within the consensual framework provided by social dialogue. In Ireland, trade unions are becoming increasingly aware of the need to increase labour market regulations in order to guarantee compliance with the terms negotiated in the agreements. The Irish Ferries case showed very clearly the challenges ahead for trade unions and meant a real baptism of fire for partnership. On the other hand, the Spanish economy needs to move beyond a cheap labour model of low wages and labour productivity towards a different competitive strategy. This would ensure higher living standards and better working conditions for migrant workers. In spite of these challenges, both the Irish and Spanish economies have proved capable of internationalising and growing. However, it is important not to forget that part of this success is due to migrant workers leaving their home countries in search of better living and working conditions. As a consequence, it remains an imperative to have recourse to tripartite social dialogue including trade unions, in order to manage the economy and achieve a balance between competitiveness and social protection.

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