**Social Partnership and Austerity Shocks in Open Economies: why were social pacts institutionalized in Ireland but not Korea?**

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Western Political Science Association Conference

March 28-30, 2013

Renaissance hotel, Hollywood, CA

Abstract

Tripartite social pacts have emerged in response to calamitous “austerity shocks” in some highly open economies. Compensatory political exchange (structural adjustment for social peace) involving the state, labor and business as part of a larger “competitiveness” agenda have been triggered by financial/fiscal crises, such as those in Ireland in 1987 and Korea in 1997. This paper examines the durability of this new type of social partnership, comparing the Irish case where social partnership was institutionalized with the Korean case where it was not. We argue that the ability of social partnership to become institutionalized is dependent on supportive prior political relationships between organized labor and the state.

**Introduction**

Why did social partnership become institutionalized in one open economy which lacked the classic structural preconditions for corporatism, but not another? This paper reviews the historical origins, political dynamics, and development of social partnership in Ireland and Korea. In both cases social partnership was introduced in the midst of financial/fiscal crisis, “austerity shocks”, and efforts by union-friendly governments to manage such shocks with social peace. These cases shed some light on the political economy of austerity shocks arising internationally since 2008. Despite many similarities, the 1998 Korean initiative to establish social partnership ultimately withered, whereas in the Irish case formal tripartite social partnership agreements were institutionalized between 1987 and 2008, and linger *de facto* since then.

In Ireland social partnership after 1987 enlarged the scope of the agreements to encompass most areas of importance in Irish economic and social policy. This unfolded regardless of which coalition was in government, but with the Fianna Fail and Labour parties being especially strongly committed to social partnership. At first, agreements focused on economic recovery but they also continued to develop the Irish welfare model, anorexic by Scandinavian standards but focused nonetheless on ‘social inclusion’, and to develop a collective bargaining system characterized by strong unions and a high degree of centralization of pay bargaining.

 In response to the economic crisis of 1997, the Korean Tripartite Commission, a social partnership body that was created in 1998 under the Kim Dae-Jung government to strengthen national competitiveness through labor market reform, an agenda strongly advocated by international institutions such as the IMF. The most significant social pact involved laying off workers and freezing pay in return for the government’s promise to expand welfare expenditure for the social safety net and improve labor rights. With economic conditions worsening, the center-left Roh government after 2003 tried to promote labor market flexibility in the context of weak social protection. A set of reform measures included expanding freedom of association and strengthening voluntarism in industrial relations. These ran into strong opposition from both management and labor. As a result, the Tripartite Commission stalemated over the reform agenda.

In this paper we first note the key features of the Irish and Korean political economies and then discuss corporatism as it originally developed in structurally propitious circumstances in Western Europe in the 1960s and 1970s before moving on an analysis of the contrasting features of social partnership in Ireland and Korea. The significance of compensatory political exchange between state, labor, and management for “competitiveness” agendas via social pacts is examined. We argue that the ability of social partnership to become institutionalized is dependent on supportive prior political relationships between organized labor and the state.

The focus in this paper is on both the onset of social partnership in “new” settings and the institutionalization of this social partnership. Concerning institutional change, there has been a move away from “punctuated equilibrium models” (Baumgartner et al. 2009; Baumgartner et al. 2007) towards approaches that are more sensitive to the timing and sequencing of policy development (Hall 2003; Pierson 2004), to incremental change (Mahoney/Thelen 2010; Streeck/Thelen 2005; Thelen 2009) and to diverse actor constellations between firms, workers, their organizations and governments (Hall/Thelen 2009; Thelen 2004). What explains the political sustainability or fragility of social partnership? Political sustainability means that policy change leads to institutional change that the central stakeholders then adhere to new rules including “beneficial constraints” (Streeck, 1998). The central hypothesis is, that the development of state-labor coalitions is a necessary condition for a sustainable institutional development towards social partnership systems. In the absence of such compromises systems are bound to be fragile, continuously contested and prone to problems of collective action, credible commitment, market failure and ultimately subject to (endlessly recurring) new reforms.

**I Developmental States, Tiger Economies and the Sustainability of Social Partnership**

Ireland and Korea have histories as developmental states creating export-led “tiger” economies. They also witnessed union-friendly governments attempting to combat severe financial/fiscal crises through pacts with business and labor. Starting with the Fianna Fail government in 1987, all subsequent Irish coalitions have sought to maintain and develop such pacts. In Korea center-left Presidents Kim Dae-jung (1997-2003) and Roh Moo-hyun (2003-2008) attempted to develop such pacts. The ‘Celtic Tiger’ boom in the wake of the late 1980s economic crisis was made possible through social partnership. Ireland set itself apart from Thatcherism in Britain, with Irish unions having access to policy process through social partnership. In a similar way, Korea established the tripartite commission to respond to economic crisis of 1997, and touted itself as achieving successful recovery. The tripartite agreements that took place in the two nations were very different from traditional corporatism in Europe. One of the characteristics of industrial relations (IR) in Ireland was a British-style tradition of voluntarism with minimal statutory labor rights (McDonough and Dundon, 2010: 544-562). For that reason, Ireland did not have the distributional coalitions commonly related to traditional corporatism (Teague and Donaghey, 2009:56). The more recent development of statutory labor rights has been largely driven by EU directives.

Industrial relations systems in Korea have been in flux. The principal actors, government, employers’ and workers’ organizations were not satisfied with the industrial relations system, which became more conflictual and fragmented over time. The tradition of an authoritarian developmental state with labor repression reinforced a decentralized bargaining system, which was likely to make social pacts difficult to achieve. But contrary to conventional wisdom, the Irish and Korean cases indicate that social partnership can emerge in various industrial relations systems, including what were thought to be unpropitious structural circumstances. Social partnership is not necessarily accompanied by macro-level, neo-Keynesian social corporatism (Baccaro, 2003). Successful social pacts in recent years in Ireland contradict the conventional, structural explanations focused on centralized national collective bargaining systems and encompassing labor and business organizations. The Korean social pacts of 1998, when the tripartite talks legalized lay-offs in an effort to overcome the economic crisis of 1997, were not politically sustainable and social partnership soon became paralyzed. Social partnership may be birthed as a strategic response to economic crisis, we seek to explain why social partnership was successfully institutionalized in Ireland but not Korea. The research puzzle is to address what it takes to sustain industrial relations systems of concertation among government, employers, and trade unions.

The paper begins with an examination of different types of corporatism. It then looks at the backdrop to the social partnership agreements of 1987 and 1998. Development in Ireland and Koreas’ IR systems and social partnership is then compared. The conclusion examines the factors which shape the sustainability of social partnership and the implications of social pacts which sustain market-driven labor reform for both countries.

**II Corporatism Old and New**

According to Walsh, Craig, and McCafferty (1998) social partnership can be seen as ‘the search for consensus on economic and social objectives between sectoral interests among unions, business, farming organizations and government. Such consensus-building among policy partners has critical roles to play. It paves the way to information-sharing and consultative mechanism to construct mutual trust and enhance transparency between the partners. For this to be more effective, voluntary social pacts need to be approved by the Parliament, which is a clear difference from collective bargaining (Fashoyin, 2004: 346-347).

The emergence of social partnership was triggered by economic crisis and austerity shocks in both cases. Social pacts were initiated as strategic choices to respond to crisis. In Ireland the first social pact was agreed to in 1987 in the context of a budget crisis, national debt at 115% of GDP (higher than in 2008-13 *after* the rendering bank debt Irish sovereign debt), 18% unemployment (higher than 2013), and mass emigration. Unions were persuaded to consent to government structural adjustment plans in return for wage restraint and promises of modest income tax reduction (Roche, 2007: 396-397). In Korea, the Asian financial crisis of 1997 compelled the government to change policy in response to economic structural weakness, with a sudden 60 percent decline in the value of the Korean Won against the dollar. This led to a tough structural adjustment program and austerity.

Reflecting on the emergence of social partnership in the two cases what appears to be unimaginable under normal conditions takes place when a country is hit by a shock to endanger national interests (Gourevitch, 1986). Social pacts are commonly characterized as strategic decisions to respond to pressure from international monetary institutions (Hassel, 2003). Of course, economic factors alone do not shape the policy response, but do limit considerably the policy options available to policy makers. Even though both countries were different in terms of timing and the specific features of social partnership, common key elements of social concertation were neoliberal policies requiring public sector cuts and labor market flexibility.

If social partnership was seeking policy-making based on concertation, then the social pacts of the 1990s revitalized the efficacy of corporatism. On the “return” to the corporatism, some commentators (Regini, 1997; Regini and Regalia, 1997) regard national social pacts as attempts by employers and government to bring labor costs under control through more flexibility in employment practices, while at the same time endeavoring to create cooperative IR in order to making it competitive. Seeing the resurgence of corporatism, Molina and Rhodes (2002) calls it ‘competitive neo-corporatism’, which was designed to respond to the crisis of European welfare state. They argue that corporatism has been surviving and adjusting, not collapsing. ‘Competitive’ social partnership puts emphasis on business competitiveness in return for union involvement through the new forms of concertation. In contrast to the traditional corporatist structures of the 1960s and 1970s when Fordism and Keynesianism prevailed, deepening globalization of the 1990s, which destabilized traditional corporatist structures, has compelled new corporatist policy-making and concertation in keenly competitive and flexible market economies. As favored by European countries, a focus on the importance of social pacts was to overcome unintended consequences of segmented policy-making and achieve greater economic stability in a competitive market. A common feature of tripartite anti-inflationary agreements marked a renewal of corporatism and seemed to enhance the political steering capacities of governments. Although corporatist national-level wage agreements died out in the 1980s, the “Varieties of Capitalism” school has noted the importance of tripartite collaboration at the policy sub-system level, regarding vocational education and training, especially in coordinated market economies Thelen 2004 and 2009).

Philip Cerny has argued that economic globalization has led not to a decline of state intervention but rather to an increase in intervention and regulation in order to promote competitiveness and marketization[[1]](#endnote-1). This involves microeconomic intervention rather than macroeconomic intervention, responsiveness to international markets, and a focus on enterprise, innovation and profits rather than social cohesion. Cerny’s (2000) competition state theory looks at the way social policy is subordinated to the needs of the economy, promoting flexibility, and an activist (or activating) social policy rather than passive social transfers. The welfare state is seen to metamorphose into the competition state, recalibrated to address international competitiveness rather than domestic égalité. What matters here is that this literature increasingly emphasizes not social programs nor even social policies, but rather **governance** issues: policymaking (rather than policy) and the way in which public agencies manage a diverse pattern of programs in collaboration with an array of public, private and non-profit organizations at national and local levels. Ireland and Korea became exemplars of the competition state, where social policy is subordinated to the needs of the economy[[2]](#endnote-2), but the fate of social partnership as a form of governance differed.

In explaining corporatism in countries such as Ireland and Korea without a strong tradition of corporatism we have abnormal cases which challenge some of the core propositions of corporatist theories which emphasize encompassing unions and employers’ associations with substantial authority over their constituencies (Siegel, 2005). Ireland continued to produce social partnership programs from *Program for National Recovery*, 1987- 1990 to *Toward 2016* (2005-8). In contrast, Korea failed to break a deadlock in social pacts after 1998 when the government, unions and employers’ associations agreed to legalize layoffs, and social partnership eventually withered prior to the center left losing the presidency in 2008. Comparison between two countries helps identify necessary as well as sufficient conditions for successful social partnership.

**III Irish Political Economy to 1987**

The failure of the 1931-58 import-substitutive model in Ireland had led to it being progressively jettisoned from the mid-1950s in favor of an export led policy based on opening the economy and attracting foreign direct investment (FDI). This gradual economic opening involved first joining a free trade area with the UK in 1965, entering the EEC in 1973, and finally increasing integration into the global economy from the late 1980s largely through US FDI in IT, pharmaceutical and financial services sectors. From the 1960s to the late 1980s, Ireland’s economic opening up was accompanied by a fairly rapid expansion of the welfare state, largely along the already established liberal line, and a voluntarist industrial relations system (Boucher and Collins 2003) with a low degree of coordination between decision making institutions across policy areas. In terms of its political economic architecture Ireland resembled a politically independent region of the British economy until 1987.

With the precocious exception of the *First**Programme for Economic Expansion* in 1958 that presented an integrated planning model for Ireland’s economic development (Lee 1989: 344-53), efforts to promote a developmentalist state fizzled (Lee 1989: 353) until the relatively autonomous Industrial Development Authority began to attract the ‘right’ multinational companies for Ireland’s level of development in the 1980s (Mac Sharry and White 2000). Ireland’s first period of economic ‘catch up’ continuing through the 1960s and 1970s was spurred by factors such as FDI, initially from the UK and increasingly from the US, EEC funds particularly from the Common Agricultural Policy (CAP) to farmers. Latterly, it was fuelled by profligate public expenditure in the late 1970s and early 1980s that heavily indebted the country, contributing to the prolonged economic recession in the 1980s (Breen et al 1990; Lee 1989; Mjøset 1992).

The crisis of 1987 led to Ireland making a double shift to consensual democracy and social partnership: broad cross-party policy consensus (post-“Tallaght” Irish party politics) and the practice of social partnership (the six social partnership agreements since 1987). Ireland clearly shifted from a pattern of UK-style industrial relations adversarialism to one of comprehensive social partnership in 1987. It also shifted from a pattern of hyper-responsive clientelism and reckless, adversarial partisanship to one of broad policy consensus involving nearly all political parties between 1987 and 2008. However, a puzzle remains: how did this happen when the structural characteristics of the Irish industrial relations system and the STV-based party system remained unchanged? Regarding social partnership and party politics elite-level consensus had to be backed-up by grass-roots buy-in, elites did not become more insulated from their bases. The key to resolving these puzzles lies in the unusual relative power of Irish unions.

What is misunderstood about Irish social partnership is that it is essentially a bilateral deal between labor and the state. Domestic Irish capital has always been a marginal actor. In Scandinavia powerful encompassing labor unions were matched (indeed overmatched) by powerful, encompassing employer confederations. Although Scandinavian unions in absolute terms were very powerful, relative to domestic employer power they were weaker. In Ireland the weakness of domestic capital – few substantial domestic private corporations, together with a lot of parastatal employers - effectively meant that the employer’s confederation IBEC was largely a shell & the real negotiation was between the Irish Congress of Trade Unions (ICTU) and the state. Unions bargained for wage increases across the economy, and also tax cuts. The relative power of labor unions to business was strong. The unionization rate has remained the highest in the EU outside Scandinavia, despite the fact that FDI employers are mostly non-union. The FDI employers are, of course, hugely powerful, and the Irish state bends over backwards to do their bidding – maintaining a low rate of corporate taxation and providing infrastructure and trained workforces for largely US FDI. But in terms of the domestic political economy, foreign corporations were happy to coexist with social partnership, so long as it did not hurt them. To the extent that national wage bargaining tended to peg wages in the export sector to domestic wage rates FDI employers stood to benefit (a little like the way Scandinavian solidaristic wage policies depressed wage levels in the internationally competitive export sectors).

The Irish state was in the position of being servile in its relationship to FDI, but hard-nosed, sometimes even contemptuous towards domestic Irish business. This latter trait evaporated in the hubristic 2000-2008 period, when clientelistic relationship between property developers and the Fianna Fail party served to put the property boom on streroids.

**IV Korean Political Economy to 1997**

The legacies of state-led export-oriented industrialization (EOI) in Korea have shaped its contemporary IR policy. The primary characteristics of IR were the subordination of workers to the combined interests of a repressive state and the *chaebols* (family-owned conglomerates)-centered capitalism (Leggett, 1997: 64-73). The various restrictions on union activities were imposed for employers with substantial control over the workplace to maintain stability and cost containment for economic development. Labor control was in return for employment guarantees and seniority-based wages, leading to company-loyal unionism as part of an attempt to weaken independent unions all of which were compulsorily affiliated to the single government recognized the Federation of Korea Trade Union (FKTU) (Kuruvilla and Erickson, 2002: 187-188). Power during the period of the authoritarian governments before the democratization of 1987 clearly lay with the employer, and the primary goal of IR policies was dispute prevention. Collusion between the state and the *chaebols* served to actively manipulate industrial relations to guarantee industrial peace.

Democratization in 1987 incited a strong independent labor movement in such key sectors as the automobile industry, and became a growing concern for both the state and *chaebols*. Even after more than two decades of labor repression, increased labor activism is still regarded as dealing a blow to the competitiveness of the *chaebols.* Arguably, the legacies of the state’s strong pro-capital and anti-labor policies during the authoritarian period have led to unstable IR even in the democratic era (Han, Jang, and Kim, 2010: 292). The experience with state-supported labor control has deprived Korean industrialists of a chance to cultivate an autonomous IR culture in which management and labor could settle conflicts through dialogue and bargaining. This can be one of the essential ingredients of agreed social pacts that the Korean IR system is lacking.

Prolonged antagonistic IR encouraged union militancy in the post-1987 period, contributing to an average wage growth rate in excess of the productivity growth rate (Yoon, 2005: 215-215). Compared to countries with a low level of labor militancy and a strong corporatist tradition, the high levels of insurgent militancy in Korean IR may suggest that organized labor has weak capacity. Along with repressive policies, a highly fragmented and decentralized bargaining structure, which has been influenced by enterprise-based unionism, has remained a central feature of contemporary IR. These factors can also not be in favor of keeping social partnership alive. One of the most significant developments in the labor movement in the wake of democratization was the emergence of the Korean Confederation of Trade Unions (KCTU) in 1990. The new independent unions mostly making up of the KCTU members have been formed in opposition not only to company management but also to the FKTU. They framed IR issues with broader political democratization issues.

As increased industrial action, including strikes, grew, the government and *chaebo*l-led employers’ association claimed that they resulted in the erosion of Korea’s competitive position. With Korean exports and profits starting to decline, the Kim Young-Sam government (1993-8) tried to reform labor legislation allowing not only union participation in politics but also multiple unions in the workplace, and permitting the increased authority of employers to lay off employees. Kim’s reform drive was aimed at making workplaces more flexible and doing away with unquestioning lifetime employment practices, at the same time guaranteeing workers’ rights. The reform measures were met with a strong opposition from not only business but also labor community, and this agenda withered by 1997.

**V Formation and Development of Social Partnership in Ireland**

Ideas about national competitiveness among the Irish political elite, formulated as a shared paradign of “social partnership” shaped labor market policy in Ireland in a way that has excluded features of the Anglo-American neo-liberal model. Ireland has some markedly neo-liberal features: “passive” social protection spending in Ireland was by far the lowest in the EU and only half the EU average (14.1% of GNP compared to 27.3% for the EU-15)[[3]](#endnote-3).  Ireland also has a low tax regime: 25% of GNP compared to 40.5% for the EU-15[[4]](#endnote-4). Irish rates of poverty, social exclusion and inequality were high: 13th out of 18 OECD countries on exclusion and 12th out of 18 on poverty as measured by the UNDP Human Poverty Index (UNDP, 2000) and 17th out of 18 on income inequality[[5]](#endnote-5). But the celtic tiger’s neo-liberal fiscal stripes were arranged alongside the black stripes of “social partnership”[[6]](#endnote-6).

It was the 1987-92 Fianna Fail-led government that, contrary to most expectations, introduced both fiscal austerity and social partnership in the face of an enormous fiscal deficit. The party, under Charles Haughey, had been recklessly populist and expansionist, both in government 1979-81 and in opposition 1982-87. Social Partnership secured a corporatist bargain. Fiscal austerity secured the support of the main opposition party, Fine Gael, whose leader, Alan Dukes, committed to support the government’s economic program (the “Tallaght Strategy”). The outbreak of social peace in an industrial relations system long renowned for conflict, and an end to adversarial party politics provided the context for the emergence of a powerful new coalition that held firm until 2008. Whereas in most policy areas extreme fiscal austerity placed severe limits on policy innovation, one subsystem encountered a siscal windfall: the new European regime for cohesion funds aka “Delors 1” and “Delors 2”[[7]](#endnote-7). Delors 1 channelled IR£3.1billion to Ireland. Delors 2 channeled IR£4.6 billion into Ireland. Most of this was channelled through the Irish national training agency FÁS. The creation of FÁS as an all-encompassing labor market agency in 1987 (by a Fianna Fáil government) represented the most concrete institutional instantiation of the Irish version of “social partnership”.

Economic policy after 1987 revolved around a comprehensive “social partnership”. This includes centralized wage bargaining coordinated with government social policy[[8]](#endnote-8), but it also involved a much broader political and economic consensus on economic strategy negotiated by the social partners and political elites: “Social partnership has strong cross party political support … [it] has in effect been elevated to a shared political ideology, which infuses all aspects of public policy-making and with minimal dissent”[[9]](#endnote-9). For some this is a novel model of “problem-solving”, negotiated economic and social governance (O’Donnell 2000a). The framing documents for social partnership in Ireland have been six national partnership agreements that have formed the basis for four national development plans: the 1987 Programme for National Recovery (1987-89), the 1989 National Development Plan 1989-93, the 1994 National Development Plan (1994-1999) and the 2000 National Development Plan 2000-2006[[10]](#endnote-10). These plans receive broad support from all political parties.

 An area in which social partnership has had a decisive impact was in active labor market policy. The Irish labor market miracle had nothing to do with a great education system or its traditional higher education system. In the 1990s Irish labor market policy was able to engineer a cheap but effective labor market transformation in all tiers of the Irish labor market. At the top end, and important for FDI in Ireland were the Institutes of Technology which churned out degree-level and sub-degree level qualified labor for inward investors. The Irish state bore the full cost of made-to-order workforces for Intel, Pfizer etc. In the middle part of the labor market the Irish state executed a dramatic transformation of the apprenticeship system, turning a week system into a standards-based training system which spectacularly increased the number and the quality of skilled labor. As this was largely for domestic employers, the Irish state and Irish unions conspired to construct a system that was controlled by the social partnership labor market agency FÁS but paid for by employers, a particularly striking case of domestic employers being screwed by the state-labor coalition. At the bottom end of the labor market the Irish state mobilized civil society to provide jobs and training for the long term unemployed (the CE program which had about 5% of the workforce in its books for most of the 1990s. This was a voluntary program, no compulsion, no welfare to work, no viewing unemployment as social deviance. It relied on community organizations and a social democratic attitude to welfare rights. FÁS, which was superbly adapted to the clientelistic basis of Irish politics – it was responsive to the demands of elected politicians who in turn, because of the nature of the Irish STV electoral system, were hyper responsive to voters. This was very cheap and effective social policy. But it meant that the Irish state relied on quick and easy solutions to social problems, rather than more coherent social provision. Ireland missed the chance to develop a Scandinavian style welfare state. The quick-fix, “cheap and cheerful” policy regime meant the Irish state did little to reform social welfare or education. In fact social partnership tended to “freeze” debate on these areas.

 Even after the swinging austerity measures in 2008 brought social partnership to a halt, labor unions in the public sector continued the process of negotiating wage rates and lay off policy with government. This is known as the 2010 Croke park agreement – a series of negotiations between unions and government that started before the 2011 election and now continues. There is a lot of public posturing but a deal will be done, and once again it doesn’t matter much which coalition is in power. Once again it is a bilateral ICTU-government deal. The largely non-union FDI sector has revived rapidly 2010-13, though not enough to counter the collapse in the domestic private sector (above all in construction). Although unions have been weakened considerably since 2008 their political power relative to domestic business interests endures. Politically, the humiliating defeat suffered at the 2011 elections by Fianna Fail resulted only in a Fine Gael-Labour Party coalition, with Labour strongly committed to working with ICTU to resuscitate social partnership.

**VI Formation and Development of Social Partnership in Korea**

With the tension among the government, management, and labor intensifying, the Asian economic crisis starting in 1997 speeded up the process of IR restructuring. Coupled with the International Monetary Fund (IMF) bailout of the economy the government of Kim Dae-Jung, much friendlier to the labor movement than his predecessor Kim Young-Sam, launched far-reaching changes in IR in 1998. Early January 1998, he established the Korean Tripartite Commission (KTC) consisting of representatives from the two union confederations, employers, and government officials to deal with labor issues. These representatives formulated social pacts for overcoming the economic crisis. Apart from recognizing the KCTU, the most significant social pacts included legalizing lay-offs aimed at enhancing labor market flexibility in return for accepting teachers’ right to organize and unions’ political activities (Shin, 2010: 221).

Social pacts met labor’s long-standing demands for a voice heard in national decision making through the peak-level tripartite talks. But more importantly, the effects of social pacts due to market-driven labor policies are that non-regular workers account for above 30% of the total number of wage workers since 2003 (Han, Jang, and Kim, 2010: 295). Accordingly, job security is the key bargaining issue in present IR whereas it was taken for granted in the past. Primarily over the job security and flexibility issue the tension between the government, employers, and unions continued to grow after 1998. Without representatives from the KCTU, which criticized the massive lay-offs and withdrew from the tripartite panel in 1999, social partnership did not live up to its promise of creating tripartite talks at the national level. Clearly, what is the most challenging issue about contemporary IR in Korea is to hammer out the way of reconciling job security for workers and flexibility for employers through the social partnership.

Social partnership was dependent on changes in power relations between the state, management, and labor, which are in turn a shift in the political economy. In the wake of democratization, the economic crisis of 1997 indicated that Korea’s economy had serious structural weakness, possibly related to the ill-prepared liberalization of financial markets in the early the 1990s and the limits of the state-led EOI policy with the exclusion of labor. In this context, the KTC came into play as a social partnership institution. As some scholars have pointed out (Ebbinghaus, 2002; Rhodes, 2001), the decision to operate the KTC indicated a strategic shift on the part of government, now serving as an arranger for the purpose of revising labor legislation aimed at securing competitiveness.

In 1998 the KTC emerged as *ad hoc* political consultative body without a legal base to meet IMF conditions which included sweeping economic reforms and adoption of monetary austerity policies. Apart from representatives from the social partners, including the government, the two trade unions (FKTU and KCTU) and the national employers’ associations (KEF), political parties were participants in the KTC. They brought out the ‘Tripartite Joint Statement on Fair Burden-Sharing in the Process of Overcoming the Economic Crisis’ to discuss labor legislation and reach a social agreement in February 1998. In addition to the establishment of an unemployment insurance fund, the most significant social pact allowed for the layoff of workers to speed up restructuring, in return for the government’s promise to legalize political activities by unions. The *chaebols* were also to make their financial structure more transparent.

Regarding power relations, labor’s participation in the national policy-making process indicates that labor continued its growth into an opposing social force in relation to the state and capital since the end of the authoritarian period (Han, Jang, and Kim, 2010: 297). But more importantly, social accords with labor inclusion were regarded as a source of legitimacy and social support to carry out reforms. Policy concertation was to take place when a government was too weak to seek reform on its own. The aim is to circumvent labor’s backlash (Baccaro and Lim, 2007: 30). The Kim Dae-Jung government was elected in December 1997 at the beginning of the economic crisis, but with a weak mandate. It needed to seek social allies through social partnership with labor inclusion in an attempt to address the serious financial crisis. Even though the 1998 social pact came into play, the tripartite agreement failed to thrive. Representatives from the KCTU, FKTU and the employers were repeatedly disengaged from and re-entered the Tripartite Commission. Skeptical about the commission over *chaebol* efforts to restructure and lay off workers, the KCTU engaged in a wave of strikes, and finally withdrew in February 1999. The tripartite structures formally have still survived, but regarding its impact on policymaking it was essentially paralyzed.

The social accords calling for an unemployed workers’ right to join an extra-enterprise union and government’s promise to provide sufficient social safety net for dismissed workers were ignored, thereby casting doubt on the efficacy of social pacts. As workers were in danger of being laid off due to the legislation on worker dismissal, without reliable social protections, the tripartite commission did enhance its legal status from an *ad hoc* political body to official one, with the Act on Establishment and Operation of the KTC passed by the Korean legislature in May 1999. In the midst of labor’s growing complaints, the government secretly proposed to revoke the law allowing companies to refuse wages to full-time union leaders in order to assuage labor opposition and bring labor back to the table. This law was to take effect in 2002. When the government’s unofficial proposal for labor was made known, business responded to it with withdrawal from the panel, bringing the KTC to a standstill.

However, through the government’s bid to intercede labor and business parties, an agreement was reached in February 2001 that the renunciation of wages to full-time union leaders and the establishment of multiple unions at a workplace would be legalized after a five-year transitional period. Apart from that, the KTC launched the Special Committee on Reduction of Working Hours in May 2000, and pushed down working hours from 44 hours to 40 hours in a week in August 2003, which was ratified by the National Assembly.

The election of Roh Moon-hyun brought a new government with a somewhat stronger mandate to power, one predisposed to make social partnership work. Roh Moo-hyun slogan that "discussion should be familiarized until we are called 'Republic of discussion.'” With the KTC still deadlock edbecause of the KCTU’s continuing refusal to return to the table, the Roh Moo-hyun government elected in 2003 one-sidedly came up with the so-called Labor Relations Roadmap in September 2003. The KTC reached agreements on the roadmap in September 2006. Major significant agreements were that the controversial issues of keeping companies from paying full-time union officials and allowing multiple unions at the workplace were postponed for three more years (Han, Jang, and Kim, 2010: 298). In addition, the law on the Protection of Non-Regular Workers was passed in November 2006. According to the law the employment period of non-regular workers in total is limited to 2 years and those workers employed for more than 2 years, are to be regarded as regular workers. The reform agenda over non-regular workers met with strong opposition not only from labor but also from business circles, failing to reconcile between a flexible labor market for management and employment security for labor.

Falling short of all parties’ expectations, the efficacy of social pacts has been called into question in Korea since 1998. The social accord of 1998 was based on a political exchange among the government, labor and management in the context of the economic crisis. The political exchange was labor’s acceptance of layoffs to make the labor market more flexible in a bid to regain competitiveness in return for promoting labor rights such as allowing unions to engage in political activities, coupled with enhanced social protection measures. Reflecting on the political exchange for the emergence of social partnership, the reasons for unsustainable social concertation are that the nature of the political exchange was inherently asymmetrical, as Traxler (2003) argued. In the name of economic recovery, layoffs came into play, but there were insufficient institutional mechanisms to strengthen social safety net for labor. In 2007, the KCT changed its name to the Economic and Social Development Commission (ESDC) and established regional tripartite councils. In spite of the organizational reformation, the commission has no significant social accord. The election of the conservative Lee Myung-bak government in 2008 effectively put an end to the social partnership experiment.

**VII Conclusion and the Future of Social Partnership in Ireland and Korea**

The main difference between the cases was that the state-labor axis was central in Ireland, with domestic business marginal, and the FDI sector displaying benign neglect. In Korea, even when center-left governments were in office the power asymmetry between the chaebols and the unions meant that social partnership was unsustainable.

In Ireland 2013 the social and political response to austerity has been remarkable meek: no Bepe Grillo, no Golden Dawn, no Syriza, no flash mobs of “indignant youth”. The only places you are likely to find flash mobs of young Irish people is in Perth or Vancouver, where they have emigrated to. Explaining this quiescence? (a) the deeply entrenched system of social partnership in Ireland, anchored by Irish labor unions, and (b) remarkably robust clientelistic electoral politics. Ireland’s path out of austerity will be path dependent, not path deviant. The celtic tiger was in all its fundamentals a child of austerity – born out of the fiscal and social crisis of Ireland in late 80s and early 90s. In all likelihood, Ireland’s faster recovery from economic and fiscal crisis lies in the set of factors which created the celtic tiger in the first place. But the consequences of austerity in Ireland will be long-lasting, entrenching what was characterized even before the 2008 crisis as Europe’s most anorexic welfare state. The Irish government’s decision on September 28, 2008 to give an unlimited bank guarantee resulted in huge budget deficits and government bonds yields spiking to unsustainable levels with the Irish state seeking an €85 billion bailout from the troika – the European Commission, ECB and the IMF. Private debt, recklessly accrued by private Irish and German banks has become sovereign debt. Unlike Greece, Italy and Spain where it can be plausibly argued that there was publicly incurred debt as a result of high social spending, spending on infrastructural projects or under-taxation, the Irish have to endure massive austerity to pay for private debt.

The political reaction? There was an electoral earthquake at the 2011 general election - the Fianna Fail party which was in government in 2008 was humiliated at the 2011 election, getting 17% of the vote, having been the largest political party in Ireland since it was formed in the 1920s (and having been in power for 64 of the previous 80 years) but the Irish party system remains undisturbed, with all parties relying on the clientelistic non-ideological appeals of local candidates, reliant on clientelistic appeals. The deeply entrenched clientelism of Irish electoral politics is one factor explaining political quiescence, the other is the deeply entrenched system of social partnership. The Irish path out of austerity will be determined by the same factors that created the Celtic Tiger in the first place. But these factors are frequently misunderstood; the competition state (to use Philip Cerny’s term) and Irish labor market policy. Regarding the welfare state, what was already a very parsimonious welfare state will become ever more anorexic, due to the decades of fiscal pressure the debt repayment enforces.

In Korea, by contrast, there were weak linkages between political parties and organized labor. The Korean working class lacks the same coalition with political hegemonic parties as identified in the Irish case. Such a coalition could forge between *chaebols* and organized labor to win support from rank and file workers. In the absence of the political coalition, however, unions have the very limited capacity to remain committed to social pacts. Lack of organic and historic linkages between unions and political parties made it impossible for even the Kim and Roh governments to progress social pacts. The outcome is that the governments and *chaebols* have just taken advantage of social pacts to launch austerity programs introducing a lay-off system, vitiating labor’s demands for job security. In this context, workers fear that they suffer the impact of the reforms coming after the economic crisis of 1997 but they are also demonized as opposing the competitiveness-driven economic policies that are s malicious to the interests of organized labor. The resultant thing is that government and union relations are getting worse, not to mention the successive government of the Lee, Myung-bak (2008-2013) which was inclined to put a top priority on economic growth, not social policy. Consequently, the emergence of social partnership can be viewed as a “political rhetoric” to push for austerity programs.

Both Ireland and Korea as “tiger economies” confirm that the emergence of social partnership in times of economic crisis even in countries with no having generally accepted structural prerequisite to corporatism is possible. Whether social partnership is politically sustainable is entirely dependent on its political setting. Both cases offer evidence of social partnership based on competitive corporatism introduced in the context of economic crisis. But most importantly, the question is why social partnership can be sustained in Ireland but not Korea. The reason for the different trajectories was political. As shown in the Irish case, linkages between unions and governments closely related to political parties can be seen as one of the most critical factors having great effects on the sustainability of social partnership.

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1. Cerny, Philip G. (2000) Restructuring the Political Arena: Globalization and the paradoxes of the Competition State, in Randall D. Germain (ed.) Globalization and its Critics: Perspectives from Political Economy, Basingstoke: Macmillan - now Palgrave, p 122. [↑](#endnote-ref-1)
2. Social ends are not banished, but they are pursued only insofar as they are consonant with international economic competitiveness. [↑](#endnote-ref-2)
3. Spending on health, disability, old age, widows and widowers, families and children, unemployment, and housing CORI “Priorities for Fairness” April 2004 [↑](#endnote-ref-3)
4. CORI Justice Commission Annual Report “Priorities for Fairness” April 2004. OECD figures for 2003 on taxation show Irish taxataion as 28% of GDP compared to the EU 15 average of 40.5%. 2000 European Commission figures show that National Social Protection Expenditures (“passive” spending on healthcare, housing and benefits for the disabled, elderly, families and children) as 14.1% of GDP for Ireland, compared to 27.3% for the EU 15. [↑](#endnote-ref-4)
5. World Development Report 1998/9 Table 5 p. 198. [↑](#endnote-ref-5)
6. The color coding is derived from the neo-liberal “Golden Straitjacket” identified by Thomas Friedman (2000) and the black of European Christian Democracy (clerical by origin), the ideological underpinning concepts of social partnership and subsidiarity. [↑](#endnote-ref-6)
7. Economist, February 27, 1988, p. 41. [↑](#endnote-ref-7)
8. Interestingly this is a system that has broken down in Scandinavia itself in the early 1999’s. [↑](#endnote-ref-8)
9. Walsh, Craig and McCafferty (1998, 15-16) [↑](#endnote-ref-9)
10. The first three relied on labor market programs to counter social exclusion, the 2000 has a broader strategy for “social inclusion”. [↑](#endnote-ref-10)