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LABOR AND CAPITAL IN EUROPEAN PERIPHERY: A COMPARATIVE PERSPECTIVE OF HUNGARIAN AND IRISH POST-CRISIS TRANSFORMATIONS

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Abstract

This thesis evaluates the patterns of change in socio-economic policy developments of the past decade in the cases of Ireland and Hungary. By assessing the implications of recent policy transformations in the labor-capital nexus for Ireland, a neoliberal "poster child", and Hungary, Europe's most notorious populist "problem child", this thesis tests the commonly held belief that Hungary and Ireland's crisis-induced transformations stand in diametric opposition. I systematically map the trajectory of policy developments in five major institutional domains: financial systems and corporate governance, industrial relations, education and skill creation, welfare, and industrial policy to test these claims. Contrary to mainstream perceptions of divergent trajectories in socio-economic developments for Ireland and Hungary, this thesis argues that both countries have been transformed in a similar direction: towards a deepening of neoliberalism in the labor-capital relations. I attribute this to the stranglehold of the FDI and export-led growth model on these two small states in the European periphery.

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List of Abbreviations

MNB	*Magyar Nemzeti Bank – Hungarian Central Bank*
GVC	*Global Value Chain*
OECD	*Organization for Economic Co-operation and Development*
FDI	*Foreign Direct Investment*
IMF	*International Monetary Fund*
ECB	*European Central Bank*
EU	*European Union*
HFSA	*Hungarian Financial Supervisory Agency*
SSM	*Single Supervisory Mechanism*
PAYG	*Pay As You Go pension systems*
CEEMEA	*Central Eastern Europe Middle East & Africa Region*
HIPA	*Hungarian Investment Promotion Agency*
IDA	*Irish Development Agency*
IPE	*International Political Economy*
V-4	*Visegrad Countries: Hungary, Poland, Slovakia and Czech Republic*

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CHAPTER 1

1.1. INTRODUCTION

Traditional international political economy scholarship posits that the global economy has greater impacts on small economies[1]. Moreover, international market pressures such as those that stemmed from the global financial and Eurozone crisis, are expected to trigger a heavier political impact on countries which pursue foreign direct investment and export-led growth models[2]. Indeed this seems to have been the case for the small opened economies of Ireland and Hungary, which were among the hardest hit from the crisis.

Hungary was the first country to apply for a bailout from the International Monetary Fund and nevertheless in 2011 was the most financially vulnerable state in CEEMEA[3]. Similarly, in late 2008 the Irish economy was experiencing severe effects from the global financial crisis. By 2010 unemployment rate had increased to 13.6%[4], real wages declined sharply, and its real GDP contracted by 4.8% every year from 2008-2011[5]. In fact, according to the IMF, a first signal of the crisis in the euro era appeared in Ireland when Bear Sterns, an investment bank and securities

[1] Sandra Suárez Political and economic motivations for labor control: A comparison of Ireland, Puerto Rico, and Singapore." Studies in Comparative International Development (2001) 36 (2): 55

[2] Sandra Suárez Political and economic motivations for labor control: 55

[3] Corsetti et.al "Chapter 5: The Hungarian Crisis", *EEAG Report on the European Economy 2012*, (2012): 115

[4] Eurostat Unemployment Statistics, Data up to April 2017 http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics

[5] Bailey et.al. "A Cautionary Tale of Two 'tigers': Industrial Policy 'lessons' from Ireland and Hungary?" *Local Economy* 31, no.8 (December 1, 2016): 873

trading firm, was rescued in March 2008[6]. In November of 2010, Ireland requested IMF and EU emergency financial help[7].

Heightened pressures from the conditions of the crisis, and the subsequent decline amidst the recession, necessitated immediate crisis management responses – producing a myriad of institutional and political changes in all the countries affected. Yet a decade later, the global economy is still struggling with a sluggish growth pace, spreading among economists concerns about secular stagnation[8]. According to latest IMF World Economic Outlook, the slow recovery, exposes the economy to various risks which in turn lead to disruptive polarizations in the social and political fabric of many countries[9]. Indeed, the crisis exacerbates polarizations since according to regulation theory of IPE, with defines capitalism as an inherently unstable system, during periods of crisis the conflictual power relations between labor and capital become salient and opportunities for new balances of social cohesion begin[10]. Unquestionably, the political fabric of Ireland and

[6] Independent Evaluation Office of the IMF, "The IMF and the Crisis in Greece, Ireland and Portugal" *Evaluation Report* (2016): 8

[7]Independent Evaluation Office of the IMF, "The IMF and the Crisis": 12
[8] Arvind Subramanian, "The problem with secular stagnation" *World Economic Forum* (20 April 2015)
[9] IMF World Economic Outlook, "Too Slow for Too Long" *IMF* (2016): 1-230 and IMF Managing Director Christine Lagarde Lecture (April 5, 2016)
[10]Michael Aglietta, "Capitalism at the turn of the century: Regulation theory and the challenge of social change" *New Left Review 1* (232) (1998): 41 and 44

Hungary too, was transformed as a result of the crisis induced political negotiations between the factors of production of labor and capital.

Such polarizations found expression in Hungary through the election of Victor Orban's center-right party Fidesz in 2010, which has since pursued several unorthodox economic measures in order to bring back recovery to the country. The self-proclaimed "illiberal" democratic turn and the economic policies coined as *Orbanomics* have attracted considerable scholarly and political attention. However, at the sight of the impressive recovery, many critics who had been awaiting disaster are left confused[11]. The country's unemployment rate has dropped at historic lows, falling from 11.8% in 2010 to 4.5% in 2017[12], the budget deficit has remained below 3% since 2011 and the GDP growth of 2% is higher than the EU average[13].

On the other hand, Ireland has also displayed remarkable recovery, with headline figures such as a 26.3% GDP growth rate in 2015[14]. Some leading economists such as Paul Krugman have criticized these figures, describing them as skewed due to what he coined as '*leprechaun economics'*[15] – referring to the idiosyncrasies of international tax avoidance strategies[16]. An illustrative example is the recent European Commission rule on the case of Apple.Inc's tax activities in Ireland as an infringement upon European Competition law and a flagrant case of

[11]Andrew Byrne. 2015. "'Orbanomics' confounds critics as Hungary's economy recovers." *Financial Times* (June 9, 2015)
[12] Trading Economics. "*Hungary Unemployment Data 1999-2017* also About Hungary "Stability, growth, jobs: The Hungarian model o economic recover (February 2016)

[13] About Hungary. 2016. "Stability, growth, jobs.
[14] Regan, Aidan, and Samuel Brazys. "Celtic phoenix or leprechaun economics? The politics of an FDI led growth model in Europe." *UCD Geary Institute for Public Policy (Geary WP2017/01)* (2017): 2
[15] Regan, Aidan, and Samuel Brazys. "Celtic phoenix or leprechaun economics?: 2
[16] Regan, Aidan, and Samuel Brazys. "Celtic phoenix or leprechaun economics?: 2

'illegal state aid'[17]. Yet despite these events many economists and scholars find solid evidence of real underlying recovery based on increased FDI, especially in the information and communications technology (ICT)[18] sector.

Motivated by the observations on the successful stories of economic recovery from the crisis which is known to have impacted the European periphery such as Ireland and Hungary most harshly, we are interested in the post-crisis developments which led to what seems to be a reasonable prospect for continuing stabilization of the Irish and Hungarian economies. Underlying the recovery numbers however, there is a very different narrative of the two countries developments in the last decade. Ireland has been called a "poster child" of neoliberalism, addressing a neoliberal crisis with neoliberal solutions[19]. In complete opposition, Hungary has gained an infamous reputation as Europe's "*problem child"*[20] as a result of its nationalistic and populist turn post-crisis.

This contribution is about the seemingly diagonally opposite crisis management and policy responses of Hungary and Ireland. Utilizing a combination of regulation theory of international relations and the lenses of the varieties of capitalism scholarship, we offer an alternative reading of the post-crisis transformations in both Ireland and Hungary from a comparative perspective. The ***central argument*** of this thesis, is that contrary to commonly held beliefs, the Irish and Hungarian socio-economic transformations of the past decade, from the onset of the crisis in 2007, are not significantly different, but rather the different faces of the same coin. We contend the socio-

[17] Simon Bowers, "The Apple tax ruling – what this means for Ireland, tax and multinationals." *The Guardian* (August 2016) and Mark Scott. "Dublin Appeals $14.3 Billion Tax Charge Against Apple" (November 2016)

[18] According to Enterprise Ireland, Ireland is the second larger exporter on Computer and IT services in the world. For more information: https://www.enterprise-ireland.com/en/Start-a-Business-in-Ireland/Startups-from-Outside-Ireland/Key-Sectors-and-Companies-in-Ireland/ICT-sector-profile.html

[19] Colin Coulter. "Ireland under Austerity: An Introduction to the Book." In *Ireland under Austerity: Neoliberal Crisis, Neoliberal Solutions*, 1-44. Manchester University Press, 2015. http://www.jstor.org/stable/j.ctt18dzrh6.6.

[20] Keno Verseck "Hungary eyes closer ties with Russia" *Deutsche Welle* (2015)

economic transformations in both countries bear resounding similarities. By systematically mapping the trajectory of policy developments in five major institutional domains: namely financial systems and corporate governance, industrial relations, education and skill creation, welfare and industrial policy to test these claims, we evaluate the changes in terms of labor-capital relations. Contrary to mainstream perceptions, of divergent trajectories of socio-economic developments in Ireland and Hungary, this thesis argues that both countries have been transformed in a similar direction: towards a deepening of neoliberalism. Underneath the labels, lies the same story of the superior position of capital over labor in the context of small open economies characterized by institutional complementarities tailored for a 'race to the bottom' competition for investment at the expense of labor protection and the reliance on flexible labor regulations and weak unions[21].

1.2 THE PUZZLE

The experience of Ireland and Hungary during the post crisis and recovery years, seems so vastly different. One the one hand we have a case of Irish 'deepening neoliberalism"[22] – the solving of a neoliberal crisis with neoliberal measures, and the proud maintenance of firm pro-European credentials[23] evidenced by a pragmatic and ideological compliance with the directions and influence of the international institutions of the Troika for the economic recovery. Conversely, the Hungarian crisis recovery path is known as an experience marked by severe democratic backsliding and resilient anti-EU discourses.

[21] Suárez, Sandra. 2001. "Political and economic motivations for labor control: A comparison of Ireland, Puerto Rico, and Singapore." Studies in Comparative International Development 36 (2): 54-81
[22] Murphy et.al. "Deepening Neoliberalism via Austerity and 'Reform': The case of Ireland." *Human Geography* 6 (2): 38-53
[23] Tony Barber. "Corporate tax threat to Irish industrial policy" *Financial Times.* November 17 https://www.ft.com/content/f85ae612-f26c-11df-a2f3-00144feab49a

The unfolding of the decade after the onset of the crisis, in the Hungarian and Irish case, is the epitome and patent practical expression of what the European Central Bank's president Jean-Claude Trichet calls the *"Paradoxical effects"* of the crisis. In his words: *"The crisis has had some paradoxical effects: on the one hand it has unleashed a tendency to reengage in financial nationalism if not mercantilism; on the other hand it has contributed to the recognition that a very high degree of interdependencies between economies called for a much higher level of cooperation. These two opposing forces are presently competing. -ECB president Jean-Claude Trichet, April 2010*[24]

From this perspective, Hungary would belong to the radicalized response which revolves towards protectionism (limited as it may be under the EU) and Ireland as evidenced in the polical discourse prevailing in Irish parliament and media, towards cooperation. In addition to opportunity that the paradoxical effects of the crisis, create for a country to re-evaluate its position vis a vis globalization, integration in global production and the new division of labor, the crisis also elevates the conflict between capital and labor, creating an opportunity for the re-structuring of the Labor-Capital Relations.

For this reason we are prompted to ask whether indeed the seemingly cooperation-oriented and neoliberal trajectory of institutional change in Ireland and the illiberal and nationalistic one of Hungary are truly as different as they appear.

1.2.1 Research Question

In essence, our ***research question*** asks the following: *What is the nature of the crisis-induced socio-economic transformations of the past decade in Ireland and Hungary? Can we*

[24] Johnson, Juliet, and Andrew Barnes. 2015. "Financial nationalism and its international enablers: The Hungarian experience." *Review of International Political Economy* 22 (3)

identify from the policy developments of the last 10 years evidence to support the widely held conceptions of a very divergent crisis management and recovery path between Ireland and Hungary? In what ways have the capital-labor concessions shifted in the post crisis social cohesion perspective as the countries progress towards recovery?

This is fundamentally a question about the winners and losers of the crisis induced socio-economic transformations in these countries, particularly in the labor –capital nexus.

1.2.2 Hypothesis

Considering the position taken from the Hungarian government and their active attacks on the institutions of the EU, IMF and ECB, radical populist rhetoric against "the other", be it migrants and refugees, foreign banks and capital or internal enemies - we should expect to see policy transformations which mirror this discourse.

However, our ***hypothesis***, is that upon closer inspection, Hungarian socio-economic transformations would not reflect a significant degree concessions made for labor. When compared with each other, the "diagonally divergent" crisis transformations are expected to reveal significant similarities, where labor remains disadvantaged with regards to capital. We base these expectations on the theoretical grounds stemming from elements of the varieties of capitalism framework which holds that small opened economies, which are highly dependent on foreign capital for economic growth create institutional complementarities which support policies tailored for maintaining and advancing competitive advantage at the expense of labor protection, as FDI is attracted by flexible and weak labor. We believe that despite its rebellious façade Hungarian socio-economic transformations in the past decade not only do not reflect a 'return of labor' but on the contrary, contribute to the deepening of the depended market economy[25] model outlined in VoC theory by Nölke and Vliegenhart (2009). Thus, in both in Ireland and Hungary, we expect to find evidence of a deepening of neoliberal economic consequences to social structures as exemplified in the labor-capital nexus

1.3 RESEARCH METHOD

The Objective of this paper is to contribute to the knowledge on the variation of crisis induced responses and restructuring of labor-capital relations, in the particular context of two small, EU member states with a long history of FDI-led growth models. Utilizing the international political economy frameworks of regulation theory and social structures of accumulation coupled with varieties of capitalism and regulation theory perspective, we analyze and map the changes regarding labor and capital relations in Ireland and Hungary.

For the scope of this research we employ a *comparative case study methodology*, based on deep case knowledge. I use secondary reports from international organizations and scholarly analysis as well as primary sources in law and government program publications in order to identify the main transformations and variations among the Irish and Hungarian cases.

We organize our study of the trajectories of change by providing a brief but systematic overview of transformations instituted during the past decade (2007-2017) in Ireland and Hungary on the following five institutional categories:

1. Financial Systems and Corporate Governance
2. Industrial Relations

[25]Andreas Nölke, and Arjan Vliegenthart. 2009. *"Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe."* 61 (4).

3. Education and Skill Creation
4. Welfare
    a. Pension System
    b. Labor Market Policies
    c. Healthcare System
5. Industrial Policy

I adapt these categories as relevant for guiding my own analysis from the work of Duman and Kurekova (2012), who conduct a similar comparative study of the socio-economic models of Hungary and Slovakia with a focus on industrial policy[26]. We find these categories very useful for our own purposes, since the changes on labor-capital relations nexus become quite evident in those domains. Although we focus mainly on industrial relations (as representative of labor) and industrial policy (as representative of capital) we find that the other categories are also very important since according to Greskovits, Duman and Kurekova welfare and educational policies are always used by policy-makers as tools for economic restructuring[27].

1.4 LITERATURE REVIEW

There has been much scholarly attention dedicated to the global financial crisis and its consequences. Of particular interest for our own scope of inquiry are studies of socio-economic trajectories in capitalist societies. In the case of Ireland, McDonough and Dundon bring an elaborate account on the nature of the Irish social partnership and its collapse as a result of the crisis. Social partnership, a centralized wage bargaining process, was at the core of Irish industrial

[26] Duman, Anil, and Lucia Kureková. 2012. "The role of state in development of socioeconomic models in Hungary and Slovakia: the case of industrial policy." *Journal of European Public Policy* 19: (8)
[27] Duman, Anil, and Lucia Kureková. 2012. "The role of state in development of socioeconomic models in Hungary and Slovakia: the case of industrial policy." *Journal of European Public Policy* 19 (8): 1217

relations, setting Ireland apart from the neo-liberal trajectory of capitalist accumulation[28] considering that the “inclusion of trade unions in ‘macro-economic management and social policy making’...”[29] was singular. The authors argue rapid dissolution of social partnership after 20 years, reveals that the illusion of harmony between labor and capital produced by it, rested on weak foundations and was dependent on economic growth[30].

Pedar Kirby, in his 2010 book, *Celtic Tiger in Collapse: Explaining the weaknesses of the Irish Model* provides valuable insight about the Irish development model. In this and in other papers written by this expert in the political economy of Ireland[31], he states that Ireland’s economic “miracle” and the success of the flexible developmental state model produced a “sharp contrast between economic success and social failure”[32] calling it a mirage rather than a miracle. Kirby explains that the Irish capitalist accumulation gives priority to the international capital over its citizens[33]. When exploring the post crisis developments in my study, since the collapse of the social partnership, I will be questioning whether we notice a deepening of Irish neoliberalism.

Actually, there are several studies which already make similar claims in the case of Ireland. An important contribution comes from Murply et.al who claim that the post-crisis austerity and reform measures in Ireland, have resulted in what they call an “attack on workers and ordinary citizens”[34], which deepens neoliberalism in Ireland. This study, reproduces its own evaluation of

[28] Terrence McDonough and Tony Dundon. 2010. "Thatcherism delayed? The Irish crisis and the paradox of social partnership." *Industrial Relations Journal* 41 (6): 14
[29] Terrence McDonough and Tony Dundon, “Thatcherism delayed? (2010): 16
[30] McDonough, Terrence, and Tony Dundon. 2010. "Thatcherism delayed? The Irish crisis and the paradox of social partnership."
[31]For more information see: Peadar Kirby (2004) Globalization, the Celtic Tiger and social outcomes: is Ireland a model or a mirage?, Globalizations, 1:2, 205-222, DOI: 10.1080/1474773042000308578 and Kirby, Peadar “*Celtic Tiger in Collapse: Explaining the Weaknesses of the Irish Model”*. 2. Springer (2010)
[32]Peadar Kirby “Globalization, the Celtic Tiger and social outcomes: is Ireland a model or a mirage?, Globalizations”, (2004): 210
[33] Peadar Kirby “*Globalization, the Celtic Tiger and social outcomes*” (2004): 218
[34] Murphy et al. "Deepening Neoliberalism via Austerity and 'Reform': The case of Ireland.": 38

these claims on the basis of our five institutional domain analysis, and uses the case of Ireland as a comparative benchmark to evaluate whether Hungary is converging or diverging from these trends.

On the literature dedicated Hungary, I observed a general tendency to explain Hungarian policy changes, in line with this general perception of Hungarian hostility to international institutions and capital. For instance, one influential and rare (as there are few such thorough works on financial nationalism published at present) studies is the work of Johnson and Barnes on Hungarian financial nationalism.[35] Also Miclos Zsanyi's research on "The emergence of patronage state in Central Europe: The case of FDI-related policies in Hungary" [36] focuses on the Hungarian economic nationalist turn towards a patronage state. Such accounts of the Hungarian post-crisis transformations tend to emphasize the diverging socio-economic policies of the populist Hungarian government, which implies a strong opposition to traditional neo-liberal ideas. Nevertheless a systematic interrogation of the extent of divergence in terms of the labor-capital relations is lacking. Focusing on the ways in which Hungarian government's policies have gone against the interest or guidance of some international institutions or foreign capitalists, the question of just how much of the "embeddedness of neoliberalism"[37] is being challenged in the Hungarian post-crisis context is being overlooked. I consider this a significant gap in the existing literature, hope that this contribution makes for an interesting perspective of questioning the post crisis transformations in Ireland and Hungary. The timing is right, since a decade later, under conditions of economic

[35] Johnson, Juliet, and Andrew Barnes. 2015. "Financial nationalism and its international enablers: The Hungarian experience." *Review of International Political Economy* 22 (3)
[36] Miklós Szanyi. 2016. "The emergence of patronage state in Central Europe: The case of FDI-related policies in Hungary." *Working Paper 222*

[37] See Dorothee Bohle and Bela Greskovits. "*Capitalist Diversity in Europe's periphery"* (Cornell University Press, 2012)

recovery and before a new electoral cycle, such questions not only are reasonable to ask, but also important as they enable us to assess more critically the populist turn in Hungary.

Another significant gap, which I have identified in the literature, is related to the comparative aspect of this research. Ireland and Hungary in the years during and prior to their respective economic boom were routinely compared. Ireland, as small open market economy, pursuing a successful export-oriented growth model, was often pushed as an example for Hungary to emulate[38] both by international institutions and scholars. In particular, the German scholar Philip Fink, was a pioneer in stressing the similarities between the Irish and Hungarian growth models[39].

Contrariwise, after the crisis, with Ireland clustered along the rest of the southern debt-driven economies of the European periphery, and in light of such glaring ‘divergent’ paths to political and socio-economic responses to the crisis, the academia did not show interest in questioning the reasons nor the evidence behind this split. Whereas during the Celtic tiger boom the Hungarian and Irish socio-economic models were converging, can we speak of a real split of the tigers post-crisis? This is the gap, which this contribution is attempting to address, as a first step to a deeper and more rigorous future research in the area. Ergo, my contribution is focused on exploring the relationships between Capital – Labor – Policy nexus during the past decade adding to the literature of international political economy on Varieties of Capitalism, In addition, such an exploration could serve as a starting point to think about similar contexts of other dependent market economies such as the Slovakia and Slovenia as opposed to Poland where populism is on the rise.

[39] Peadar Kirby Globalization, the Celtic Tiger and social outcomes (2004): 206

1.5 THEORETICAL FRAMEWORK

At the theoretical level, this study first of all, tests the assumptions common in the Varieties of Capitalism Literature which maintains that capitalist varieties persist as "particular types of coordination in one sphere of the economy tend to develop complementary practices in other spheres"[40]. Given that institutions are considered to be sticky, in this study, I question the validity of common perceptions of Hungarian crisis-induced institutional changes, away from its traditional variety of capitalism model. From the theoretical work on capitalist diversity, we take the basic assumptions about the Irish and Hungarian pre-crisis models. In this framework Nölke and Vliegenthart have categorized Hungary along with the V-4 countries as a dependent market economy characterized by institutional complementarities which build around skilled but cheap labor, technological transfer through MNCs and provision of capital through FDI[41]. Bohle and Greskovits's called it an embedded neoliberalism highlighting a less market-radical position and more socially inclusive – a combination of industrial policy and social welfare[42] which makes Hungary distinct. Ireland, is also characterized by its FDI-export-led developmental growth model, which makes the countries comparable from a VoC perspective.

Theoretically this thesis is located in the intersection between institutional approaches of international political economy (resilience and complementarities of VoC) and the regulationist theories of IPE, which have traditionally been interested in institutional change[43]. Regulation

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[40]Peter A. Hall and David Soskice, *An Introduction to Varieties of Capitalism" in* Varieties of Capitalism: The Institutional Foundations of Comparative Advantage"*: (*Oxford University Press, 2001): 18
[41] Andreas Nölke, and Arjan Vliegenthart. 2009. *"Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe."* 61 (4):672
[42] Dorothee Bohle & Béla Greskovits, "Neoliberalism, embedded neoliberalism and neocorporatism: Towards transnational capitalism in Central-Eastern Europe" (2007) 30:3, :462
[43] Lucio Baccaro and Chris Howell, "A Common Neoliberal Trajectory: The Transformation of Industrial Relations in Advanced Capitalism" 39(4) (2011): 39

theory of IPE is based on the understanding of capitalism as an intrinsically unstable system displaying cyclical patterns of capitalist accumulation[44] and social cohesion followed by periods of crisis and subsequent re-structuring of relations between capital and labor. According to Bohle[45], crises conjure new opportunities for fashioning revised concessions between labor and capital, in order to return to periods of stability and cohesion. By highligting temporal discontinuity and subsequent structural change, the moment of the 2008 global financial crisis, and the EU debt crisis can be seen as critical points of juncture[46] could have indeed largely transormed the institutional complementarities of pre-crisis Hungary and Ireland, in the terms of labor and capital as seen through industrial relations and industrial policy nexus.

When speaking of a deepening neoliberalism in terms labor-capital relations, we define neoliberalism, as a trend towards institutional deregulation, which according to Baccaro and Howell ’eliminates constrains on capital’s discretion through the removal of legal or contractual restrictions at the worplace level, in the broader labor market and in society’[47]. This means a move from stronger collective bargaining relations to weaker ones, more reliance on individual bargaining, reduction of unemployment pay, lower protection of employment (i.e. increase in non-standard employment). On the side of industrial policy, it would mean more active efforts towards liberalization and incentives that favor foreign capital.

[44]Michael Aglietta, “Capitalism at the turn of the century: Regulation theory and the challenge of social change” New Left Review 1 (232) (1998): 41-90
[45]Bohle, Dorothee. 2016. "East Central Europe in the European Union." In *The Palgrave Handbook of Critical International Political Economy*, edited by Alan Cafruny, Leila Simona Talani and Gonzalo Pozo Martin, 476. doi:10.1057/978-1-137-50018-2.
[46] Giovanni Capoccia, “Critical Junctures and Institutional Change” Oxford University
[47] Lucio Baccaro and Chris Howell, “A Common Neoliberal Trajectory: 526-527

1.6 CONCLUSION AND OUTLINE

In the following chapter I provide a detailed study and analysis of the Hungarian post-crisis transformations. We begin with establishing a knowledge on the previous institutional characteristics, in order to more easily identify patterns of transformation during the past decade and .The third chapter in the same way analyzes the case of Ireland. In the last part we carry a discussion on the findings and conclude.

CHAPTER 2

2.1. THE PANNONIAN TIGER

Hungary became part of the General Agreement on Tariffs and Trade (GAAT) in 1973, and joined the IMF in 1982, beginning in this way, its path towards financial and trade openness. Once, in the verge of defaulting on its debt, in 1990, in order to meet its financial obligations, Hungary initiated a rapid privatization course which was fundamental in the opening of the country. [48] By the end of the 1990s, 70% of the banking system was under foreign ownership. [49]

Influenced by ideas such as those promoted by UNCTAD, stressing the importance of FDI for development growth and competitiveness[50] as well as Hungary's economic need for technological modernization and capital, created appropriate conditions for the start of an FDI-led transition strategy. [51] We adapt from Duman and Kureková the following table, which will help to guide our analysis on the development and typology of the Hungarian institutional design in the Pannonian Tiger's pre-crisis era until the onset of the global financial crisis.

[48] Philipp Fink, "FDI-Led Growth and Rising Polarizations in Hungary: Quantity at the Expense of Quality," New Political Economy 11(1), (March 2006): 47–72.
49 Anil Duman and Lucia Kureková, "The Role of State in Development of Socio-Economic Models in Hungary and Slovakia: The Case of Industrial Policy," Journal of European Public Policy 19, no. 8 (October 2012): 1207–28.
[50] Philipp Fink, "FDI-Led Growth and Rising Polarizations in Hungary: Quantity at the Expense of Quality," New Political Economy 11(1), (March 2006): 47–72.
[51] Ibid.

Table 1 Hungarian Institutional Design Pre-Crisis

	Typology
Financial Systems	Bank-based
Corporate Governance	Insider-dominated
Industrial Relations	Conflictarian Dominant bargaining level: company Recognition of unions: Limited role owing to fragmentation which has been used to weaken and play off the unions
Education and Skill Creation	State-/school-based
Welfare: *Pension System*	Weakly privatized
Welfare: *Labor Market Policies*	Welfare-workfare welfare system
Welfare: *Healthcare System*	State-controlled healthcare
Industrial Policy	Active state

Source: Duman and Kureková (2012)

Hungarian financial systems were bank based, which as mentioned earlier, were largely foreign owned. The regulations on corporate governance, although in the hands of the Budapest Stock Exchange, provided limited capability for state intervention, since the activities of foreign - owned enterprises were harmonized by their distant headquarters[52].

During the pre-crisis period, Hungarian industrial policy displayed features of an active state which mobilized a series of instruments to attract foreign investment. State aid, included general corporate tax of around 16 percent[53], numerous fiscal incentives which depended on investment size, employment generation and geographic location such as in a designated Export Processing Zones[54]. All these various forms of industrial policy orientation and design to draw FDI, proved to be extremely successful incentives for the development of the car industry in Hungary[55]. Moreover, the government provided stable budget subsidies of around 5-6 percent[56].

52 Anil Duman and Lucia Kureková, "The Role of State in Development of Socio-Economic Models in Hungary and Slovakia: The Case of Industrial Policy," Journal of European Public Policy 19, no. 8 (October 2012): 1207–28.

53 Philipp Fink, "FDI-Led Growth and Rising Polarizations in Hungary: Quantity at the Expense of Quality," *New Political Economy* 11(1), (March 2006): 47–72.

54 These are special zones, duty and tax free zones, designated for firms which produce for export.

55 Philipp Fink, "FDI-Led Growth and Rising Polarizations in Hungary: Quantity at the Expense of Quality," *New Political Economy* 11(1), (March 2006): 47–72.

56 Anil Duman and Lucia Kureková, "The Role of State in Development of Socio-Economic Models in Hungary and Slovakia: The Case of Industrial Policy," *Journal of European Public Policy* 19, no. 8 (October 2012): 1207–28.

According to many scholars like Fink, Duman and Kureková and Christoph Dörrenbächer, an essential feature, of the country's industrial policy, was its non-discriminatory attribute. Yet while there was officially no distinction among foreign and indigenous enterprises, the domestic firms in Hungary have historically struggled to benefit from the country's high global value chain participation and technological transfer and knowledge spillovers remain generally limited.[57] Consequently, the policies disproportionately benefited foreign capital, as domestic firms were often unable to benefit from available state aid.

The institutional complementarities, which came with this FDI oriented and export led development strategy, included an assortment of industrial relations characterized by an ineffective social partnership. This was a direct result of a fragmented and dualized system of work councils and trade unions.[58] In terms of vocational training and education, the state was carried the primary responsibility for these provisions through a school based system, managed by the state. Also, there were attempts to introduce private pension schemes, however the privatization level remained weak.

It becomes evident, even though this brief account that the institutional design of the Hungarian state, increasingly opening to foreign capital and trade, and growing dependent on foreign investment created a labor-capital compromise where labor was compliant whereas the employer and capital had the upper hand to shape and orient policies. Nonetheless, it was still the government who held the power to strike settle the balance. The emergence, during this transitory period of shifting from communism to market power and foreign capital, created a new elite of

[57] Jana Vlčková. "How to Benefit from Global Value Chains: Implications for the V4 Countries." Vysoká Škola Ekonomická, Nakladatelství Oeconomica, (2015): 28

[58] Anil Duman and Lucia Kureková, "The Role of State in Development of Socio-Economic Models in Hungary and Slovakia: The Case of Industrial Policy," *Journal of European Public Policy* 19, no. 8 (October 2012): 1207–28.

winners, which according to Drahokoupil, made possible a broad and sustained political support for the emerging form of FDI-based competition state[59].

These industrial policy measures were designed to increase competitiveness, and certainly this particular pro-foreign orientation, was followed by rising GDP and low unemployment.

Despite the good track record of a Hungarian economy upgrading and becoming highly integrated with the global structures of production, even before the crisis emerged, a large body of literature developed around cautioning against policies which promoted an unsustainable dependency on FDI. Scholars theorizing on the varieties of capitalism, like Nölke and Vliegenhard[60], who coined the term dependent market economy for Hungary and the rest of the V-4 countries, criticized this development path. Bohle and Grescovitz, who expanded on their work, and called the Hungarian model, an embedded liberalism criticized the policy focus on industrial upgrading at the expense of social inclusion.[61]

In this line, many others began to stress the distributional problems and vulnerabilities inherent in this institutional model and approach to development. Critics such as Robert Wade, Harmut Elsenhans warned about the polarization and "uneven development"[62] which is brought about by an export and FDI-led development, benefiting the few highly skilled workers (in the case of Ireland and Hungary where part of their FDI comparative advantage is educated high skilled labor force which is also competitive in terms of wage and comfortable in terms loose regulation and unionization). Indeed much research is conducted by OECD and independent scholars that

[59] Miklos Szanyi, "The Emergence of Patronage State in Central Europe. The Case of FDI-Related Policies in Hungary," IWE Working Paper. Institute for World Economics - Centre for Economic and Regional Studies - Hungarian Academy of Sciences, 2016.

[60] A. Nölke and A.Vliegenthart, "Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe," World Politics 61 (4) (2009): 670–702.

[61] Bohle, Dorothee, and Béla Greskovits, Capitalist Diversity on Europe's Periphery, Cornell Studies in Political Economy, Ithaca, NY: Cornell University Press, 2012.

[62] Philipp Fink, "FDI-Led Growth and Rising Polarisations in Hungary: Quantity at the Expense of Quality," New Political Economy 11(1), (March 2006): 47–72.

clearly identify wage premiums and other polarizing effects as a result of the presence of MNCs in the domestic economy[63]. The problem is significant when the government policy is not doing enough for the parallel development of the indigenous capacity, or in terms of re-distributional measure in order to balance and create more equality in the labor market, in terms of access to education and training, welfare and inclusive growth.

Despite warnings, during the pre-crisis period of financial accumulation, these polarizations had not yet become as relevant and disruptive as to exhume radical policy transformations. However, as we will discover in the following section, the extreme vulnerability which was built prior to the crisis, was exposed resulting in a fresh process of crisis-induced policy transformations, which alter the balance of labor-capital relations. In the following section we will trace the responses of the Hungarian government, and attempt to identify, whether the institutional arrangements that predominated the growth period, were indeed significantly challenged by the right wing Hungarian government.

2.2. The ups and downs of a Pannonian rebel: Hungary's labor-capital transformations during the past decade

The Hungarian economy, became a growth slacker with its GDP plummeting to 1.3 percent in 2007, down from over 4 percent in 2006[64] and the country was facing the largest budget deficit in the EU[65]. Since the 1990s, there had been a persistent pattern of cyclical deficit increases with each electoral cycle[66], however after the 2002 election, the deficit surpassed 5% of GDP and since 2001 until the onset of the crisis rapid accumulation of public debt was coupled with a high external

[63] For more detailed information see Carlos A. Molina, and William F. Maloney, "Are Automation and Trade Polarizing Developing Country Labor Markets, Too ?" The World Bank, December 19, 2016.

[64] CEPA, "Hungary's Reform Deficit," June 2008.

[65] Mark R. Beissinger,, and Gwendolyn Sasse, "An End to 'Patience'?" Mass Politics in Tough Times: Opinions, Votes and Protest in the Great Recession, (2014).

[66] "CESifo Group Munich - 2012 EEAG Report on the European Economy," February 2012, 115–130.

debt. In 2008 thus, the ruling MSZP coalition with liberal Alliance of Free Democrats (SZDSZ) were facing the highest government debt in Central Europe at two thirds of GDP, a twin deficit[67], rising inflation, and upward pressures to unemployment exacerbated by the high tax wedge on labor.[68] With pressure amounting, Hungary became the first to request IMF backing in October 2008[69]. Subsequently, several disruptive austerity measures, such as 10% cuts to public sector[70] were introduced in response to these economic problems.

This domestic crisis instigated growing political polarizations among socialist MSZP and the center right opposition party Fidesz. Contention against the austerity package, enabled Fidesz to stage recurring anti-government protests across the country, demanding the resignation of Prime Minister Ferenc Gyurcsany and rejecting plans for raised taxation, subsidy cuts and public sector reduction.[71] According to a study by Breissinger and Sasse, who analyze 18 East European states, Hungary was one of the countries that exhibited the highest levels of economic protest.

In the context of this political and economic climate, in the April 2010 elections a sweeping two thirds majority seats was achieved by the Fidesz-KDNP coalition, and the radical right party Jobbik entered the parliament for the first time in 8 years[72]. Immediately upon coming to power, Prime Minister Victor Orbán began to complement its populist discourse, with a series of policy measures which have been broadly defined as unorthodox – this not due to innovativeness but rather since they are not commonplace for neoliberal developed countries.[73]

67 A twin deficit is defined as a combination of both current account deficit and public budget deficit
68CEPA, "Hungary's Reform Deficit," June 2008.
69 CESifo Group Munich, "EEAG Report on the European Economy," February 2012, 115–130.
70 Mark R. Beissinger and Gwendolyn Sasse, "An End to 'Patience'?" *Mass Politics in Tough Times: Opinions, Votes and Protest in the Great Recession*, (2014).
71 Ibid.
72 Magyar Nemzeti Bank. "Mid-Term Report, 2013-2016," 2016, 3.
73 EEAG Report 2012 – according to this report, in fact these unorthodox measures not only are not unorthodox elsewhere, but are also not innovative or new

"*In Hungary the national government is under continuous pressure and attacks so what is at stake at all elections is whether we will have a parliament and government serving the interests of Hungarian people or it will serve foreign interests*"[74]

Statements, as the above, embody the nature of Orbán's political discourse. Populist attack on foreign capital, international institutions such as the EU and IMF, foreign nationals like refugees and migrants, amalgamate into the self-proclaimed illiberal turn in Hungarian democracy. Translated into socio-economic policy, these transformations are claimed to have produced an ideational and practical turn in the institutional design and socio-economic model of Hungary. Since the beginning of his election in 2010, and continuing his second term, Orbán has stated ambitions of not simply reform as a crisis management strategy, but rather a fundamental large – scale re-organization[75] of the country's socio-economic model.

In a statement he made during a crisis management discussion on the occasion of OECD's 50th anniversary, he claimed that addressing the issue of employment, at the time at 56% (the lowest in Europe) was a priority and responsibility of the government to return people at the labor market.[76] In proclaiming the post-crisis economy in as a ***labor-based economy*** and declaring his government reforms as "*opening a new epoch in history...*"[77] there is an explicit promise and implication for radical restructuring of labor-capital relations. This is precisely, the question that interest us: Is there evidence of significant transformations in the Hungarian socio-economic model during the past decade? In the following section, we provide qualitative evidence and map the important changes of the past decade.

2.2.1. Mapping Hungarian illiberal democracy and "labor-based economy" transformations

[74] Matthew Day. 2017. "Foreign interests trying to subvert my rule, says Hungary's Viktor Orban, amid protests." *The Telegraph*, April
75 Econews, "Orbán Calls for Hungary's Reorganization, Not Just Reforms," Budapest Business Journal, May 26, 2011.
76 Ibid
77 Ibid

After coming to power, the Fidesz led supermajority was able, to introduce major changes, even controversial constitutional amendments[78] in 2012.[79] Here, we will brief the most significant aspects of reorganization in the five institutional domains outlined in the table below.

The crisis, uncovered significant vulnerabilities which the embedded neoliberal open market economy highly integrated in GVCs, had accumulated. High external debt was endorsed by the availability of low interest rates and the stable forint-euro exchange rate. The lack of financial regulations, resulted in an unprecedented accumulation of foreign debt, where for instance from 2003-2008 the share of household currency loans jumped from 5% to a heaping 70%.[80] Aiming at reducing financial vulnerability and increasing monetary sovereignty in pursuit of economic self-rule, the Fidesz-led government took a policy path, which Johnson and Barnes branded as ***financial nationalism***[81]. According to this study, financial nationalism was manifested in measures taken for decreasing the influence of foreign-owned banks and foreign currency, interfering with the institutional independence of the MNB in order to control monetary policy, contentious relations with international institutions such as the IMF, and measures taken to stabilize the budget, by placing the burden on "national outsiders"[82].

The government increased taxes on financial institutions and punished foreign banks despite the continuous calls coming from the ECB and the IMF for a more "business friendly environment". These suggestions were proposed in Ireland too, however, Hungary did not respond with the same compliance. The first 'crisis tax' was aimed openly at heavily foreign-owned

[78] Constitutional amendments were made possible by the majority vote - the Constitution enacted in 2012 contained amendments to limit the Constitutional Court powers, restricting election campaign only to state media, laws about traditional family relationships etc.
[79] BBC News, "Q&A: Hungary's Controversial Constitutional Changes," March 11, 2013.
[80] Juliet Johnson and Andrew Barnes, "Financial Nationalism and Its International Enablers: The Hungarian Experience," Review of International Political Economy 22, no. 3 (May 4, 2015).
[81] Ibid.
[82] Ibid.

banking sector[83], and the government carried a discourse of open conflict with international capital. Despite the voiced disapproval, concerns or even legal actions for infringement from the European Commission, the IMF and ECB on measures such as the Financial Stability Act and the National Bank of Hungary act, Hungary continued with its opposition and unorthodox policies.

As we can see from our map of the transformations in the five dimensions of Hungarian socio-economic model, during 2007 and 2010, we have identified in addition to financial nationalism, a pattern of reversal from competition state, where neoliberal industrial policy was characterized by non-discriminatory attitudes, towards what scholars like (Szanyi 2016) classify as a ***patronage state*** - which is defined as exhibiting selective advantage and punishment measures.

[83] Juliet Johnson and Andrew Barnes, "Financial Nationalism and Its International Enablers: The Hungarian Experience," *Review of International Political Economy* 22, no. 3 (May 4, 2015).

Table 2: Hungary - Post Crisis Transformations (2007-2017)

	Typology	*Major Changes*	*Timing*
Financial Systems	**Financial Nationalism**	Introduced "crisis tax" aimed against foreign-owned banks[84] Further tax increases in 2013 budget – record losses in banking industry[85] Monetary Easing Cycle After a 565-bp[86] reduction of the base rate to a CB base rate of 7% a historical low – goal to achieve price stability[87] Law permitting household mortgage debt owners to repay foreign-currency debt at discounted non-market exchange rates as a one-off payment[88] Resulted in 1% of GDP cost to banks[89] Approval against disapproval from IMF and ECB of Financial Stability Act and National Bank of Hungary Act – tainting MNB independence[90]	2010 2013 August 2012-July 2015 September 2011 2012
Corporate Governance	**Strong State Position Non-Participatory in EU SSM[91]**	Setting 6 pillars of Corporate Social Responsibility[92] Integrate MNB and HFSA[93] – despite EC's legal action to prevent the law[94]	2014 2013
Industrial Relations	**Employer-Friendly Strengthening Polarization**	New Labor Code: Created more flexible labor conditions, empowers employers to lower work standards and liberalizes bargaining processes[95]. The government dispersed the tripartite system and favoring employers[96]	2012

84 Bryant Chris. "Hungary Unveils 'crisis' Taxes on Business." Financial Times, October 18, 2010.
85 Kristine L. Johnson and Troy A. Barner "SEC Complaint," 2015.
86 **Base point**
87 Magyar Nemzeti Bank. "Mid-Term Report, 2013-2016," 2016
88 CESifo Group Munich, "EEAG Report on the European Economy," February 2012, 115–130.
89 Johnson, Juliet, and Andrew Barnes. "Financial Nationalism and Its International Enablers: The Hungarian Experience." Review of International Political Economy 22, no. 3 (May 4, 2015).
90 CESifo Group Munich, "EEAG Report on the European Economy," February 2012, 115–130.
91 **Pan European Single Supervisory Mechanism**
92 Magyar Nemzeti Bank. "Mid-Term Report, 2013-2016," 2016, 8.
93 Hungarian Financial Supervisory Agency
94 **Invalid source specified. page 7**
95 Imre Szabó, "Between Polarization and Statism – Effects of the Crisis on Collective Bargaining Processes and Outcomes in Hungary." Transfer: European Review of Labour and Research 19, no. 2 (May 2013): 210.
96 Ibid: 211

Education and Skill Creation	**More active state – weak reform**	Reforms in modernizing Vocational Education and Training by providing incentives for firms to offer training through contribution reductions[97] to modernize the system and tackle inclusion and inequality.	
Welfare: Pension System	**Reversal to Nationalization**	Private Pensions were nationalized in order to support the 2011 revenue decrease and support the drastic tax cuts on SMEs and incomes[98] Pension reform to tighten access to early retirement schemes and stricter requirements for disability pensions[99].	2011 Since 2011
Welfare: Labor Market Policies	**Welfare-workforce Better linked**	Introduced 16% flat tax rate on wage income[100] Széll Kálmán plan – many consequences for labor **Active Labor Market Programs:** such as First Job Guarantee Program for new entrants and increased public-works program (5% of total employment by 2013)[101] Reduced employer contributions for targeted groups (low-skilled, young, old, new entrants, long-term unemployed and returning mothers)[102] to increase inclusion of vulnerable groups. Reform on Benefits: Unemployment benefits time reduced	2011 2012
Welfare: Healthcare System	**State-Controlled: Weak and Contentious**	Weak health outcomes and unequal access to healthcare continues to affect negatively labor market participation[103]	

97 HIPA, "Horizon, Trends and Information Concerning the Hungarian Investment Environment," 2016.
98 CESifo Group Munich, "EEAG Report on the European Economy," February 2012, 115–130.
99 "Hungary: Selected Issues; IMF Country Report 14/156," Washingtom: International Monetary Fund, June 2014, 31.
100 CESifo Group Munich, "EEAG Report on the European Economy," February 2012, 115–130.
101 "Hungary: Selected Issues; IMF Country Report 14/156," Washington: International Monetary Fund, June 2014, 31.
102 Ibid, 31.
103 European Commission, Country Report Hungary, Commission Staff Working Document: Country Report Hungary, *Brussels,* 2017, 29.

Industrial Policy	**From a Competition State Towards a twisted Patronage State**	***Funding for growth Scheme***: To facilitate lending , 2017to ***Hungarian*** SMEs – 310000 enterprises benefited from a total of over HUF 2bn.	June 2013-December
		Exceptional Taxes on foreign owned financial, telecommunication and retail industries[104]	2016
		Cut corporate tax rate for SMEs	2010
		Increased corporate profit tax rates to 19%; foreign association tax rates of 30% up from previous reduction of 16%. Cancelled most credits and allowances reducing corporate tax rate with the exception of investment benefits (SME investment benefit and development reserve)[105]	January 2010
		Increased Social security contributions paid by firms and VAT rate from 25-27%[106]	2012
		Acquisition of GIRO Zrt. MKB11 Bank and of the Budapest Stock Exchange Zrt.	2014 and 2015
		Implemented SME support programs supported by EU funds: (*Working Capital Credit Program, SME Credit Program, Venture Capital Program)*	Since 2008
		Since 2017 – Cut corporate Tax Rate to 9% - The lowest in European Union – estimated to mainly benefit midsized and foreign owned companies with revenues greater than €2m[107,108].	2017

[104] CESifo Group Munich, "EEAG Report on the European Economy," February 2012, 115–130.
[105] Bruno Dallago, "SME Policy and Competitiveness in Hungary," *Vezetéstudomány / Budapest Management Review 43*, no. 7–8 (2012): 93.
[106] CESifo Group Munich, "EEAG Report on the European Economy," February 2012, 115–130.
[107] Byrne Andrew, "Hungary to Offer EU's Lowest Corporate Tax Rate,." Financial Times, November 17, 2016.

He claims that the Hungarian post-crisis experience displays a transformation from a neoliberal-competition state focused on competitiveness and integration in the global economy, towards a policy environment where the former FDI-friendly policies have been captured by a strong state, which cherry picks insiders and outsiders in clientelist relations[109].

In the table above, we can observe evidence for the high degree of "protectionism" starting from financial nationalism where foreign owned financial institutions, but other sectors as well are targeted with discriminatory regulations and taxations. The re-channeling of private pension funds into the PAYG public system, the acquisition in 2014 and 2015 Acquisition of GIRO Zrt. MKB11 Bank and of the Budapest Stock Exchange, as well as increased support on SMEs do support a hypothesis for the transformation of business-policy power relations during the post crisis period.

2.2.2. Europe's problem child: a nonconformist Hungary - Has Labor-Capital Balance radically altered?

At first glance, the transformations in the Hungarian industrial policy and the financial system developments designed to respond to the consequences of the economic crisis, that of global finance, the specific EU context of sovereign debt instabilities in the union as well as the refugee flow, seem to confirm the position of the center-right Fidesz-government which prides in a nationalist turn and illiberal democracy which puts *Hungarians* first. Scholars and media alike, are justified in noting these adversarial and nationalistic policy measures that target "outsiders" be it MNCs, foreign capital, people, or simply "enemies" of the government.

However, in this contribution we problematize such sweeping claims. From the through qualitative analysis of the major post-crisis policy developments and subsequent transformations in the above five dimensions of socio-economic policy, we find strong empirical cues which

[109] Miklos Szanyi, "The Emergence of Patronage State in Central Europe. The Case of FDI-Related Policies in Hungary," IWE Working Paper. Institute for World Economics - Centre for Economic and Regional Studies - Hungarian Academy of Sciences, 2016.

support the position that the acclaimed rebellion from the perspective of the government, or the problem child challenges to the EU, ECB, and IMF perspective is indeed not as drastically revolutionary as it appears. We maintain that the institutional foundations of the Hungarian embedded neoliberal model of FDI and export – led growth, are not substantially challenged in this post-crisis period of transformation and the strongholds of the dependency model despite efforts and government rhetoric, not only remain, but seem to have been exacerbated and deepened by the crisis and the subsequent pathway towards economic recovery.

Our empirical analysis, reveals that despite political attempts to thwart dependency on foreign capital resulting in increased taxation, preferential treatment, patronage economics and increasingly clientelist relations with foreign capital, still Hungary shows recognition of the importance of FDI for further supporting recovery of employment and growth. Indeed the latest measure of decreasing corporate taxation to a record low 9%, the lowest in European Union even more so than the 12.5% Irish rates is telling of the role of building institutional and regulatory competitive advantages in order to attract a relatively mobile foreign investment.

Yet, even more enlightening than industrial policy, of the enduring and even deepening capital-labor relationships in growth models like the Irish and the Hungarian one, which promote the strengthening of capital and the weakening bargaining power of labor and liberalization of labor regulations is the evidence coming from the transformations in industrial relations.

The Hungarian government supports their rhetoric of placing 'Hungarian workers' at the center of policy through figures of employment recovery for instance an unemployment decrease in 2016 to 4.5% as opposed to 6.2% of 2015[110]. In addition it appeals to workers through the raises in minimum wages to compensate for the adverse effects of the tax increases.[111] However, what

110 HIPA, "Horizon, Trends and Information Concerning the Hungarian Investment Environment," 2016.
111 Hungary: Selected Issues; IMF Country Report 14/156," Washingtom: International Monetary Fund, June 2014, 31.

goes unmentioned is the reliance on the expansion of public works program as the source of the overwhelming increase to employment, while the private sector began to pick up only starting from the last quarter of 2013 and has been slow and weak to absorb labor and contribute to increased participation[112]. The sustainability of such recovery is questionable to say the least.

The cuts in benefits and welfare programs, even though it is argued to have been successful in increasing labor participation, not only do not seem sustainable but have quite unclear distributional effects. The government's efforts at reform in education and vocational training have largely been unsuccessful to devise significant impact in reaching their goals of modernization of the programs, promotion of adult learning and inclusion of disadvantaged groups such as the Roma since Hungarian education is still plagued with challenges to equity[113].

We have yet to mention, the strongest challenge to common perceptions of the economic nationalist turn to Hungarian socio-economic relations – the evidence that comes from the transformation of industrial relations which were brought about by the introduction in 2012, of the New Labor Code. The reductions in employment protection and the myriad of flexible work options stand in glaring opposition to a pro-labor, nationalistic rhetoric employed by the government. Our research confirmed the claims made by the Hungarian scholar Imre Szabo in 2013, where he analysis the effects of the crisis on collective bargaining processes in Hungary. According to Szabo, the New Labor Code, with its 'employer-friendly' provisions, contributed to the government-induced restructuring of industrial relations, to the benefit of the capital.[114] It enabled the reduction of union rights, a practical dispersal of the tripartite system and a

112 Ibid, 31.
113 European Union, "Education and Training Monitor 2016: Hungary," 2016.
114 Miklos Szanyi, "The Emergence of Patronage State in Central Europe. The Case of FDI-Related Policies in Hungary," IWE Working Paper. Institute for World Economics - Centre for Economic and Regional Studies - Hungarian Academy of Sciences, 2016.

transformation of collective bargaining among others[115]. Together with alter striking laws, and tax rates which disproportionately benefit higher wage earners[116] industrial relations in Hungary have contrary to commonly held beliefs, deteriorated for labor, placing an ever increasing power on the employer and capital.[117]

[115] Imre Szabó, "Between Polarization and Statism – Effects of the Crisis on Collective Bargaining Processes and Outcomes in Hungary." Transfer: European Review of Labour and Research 19, no. 2 (May 2013): 210.
[116] Ibid, 206. "Hungary: Selected Issues; IMF Country Report 14/156," Washingtom: International Monetary Fund, June 2014, 31.
[117] "Hungary: Selected Issues; IMF Country Report 14/156," Washingtom: International Monetary Fund, June 2014, 31.

CHAPTER 3

3.1. THE GOLDEN AGE OF THE CELTIC TIGER

Starting from late 1990s until 2008, Ireland experienced an unprecedented economic boom which led it to be nicknamed as the Celtic Tiger parallel to the experience of the Asian tigers. Ireland was enjoying an average 6.5% annual growth[118]. In the late 1990s its economic boom was sponsored by a stream of foreign direct investments in part attracted by Irish competitive corporate tax rates ranging from 20-50%[119] lower than elsewhere in Europe. Notwithstanding the effects of the 2001 burst of the internet bubble, the country's growth path persisted uninterrupted as a result of the spur caused by the 2004 opening of borders to EU workers. The steady flow of MNC investments, rising house prices, a growing IT sector along with a booming US economy sustained this almost two decade long prosperity. Certainly, by early 2000s not only had Ireland caught up with its western peers, but even had overtaken for instance the UK in terms of GDP per capita[120]. During the first decade, Ireland ranked as world's third fastest growing economy, behind Singapore and China.[121] As a result, Ireland was seen as 'a showpiece of globalization'[122] and a role model of socio-economic development. The pre-crisis Irish socio-economic model is summarized in the table below.

118 Investopedia, "Celtic Tiger." Investopedia, 2006.
119Ibid.
120 O'Brien, Dan. "Ireland's Economy Has Turned Around, and Support Is Firmly Back behind the EU." The Guardian, June 17, 2016.
121 Peadar Kirby. "Globalization, the Celtic Tiger and Social Outcomes: Is Ireland a Model or a Mirage?" Globalizations 1, no. 2 (December 1, 2004): 206.

122 Ibid

Table 3: Irish Institutional Design Pre-crisis

	Typology
Financial Systems	
	Bank-based: High cross border linkages, High dependency and exposure to financial distress from UK, US, France and Germany banking system[123]
Corporate Governance	Poor risk assessment, serious breaches of corporate governance[124]
	"Principle Based" supervisory culture[125]
Industrial Relations	Light touch, minimalist regulations
	Social Partnership
	Non- Unionism – IDA Ireland traditionally endorsing a choice for inward FDI over union recognition[126]
Education and Skill Creation	Public Employment Service: ***passive transaction-focused*** approach
	Welfare system not enough integrated with Active Labor Market services[127]
Welfare: *Pension System*	Emphasizing private pensions and curtailing public ones[128]
Welfare: *Labor Market Policies*	Liberal (Minimum Protection)[129], weakly developed active labor market policy, wage restraint
	Institutionalized , Centralized Voluntary Social Partnership[130] voluntarist relations, adversarial relations – Labor Court
	Older workers and women not typically inside the union movement[131]
Welfare: *Healthcare System*	Healthcare system in a constant process of review Significant reorganization since 2001, expressed in the 2004 Health Act, which established a centralized national health service executive (HSE).
	1/3 of population access to public care on basis of low income. In 2001 extended to all over 70 years old[132].
Industrial Policy	Key pillar: 12.5% corporate tax rate
	FDI- led growth focus led to a neglect of the domestic sector, and failed to take a more holistic approach to IP[133]

[123] James Morsink and Jörg Decressin, "Ireland: Financial System Stability Assessment; IMF Country Report," Brussels, July 2016

[124] For instance the IMF quotes the example of the nationalization of the Anglo Irish Bank as unacceptable corporate governance practices and a triggering factor in nationalization

[125]The "principles based" supervisory culture at the Central Bank during this period meant there was very little supervisory interference in bank operations. For more details see Patrick Honomah, "What Went Wrong in Ireland?" *Trinity College Ireland,* 2009

[126] Terry McDonough and Tony Dundon, "Thatcherism Delayed? The Irish Crisis and the Paradox of Social Partnership," *Industrial Relations Journal,* 2010.

[127] OECD, Employment and Skills Strategies in Ireland, OECD Reviews on Local Job Creation, OECD Publishing, 2014.

[128] NY Times, Shifting patterns of public and private sector pensions from http://www.irishtimes.com/special-reports/pensions-focus/shifting-patterns-of-public-and-private-sector-pensions-1.2825619

[129] Terry McDonough and Tony Dundon, "Thatcherism Delayed? The Irish Crisis and the Paradox of Social Partnership," *Industrial Relations Journal,* 2010

[130] Terry McDonough and Tony Dundon, "Thatcherism Delayed?

[131] Ibid

[132] Stephen Thomas and Sarah Nurke, "Coping with Austerity in the Irish Health System," Eurohealth 18, (2012).

[133] David Bailey and Helena Lenihan, "A Critical Reflection on Irish Industrial Policy: A Strategic Choice Approach," *International Journal of the Economics of Business* 22, no. 1 (January 2, 2015): 56

Source: Author

According to Fink, Regan, Bohle and others, during the short lived years of the 'Irish Golden age' a development model dependent on FDI-attraction for economic upgrading and growth emerged. Ireland is categorized by the Varieties of Capitalism strand of IPE, into the so called southern-debt driven growth model[134], however for the small open market economy, the main feature of its economic development does not rest simply on its high financialization and debt accumulation. We rather contend, that FDI-focused and export-led, growth characteristics are more important for the specific socio-economic institutional development and design of Ireland. We support this claim, through evidence provided by the economic recovery of recent years. Concretely, the impressive Irish recovery is driven by the openness of the Irish economy, its strong multinational sector and export industry which accompanies it[135]. Precisely this relationship with foreign investment and capital is what sets Ireland apart from the other states clustered into the "southern – model" such as Greece, Portugal and Spain.

The most important characteristic of Irish industrial relations, was the institutionalized social partnership, which lasted from 1987-2008. According to McDonough and Dundon, Ireland could not follow a Thatcherite- type ideological attack on labor[136] but sustained a "social partnership"[137] which allowed Irish labor unions to have access to government policy-making. It provided for a centralized wage bargaining. Thus, prior to the crisis, labor relations in Ireland gave the impression of an institutional design with a purpose to shelter labor from the negative effects

[134] Dorothee Bohle, "East Central Europe in the European Union," The Palgrave Handbook of Critical International Political Economy, edited by Alan Cafruny, Leila Simona Talani and Gonzalo Pozo Martin, 2016.

[135] Frances Ruane, the Remarkable Irish Economy - From Catastrophic Collapse to Recovery, The University of Melbourne, 2016. https://www.youtube.com/watch?v=FXYJCvkGKhc.

[136] "A historical bloc refers to the way in which a leading class builds "organic" alliances with subordinated classes". For more detailed explanation see Dorothee Bohle, "East Central Europe in the European Union," The Palgrave Handbook of Critical International Political Economy, edited by Alan Cafruny, Leila Simona Talani and Gonzalo Pozo Martin, 2016

[137]Ibid.

of globalization. Characterized by voluntarist relations, adversalism, centralization, institutionalism and collectivism[138] according to Baccaro and Howell, the social partnership produced two key winners, namely capital and public sector employees who, despite the strict enforcement of wage moderation, received continually raised[139].

Irish industrial policy on the other hand over the 40 years prior to the crisis was characterized by the pursuit of an industrial policy with strong commitment to promoting export-oriented manufacturing through the provision of several incentives to attract FDI[140]. Initially, as a result of the high rates of unemployment in the 1950s, the government prioritized distribution by monitoring employment and regional dispersal of the investments. However during the Celtic tiger years, the focus was no longer exclusively on the distribution effects of FDI on employment but rather shifted towards profits, technology, upgrading and linkages.[141]

The peaceful coexistance of industrial policy founded on maintaining FDI-based competitive advantages centered around unweavering commitments to a 12.5% corporate taxation with weak employment regulations. This was made possible by the structures of the social partnership, which was able to strike a acceptable equilibrium between labor and capital.

[138] Terry McDonough and Tony Dundon, "Thatcherism Delayed? The Irish Crisis and the Paradox of Social Partnership," Industrial Relations Journal, 2010, 20
[139] Lucio Baccaro and Chris Howell, "A Common Neoliberal Trajectory: 554
[140] Frances Ruane, Holger Görg Reflections on Irish Industrial Policy towards Foreign Direct Investment Trinity Economic Papers SeriesPolicy Paper No. 97/3
[141]Ibid.

3.1.1. The ups and downs: From Celtic Tiger to a PIIG and then again a Celtic Fenix

The seemingly balanced capital-labor relations in Ireland, which set the country's socio-economic model as an example to be emulated by other small opened economies in the CEE and particularly Hungary, was challenged at the start of the global financial crisis. In Ireland the crisis took the form of a financial, fiscal and demand crisis[142], and the recession which followed after the Celtic Tiger years was one of the deepest in the Eurozone with the economy shrinking a full 10% just in one year from 2008-2009.[143]

The fiscal crisis happened mostly due to an outstanding collapse in tax revenue in 2008. According to Honan, Ruane and others, the main reason for such collapse was a persistent systemic shift throughout the entire Celtic Tiger area in government tax reliance, away from dependable sources such as income taxes and VAT, towards cyclically sensitive taxes such as corporate tax, stamp duties and capital gains[144]. However, immediately upon the burst of the housing bubble, a large portion of these tax revenues disappeared, and the banking crisis rapidly morphed into one of sovereign debt[145].

It becomes clear that the labor-capital balance reached during the years of economic boom, consisted of modes of regulation which were unsustainable since the perpetually contradictory relations between the labor-capital factors of production were held in place by vulnerable ties to the business cycle such as heavy dependence on FDI and continuing growth. Indeed the long reliance on intermittent or "fair weather"[146] taxes was a consequence of the social partnership

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[142] Terry McDonough and Tony Dundon, "Thatcherism Delayed? The Irish Crisis and the Paradox of Social Partnership," Industrial Relations Journal, 2010

[143] "Hungary Country Profilem," BBC News, May 18, 2017. http://www.bbc.com/news/world-europe-17380792.

[144] Patrick Honomah, "What Went Wrong in Ireland?" Trinity College Ireland, 2009, 3.

[145] Dorothee Bohle, "East Central Europe in the European Union," The Palgrave Handbook of Critical International Political Economy, edited by Alan Cafruny, Leila Simona Talani and Gonzalo Pozo Martin, 2016, 476

[146] Patrick Honomah, "What Went Wrong in Ireland?" Trinity College Ireland, 2009, 3.

negotiations which in exchange for wage moderations, had to provide lowering income taxes. As a result of the economic growth, the government could afford to rely on the "fair weather" revenues.

All you needed was a "bad weather" such as the bursting of the housing bubble and the instabilities of the global financial crisis to bring Ireland to dire crisis conditions. Scholars such as Pedar Kirby, Terry McDonough and Tony Dundon agree that the Irish crisis, was not just an indigenous expression of a global crisis spillover[147], but instead much of it came as a consequence of its own domestic socio-economic institutional complementarities focused at FDI attraction and market liberalization. The vulnerability of the Celtic tiger growth, expressed through high dependence on housing sector, cyclically vulnerable fiscal revenue and banking sector's tight links to foreign (e.g. British) banks, account for much of the exacerbation of the crisis in Ireland. In actual fact, economists have calculated that two thirds[148] of the Irish collapse was a direct outcome of the inherent institutional complementarities of its socio-economic model, which we briefly identified in the previous section.

The turmoil brought on by the crisis was reflected in grave macroeconomic performance figures such as an unemployment rate as high as 14.7% (as of mid-2012) - among the worst records in EU27.[149] After having to bail out the banking system, the government's debt to GDP ratio soared from 42%[150] to a 126% at the end of 2013.[151] This performance, clustered Ireland alongside with Portugal, Greece and Italy and Spain – Europe's south, which deeply affected by the crisis, had to undergo international bailouts under conditions of austerity. Moreover structural reforms were

[147] Terry McDonough and Tony Dundon, "Thatcherism Delayed? The Irish Crisis and the Paradox of Social Partnership," Industrial Relations Journal, 2010
[148] Kirby Peadar, *Celtic Tiger in Collapse: Explaining the Weaknesses of the Irish Model,* International Political Economy Series, 2010.
[149] David Bailey & Helena Lenihan (2015) A Critical Reflection on Irish Industrial Policy: A Strategic Choice Approach, International Journal of the Economics of Business, 22:1, 47-71 page 48
[150] "Ireland Government Debt to GDP, 1980-2017," *Trading Economics,* 2017.
[151] David Bailey & Helena Lenihan (2015) A Critical Reflection on Irish Industrial Policy: A Strategic Choice Approach, International Journal of the Economics of Business, 22:1, 47-71 page 48

coordinated by the Troika - international institutions which included the EC, ECB and the IMF[152]. Consequently, from a Celtic Tiger, Ireland experienced an infamous re-branding to a "PIIGS" which became a symbol of the crisis of the European periphery[153]. According to Regan and Brazys, the Irish Development Agency IDA, fought against this negative reputation with heavy campaigning and marketing (accounting for 75% of their budget) to re-brand the nation and appeal to investors, especially targeting FDI from the US[154].

In light of such developments, we would expect to see crisis-induced responses which transform labor-capital relations which introduce some kind of protection towards labor, especially considering that before the crisis, Ireland was singled out for its inclusive social partnership as opposed to the British "Thatcherism". Yet perhaps surprisingly the social partnership was the first to collapse. As we have mentioned before, the country however not only is rapidly recovering, but has done so, in a way which is internationally praised as an embodiment, and once again a poster child of the successes of neoliberal reforms[155]. The table below, maps the pathway of Irish transformations in the last decade.

[152] Liem Hoang Ngoc and Othmar Karas, "On the Enquiry on the Role and Operations of the Troika (ECB, Commission and IMF) with Regard to the Euro Area Programme Countries," Committee on Economic and Monetary Affairs, February 28, 2014.
[153] Samuel Brazys and Aidan Regan, "These Little PIIGS Went to Market: Enterprise Policy and Divergent Recovery in European Periphery," University College Dublin, 2015, 27.
[154] Ibid.
[155] The first instance of such praise was during the Celtic Tiger years.

Table 4: Irish Institutional Transformation (2007-2017)

	Typology	*Major Changes*	*Timing*
Financial Systems	**From Internationalized to Domestically oriented**[156]	Reversal of the 2003 separation of institutional regulatory authority (the Irish Financial Services Regulatory Authority) from the rest of the Irish Central Bank[157] Ireland nationalizes Anglo Irish Bank from fear of its collapse Contentious Relations between the government and CB governance – Government pressures for banks to lower their rates and suggested legislation changes to give the CB power to regulate rates → rejected by CB governance → Indicative of Independence[158].	2010 January 2009 2015
Corporate Governance	**Foreign –Dominated**	Banking Supervision led by ECB – Single Supervisory Mechanism	2014
Industrial Relations	**Collapse of Social Partnership**	Social Partners fail to agree on a coordinated response to the crisis[159] **In enterprise policy:** the **Action Plan for Jobs (APJ**) - a dynamic implementation, monitoring and evaluation process Strike Action in 2014 – produced second highest figure in 13 years of days lost to industrial action[160] **Industrial Relations Amendments Act –** sets new sectorial wages mechanisms: New Sectorial Employment Orders (SEOs) replace Registered Employment Agreements (REAs) which were ruled unconstitutional by the Supreme Court in	December 2009 2014 August 2015

[156] "Ireland: Exceptional Recovery," International Monetary Fund, July 27, 2016.
[157] The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008, 31 May 2010
http://www.bankinginquiry.gov.ie/The%20Irish%20Banking%20Crisis%20Regulatory%20and%20Financial%20Stability%20Policy%202003-2008.pdf

[158] Ibid.
[159] Terry McDonough and Tony Dundon, "Thatcherism Delayed? The Irish Crisis and the Paradox of Social Partnership," Industrial Relations Journal, 2010
[160] Andy Prendergast, "Ireland: Days Lost to Industrial Action in 2014 Highest in 13 Years," Eurofound, June 4, 2015.

Industrial Relations	**Collapse of Social Partnership**	2013[161]. The amendment gives the ability to both parties Unions and Employers to request revision of pay and benefits in their economic sector to the Labor Court[162]. Creation of ***Workplace Relations Commission*** (WRC) - independent statutory body[163] which became the only institution where industrial relations disputes can be presented. It took over the NERA (National Employment Rights Authority), Labor Relations Commission and Equality Tribunal[164]. Labor Relations Commission (LRC) calls for a *return to "sensible social partnership*" and rollback of pay- cuts to 300,000 public servants[165] - requests since 2011 Private sector labor pay-bargaining since 2009 is locally based, company-by-company, free collective bargaining, albeit 'governed' by voluntary behavioral codes. Collapse of National Economic and Social Council – policy body serving as representative of social partners since 1987 to its collapse in 2009[166]	October 2015 May 2015 2009-2017 2009
Education and Skill Creation	**Minor Reform**	A strategic review of further education and training (FET) is underway, in which the NESC Secretariat is playing a part[167] Formally Established Education and Training Boards in 2013. A total of 16 Boards replaced 33 prior Vocational Education Committees[168]. Youth Guarantee - to facilitate the inclusion of jobseekers under 25 back into employment[169]. It is a part of the broader Pathways to Work Strategy	2013 July 2013 2014

[161] Farrelly Roisin and Colman Higgins, "Ireland: New Sectoral Wage Mechanisms under Industrial Relations Amendment Act 2015," Eurofound, 2015.
[162] Ibid.
[163] John Dunne and Bláthnaid Evans, "The Employment Law Review, 8th Edition - Employment and HR – Ireland," *Gideon Roberson*, March 2017.
[164] Ibid.
[165] Brian Sheehan, "Ireland: Call to Revive a 'Sensible' Social Partnership," *Eurofound,* May 7, 2015.
[166] Ibid.
[167] "Ireland's Five - Part Crisis, Five Years On: Deepening Reform and Institutional Innovation. Executive Summary," No.135, *National Economic and Social Development Office,* October 2013.
[168] "Ireland's Education and Training Sector Overview of Service Delivery and Reform." Department of Education and Skills, 2015, 39.
[169] "Press Release - EU Youth Guarantee: Questions and Answers," European Commission, February 4, 2015.

Welfare: Pension System	**Minor Reform**	**National Pension Framework –** Maintain state pension value at 35% of average earning[170]. Increase pension age up to 68- in stages, starting from 2014. Automatic enrolment in private pensions. Introduce caps to taxpayer's contribution to the scheme.	2010
Welfare: Labor Market Policies	**Trivial Reform** **Appeasing, yet ambiguous**	Activation Policies: legislation, new structures linking welfare with supportive services and an activation service model, set out in the Government strategy ***Pathways to Work***[171] Public sector pay-cuts levied by the government a total of €1 billion, accounting for 15 per cent reduction in the wage levels of the public sector[172] Lowered a number of Working age benefits[173] Paternity Leave and Benefit Act 2016	2009- Extended Strategy from 2016-2010[174] 2009-2010 Budget 2016
Welfare: Healthcare System		Drastic Drop in Euro Health Consumer Index from 14th place to 22nd in one year[175] €2.7bn budget cuts from 2007-2014[176] affecting patient care and staff employment	2014
Industrial Policy	**State Led Enterprise Policy** **Strategic and More Holistic Approach to IP**	Heavy campaigning from Irish Development Agency IDA to differentiate from PIIGS Increased role of agencies to financial support to fund industry[177] in a strategic manner. In 2015 Enterprise Ireland - €196 million ; Science Foundation Ireland gave €162.7 million in grants ; and IDA-Ireland gave €98.6 million[178] Targeting the ICT sector and US – investments Third Wave of Tech Investment – Engineered by IDA[179] - Irish Silicon Docks	From 2009 2008-2014

[170] OECD, OECD Reviews of Pensions Systems: Ireland, OECD Publishing., 2014, 17.

[171] "Ireland's Five - Part Crisis Five Years On: Deepening Reform and Institutional Innovation. Executive Summary," National Economic and Social Development Office, October 2013.

[172] Brian Sheehan, "Public Sector Unions Launch Action against Pay Cuts," Eurofound, March 15, 2010.

[174] "Pathways to Work. 2016-2020," 2016. Retrieved from https://www.welfare.ie/en/downloads/PathwaysToWork2016-2020.pdf

[175] Paul Cullen, "Ireland Falls in International Health Service Rankings," The Irish Times, January 27, 2015.

[176] Fiachra Ó Cionnaith, "HSE Made Cuts of €2.7bn during Recession," Irish Examiner, April 1, 2014.

[177] Glyn Gaskarth. "Competitiveness Before Carbon," *CIVITAS*, March 2017

[178] Ibid.

[179] Samuel Brazys and Aidan Regan, "These Little PIIGS Went to Market: Enterprise Policy and Divergent Recovery in European Periphery," University College Dublin, 2015, 25.

Following some of the major policy contributions, as outlined in Table 2, we attempt to evaluate these changes from the perspective of crisis-induced new coalitions in the Labor – Capital nexus in the post-crisis setting of the Irish socio-economic model.

In general, in terms of welfare transformations we note that despite many measures responding to the problems of high unemployment and drastic increase in the number of working age population which is dependent on welfare benefits from 25-36% between 2007 and 2013[180], the overall transformations have been of an ad hoc and reactive nature to the crisis. However when looking closer into the nature of these reforms, we do not find evidence of a strong, shift in the power structures between labor and capital. In fact the working age benefits were lowered. The healthcare sector routinely expresses discounted with the large budget cuts which they claim to have caused negative effects for patient care.

Industrial Relations in post-crisis Irish context, do not seem to be as contentious as those in Hungary. Indeed, the Irish trade unions were aligned in the belief that savings coming from pay cuts, were necessary for the recovery of the economy. The compliance of the unions with these neoliberal ideas promoted by the government and the international institutions, made it easier for the government to carry out the austerity and structural reforms. Indeed only in 2011, did the unions began to seek a "*gradual reversal on wage reductions*".[181] As seen in the moderate language of their requests, not much concession had been achieved for the benefit of labor since in 2015 again, the Labor Relations Commission was laying out the same requests for public wages increases. Moreover, private sector wage bargaining remained local and at the company level.

[180] Alistair Fraser, Enda Murphy and Sinead Kelly, "Deepening Neoliberalism via Austerity and 'reform': The Case of Ireland," *Human Geography* 6 (2013): 318.
[181] Brian Sheehan, "Public Sector Unions Launch Action against Pay Cuts," Eurofound, March 15, 2010.

Even the amendments to the Industrial Relations Act, in 2015, which seems at first sight to be a reflection of an important government intervention to help a labor market hard hit by the crisis and austerity, is not more than a mere appeasement tool for a labor force which in 2014 has reached protest levels among the highest in 13 years in terms of days lost to strike.

Particularly, this Industrial Relations Amendment Act, is portrayed as an expression of the Fine-Gael-Labor coalition government's commitments to extend collective bargaining even at firms which have no relation with trade unions. Promoted in a language which gains the support of labor, the amendments are claimed to "*provide an improved framework for workers*"[182] including not only bargaining opportunities but also reliable protections against victimization. From this perspective, reforms like these, alongside, labor activation and education and training programs (see table) can be argued to represent crisis induced advancements and victories in terms labor protection and improvement of its conditions and leverage in the competing relationship with capital. Yet although they appear as provisions aiming at protecting and regulating labor, many of these provisions, are at best ambiguous on whether they will benefit labor or capital.

Take for instance the Industrial Relations Amendment Act: it gives both the unions and employers the ability to request from the Labor Court a revision of pay and benefits in their sector. Yet with even weaker unions after the collapse of social partnership, and an environment of high unemployment, low protection from unemployment and lower and shorter welfare benefits, labor will be less inclined to make use of this right. The Employers on the other, could make use of such opportunities to request even more flexible employment regulations for their sectors. Considering

[182] Brian Sheehan, "Ireland: New Law Welcomed on Collective Bargaining," Eurofound, December 4, 2015.

that the Labor Court holds the discretion of evaluating the broader economic and social implications of the requests it is more likely that decisions will favor the de-regulatory tendencies of capital. I say this, since the employers could always use the arguments of competitiveness and threaten to dislocate their investments to another location, which for the court would mean significant social costs in terms of unemployment and capital flows. Thus this law benefits the cause of labor at most ambiguously.

In sum policy changes in industrial relations were not very aggressive or respond with much urgency to the precarious results of the crisis for the Irish workforce. Actually several reforms in labor market policy and provisions to combat unemployment were deterred until 2011 at the least[183]. On the contrary, industrial policy measures were carried by means of a strong strategic response through enterprise policy and were clearly prioritized by the government. The most important actor in the recovery of the Irish economy, and its subsequent re-branding from a "pig" to a Celtic phoenix, it is argued to have been the independent development agency IDA. According to Brazys and Regan it is not the success of the Troika austerity designs, but rather the indispensable role of IDA. This developmental agency was able to benefit from the conditions of cheap credit available due to quantitative easing (QE) and an activist enterprise policy focused on attracting foreign investment in the emerging Dublin's Silicon Docks.[184]

As seen in the table, and commented briefly, the transformations of labor legislation, welfare provision and other programs for the improvement of education and training are reforms which seem to be more ad-hock. Despite cases where welfare was reduced, the reforms to respond

[183] "William K. Roche, Philip J. O'Connel, and Andrea Prothero, Austerity and Recovery in Ireland. Europe's Poster Child and the Great Recession, Oxford Scholarship, 2016.

[184] Samuel Brazys and Aidan Regan, "These Little PIIGS Went to Market: Enterprise Policy and Divergent Recovery in European Periphery," University College Dublin, 2015.

to labor's concerns seem at best to have ambiguous implications for whether they are designed to significantly improve the position of labor or simply appease it. In Ireland during the past decade, not only labor did not gain much concession, but as a result of the crisis, the burden of the failures of large corporations and banks were largely transferred on the average taxpayer. Enduring the cuts in benefits, wages and the mouth-wash quality of reform, the crisis in the Irish context only served to expose the weakness of labor against the institutional and political commitment to neoliberal economic positions which result in more de-regulation and commodification of labor.

CHAPTER 4

4.1 DISCUSSIONS AND CONCLUSSIONS: DEEPENING NEOLIBERALISM?

After carefully mapping the various transformations in the aftermath of the economic crisis in Ireland and Hungary there are a few important observations that need to be elaborated on. We began with a rather big but nonetheless very important question: of whether there was indeed within the institutional transformations forged by the crisis in Ireland and Hungary evidence of a truly divergent path to crisis management and the design for economic recovery. Whether it is evident that, the Irish neoliberal crisis management strategies standing as a poster child of the success of the Troika, austerity and quantitative easing measures differ significantly from those of the Hungarian state? Is it the case that labor is the focus of the Hungarian policy transformations while in Ireland the rules set by the 'scramble for investment' mentality – have not allowed for labor, despite it being hard hit by the crisis to generate any significant increase in their position vis a vis other stakeholders such as the corporates.

We notice that in Ireland the crisis was unable to generate an important window of opportunity for a re-structuring of the labor-capital relations. Indeed although we have called our mappings as socio-economic transformations we can now admit to a realization that the past decade in the case of Ireland did not indeed produce any relevant transformation, confirming a persistent stickiness of the Irish socio-economic design to complement not only its long established economic model, but also the stickiness of interests and ideas which not only kept labor submissive even under large strain, but most interestingly with a happy compliance. While the enterprise policy was aggressive, many welfare and social programs were deferred well into the crisis, once more making evident the weakness of labor, even more so after the collapse of the social partnership.

Although we did not expect anything different from Ireland, having the Irish example serves as a good benchmark from which to compare whether the Hungarian policies were as deviant from the logic which guided the Irish ones as they are commonly represented by the Hungarian government itself, the international media and to some extent even the academia. We noted, that in the case of Hungary, similarly with Ireland the social partnership is very weak. The much discussed financial nationalistic patronage-type, discriminatory regulations, preferential treatment of certain MNCs and the regulatory capture and targeting of specific groups are not necessarily a radical upturn of labor-capital relations for the benefit of labor. Indeed we contend that instead of being a 'labor-based' economy, Hungary is in their re-structuring of industrial relations and policy responding in much the same fashion as Ireland – minus the over the top rebellious against international institutions forms of patronage and clientelism. In appealing to labor and introducing new labor laws and increasing minimum wages, the Hungarian government simply masks the fact that much of those provisions, like in Ireland instead of strengthening the position and bargaining power of labor, simply place at even more precarious conditions. With decreasing even further corporate taxation and a serious commitment to investment and GVC upgrading, this "rebellious" government has only found an alternate side of the same coin.

In fact, despite a defiant populist, nationalist turn, a closer look at the nature of the socio-economic transformations in Ireland and Hungary do not conform to the commonly held belief of two completely divergent paths. Instead the strongholds of a dependent model on openness to trade, participation and integration in the international division of labor and production, continued after the crisis, and instead of producing a retrenchment and protectionism, caused even more competitive pressures which ultimately are translated in an even deeper embeddedness of the weak labor in face of the power of international capital.

4.2 LIMITATIONS AND FURTHER RESEARCH

After this contribution, which has made the first step in problematizing and challenging commonly held beliefs about the post crisis development in the context of the Hungarian and Irish cases, the way is opened for even more interesting and important questions to follow. Since the observation was that discourse, not practice made the difference in the perception of power relations and concessions between labor and capital, it would follow that further inquiry should be made on the reasons behind such outcomes. Being a first attempt at asking such question, and relying on a comparative methodology which spread much broadly over a very large number of policy areas, further and more focused research would strengthen or serve to challenge our findings. This work could benefit from expansion into the distributional consequences of these transformations in each case. An investigation of the polarizations could shed further light into the interplay of factors which produce such different yet similar outcomes.

Quantitative research based on micro-level data of Linked Employer Employee datasets in Ireland and Hungary to test the effects of the policies of the crisis. This thesis could have been enriched if alongside with this methodology, it would have been supported by an analysis based on critical points of juncture theories, and test more rigorously whether indeed as our observations confirm, the crisis was not a critical point of juncture in labor –capital relations in none of the cases.

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