

The case of Ireland: a “virtual state” for “real” European citizens?



1. *What do we mean under “virtual state”?*

In most recent years what is “virtual” has become – at least to some extent – “fashionable”. In a sense, virtuality has been drawn as one of the core features of a new, *global*, world; a synonymous for a new mode of production, focused on science, technology, and knowledge¹.

When applied to politics, the attribute “virtual” has however assumed rather curious and different meanings. Virtual is something, which exists, only in its own, proper dimension; something, which is hidden, and covered by a reality, that looks different.

Scholars such as Philip Bobbitt have understood “virtual states” mainly in the terms of terrorist organizations, such as Al-Qaeda². A virtual state enjoys some traditional traits of statehood: it has an army, more or less organized and trained; a treasury and some sort of revenues; even a kind of welfare for the

¹ See Levi, 2005, esp. pp. 299-301.

² See Bobbitt, 2002.

members and their families. From another viewpoint, it is however very peculiar. Without borders and a fixed territory, it represents an unpredictable danger: something deeply risky, which cannot be checked nor deterred.

In this paper however we refer to a rather different concept of “virtual state”. His mentor has been Richard Rosecrance, who introduced the idea in a 1996 article in “Foreign Affairs”³.

According to him, the forerunner of the “virtual state” is what he had termed – since 1987⁴ - “trading state”. While traditional territorial states have usually aimed at power – mainly in military terms – and conquest, “trading states” are usually looking for economic prosperity and growth in output, especially thanks to international trade. Their rate of military expenditure is lower than in traditional bureaucratic states, and they focus mainly on civilian investments. In the past centuries, some polities have shown several “trading” features, especially the so-called “maritime” countries: England, the Netherlands, to some extent Portugal⁵ in earlier periods. The rise of a proper “trading state” has however been a quite recent phenomenon: its core examples are Federal Germany and Japan⁶ after 1945.

In Rosecrance’s view, “virtual states” trace their origins back to their “trading” ancestors. In general terms, they are featured by at least three key characteristics.

³ See Rosecrance, 1996.

⁴ See Rosecrance, 1986.

⁵ Especially in the XVth and XVIth centuries.

⁶ Their rate of military expenditure is still much lower than in other important Western countries: according to the CIA World Factbook, military expenditure on GDP is at 1,5% in Germany (2003) and 1% in Japan (2005), *contra* 2,6% in France and 2,4% in the United Kingdom. See www.cia.gov/cia/publications/factbook.

- As well as virtual corporations focus their activities on services and invisible trade, the economy of “virtual states” is based mainly on services and the so-called third sector in general terms. Let’s for instance consider the members of the G-8, the large economies of the supposedly most powerful world countries.

Table 1. G-8 members and share of their population employed in services

<i>States</i>	<i>Employment in services %</i>
United States	76
Japan	68
Germany	64
United Kingdom	80
France	72
Italy	63
Canada	75
Russia	68
<i>world</i>	<i>37</i>

Source: CIA World Factbook 2006.

As our data highlight, a large share of output in the third sector nowadays features the economies of the largest economic powers. Furthermore, countries such as Japan, Germany, and Italy, which still devote a considerable amount of their GDP to manufacturing, have performed worse than the other ones, especially in the last decade. We can therefore agree with Rosecrance that the richest economies have showed an increasing involvement in services and usually in the high-tech branch of industry.

In his view, the clearest examples of “virtual states” are Hong Kong and Singapore. The share of workers employed in the third sector in these two cases is actually very high: almost 90% in the former, 76% in the latter. In both countries services have become the major source of income after a period in which manufacturing was leading – especially thanks to cheap and well-trained labour. Such economies have rapidly moved from the production of toys to banking, marketing, design, and the like.

- The **second** most important **feature** of a “virtual state” is the **availability of well-trained and skilled labour**. To this aim, education plays a crucial role, as well as Research & Development expenditures. Let’s have a look now at general data on the so-called PISA scores, that is, the level of ability in reading and science performed by 15-years old students in several countries in the world.

Table 2. PISA scores in reading and science, G-7 countries and Hong Kong

<i>Country</i>	<i>PISA score in reading 2003</i>	<i>PISA score in science 2003</i>
USA	495	491
Japan	498	548
Germany	491	502
United Kingdom	532 (2000)	523 (2000)
France	496	511
Italy	476	486
Canada	528	519
OECD average	500	500
Hong Kong	-	539 (548 in maths)

Source: PISA 2003.

As it is clear from data, the countries which are successfully leading global economy appear to be at the forefront as far as their educational systems are concerned. Hong Kong is the clearest example. With regard to the US, average data are the result of a country, which is profoundly split between high- and low-rank educational and research structures.

We can now take into consideration data regarding Research & Development as well.

Table 3. R&D share on public expenditure, G-7 countries and Hong Kong

<i>Country</i>	<i>Expenditure in R&D on GDP, %, 2003</i>
USA	2,7 (2004)
Japan	3,2
Germany	2,5
United Kingdom	1,9
France	2,2
Italy	1,2 (2002)
Canada	1,9 (2004)
OECD average	2,3
Hong Kong	0,4 (2000)

Sources: OECD data, 2003.

These findings show a much more complex reality. The richest states in the world have usually a high share of expenditures in R&D. However, the low level represented by Hong Kong demands further explanations. Some “virtual states” are so concentrated on services that their rate of R&D expenditures is in the overall quite low. It seems however likely that a “low-tech” economy won’t win the competition nor will it get anything out of it. Not by chance, Hong Kong’s authorities are currently making efforts to enhance

their Research & Development expenditure levels; the same is valid for Singapore and Taiwan, which have recently approached average OECD rates.

- The **third** crucial **trait** of a “virtual state” deals with tax levels. Such category of polities shows often **low tax revenues**, so that they become fertile ground for international investments. If we analyse world’s leading economies, we find out that the ones, which are nowadays performing better, are in the average less burdened by fiscal constraints.

Table 4. Tax revenues and economic growth, 1993-2003

<i>Country</i>	<i>Average tax revenue 1993-2003, % on GDP</i>	<i>Tax revenue growth 1993-2003</i>	<i>Average growth, 1993-2003, % on GDP</i>
USA	28,1	-1,5	3,2
Japan	26,3	-1,7	1,0
Germany	36,5	-1,5	1,4
United Kingdom	35,6	+2,4	3,0
France	43,7	+1,1	2,0
Italy	42,8	-0,3	1,5
Canada	35,5	-1,6	3,4
OECD average	36,3	+0,6	2,4
Singapore	16,1 (1990-2001)	--	

Source: OECD data, 2003.

Trying to sum up, Rosecrance identifies three main features of a “virtual state”:

1. high rate of employment in the third sector;
2. high level of educational skills;
3. low level of fiscal burden.

A fourth implicit element is of course its profound involvement in international economic affairs, or, if we prefer, “globalization”.

Such model seems to fit to small states such as Singapore and Hong Kong. Other countries – among them Slovenia, Estonia, Czech Republic – are supposed to share some traits with them. To some extent they resemble what Giovanni Arrighi termed *capitalist states*⁷, that is, city-states and republics, which have been typical of late medieval and early modern eras and showed strong linkages between rising capitalism and politics.

Another similar concept is the one of *competition state*, introduced by Philip Cerny⁸. In his view, since the Second World War and especially in an era of globalization and knowledge-based production of wealth, states have been re-directing their goals towards increase in economic competitiveness. While European industrial welfare states have become unsustainable, states maximize their richness thanks to market-promotion measures. In the past, similar instances of such states were provided by Japan and France⁹; both of them – particularly the latter – featured by a rather dirigistic economic governance.

At the onset of the third millennium, after the thatcherian switch in the 1980s, neoliberal models have become more fashionable. Current competition states base their wealth on a mix of market-oriented policies: corporate taxes reductions; cuts in labour costs; promotion of education, science and technology research; building up of good infrastructures, especially as far as communication is concerned; privatization and deregulation measures.

Such model of *competition state* looks quite close to what we have termed a *virtual* one. *Virtual states* are usually supposed to be rather smaller ones,

⁷ See Arrighi, 1994.

⁸ See Cerny, 1990 and 2000.

⁹ According to Cerny, 2000.

especially if we take into consideration the size of the country. We might anyway wonder if larger units can develop towards a truly *virtual* dimension¹⁰.

It's however time to concentrate on Ireland and to assess if nowadays Eire fits the characteristics we have associated with virtual states.

2. *Ireland: a virtual state?*

The Republic of Ireland has been traditionally thought of as a relatively poor country – especially if compared to its British neighbour – with a long history of oppression, famine, emigration, and so on.

Such stereotypical portrait is only partially true.

In many ways, Ireland was a fertile ground for modernizing experiments: railways were for instance introduced by the Crown already in the XIXth century.

Especially after 1959, when Sean Lemass became Prime Minister, Ireland went through a period of rapid involvement in international trade and sustained economic growth.

Its annual rate of growth in the 1970s, when the Republic joined the European Economic Community (1973) was 3,8%, second only to France¹¹; in 1979 the number of vehicles per '000 population was for instance higher than in Japan¹²; even in the second half of the 1980s, when unemployment rates were

¹⁰ If we consider the US and the UK, traditional military concerns and expenditures still occupy a large portion of their resources. The case might differ with Japan – although the recently chosen leader of the governing party – Shinzo Abe – seems ready to re-invest in national defence.

¹¹ See European Community, 1981, p. 28.

¹² Ivi, p. 172.

as high as 18%, the annual rate of growth was 3,2%, that is, above the European Community average¹³.

Such numbers do not however lessen the surprise for the impressive growth of the last twelve years, the era of the well-known “Celtic Tiger”, a land which became in a decade the second richest economy per capita in the European Union, after Luxembourg but well before France, Germany, and especially Great Britain. Key to success have been Foreign Direct Investments (FDI), especially from the United States; in many sectors they make up for more than 90% of overall investments.

Table 5. Growth of the Irish GDP, 1995-2004.

<i>Year</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<i>GDP growth</i>	9,6%	8,3%	10,8%	8,6%	10,7%	9,2%	6,2%	6,1%	4,4%	4,5%

Source: The Statesmen’s Yearbook 2007, p. 684.

Foreign firms – especially in branches such as chemicals, pharmaceuticals, computer hardware and software – started investing in Ireland for many reasons. The core ones lay in the emergence of “virtual state” features: a well-trained, skilled, English-speaking and cheap labour force; very low – the lowest in Europe – corporate tax rates and a good, relatively reliable political environment.

What did it happen in the 1990s?

After years of protectionism, public expenditures, and public debt, the Government, trade unions, farmers, representatives of civil society, and

¹³ For all data, see European Community, 1991, p. 42.

industrialists came together, and agreed on a programme¹⁴ of tax reduction, wage moderation, and incentives to Foreign Investments. Corporate taxes were slashed to 12,5% and college education made basically free¹⁵.

As a result, foreign investors became increasingly attracted. In the years 1991-1997, the average annual level of flows was 1124 millions \$ - *contra* 96 in the period 1986-1990¹⁶; in 2003, the average value of inward and outward FDI (Foreign Direct Investments) divided by GDP, and multiplied by 100, was 10 – second in the OECD area only to Belgium¹⁷. Already in 1996, 66% of the manufacturing output was produced by foreign-owned firms; more or less two thirds of it is from US companies, followed by the British and German ones¹⁸. If we take into account that Irish exports make up for almost 85% of the GDP¹⁹, it becomes evident that Irish economy is basically dependent on global flows of goods and services.

Before dealing with such huge issue, it's however important to return to the other three basic features of “virtual states” and to consider whether Ireland – besides its involvement in global economy – can be viewed as one of them, according to the indicators we have provided above: the role of services; educational levels and R&D; tax issues.

1. 64% of Irish workers are employed in the third sector. Less than in places such as Hong Kong or Singapore, and less than in other developed states

¹⁴ The first programme for economic recovery (PNR, Programme for National Recovery) was set out in 1987 and followed by other four ones.

¹⁵ See Friedman, 2005.

¹⁶ See OECD, 1999.

¹⁷ See European Communities, 2005.

¹⁸ The share of manufacturing output of EU firms is – excluding Irish companies – just 13%. See OECD, 1999, p. 55.

¹⁹ See OECD, 2005, p. 144.

either. However, it's a quite relevant figure if we consider that agriculture is still nowadays important to Irish life (8% of employed workforce) and industrial development has been strongly linked to the one of services. Furthermore, the quality of such services is doubtless high. Most employees work in fields such as accountancy, customer services, finance, call centres; not to mention tourism, with five millions visitors every year, and catering. Large US corporations, such as IBM and Apple, have chosen Ireland for their European operations thanks to its availability of relatively cheap and English-speaking labour. Such choices are interwoven with transformations in industry, whereas Ireland has specialized in high-level production thanks to the involvement of foreign – especially American – firms. 25% of European PCs are produced here; and software giant Microsoft has large operations in Dublin. Another sector which has expanded over the years is the pharmaceutical one. In the meantime, the Government has launched (1999) *Enterprise Ireland*, with the aim of fostering domestic companies, especially in high-quality sectors, with regard to both services and industry.

2. PISA scores for Ireland are in all cases above the OECD average: according to 2003 data, the last ones available, 15-years old Irish students score 503 in mathematics, 515 in reading, and 505 in science²⁰. As far as Research is concerned, current expenditures are probably as yet not sufficient (1,2% of the GDP) but improvements are taking place. The Government has set up a body – *Science Foundation Ireland* – in order to enhance the level of basic science research, especially as far as ICT and biotechnology are concerned. It is also a way to foster Irish development in the future, when enterprises might be tempted to look for other cheaper destinations to locate their investments.

²⁰ See PISA, 2003.

3. Corporate tax rates are very low: 12,5%. Such measure – taken by former Finance Minister and now European Commissioner Charlie McCreevy (1997-2004) – made Irish economy strongly competitive and a model for other countries: Hungary, Iceland, and Poland follow closely with respective rates of 16%, 18%, and 19%²¹. The Government played a crucial role also with the implementation of agencies like *Industrial Development Agency Ireland* (IDA Ireland), created in 1994, and the European Union made the rest, with substantial transfer payments in the terms of structural funds.

To sum up, the Republic of Ireland show most features which are usually associated with “virtual states”: a growing involvement in services and high-tech technologies (such as ICT, and chemicals); a good educational system and rising investments in R&D; a low level of taxation – especially with regard to corporate taxes.

An island which has been historically associated with relative isolation and emigration is now at the very core of the world economy – as well as places such as Singapore, Hong Kong, Taiwan, and other well-known East Asian “Tigers”.

In such circumstances, it makes sense wondering which the effects on Irish democracy are. Globalization - however understood – might have a powerful impact on national societies and nation-state policies. Critics of the “Celtic Tiger” are right when they point out at the risk that other countries, maybe in Eastern Europe, maybe in Asia, can divert investments from Ireland to cheaper locations. Probably – it has been suggested - the real “tigers” are Multinational Corporations, and not Ireland. Which are the consequences of such strong enmeshment in global affairs for the Irish state, and especially for its democratic features? Do Irish citizens risk to be transformed into “virtual” ones – unless any system of global

²¹ For all data, see OECD, 2006.

governance can grant them more participation and more accountability at institutional levels other than the purely national one?

Let's therefore analyze the current conditions of Irish democracy, and the possibility for it to tackle the global concerns which Irish economic boom has brought about.

3. Ireland and democracy

The Republic of Ireland has a long and enduring democratic tradition. It was born in 1948 as a parliamentary democracy²², after twenty-six years of life as a democratic "Free State", which had survived also to interwar turmoils and fascism. In 1937, when Europe was preparing itself to the tragedy of the Second World War, Ireland adopted a Constitution, the second one in fifteen years, which basically followed the Westminster model, in republican terms of course.

Afterwards, democracy has always survived, despite several elements which might have conjured up against the "rule by majority". The country resisted to nationalism, to the lasting troubles in Northern Ireland, to its basically rural historical experience, to the influence of some sides of the Catholic Church, and so on. The same is valid with regard to a society which has sometimes been interpreted in terms of authoritarian attitudes, traditional loyalties, anti-intellectualism²³. It has been supposed that the key-factor to explain Irish democracy is its British heritage: the revolutionaries themselves stick to democratic values and – to some extent – procedures: in 1919 they instituted by

²² The Head of the State, that is, the President, is however directly elected by citizens.

²³ See Chubb, 1992, pp. 17-21.

election a revolutionary *Dáil* (Parliament), which continued its activities during the revolution and the subsequent civil war²⁴.

Another crucial role might have been played by relative isolation: fascist Europe was quite far away and Ireland chose to stay neutral during the Second World War.

Some critical remarks have been made about the absence of a clear Left/Right divide in the Irish party system. The Labour, although the oldest party, has usually been the “third force” after more conservative *Fianna Fáil* and rather moderate *Fine Gael*. The experience of the 1990s however shows how the Irish political stage is moving towards a more clear dynamics, with at least three relevant actors²⁵.

While national democracy looks quite robust²⁶, its international dimension might be a source of problems. As already pointed out several years ago²⁷, Ireland risks being too reliant on multinational firms. Some structures of global governance²⁸ are therefore needed, and their democratic shape becomes the issue at stake.

Let’s start with a discussion of the European experience²⁹, the most advanced instance of a regional structure of supranational governance. Until the 1950s Ireland has mainly stayed isolated, neutral, away from the war, outside NATO,

²⁴ Ivi, pp. 4-5.

²⁵ Labour governed from 1994 to 1997 in the “Rainbow Coalition” together with *Fine Gael* and the *Democratic Left*, after the exit of *Fianna Fáil*.

²⁶ Just to go through other data: electoral participation is relatively good (62,5% in 2002); corruption is under control (according to Transparency International, Irish score is 7,4/10). See www.transparency.org.

²⁷ See Wren, 2000.

²⁸ On which, in general terms, see Held/McGrew (eds.), 2002, with a large choice of essays by different authors.

²⁹ For a comprehensive and detailed understanding of relations between Ireland and Europe, see Laffan, esp. 2003, and Holmes (ed.), 2005.

and the newly-born European communities (the ECSC, the European Coal and Steel Community, 1950). Eamon De Valera himself recognized the possible advantages of a European federation, for peace in Europe and for Ireland, but in a very realistic manner, he preferred isolation, well-aware of the importance of British choices for Ireland³⁰.

Irish commitment to join the European communities started in the 1950s, especially thanks to *Taoiseach* Sean Lemass. The accession of the Republic in 1973 was endorsed by 83% of Irish voters in the required referendum. Since the beginning, Ireland has usually associated its involvement in European affairs with economic and social modernization. With few exceptions, Irish parties have always supported deeper integration; and Irish people have usually been among the most enthusiastic pro-Europeans.

The failure of the first referendum on the Nice Treaty (June 2001), when – although with a modest turnout of 34,5% - 53,9% of voters rejected the treaty itself – was therefore a real shock, for Ireland and the European Union, which felt betrayed by its most disciplined pupil. The story is well-known. After the decision to set up a *National Forum on Europe*, and a wider debate, in a second referendum (October 2002), with a higher turnout (49%), 63% of Irish voters chose *yes*.

Although Ireland managed very well during its EU Presidency in 2004 First Semester, and thanks to it a final compromise on the Constitution was reached, the referendum shock has paved the way to a whole list of obstacles on the road towards deeper European integration. During the Convention, Irish representatives chose a relatively cautious policy line, especially avoiding more profound deepening with regard to fiscal and security policies (low taxes and neutrality are of course crucial issues for the Republic). In 2005, other two negative referendums – now in “founding countries” such as France and the Netherlands – brought to a stop the whole constitutional process, which is nowadays (October 2006) in a condition of pause.

³⁰ See Keogh, 1988, pp. 207-210.

The Eurobarometer shows however that support for the European Union is still high: in the last edition (Spring 2006) 87% of Irish citizens (the highest rate in the EU) recognizes the country benefits from EU membership; 77% thinks that EU membership is a good thing for Ireland (again, the highest value); the level of trust in the European institutions is very high as well. We might draw the conclusion that most Irish citizens would like to be part of a stronger and more democratic European Union, but feel confused when the talk is about institutional devices, decision-making processes, and their apparent distance from concrete, daily problems.

In the current globalized context, some form of democratic European governance is needed, especially for a country that is so reliant on international economy, and Irish citizens seem well-aware of that. To give a true meaning to a European citizenship, a democratization of our common institutions is crucial. As argued by Richard Kearney³¹, a kind of cosmopolitan European federation wouldn't mean a super national European state. Pluralism of allegiances and identities would be maintained through different levels of decision-making, from local councils to Europe, according to a view that has been broadly endorsed by intellectuals such as Ágnes Heller, Hannah Arendt, Peter Glotz, and Sean MacBride³². In this manner, Irish citizens could properly fulfil their right of being at the same time Dubliners, Irish, and Europeans. Such mentality could prove to be useful in the solution of the Ulster question as well. Involvement in global economic flows requires the development of democratic supranational polities. Although the European Union has already an elected parliament, a European citizenship, and an embryo of democratic circuit between MEPs and the Commission, a stronger legitimization is needed. While some years ago *Taoiseach* John Bruton called for a direct election of the Commission President, another solution might be a Europe-wide referendum on the Constitutional Treaty, an

³¹ See Kearney, 1997.

³² See Kearney, 1997, pp. 61-68 and 101-107.

instrument which would give all European citizens the chance to have a say on a crucially important European issue. Such issue has been raised in recent years by many politicians and intellectuals like Jürgen Habermas³³.

A federal and cosmopolitan Europe wouldn't mean the build up of a strong European state, endowed with full sovereign powers. In order to gain legitimacy, Europe is not asked to do many things: the Union should do them well, with proper resources, and in a democratic manner. Such development might be a suggestion for European countries – especially the ones like Ireland, which is deeply involved in the global economy – to let their citizens enjoy a true commitment to a “real” national and supranational citizenship.

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