THE IRISH 'MIRACLE' AND ITS COLLAPSE: LEARNING THE LESSONS

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From 1995 until 2007, Ireland experienced a period of high economic growth, averaging around 7,5 per cent annually and in some years surpassing 10 per cent. Not only was this more than three times the average of European countries at the time but it made Ireland one of the most economically successful countries in the world, rivaling the growth of China. Unemployment, for long a deep structural problem of the Irish economy, was virtually eliminated and a country used for over 150 years to seeing generation after generation of its young emigrating now had the new experience of becoming a country of immigrants, with Eastern Europeans, Africans, Latin Americans and Asians coming to share in the Irish boom. By the mid 2000s, over 10 per cent of the population was made up of immigrants. This economic boom became known as the Celtic Tiger, a term taken from the success of the East Asian Tigers in the 1980s and early 1990s. Political and policy discourse changed completely with attention being focused on the country's innovative system of partnership governance, Ireland's developmental state showing how to ride the waves of globalisation successfully, and its activist social policies that ensured the benefits of the boom were widely shared. The 'Irish model' as it became known was seen as a beacon of success for developmental latecomers in central and eastern Europe, in Latin America, in Southern Africa and even among developed states like Canada. Ireland had become 'a showpiece of globalisation' (Smith, 2005: 2).

However, over the summer of 2008 this model collapsed spectacularly, plunging Ireland in its worst economic crisis since independence in 1922. Over the course of 2009, GDP declined by 7,1 per cent and GNP by 11,3. The difference between both figures indices the central role that foreign-owned industry and services play in the Irish economy since GNP only includes the value of goods and services that remain in the domestic economy thereby indicating the scale of profit repatriation by the multinationals out of Ireland. Unemployment reached over 13 per cent by early 2010 and many young people were again emigrating to Australia, New Zealand and Canada. In a report in mid 2009, the IMF predicted a GDP decline of about 13,5 per cent for Ireland between 2008 and 2010 with unemployment set to reach 15,5 per cent in 2010 and a return to 2 per cent growth as late as 2014. It concluded that Ireland 'was perhaps the most overheated of all advanced economies' (IMF, 2009: 5) and said the Irish crisis 'matches episodes of the most severe economic distress in post-World War II history' (IMF, 2009: 28). By early 2010, Ireland had a budget deficit of some 14 per cent of GDP, the worst in the EU surpassing even that of Greece.

So how did Ireland's Celtic Tiger collapse so spectacularly and what lessons are to be learnt? Two answers can be given, one short-term and one relating to the structural weaknesses of the Irish model. The short-term answer focuses on the boom in construction, fuelled by state subsidies, the lack of any tax on property ownership and by low interest rates since Ireland joined the euro in 2002. With easy and low-cost credit from banks which lent recklessly to property developers, construction became the motor of growth in the Irish economy after the collapse of the US dot.com bubble in 2001. The bursting of the housing bubble and the crisis it has entailed for the whole banking system thus constitutes the short-term cause of the Irish collapse.

However, the severity of the crisis highlights the weaknesses of the Irish model. This was based on a low-tax economy as an incentive to attract FDI to establish in Ireland. As soon as growth rates faltered, the Irish state's tax revenue collapsed also, leaving a €25bn budget deficit in the €60bn national budget for 2010. A second core feature of the Irish model was its 'light-touch' regulatory framework as the state trusted the private sector effectively to regulate itself. Reports into the crisis being released by the government as I write, one by the Central Bank governor and another by two former IMF officials, are scathing about budgetary policy during the boom and about the severe failures of the state's regulatory authorities. These illustrate features of Ireland's extremely market-friendly 'competition state' which I have analysed in my own work (most recently in Kirby, 2010). Finally, the collapse has raised serious questions about Ireland's much vaunted 'social partnership' approach towards concertative policy-making between the various social partners. Seen during the boom as a major contributor to economic success, it is now widely seen as having fostered a dangerous complacency among policy makers who failed to appreciate the vulnerabilities facing the Irish model. As Nobel economics prize winner, Paul Krugman wrote when asked about the worst case outlook for the world economy: 'It wasn't until the next day that I came up with the right answer: America could turn Irish. … How did Ireland get into its current bind? By being just like us, only more so. Like its near-namesake Iceland, Ireland jumped with both feet into the brave new world of unsupervised global markets. … One part of the Irish economy that became especially free was the banking sector, which used its freedom to finance a monstrous housing bubble. … And the lesson of Ireland is that you really, really don't want to put yourself in a position where you have to punish your economy in order to save your banks' (Krugman, 2009).

References

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