What makes the Celtic Tiger run?

Julie Hyland
16 June 1998

The Celtic Tiger — Ireland's Economic Miracle Explained
by Paul Sweeney
published by Oak Tree Press, Dublin, 1998, ISBN 1-86076-081-3

The expansion of the Republic of Ireland's economy has been hailed as one of the "economic miracles" of the last decade. Southern Ireland has recorded some of the highest growth rates in the European Union, earning it the title of the "Celtic Tiger". Gross National Product is increasing by an average of 7.5 percent annually and the country now records a large balance of payments surplus and a current budget surplus.

These spectacular growth rates have played a major role in bringing the British and Irish governments together to forge the Northern Ireland Agreement. Both consider cross-border initiatives vital in order to encourage further investment by the transnational corporations (TNCs). Both claim that this investment would bring "peace and prosperity" for the Irish people. To gauge the real prospects for this, it is necessary to examine the record of the Celtic Tiger—what it is, how it has been achieved and at what cost?

Paul Sweeney is an economist with SIPTU, Ireland's largest trade union. His book, *The Celtic Tiger—Ireland's Economic Miracle Explained* , provides comprehensive data for making such an evaluation.

Sweeney points out that Ireland's "success" results from the explosive development of global production over the last two decades. By 1996 the global stock of Foreign Direct Investment (FDI) was estimated to be $3,200 billion.

In order to penetrate the Single European Market (SEM), some of the world's leading corporations chose Ireland as a location for their operations. Forty-five percent of Irish workers are now employed by TNCs such as Intel, IBM, Hewlett Packard, Compaq and Sandoz.

In 1985 Ireland became a net exporter for the first time. Over the next 10 years, exports trebled. Fully 21 percent are of computer-related goods, exceeding food and live animals in this once agricultural nation. Productivity increases are amongst the highest in Europe. In 1997 industrial production grew by 15 percent, compared to 2.8 percent in the UK.

The impact of globalisation

The transformation of the Irish economy was forced upon it. Until 1958, successive governments had pursued protectionist measures. In an attempt to develop indigenous industry, the Irish bourgeoisie introduced the Control of Manufactures Act of 1932. This was designed to prevent foreign ownership and investment by ensuring that Irish citizens controlled 51 percent of voting shares in manufacturing firms. During the Second World War, 99 percent of Irish exports went to the UK. Heavily dependent on British markets, the Irish economy relied on agriculture—a situation that the British bourgeoisie actively encouraged.

This strategy failed to develop agriculture or industry. This was admitted in 1958, when the "Economic Development" programme was launched. Though concerned primarily with agriculture, it called for the Irish government to actively court foreign capital.

The signing of the Anglo-Irish Trade Agreement in 1965 led to a growth in foreign investment. By the end of the 1960s Ireland had become an industrialised nation, largely due to foreign penetration rather than the success of indigenous industry. Forced into competition for the first time, many Irish firms went to the wall. Car assembly was wiped out and the clothing, textile and chemical industries suffered badly. Thousands of job losses followed.

The combination of the global inflationary crisis of the 1970s and the impotence of their programme of national economic development forced the Irish bourgeoisie to begin diversifying trade away from the UK and towards Europe. In 1973 Ireland became a member of the European Economic Community (EEC). This not only gave it access to European funds—particularly the agricultural subsidises administered through the Common Agriculture Policy (CAP)—but greater access to international capital.

EEC funding was akin "to a mini-Marshall plan to help the Irish economy out of recession," Sweeney notes (page 79). These funds were dependent on economic development programmes in which the Irish bourgeoisie was to guarantee a "stable" and "cohesive" environment for international investment.

The formation of the Single European Market has played a key role in the growth of FDI flows into Ireland. The European Union (EU) accounted for 42 percent of global FDI flows in 1994, while FDI flows between member states trebled between 1983 and 1994.

Ireland's relationship to Britain has been transformed. Whilst the UK is still the Irish Republic's major export destination, its share fell from 90 percent in the 1930s to under 26 percent by 1995. Germany is now the country's second largest export destination. The majority of Ireland's imports still come from the UK, but America is its largest investor. Ireland attracts 25 percent of all US investment in the EU, just behind the UK. In 1995 it replaced the UK as the favourite site for US electronic hardware overseas investment, securing 30 percent of new projects in the EU, against 19 percent in the UK. One-quarter of all manufacturing jobs in the republic are in US-owned firms.

How has this been achieved?

Government subsidies and tax breaks have played an important role in securing international investment. Company tax rates were reduced from 50 percent in 1988 to 36 percent in 1996, and are to be progressively reduced to 12.5 percent by the year 2010. Previously, both multinationals and Irish companies did not pay any taxes on export profits, but this was changed on EEC insistence. A 10 percent rate now operates in certain zones. There is no wealth tax, only limited Value Added Tax coverage and the top rate of income tax has been reduced from 65 percent to 48 percent.

The key to Ireland's "miracle", however, is the corporatist partnership between the Irish government, the trade unions and big business. The four "national recovery programmes" implemented over the last decade have been used to discipline the working class, prevent strikes and hold down wages.

The Programme for National Recovery that began in 1988-90 secured trade union support for cuts in public spending. This was followed by the Programme for Economic and Social Progress 1991-93; the Programme for Competitiveness and Work 1994-97 and finally Partnership 2000 agreed at the end of last year.

The radical restructuring of the Irish economy has profoundly altered the country's political set-up. For decades the two main nationalist parties, Fianna Fail and Fine Gael, dominated government. By the 1980s, the inability of the Irish bourgeoisie to contain the class struggle through its traditional mechanisms of paternalism and social reform had significantly weakened these parties. Fianna Fail, once considered the "natural party of government", was unable to form a majority government. In response, the Irish bourgeoisie turned to the so-called workers organisations to implement their plans.

Sweeney praises the "Irish left" for responding to the challenges of global competition. "An important aspect in building the consensus was that the parties of the Irish left—Labour, the Workers Party/Democratic Left and the trade unions—did not believe that more public spending was the solution to problems, unlike the Left in the UK and elsewhere.... Within the unions, it is the left which is leading the move to participation" (page 95.) He approvingly notes that during this period, "Labour appeared to become the party that no government could do without" (page 107).

He further singles out the "Socialist Economists Group" who in 1983 produced a report entitled, "Jobs and Wages—the True Story of Competitiveness." Whilst arguing that Ireland should not attempt to compete with the Asian Tigers simply on the basis of low wages, but on "sophisticated high value products", it urged the government to encourage "industrial and structural change". To guard against a return of industrial militancy, it recommended that the government give the unions a greater say in the management of the economy. "While such a change requires a radical departure from our tradition of defensive trade unionism, it is the only approach which offers any prospect of success for workers in an increasingly competitive economy" (page 140).

Not surprisingly, Sweeney is especially proud of the trade unions' role in implementing these agreements. "The Irish trade union movement is ahead of other European countries in developing partnership at enterprise level. Part of the reason for this is that Irish trade unions have recognised the imperatives of competition, in all its complexity, faster than unions in other countries because of the high level of multinational penetration in to the economy and because they have become accustomed to change" (page 149).

Union co-operation enabled the government to shed thousands of jobs in state-run industries. Sweeney cites the restructuring of Irish Steel and Irish Sugar, the part privatisation of Telecom Eireann and the restructuring of Aer Lingus, ESB and Bord na Mona as proof of union prowess.

The national recovery programmes led to a substantial increase in profits, while minimal wage increases were kept below the inflation rate and largely paid for through tax breaks. Just as important, the trade unions imposed order in the workplace. The number of days lost through industrial action fell from an annual average of 316,000 in the seven years preceding the first national programme, to less than 110,000 a year between 1990-96.

Who has paid for the "miracle"?

Sweeney's aim is to prove the superiority of the Celtic Tiger—with its "democratic" government and "partnership consensus"—over the Asian Tigers. He criticises the latter for being based more on "perspiration" rather than "inspiration", i.e., securing high investment based on low wages rather than "productivity and efficiency".

He nevertheless acknowledges that the rewards from the "Irish economic success story" are not "evenly distributed.... The three primary objectives in any economy are high growth, full employment and an acceptable distribution of income and wealth. Ireland has been superbly successful in the first objective in recent years, but less so in the other two. Thus success is tarnished" (pages 15-16).

Sweeney's book does not explain this disparity, but additional data not cited by him makes clear that it is working people who have paid for Ireland's "success". Changes to the taxation system, combined with the holding down of wages, have produced a "marked increase in the level of inequality over the past 20 years," according to *Social Policy in Ireland—Principles, Practice and Problems* (page 172).

A third of the population is officially recorded as poor. Between 1972 and 1994 those living on less than 60 percent of average income rose from 25 percent of the population to 35 percent. Income distribution for the lowest 50 percent fell from 18 percent to 11.5 percent. Conversely the wealthiest 20 percent increased their share of national income from 46.7 percent to 52.5 percent, and the wealthiest 10 percent from 29 percent to 32 percent.

More than one in ten are out of work. Of these, two-thirds have been unemployed for more than one year. More than one in five 15 to 24 year olds are jobless. One-third of the work force are either self-employed, part-time or in temporary jobs. The service sector now accounts for 61 percent of the workforce. Hourly pay for the lowest paid 10 percent has either stagnated or fallen since 1987. The top 10 percent now have an earnings ratio five times greater than the bottom 10 percent, up from three and a half times in 1987. The total share given over to wages in the economy has fallen from 82 percent in 1970 to 63 percent in 1996. Over the 15-year period up to 1995, real unit labour costs fell by 19 percent in Ireland, compared to 2.4 percent in the UK.

Changes to the tax system have hit the poor hard. The proportion of income paid in direct tax has increased by 7.86 percent for the bottom 10 percent and by more than 12 percent for the lowest 30 percent, whilst it has decreased by nearly 6 percent for the top 30 percent of earners.

State aid to private industry and services rose from *IR£* 155 million in 1988 to *IR£* 300 million in 1997. That year the government announced that it had taken in *IR£* 500 million more in taxes than it had expected. Yet still it has continued to slash public spending. In 1997 total government expenditure as a percentage of GDP was 33 percent, compared to an EU average of 47 percent. Social security costs in Ireland are just 4.4 percent of Gross Domestic Product, compared to 6 percent in the UK and 19.9 percent in Germany.

Other economists are more open than Sweeney in accounting for the Celtic Tiger's growth. The *Economist* attributed it to the determined efforts of "all parties", the discipline of the European Exchange Rate Mechanism (ERM) and the national agreements to "hold wage increases down" (27 April 1996). *Newsweek* was even blunter: "Foreign corporations looking for a low-cost English-speaking home in the EU are enchanted" (December 23 1996).

What are the prospects for the future?

Sweeney sounds several mild notes of caution. He points out that it is inadvisable to take the record levels of GDP at face value, as TNCs have been engaged in "transfer price fixing". Because they operate as global entities, corporations are able to take advantage of Ireland's low company tax rate by declaring profits to the Irish Exchequer that were actually made elsewhere.

In addition Sweeney lists several other factors which could affect

Ireland’s success, including: “A break-up of national partnership—extensive industrial unrest would discourage investment”, “EU funds drying up after 1999, plus CAP (agricultural subsidy) reform, leading to a recession”, “A general downturn in the world economy [that] could hit Ireland hard”. These threats are then largely dismissed. Things have gone so well in the last 11 years, he argues, “Ireland’s future looks good, for the first time in a very long time. In spite of globalisation, its future is largely in its own hands” (page 200).

Famous last words, as the recent experience of the Asian Tigers has shown. Earlier in his study, Sweeney notes: “The problem with foreign investment is that it is mobile—in other words it can pull out and locate elsewhere”(page 80). In 1996 two major employers—tyre manufacturer Continental’s Irish subsidiary, Semperite, and GM’s auto components Irish subsidiary, Packard Electric, pulled out of Dublin. Last month Microsoft changed its plans to locate a major new Internet facility in Dublin because the telephone system was deemed inadequate, choosing London instead.

The Asian Tigers’ success was similarly based on the global mobility of capital, attracted to the region by cheaper labour and new markets. Between 1991 and 1997 the region accounted for half of the increase in world output. Since then entire economies have collapsed virtually overnight as international capital, faced with glutted markets and increased competition, has sought to cut its losses and develop new avenues of exploitation. The first signs of the global implications of this economic meltdown are beginning to be felt in the escalating currency crisis in Australia and New Zealand. The Asian economies are seeking to stem their losses by exporting vast quantities of cheap consumer goods and offering even better rates of return to the banks and corporations. This will fuel competition between the major trading blocs of the US, Europe and Japan and lead to a further intensification in the assault on workers’ living standards. Ireland, rather than facing just one of Sweeney’s problem scenarios, will confront a series of them. This will inevitably provoke major social struggles by working people that will threaten the entire political and economic edifice on which the so-called Celtic Tiger has been constructed.

Additional Source Material:
Social Policy in Ireland—Principles, Practice and Problems,
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