Economic troubles mark the end of Ireland’s “Celtic Tiger”

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For nearly two decades, Ireland has been hailed as an example to the rest of the world for what can be achieved by a small country in terms of economic growth. The prosperity enjoyed by the “Celtic Tiger,” it was claimed, benefited the Irish population as a whole. It was cited by the Scottish National Party to bolster its call for independence from Britain.

All such claims have now been shattered. Over recent months, an economic crisis has developed in Ireland, triggered by the deepening global credit crisis. Commentators now accept that Ireland faces the immediate prospect of recession in the coming months, with figures demonstrating that the economy has already contracted by 1.5 percent in the first quarter of 2008.

Along with Spain, Italy and Portugal, Ireland has been cited as one of the countries in the European Union most likely to experience a recession, which would be its first since the 1980s. Denmark has already entered recession, following two consecutive quarters of economic decline in a row. Concern mounted about the future for Ireland when on July 3, the European Central Bank (ECB) announced a 0.25 percent interest rate hike to 4.25 percent in a bid to counter inflation. Such a move will impact negatively on the Irish economy, where businesses are finding it increasingly difficult to access new capital.

Signs of struggling businesses are already apparent, particularly in the construction sector where the rate of new houses being built has declined. Ireland’s recent economic growth relied to a considerable extent on this industry, now valued at one fifth of the total economy. During the years of economic growth, roughly 70,000 houses were built each year, but economists have predicted that this year not even half this number will be completed. Property prices have fallen 10 percent in recent months.

This is being immediately passed on to workers. Lisney, an Irish retail firm, has imposed a 10 percent reduction in staff wages in a bid to cut costs. The company suffered a loss during the last financial year, showing that the property collapse is expanding into other areas of the economy. Hibernian, a financial services company, announced plans recently to shift 500 jobs to Bangalore in India over the course of the coming three years.

This demonstrates one of the major challenges facing Ireland. When economic growth first began in the 1990s, production costs in Ireland were relatively cheap. Together with the low corporation tax of 12.5 percent and various tax breaks introduced after 1997, this was a major factor in attracting vast levels of foreign investment into the country. Now, however, things have changed. Developing economies such as India and China, as well as the states in eastern Europe, can easily undercut wage levels in Ireland.

As economic activity slows, the rate of unemployment is beginning to increase. Joblessness reached its highest levels in nine years in June, with 5.7 percent out of work. The number of people claiming unemployment benefit and tax credits has seen a rapid jump. In one month alone, between May and June, it leapt by around 10,000 from 207,300 to 217,400. Since the beginning of the year, the average monthly increase of those claiming unemployment benefit has been 7,100. Over the past 12 months, claims for unemployment benefit have risen by 33 percent.

This trend will continue, as demonstrated by a recent survey of employers’ hiring intentions. Employer confidence in the construction sector decreased by 33 percent over the past year. Jason Kennedy of Manpower Ireland urged increased competitiveness within the labour market, stating, “Ireland is now a more mature economy that cannot compete on the same basis as before and the emphasis must now be on sustainable development and continued flexibility of our workforce.”

In a separate report, the Economic and Social Research Institute (ESRI) predicted that unemployment will rise above 7 percent by the end of the year. It also stated that Ireland would experience net emigration in 2009 for the first time in 20 years. In spite of the recession across the economy, ESRI is still predicting that inflation will increase well above 4 percent this year, thanks to the global increase in food and energy costs.

Although the figures in the ESRI report appear bleak, some have noted that even they are based on quite optimistic assumptions and things could be a lot worse, especially if the global economic downturn continues. As one editorial in the *Sunday Business Post,* entitled “How we threw it all away,” observed, “This ESRI commentary, for all the gloom it conveys, is based on some quite optimistic assumptions. It holds to the ‘conventional wisdom’ that the world-wide economic troubles will be relatively short-lived. This proposition may not hold good if, for example, food and oil prices continue to soar.”

The bleak outlook has forced the government to downgrade its economic forecast, particularly following the announcement that Ireland’s budget deficit has quadrupled since the start of the year. Deputy Prime Minister Mary Coughlan made clear that the response of the government will be to make further cuts to the level of social spending, in spite of the fact that Ireland’s social spending as a percentage of GDP is already one of the lowest in Europe. Infrastructure projects associated with the National Development Plan are also under threat.

The finance ministry is coming under increasing pressure to act to improve the situation. But it has little room for manoeuvre. While the government originally anticipated it would only borrow money to the value of 1 percent of GDP this year, the rate is already reportedly above 2 percent and is likely to pass the 3 percent limit set by the EU that member countries cannot exceed. With the process to decide the budgets for individual departments under way, some are calling it the toughest spending round since 1997, suggesting that public services such as health and education will suffer a funding cut.

Briefing notes prepared for incoming Finance Minister Brian Lenihan in May stated, "Continued success into the medium and long term will depend crucially on maintaining competitiveness and budgetary stability. Bringing current public expenditure increases down to sustainable levels...will be crucial in that context."

As Pat Leahy, political editor of the *Sunday Business Post*, notes, "The problem for Brian Lenihan is that, last year, the cost of maintaining the 'existing level of services' for 2008 was estimated at an additional 5 percent (of GDP). The way things look right now, that's going to be a stretch for the government finances next year."

He goes on to point out that there are indications that some departments are having great difficulty keeping to their budgets for the current year. This will only be intensified over the course of a deepening recession, as unemployment benefit and social spending increases in line with the rising number of workers thrown out of work.

The briefing notes for Lenihan also touch on the need for "restraint" with regard to public sector pay claims. Officials caution against any pay increase that will further undermine "competitiveness"—meaning workers will take significant pay cuts, even as inflation increases.

Further problems exist for the government. Its pension fund has lost somewhere in the region of 5 percent of its overall value, approximately 1 billion euros, in the first five months of the year as a result of the global economic downturn. It has been estimated that the projected value of the pension fund of 140 billion euros in 2025 will only provide coverage for between 25 and 30 percent of those who will require it.

Added to this, the economic slump has seen a significant reduction in tax revenues by 3 billion euros according to a recent report by economists cited in the *Irish Independent* As a result, they believe the government will be forced to present two consecutive budgets over the coming years containing severe cutbacks to social spending.

This will have a devastating impact upon the working population, who will be made to pay for Ireland's crisis. Contrary to the myth spread about the "Celtic Tiger" economy benefiting all sections of society, even during the periods of economic expansion in Ireland the rate of poverty increased, as did the gap between rich and poor.

Whilst calling for working people to bear the brunt of the crisis, sections of the ruling elite are demanding that the central bank step in, as has been done by the Federal Reserve in the United States, to provide extra finance for the major Irish commercial banks. Thus they are calling for the money saved from public spending cuts and wage restraint to be used to enrich the already fabulously wealthy group at the top of society.

David McWilliams, an economist writing in the *Sunday Business Post*, is one who advocates this course of action. "We can't change our interest rates," he wrote. "However, the Central Bank can inject huge amounts of cash without changing the interest rate—if it is prepared to take a risk on commercial banks' shares. It is now time for the Central Bank to organise a massive sale and repurchase arrangement with Ireland's top five banks."

This demand is raised in the context of growing fears about the position of Ireland's banks. In recent months, they have been forced to borrow money at higher levels of interest than they can lend it. Added to this, the price of the top banks' shares have been decreasing. They took a substantial drop last month when a report from a US investment firm, Keefe, Bruyette Woods Ltd (KBW), suggested that Bank of Ireland and the Anglo Irish Bank have low levels of tier 1 capital when compared with other European banks. They went on to note that Irish banks would be among those having to raise the most capital in future, at a time when economic activity, both in Ireland and globally, is in recession.

In particular, Bank of Ireland was cited as being at risk to rating downgrades and lower collateral prices. As a consequence of this gloomy forecast, the bank's shares lost 6 percent in a day's trading, with Anglo Irish Bank, expected to be slightly less at risk, still dropping 2.5 percent on the same day.

McWilliams, together with some other commentators, has placed the blame for the troubles on the individuals controlling the banking sector. He wrote, "When the dust settles, there needs to be widespread culling of the top brass in the Irish financial industry as they have been exposed as reckless, even predatory lenders.... In this they were aided and abetted by scores of middlemen at our mortgage brokers and estate agents. They should count themselves lucky if they just face losing their jobs."

While there are doubtless no end of unscrupulous people at the top of the banking system, blame for the current economic turmoil is not solely due to the extravagant behaviour of certain individuals. Their behaviour was conditioned by a general explosion of fictitious capital as speculation went unchecked. And the collapse of this speculative bubble heralds the onset of a systemic crisis within world capitalism, likely the worst since the depression of the 1930s.