League for the Fifth International
Fighting for the formation of a new world party of socialist revolution
Published on ***League for the Fifth International*** (https://fifthinternational.org)

The death of the Celtic Tiger

Bernie McAdam Sat, 04/04/2009 - 22:00
Bernie McAdam

Ireland?s economy, once hailed as a model for ?emerging economies? the world over, was the first in the Eurozone to enter recession. Bernie McAdam looks at the end of the Celtic Tiger.

On the back of a global financial crisis and the synchronised world recession, Ireland?s booming economy has crashed. This is the first really serious recession to hit Ireland since 1983. The Republic of Ireland?s economy had grown at an average growth rate of 5.1 per cent GDP between 1986 and 1996, and an average 4.7 per cent up to 2007. The European Commission expects 2008 to finish with a negative growth rate of two per cent and forecasts a five per cent contraction for 2009 ? far above the 1.9 per cent projected contraction for the Eurozone as a whole. This is a sharp and dramatic decline and quite unprecedented in Irish history.

Ireland?s massive housing bubble has burst with house prices tumbling dramatically, down by 30 per cent plus since 2006. The once dynamic construction and building industry has slumped putting thousands out of work. In December, the three main Irish banks, Anglo Irish, Allied Irish and Bank of Ireland, had to be rescued with 7.5 billion euros recapitalisation from the Fianna Fail government. This has clearly not been enough and in January the Anglo Irish bank had to be nationalised by the state.

Unemployment has risen to 8.3 per cent in December, the highest number of claimants, 293,500 since December 1993. Unemployment is forecast to hit 400,000 at the end of this year. US company Dell based in Limerick intends to lay off 1,900 with a likely 7,000 knock on in job losses. Dell is the largest exporter in the state accounting for five per cent of GDP and its relocation to Poland will be a huge blow to the mid-west ? indeed the whole Irish economy.

Ireland?s economic success over the last two decades was dramatic but what did it really represent? Did the boom years herald an economy that could match or even catch up with the major industrialised nations? This begs the question of what is Ireland?s status in the global economy and how that has developed since the origins of the southern Irish state in 1921.

Origins of a semi-colony

Quite clearly Ireland could never claim membership of the small club of nations that dominate the world economy. Marxists would characterise such nations as imperialist and Ireland?s history has largely been defined by its relationship to one of them: Britain. But a defining feature of imperialism is not just the subordination of the majority of countries to a small band of powerful states. As Lenin had long again pointed out, imperialism constituted a specific stage of capitalist development characterised by a world economy dominated by the huge multinationals and financial oligarchies of the great powers. The proliferation of colonial possessions was simply the form the drive to conquer markets took in the early 20th century; even once states gained political independence they still found themselves locked into a system of economic subordination and exploitation.1

In the case of Ireland, we find a country with a long history of colonial subservience to British imperialism. After the Partition of Ireland in1921 only the northern six counties retained that colonial character. In the South, where Britain withdrew its security apparatus but not her economic or political influence, a semi-colony grew up. Indeed it was the Irish socialist James Connolly that foreshadowed the nature of this new semi-colony back in 1897:

?If you remove the English army tomorrow and hoist the Green flag over Dublin Castle, unless you set about the organisation of a socialist republic your efforts would be in vain. England would still rule you. She would rule through her capitalists, her landlords, financiers and through the whole array of commercial and industrial institutions she has planted in this country?.2

In the 19th Century economic development under Britain had taken on a dual character. In the north east corner of Ulster a vibrant industrial zone was nurtured. A thriving shipbuilding and engineering sector formed an integral part of the British Empire?s industrial base and around it was consolidated a pro-British, Protestant bourgeoisie with a largely compliant and loyal Protestant working class. Britain and its Orange allies played the ?Orange Card? with great effect and sectarian division was deliberately whipped up against Catholics.

Over the rest of Ireland similar discrimination against Catholics and a deliberately fostered role for Ireland as merely a supplier of agricultural goods for Britain ensured a weak Catholic bourgeoisie based around industries related to farming, distributive trades and services. This role was not fundamentally altered when the Irish Free State was created in 1921. Indeed to quote from The Paradox of Irish Economic Development:

?Ireland?s economy was one-sidedly restricted to low value agricultural goods and textiles for imperialism. Moreover, the social structure of Irish society with a large class of small farmers itself inhibited the concentration and centralisation of capital that could have spurred the development of a dynamic capitalist class.?3

The ability to escape semi-colonial dependence required a burgeoning bourgeoisie able to compete effectively in a range of industrial sectors within a growing market. To attain the dizzying heights of an imperialist power, the bourgeoisie would need to export capital and move into the global market. There were of course the political obstacles, as well as economic limitations, i.e. including the active sabotage of the existing great powers.

De Valera?s economic nationalism

Ireland?s experience under the leadership of Fianna Fail?s De Valera in the 1930s and 40s, who sought to overcome dependency on Britain, confirms the existence of these economic and political obstacles. De Valera?s protectionist strategy sought to decrease Ireland?s dependency within a capitalist framework by encouraging import substitution industrial development behind protective barriers. Economic self-sufficiency was the goal, but it failed to stem emigration abroad and economic stagnation, as native manufacturing industry stalled due to insufficient demand for goods in the domestic economy:

?Imports of capital goods in exchange for agricultural or low value added manufactures ensured the extended reproduction of the gap between Ireland and its imperial trading partners. A growing proportion of economic wealth generated in Ireland went abroad to imperialist companies in the form of profits on trade in manufactures. Ireland?s commodities were needed to finance any given amount of capital imports.?4

The upshot of all this was continual balance of payments problems and in 1956 the Irish economy witnessed a major financial crisis. This was at a time when imperialist economies like the USA and UK

were booming.

The Industrial Development Authority (IDA) was established in 1949 and soon one of its main aims was to attract foreign capital. This did not initially mean the end of protectionism but its days nonetheless looked increasingly numbered. During the 1960s significant Foreign Direct Investment (FDI) flowed into the country as US influence grew and was seen as a more acceptable alternative to dependency on Britain. A whole rake of incentives were made available to attract FDI, the most important being ?the prospect of profits above the international average obtained elsewhere, combined with complete freedom to repatriate these.?5

The other important factor in swinging the Irish bourgeoisie behind free trade was its entry into the European Economic Community (EEC) in 1973. This had enormous benefits for Ireland?s agricultural exports and also claimed considerable structural assistance from European Regional Development and Social Funds.

The Celtic Tiger emerges

During the 1980s the Irish economy suffered from slow growth, high inflation and severe unemployment. Emigration continued to reach unacceptably high levels with around 200,000 leaving the country. This situation persisted despite attempts by successive governments to develop an ?open economy?. GDP growth was consistently sluggish averaging 2.3 per cent between 1980 and 1986.

The continuing economic problems in Ireland occurred against the backdrop of the world recession from 1979-1982 within a protracted period of global stagnation from 1973 to 1990. However, Ireland?s increasing attempts at export led industrialisation and assistance from European Structural Funds was laying the basis for a major shift in the direction of the economy.

This shift was notable insofar as Ireland became less dependent on agricultural exports and more oriented to manufacturing exports. But moreover, these were industries owned by foreign companies as opposed to native capital. Also it saw the diminishing role of British capital and the rise of US and, to a lesser extent, German capital. Similarly, with trade, Ireland?s exports went largely to the EU rather than Britain. In 1960, 90 per cent of Ireland?s exports went to the UK whereas in 1997 it had fallen to 30 per cent.

These changes were significant and ensured that as globalisation developed in the 1990s Ireland was well placed to benefit. It did not alter Ireland?s semi-colonial character but changed its form to an economy dominated for so long by Britain to one heavily reliant on US imperialism. The Celtic Tiger had by far the highest level of US investment per manufacturing worker in Europe; some seven times the European average. In hot pursuit of the US manufacturing companies came all the big names in US financial services as Dublin developed a new International Financial Services Centre.

The Celtic Tiger boom was the product of globalisation and export led growth, which focused on attracting foreign direct investment. Ireland became a favourite location for multinational corporations in electronics, pharmaceutical, chemicals, healthcare, software, teleservices and financial services. The Irish government made extended extremely generous tax incentives, grants and of course open access to the EU market without tariff barriers was attractive for US investors.

Kieran Allen in his The Corporate Takeover of Ireland appropriately uses the term ?The Atlantic Tax Haven? to describe the Irish economy. He documents in detail the myriad of incentives for corporations to locate in Ireland. US companies declare their profits in Ireland to benefit from the low tax regime. Once the figure for profits is submitted to the Revenue Commissioners, corporations can claim allowances in many ways e.g. by writing off their losses for tax purposes, writing off their spending on machinery and buildings,

huge tax breaks on dividend payments, and many more besides.6

Ireland also had another major attraction for foreign capital. It had an educated, English speaking, and low paid workforce that had been tamed by government and trade union bureaucrats alike in a succession of social partnership deals throughout the 1980s and 1990s. The ?partnership? was basically a form of business unionism that ensured wage restraint and compliance to privatisation policies. As labour costs were relatively low in comparison to internationally, it ensured a high rate of productivity for corporations? extraction of super profits.

Two faces of the Celtic Tiger

The Celtic Tiger period was certainly a boom time for Ireland. Fifteen years of soar away economic growth in which more jobs and a higher standard of living undoubtedly promoted a feel good factor in society as a whole. The stunning rise in property prices reflected this optimistic feeling in particular. For the first time in modern Irish history emigration went into reverse with immigrant workers mainly from Eastern Europe pouring into the country to be corralled into an abundance of low paid jobs.

This boom needs, however, to be put into perspective. It arrived on the back of the dominance of foreign capital in the economy. The Irish state had made this possible by generous concessions paid for by the Irish taxpayer alongside some of the lowest business tax rates in the world. In return Irish workers have had to endure never ending wage restraint and a higher cost of living than the European average. The end result has been a society second only to the USA in inequality among Western nations according to the United Nations (2004).

Public services have been grossly under funded and privatisation has grown at an alarming rate. Irish Sugar, B & I Shipping, Irish Life Assurance, Irish Steel, Aer Lingus, Great Southern Hotels, Cablelink, Bord Telecom Eireann, Dairy Disposable Company and three state banks ICC, ACC and Trustee Savings Bank are the key state assets that have been sold off. Of course, this has been accompanied by major job lay offs and poorer quality services.

The newly privatised Irish Ferries opened its account by sacking all the Irish workers and tried to recruit Latvian workers on €3.50 per hour. After massive demonstrations throughout Ireland that threatened the social partnership deal the union leaders did what they do best ? sold short the fight back. A compromise deal was agreed, which acknowledged the National Minimum Wage €7.65 but worsened conditions and job security.

Aer Lingus privatisation was also an excuse for job losses. Irish Sugar, now Greencore, has recently seen the closure of its last plant in Mallow. The privatisation of telecommunications was an excuse to raise prices and worsen the provision of services. The list goes on and on.7

Globalisation and Ireland

Kieran Allen mounts a blistering, spirited and well-informed attack on the Celtic Tiger and describes in detail how corporatism has negatively impacted on Irish society. However, despite being a socialist and member of the Irish Socialist Workers Party, he fails to give a Marxist understanding of Ireland as a semi-colony within a global economy dominated by a small number of imperialist powers. There is scant analysis of the nature of globalisation as a distinctive phase in the development of capitalist imperialism.

Allen argues that globalisation is the most powerful form of capitalism yet and that big corporations, by entering into strategic alliances and partnerships through mergers and acquisitions, ?can carve up the world market much like old empires divided up the continent of Africa?.8 And indeed globalisation has seen an increase of monopolisation, but this was also a key feature of imperialism at the turn of the 20th

Century when Lenin wrote his Imperialism; The Highest Stage of Capitalism (1916).

If we understand globalisation as an historical phase of development within the broader framework of the imperialist epoch, then we can better understand the drive to monopolisation. Generally speaking monopoly arises from the self-expanding logic of capital and the tendency to declining profit rates that follow from it.

Allen?s simplistic notion of the ?corporations taking over the world? ignores Lenin?s theory of imperialism: a key aspect of which is the division of the world into imperialist and ?imperialised?, i.e. exploited, nations. Monopolies (or multi national corporations) outgrow national boundaries in terms of the size and spread of their operations but they have not decoupled from the limited number of national imperialist states from whence they came. Indeed as we move into a ?post globalisation? and recessionary period these states are taking action to defend ?their? major national corporations.

Allen identifies the role the state has played in aiding and supporting the corporations. He also points to how the neoliberal agenda has stripped states of their assets and made governments less accountable. But his conclusion that ?the political state that was supposed to serve the people as a whole has been replaced by a corporate state?10 is seriously one-sided and wrong.

It suggests the capitalist state has undergone a fundamental transformation and creates a romantic and fanciful image of a one-time ?political? state: states have historically always protected class interests and the modern state has its origins in the great political revolutions that cemented the power of the capitalist class in the 18th and 19th centuries. While much has changed since, its essential features ? a juridical system defending private property rights, the permanent un-elective coercive apparatuses, the special public power standing above society ? have remained in both the democratic and non-democratic forms the capitalist state has taken.

In Ireland the state defends a semi colony capitalist economy, in which foreign corporations play pivotal role in the domestic economy. Foreign penetration of the economy in this way marks it out as a semi-colony and its political subservience to imperialism goes hand in hand with this. But the ?corporate take over? has not made the role of the Irish state redundant. In fact, the state facilitated Ireland?s openness to foreign capital in the first place. Furthermore it will be the Irish state that will be left to deal with the flight of foreign capital and introduce enticements to secure their return as this recession deepens.

Prospects for the Irish economy

The Irish economy is in a deep and protracted recession. All the key pillars of the economy are shaking with no prospect of respite in the short term. The Economic and Research Social Institute (ESRI) predict a -3.9 negative growth GDP for 2009 coming on the back of -2.4 in 2008 but the European Commission believe this is too low and a five per cent GDP contraction is likely. The Economist has predicted at least 3 years of recession but this could well be an underestimate.

The Economist further states that a fiscal surplus of three per cent in GDP in 2006 has turned into an estimated deficit of 6.5 per cent in 2008, the most rapid decline of any Eurozone country since the single currency was launched. Ireland has now breached the EU?s general budget deficit ceiling of three per cent GDP by an even wider margin this year of 8.9 per cent 11 and the EU will launch excess deficit procedures against Ireland.

As the property bubble burst, the slump in the construction industry became an early casualty. This sector has a far greater weight in the economy than most countries; in 2006 it made up 19.5 per cent of GDP. Between November 2007 to November 2008 employment in this sector has diminished by 20 per cent and

the volume of output in building and construction decreased by 24.4 per cent in the third quarter of 2008 in comparison to the third quarter 2007. The value of production decreased by 21.6 per cent over the same period. Although industrial production increased by 2.7 per cent from November 2007 to November 2008, this has largely been driven by chemicals and pharmaceuticals at 3.9 per cent whilst traditional industries continue to decline at -0.7 per cent.12

The Irish Exporters Association have reported that goods and services exports in 2008 were four per cent lower than a year previously, with operating costs higher and rising faster than in other European countries. The IEA forecast a drop in exports of five per cent this year causing up to 35,000 job losses. Computer industry exports dropped by 22 per cent last year reflecting a long term decline, pharmaceutical and chemical exports increased by two per cent , beverage exports 20 per cent lower in 2008 while agri-food exports fell 7 per cent rely.13 Clearly the strength of the Euro against the dollar and sterling is posing big problems for merchandise exports to the USA and UK.

The financial crisis adds yet another dimension to Ireland?s problems. The recapitalisation of the banks and the nationalisation of Anglo Irish bank reflect the fact Irish finance was massively over exposed to the property and construction sectors. The banks? assets are highly concentrated in the Irish and British property markets. Irish investors and banks have significant interests in falling British commercial property markets. Despite earlier state bail outs the scandal hit Anglo Irish was on the verge of collapse as the state rushed in to nationalise it. The state bail out of the banks and the decline in the economy will mean the Irish National Debt will rise, it has already hit 50 billion at end of 2008, 13 billion more than the same time last year, which comes to 41 per cent GDP.

The prospects are bleak for an economy that is essentially at the mercy of international capital, as the global recession turns nastier. The claim that the Celtic Tiger was transforming Ireland into one of the richest countries in Europe was always wide of the mark. Historically a poor semi-colony it would have had an awful lot of catching up to do. Export led industrialisation had not developed a bourgeoisie that was catching up with the imperialists. Indeed native manufacturing was being hit hard by the dominant penetration of foreign capital.

Those areas of the native economy that did produce home grown multi national corporations such as Cement Roadstone Holdings, Ryanair and Smurfit were few and far between and remained small compared to the world?s largest multi nationals. The Irish bourgeoisie most definitely benefited from the increased attentions of US capital and EU funds: it became richer, stronger and very useful to the imperialists, but was rarely in serious economic competition with them.

Irish workers under attack

Ireland?s precarious dependency on foreign capital is already unravelling. Hard on the heels of job losses in the home based construction and building industry have come those in the foreign sector. The biggest announced so far is 1,900 jobs from US Company Dell as they plan to transfer manufacturing to Poland due to higher labour costs in Ireland. A rake of firms has recently fired labour from German companies Kostal, and Amann, also US firms SITEL, Taconic, INTEL, while Swiss firm SR Technics have closed shop at Dublin airport with the loss of 1,100 jobs. Clearly Ireland has now slipped behind in the race to attract foreign direct investment.

The latest quarterly report from ESRI shows the main contours of attack they would like the government to make on Irish workers. It argues the government should increase taxes for workers, should not honour its 3.5 per cent public sector pay increases, and for pay cuts in the public sector. IBEC, the Irish business lobby group, which has been strident in its demand for wage cuts has also called for the cost and liability to the taxpayer of public pensions to be reduced and for the pay parity link to pensions be abolished. The

latest Government 5 year plan enshrined in ?Building Ireland?s Smart Economy? takes on board many of these suggestions. The need to increase productivity and compete with other low wage economies means wage cuts for workers but even more tax cuts for the multinationals. It means increasing revenues and cutting services.

The Fianna Fail/Green Party government has lost no time in its attempts to bail out the economy. Its monetary policy options are limited since they are tied to the euro with the European Central Bank in control of interest rates. However, their fiscal solutions have been ?radical? and draconian. In November, the 2009 Budget was brought forward, which put 1 per cent additional tax on all incomes, it introduced a means test for pensioners, increased registration fees for students and proposed massive cuts in education, including cutting a 1000 teachers.

The opposition to this assault was stunning. Pensioners poured onto the streets at first, followed by students. Then a series of massive demonstrations throughout the country was held culminating in a 60,000 march against educational cuts in Dublin in December. Means tested pensions were toned down as a result but the €2 billion cut is still on course. The Irish Congress of Trade Unions (ICTU) failed to organise any action apart from demonstrations against these cuts. Appallingly, teachers? leader John Carr (INTO) ruled out any industrial action to save jobs or stop the cuts: ?Government decisions will keep children out of schools not teachers?.

No sooner had the shock of November?s Budget passed and the government announces in January a further 2 billion Euro cut in the public sector.

A pension levy has been imposed which will drastically reduce wages so that a public sector workers on €15,000 euros will be hit by a three per cent levy, those on €15,000 to €20,000 a six per cent levy and 10 per cent levy for over €20,000. On top of this, public sector pay rises of 3.5 per cent from September will not be paid. Indeed with 18 billion Euros in the red forecast for the end of this year more cuts will surely follow.

ICTU had rejected any deals that may reduce the basic rate of pay but had agreed to discuss how to implement the cuts. Indeed they offered some advice. David Begg, general secretary ICTU proposed discussions on ?deferral of pay increases, restrictions in overtime working, incentivised career breaks, flexible working hours and other innovative measures?. All of which amounts to a pay cut.

Trade unions have been swamped with complaints about the pension levy from furious members wanting to know what their leaders are going to do about it. Civil Servants union CPSU received 4,000 email protests from members. ICTU?s immediate response was to call a series of protests with a national demonstration in Dublin on 21 February. Public sector unions have bowed to their members? fury and announced ballots for strike action. Several unions are balloting including CPSU, teachers? unions INTO, ASTI, TUI also PSEU.

The Social Partnership is clearly unravelling as the union leaders falteringly oppose the government and as the latter reneges on wage deals. Social partnership has seen trade union leaders agree deals with the government and employers for over 20 years to restrain wages and ease privatisation in order to entice foreign capital to Ireland. But true to form the union leaders still cling to it and argue that rich and poor must make a sacrifice in any new deal.

This is a recipe for disaster. It will mean terrible impoverishment as workers are asked to pay for the recession they did nothing to cause. The hypocrisy and vested interests of the government?s actions has not been lost on Irish workers. If they can bail out the financial institutions that have been woefully run to the tune of €7.5 billion of taxpayers? money then why should workers pay with their jobs, wages and

services as well? Why should workers share the cost when they did not cause the recession? The union leaders must stop bleating about social solidarity and organise a workers? fightback.

Endnotes

1. Lenin, V.I., Imperialism; the Highest Stage of Capitalism
2. J. Connolly, Socialism and Nationalism, 1897
3. Irish Workers Group, The Paradox of Irish Economic Development, spring 1994 (published as a special issue of Class Struggle no.22)
4. ibid
5. ibid
6. K. Allen, The Corporate Takeover of Ireland, 2007
7. ibid, chap.4
8. ibid, p.8
9. Further analysis on globalisation read Brenner, R., Pröbsting, The Credit Crunch - A Marxist Analysis, 2008

10 Allen, K., op cit, p. xvii

11. The Economist 25 November 2008

12 Central Statistics Office, Ireland

13 Irish Times 8 January 2009

Source URL: https://fifthinternational.org/content/death-celtic-tiger