

Materialism and the Loss of Sovereignty: Ireland in the Celtic Tiger and After

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Abstract:

Ireland's status as one of the most materialist states in Europe in the 1980s helped motivate the need for economic growth. Ireland's export oriented policies emphasized foreign direct investment. Thus, Irish growth in the 1990s was based on integrating the Irish economy in the world market to satisfy the demand for a higher quality of life even if this compromised Ireland's long struggle for independence and autonomy. Ireland's dependence on international markets became even clearer after the financial crash. The Irish government required a bailout from the European Central Bank and the International Monetary Fund to cover the huge debt exposure the Irish government had assumed after guaranteeing bank debt. Hence, materialism served to motivate the rise and fall of the Celtic Tiger.

Keywords: austerity, Celtic Tiger, export-oriented growth, financial crisis, materialism

Ireland's eccentric place in the context of European development can be explained by a number of factors. Its peripheral geographic location contributes to understanding Ireland's historical development in the European context. Besides one notable exception most scholars believe Ireland was relatively untouched by the Roman Empire and its Celtic civilization continued with minimal interruption or external contact¹. The Celts in Ireland were able to incorporate the founding of Christianity and survive a series of invasions by the Vikings. They were even to adapt initially after the arrival of the Anglo-Normans. This settlement or invasion, however, ultimately led to an effort by English kings to bring Ireland under their domain and control. Not only did this bring Ireland into greater contact with others in Western Europe, but it also began the Irish effort to resist English imperial power. Thus, Ireland's integration into Europe emerges from this colonial and anti-colonial struggle. Despite great efforts and sacrifice to achieve independence from Britain, Ireland has always had to seek to accommodate its much larger and more powerful neighbor. Continental Europe offers the Irish a means of going beyond this relationship which has so dominated its history.

1. Irish Economic Development after Independence

Thus, Irish economic development was built upon the fundamental reality that Ireland was an internal colony within the British Empire (Hechter 1975; McDonough 2005; Cleary 2006, 22-35; White 2007). Because of the role Ireland played as an internal colony, its economy was oriented to produce agricultural products for the English market. Though Ireland's economic underdevelopment in the nineteenth century was due to a complex set of circumstances (Cullen 2012, 18), the Irish lacked the ability to govern themselves and develop their own economic policies after the Act of Union. According to Munck (1985) and Crotty (1986; 2011), British exploitation repressed and frustrated Irish economic development even after independence.

While some may employ Marxist-inspired analysis to explain Ireland's historic poor economy, Ireland's economic development is better explained by focusing on the political culture that emerged in the postcolonial period. The Irish from the 1920s through the 1950s were happy enough with the "frugal comfort" that the politicians of the era offered. An autarkic or self-sufficient economic policy was intended to sever the historical economic relationship with Britain, thereby demonstrating Ireland's independence, sovereignty, and autonomy. This economic policy coincided with the effort to rediscover if not reinvent a pre-modern mythical Gaelic world that inspired Irish nationalism since the late nineteenth century (White 2004). As a result, after independence the Irish Free State experienced little economic growth, and the Irish economy remained primarily agricultural with few exports outside of this traditional sector². The Irish sought industrialization following an import substitution strategy, minimizing their dependence on Britain for the import of industrial goods. The political dominance of de Valera in this era provided the Irish with a consistent set of nationalistic economic policies including protectionism and an economic war with Britain (Power 2009, 13-15). State resources were used to promote those values associated with de Valera's exclusive conception of Irish nationalism. Economic policies reflected this nationalist vision and ultimately served to reinforce this postcolonial conception of identity (Daly 1992; Girvin 1997; Garvin 2004). Hence, this article builds upon Casey's (2010, 8-9) suggestion that the best way to understand Irish economic development is to appreciate the cultural forces that first shaped Ireland in the postcolonial period and which ultimately drove it from its poverty to unprecedented growth, collapse, and the contemporary effort to overcome the financial crisis.

2. Irish Economic Policies from the 1960s through the 1980s

When Lemass succeeded de Valera as Taoiseach in 1959, the Irish government embarked on a new program of industrialization and economic development

that unraveled the nationalist consensus in Ireland. Ultimately, de Valera failed to insulate Ireland from the Western liberal world. As first Irish elites and later the Irish masses became preoccupied with increased materialist demands, the traditional nationalism of de Valera lost its capacity to shape national economic policy. The Irish, like other postcolonial peoples, sought economic modernity. De Valera's policies resulted in sluggish economic growth, the lack of industrialization, and high rates of emigration in the 1950s. The need to abandon these unpopular policies meant that more cosmopolitan values associated with globalization and rapid economic development became ascendant (Delanty 1994, 192-197; Kinsella, Lyons 2011, 66, 69; McCabe 2011, 192)³. Revisionist historians often accentuate the tension between traditional Irish nationalist policies and contemporary material aspirations. Their tendency to discount the nationalist ideal and forsake it minimizes the attractiveness of this ideal to a postcolonial people in the immediate aftermath of a long struggle to achieve independence. This does not mean that the initial appeal of postcolonial nationalism is likely to survive after the generation who fought for independence fades away. Nationalists who critique revisionism deny or overlook those aspects of traditional Irish nationalism that marginalized groups in society and prevented economic modernization. Nationalists need to confront the reality that liberalism has supplanted nationalism and is increasingly attractive to the Irish public (White 2002).

After de Valera's departure as Taoiseach, Seán Lemass attempted to modernize the Irish economy and recognized that the state needed to coordinate and promote economic development in an increasingly interdependent world economy⁴. Lemass realized that it was the state's responsibility to satisfy the economic needs of citizens. By integrating the Irish economy with the others in Europe and the rest of the world, he necessarily unleashed forces that would change not only the standard of living of the Irish but also their priorities and values in life. As a late developer Ireland had to seek access to foreign investment because there were not adequate domestic sources of capital to develop the economy. This strategy required effective use of foreign capital to propel economic growth and integrate foreign investment with local entrepreneurs and workers. The new strategy has been hailed by some because it took advantage of Ireland's entrance into the European Economic Community in the 1970s and its small domestic market (Jacobsen 1994; Sachs 1997; Barry 1999). The entrance into what we now call the European Union brought not only access to large new consumer markets, initially for its agricultural products, but also subsidies that lasted for two decades that assisted Ireland in developing its infrastructure (MacSharry, White 2000, 39).

In the 1960s the Irish economy grew quite rapidly, but the 1970s and 1980s saw the Irish economy stagnate with high unemployment, fiscal deficits, a lack of investment, and resulting emigration (Power 2009, 28-56). The oil shocks in 1973 and 1979 caused an inflationary ripple throughout the Irish

economy just as it did many other economies. This led to many other economic problems such as high interest rates, slower growth, and the resulting stagflation. Meanwhile, the materialistic mentality of the Irish proliferated as the material conditions in Ireland dramatically improved in the 1960s. Even though Irish economic performance stagnated in much of the 1970s and 1980s, values and attitudes continued to change. By the 1980s, the Irish had become one of the most materialistic national groups in surveys taken of member states in the European Union (Inglehart 1990, 91). The Irish public was no longer satisfied with the frugal comfort that de Valera had offered. They expected politicians to be able to deliver policies that raised their material standard of living, and there was great frustration with the Irish government's inability to improve economic conditions. This explains the electoral volatility and frequent elections and transitions between governments in Ireland in the early 1980s.

3. Changed Fiscal Policies and the Rise of the Celtic Tiger

By 1987 the problems of chronic high levels of unemployment, low growth, and high fiscal deficits reached a crisis in which Irish economic policy changed significantly incorporating neo-corporatist strategies of the social partnership, a renewed effort to bring fiscal health to government finances, and encouraging growth through a new surge of foreign investment (Taylor 2005, 6-9, 12-14; Hardiman 2006; O'Donnell 2008; Sweeney 2008, 8-9; Murphy, Devlin 2009, 19-20). Irish governments in the 1980s had come under increasing pressure as high unemployment and emigration undermined support for parties in power. Rising levels of consumption had lowered domestic savings (Arrow 1997, 5). This meant that foreign investment was increasingly critical to provide the capital necessary for economic growth and satisfying the growing demand for growth in the economy. The necessity to develop policies to match the material expectations of voters led the Irish government to combine fiscal discipline with a strategy to attract tourism and investment in pharmaceuticals and software. This policy took advantage of dramatically increasing flows of foreign capital that were emerging (Deeg, O'Sullivan 2009, 731). In this era, policy makers increasingly came to see the liberal world of growing trade and financial flows as the solution for growth and prosperity. The combination of a demonstrated government commitment and open market policies was critical to attracting foreign investment⁵. By the mid 1990s, these policies began to pay off with dramatic increases in Irish productivity, economic output, and material standard of living. Thus, it was the combination of globalization and policies that took advantage of the opportunities that globalization provided that best explains the economic success Ireland experienced in the 1990s (O'Sullivan 2010, 9). Ireland's success demonstrates that states can develop national policies that take advantage of unique comparative advantages (Caporaso, Madeira 2012, 49).

Ireland's economic performance was nothing short of a miracle in historical perspective (O'Sullivan, Miller 2010). There are many measures of the success of the Irish economy in the 1990s and continuing in the early 2000s. Gross Domestic Product (GDP) nearly doubled between 1995 and 2000. While Irish economic growth was not been as strong in the early 2000s as it was in the 1990s, annual real GDP growth continued to average more than six percent through 2007 (See Figure 1).



Figure 1

Ireland's growth came about because of rapid increases in productivity that far outstripped labor costs or wages (Krugman 1997, 42). This allowed Ireland to become a very appealing location for investment. Even with Ireland's rapidly increasing population, this economic growth provided for significantly higher incomes in Ireland. The number employed in Ireland nearly doubled from 1985 to 2007 from less than 1.1 million to more than 2.1 million (see Figure 2).



Figure 2

The effect of this rapid job growth included increasing labor force participation, especially among women, and a replacement of the historic pattern of emigration with immigration (Walsh 2004)⁶.

The rapid expansion of exports accounts for much of the growth of the Irish economy in the 1990s. From 1991 through 2000 exports grew from just over €21 billion to more than €103 billion, almost quintupling in just one decade (see Figure 3).



Figure 3

There have been several reasons given for the growth of exports. Low corporate tax rates attracted foreign investment in export industries. A growing market in Europe meant products exported from Ireland would not face tariffs or other trade restrictions from fellow EU states. Irish government policy expanded education, especially in new sectors that were targeted to become part of the export sector like pharmaceuticals and Information Communications Technology (ICT), and the fact that Ireland is a predominantly English speaking country which made it attractive to US investors⁷. Exports continued to grow throughout the first seven years of the 2000s, but the pace of annual growth of exports slowed to less than 7% annually (see Figure 3). By the early 2000s, the Irish government had increasingly come to rely on a construction boom to spur economic growth to supplement the slower expansion of exports.

Some have been critical of the export-driven growth model the Irish government used to bring prosperity to Ireland. O'Hearn (1998; 2003), Fink (2004), Allen (2007), and Kirby (2010) have doubted this model's capacity to provide long-term prosperity due to its excessive reliance of foreign

capital which might be fleeting, and they criticized the Irish government's deference to foreign corporate interests. Others have critiqued this model of economic modernization because of its reliance on tax breaks and incentives to attract foreign investment while neglecting to develop local industry and indigenous exports (McCabe 2011, 193). There have been other critiques of Ireland's export-led model of economic growth. Kirby (2005), for example, has argued that because of the economic inequalities and the lack of revenue due to low taxes, especially corporate taxes, Ireland does not have an adequate social policy⁸. Given the recent budget cuts in social services and forecasts of continuing tight fiscal conditions in Ireland for the next several years, critics contend that Ireland has squandered an opportunity to create an adequate safety net for its population. Thus, Ireland has become what Kirby identifies as a competitive state that has forsaken its social security rather than a developmental state that is seen as more successful in terms of not only economic growth but generally higher living standards (Kirby 2005; Kirby, Murphy 2008). Murphy (2009) has argued that Irish economic and social policies that have allowed the government to seek global capital and integrate Ireland with the global economy has weakened civil society. The social partnership has meant the weakening of civil society and the capacity for groups in society to organize for their own interests against the interest of the state.

Other critics focus more exclusively on the perceived growing income inequality (Kuhling, Keohane 2000; Tallon 2000; O'Hearn 2003; Hardiman 2004; McVerry 2006; Nolan, Maître 2007; Kirby 2009). While not all shared equally in Irish economic success, income inequality has not changed significantly since the 1990s. Though the top one-half of one percent of the population saw significant gains in their share of national income, almost all income groups saw little if any change in their share of the national income. Historically, Ireland has always had slightly higher levels of income inequality than others in Europe. The new wealth created during the Celtic Tiger was widely shared in society. Nevertheless, the persistence of one of the highest poverty rates in the European Union suggests that the Celtic Tiger did not ameliorate all of Ireland's economic problems (Phádraig, Hilliard 2007).

Despite these criticisms, many continue to see Ireland as a state that succeeded based on a strategy of attracting foreign capital and embedding it with local firms. The critical industry that has more than any other been responsible for the Celtic Tiger phenomenon has been pharmaceuticals and chemicals (White 2008). The Irish government has developed a strategy of attracting pharmaceutical companies to Ireland based on low taxes, a skilled and educated workforce with low labor costs, and market access to the rest of Europe (Van Egeraat, Breathnach, 2007; Glavanis-Grantham 2008; O'Hearn, McCloskey 2008). The chemical and pharmaceutical sector of the Irish economy has grown rapidly since the late 1990s. In relation to the nation's total exports in 2011,

chemical and related products (including medicinal and pharmaceutical products) accounted for more than 60% of all Irish exports (CSO 2012, 226-227).

The other major sector of the Irish economy that has promoted rapid economic growth in the new global high tech economy has been Information Communications Technology (ICT) (Bradley 2002). This industry, like pharmaceuticals, takes advantage of low corporate taxes and a skilled and efficient workforce to attract foreign investment (Trauth 2000). The Irish government has played a key role in promoting this sector by seeking to attract investment, promote Irish companies, and invest in the education and training of its workforce. The result has been that Irish companies and facilities have been critical in developing a variety of specialized software. The importance of government policy to attract and develop this sector has been widely studied. The existing scholarship emphasizes the specific role government needs to play to not only attract foreign investment but link the foreign multinational with incipient local companies to provide industrial upgrading, innovation, and the creation of networks of technology development (O'Malley, O'Gorman 2001; Ó Riain 2004; Breznitz 2007).

In addition, tourism has been a sector in which the state has invested and has been critical to economic growth in Ireland during the Celtic Tiger period (Clancy 2009; Zuelow 2009). The number of overseas tourists to Ireland grew steadily from 2002 through 2007 but has been declining each year since then through at least 2010, the last year for which we have data (CSO 2012, 246). Expenditures by tourists also grew from 2002 through 2007, peaking that year at almost €4 billion. By 2010, spending by visitors had declined to less than €3 billion, almost a 25% decline in visitor revenue from its peak just three years earlier (CSO 2012, 247). The importance of tourism and other spillover sectors like construction is that they have offered employment opportunities to those in Ireland who do not possess the training and skills associated with the high tech sectors of pharmaceuticals and ICT. In the years just before the collapse the financial sector also became an important element of Irish economic growth (White 2005; Reddan 2008; Power 2009, 200-207). Taken together, the Irish took advantage of the growing globalization in world markets, especially capital and trade and to a lesser extent labor, to propel their economy forward and experience unprecedented growth. Beyond specific policies, some argue that Irish culture provides a critical asset in Irish economic growth (Bradley, Kennelly 2008). When one sees the excesses that developed in terms of the building boom and bust, however, one must recognize that the Irish entrepreneurial spirit became obsessed with consuming wealth more than just creating new products and services.

The surge in economic growth that occurred after 1995 as part of the Celtic Tiger phenomenon added new momentum to value change in Ireland. Increased female participation in the workforce, growing criticism of the Catholic Church and the loss of its moral monopoly⁹, a new era of immigration, and dramatically higher standards of living for many challenged much of the inherited value

structure of previous generations. What does it mean to be Irish and what do the Irish want were the questions that confronted a society amidst the challenge of liberalism and its meaning for the inherited national identity (White 2002). Thus, rapid social and economic change challenged a static or backward conception of identity and required the Irish nation to redefine itself (Mays 2005). While some had critiqued the form modernity took in Ireland and advocated for a culture that respected its past and heritage (Fennell 1993; Moriarty 2005), most were so focused on achieving, building, and buying that effective critiques of the materialism that had come to Ireland would have to wait.

4. Materialist Excesses and the Celtic Tiger

The prosperity of the Celtic Tiger period meant that the Irish had unprecedented disposable income. While some of the higher family incomes were used to purchase basic goods and helped many in Ireland achieve a higher material standard of living, much of the wealth of the Celtic Tiger was used for conspicuous consumption on items like big cars, electronic goods, and even helicopters. Some of this new wealth was also invested in land and construction (Coleman 2009, 76-78; Murphy, Devlin 2009, 32; Ó Dálaigh 2009, 45-46). This resulted in a rapid acceleration of home prices, and building, especially in the residential sector, boomed. Developers built homes and used the initial payments for these homes to purchase more land and built even more homes. The leveraging in this process meant that the value of the developers' properties far exceeded the cash that they used to secure loans for future developments. Because of the rapid process by which developers were buying land, selling houses, and reinvesting their profits, many of the developers were able to avoid taxation on their profits and emerge as an elite class with unparalleled wealth (O'Toole 2009, 82-89). Cooper (2009, 238) identifies the investment in property and wealth built in the construction sector as the "development disease" of Ireland (Cooper 2009, 238).

Banks played an important part in the promotion of the construction sector by facilitating the credit developers and consumers needed even if they did not have as much collateral as had historically been required. The rise of Anglo Irish Bank, based primarily on loans to developers, put pressure on the long established Allied Irish Bank and the Bank of Ireland to liberalize their credit policies (Cooper 2009, 166). Irish banks became reckless in providing loans when the value of the collateralized property was so inflated based on the property bubble. The "profits" banks reported on debt that was increasingly leveraged provided for outrageous salaries, bonuses, and lifestyles for the executives of the major Irish financial institutions (Ó Dálaigh 2009, 73; Murphy, Devlin 2009, 167).

Typically, blame for the financial crisis has been attributed to bankers and developers and their coziness with corrupt or inept politicians (Chari, Bernhagen 2011), but corruption is not just caused by the actions of business and political elites but by a more general political culture which fails to place

normative restraints on corrupt political practices (Mungiu-Pippidi 2013)¹⁰. Irish politicians, especially Bertie Ahern, may have been more preoccupied with the next election or dealing with his own personal financial crisis than creating sustainable economic growth policies for the long-term (Leahy 2009, 254-256; Keena 2011), but the property bubble would not have happened if the Irish public had not encouraged politicians to pursue policies that were meant to satisfy their ever-increasing material aspirations¹¹. By 2006, many in Ireland came to believe that investment in land, development, and property were the signs of personal success. Many in Ireland participated in the building boom by purchasing most, if not all, of the houses built by the developers. In order to afford the rapidly escalating housing prices, consumers often purchased multiple homes increasingly borrowing with thirty-five year zero percent down mortgages (Ross 2009, 141). Mortgage debt grew by 24% annually from 1996-2006, and the total debt the Irish owned on home loans grew by 760% in this decade (Murphy, Devlin 2009, 40).

Hence, banks experienced exorbitant profits based on the highly inflated values of very questionable assets, both overvalued mortgages and loans to developers (Allen 2009, 8-14; Ó Dálaigh 2009, 19-28, 63-108). By 2007 banks began trading these bad debts among each other to hide the reality that they were losing money on mortgages rather than making spectacular profits (Murphy, Devlin 2009, 53, 146). Not only did this delay the awareness of the scale and nature of the financial problem, but it allowed bankers time to contrive means of securing their own personal assets amidst the rapid deterioration of the financial balance sheets of their institutions.

What role did government play in regulating and preventing or ameliorating the financial collapse of the banks in Ireland? Instead of regulating and attempting to thwart the property bubble, government policy actually accentuated the problem. The government came to see the construction sector as a key elixir of growth necessary to sustain the Celtic Tiger. The continued growth of the construction sector was especially important to Bertie Ahern who needed the Irish economy to continue booming so that he could win a third term when the general election was to be held in 2007. When some economists such as Morgan Kelly at Trinity College voiced concerns regarding the escalating prices of property and the high probability that Ireland was entering a property bubble, Ahern dismissed these warnings as coming from those who challenged the new realities that the Celtic Tiger had created¹². To be fair, few economists or commentators in the media dared to question Ahern's assertions, not just because they feared Ahern's wrath but the vast majority of the public in Ireland had bought into the speculation frenzy of the property bubble. Ahern and other politicians had convinced almost everyone that Ireland lived under a new kind of economy where one need not worry about property bubbles or even consider the possibility of an end to the Celtic Tiger. In this political and economic environment, the government

continued to provide tax breaks and expand social welfare believing these were good policies and also good politics¹³.

Construction had become increasingly important as those employed in this sector grew rapidly. By 2006, one of four males was now employed in the construction sector (Murphy, Devlin 2009, 33; Ó Dálaigh 2009, 56-58), and the government increasingly relied on stamp duty revenue that grew rapidly due to the rapid escalation of property prices and their sale (Ó Dálaigh 2009, 58; O'Toole 2009, 120-121). Thus, construction had become the sector critical to continued economic growth in Ireland, supplanting the role that had been played by pharmaceuticals and information technology. Government had become excessively reliant on revenue from the sale of escalating valued property and become accustomed to low social welfare costs due to high employment. Moreover, the government's policies of maximizing home-building as the means to solve the problem of rapidly escalating home prices resulted in government policy expanding the building boom. The government had hoped that when supply outstripped demand the cost of housing would finally become more affordable for middle and lower income Irish citizens. Unfortunately, their policy only served to increase the size of the housing bubble which finally burst in 2008.

Problems in the construction sector actually began in 2007 when housing prices dropped by 7.3%, but the government and many refused to confront the reality of dropping property values (Ross 2009, 173-174). In 2007 the construction sector began to shrink at an annual rate of 13.5%. In 2008 the decline in construction had reached a rate of -29.1%. In 2009, construction declined by another 36.9%. In 2010, construction declined by another 36.9%. In 2010 the collapse of this sector continued shrinking further by 29.9%, and the collapse began to slow somewhat in 2011 when construction contracted by just 16.7% (see Figure 4).

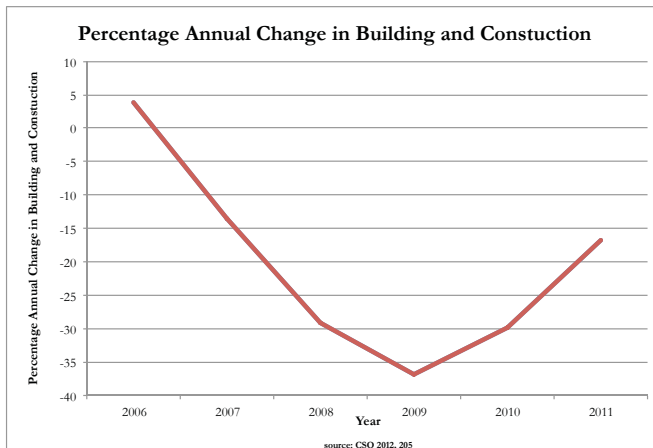


Figure 4

The number of newly built houses peaked in 2005 at 75,650 and had shrunk to only 9,075 by 2011 (see Figure 5).

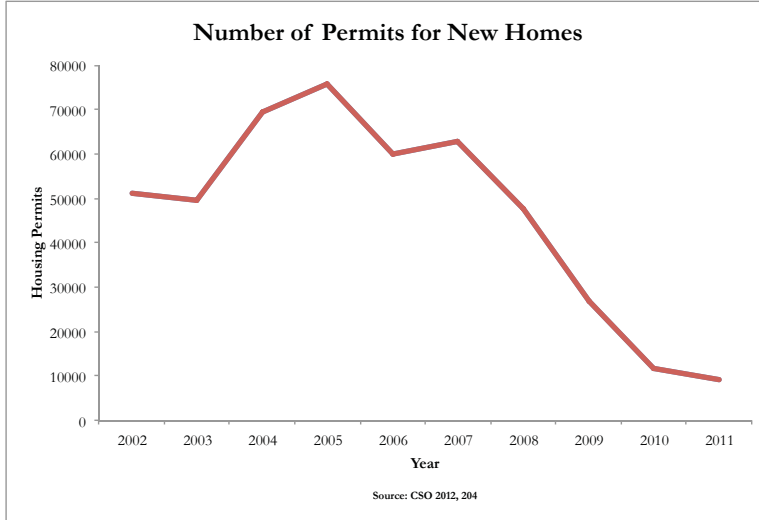


Figure 5

Moreover, the number employed in construction has dropped from 269,900 in 2007 to only 105,700 in 2011. Since the beginning of the current recession in 2007, there has been a total net job loss of 292,600 through 2011 (CSO 2012, 29). As a result, unemployment has skyrocketed from 4.7% to 14.3% in this time period (CSO 2012, 31), and job losses in the construction sector account for 56% of the reduced employment in Ireland (CSO 2012, 33). Construction has been the critical sector that has caused the recession in Ireland, and the economy of Ireland has shrunk by nearly 4% a year from 2007-2011 (CSO 2012, 130).

5. Responding to the Financial Crisis and Recession

Even if we can identify a real estate bubble in the mid-2000s built on greed as the initial cause of Ireland's economic problems, this does not directly help to explain how the government reacted to the threatened collapse of the Irish banking system in the fall of 2008. Clearly, the goal of the Irish government was to first deny and then minimize the fundamental problems that the Irish economy faced due to a run on the banks and a lack of enough assets to support the Irish financial system. Thus, the financial crisis is now at the heart of Ireland's current economic and fiscal crisis (Dellepiane, Hardiman 2012, 83). The tendency to not see warning signs and unacceptable risks before impending financial crisis was not unique to the Irish case (Hindmoor, McConnell forthcoming). This failure

did not just make the banks look poorly managed and irresponsible, but it was clear that the government, while not fully aware of the economic consequences of the financial crisis and their decisions in this crisis, was well aware of what this crisis would mean politically. Both Fianna Fáil and the Greens, who were in a coalition government, had to know that this kind of bad economic news would cost them at the polls. When the election came in February 2011, the Greens lost all six of their seats in the Dáil and Fianna Fáil lost nearly 75% of their seats. Voters clearly based their election decision on the failure of these parties in the financial crisis and punished them at the polls (White 2011).

But if we look back to the fall of 2008 when the Irish government made the decision to provide a blanket guarantee for the debt carried by the banks, the politicians in power could not have foreseen the disastrous economic and ultimately political decision they had made. The government believed that Ireland's economy required a stable financial system and that if the government did not bail out the banks, many other sectors of the economy would collapse as well (Cooper 2009, xi-xvii; Murphy, Devlin 2009, 4; Leahy 2009, 331-334; Ross 2009, 193). While the excesses and questionable practices of Irish bankers could have been prevented by better regulation in the preceding decade, the global financial crisis exacerbated the banking crisis in Ireland by limiting the availability of credit on global markets and isolating the problem to Irish banks. The problem was that the debt that the Irish banks had accumulated was highly linked to debt held by banks in several other European states. The failure to hold Irish banks responsible for the debts they had accumulated could trigger a much wider financial crisis in Europe. That is why other European states, especially France and Germany, have been insistent that the debt accumulated by Irish banks must be repaid. In this way, one can see that the Irish financial crisis was linked to a global financial crisis, one which the Irish alone could not control¹⁴.

As a result of the collapse of the banks and the government takeover, the Irish government has taken control of the bad debts of the Irish banks and placed them under the National Assets Management Agency (NAMA). In order to prevent the collapse of the Irish financial system, the government (in reality the taxpaying public) has taken responsibility for the banks' bad debts. NAMA has the unenviable job of liquidating the bad debt accumulated by Irish banks. This process will inevitably be painful for the taxpayer who will have to pay for the risks and in some cases outright corruption of Irish banks and their lending practices (Allen 2009, 140-145). A bigger problem for NAMA is that its policies and transactions are cloaked in secrecy. Rather than allowing real estate transactions to be open and transparent, NAMA's sale of assets is not public. This prevents the public from learning the price of assets and has contributed to the slow and continuing decline of real estate prices. Until the potential buyers know the true value of an asset, they continue to delay purchases and bottom out the real estate market. Prices continue to

drop. Thus, transparency and openness are critical to the revival of the real estate market in Ireland (Lyons 2010).

The most important impact of the financial crisis in Ireland and the government's commitment to support the Irish banking sector has been a dramatic and sudden increase in the debt of the Irish government as well as a rise in the annual deficit. This dramatic increase placed increasing pressure on the value of Irish government bonds. By the fall of 2010, the markets showed little confidence in the Irish ability to pay their financial obligations, and the interest rates on Irish bonds soared. It became obvious that the Irish had lost their ability to finance their debt in the private market. As a result, the Irish government finally conceded to a bailout program for Ireland in December 2010 from the European Union, the European Central Bank, and the International Monetary Fund (The Troika).

This bailout was intended to lower the Irish government's annual budget deficit to 3% of GDP. This is the maximum allowable annual deficit in Eurozone states. Immediately after the bailout, the Irish government developed a budget plan to meet this target. In the initial year of the budget, 2011, the government cut spending and raised taxes by €6 billion to trim the deficit. Overall, the government expected to enact a total of €15 billion in spending reductions and tax increases from 2011-2015 with twice as many spending cuts as increased revenues (The National Recovery Plan 2010, 5, 9). After the first three government budgets have implemented these austerity policies, Ireland's annual budget deficit is estimated to still be more than €15 billion in 2013 (Department of Finance 2012, 5). Thus, austerity has not worked as of yet to eliminate or dramatically curtail Ireland's seemingly perennial large budget deficits and accumulating national debt. To further decrease future deficits, the Irish government faces continuing budget cuts and tax increases, at least for the next two years. Some of these cuts inevitably have come and will come from the social services the Irish government provides its citizens. Many have criticized the tendency for the costs of austerity to be borne by the marginalized in society who have seen government services reduced while the speculators, bond holders, and bankers have not had to pay their fair share for the damage they did to the economy (Habermas 2012, 102-103). The strain of reduced social welfare spending may undermine the social partnership process, especially for groups who were already relatively weak in this process (Ó Broin 2009). Other budget cuts in the pay of public sector workers are likely in the future as well. Many who work for the Irish government continue to have wages significantly higher than many of their counterparts in other European states (Reidy 2012). These reductions would come after earlier pay cuts have already been taken. The effect of these wage cuts among public sector employees means that in addition to austerity causing a difficult burden for the poor it is preventing an economic recovery. Reduced government spending is reducing demand and providing further

downward pressure on the Irish economy, lowering projected future growth and extending the recession.

Based on being a poster-child of austerity in the EU as well as the Irish government's relentless effort to renegotiate the terms of its bailout (Kinsella 2012), the government has been able to improve the terms of financing its long-term debt in a deal reached with the European Central Bank in early February 2013. The corporation which had been created to liquidate the Anglo-Irish bank debt that the Irish government had taken on with its promise in 2008 was itself dissolved. As a result, NAMA will have an expanded role in getting rid of debts, including those of Anglo. In addition, the short-term promissory notes the Irish government had used to finance some of the bank debt are being replaced by long-term sovereign bonds (Lane 2013). While this debt refinancing package will improve the ability of Ireland to manage its debt, it does little in the short-run to reduce the continuing need for austerity with promises of continued spending cuts and increased tax revenues in the next two budgets. Estimates are that of the €5.1 billion in cuts and tax increases due to come in the next two years, the restructuring of existing debt will save only about €1 billion in cuts or tax hikes. Nevertheless, there are clear long-term benefits to the recent deal reached by the Irish government and the European Central bank. By stretching out repayment of existing debt, the deal is likely to save the Irish government another €20 billion over the next decade (Beesley 2013). This will make it easier for the government to convince investors to purchase Irish bonds and make the repayment of Irish debt more credible and with reduced interest payments. This will lower the long-term cost of financing and paying off the debt for future Irish governments and tax payers.

6. Putting the Irish Financial Crisis in Perspective

Much has been written about the recent financial crisis in Ireland, the bailout, and austerity policies. Most accounts of Ireland's current economic challenges focus on the failure and questionable practices of banks, the decision by the Irish government to guarantee the debt accumulated by the Irish banks, the financial collapse, the international intervention to help the Irish manage this debt, and the austerity policies that have been put in place to try to get Ireland's fiscal house in order. These recent economic developments need to be placed into a larger historical cultural and political context. The building boom was at least partially the result of a culture that had historically been preoccupied with property as a symbol of wealth. As the value of property accelerated in the early years of the new millennium, a frenzy of buying, building, and selling created a property bubble built on greed and materialist excess (O'Sullivan 2010, 11-12). The values associated with the crisis were incubated in the 1980s as Irish young adults in this era became preoccupied with their material existence increasingly removed other worldly concerns that

had historically motivated a very Catholic Ireland. This has led Inglis (2006) to contend that Irish culture moved “from self-denial to self-indulgence.” Elliott (2009, 9) has argued that while the loss of old-style Catholicism is not widely lamented in Ireland many are worried about the crude materialism and loss of values associated with the decline of the Catholic Church. Thus, the historic political culture that had promised frugal comfort has been replaced by a desire to define the ideal based on land, property, and material possessions.

In addition to this transformation of cultural values that were historically religiously defined or informed to social goods being defined in increasingly secular and materialist terms, there has also been a changed conception of the role of the individual in a political context. Cronin (2004, 211) has posited that once individuals are defined as consumers rather than citizens they lose their identity in the wake of globalization. Touraine (2013) contends that the economic crisis has further separated the economic life from the cultural and social experience. Kissane (2011, 136) argues that the financial crisis has triggered a second crisis of liberalism in Irish history. Vast social and economic changes have disconnected people from their government resulting in disillusionment with party politics, anger at corruption, and calls for major reform to the Irish political system. Increasingly, the state’s legitimacy itself is linked to the performance of the economy. Hence, the cultural changes that have come to Ireland best explain the economic outcomes we have witnessed¹⁵.

Politically, Fianna Fáil paid a great price in the general election of 2011 as the public blamed it as the party in power before and during the financial crisis. Fine Gael has fared little better since assuming power with Labour in early 2011. What is most surprising is that no new party has emerged to replace the dominant parties in Irish politics. This may suggest that the Irish political system has changed less due to the financial crisis than many had predicted and continues to be characterized by remarkable stability (White 2011; McGraw 2012). As Fine Gael and Labour have faithfully implemented most of the previously agreed-upon austerity policies, these parties have seen their support dissipate. Recent opinion polls show that Fianna Fáil has once again emerged as the single most popular party in Ireland. While it is too early to tell the political fate of the party most hold responsible for the financial debacle in Ireland, it is obvious that no new force has emerged to offer a different vision for Ireland in the twenty-first century. There is no party or political leader offering a vision to transform Irish policies with values that are in concert with the modern realities of Ireland and in concert with values the Irish seek to maintain or preserve from their heritage and traditions. The only exception to this may be President Michael D. Higgins who when campaigning for the Presidency in 2011 spoke of the need to renew the Republic (Higgins 2011).

Thus, the problems the Irish confront today are not just technical economic ones. The property bubble that led developers and mortgage holders to take on too much debt, financed by questionable loans made by Irish financial

institutions, and supported by Irish government policy resulted from a value system that motivated the hysteria for wealth and accumulation of property. Most popular accounts focus on the failures of economic and political policies resulting in the financial and fiscal crisis in Ireland (Allen 2009; McDonald, Sheridan, 2009; Murphy, Devlin 2009; Ó Dálaigh, 2009; O'Toole, 2009; Ross 2009; O'Toole 2010; Soden 2010; Carswell 2011; Cooper 2011). Despite the recession, bailout, and austerity, it would be unwise to dismiss the economic policies that proved successful in creating much of the growth in Ireland of the past two decades but became threatened in the 2000s by a refusal to focus on innovation and instead rely on speculation in land and housing (Ó Riain 2008). Notwithstanding the debt and continuing budget crisis, Ireland's long-term economic prognosis is not as bad as it might now appear because it has sought to take advantage of opportunities in the era of globalization. Instead of perceiving global capitalism as a threat, the developmental network approach to Irish economic policy has allowed the Irish to take advantage of the growing fluidity of capital and the ability to produce for global markets. This is the means by which the Irish have been able to embed liberal economic policies and make globalization work for them¹⁶. Moreover, Irish economic policies have connected domestic firms with foreign multinationals, deepening capitalist growth and preventing Ireland from becoming an export platform. Foreign investment has tended to provide jobs in the high tech sectors disproportionately benefiting highly skilled workers¹⁷. This may account for the perceived inequality associated with globalization as those who work in high tech export sectors have been seen their jobs and incomes much more stable than those in the public and construction sectors of the Irish economy¹⁸.

Despite pressure from European governments (Basinger, Hallerberg 2004), the Irish government remains committed to a low corporate tax rate of 12.5% and has refused to budge on this issue because this low tax rate is believed to be a major incentive for international investment that fuels long-term economic growth. Foreign investment has been critical to providing the capital necessary for economic growth in Ireland. In 2008 and 2009, Ireland's exports decreased, but large trade surpluses continued because imports fell more sharply than exports. Exports rebounded in 2010 and 2011 so that exports are now more than 9% higher than when the recession began in 2007 (see Figure 3). Thus, exports continue to be a successful means of promoting economic growth in Ireland which might help finance the burden of debt created by the property bubble and the government takeover of the banks. In sum, the Irish have successfully developed policies that have attracted foreign investment and are aware that these policies should continue to provide economic growth in the future. But correct or wise economic policies need to be accompanied by a new value system that corrects the excesses of individual greed and the material expression of one's worth.

This article has argued that the Irish recession and fiscal crisis can best be explained not just by the collapse of the construction and financial sectors of the Irish economy but by appreciating what brought about the building boom and bust. One must appreciate the materialist excesses of the Celtic Tiger. Few, if any, advocate a return to this period of crass consumerism. While most appreciate the problems that created the downfall of the Celtic Tiger, few have offered a coherent vision of an Irish nation in the XXI century that lives up to its obligations but does not do so without considering what culture or ideology should drive national politics in the future. If one looks too critically at the Irish elites and mass public in the most recent past, one can be left with a cynicism that paralyzes one's ability to see beyond the present challenges and difficulties (Boland 2012). Perhaps what is needed in Ireland is a modest but achievable set of goals and policies that may not yield massive short-term gains but are more effective in the long run (Kinsella, Lyons 2011, 66). This will require a patience and discipline that is fundamentally different from the materialism and short-sightedness that characterized Irish culture and policy-making in the later years of the Celtic Tiger.

Notes

¹The standard view of Ireland's peripheral development in Europe is found in Cunliffe (2001). Di Martino (2003) contends that the Roman Empire did incorporate Ireland and therefore Ireland was influenced significantly by Roman civilization.

²One economic historian characterizes the performance of the Irish economy after independence as a "rocky road"; see Ó Gráda (1997).

³Cowen (2002) refers to this general process as "creative destruction" as globalization impacts local cultures. Cerny, Menz, Soederberg (2005) claim that globalization inevitably integrates peoples in a world quite distinct from the more parochial environment that preceded it.

⁴This state's role in leading and directing economic development among those states who have historically "backward" economies or who are classified as late developers is stressed by Gerschenkron (1962). For a more recent analysis of the importance of the state in the economic development of states, see Schmidt (2009).

⁵The Irish experience conforms to the general finding that the political capacity of the state interacts with the open market policies of the state to determine the level of foreign direct investment (Coan, Kugler 2008).

⁶The importance of women in the labor force in Ireland has been emphasized by Arrow (1997, 2-3) in his analysis of the Irish economy.

⁷Suárez (2005) argues that while government policy has promoted the Irish language Ireland has remained an overwhelmingly English speaking nation.

⁸Millar (2008) makes a similar argument.

⁹This concept of moral monopoly is borrowed from Inglis (1998).

¹⁰Ross and Webb (2012) claim that the cronyism and corruption in Ireland goes far beyond a few developers and Fianna Fáil politicians but is embedded in Irish culture. Their earlier work (Ross, Webb 2010) highlighted how a lack of transparency and accountability allowed economic and political elites get away with wasteful spending and projects. Solutions to Ireland's difficulties are often linked to the need to overcome public sector inefficiency and corruption (Campbell 2010, 8-9; Collins 2013).

¹¹ It has long been recognized that the major incentive for politicians is reelection, and they pursue policies in government to achieve that goal. See Mayhew (2004). This meant that as government revenue increased so did government spending. Thus, much like the rest of society the government came to believe that its revenues were likely to continue increase rapidly and it could afford ever expansive social welfare and other commitments (Kinsella, Lyons 2011, 72-73).

¹² See Kelly (2010) for a recent analysis of the credit bubble.

¹³ Moene (2011) has argued that sometimes political elites, motivated by satisfying the public good, choose policies that may maximize their popularity or survival but are not in the long-term public good, even in open competitive polities. One should not assume the crony capitalism or a process whereby politicians made policies that benefitted special or certain groups in society is unique to Ireland. The challenge of effective corporate governance is perennial for all states. See Gourevitch, Shinn (2005).

¹⁴ Globalization's tendency to create processes that are not held accountable by existing levels of regional and global governance is explained in Keohane (2003).

¹⁵ This argument is built on the contention of Eckstein (1988) that cultural changes are the source of political change.

¹⁶ The challenge is to make globalization work and not undermine social traditions and civil society. For this argument see Ruggie (2003).

¹⁷ This reality is that Ireland conforms to research in the labor markets in other national contexts. See Pandyi (2010). This tendency contradicts the more general argument that globalization and the flow of capital internationally undermines incomes while providing for growth. See Spence (2011).

¹⁸ For the general argument that globalization increases wealth but it is unequally shared by different sectors of the society, see Wade (2003, 32-39) and Muller (2013).

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