Irish paradoxes: the bursting of the bubbles and the curious survival of social cohesion

James Wickham

1. Introduction

Until 2008 Ireland was the neoliberal poster boy. With its economic growth at times reaching Asian proportions for over two decades, the so-called ‘Celtic Tiger’ apparently demonstrated the validity of liberal economic principles: global openness, low taxation and a flexible labour market. Ireland was held up as a model by the (then) UK Shadow Chancellor George Osborne as a lesson for the United Kingdom and by the President of the European Commission, Manuel Barroso, as a model for Europe.

This chapter begins with a description of the bubble labour market of the final years of the Celtic Tiger economy and its sudden collapse. The second part of the chapter shows how the road to the crisis was prepared by four core features of the Irish model: the veto-power of foreign direct investment (FDI), the financialisation of everyday life, the importance of the banking sector and, last but not least, social partnership. The crisis has entailed unemployment, falling living standards, weaker employment protection, mass emigration and unsustainable personal debt. Nevertheless, the core institutions of the Irish social settlement have proved remarkably durable – enough to ensure that the economic crisis has not generated a complete political crisis.

2. The bubble labour market

Conventional accounts of recent Irish political economy contrast a ‘good boom’ with a subsequent ‘bad bubble’. The boom was characterised by export-led FDI lasting from the late 1980s through to the start of the twenty-first century, after which it was overlaid with a domestic asset-
based bubble. After the slump of the early 1980s, Irish economic growth began again in the late 1980s, with GDP growing both absolutely and in per capita terms through the 1990s, reaching 10.7 per cent in 2000. GDP growth continued for the first few years thereafter, reaching 6.0 per cent in 2007. This time however, the driving force was the expansion of domestic credit leading to rapidly rising asset prices: a classic property bubble. The collapse came in 2008, when GDP contracted by 3.0 per cent and as much as 7.1 per cent in 2009 (European Commission 2010).

These developments were reflected in the labour market. In the mid-1980s Ireland had mass unemployment and mass emigration. In 1985, for example, unemployment stood at 16.8 per cent (in the then EU only Spain was higher, at 21.6 per cent). As GDP growth began, recovery in the labour market was initially slow. As late as 1996 the unemployment rate was still 9.9 per cent, although it fell to 5.7 per cent in 1999. The number in work was growing, but so too was the labour force: Ireland’s late baby boomers of the 1970s were entering the job market, more women were now looking for work and emigrants were returning. After 2000 employment continued to grow, reaching a peak of 2.1 million in 2007, an increase of more than 50 per cent on the 1997 figure (European Commission 2010).

From about 2000 employment growth was driven largely by immigration. Between 2001 and 2007 the number of Irish people in work rose from 1.55 million to 1.66 million, an increase of just over 100,000. By contrast, in the same period the number of foreigners – ‘non-nationals’ in official parlance – in work rose from 77,000 to as many as 312,000, an increase of nearly a quarter of a million! By the time of the 2006 census Poles had become the second largest group of non-national citizens in Ireland after the British, and by 2008 estimates of the total Polish population were as high as a quarter of a million. There was more Polish than Irish spoken on the streets of Dublin. This immigration was a mass labour migration within the European Union: new member state (NMS) migrants had the same employment rights and largely the same social welfare rights as Irish citizens: unlike illegals, they could not be threatened with deportation, unlike immigrants on work permits they were not tied to specific employers.

Total employment in construction rose to a peak of 269,900 in 2007, at which point it comprised 13.4 per cent of total employment. Within the EU only Spain had a similar proportion (CSO 2008: 18). As Figure 1
shows, in just three years between 2004 and 2007 the number in work in construction rose by over a quarter. At the end of 2007, 18.3 per cent of all construction jobs were held by immigrants (13.5 per cent from new member states) and there was some truth in the popular conception of the Irish building industry in terms of Polish immigrants building apartment blocks for the next wave of new arrivals to inhabit. However, unlike in Spain, immigrants spread through most of the occupational structure. At the peak of employment in 2007 immigrants from the new member states accounted for 8.1 per cent of all persons in work, including 20.2 per cent of all jobs in accommodation and food; 11.5 per cent of all jobs in manufacturing but also 13.9 per cent of jobs in administration and even 2.6 per cent of jobs in financial services. Indeed, despite an over-representation in less skilled jobs, 7 per cent of all NMS immigrants in work were employed in professional and managerial occupations (CSO 2011a).

The astonishing employment growth shows how, just as Ireland had an asset bubble, it also had a labour market bubble. There are striking historical parallels with the booms in areas of the settler societies of the nineteenth century, such as Australia and the United States: extraordinarily rapid growth in which populations could double in ten years;
‘boosterism’, propaganda that involved a suspension of normal beliefs so that continued exponential growth seemed possible; and, finally, dramatic crashes when growth ceased and population fell (Belich 2010; Reeves et al. 2010). Just as in the settler booms the rapid growth of employment depended on the continued inflow of new settlers, so in a bubble labour market there is a continued inflow of new workers. The notion of a territorially bounded labour market collapses.

The apparently inexhaustible supply of labour involves a paradox. On one hand, migrants flood in because they assume they will obtain well-paid jobs. On the other hand this continued inflow reduces wage inflation: demand for labour rises, but so does supply. The paradox can be resolved when we realise that there are two frames of reference involved. For the migrant the point of comparison is the wages ‘back home’ (Waldinger and Lichter 2003); for the employer the comparison is wages in the local labour market.

Bubble labour markets are flexible labour markets. Rather unusually, this flexibility suits both sides of the employment relationship. In the bubble, employers need labour and are prepared to take on almost anyone. New immigrants present the problem that the qualifications on offer no longer fit into the well-established categories with which employers are familiar, while employers lack the time or expertise to verify qualifications. At the same time, because there appears to be an inexhaustible supply of suitable people, employers face little pressure to develop labour-saving innovation or alternative employment strategies.

3. Creating the bubble

This bubble was generated by four key features of the Irish socio-economic model that became more pronounced as the boom of the 1990s turned into the bubble of the mid-2000s.

First, the central role of FDI in the national growth strategy provided the overall framework for the crash. From the 1930s to the 1950s the newly independent state had pursued a policy of economic protectionism. Partly for this reason, Ireland did not share in Europe’s post-war reconstruction. In 1957, however, the country began to abolish import duties, create tax benefits for exporters and aggressively pursue foreign direct investment producing for export to the developing European mar-
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Starting initially in relatively simple assembly type manufacturing jobs, FDI has increasingly focused on high technology manufacturing (electronics, medical instrumentation, pharmaceuticals), software and financial services. In the early years foreign-owned firms came from elsewhere in Europe, including some German firms looking for a low-cost manufacturing base; slightly later these were joined by Japanese firms seeking access to the European market. Already by the 1980s the state agency responsible for FDI, the (then) Industrial Development Authority, had a reputation internationally as one of the most effective organisations in this area and had begun to successfully target specific sectors of potentially mobile investment, especially electronics and pharmaceuticals. Since then there have been several waves of FDI in ‘high tech’ sectors, and despite its size Ireland has long had one of the largest volumes of FDI within the EU (Barry 2007).

Far more was involved than manufacturing. This investment was increasingly American. As of 2008, US affiliates directly employed 91,000 in Ireland, representing about 5 per cent of all employment in the country (Irish Times 2011b). All of this occurred against a background of the changed role of Irish politics in the United States. Irish-Americans long ago broke out of the ethnic ghetto and their entry into the US corporate elite has become an important resource for Irish economic policy. Indeed, the attraction of US investment to Ireland has become one of the most successful examples of elite diaspora politics globally.

The policy rhetoric surrounding FDI has often insisted that foreign firms will generate domestic spin-offs, so that FDI will become the motor of a more broadly based economic development. The reality is rather more complex. Especially in software, but also in medical instrumentation, a parallel indigenous industry has grown up (O Riain 2004; Giblin 2011). These Irish firms are not necessarily direct suppliers to the foreign sector even though they share a professional and managerial labour market. These firms are also very different from traditional domestic industry, because many serve the international market from the outset. The combination of cheap air travel and electronic communications means that they are ‘born global’ (Wickham and Vecchi 2008).

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1. There had been foreign (almost entirely British) ownership of manufacturing industry in the protectionist period, but this was in the very limited industry servicing the small domestic market and the extent of such ownership was legally restricted.
The reliance on export-oriented FDI has been a leitmotif of Irish economic policy for over half a century. It rests on an almost complete national consensus and has never been seriously challenged, even by the marginal socialist and left nationalist groups. Initially the key policy instrument was various forms of state grant to foreign companies, but these have been increasingly replaced by tax relief and then simply by the low corporate tax rate. Of course, firms’ location decisions involve far more than this: English language, political stability, access to the European market, wage levels and competitiveness all play a role. At times rather grandiose claims have been made for the virtues of Irish education and, more recently, for the strength of relevant scientific research in Irish universities. Nonetheless, state policy towards FDI has paid decreasing attention to social and physical infrastructure and has focused increasingly on the low corporate tax as the key incentive for FDI. This ensured that a political conflict with other EU member states was inevitable. Such conflict was further promoted by the Americanisation of Irish public discourse and economic thought, the promotion of ‘Boston not Berlin’ as a social model, and the direct and indirect influence of the Dublin American Chamber of Commerce on political decision-making.

A second key precondition for the bubble was the steadily increasing financialisation of everyday life (Froud et al. 2007). Central here was the new role of housing. Ireland has long had a high level of owner-occupation and this was accentuated by the policy of selling ‘council housing’ (social housing) to tenants from the 1980s. Before the start of the bubble 82 per cent of all households were owner-occupiers, one of the highest levels in Europe, but until 2000 about 50 per cent were debt free (Fahey 2003). This historic extensive personal home ownership was then transformed by the development of retail financial services and extensive mortgage credit, creating a particular variety of ‘residential capitalism’ (Schwartz and Seabrooke 2008). In this new model the home loses some of its distinctive emotional features and becomes in part just another type of property. The different types of private property become less distinct because they become fungible: because they can be easily bought and sold their owners can change the form in which their wealth is held. The development of financial services allows home-owners to use their property as security for further borrowing. Privately owned housing can be used as security for borrowing for consumption (‘the house as ATM’) or for purchasing further assets.
The transformation of the pension system also expanded private asset ownership. Across the private sector (and in state enterprises) defined benefit schemes were increasingly replaced by defined contribution schemes, so that individuals ended up owning various financial assets from which (hopefully) they would receive their pension. The privatisation of the national telephone company was explicitly designed to further such ‘people’s capitalism’, but unlike in the United Kingdom in the 1980s there has been no further mass privatisation of state property (Sweeney 2004).

This financialisation has two immediate consequences. For an increasing number of people, life chances are no longer determined purely by their occupation but also by their property and how they manage it. This can create new economic success but, as the Irish soon discovered, it also brings new and bigger risks.2 Secondly, public services have to be purchased. De-commodification as described by, for example, Esping-Anderson (1990) is going by the wall and welfare is being re-commodified. During the boom Irish households bought private health insurance in order to access privately provided health care (Burke 2009) and an increasing proportion abandoned the public sector for the private schooling of their children. Often described as late or incomplete, the Irish welfare state became a ‘residual welfare state’ closer to Boston than Berlin.

This financialisation inevitably meant that the boom would become a bubble. It made property ownership into an obsession of large swathes of Irish society, paradoxically creating a new rental market as larger numbers of people invested (borrowed) money in ‘buy to let’ property. Much of this property was overseas: according to one estimate, by the peak of the bubble an estimated one in ten of the Irish population owned property abroad (Guardian UK, 3 April 2011; Wickham 2006). In this respect, Ireland was following the United Kingdom, as described by a manager of one of the largest UK estate agents:

> We are the first in Europe to see property as an asset class. We use it as a substitute for pensions and now are buying overseas. (Fay Davies, Director of International Property at Jackson Stops & Staff, Financial Times, 29.10.2003)

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2. Back in the 1980s sociologists discovered the new ‘risk society’ (Beck, 1986); very few noticed the return of the traditional risks of the market.
Unfortunately such purchasers ignored the legal health warning: ‘the value of assets can go down as well as up’ ...

In the United States the expansion of consumer credit occurred when real wages were stagnant; credit functioned temporarily to provide illusory growth. In Ireland the credit expansion occurred when real wages were actually rising. Cheap credit did not compensate for zero growth, as in the United States, but instead accelerated the rising consumer expenditure which wages and salaries were already financing. Furthermore, both lenders and borrowers assumed that incomes would continue to rise; any pause in continuing economic growth would make the system unsustainable.

A third cause of the bubble was the nature of the banking system. Conventional economic commentary focuses on the combination of eurozone membership (cheap credit) and weak banking regulation. However, this ignores how the fundamental political commitment to an ‘Anglo-Saxon’ financial system in a liberal market economy stacked the cards against any effective banking regulation. Banks have always had a disproportionate role in the Irish economy. During the 1990s the two long-established Irish banks (Allied Irish Bank [AIB] and the Bank of Ireland), like many other banks elsewhere in Europe, were transformed from traditional retail banks into financial services companies, with increasingly competitive marketing of their financial products (Regini et al. 1999). Both AIB and Bank of Ireland expanded overseas, purchasing affiliates in the United States and the United Kingdom.

After the crisis of the 1980s, a key element of the national growth strategy became the promotion of the Dublin International Financial Services Centre as a location for mobile global financial services. While Ireland’s low tax rate was certainly an important attraction, today it is conveniently forgotten that ‘light touch regulation’ was explicitly advertised as a reason for financial services companies to re-locate to Ireland. This, too, made tighter regulation of the existing banks unlikely. In this context one small bank (Anglo-Irish Bank) and one building society (Irish Nationwide) could become ‘rogue’ institutions, aggressively expanding their loan books without any regard whatsoever for normal lending criteria. This in turn pushed the traditional institutions down the same road.

The expansion of bank lending had little to do with the foreign-owned sector and was of little relevance to indigenous enterprise; the banks’
major loans were to property developers and to private consumers. The Irish property bubble was based on an extraordinary expansion of credit. In 2002 total mortgage debt was 47.2 billion euros; at the end of 2008 it had more than trebled to 139.8 billion euros (CSO 2008: 8). This enabled large-scale building of houses and apartments, hotels and offices, many of which now stand empty. Until the building boom ended, public finances were in surplus. With entry to the euro zone, Irish banks suddenly had access to cheap credit, which they used for increasingly irresponsible domestic loans. When the boom collapsed, many of these loans became worthless. The cause of the current crisis is that the Irish state took responsibility not just for deposits in Irish banks, but for the banks’ entire loan books. The crisis is a crisis of private debt which then became a public one. Trained to worry about state debt, nearly all Irish economists were blithely unconcerned about the expansion of private credit that led to the bubble.

Ireland’s dominant political party, the populist Fianna Fáil, has always had close links with the building industry. Now the builders became the core of a new indigenous business elite, whose ‘buccaneering’ business antics drove the bubble forward and whose extravagant lifestyles appeared to exemplify the new Ireland.

Paradoxically, a fourth precondition for the bubble was a key feature of the employment system itself: social partnership. Beginning with the Programme for National Recovery in 1986, a series of tripartite agreements agreed wage rates across the entire economy. Over time the agreements covered a wider range of policy issues and included other interest groups, especially the so-called ‘community sector’. This was partly stimulated by the developing European Union governance system, but also had distinctively Irish sources and features. Partnership spread to areas beyond the workplace, with ‘partnership’ at local community level hailed by enthusiasts as exemplifying deliberative democracy and social innovation (Sabel 1996). In parallel there was an attempt to develop workplace or enterprise partnership: across the state sector and in a few private companies partnership committees were created which were intended to deliver mutual gains through increased productivity and better working practices (Roche and Geary 2000).

3. Famously, Irish developers took great pleasure in buying landmark properties in London and were rumoured to have purchased the island of ‘Britain’ in Dubai’s new artificial archipelago.
It is of course difficult to judge what would have happened to wages without these agreements, but national agreements probably reduced overt industrial conflict and marginally restrained wages in the private sector, while public sector wages and salaries probably increased more than they would have otherwise. The very rich undoubtedly benefitted most from the boom and above all from the bubble, but overall income inequalities in the mass of the population seem to have remained relatively constant even as incomes rose. Ireland was one of the more unequal societies of the EU15 before the boom; economic growth made everyone better off but did not seriously change relative disparities (Nolan and Maître 2007:41). For everyone in work real wages increased. Those who could not work – or who did not want to work – also gained. Benefit levels were high by European standards (and significantly higher than in the United Kingdom); access conditions were eased; labour market activation was almost non-existent (Grubb et al. 2009). What mattered was cash, not public services or social infrastructure. Thus for both employers and unions reducing direct taxation was a priority, whereas improving state services was not. While union activists might bewail the ‘incorporation’ of union leadership, and these same union leaders might welcome the chance to participate, however marginally, in national policy-making, social partnership had popular support because it apparently delivered more jobs and more money (Teague and Donaghey 2009).

Involvement in national agreements ensured that Irish trade unions were not marginalised from decision-making, as happened in Britain. While liberal commentators complained about union power, what is striking is how little partnership achieved. Most dramatically, unions were unable to achieve any right to union recognition, even though at the end of the period they were able to force the creation of the National Employment Rights Agency. Significantly, the remit of this organisation was simply to enforce existing employment legislation! Even when government funds were available, there was no shift towards labour market activation for those who remained outside the labour market. This could have been politically problematic because it would have meant challenging the dependency culture that had become widespread in deprived areas. Less explicable is the failure to tackle deficits in the education system at vocational, secondary and especially primary levels, or to seriously increase Ireland’s notoriously low level of childcare provision. Health expenditure certainly increased, but in the context of growing privatisation and the consolidation of a dual public/private system. In policy areas further removed from traditional union concerns the record was
even worse. In public transport, the unions merely protected their members’ short-term interests (Wickham and Latniak 2010), while tolerating a massive expansion of private transport. Significantly, the peak of social partnership occurred at the same time as the complete collapse of spatial planning. Indeed, it is arguable that if Ireland had had effective spatial planning, the building boom would have been restrained.

Gross union membership increased, and unions made determined attempts to recruit new members from the new immigrant workforce in sectors such as construction and hotels and catering, but union membership in no way kept pace with the growth in employment. Furthermore, the crisis of the 1980s had cut a swathe through existing manufacturing employment, thus destroying one of the unions’ main heartlands. Whereas new foreign-owned companies in manufacturing in the 1970s had accepted – albeit often unwillingly – trade union membership among their employees, by the 1990s their successors were openly pursuing a non-union policy which national social partnership was powerless to prevent.

An unanticipated consequence of the boom was therefore an ever greater relative concentration of union membership within the state sector. This in turn ensured that union members became disproportionately female and in intermediate occupations. One aspect of the boom has been the undoubted greater efficacy of sections of the state administration. However, this change has been much weaker in those state services, especially education and health care, where large numbers are employed. Consequently, Irish trade unions were increasingly perceived as a producers’ lobby group, concerned simply to maintain their existing pay and conditions and unwilling to generate the political vision to campaign for improved services. To the extent that social partnership did not involve any substantial ‘social wage’, it ensured that rising wages were used to buy goods and services on the market, and was complicit in the financialisation process.⁴ Unwilling or unable to challenge the veto power of FDI, social partnership consolidated the overall framework of Irish social and economic development.

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⁴ Given that the relationship between union membership and income is now probably U-shaped (low at the top and bottom of the income distribution).
4. Employment model in the crisis

These features of the national model also helped to shape the particular form of the crisis. Employment in construction has been decimated, while American FDI has become more important than ever. Trade union membership has continued to fall and social partnership has been weakened. Nonetheless, despite rising poverty the core elements of the welfare state have remained and this has prevented any dramatic growth in inequality. A novel feature of the crisis is the indebtedness of a large proportion of ordinary people; immigration has not ended but emigration has reached new heights.

With the end of the speculative building boom, employment in construction was decimated (Krings et al. 2011), falling to less than half of the 2007 peak by 2013 (see Figure 1). With the collapse of domestic demand, employment also fell sharply in hospitality and catering, where many immigrants from the new member states had been employed. By contrast, employment in the export-oriented FDI sector has held up well, with job losses compensated for by the arrival of new firms. High tech manufacturing was central to the last wave of FDI, but some of this has now relocated to lower wage parts of Europe. Thus computer firm Dell closed its Limerick plant and moved production to Poland in 2009, but nonetheless in 2011 the company employed 2,200 in Ireland in service support, sales and research (Irish Times 2011a). FDI now includes logistics, service support and even European or regional headquarters. A cluster of high profile US software and internet firms are now located in Ireland. Google now employs over 2,000 people at its European headquarters in Dublin, in the middle of a fashionably renovated dockland area.

The dependency of FDI employment on the low tax rate has also grown. Traditionally, foreign firms located in Ireland partly because of the low tax on their operations in Ireland. Now, high profile American software and internet firms use their Irish operations as a means of ensuring low tax on their operations across the globe. Firms use strategies known colloquially as the ‘Double Irish’, the ‘Dutch Sandwich’ and, best of all, the ‘Double Irish Dutch Sandwich’ to move revenues and profits between subsidiaries (IMF, 2013: 47). Thus a firm can have vast revenues but the declared profit – and hence the final tax bill – becomes almost trivial. For example, ‘Google’s operation in Ireland recorded revenues of €15.5 billion, on which it paid Irish corporation tax of €17 million’ (Irish Times,
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13 February 2014). Such devices explain how, while the official corporate tax rate in Ireland is 12.5 per cent, US Bureau of Economic Analysis data show that in 2011 US firms located in Ireland in fact paid tax at precisely 2.2 per cent (Stewart 2014).

With the crisis unemployment soared, reaching a peak of just over 15 per cent in 2012. Worst hit have been young men. In early 2012 unemployment among males aged 20–24 reached a dismal 35.9 per cent (CSO 2014). The immediate impact on women was somewhat less; the comparable figure for females was 19.9 per cent. Although there has been a slight increase in the number of women apparently withdrawing from the labour market altogether, most women have not only stayed in work but pressure on household budgets means that their earnings are more important than before. However, the gender situation itself is unstable: cuts in state employment impact most on women employed in education and health care, while cuts in services (especially child support) push caring work back into the household – and thus onto women (Barry and Conroy 2013).

More generally, a flexible labour market and a ‘buy not make’ approach to skill creation have ensured that firms have made little attempt to hoard labour through the crisis – in obvious contrast to Germany. Overall earnings have declined. This is clearest in the state sector. At the start of the crisis public sector pay was reduced and a special ‘pension levy’ imposed, even on those on short-term contracts who would never benefit from any public sector pension. Together with tax increases this meant that by 2009 public sector take-home pay was reduced by up to 25 per cent, with the impact greatest in the best paid groups. Meeting the EU/IMF bailout terms in November 2010 led to further cuts in public sector pay and it is estimated that the total public sector pay bill will have fallen by 20 per cent between 2009 and 2015 (Bach and Strolyeny 2013). Also as a consequence of the bailout agreement, the government reduced the statutory protection of wages and hours in some low-wage sectors. For those still in employment in the private sector, the impact has been more complex, varying by industry, firm and occupational group. In general, those in the FDI manufacturing and high tech services sector have been affected least and in a few cases wages appear even to have increased. In areas where employment fell most, as in construction, hospitality and retail, wages and conditions have deteriorated sharply for those still in work (Krings et al. 2011).
The crisis marks the end of the social partnership that had been seen as a distinctive feature of the Irish model. The only residue of corporatism has been bargaining in the state sector. In June 2010, in the ‘Croke Park Agreement’ between government and the public sector unions, the unions committed themselves to efficiency savings in return for a government promise of no further pay cuts and no compulsory redundancies. In 2013, after controversial debates within the unions, further agreements (‘Croke Park II’ and ‘Haddington Road’) continued the pay freeze and imposed further cuts for relatively highly paid (over 65,000 euros a year) employees. Through these agreements the unions have managed to maintain the principle of ‘no compulsory redundancies’, but little more. Bargaining has been about the implementation of a public sector pay policy on which government had already decided long ago. Quietly but firmly, unions have been excluded from almost all other areas of policy. The unions have largely lost access to government decision-making and there is no attempt from any quarter to recreate the corporatism which was the response to the crisis of the 1980s.

In the final years of the boom women employees became – as in many other countries – more likely to join a union than their male colleagues.

Figure 2  **Trade union density, Ireland, 2004–2012**

![Graph showing trade union density, Ireland, 2004–2012](chart.png)

In the crisis union density increased, but is now declining (Figure 2): whereas in 1980 overall trade union density stood at 54.3 per cent, by 2012 it was only 31.2 per cent (OECD 2014). Trade unions are increasingly concentrated in the public sector and it is of course this that explains the growing importance of women. However, media campaigns to portray unions as simply a public sector pressure group have had only limited success: among low and middle income groups unions are, if anything, more popular than before – the problem is simply that most non-unionised employees now simply do not dare to join.

With falling wages and rising unemployment real incomes have fallen, while utility bills have increased, there are new social charges and almost universal tax increases. Average household disposable income was 45,959 euros in 2009 but by 2011 it had fallen to 41,819 euros. In terms of overall income the change seems dramatic when compared to the height of the boom, but is actually rather less dramatic when an only slightly longer time frame is used: average disposable household income in 2011 was about the same as 2006 (CSO 2013a). Nonetheless, most households have been experiencing real difficulties for several years. In 2012 nearly half of all households reported meeting their household bills with ‘some’ or ‘great’ difficulty; over three-quarters had made some cutbacks on expenditure; 40 per cent of all individuals were ‘very’ or ‘somewhat’ concerned about their level of debt. The absolute ‘deprivation rate’ (those reporting two or more types of enforced deprivation, such as inability to replace worn out furniture or have an evening out) rose from a low of 11.8 per cent in 2007 to fully 24.5 per cent in 2011 (CSO 2013b).

Radical commentators (for example, Allen 2012), however, deny or downplay one crucial aspect of the Irish crisis: the pain has been relatively equally distributed. Conventional indicators of income inequality such as the Gini coefficient or the quintile ratio showed little change as Ireland moved from boom to slump. For example, the Gini coefficient was 31.7 in 2007 and 31.1 in 2011 (CSO 2013a: 3). The conventional poverty rate has hardly changed, for the simple reason that nearly everyone has become poorer. Indeed, 18.5 per cent of the population were ‘at risk of poverty’ in 2005 but only 16.0 per cent in 2011. There are three main reasons for this perhaps surprising situation. First, the lowest paid groups in the public sector have been to some extent protected (pay cuts have hit the better paid significantly more). Secondly, the legal minimum wage has been protected (indeed an earlier cut has been reversed) and remains at the pre-crisis level of 8.65 euros per hour. Thirdly, and most
importantly, the welfare state has remained intact. There has been tightening of benefit conditions, and specific vulnerable groups have been hit by state cutbacks (for example, services for children with disabilities, English-language teaching in schools where there are many immigrant children). Nonetheless, basic social welfare rates have remained almost unchanged. State transfers have played an increasing role in maintaining the income of large swathes of the population. Indeed, if all state transfers were ignored, the poverty rate in 2011 would have been fully 50.7 per cent (CSO 2013a).

The real novelty of the crisis is that the financialisation process of the boom and bubble has now shown its dark side. It has contributed to new forms of ‘middle class’ poverty\(^5\): comparisons with the impact of the great inflation crisis in 1923 Weimar Germany are apt. Here the clearest losers are those who purchased apartments and houses on 100 per cent mortgages at the height of the bubble. By 2011 the value of residential property had fallen nationally by 41 per cent from the peak of 2007 (CSO 2011b). As incomes fell, servicing these mortgages became more and more difficult, while negative equity means that selling the apartment or house is no solution. Despite the recent overall economic improvement, the extent of mortgage arrears continues to rise. As of March 2013 over 12 per cent of all mortgages on principal dwelling houses (PDH) were over 90 days in arrears (Central Bank 2013). Nearly all such mortgage holders are in employment, but the fall in their wages and salaries, coupled with rising taxation, has meant that they are unable to service their mortgages (McCarthy 2014; CSO 2013b). Worst hit are those who have purchased on developments, especially housing estates, which are unfinished – the term ‘ghost estate’ has become a common Irish expression. Such people now face the appalling prospect of repaying loans on property that has become almost worthless.

Unsurprisingly, in this situation emigration is increasing. In 2002 just over 25,000 people left the country; in 2013 89,000 people left. Ireland had returned to its traditional role as a net exporter of people (Figure 3). The recession of the 1980s was the first time that the better educated were more likely to leave. Unlike in earlier decades, Irish social welfare

\(^5\) Evidence here remains anecdotal. The main Irish charity, St Vincent de Paul, reported a dramatic increase in applications from ‘middle class’ families. Stories abounded of houses with six bedrooms and twin car ports where the heating was turned off in the winter because there was no money to pay the bills.
benefits were then at British levels, so that the incentive for unskilled emigration was much reduced. Both permanent and temporary graduate emigration has long been normal in Irish society. For example, in a typical boom year such as 2005, over 8 per cent of Irish honours level graduates were working abroad a year later (HEA 2006). Analysis of the 2001 census shows that the higher the level of education, the more likely people are to have lived outside the country (Wickham 2007). This is even more true today: initially, emigrants were disproportionately young and well educated. As the crisis has continued, however, more families and people in mid-career are leaving the country.

At the same time, skilled immigration continues to be crucial for those sectors seen as decisive for economic growth. Despite the crisis, the IT industry has repeatedly complained of significant skill shortages; in summer 2011 Google was complaining that it could not find suitable Irish recruits. Most immigrants during the bubble had been EU citizens from the new member states. This had contradictory consequences once the bubble burst. Paradoxically, legal immigrants were more likely to
be ready to leave because they had unrestricted rights of entry – unlike illegal immigrants, they can come and go as they please, and were not trapped in their new destination, fearful that if they left they might not be able to re-enter. On the other hand, because new member state immigrants had the same social security rights as Irish nationals, their entitlements to welfare support (Jobseeker’s Benefit and Jobseeker’s Allowance) cushioned them against the immediate need to leave Ireland when they lost their jobs. Furthermore, while very few new member state migrants had ever intended to stay permanently in Ireland, a not insignificant number discovered more personal or quality of life reasons for staying on (Krings et al. 2009). The result was that after 2009 the number of new arrivals fell dramatically, but the decline in the new member state immigrant population was much slower. In 2010, there were still over 100,000 new member state nationals at work in Ireland, but now for the first time they had a higher unemployment rate than the host population. There has been some tightening of access to welfare benefits, especially the payment of Family Income Supplement for children not living in Ireland. Some politicians have also questioned whether new member state migrants should continue to have full access to Irish welfare rights. However, to date there has been no break with the principle that EU citizens cannot be discriminated against in the labour market and in the social security system.

5. Conclusion: six years on

With exports from the FDI sector performing well, its political prioritisation remains untouched. This suppresses any worries about the very narrow base on which it now rests (a few leading US firms in pharmaceuticals, software and electronics) and probably overestimates its R&D contribution. Far from stimulating any rethink of the national development strategy, the crisis turned the reliance on FDI into a national fetish. Bizarrely, not only the Labour Party but even the left-nationalist Sinn Féin has made ‘our’ corporate tax rate into a symbol of national independence. While personal taxes have risen, the desirability of low

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6. Family Income Supplement is a welfare benefit paid to low wage employees who are supporting children: there is no requirement that the children are actually in Ireland, although the claimant’s ‘habitual residence’ must be Ireland.

7. Like other EU states, Ireland delayed access to the Irish labour market for Bulgarian and Romanian citizens.
personal tax rates also remains part of the national political consensus. A socio-economic crisis produced by Ireland’s almost pathological commitment to the priorities of Anglo-American capitalism has ended up moving Ireland closer to the United States than to the European Union. Blaming foreign ‘European’ bankers, cantankerous French politicians and greedy Germans has become a national response across the spectrum of political commentary. The days when the Irish political elite aspired to be model Europeans are now a distant memory. In one sense in particular this Europhobia is bizarre. Ireland has survived the crisis without the collapse of social cohesion that has been seen in Greece partly because of the continued strength of Ireland’s most ‘European’ features. Unions may be weak, but they have managed to ensure that pay cuts within the public sector have been progressive. There has been an increase in insecure employment, but the legal minimum wage has been retained. And above all: the welfare state may have focused on cash benefits rather than services, but universal basic levels of welfare have prevented mass destitution and maintained social cohesion. However, in official media and public discourse increasingly the crisis is blamed not on the excesses of Anglo-American casino-capitalism but on allegedly excessive state expenditure. This is a curious inversion of reality. In fact, the crisis has highlighted the state’s ability to protect citizens against the vicissitudes of the market. In Ireland it is precisely the maintenance of the ‘European’ welfare state, weak and imperfect though it may be, that has prevented social collapse.

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