Introduction ‘Poster Child’ or ‘Beautiful Freak’?

Austerity and Recovery in Ireland

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Abstract and Keywords

Ireland was among the advanced economies most seriously affected by the Great Recession. Having opted to pursue austerity, the country was forced in 2010 into a bailout by the Troika of the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF). Ireland exited the bailout in 2013, as the economy was poised to rebound strongly and (again) become one of Europe’s fastest growing economies. This chapter outlines the background to the bailout and the principal features of the austerity programme that was implemented. It summarizes the variable success with which austerity targets and reforms were achieved, examines the costs associated with austerity, and considers whether Ireland ought to be viewed as an
international ‘poster child’ for austerity-induced revival and recovery.

Keywords: austerity, austerity-induced revival, Great Recession, Ireland, recovery, Troika

Christine Lagarde took her place at the podium and smiled warmly at the large audience. Gathered to listen to her in the ceremonial splendour of St Patrick’s Hall at Dublin Castle was a large appreciative audience of politicians, business leaders, senior civil servants, and diplomats. The managing director of the International Monetary Fund (IMF) offered congratulations for the manner in which the Irish Government and people had handled the crisis. Ireland, she told them, was setting standards. It was March 2013 and the country was within months of exiting the bailout arranged with the ‘Troika’ of the IMF, the European Central Bank (ECB), and the European Commission (EC). Looking on from the front row during an equally upbeat press conference later in Government Buildings was Ajai Chopra, head of the Troika team dispatched to Ireland in November 2010 to negotiate the terms of Ireland’s rescue package. Chopra was the subject of an iconic press photograph taken at that time. Striding with his team towards the Irish Department of Finance, he encountered a beggar rattling a cup in the hope of soliciting some support—an apt visual commentary on the plight of the country he was there to rescue.

An ocean appeared to separate the Ireland of 2013 and 2010. Recovery had begun and would gather pace as the country eased its way out of the rescue programme without the need for a precautionary credit line from the departing international institutions. When Ireland ceded its economic sovereignty it became convenient to blame the Troika for unpopular taxes, spending cuts, and reform measures. Some political leaders thought to challenge ‘Frankfurt’s way’, especially by attempting to institute burden-sharing with unsecured senior bondholders in the calamitous Anglo Irish Bank. But as Ireland progressed towards (again) becoming Europe’s strongest performing economy, (p.2) figures in the government were now pleased to accept plaudits from the Troika. They freely lectured their beleaguered Greek colleagues during the 2015 Greek crisis on the benefits that had flowed from austerity. Europe’s basket case was now Europe’s poster child.
This book provides an account of Ireland’s experience of austerity and recovery. The Irish authorities are shown to have been the main authors of austerity. The major policies agreed with the Troika had been initiated by the Irish Government before the country was forced into accepting a bailout. To a greater degree than is commonly acknowledged Ireland’s austerity was auto austerity. The book shows that the restructuring of the banks and fiscal consolidation were important in turning around Ireland’s fortunes. But austerity and bailout reforms are shown to have occurred to varying degrees across different areas. The book examines the role of Troika institutions in improvising fixes for Ireland’s troubled banks—indeed, one could argue, the Troika sailed close to the wind with respect to their legal mandates. The sophistication of Ireland’s negotiators in their dealings with the IMF, the ECB, and the European Union (EU) is a significant feature of the story. The multiple costs of austerity are given their due weight in assessing Ireland’s experience. Recovery is attributed, above all, to the trading position Ireland had built up over many decades and to the country’s ability to benefit from global economic recovery, supported by an international financial system characterized by low interest rates and quantitative easing. The book also highlights the political and social context that sustained austerity. The government’s decision to opt for austerity reflected a long-established procyclical bias in fiscal policy and in politics. The sustainability of austerity was reinforced by support from the main political parties for the decision to implement austerity and for most of the measures involved. During the Great Recession, political and social dissent was limited, finding expression in left-wing protest against measures such as water charges, and in growing electoral support for the anti-austerity Sinn Fein Party and for independent members of parliament. Dissent and civil or industrial disorder on the scale evident in other bailout countries were absent in Ireland. Trade union resistance was muted in the private sector because employers refrained from an offensive on basic pay levels and collective bargaining. In the public sector unions were involved in, rather than excluded from, measures for cutting the public service pay bill.

To examine these themes, multidisciplinary chapters in the book draw on extensive empirical data covering a wide spectrum of Irish economic, political, social, and cultural
affairs. They provide the fullest possible portrayal of the impact of this cataclysmic event on Irish life and allow for an assessment of whether Ireland can validly be regarded as a ‘poster child’ or exemplar for austerity-enabled recovery.

Two considerations explain the range of areas covered in the book. First, in order to understand fully the impact of the dramatic economic and social experiment wrought by the recession and resulting austerity, it is necessary to move well beyond the banking and fiscal crisis or related reforms that have dominated coverage of Ireland’s collapse and that remain more or less centre stage in discussions of Ireland’s recovery. Austerity affected many more areas of Irish life. As shown in the chapters of the book, it profoundly affected the labour market, workplaces, migration, public management, consumption, housing, inequality and disadvantage, and culture. The mood of reform to which austerity contributed also led to ambitious plans for radical change in political institutions. To understand how austerity in Ireland was shaped and sustained, it is necessary to examine how the Irish authorities dealt with the international institutions involved in the bailout programme: the ECB, EU, and IMF. To understand how Ireland found itself so exposed to cataclysmic collapse in 2008 it is also necessary to examine Ireland’s longer-run development over the decades preceding the crisis.

A second consideration behind the broad scope of the book concerns Ireland’s status as a poster child or exemplar for how austerity can be turned into economic recovery and renewed growth. A proper assessment of Ireland as an exemplar turns in part on understanding the full impact of austerity on Irish life. It depends as well on the extent to which austerity resulted in significant institutional reforms that directly contributed to recovery. But it turns also, crucially, on addressing a classical problem in comparative social science: whether the effects attributed to any particular set of reforms may have been predicated on their concurrence with other and perhaps less visible institutional arrangements, or with long-established patterns of development that could not easily, or not at all, be replicated by other countries.

One of the book’s major themes is that Ireland’s recovery—like its descent to near calamity—can only be understood in terms of the confluence of a series of features of the economy, polity, and society without direct parallels in other Troika programme
countries. In the words of Kinsella in Chapter 3, Ireland’s import is less that of a ‘poster child’ than that of a ‘beautiful freak’: a case marked by highly unusual and historically specific features and influences that acted in concert and shaped a pathway to recovery unlikely to have been, or to become, available to other countries affected by economic calamity.

In sustaining this understanding of Ireland’s experience of the Great Recession and recovery, the following themes are examined by contributors to the book:

1. The features and effects of recession, austerity, and associated reforms across Irish economic, political, social, and cultural life.
2. Whether a viable alternative was available to the austerity programme agreed with the ECB, EC, and the IMF.
3. The degree to which austerity reforms and other associated reforms achieved their stated objectives. (p. 4)
4. The costs associated with recession and austerity, and where, or upon whom, the burden of these costs fell.
5. The degree to which austerity was a contributor to Ireland’s recovery and whether Ireland should be considered a poster child or exemplar for other countries facing economic and fiscal calamity.

These themes provide a framework for Chapter 1 and are considered, in turn, in the rest of the chapter.

The Nature and Extent of Austerity

There is no commonly agreed definition of austerity. Blythe (2013: 2) employs a broad definition of austerity as:

[A] form of voluntary deflation where the economy adjusts through the reduction of wages, prices and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state’s budget, debts, and deficits.

This approach incorporates fiscal contraction as well as wage and price cuts in order to meet investor demands and restore competitiveness. Thompson (2013: 733), however, argues that
the rationales for austerity may vary, that the fiscal crisis itself
may require austerity to balance the books, and, moreover,
that fiscal consolidation may be quite involuntary:

At a certain point, the future cost of servicing debt is
prohibitive and a full-scale debt crisis ensues, as Greece,
Ireland and Portugal found. There is no necessity for an
idea of austerity here; governments face a choice
between default and the state not being able to meet
basic financial commitments.

This seems closer to the Irish experience: the central thrust of
austerity in Ireland consisted of severe cuts to expenditure
and increases in taxation.
Table 1.1. The 32 billion euro austerity package, Ireland, 2008–15

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<tr>
<td>Revenue</td>
<td>5.6</td>
<td>1.4</td>
<td>1.6</td>
<td>1.3</td>
<td>0.9</td>
<td>0.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Expenditure</td>
<td>9.2</td>
<td>3.9</td>
<td>2.2</td>
<td>2.3</td>
<td>1.6</td>
<td>1.3</td>
<td>20.5</td>
</tr>
<tr>
<td>Total</td>
<td>14.7</td>
<td>5.3</td>
<td>3.8</td>
<td>3.5</td>
<td>2.5</td>
<td>2.0</td>
<td>31.8</td>
</tr>
<tr>
<td>Percentage of 2010 GDP</td>
<td>9.2%</td>
<td>3.3%</td>
<td>2.3%</td>
<td>2.1%</td>
<td>1.5%</td>
<td>1.1%</td>
<td>19.5%</td>
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Source: FitzGerald 2014.

Shaded area represents the period of the IMF-ECB-EC ‘bailout’ programme.
There were two distinct factors underlying the fiscal crisis of the Irish state: financing day-to-day activities and the cost of the bank crisis. First, when the property bubble burst in 2007–8 the contraction in economic activity and employment, combined with over-reliance on property-related taxes during the boom—which were used to fund rapid increases in expenditure—led to a dramatic shortfall of government revenue over expenditure. The General Government Balance, relating just to financing of day-to-day current and capital expenditures (i.e. excluding the cost of bailing out the banks), fell to −7.3 per cent of gross domestic product (GDP) in 2008, and by this measure the deficit grew to just under 12 per cent in both 2009 and 2010. Second, this deterioration in the fiscal position was aggravated by the massive transfers of funds to the banking system and direct injections of capital into the banks, (p.5) with the result that that gross government debt soared to almost over 120 per cent of GDP by 2013 (FitzGerald 2014). Almost one-third of this increased debt (or 40 per cent of GDP) was directly attributable to the money transferred to the banking system under the bank bailout. However, another 50 percentage points (of GDP) of the debt at the end of 2012 was attributable to the borrowing undertaken after 2008 to finance the fiscal imbalance between taxation and expenditure that had accumulated since the beginning of the crisis. So while Ireland had a relatively modest and apparently sustainable debt to GDP ratio of about 25 per cent in 2007, immediately before the recession, the combined effects of repeated fiscal deficits—due to the recession—as well as the banking bailout, were to result in Ireland becoming one of the most indebted countries in the world by 2012.

In the face of this fiscal crisis, the Irish Government embarked on a severe austerity programme to restore balance to the public finances with the aim of reducing the headline fiscal balance from over 12 per cent of GDP in 2008 to less than 3 per cent in 2015. Table 1.1 sets out a summary outline of the austerity package, entailing a total adjustment of 32 billion euros, consisting of 20.5 billion euros in expenditure cuts and 11.5 billion euros in tax increases (FitzGerald 2014).

The cumulative effects of this austerity package represent almost 20 per cent of GDP: it is this massive effort that various commentators have described as the ‘sacrifice of the Irish people’. In the initial phase of the austerity package, 2008–10, more or less before the arrival of the IMF–ECB–EC Troika,
adjustments amounting to almost 15 billion euros or 10 per cent of GDP were achieved. The second half of the austerity programme, of the same order of magnitude, was implemented over 2011-15, the first three of those years under the supervision of the Troika.

There were three key elements to the Memorandum of Understanding between the EC and Ireland governing the Programme of Financial Support:

1. Fiscal consolidation, including:
   - Increased taxes and introduction of new taxes on property, water, and carbon; (p.6)
   - Reduced government expenditure, including spending on social protection and cuts to public-sector numbers, pay, and pensions.

2. Financial-sector reforms, entailing:
   - Recapitalization and deleveraging of Irish banks;
   - Reorganization of the banking sector;
   - Burden-sharing by holders of subordinated debt.

3. Structural reforms:
   - Facilitate labour market adjustment by reducing the minimum wage and reforming wage setting arrangements;
   - Reform the social protection system, enhance activation measures, increase incentives to work and strengthen sanctions for non-compliance with job-search requirements of unemployment benefits;
   - Introduce legislation to remove restrictions to trade and competition in sheltered sectors such as the legal and medical professions.

In addition to fiscal consolidation and financial-sector reforms, the Troika programme introduced a number of additional elements to the financial support programme that had the potential to cut prices and wages, and presumably to restore competitiveness, including a short-lived cut in the minimum wage, labour market reforms, and removal of restrictive practices in sheltered sectors, such as the legal and health
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professions. However, as several chapters in this book demonstrate, these reforms were pursued with less vigour, or success, than fiscal consolidation.

It should be noted that the adoption of fiscal retrenchment from very early in the crisis entailed a return to the previous approach to crisis in the 1980s which entailed sweeping spending cuts in combination with negotiated wage restraint. The senior officials in the Department of Finance who oversaw fiscal consolidation from 2009 onwards would have been more junior civil servants when Ireland’s earlier experiment with expansionary fiscal contraction was implemented after 1987, and would have witnessed that strategy seemingly bear fruit in sustained economic growth and prosperity in the 1990s. Ó Riain, in Chapter 2, sees this in institutional terms, arguing that Ireland was hampered by external and domestic political and institutional conditions that favoured austerity.

Alternatives to Austerity and the Genesis of the Bailout Programme
As outlined, the Irish Government resolved early on in the crisis to pursue a pathway of fiscal austerity. Other responses had been proposed within Ireland (p.7) as within the wider EU and beyond. Following the credit crunch and the occurrence of banking crises in the USA, the UK, and other European countries, British Prime Minister Gordon Brown initially won support for a Keynesian response based on an expansion of public investment. Soon, however, the focus within the UK and Europe shifted towards monetary policy and a continuation by Central Banks of cheap-money measures based on low interest rates and quantitative easing (Elliott 2016). A European Keynesian programme to address the crisis also existed on paper. This would have involved the mutualization of the debt of EU member states in serious difficulty, such as Greece, Portugal, Ireland, and Spain, through the creation of Eurobonds and a fiscal transfer mechanism to channel money from the richer to the poorer parts of the Eurozone (De Grauwe and Moesen 2009; Notre Europe 2012). Key member states in Northern Europe, most notably Germany, were implacable in their opposition to such options on the grounds that bailing out debtor countries in this way removed any incentives for fiscal prudence (Sinn 2013).
Several leading academic economists also opposed austerity as self-defeating, in particular Nobel Laureates Joseph Stiglitz and Paul Krugman (Krugman 2012a). Stiglitz was particularly trenchant in his criticism of Ireland’s austerity programme and remained so following Ireland’s subsequent economic rebound (Cragg and Stiglitz 2011; Keena 2009). In a 2016 World Economic Forum session, Stiglitz acknowledged that Ireland had shown signs of recovery and had done austerity ‘better’ than Greece, Portugal, and Spain, but he also maintained that Ireland would experience a ‘lost decade’ between 2008 and 2018, and that the country would have fared much better if it had introduced growth rather than austerity-based fiscal policies, and if the banks’ debts had not been forced on the country by the EC and the ECB (RTE News 2016).

Within Ireland, alternative responses were proposed early on in the crisis by the tripartite state advisory agency, the National Economic and Social Council (NESC), and by the Irish Congress of Trade Unions (ICTU). The tripartite NESC had played a pivotal role in devising a response to deep and prolonged recession during the 1980s, and in March 2009 published a report outlining an ‘integrated national response’ to the crisis (NESC 2009). By then the main parameters of the government’s austerity policy were already established and were taken as given by NESC. While proposing lower cuts in capital spending, the Council agreed with the government that there was a need for fiscal consolidation and the stabilization of the banking system, and also, in effect, accepted that there was a case for internal devaluation to restore competitiveness (NESC 2009: 55, 87–8). Furthermore, NESC sought to emphasize the importance of maintaining ‘social solidarity’, arguing that effective policy responses required consultation with the main economic and social interest groups and the protection of the most vulnerable from the highest burdens of adjustment. In the event, NESC was marginalized (p.8) during the recession and only just escaped abolition as part of a programme of scrapping and merging state agencies to reduce public spending.

The concept of ‘social solidarity’ was pivotal to a Keynesian policy response pressed by ICTU in negotiations with the government and employers throughout 2009. The ICTU’s idea of a ‘social solidarity pact’ explicitly opposed austerity in seeking to sustain pay levels and indeed to proceed with pay increases that were negotiated in September 2008; to reduce
the deficit over a longer period than provided for in current fiscal policy and to involve all sections of society in sharing the burden of adjustment on a proportionate basis. Moreover, the ICTU proposal advocated measures to boost public capital and infrastructural spending, to be financed by government bonds and by redirecting investment by the National Pensions Reserve Fund (ICTU 2009). These proposals were strongly influenced by the handling of an earlier banking crisis in Sweden. The ICTU proposals received little traction from employers or government and lost ground completely with the collapse of social partnership in late 2009.

International critics of austerity, including Krugman and Stiglitz, continued to decry Europe’s focus on monetary policy and fiscal retrenchment and extended their comments specifically to Ireland (Krugman 2010, 2012b; Newstalk 2014; Oxfam 2013; Paul 2015). Later, some of the architects of the Irish bailout programme, such as the IMF’s Ajai Chopra and Ashoka Mody, were to criticize aspects of the Irish austerity programme (Beesley, Taylor, and Newenham 2015; RTE News 2013). However, alternatives to austerity had never received any serious consideration from the Irish Government. Austerity was the path chosen early on in the handling of the crisis. The preference of the government was to implement austerity outside of any formal international financial assistance programme by relying on borrowing in the bond markets and on liquidity supports to the banking system by the ECB to manage the financial crisis, recapitalize the banks, and finance public spending.

This strategy of ‘auto austerity’, as it might be termed, ran into problems during 2010 due to international reaction to the ongoing Greek crisis, fears within Europe of wider contagion, and the impact of sharply widening bond spreads on the cost of government borrowing. A subsequent report into the banking crisis by the Irish parliament outlined the sequence of events that resulted in Ireland being forced into a bailout programme in November 2010. The report makes clear that the ECB placed strong pressure on Ireland to accept a bailout (Joint Committee of Inquiry into the Banking Crisis 2016: 329–56). The extent of the pressure was evident in letters exchanged between the Minister for Finance, Brian Lenihan, and head of the ECB, Jean-Claude Trichet (Irish Times 2014).
In managing the banking and fiscal crisis, the Irish Government had favoured burden-sharing with unsecured senior bondholders in Irish banks. (p.9) The IMF had been prepared to consider ‘haircuts’ for senior bondholders. The ECB was emphatic, however, that Ireland could not institute burden-sharing and threatened to remove emergency liquidity assistance from Ireland’s banks if such a strategy was implemented. Furthermore, the banking report states that Timothy Geithner, then Secretary to the US Treasury, played a role in ensuring losses were not imposed on senior bondholders, to prevent measures taken to handle Ireland’s banking crisis from undermining the global financial system (Joint Committee of Inquiry into the Banking Crisis 2016: 361-2). While Ireland subsequently succeeded in refinancing aspects of the financial assistance provided by the Troika, further attempts to institute burden-sharing were equally resolutely resisted.
The Varying Success of Austerity Reforms

Contributions to the book conclude that the Troika austerity programme and associated reforms set out in the National Recovery Plan (NRP) (2011–14) were of varying success, judged in terms of their objectives and their contribution to recovery. The highest levels of success were achieved in restructuring the financial institutions and in financial regulation. It is clear that a significant number of changes in these areas were initiated by the Irish authorities, or arose from what amounted to improvisation by the Irish Central Bank in conjunction with the international institutions.

The solvency of the sovereign was seriously imperilled by the bank guarantee introduced in September 2008 to prevent the collapse of the financial system. As Connor and his colleagues show in Chapter 5, the resulting €440 billion liability to the taxpayer was equivalent to more than double Irish GDP. Clarke’s analysis in Chapter 6 of changes in financial regulation concludes that a ‘paradigm shift in regulatory approach’ had occurred in the years following the financial crisis, with a positive impact on the promotion of greater financial stability and consumer protection. Through a series of reforms, some originating internally, others emanating from the Troika programme, and yet others reflecting international regulatory developments, Ireland shook off its standing from the 2000s as the ‘Wild West of European finance’ (Lavery and O’Brien 2005). Some changes involved ‘leadership and innovation’ rather than simply relying on regulatory obligations or implementing European law. By acknowledging early on many of the mistakes associated with principles-based regulation and then-prevailing modes of corporate governance, a series of regulatory reforms were already underway when the Troika reform programme was agreed in November 2010. Particularly successful, according to Clarke (Chapter 6), have been more challenging and intrusive regulatory oversight introduced following the restructuring of the Irish Central Bank in July 2010, and subsequent higher levels of enforcement activity. The Central Bank’s ‘Prism Model’ for assessing the stability of financial institutions and their capacity to withstand risks utilizes a series of quantitative impact metrics, allowing regulatory activity to focus most on areas of highest systemic risk for the financial system and its consumers. Corporate governance reforms, initiated by the Irish Central Bank via a 2010
statutory code (revised in 2015) and by the Companies Act 2014, involve higher standards than prevailing in other countries, in recognition of the particular experience of bank failure and mismanagement brought to light by the Irish financial crisis. Other reforms were integral to the Troika programme, in particular provisions for the immediate restructuring and stabilization of the banking system through the Credit Institutions (Stabilization) Act 2010—a key component of the NRP. Still others reflected evolving regulatory reforms in the EU and Eurozone, including the ‘single supervisory mechanism’ (SSM) that introduced provisions for the prudential supervision of all credit institutions and the ‘single resolution mechanism’ for managing banks that face serious difficulties. Overall, Clarke emphasizes that, just as the financial crisis was mainly ‘home-made’, many of the regulatory changes and innovations introduced were home-grown and contributed to a legal response to the crisis that has been ‘strong and sustained’.

Connor and his colleagues’ review in Chapter 5 of the restructuring of Ireland’s financial institutions also strikes an optimistic note. A number of the key reforms resulted from improvisation and innovation by the Irish authorities and the Troika institutions, especially the ECB, that at times sailed close to the wind in terms of their strict legality or conformance with the mandates of sponsoring institutions. For example, the Byzantine ‘promissory note’ device used to manage the consequences of the disastrous implosion of Anglo Irish Bank and Irish Nationwide Building Society (INBS) was a compromise between the Irish Government, the ECB, and the Irish Central Bank that avoided the direct monetization of bank debt—this would have run contrary to European law—by, in effect, substituting a form of indirect debt monetization. The establishment of the National Asset Management Agency (NAMA) as a ‘bad bank’ for managing the property assets of Anglo Irish Bank and the recapitalized Irish banks was also an Irish Government initiative that Connor (Chapter 5) and his colleagues judge to have been successful in preventing the surviving banks from becoming ‘zombie banks’. NAMA has ended up turning a modest profit on heavily discounted transferred assets. Other innovations introduced by the Irish authorities, in particular the so-called ‘stress tests’ for assessing the resilience of banking institutions, the Prudential Capital Assessment Review (PCAR) and the Prudential
Liquidity Assessment Review (PLAR), became core features of banking reforms in the Troika programme. Less vigorously pursued were repossessions in the very many instances where defaults occurred on residential or investment mortgages. Here, a legal error or lacuna in the law that was allowed to stand until 2013 proved ‘politically convenient’ and resulted in an extremely low rate of repossessions—something that has changed little since the legal loophole involved was closed under pressure from the Troika.

The chapter’s conclusion is that ECB-led pressure for Ireland to enter the Troika programme in 2010 resulted in the right course of action and that one of the programme’s key goals, the ‘restoration of confidence in the banking system’, was achieved. However, Connor and his colleagues also identify a series of external developments that contributed to the success of the bank restructuring programme. These include unprecedentedly low interest rates set by Central Banks in the USA, the UK, and the Eurozone, and quantitative easing—measures that made the loan assets of the Irish banking system more attractive to foreign investors.

The consolidation of Ireland’s public finances and recovery from the effective insolvency of the sovereign in 2010 counts as another significant achievement of the austerity programme. Kinsella in Chapter 3 emphasizes that the key reforms to resolve the fiscal crisis were underway from mid-2009—more than a year before the Troika programme had been agreed. While bailing out and restructuring the domestic banks cost €64 billion (equivalent to about 40 per cent of GDP) over the period from 2010 to 2012, about three-quarters of government debt was attributable to a general deterioration in the public finances. Cuts in spending, in public service pay, and in employment numbers were implemented from mid-2009. From 2010, a range of fiscal objectives and targets that were already guiding policy were included in the austerity programme agreed with the Troika.

Kinsella examines the large overall reduction that occurred in public spending. Revenue shortfalls caused by declining income streams as the economy contracted were made up from borrowing from Troika institutions as well as from bilateral loans by countries such as the UK and Denmark. The components of expenditure changed significantly as spending on social security and particularly unemployment (so-called...
‘automatic stabilizers’) rose, while spending on health and education fell or remained flat. The share of income tax in public revenue rose significantly.

Chapter 12 by Boyle examines the scale of job reductions in the public service following on from the fiscal consolidations process. Thirty thousand jobs disappeared between 2008 and 2014: a 10 per cent reduction in employment. Chapter 11 by Roche examines the public service pay cuts that involved progressively tiered reductions in salaries of between 8 to 21 per cent over the period 2009–14. While public service jobs disappeared, demand for public services increased significantly—due to rising unemployment, growing numbers of social security claimants, and also to demographic pressures. A series of agreements with public service unions covering changes to patterns of staff allocation and working practices allowed the increased demand for public services to be absorbed as numbers employed dropped, resulting in a very significant increase in the productivity of the public service. However, Boyle shows that the quality of public service delivery declined across a range of dimensions.

If Troika measures for bank restructuring and regulatory reform and for fiscal consolidation can be judged as successful, the record in other areas of reform is more variegated. The vaguely formulated policy of internal devaluation or pay flexibility did not result in general reductions in nominal pay levels across the private sector, as shown in Chapter 3 by Kinsella and Chapter 11 by Roche. Nor did the significant cuts that occurred in public service pay spill over into the private sector, as some had anticipated. Structural reform measures promoting higher pay flexibility were either reversed, such as the 2010 cut in the minimum wage (reversed in 2011), or led to minor changes, such as modifications to pay fixing arrangements in low-paid, labour-intensive sectors and in construction. Roche shows that the suspension of these pay-fixing arrangements for a time during the recession arose from legal challenges by employers—whose opposition to these institutions had pre-dated the crisis. Overall, private-sector employers shied away from extensive cuts in basic pay and often opted instead for pragmatic and varied measures in retrenchment programmes agreed with trade unions. Soaring unemployment and continuing job insecurity dampened pay pressure and contributed to a decline in relative unit labour costs and a gain in Ireland’s...
pay–cost competitiveness. The collapse of employment and economic activity in the bloated construction sector from 2008 was also behind the positive trend in nominal unit labour costs, and warrants caution in concluding that wage trends in Ireland contributed significantly to competitiveness or economic recovery.

Structural changes marked out in other areas of the austerity programme were also of limited success. Kinsella suggests that structural reforms to remove restrictions to trade and competition in sheltered sectors, including the legal and medical professions, barely scratched the surface (for the fate of proposal to reform the legal profession see Beesley 2016).

Chapter 13 by O’Connell examines labour activation measures introduced against the background of the steep rise in unemployment (peaking at 15 per cent) and long-term unemployment (LTU) (peaking at 9.5 per cent). A policy based around largely passive and ineffective labour market programmes shifted towards more active labour market measures from 2011, in line with commitments under the Troika programme. Income support and employment services were integrated, and job search and training supports became more sophisticated under the ‘Pathways to Work’ programme. However, staff capacity constraints hindered progress, and many placement and training measures were of limited success in getting participants back to work.

Over and above fiscal consolidation, the Troika programme sought to promote ‘public service transformation’. As Boyle shows in Chapter 12, this (p.13) had been a long-standing objective of government policy but had resulted in very limited progress, even from the mid-1990s when a wide-ranging reform programme was launched under the Strategic Management Initiative (SMI). Reforms introduced after the onset of the crisis were centrally driven and ‘top down’ in character—reversing the pre-crisis reform cycle, which had involved a gradual process of devolution of management authority and discretion to government departments and agencies. As shown by Boyle, and also in Chapter 11 by Roche, although changes in work and employment arrangements have impinged on the terms of the ‘bargain’ binding public service workers to the state, most reforms have involved going ‘back to the future’ by reintroducing or reinvigorating earlier cycles
of reform. The character of public service careers was not fundamentally transformed.

Furthermore, in Chapter 11 Roche discusses how the NRP soft-pedalled reform objectives concerned with Ireland becoming a global innovation hub and location for high value-added employment. These objectives had clear implications for workplaces: envisioning a shift towards high-skill and high-involvement work and employment regimes. The research reported by Roche provides no evidence that such a shift has occurred in private-sector workplaces. Indeed, the evidence available suggests that improvements in productivity may have resulted more from higher work pressure or work intensification.

Having surrendered sovereignty in 2010 the Irish state remained in effect a protectorate of the Troika until the end of 2013. Prevailing political processes had been widely blamed for contributing to the economic and financial collapse through poor oversight and unsustainable economic and fiscal policies. The crisis and resort to the Troika resulted in a significant decline in trust and confidence in the political system. It also contributed to the unprecedented ‘landslide election’ of 2011 which swept an ostensibly reformist government to power, with the largest parliamentary majority in the history of the state. Starting from the premise that ‘the failures of the political system over the past decade were a key contributor to the financial crisis’, the new government pledged to introduce radical reforms of the political process (Fine Gael and Labour Party 2011: 19). Notwithstanding the high ambition of the incoming government, Chapter 9 by Farrell shows that political change remained nugatory over the period after 2008. The reforms that occurred are portrayed as ‘distractive’ rather than ‘constructive’—designed to give the appearance of change without delivering substantive changes in the political system. In the two key areas that Farrell believes contributed to Ireland’s economic collapse, a centralized system of government in which the Dáil (lower house of parliament) was weak relative to the executive, and a lack of openness and transparency, many reforms undertaken clustered around the ‘distractive’ end of the spectrum. The signal achievement of political reform was the inauguration of the Irish Constitutional Convention. This institution provides citizens with a voice in formulating constitutional and legislative reform proposals. But the issues (p.14) addressed
by the Constitutional Convention were an ‘eclectic mix’ and few, or none, addressed the political dysfunctions contributing to the economic and financial collapse.

Kitchin and his colleagues in Chapter 15 examine how housing policy during the boom contributed to the financial crisis. Austerity led to further problems, but economic recovery has brought yet more dysfunctions in the housing market. For Kitchin and his colleagues, Ireland’s experience has been one of recurring crisis and policy failure. Policies protecting the interests of the banking and development sectors have prevented significant changes to housing and planning, which remain, in Kitchin and colleagues’ words, ‘fractured and fragmented’.

Exceptional economic growth and rising living standards during the Celtic Tiger years fuelled a consumption boom that was financed in part by rising personal debt. Chapter 7 by Claudiy and his colleagues examines the effects of austerity on patterns of consumption. By deflating the domestic economy, the austerity programme resulted in sharp falls in personal consumption and in consumer confidence. The effects on consumer behaviour were complex. Data on micro-level consumption patterns that reveal people switched to lower cost goods and services and creatively delayed purchases. Trust in brands and advertising declined. There was a growth in sharing and the strong emphasis on personal consumption, equated with the boom years, declined in favour of other priorities and values such as ‘reconnecting’ with family and community.

Addressing the World Economic Forum in Davos in 2012, Ireland’s Taoiseach, Enda Kenny, provoked controversy at home by commenting that the crisis was in part due to people having ‘gone mad with borrowing’. As consumer confidence recovers in line with renewed growth, Claudiy and his colleagues consider whether the effects of austerity on patterns of consumption may be long lasting or even transformative—leading people to reassess their values and their views towards possessions and relationships. The chapter concludes by showing that many spending habits and consumption practices that changed during the recession had now become normal for consumers. Particular changes in shopping habits and ‘non-consumerist’ values had continued
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beyond the recession and seemed likely to influence consumption into the future.
The Costs of Austerity

A number of chapters examine the costs associated with recession and austerity, and assess where, and on whom, the burden of those costs fell. In Chapter 13, O’Connell shows that the numbers unemployed rose from 100,000 in 2007 to 295,000 in 2012 before declining again as recovery took hold. LTU—particularly debilitating in respect of people’s capacity to return to employment—rose from 1.4 per cent in 2007 to 9.5 per cent in 2010. Reflecting the collapse in construction employment and the decline of manufacturing, the burden of rising unemployment and of growing long-term joblessness fell mainly on men. Young people were particularly badly affected and have remained so, in what O’Connell describes as an ‘extraordinary closing off of opportunities for labour market entry’. Many young people opted to remain in or return to education. Significant numbers of people taking up employment entered jobs requiring lower levels of education and skill than they possessed. Emigration was also concentrated among people with higher levels of education—many new migrants having been employed, rather than jobless, prior to leaving Ireland.

Chapter 16 by Glynn and O’Connell examines the dramatic rise in emigration during the recession, the numbers of people leaving Ireland peaking at 89,000 in 2012–13, before declining as recovery gained pace. In all, 610,000 people left Ireland between 2008 and 2015. Most were Irish nationals. Emigration clearly relieved the burden of unemployment to a significant degree. The per capita emigration rate in Ireland was very much higher than in other European countries in crisis. Unemployment, underemployment, and lack of job satisfaction were the major reasons people gave for leaving. For many, emigration was a positive experience and enabled them to find employment and to enjoy a better standard of living and quality of life. At the same time, some also paid an ‘emotional price’: families were missed and homesickness was sometimes a problem. Costs also arose for the families left behind by migrants: parents could suffer depressive symptoms and loneliness and communities were affected by falling numbers in clubs and social activities. The demographic structure also changed. There were fewer young people in the population, leading potentially to an unfavourable age dependency ratio in the future. Glynn and O’Connell are sceptical of the presumed ‘brain drain’ associated with
emigration, notwithstanding the high levels of education of many of those who left. Whether they will return in large numbers as the economy improves remains, for now, an open question.

Inward migration to Ireland had grown dramatically in the years preceding the crisis as a result of high economic growth and the expansion of the EU from 2004. Outward migration by nationals of EU new member states (NMS) rose to 100,000 between 2008 and 2015; however, substantial inward migration also continued. Immigrants suffered more heavily from employment losses than Irish nationals, reflecting their concentration in sectors susceptible to the crisis: construction, retailing, accommodation, and food services. Glynn and O’Connell report that while migrants experienced multiple disadvantages and penalties in the labour market compared with Irish nationals, these had not intensified during the recession and may have declined in the areas of earnings and discrimination in access to jobs.

(p.16) As shown in Chapter 11 by Roche, Irish nationals who remained in Ireland and retained their jobs often experienced declining earnings, as employers reduced working hours and cut back bonuses and other discretionary payments, or sometimes cut basic pay. Work pressure also increased as employers reduced headcounts and sometimes also tightened expected performance standards. Overall, qualitative features of work, such as the scope available to people to use their initiative on the job, or to influence decisions by their employer, remained unchanged.

Chapter 3 by Kinsella and Chapter 14 by Lynch and her colleagues examine various aspects of changes to fiscal policy and social expenditure. The austerity programme sought to address the deficit by loading two-thirds of the corrective on to spending cuts and one-third on to rises in taxes and charges. Taxation levels were increased and a new emergency tax, the Universal Social Charge was introduced. A new property tax was levied and a water charge was introduced. The combined effects of changes in salaries, taxes, and social transfers meant that median household disposable income fell by 16.4 per cent between 2008 and 2013. In Chapter 14, Lynch and her colleagues examine the effects of austerity on inequality. Ireland entered the crisis with one of the highest levels of income inequality in the Organisation for Economic
Co-operation and Development (OECD). Overall income inequality, as measured by the Gini coefficient, was not exacerbated by austerity, although significant shifts occurred in the income shares of different groups. The average income of the bottom decile declined most sharply—marking a transfer of income from the poorest to the better off. Budgetary policies were neither consistently progressive nor regressive in their effects: the highest and lowest income groups experiencing broadly similar income losses arising from changes in tax, social security payments, and reductions in public service pay. Levels of basic deprivation and consistent poverty rose sharply. A rise in indirect taxes imposed a particularly heavy burden on people on the lowest incomes, and cutbacks in public services worsened the marginalization of people relying on disability supports, particularly children and young people, carers, travellers, and the physically and mentally ill. Furthermore, austerity was associated with a rise in the incidence of suicide by men and a rise in levels of non-fatal self-harm by men and women.

Chapter 15 by Kitchin and his colleagues shows how the collapse of the property market in 2008 and a precipitous fall in house prices (by well over 50 per cent) led to serious problems with negative equity and mortgage arrears. The number of households in negative equity grew to more than 50 per cent of mortgaged residential properties. By autumn 2013, 13 per cent of all mortgage holders were in arrears. Further problems arose from unfinished housing estates and from poorly constructed and unsafe housing and apartment developments. The provision of social housing was adversely affected by austerity, as state investment declined. Economic recovery has driven a new (p.17) cycle of rapidly rising home purchase and rental prices and serious undersupply of social housing.

In Chapter 17, Taylor Black examines the deep cuts made to spending and investment in arts and culture. A cumulative reduction in Arts Council funding of over 35 per cent from 2009 had a direct impact on the living standards and work of artists and the viability of arts organizations. Public policy now promoted private philanthropy as a way of supporting the arts. The Irish Film Board (IFB) suffered even deeper cuts, losing 40 per cent of its public funds. Here, however, independent production activity grew significantly due to tax incentives and the early revival of the US economy. But this has favoured
‘high-end’ international productions more than Irish independent projects—the latter seriously affected by cutbacks in the state broadcasting authority, Raidió Teilifís Éireann (RTÉ). Audiences for arts activities fell significantly in the early years of the crisis, stabilizing thereafter. The recent exceptional international recognition achieved by Irish filmmakers and writers was seen to reflect the long-run investment in the arts that had been threatened by cuts in public investment introduced during the recession.

Taylor Black also reviews works by artists who have addressed the causes and consequences of austerity, especially those who contributed to his major documentary film, Skin in the Game. In this work and in further work in theatre, musical theatre, poetry, music, photography, and fiction, the actions and inactions of politicians, as much as those of bankers and developers, are the focus for explaining the genesis of austerity and its impact on the Irish people.
Recovery and Ireland as Exemplar

Chapters dealing with economic and fiscal policy and with business conclude that Ireland’s strong revival is mainly attributable to the economy’s position in international trade and the country’s ability to benefit from the international economic revival. This reflects decades of industrial policy that positioned Ireland as a major hub for foreign direct investment (FDI), increasingly in high-technology manufacturing and traded services.

In Chapter 3, Kinsella is emphatic that Ireland’s experience of austerity has been unique. The effects of severe cuts in current and capital spending and public-sector pay on domestic economic activity were offset by robust demand for exports in a way that could not be replicated in other Troika programme countries, or indeed more generally. Ireland’s performance is comparable to economies like the USA and UK that pursued independent monetary policies, engaged in large programmes of quantitative easing, and adopted Keynesian-type fiscal expansions over the recession. In Chapter 4, Barry and Bergin’s (p.18) detailed examination of the structure and performance of the Irish business sector stresses Ireland’s highly distinctive export orientation and high levels of FDI by multinationals. These features of the Irish business system partially reflect secular global trends in information and transportation technologies, the liberalization of international trade, and the deepening of European integration. They are also in part outcomes of Ireland’s industrial policy and low corporation tax strategy.

During the Celtic Tiger era, the dramatic expansion of the construction sector, combined with a pro-cyclical fiscal policy, caused export growth to slow as the economy became more oriented to the domestic market. Ireland’s international competitiveness also declined sharply. When the banking and fiscal crisis struck, for a time no offsetting external boom cushioned the shock, although pharmaceutical and information and communication technology (ICT) exports, where demand remained relatively buoyant, bolstered business performance through the worst years of the crisis. Small and medium enterprises (SMEs), wedded in the main to the domestic market, fared very badly, suffering the effects of an austerity-induced decline in domestic demand and a tight squeeze on the provision of credit by financial institutions. Recovery in the domestic economy has gained pace and domestic businesses
are now making a significant contribution to growth. Barry and Bergin join other contributors to the book in underscoring the role of quantitative easing and historically low interest rates in stabilizing the restructured banking system, facilitating fiscal consolidation, and supporting economic recovery.

The contributions by Kinsella and Barry and Bergin conclude that, while fiscal contraction was necessary given the scale of the budget deficit and spiralling cost of borrowing, austerity was not responsible for the strength or timing of Ireland’s economic recovery. The really significant factors, as they see it, were the strong export orientation of the economy, especially in high-demand sectors, and the buoyancy of the country’s export destinations. These conclusions count against the case for Ireland as an exemplar, and Kinsella underscores this view by describing Ireland as a ‘beautiful freak’.

Ireland’s distinctiveness is again highlighted in Chapter 8, where Teague compares Ireland’s experience of austerity with the experience of Greece, Italy, Portugal, and Spain (the so-called ‘GIPS’ countries). Teague argues that Troika-instigated ‘structural adjustment’ measures in the Irish case were less onerous than in the other GIPS countries, especially with respect to labour market and industrial relations reforms. This reflected the more flexible labour market and pay-fixing institutions that existed in Ireland, and their better alignment with the demands of Eurozone membership. Ireland’s recovery and relative success under austerity is attributed to its extensive economic ties with economies outside the Eurozone, and also to the close alignment that existed between domestic industrial relations institutions and the highly open nature of the economy.

Moreover, other contributors point to the special and even unique character of the Irish case. The decision of the Irish Government in 2009 to opt for austerity reflected a long-running pro-cyclical bias in Irish public policy and Irish politics. Other than a brief and inglorious Keynesian interlude in the late 1970s, Irish fiscal policy and politics followed the maxim expressed by former Finance Minister Charlie McCreevy: ‘When I have it I spend it. When I don’t, I don’t.’ Around the onset of the crisis, when the UK’s Prime Minister Gordon Brown canvassed European and international support for Keynesian measures, the Irish Government’s focus was
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already squarely on austerity. As discussed in the alternatives to austerity section earlier in this chapter, the idea of a ‘social solidarity pact’, a core component of which was a public investment programme, gained little traction from the government before the massive resources required to stabilize the banking system and the billowing cost of Irish debt narrowed the options available. The Irish Government’s preference had been to embark on a pathway of austerity without being tied into a formal international financial assistance programme.

The genesis of the auto austerity strategy and the sustainability of the subsequent austerity programme agreed with the Troika reflected particular features of the Irish case. As contributors to the book have observed, Ireland was subject to strong neoliberal influences on policy and politics well before the advent of the crisis. In Chapter 2, Ó Riain attributes the limited capacity of Irish policymakers to generate more diverse and creative solutions to the crisis to the role of financialization (Irish as well as European) in marginalizing the more creative corporatist developmental institutions at the core of Ireland’s political economy during the early phase of the Celtic Tiger period. In Chapter 14, Lynch and her colleagues observe that political and administrative elites in Ireland had also committed to neoliberal views on the marketization of public services and public management well in advance of the crisis, and could readily accommodate the hardships and deprivations that went with austerity cutbacks and reforms. The strong tradition of responding to inequalities and their effects on a charitable basis rather than through citizen rights and institutional reforms further underscored the sustainability of austerity.

That Ireland opted for auto austerity and then reluctantly accommodated to Troika support leaves open the question of how support for the austerity programme was sustained as cuts began to bite and seriously affect large numbers of people. Things in Ireland had clearly taken a different course to the cycles of reluctant and grudging accommodation, followed by resistance, political volatility, and capital flight evident in other programme countries, especially Greece. The chapters by Ó Riain, by Roche, by Kinsella, and by Farrell discuss how the kinds of political and social dissent evident in other Troika programme countries were muted or contained in Ireland. All of the major political parties accepted the need for
austerity early on and then sought to accommodate to the Troika austerity programme, challenging but, when (p.20) threatened, pragmatically accepting the ECB’s injunction against burden-sharing by unsecured bondholders. In Chapter 10, Laffan shows how Irish negotiators with Troika institutions studiously avoided the kind of volatility, overt public conflict, and tumult evident in the case of Greece and Portugal. Their resolve was to hit the agreed targets and to get out of the programme as soon as possible. For Laffan, this posture reflected the country’s deeply pragmatic political and administrative culture.

Other than one public service-wide strike in late 2009 and rolling protests against the imposition of water charges, social dissent and protest never reached levels evident in other Troika programme countries. This was due in part to the pro-austerity postures of the main political parties. It was also due in a major degree to the absence of an offensive by employers in the private sectors against basic pay levels, and to the willingness of public service unions to agree pragmatic measures to moderate and shape cuts in the public service pay bill. Rather than acting as agents of protest and dissent, unions in Ireland opted for accommodation with the agents of austerity, seeing this as the lesser of evils. Kinsella argues that social dissent was further contained by Ireland’s continuing high level of social expenditure. The role of emigration as a safety valve, so often evident in the country’s history, also contributed to the weakness of dissent against austerity and associated cuts.

To what degree can Ireland’s return to growth be viewed as sustainable, particularly given the limited extent of structural and institutional reforms beyond the restructuring of banking and related regulatory changes? Economic growth has burgeoned since about 2012 and the national debt has fallen from over 125 per cent of GDP in 2013 to less than 100 per cent in 2016 (Irish Times 2016). Ireland nevertheless remains the second most indebted industrial country in the world, with per capita debt of over €43,500. Servicing that debt will absorb resources that could otherwise be invested in Ireland’s under-resourced public services. Unemployment has fallen from a high of 15 per cent in 2012 to about 8.5 per cent in 2016. However, the level of unemployment remains high, and
further reductions in the numbers unemployed will require greater efforts, due to the composition of those remaining in unemployment.

Given the openness of the Irish economy and the importance of FDI, continued economic growth is dependent upon a stable and buoyant international economy. Here there are several causes for concern. In Britain, still Ireland’s single largest trading partner, considerable support exists for an exit from the EU, the impact of which in Ireland is quite uncertain, but potentially severely negative. Sluggish growth in Europe and imbalances in the Chinese economy are also causes for concern.

A serious housing crisis has emerged, with rapidly escalating rents and house prices, and there has been a substantial increase in homelessness, mainly due to the inability of families to meet rent increases, as discussed in Chapter 15. The housing crisis causes social distress, but also threatens to (p.21) undermine competitiveness and recovery. Poverty has also increased: the share of the population experiencing consistent poverty, which includes people who are both living under the poverty income threshold and experiencing enforced deprivation, increased from 4 per cent in 2008 to 8 per cent in 2013 and 2014, and has not decreased in the early stage of the recovery (CSO 2015). Following a sustained period of wage cuts in the public sector and wage restraint in the private sector, pressure has built up for pay rises and there are signs of growing industrial militancy in sectors such as transport. The orderly industrial relations arrangements that prevailed during the recession and into the early years of recovery could now unravel at significant economic cost. Thus, many commentators view Ireland’s recovery as vulnerable to reverses in many of the forces that contributed to the country’s dramatic rebound from austerity and the Great Recession.

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