



Ireland's existential crisis: a contrary view

John O'Brennan, 06th December 2010

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Ireland's acceptance of international financial aid to its stricken finance sector is widely seen in the country as a shameful loss of sovereignty and the prelude to years of austerity. But there is too much hyperbole amid the gloom: Ireland is down, but most definitely not out, says John O'Brennan.

About the author

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The Republic of Ireland's financial meltdown is an epic of institutional and policy failure. For more than two years, since the implosion of its leading banks in September 2008 required massive government intervention, the precipitous fallout from a cycle of boom-to-bust has convulsed Ireland's political system. In a climate defined by the absence of any meaningful regulatory control, a once all-conquering economy has been reduced by hubris to a state of catatonic immobility.

There is no doubting the immediate gravity of a crisis in which Ireland's Fianna Fáil-Green coalition government, incapable either of coherent policy or clear communication, seems to have followed the country's "zombie banks" by mutating into a "zombie administration". A week of unprecedented turmoil ended with agreement in the early hours of 22 November 2010 over a [bailout](#) [10] from the International Monetary Fund/European Union (which following a further week of talks was finalised at €85 billion).

In the ensuing days, the government did manage - amid vocal popular protests - to present a draconian four-year [austerity plan](#) [11]; but there is confusion and disquiet as the [Oireachtas](#) [12] (parliament) prepares to vote on the 2011 budget (which is far from certain to pass), and a general election will most likely follow, possibly within weeks.

Yet the sheer drama of these intense days in Ireland has been accompanied by a gathering media consensus that already may have worked to occlude some underlying realities of the country's situation and exclude relevant other points of view from consideration. The signal of this emerging consensus was the emotional outpouring that greeted the arrival of the IMF and EU negotiators in Dublin. The bulk of media analysis framed this event as an unprecedented loss of Irish sovereignty - all the more distressing for a country which had until recently been extolled as an exemplar of dynamic, neo-liberal globalisation.

This outraged chorus of a sovereignty destroyed (or at least substantially impaired) was expressed in all manner of hyperbole. Even the august *Irish Times* newspaper invoked the powerful symbolism of the 1916 rebellion against British rule, in asserting that a mood of shame and humiliation had settled across the country.



The idea that negotiating a bailout in itself circumscribes domestic economic agency - on the grounds that the accompanying conditionality regime would entail Dublin ceding effective control over its affairs to IMF and European Central Bank (ECB) [mandarins](#) [13] - amounts to a somewhat one-dimensional reading of the nature of modern sovereignty. But it also reflects a profound collective sense of shock at the speed of Ireland's economic and political eclipse (see Fintan O'Toole, "[Ireland: the challenge of failure](#) [14]", 23 November 2010).

The potency of this sentiment cannot be denied. But against the grain of the received wisdom that in Ireland has clustered around it, I argue that the pessimism about Ireland's future is unfounded. The heart of the argument is that in three ways the merchants of doom are simply wrong in their appraisals.

A triple corrective

The first is that any objective assessment of Ireland's "real" economy produces a large number of positives that point to a very different outcome for the country than the pessimists suggest. Ireland has, after all, moved toward a surplus in the balance of payments, indicating that it is paying its way with the rest of the world.

Indeed, the growth in exports in 2010 suggests that the real economy is again globally competitive and capable of contributing to economic recovery. The Irish share of overall EU exports continued to increase even during the recession, up to 4% in 2009-10. There remain dynamic sectors in the industrial base, spread between high-end manufacturing activity, services and (increasingly) research-and-development-driven activity. Foreign direct investment (FDI) accounts for €110 billion (over 70%) of total exports in the Irish economy; 240,000 jobs; 55% of corporate tax; €19 billion in direct expenditure; €7 billion in payroll costs; and 73% per cent of research, development and innovation.

Pharmaceutical companies in Ireland include Wyeth Merck, Pfizer, Allergan Wyeth, GlaxoSmithKlein and Bristol-Myers Squibb; today six out of ten of the world's top-selling drugs are produced in Ireland including Lipitor and Viagra. More recently, Ireland has also become a [destination](#) [15] for FDI in the medical-technology sector and attracted eight of the world's top ten companies - including Abbott, Johnson and Johnson and Tyco Healthcare.

Major global brands in other key sectors (including agrifood, and information and communications technology) base themselves in Ireland because it has made itself and remains a key centre for servicing and supplying global markets, not least the 500 million consumers in the twenty-seven member states of the European Union.

Moreover, as Danny McCoy of the Irish Business and Employers Confederation (Ibec) [notes](#) [16] in the *Irish Times*, the contribution of indigenous industry to the economy is now very significant. Ireland's own stock of direct investment overseas (Irish FDI abroad) amounted to €190 billion in 2009, reflecting the growing global impact of Irish companies developing a substantive international presence and trading successfully (see Danny McCoy, "[Rumours of the nation's demise greatly exaggerated](#) [17]", *Irish Times*, 11 November 2010).

An interesting example of this can be seen in the greater propensity of Irish companies to invest in Poland, Hungary, Bulgaria and other new member states of the EU. Thus Ireland has become an external agent of FDI in the developing economies of central and eastern Europe. McCoy argues that Irish industry has scale, and that its swift response to recession means that it is well-positioned to drive growth: major company restructuring and a stronger focus on productivity have delivered average unit-cost reductions of 7% across the board. The unit costs over which firms have the most control - overheads and labour - have fallen much further: output per worker in industry increased by 12% in 2009 and will have increased by an estimated 16% in 2010.

True, some of this constitutes a response to the inflation in costs that damaged Irish competitiveness after 2002. But it also serves to confirm the point made by [Martin Wolf](#) [18] that the banking crisis so dominates current thinking that it obscures the continuing vitality of the real economy in Ireland (see



Martin Wolf, "[Ireland refutes the German perspective](#) [19]", *Financial Times*, 23 November 2010).

It is also worth pointing out that prior to the current crisis, Ireland's debt-to-GNP ratio had fallen to less than 25%, one of the lowest in the industrialised world. If the value of the national pension reserve fund (about €20 billion) was deducted from it, the debt at the end of 2009 stood at €55 billion (or just over 40% of GNP).

That figure will undoubtedly increase significantly in the coming years as Ireland counts the cost of supporting its "zombie banks", yet the Irish debt-to-GNP ratio remains - in comparative terms - quite low. Italy's ratio is 116% (and has barely moved in two decades); Greece's national debt stands at 126% of GNP; Belgium's is at 100%; France and Germany both carry debt levels in excess of 70%. Beyond the EU, Japan has to frame its budgets in the constraining context of a debt-to-GNP ratio of 190%.

Some economists have suggested that the ratio of Irish debt to GNP will reach more than 200% after the bank bailout has been completed. This seems to me a wild exaggeration. The government's four-year plan, published on 24 November 2010 - which will cut public spending (including pensions and social welfare), raise taxes and allow for a closing of the budgetary gap to about 3% by 2014 - is based on an assumption that debt will peak at about 106% of GNP. This itself is probably on the optimistic side; I suggest that the figure will probably reach 120%.

Another way of representing the scale of the problem is via an additional statistic: whereas Irish debt repayments in 2007 amounted to just 3 cents in the euro, by the end of this cycle repayments could well reach 20 cents in the euro. That is indeed a high [price](#) [20] to pay for bailing out the banks - but the important point is that it is eminently manageable.

It is also worth bearing in mind that in the early 1990s, in the aftermath of the last serious recession, the Irish debt-to-GNP level stood at over 100%. Sensible fiscal policies throughout the 1990s helped to pay down the debt then and can similarly be expected to reduce the burden on Irish taxpayers in the years to come.

The second corrective to the consensus view is the vast improvement in Ireland's physical infrastructure over the last decade. There has been continued heavy investment in road, rail and air infrastructure, even in the depths of a more frugal age. These investments are potentially a vehicle for a renewed economic take-off; at a very basic level this advance means that Ireland has now dealt with its "infrastructural deficit" to match with rival economies in the EU.

The infrastructural renaissance is symbolised by the [opening](#) [21] on 19 November 2010 of Dublin airport's new terminal 2, which will cater for up to 15 million passengers per year. Ireland's motorway system is now almost complete after a major programme of development that has reduced significantly the travel times between its main cities and between Dublin and Belfast.

The latter linkage is a reminder of the importance of the [Belfast](#) [22] (1998) and [St Andrews](#) [23] (2006) agreements in laying the basis for a durable peace in Northern Ireland. The British and Irish governments continue to invest in vital projects that will deliver tangible economic benefits to both jurisdictions in coming years.

The third corrective is that the deal agreed with the ECB, IMF and European commission, even if a sub-optimal one from an Irish point of view, will provide the funding lifeline necessary to deal both with the current budgetary shortfall and the banking crisis, thus ending the damaging uncertainty in the markets. The bailout (as John McHale argues) should support fiscal consolidation in two ways: setting an upper limit to the interest-rate regime, and providing the credibility needed to convince the markets of the plan's viability.

A route to revival

None of this is to deny the seriousness of Ireland's current predicament, nor the continuing uncertainties surrounding both the bailout package and the national austerity plan. After a decade of cowboy capitalism which a government in thrall to market fundamentalism let spin out of control, the



payback from the banking debacle still incubates many potential threats. The evasions and indeed outright lies of senior cabinet ministers have increased the legitimacy gap between elites and society to such an extent that most Irish people no longer believe anything their political representatives tell them. Indeed, opinion-polls show that a majority of Irish citizens trust the IMF more than their own politicians.

The case for a radical overhaul in Irish governance is convincingly made in Fintan O'Toole's [Enough is Enough: How to Build a New Republic](#) [24] (Faber, 2010) and by the political scientists contributing to the website www.politicalreform.ie [25]. There are few of their recommendations that I would disagree with. I have argued, however, that in the context of the agreed European "rescue" of the Irish state, the future for Ireland is much less bleak than suggested by the alarmist and dystopian commentary of recent weeks.

Even in an outwardly [harsh](#) [26] economic landscape, tangible indicators of "green shoots" are already visible. The creative and productive capacity of the state and its people retains considerable purchase within the European Union and beyond. A general election followed by a change of government will allow for an essential catharsis; and a new administration, untainted by association with the cowboys and spivs, should be able to implement meaningful regulatory reform. Ireland is down, but it is emphatically not out.

Sideboxes'**Read On' Sidebox:**

Fintan O'Toole, [Enough is Enough: How to Build a New Republic](#) [24] (Faber, 2010)

[Centre for the Study of Wider Europe](#) [27]

[Finfacts - Ireland's business and finance portal](#) [28]

[Irish Times](#) [29]

Fintan O'Toole, [Ship of Fools: How Stupidity and Corruption Sank the Celtic Tiger](#) [30] (Faber, 2009; updated paperback edition, 2010)

[Financial Times: Ireland - fiscal crisis](#) [31]

Tom Garvin, [Preventing the Future: Why was Ireland so poor for so long?](#) [32] (Gill & Macmillan, 2005)

[Ireland and Lisbon treaty](#) [33]

[Ireland and European Union](#) [34]

Dan O'Brien, [Ireland, Europe and the World: Writings on a New Century](#) [35] (Gill & Macmillan, 2009)

[Economic and Social Research Institute, Dublin - Irish economy](#) [36]

Sidebox:

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Also by John O'Brennan in **openDemocracy**:

"[Kosovo: the hour of Europe](#) [42]" (14 January 2008)

"[Ireland's European referendum: second take, high stake](#) [43]" (29 September 2009)



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[Ireland's European referendum: second take, high stake](#) [43]
[Europe's coal-mine, Ireland's canary](#) [54]

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