Hard work and sacrifice were not in the Irish lexicon

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In the beginning

In 1979 Pope John Paul II warned the Irish people of the challenges of life in the late 20th century: materialism, affluence, self-indulgence and consumerism. Yet, the Irish were among the poorest in Europe. Materialism, affluence, consumerism, and self-indulgence were all things more dreamed of than experienced. Ireland was the sick man of Europe. The statistics are staggering. GDP per capita was 69% of the European average. Personal income tax rates were extortionate. Government debt exceeded 100% of GNP. The cost of servicing that debt was 13% of GNP. In 1985 the **real** interest rate was 10.5%; unemployment 17.3%; inflation 5.4%. The exchange rate for the first half of the decade was significantly overvalued. During the 1980s 10% of the population emigrated, seeking a better life for themselves and for those they left behind. The Church's admonitions notwithstanding, those Irish who had not yet abandoned hope yearned for a better quality of life.

The Miracle of Lazarus

From the ashes of the 1980s there arose a New Ireland. The miraculous transformation began around 1990. By 2000 Irish GDP per capita was at the European average; by 2003 it was 136%. New Ireland was a prosperous country. It attracted migrants from every continent on the globe who came in pursuit of a better life. It was characterized by fiscal rectitude. It was a country of peerless, export-led growth. It was becoming a more secular, materialistic, and self-indulgent country. It was affluent. It was envied and emulated. These sociological and economic changes were swift and pervasive. There was indeed a New Ireland. It did not mourn the Old Ireland. No whiff of the grave clung to this exuberant, self-confident country.

The resurrection of Ireland has been attributed to a number of factors, among which were sensible government policies, falling interest rates, the openness and flexibility of the economy, favourable exchange rates, European Union subsidies, the European Single Market, FDI, a ready supply of highly skilled workers, competitive wages, a surge in labour force participation rates, and Social Partnership. The miraculous growth was fuelled more by increased inputs than by increased productivity of existing inputs, but it was miraculous nonetheless. Government policies were instrumental in marshalling these resources. But, the unique confluence of events that had made it possible could not be duplicated.

When the boom ended in the early 2000s the Government faced significant policy challenges. The demographic effect was spent, skilled workers were among the most expensive in Europe, other countries had improved their success in attracting FDI, EU subsidies disappeared as wealth rose, the Single Market effect was a one off, and Ireland, now in the Euro area, had no independent control over its currency. All it had was taxation and expenditure policy to entice additional FDI and spur growth and Social Partnership to promote social harmony and industrial peace and to "reinvent" Ireland (O'Donnell, 1999).

The practice and rhetoric of Social Partnership suggests that all, unions, employers, government, as well as representatives of the Chambers of Commerce, Small and Medium Enterprises, farmers, and community and voluntary groups including representatives of the Church, were in this project together. While only the government, unions and employers were directly involved in wage negotiations, the other groups lent their voices to discussions on social and economic policies. This meant that the triennial Social Partnership agreements and the infiltration of Partnership into all aspects of Irish life represented a joint project in the development of New Ireland and defined what was special about the New Irish Model. The government was central to this since it could agree to public sector wage packages thereby setting the tone and parameters for private sector agreements. Further, it could influence the possible outcomes via its taxation and expenditure policies. It could also keep the community and voluntary sector engaged by listening and responding to their wants and needs. All this was possible as long as tax revenues continued to grow at a healthy rate.

This process of wage and socio-economic policy determination was one of inclusion. It was collaborative, us and us, rather than adversarial, us vs. them. Its goal was to make everyone better off. It represented what was right and good about the Irish Model. Social Partnership made the Irish economy and the New Ireland different, an exemplar of what could be in the globalized, cut-throat-competitive world economy of the 21st century.

Eat, Drink and be Merry

The Irish people embraced New Ireland wholeheartedly. Ireland had finally met Mammon and liked what she saw. The materialism, affluence, consumerism, and self-indulgence that Pope John Paul II had warned against were celebrated. Conspicuous consumption became the norm. Profligacy was the order of the day. The Irish leaped onto the property ladder and then added to their property portfolios. New cars choked the roads, and new roads were demanded to accommodate them. Banks financed these acquisitions even when a borrower’s current income would not, in less bountiful times, have justified the loans. The boom was a rising tide that lifted all boats. Real incomes were growing across the income distribution (Nolan, 2006). The poor were made rich. Those who had never had money to spend now had money, a good job and good prospects. The Irish were materially better off than they ever had been before. Past poverty was forgotten.

As the influence of Mammon increased, that of the Church fell. It was mired in child abuse scandals and so found it difficult to articulate a message from the moral high ground. It was unable to effectively argue against the value of wealth in this life, since wealth was accompanied by better health and well-being even if spiritual sustenance was no longer sought at its door. For too long had the Irish been promised the treasures of heaven to compensate them for the material deprivations of their lives here on earth. The treasures of earth, now finally enjoyed, were not to be discarded. The Church, an important feature in Ireland's past, was not a major player in New Ireland (Inglis, 1998). It no longer spoke to or for Ireland.

Voices in the Wilderness

In the early 2000s, although the source of growth changed from exports to property, growth continued, this time fuelled by low interest rates, an international liquidity glut, generous lending by banks, and generous tax relief on property investment. Initially exchange rates were favourable, buoying up the export sector, but the euro soon strengthened. Economic growth kept tax revenues growing, and expenditures increased accordingly. While the government appeared to be fiscally prudent, its policies, like the current boom, were unsustainable.

The economic situation at the turn of the century should have raised concern. Average real hourly wages had risen by 20% over the decade of the 1990s outstripping productivity growth. By 2002 Irish workers were the third most expensive in the EU. The housing bubble led to substantial GDP growth, but it hid the reality that productivity gains were an artefact of the bubble not of increases in productive efficiency. The construction sector was crowding out the export sector, degrading worker skills as young people opted for high income in construction rather than for higher education. It also hid significant problems in the tax code. Revenues from transaction taxes, such as capital gains and stamp duty, were growing at a rate that allowed for further cuts to income tax rates and increases in tax relief. With tax revenues climbing and the economy growing the impetus for change was weak. Times were still good and the Government could continue to support policies beloved of the Social Partners, to appear fiscally prudent, and to disparage those voices urging restraint as well as those threatening Armageddon. The day of reckoning could be deferred.

Those questioning the sustainability of government policy and economic growth were not sanguine. Early warnings came in 2001 from both the European Commission and the European Central Bank (Scharrer, 2001). They reprimanded Ireland for an overly inflationary fiscal policy. But, then Finance Minister McCreevy refused to alter the budget. The benchmarking exercise that increased public sector wages by about 9% above the increases agreed in the Social Partnership negotiations was also questioned. The concern expressed was that these extraordinary wage increases would further diminish Irish competitiveness (Fitz Gerald, 2002; Ruane and Lyons, 2002; O'Leary, 2002). These warnings were largely dismissed. The time was not yet ripe for hard decisions.

The National Competitiveness Council (NCC 2006) reminded the Government that to sustain growth productivity had to continue to rise. It suggested a means to achieve this end. But, as its analysis was not uniformly negative, it was the positive that was seized upon.

Also dismissed as unduly negative were the ever more strident warnings that the construction bubble was unsustainable and that banks were overexposed to the property market (*Economist* 2005; Malzubris, 2008)). Those voicing these opinions were admonished for scaremongering and talking down ‘a robust and fundamentally sound economy’. The Government did have supporters in high places, such as the IMF (2007) or the OECD (2008). This support allowed for hard decisions to continue to be deferred.

Day of Judgement

Fianna Fail was returned to power in 2007 as the party best able to shepherd the economy into the future. Continued, if slower, growth was promised. The property sector would make a soft landing. Electioneering over, the Irish economy, perhaps less exposed to world financial woes, was found to be critically over-exposed to itself. This economy that had boomed by exporting to the world had again boomed by selling houses to itself, houses now in excess supply. Moreover, the world economy was in dire straits. The world financial system was closed for business.

The Government was in a fix. The tax revenues it relied upon had plummeted. Had it prepared for the inevitable rainy day while the sun was shining by improving the tax code, increasing income tax rates on corporations and individuals, introducing a value-based property tax, reducing reliance on transactions taxes, and/or imposing productivity enhancing work rules on civil and public servants, its problems would have been fewer. But there had not been the will. What was missing was not the desire to ensure a better future, but the willingness to do the hard work and make the sacrifices needed to get there. Hard work and sacrifice were not in the New Irish lexicon.

The Government had to face the crisis. It did so with the presumed support of the Social Partners. The Government declared that New Ireland was strong and resilient enough to ride out this storm. Things were bad, but they had been bad before. The Irish had survived. They would survive again. But, initial stumbles, such as revoking medical cards of the over-70s, strained the fabric of Social Partnership. Further strains rent the fabric as private sector workers took pay cuts and lost jobs while public sector workers were sheltered from the economic realities. Pension levies on the public sector carried little weight since private sector wage had already fallen and the viability of many pension systems questioned. The social fabric is now in shreds as the reality of the McCarthy report sinks in. While the Government still calls on the Social Partners to work together for a better future, what had underpinned Social Partnership is already lost. There is no longer a common purpose had there ever been one. With ever larger surpluses having turned into ever larger deficits, Social Partnership has collapsed leaving all the Partners looking out for number one.

As the economy staggers, the Church, which has fallen from great heights of power and prosperity and still struggles to stand, counsels charity. Preaching from its humbled and diminished state, perhaps it will be heard by a humbled and diminished Ireland that may finally take the hard, long-deferred decisions and choose to embrace a sustainable model of economic, social and spiritual prosperity in the mature knowledge that life, of an individual or a nation, does not consist in the abundance of one's possessions.

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