

A triumph of failed ideas

European models of capitalism in the crisis

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After the party's over: the Irish employment model and the paradoxes of non-learning

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1. Introduction

Until 2008 Ireland was the poster boy of neoliberal politicians. With its economic growth at times reaching Asian proportions for over two decades, the so-called Celtic Tiger apparently demonstrated the veracity 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 UK and by the President of the European Commission Manuel Barroso as a model for Europe. Today, Ireland is one of the bankrupt states of Europe, but Irish politicians like to claim that Ireland is not Greece or Portugal. That is precisely the point. Nobody ever claimed that Greece or Portugal were models for the rest of us, but the crisis in Ireland is the crisis of a success story. Logically, one would expect that the depth of the crisis would lead to a questioning of the model, but that has not happened. The Irish crisis shows how whole political systems can go into denial.

The chapter begins (Section 2) by describing the *bubble labour market* of the final years of the Celtic Tiger and its sudden collapse. Section 3 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. Section 4 outlines the changes that have occurred so far in the employment system during the crisis. The chapter concludes with the paradox that the country where the relative impact of the crisis has been greatest appears to have learnt least from the experience.

2. The bubble labour market

Conventional accounts of recent Irish political economy contrast a good boom with a subsequent bad bubble. The boom was 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 and 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 fully 7.1 per cent in 2009 (European Commission 2010).

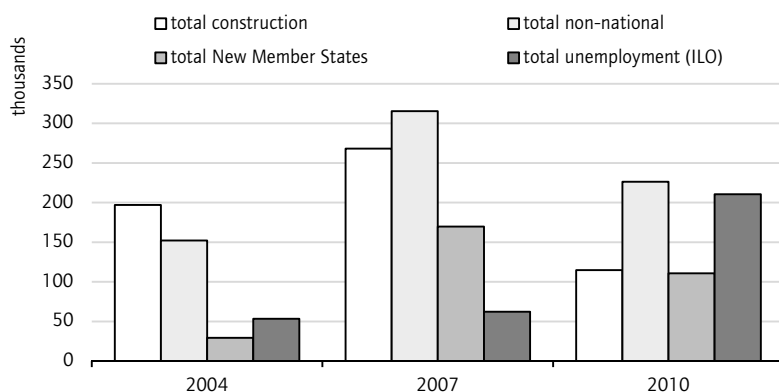
These developments were reflected in the labour market. In the mid-1980s Ireland had mass unemployment and mass emigration. In 1985, for example, unemployment stood at 16.8 per cent (in the then EU only Spain was higher, at 21.6 per cent). While GDP growth began, recovery in the labour market was initially 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 2.122 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 1.555 million to 1.660 million, an increase of just over a hundred thousand. By contrast, in the same period the number of foreigners ('non-nationals' in official parlance) at work rose from 77,000 to fully 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 similar proportions (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 NMS) and there was some truth in the popular understanding of the Irish building industry as 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 NMS accounted for 8.1 per cent of all those in work, including 20.2 per cent of all jobs in accommodation and food, 11.5 per cent of all manufacturing but also 13.9 per cent of administration and even 2.6 per cent of financial services. Indeed, despite overrepresentation in less skilled jobs, 7 per cent of all NMS immigrants in work were employed in professional and managerial occupations (CSO 2011a).

Figure 1 **Total employment and unemployment 2004–2010**



Source: Derived from 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 the new settler societies of the nineteenth century: 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 the 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 mean 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 the right 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 which 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-Second World War reconstruction. In 1957, however, the country began abolishing import duties, creating tax benefits for exporters and aggressively pursuing foreign direct investment producing for export to the developing European market.¹ 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 then responsible for FDI, the 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).

Today, far more is involved than manufacturing, of which some of the most mobile has relocated. Thus while Dell closed its Limerick plant and moved production to Poland in 2009, the company employs 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. As of now, virtually every major US software company has a base in Ireland, including Google, whose European headquarters is in Dublin.

This investment is 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 occurs against a background of the changed role of Irish politics in the USA.

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.

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 stressed that foreign firms would generate domestic spin-offs, so that FDI would 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, since many serve the international market from the very beginning. The combination of cheap air travel and electronic communications means that they are 'born global' (Wickham and Vecchi 2008).

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, 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 low corporate tax as the key incentive for FDI. This has ensured that a political conflict with other EU member states was 'pre-programmed'. Such a 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 had been accentuated by the policy of selling 'council housing' (social housing) to tenants since the 1980s. Before the start of the bubble 82 per cent of all households were owner-occupiers, one of the highest levels in Europe, even though until 2000 about 50 per cent were debt free (Fahey 2003). Widespread home ownership means, by definition, an extensive property market for private homes, and this is interwoven with the development of retail financial services. Owners can of course buy and sell, but for the past decade or so Ireland has been at the forefront of the financialisation of home ownership that has characterised most of the Anglosphere. The development of financial services allows home-owners to use their property as security for further borrowing. Equally, mortgages themselves can become financial instruments, bought, sold and securitised by financial organisations. Once this process is under way, the home loses some of its distinctive emotional features, and becomes in part just another type of property. This interweaving of extensive personal home ownership with extensive mortgage credit creates a particular variety of 'residential capitalism' (Schwartz and Seabroke 2008).

Private property is thus used to generate income, whether directly (rent) or through being bought and sold; it can be used as leverage for further purchases or simply as security to enable borrowing for consumption ('the house as ATM'). What matters is not just that there is extensive private property ('lite wealth'), but that the different forms of private property are *fungible*: they can be easily bought and sold so owners can easily change the form in which their wealth is held.

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 UK 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 Second, public services have to be purchased. Instead of de-commodification (Esping-Anderson 1990), welfare is re-commodified. Most Irish households now buy private health insurance in order to access privately provided health care (Burke 2009); an increasing proportion have 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 was a necessary condition for the boom to become a bubble. It made it possible for property ownership to become 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 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 Ireland was following the UK, 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 Stups and Staff, Financial Times, 29 October 2003)

Unfortunately such purchasers ignored the legal health warning: the value of assets can go down as well as up...

In the USA, 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 no growth, as in the USA, but instead accelerated the rising consumer expenditure which wages

2. Back in the 1980s, sociologists discovered the new 'risk society' (Beck 1986); very few have noticed the return of the traditional risks of the market.

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 precondition for 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 (AIB – Allied Irish Bank and Bank of Ireland), like many other banks elsewhere in Europe, made the transition from traditional retail banks to 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 the 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 relocate to Ireland. This, too, made tighter regulation of the existing banks implausible. 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 also 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, the state finances were actually in surplus. With entry to the Eurozone,

Irish banks suddenly had access to cheap credit, which they used for increasingly irresponsibly domestic loans. When the boom collapsed, many of these loans were 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 lay behind 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 antics³ continued to inflate the bubble and whose extravagant lifestyle 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 out 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).

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 state sector wages probably increased more than they

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.

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 at 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 UK); 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 policymaking, social partnership had popular support because it had 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 that remained outside the labour market. This could have been politically problematic since 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 worse. In public transport 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 main heartlands of the unions. 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 has ensured that union members are now 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, 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.

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. The employment model in crisis

These features of the national model also contributed to the particular form of the crisis. 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 2010 (see Figure 1). Employment also fell sharply in hospitality and catering, where many NMS immigrants 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.

Most immigrants during the bubble were EU citizens from the NMS. 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 could 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 NMS 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 NMS migrants 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 NMS immigrant population was much slower. In 2010, there were still over 100,000 NMS 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 where Family Income Supplement is paid for children not living in Ireland.⁵ Some politicians have also questioned whether NMS 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.⁶

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5. 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 in Ireland.
 6. Like other EU states, Ireland has delayed access to the Irish labour market for Bulgarian and Romanian citizens.

With the crisis unemployment has soared, especially amongst young men. By early 2011 fully 32.6 per cent of all males aged 20–24 were unemployed (ILO definition) and long-term unemployment was also rising (CSO 2011). The immediate impact on women was somewhat less. 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 at work but the pressure on household budgets means that their earnings are more important than before. However, the gender situation itself is unstable: cuts in state employment will impact most on women employed in education and health, while cuts in services (especially child support) will push back caring work into the household – and onto women.

More generally, a flexible labour market and a ‘buy not make’ approach to skill creation ensured that firms made little attempt to hoard labour through the crisis – in obvious contrast to Germany. At the same time, skilled immigration continues to be crucial for those sectors which are 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.

The distinctive feature of the Irish crisis is that it is above all a banking crisis. Despite the rhetoric of the ‘bloated state’ beloved of liberal commentators, before the crisis hit the Irish state was running a fiscal surplus. With the crisis, state revenue collapsed, not least because the policy obsession with low income tax had meant that the state’s tax revenue was increasingly derived from property transaction taxes. While state sector wages and salaries are still relatively high by European standards, the absolute size of state employment is not. The immediate cause of the state’s financial crisis was the unprecedented acceptance by the state of responsibility not only for the deposits in Irish banks but for their entire loans. This dramatic example of ‘socialism for the rich’ (the privatisation of profits, the socialisation of losses) led directly to the IMF–EU bail out in November 2010.

The crisis has actually consolidated the importance of FDI. Almost entirely because of the foreign-owned sector, Irish exports are now (2011) again at pre-crisis levels, employment in FDI firms is probably at least as high. If anything, the dependency of FDI employment on the

low tax rate has also grown, because US firms seem to increasingly route their global profits through their Irish subsidiaries. Certainly in 2008 (the latest year for which figures are available), US firms in Ireland posted per Irish employee a multiple of the profits they declared for their employees elsewhere in Europe.

With the crisis, mass unemployment has returned. In this sense, the current crisis is a repeat of that of the 1980s. In some terms the situation is not as bad as the 1980s: unemployment has peaked at just under 15 per cent, whereas it came close to 20 per cent in the last crisis. Furthermore, welfare benefit levels have only been marginally reduced, and although there has been some tightening of benefit conditions, in direct income terms the lowest income groups have *probably* lost *relatively* little, although specific vulnerable groups have been hit by state cutbacks (for example, services for children with disabilities, English teaching in immigrant schools).

Overall, earnings have declined. This is clearest in the state sector: pay has been reduced and a special 'pension levy' imposed even on those on short-term contracts who will never benefit from any public sector pension. Together with tax increases this meant cuts in after tax pay from 2009 of up to 25 per cent, with the impact probably greatest in the best paid groups. 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 sector have been affected least and in a few cases wages even appear to have increased. In areas where employment has fallen most, such as construction, hospitality and retail, wages and conditions have also deteriorated sharply for those still in work (Krings *et al.* 2011).

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:⁷ comparisons with the impact of the great inflation crisis in 1923 Weimar Germany are apt. The clearest

7. Evidence here remains anecdotal. The main Irish charity, St Vincent de Paul, reports a dramatic increase in applications from 'middle class' families. Stories abound 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.

losers are those who purchased apartments and houses on 100 per cent mortgages at the height of the bubble. The value of residential property nationally has fallen by 41 per cent from the peak of 2007 (CSO 2011b) and most prices are still falling. As incomes fall, servicing these mortgages becomes more and more difficult, while negative equity means that selling the apartment or house is no solution. Worst hit are those who purchased on developments, especially housing estates, that are unfinished – the term ‘ghost estate’ has now 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. 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 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 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, and emigrants appear to be disproportionately young and well educated. However, compared to their predecessors of the 1980s, graduate emigrants today may have fewer advantages on the international labour market. Whereas then they were likely to have technical qualifications such as engineering for which there was international demand, today they are more likely to have only general arts or business degrees. They are more likely to end up working on Australian building sites than in professional jobs in Continental Europe or the United States.

The crisis marks the end of the social partnership which had been seen as a distinctive feature of the Irish model. The unions have largely lost access to government decision-making and there is no attempt from any quarter to recreate the crisis corporatism of the late 1980s. The only residue of corporatism has been an agreement between the government and the public sector unions in June 2010 in which the unions committed themselves to efficiency savings in return for a government promise of no further pay cuts (the Croke Park Agreement). Nonetheless, meeting the EU–IMF bailout terms make further cuts in public sector

pay likely, while, also as a consequence of the bailout agreement, the government proposes to reduce the statutory protection of wages and hours in some low wage sectors. The bailout terms also mandate sales of state assets, and this too will probably involve a further reduction in public sector employment.

5. Conclusion: Three years on

With exports from the FDI sector performing well, its political priorityisation 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 has turned the reliance on FDI into a national fetish. Bizarrely, not only the Labour Party but even the left nationalist Sinn Féin have made 'our' corporate tax rate into a symbol of national independence. While personal taxes have risen, the desirability of low personal tax rates also remains part of the national political consensus.

A socio-economic crisis which was 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 broad swathes of political commentary. The days when the Irish political elite aspired to be model Europeans are now a distant memory.

Thus there is no sense that the crisis could stimulate any move towards collective provision in the face of collective adversity (the contrast with the creation of the British welfare state in post-1945 austerity is instructive). Instead, privatisation of pensions, education and (to some extent) health continues, while state assets are to be sold. Rather than strengthening the state, the response is to weaken it. The jettisoning of social partnership has ensured that other features of the Irish model have been consolidated. The Irish experience shows how, confronted by a cliff, lemmings will sometimes rush to fall over its edge.

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