The Celtic tiger: **myth and reality**

Senior labour and business leaders have looked to Ireland as a model for South Africa's road to economic recovery. Irish trade unionist ***Sam Nolan*** *critically analyses the Celtic tiger and whether the model is sustainable.*

As the Celtic tiger rests in a clearing on the emerald isle, it is time to reflect on its birth, growth and possible future. The Asian tigers, although distant cousins, have now become tame pussycats – victims of the greed of the present phase of globalisation. Will the Irish tiger go down the same road? It remains an open question.

At the outset there are no simple one-liners to explain the growth of the Irish economy. However, to understand its development, it is necessary to view some historic signposts, even if painted in the broadest of brush strokes.

Historical background

For centuries, Ireland under British rule provided cheap food to an industrialising Britain. When a measure of independence was won after the 1922 treaty, a civil war broke out between the newly formed government and a section of Sinn Fein who believed the treaty was a compromise. The government party, Cumman Na Gael (party of the gael), won the civil war. While not altering the basic economic relationship with Britain, it nevertheless took some faltering steps towards creating an industrial base.

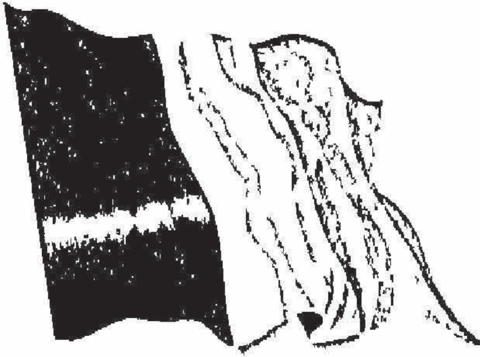
This party lost the 1932 general election to Fianna Fail (soldiers of destiny), who emerged from the republican forces, who opposed the treaty and lost the civil war. The Fianna Fail government soon erected tariff barriers to protect a few native industries, mainly in the areas of food, drink and textiles. They also began to set up state industries, which eventually accounted for about 20% of the economy over the subsequent 20 years.

During this period the Labour Party and trade unions were engaged in a low level class struggle on day-to-day issues. Small groups to the left, including the newly formed Communist Party of Ireland, while supporting the day-to-day struggles, advocated the completion of the national independence struggle as the gateway to socialism. The country remained neutral during the Second World War, mainly because of its unfinished business with Britain, and therefore did not benefit from the US Marshall Plan aid programmes to Europe after that war.

Attempts to rebuild economy

The country ended up in an economic backwater. Rising unemployment was contained by mass emigration particularly to Britain. The 1950s were crisis years with growing agitation among the unemployed. Fianna Fail was re-elected in 1957 and over the next period began to evolve an entirely new strategy for economic development. The government did a complete u-turn and decided to embark on a policy of attracting foreign direct investment (FDI); embracing free trade and dipping a toe in the choppy waters of the world's export markets. The Industrial Development Authority (IDA), set up in 1950 to help small indigenous industries, was given the major role of attracting FDI, particularly from Britain. In 1965 an Anglo Irish Free Trade Agreement was signed with tariffs to be phased out over ten years.

In 1973 both Ireland and Britain were accepted as members into the



European Economic Community (EEC). This represented a further step towards integrating into the world market. Thereafter, a big drive was launched to get investment from the US and Japan in particular. Ireland was promoted as being a stepping-stone into the 300 million European market. In 1978 the government abolished an earlier tax relief scheme on export profits and replaced it with a 10% rate of corporation profit tax on all manufacturing exports. In 1981 the IDA was given power to offer employment grants to foreign firms related to buildings, machinery investment and training. The IDA built a number of tailor made industrial estates to accommodate foreign firms. It could be said that this is the period when the Celtic tiger cub was gestating.

From the '60s to the '80s, the economic landscape changed, with many small indigenous industries disappearing, large numbers leaving agricultural employment and foreign multi-nationals beginning to dominate the industrial scene. Despite all this new economic activity, unemployment rose from 9% in 1976 to 17% in 1987. Successive governments ran budget deficits to meet their commitments, until national debt reached 129% of GNP in 1986 and servicing this debt reached 93.5% of income tax revenue.

National level agreements

There is a militant tradition of trade unionism in Ireland, although never highly political. Like the British trade union movement, Marxism was never widely embraced or even understood. However, in 1970, as a consequence of a strike by industrial maintenance craftsmen the previous year, the government (the largest employer in the state), the private sector employers and the trade unions negotiated a national wage agreement. This agreement gave a fixed annual percentage increase to all workers. This formula evolved into partnership agreements covering much more than wages as the Celtic tiger matured in the womb. The carrot of job creation was held out to the unions as the reward for wage restraint.

The second method of wealth distribution is the system of taxation. As explained above, manufacturing profits were firewalled at 10% and agriculture was in the hands of small to medium self-employed farmers who paid little tax. The bulk of taxation fell therefore on the working people. This issue boiled over in 1979-1980, when mass work stoppages and demonstrations brought over one million people onto the streets.

Another method of wealth distribution is the social wage, which is largely determined by government budgets. It covers everything from welfare payments, health, education, taxation, housing, to the whole quality of life for the majority of people.

An important building block in attracting FDI was education. The Irish system was inherited from the British, but later expanded to include the Irish language with the objective that it would one day replace English as the spoken tongue. The retention of English proved to be a bonus in attracting US investment. In 1967 all fees for second level education were abolished and in the mid '90s fees for third-level and university education were abolished. Many new third-level technical institutes were established with courses linked into the foreign firms engaged in chemicals, pharmaceuticals and information technology. Thirteen of the world's top chemical and pharmaceutical companies now have a manufacturing base in Ireland.

In the field of education, it is worth noting that less than 5% of children from the families of unskilled workers ever get to third-level institutions even now. The system of entry is meritocratic through state examinations and application and admissions procedures, but class still takes its toll in more subtle ways.

EU obligations

The Maastricht treaty set out the guidelines for full economic and monetary union in Europe. The Single European Act came into existence in 1993 and monetary union in 1999 with a common currency, the euro, in 2002. The single act not only removed the last barriers to free trade, but also resulted in de-regulation, which is having a profound effect on state and semi-state industries. Privatisation has become a hot issue in the Labour Party and the unions. Following heated debates in the Labour Party, the arguments against privatisation won the day, at least for now.

Nevertheless privatisation proceeded. The government sold off two small state banks to existing private sector banks as well as the state telecommunication company (Telecom Eireann), despite strong union opposition. The shares were offered to the public and many people borrowed from the banks to buy them. Great propaganda was made about the beginning of a share owning democracy. However, telecom shares began to slide and the eventual outcome was that the landline section was sold to a Tony O' Reilly consortium and shareholders were forced to sell at a loss, while the mobile section was purchased by Vodafone. Workers still retain a 15% block of shares. With all

the buying and selling of shares and changes of ownership certain financial speculators made fortunes, with the consequence that investment in telecommunications suffered. The national airline (Aer Lingus) following 11 September was not privatised, but restructured with a loss of nearly one third of its workforce.

Under European Union (EU) deregulation, private sector electricity producers should exist to compete with the state owned ESB. However, in view of the fact that the ESB is producing some of the cheapest power in Europe, the government appointed regulator increased the price of electricity to allow the private sector to compete.

Economic boom

A key factor that boosted economic development was the transfer of substantial funds to Ireland from the EU. Under such headings as CAP (common agricultural policy), structural funds, social funds, cohesion funds, it is estimated by some economists that Ireland could have got up to 40b. Education and training got huge funding, as did infrastructural projects, such as roads, sewage, water schemes, airports, harbours or any programme that would make the country competitive.

At the same time, the early 1990s saw the information technology revolution beginning to take off. Top US firms decided that Ireland was to be their European base. It could be said that Ireland was in the right place at the right time with the right mix of education skills, government inducements and location. Profits could be maximised. By this time over 1 000 multi-nationals were located in Ireland.

The prime years of the Celtic tiger were 1995 to 2001, when the economy grew by nearly 10% per annum. A recent United Nations survey now lists Ireland as the fourth richest nation in the world. But in the rich vs poor table, Ireland is 18th, close to the USA. Poverty is however, a relative term. The average industrial wage in Ireland is about R5 500 per week. Anyone receiving less than R1 000 would be regarded as living in poverty.

The 1990s saw a huge amount of affluence in Ireland. As the good times began to roll, the trade unions talked of pay back time. They had exercised restraint and jobs had been created, but profits had been unrestrained and the rich got richer. The rising economic tide lifted the luxury yachts a lot higher than the rowboats.

During this decade, two partnership agreements had been negotiated. The current agreement, which runs from 1999 to 2003, is entitled Programme For Prosperity and Fairness. The organisations involved in negotiating the agreement include unions, employers' organisations, government, farmers, youth and women's organisations, unemployed groups and 22 community groups listed under the title of the social pillar. The employers, including the government, agreed to wage increases of 17% over two years. Government also agreed to a 10% reduction in PAYE income tax over three budgets. The 132-page document contained commitments on the health service, socially affordable housing, welfare payments, public transport, energy, childcare, agriculture and many other areas of public life. The introductory overview states however: 'The programme is dependent upon achieving an average annual GNP growth rate of about 5.6% over the period of the agreement and a goal of maintaining significant budgetary surpluses in each year.' That seemed a reasonable assumption in 1999.

By 2001 the gloss began to fade from the present phase of the information technology revolution. A number of multi-nationals downsized their work force or closed down altogether. Unemployment began to rise again. But the unions forced the government and the employers to honour the wage and tax element of the agreement.

Following the recent general election, a Fianna Fail (FF) /Progressive Democrat (PD) government was returned to power. The PDs are to the right of FF, committed to neoliberal economics, and stand for wholesale privatisation. Suddenly, as soon as the election results were in, the new government discovered that the country was facing a budget deficit. Cut backs in spending on health, education and infrastructure have begun. However exports are still booming and it is estimated that the economy could still grow by 4%, much higher than most EU countries. A UN report just released reveals that in 2001 FDI into Ireland dropped from 24b to 10b and this trend has continued into 2002.

Conclusion

As the country prepares for a new partnership agreement, employer's organisations are calling for severe wage restraint. So as the tiger rests in its current clearing, its further progress depends on the global economy. Ireland is at the mercy of multi-national corporations' quest for maximum profits. There are questions about the effect of the EU enlargement programme to include some former socialist states in Eastern Europe. Will they induce FDI with lower profit tax and lower labour costs? Will the demand of many European politicians for tax harmonisation be fulfilled?

Will the Celtic tiger roar again or will it peter out and plod through the remainder of its dull days living off the memory of its feisty youth? The question is still open.

Nolan is secretary of the Dublin Council of Trade Unions. He was an organiser for the construction trade union UCATT. He is currently a member of the general council of the Labour Party