TRIPARTISM IN IRELAND

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Over the past few years, the term “PIIGS”\(^1\) has become synonymous with economic concerns and fears of collapse. The acronym, which currently refers to the European countries of Portugal, Italy, Ireland, Greece, and Spain: was originally just ‘PIGS’\(^2\), used to group the similar economies of Southern Europe when considering them for acceptance into the European Monetary Union.\(^3\) Nevertheless, as a result of the global financial crisis, this term soon came to identify economically weak and overly indebted nations. However, unlike Italy, Greece, and Portugal, who had before the crisis demonstrated relatively slow growth, modest unemployment, and a propensity to run high budget deficits; Spain and Ireland, on the other hand, had both been extremely successful in demonstrating rapid growth, high employment, and budget surpluses within their economies.\(^4\) The question at hand then, is how did Ireland come to be grouped with these other countries? And more specifically, what has been the response of its tripartite

\(^1\) Geni, Jurinda, *Could the crisis in the PIIGS countries have been avoided with an independent central bank? – A study using the Taylor rule*. Uppsala University, 2010. Print.
\(^4\) “But Ireland and Spain did not run serious deficits during the 1990s, and indeed Ireland was running a fiscal surplus during most years up leading up to the crisis (O’Leary 2010).”
institutions to the ongoing crisis.

In answering the first question, this paper will attempt to assess the impact that the financial crisis has had on Ireland: specifically the causal nature, and interplay between the social and economic factors emerging amidst this economic downturn. Subsequently, this analysis will then assess the concerted actions taken by Ireland to counteract the effects of the adverse economic climate. Lastly, alternative solutions and recommendations for the resolution of Ireland’s current socioeconomic instability will be offered in an attempt to assess the future sustainability of tripartism in Ireland. However, before we can assess the impact of the global recession on Ireland’s economy and its tripartite system, an explanation of its emergence, and significant effect on world markets is warranted.

Despite having experienced relative growth and notable stability in the decade’s prior, by the summer of 2008, the United States economy, specifically its banking sector, had begun to collapse. Moreover, what had initially begun as an economic crisis of domestic proportions, soon spread to the global economy: affecting almost all of the markets connected to the United States. Of these markets, the eurozone, by far the largest and most prominent trading block with U.S. markets, was sincerely affected by this crisis. Moreover, as the severity of the crisis increased in the States, it served to weaken the stability of the Economic and Monetary Union, and amplify the sincere economic divisions that existed between its 17 member states. Consequently, EMU countries were differently affected by their overall level of exposure to international markets, as well as
the extent to which a country's domestic market was linked to the United States.

Nevertheless, it is not always clear as to why the economic downturn in the United States had such a severe impact on economies abroad: however, to put it quite simply; it was based off of the sheer market influence, relative size, and relative consumption power wielded by the American economy. To put this in a global economic perspective, a report published by The Brookings Institution in June of 2009, found that,

“U.S. consumption accounted for more than a third of the growth in global consumption between 2000 and 2007. ‘The US economy has been spending too much and borrowing too much for years and the rest of the world depended on the U.S. consumer as a source of global demand.’ With a recession in the U.S. and the increased savings rate of U.S. consumers, declines in growth elsewhere have been dramatic. For the first quarter of 2009, the annualized rate of decline in GDP was 14.4% in Germany, 15.2% in Japan, 7.4% in the UK, 18% in Latvia, 9.8% in the Euro area and 21.5% for Mexico.”

What these staggering statistics demonstrate is just how colossal the American

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economy is, as well as the overwhelming level of influence it can exert on foreign markets. As a result, when U.S. growth contracted, the effect spread across world markets. “Moreover, during much of this period the value of the US dollar was weakening, which is particularly onerous for a country as massively dependent on exports, and especially to the US, as Ireland.”6 In affect, as demand for Irish products and goods dropped as a result of diminished, and contracted growth in the United States; inevitably, growth in Ireland began to contract as well.

To this extent, while “Ireland’s banking crisis bears the clear imprint of global influences… it was in crucial ways ‘home-made.’”7 That is to say, that while one could consider Ireland’s current crisis, a consequence of U.S., and subsequent global contraction, this argument would not be entirely correct.8 In many ways, the Irish example is best compared to a house of cards; you remove a single card from the base and the entire house collapses. In this sense, we can understand the initial impact of the American financial crisis as detrimental to Ireland’s economic growth, and its export-driven market orientation; however, these factors alone, while obviously destabilizing, do not offer a full explanation as to why the crisis in Ireland became so severe.


8 “Although the US credit crisis precipitated it, the Irish credit crisis is an identifiably separate one, which might have occurred in the absence of the U.S. crash. The distinctive differences between them are notable. Almost all the apparent causal factors of the U.S. crisis are missing in the Irish case; and the same applies vice-versa.”
Furthermore, in an attempt to better understand and respond to the crisis, Ireland’s tripartite institution the National Economic and Social Council (NESC), played a particularly important role in assessing and analyzing the fundamental factors that brought the country to this point; releasing their own findings in a 2009 report. In doing so, the NESC found that while the contraction of global markets did have a sincere effect on Ireland’s economy, there was a far more pervasive and adverse catalyst at hand; timing. That is to say, that the simultaneous bust of the housing boom, in conjunction with a severely diminished market for its exports, ostensibly necessitated Ireland’s fiscal crisis.9

To be clear, this duality does not serve to downplay the effect that diminished global trade had on Ireland, but to demonstrate that the causal factors of this crisis were both domestic and international. To this extent, the NESC suggests that even in the absence of a housing bust and subsequent diminished construction, Ireland would still be in serious economic trouble; however, the simultaneous occurrence of both internal and external catalysts have pushed the Irish economy into a state of economic emergency.10

Nevertheless, as real GDP growth began to decline dramatically, falling almost 8 points between 2007 and 2008,11 Ireland’s economy rapidly slipped into a recession. Consequently, consumer spending, a key indicator of consumer confidence in the

9 “The reason for Ireland’s particularly severe downturn is that a substantial housing market correction and sharp deceleration of export growth have occurred together.”
10 “Even without a major contraction in construction activity, the Irish economy would be facing a very challenging outlook because of this dramatic slowdown in world trade. Occurring together, the fall-off in construction and bleak global trading conditions create an economic ‘emergency’”
11 “What has happened in the two years 2007 and 2008 alone already surpasses previous Irish downturns; real GDP growth dropped by 7.8 percentage points”
economy, understandably went into decline. Arguably, it is at this point in time that Ireland’s domestic problems quickly began to worsen and spiral further out of control. That is to say, that as a result of diminished consumer spending and confidence, the individual propensity to save began to increase, thus removing more money from the Irish economy, and negatively impacting domestic growth.

In addition to the adverse relation to growth, increased consumer savings also has a similar impact on employment. Economically speaking, as consumers spend less, domestic consumption falls: this in turn leads to an overall decrease in national demand, which has the effect of reducing national supply in order to reach an equilibrium point. However, with less supply and demand for domestic commodities, unemployment naturally increases, as fewer workers are needed to sell actual products; and companies, with diminished sales due to a lack of demand, generally initiate layoffs in order to compensate for this loss of revenue.

Granted this rationale, it seems appropriate that between, 2008 and 2009, unemployment in Ireland jumped from a modest 4.9 percent, to a staggering 10.4 percent in a little over twelve months time. Moreover, the pace at which unemployment grew, essentially doubling within a year, is an effective indicator of the severity and breadth of Ireland’s crisis. Consequently, the drastic increase in unemployment created another serious problem in Ireland, one of diminished fiscal intake; that is, the government’s ability to collect tax revenue.

12 “Over the course of 2008, the standardized monthly unemployment rate rose from 4.9 per cent to 8.3 per cent…By February 2009, the unemployment rate increased to 10.4 percent, entering double-digit territory for the first time since October 1997.”
In essence, as employment decreased, so too did the government's capacity to collect revenue: with an additional 7 percent of the population no longer paying income tax as a result of unemployment, Ireland's government faced serious monetary restraints.\(^\text{13}\) To put this in comparative perspective, between 2007 and 2008, tax revenue dropped by a staggering 14 percent; even worse, between 2008 and 2009, fiscal revenue dropped another 24 percent.\(^\text{14}\) Cumulatively, this represents an astonishing 35 percent reduction in revenue, in only a two-year span.

The rapid pace in which tax revenues fell in Ireland, created two additional problems for the government: the first, public expenditures, as a consequence of increased unemployment; and the second, public finances, as the result of government expenditures in conjunction with diminished tax revenues. To clarify, the foremost issue can be understood as one wherein Ireland’s government was obligated to spend more than they could actively collect through tax revenue: specifically in response to the high level of unemployment, and the burden that this placed on the country’s social welfare system.\(^\text{15}\) Furthermore, the imbalance that this created in the fiscal budget necessitated that Ireland borrow capital abroad in order to account for the monetary difference, and more importantly, keep its nation running.

\(^{13}\) “The sharp decline in economic growth and the fact that it has been pulled down largely by a slump in tax-rich activities (housing and domestic demand in general) has caused a spectacular drop in tax revenue.”


\(^{15}\) “Public expenditure has continued to increase. Between 2007 and 2009, net current expenditure increased by around €8 billion (an increase of around 20 per cent in nominal terms)”
Nevertheless, as a consequence of prolonged budget deficits and insufficient fiscal revenue, Ireland’s debt to GDP ratio, an indicator of the relative stability of its economy, steadily began to increase; and reached its initial peak at the point 41 percent of the countries gross domestic product was going towards servicing its foreign debt.\(^{16}\)

Interestingly enough, although Ireland has the highest deficit to GDP ratio of the Eurozone, and E.U. countries; conversely, it has been able to maintain its debt level in relation to the other nations, falling squarely in the middle of the pack.\(^{17}\)

Granted this assessment of the domestic impact the global financial crisis has had on the socioeconomic institutions of Ireland; we move now to the concerted response of Irelands social partners: collectively represented in the form of the National Economic and Social Council. In essence, the action that they took can be seen as three step process of: assessment, analysis, and action; with the third step still proceeding.

Furthermore, using this ideological framework, we can begin with the Council’s first action of assessing the socioeconomic nature of the domestic crisis. In doing so, the NESC highlighted three important elements they believe necessitated a crisis: a loss of economic competitiveness, bulging property bubble, and relative global imbalances.\(^{18}\)

The first issue specifically deals with Irelands international competitiveness in global markets: which, while strong during the first half of the ‘Celtic tiger’ years, had expanded

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\(^{17}\) Annex 1

far to fast; arbitrarily inflating domestic prices. Quite simply, “Over a long period of high growth, driven first by exports and latterly by construction, Ireland’s price and cost level rose significantly. This made Ireland expensive, for people and for businesses.”

However, the effect that is increase in prices had could be directly related to the build up in housing prices at the same time. As a result,

“Ireland developed one of the worst property bubbles the world has seen in recent years. Up to 2004, fundamental supply and demand factors went a considerable way towards explaining why houses continued to sell despite their high prices; thereafter, expectations of future house price increases themselves began to drive current house prices. Banks played a huge role in this by borrowing money cheaply on international markets on a short-term basis and lending it on a long-term basis to builders, developers and house-purchasers. Many people with major responsibilities in Irish banking institutions and the Irish regulatory system did not acknowledge or act when warning indicators flashed red.”

Ostensibly, this assessment of domestic affairs by the Council is evidentiary of the supreme interconnectedness of Ireland’s domestic markets to international influences of capital mobility services. In essence, as inflationary pricing occurred, and the natural price of housing was thereby inflated, rather than people merely not being able to pay at

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the higher prices, thus creating a demand for prices to fall, the opening of international lines of credit to the consumer, vis-à-vis their domestic banks, pushed the housing market to the collapse.

What is perhaps most evident from this finding is the very weak and instable position this leaves the Irish economy in; furthermore, it seems almost apparent from this fragile position that the last element would be any kind of international or global shift. Nevertheless, the allure of, “Cheap credit, in turn, provided a favourable context for a degradation of credit standards and a wave of financial ‘innovation’. Disastrously for the world, much of this innovation was in US sub-prime lending. In September 2008, what had started as a crisis in mortgage lending to the US sub-prime market a year earlier, became a full-blown global financial crisis.” Ironically, the real estate bubble driven by similarly absurd financial tools in America, essentially tipped Ireland’s housing market over the edge.

However, while this assessment gave an overview of the circumstances that caused the crisis, the NESC through analysis of their previous findings, that the scale of these troubles had expanded. In point,

“Ireland was over-exposed to risk on a variety of fronts and suffered a correspondingly severe response to the international crisis when it came. The taxation system had been systematically weakened over time; political decision-making was not firmly grounded in adequate risk assessment; a
The result of these compounding factors, and the nature of them being outside of Ireland's control, lead the Council to assert that the domestic crisis had evolved to five specific 'sub'-crisis's; each fully integrated and causally correlated to the other. Specifically, these were crises of the society and economy, banking sector, State public finance, as well as one of reputation.  

Furthermore, the NESC found that in the similar manner with which these dimensions were related, they would also have to be solved, comparatively, as a whole. In essence, these factors of collapse were so intertwined, that any action taken by the State in dealing with only part of these dimensions would not be enough. In clarification, the council asserted that while, "It is possible to devise a set of further reactions to each of these crises. But, our analysis strongly suggests that a series of partial and sequential measures, some of which are undoubtedly necessary, will not be sufficient and effective." In essence, this finding more or less confirms how overtly complicated and convoluted the economic crisis is; even after the inherent nature of its there originating elements had been assessed.

Perhaps even more disheartening from an outside perspective, are the relative findings that the Council offers following its initial assessment of the aforementioned elemental structure of this economic disaster. That is, they offer an entirely more

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complex view of the problems at hand in the domestic social economy of Ireland. Essentially, symbolizing that while they thought they initially understood the problems, and could appropriately deal with them, the nature of the crisis evolved, and became worse.

Nevertheless, by the time the Council had come to a relative conclusion about the makeup of their domestic issues, they began to question if it were possibly too late to mount a coordinated response. Fortunately, they eventually agreed on a concerted ideology on how to approach and appropriately address the multi-dimensional structure of the economic problems. Asserting that, “An effective Irish response would have a number of characteristics. It would address all five dimensions. It would be based on social solidarity and a positive perspective on Ireland’s future prosperity. It would combine high-level coherence with maximum engagement and local problem solving. It would take short-term measures that have a long-term logic.”

Given this orientation towards a resolution of the current socioeconomic imbalances, and failures of the Irish state; the subsequent analysis offered identified what should be done with respect to each of the five dimensions. In doing so, the NESC, effectively outlined their plan of response, to counter the economic downturn. What follows can be seen as a structured Resolutional strategy, and although offered as policy

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23 “it is now necessary to formulate an integrated national response to the five-part crisis. One counter argument might be that it is too late to seek an integrated and agreed response. If account is taken of the scale and the possible duration of the crisis, we see that this view is probably mistaken. We could look back ruefully in five years and see that we were mistaken to think that the die was cast in March 2009.”

responses, do not necessarily represent actual policy implementation, or concerted action on the part of the State.

Following the order that five dimensions were enumerated in, we begin with the issue of the banking system. With regards to this rather vital part of Ireland’s economy, the Council, as its overt objective in this matter, offered solutions specifically aimed at stabilizing the banking sector. More specifically, “The priority is to reestablish a sound financial system capable of meeting the full needs of Ireland’s economy and society.”25 In order to do this, the Council’s plan outlined four specific areas that banking policy should responds to in there interest of stabilizing the banking system.

Firstly, any policy in the area of banking must by all accounts deal with the issues of underwater mortgages; provision of some form of social protection would arguably be beneficial to this extent. Next, the government must act to reopen lines of domestic credit to the countries banks and businesses. Third, “The need to convince Irish society as a whole, and particularly groups making visible sacrifices, that those who led Irish financial institutions into their current reliance on the state, and who were major beneficiaries of the boom, are being held accountable and bearing their share of the adjustment burden;”26 Finally, get back the approval and reputation of stability that Ireland used to hold, from international, and European Union countries; thus reducing the economic risk, thereby decreasing the general interest rates Ireland has to pay as a result

of a downgrade in credit rating.

Nonetheless, despite this brilliant Resolutioin assessment, high hopes, and general attempts at altering the course of the crisis. Ireland's tripartite system inevitably became marred in debate over wage reductions with unions, and missed this opportunity for sincere reform. In addition, as the government proceeded to step in and act unilaterally when business and labor reached an impasse, to effectively cut standard wages of labor; the ideology and good nature of the tripartite relationship failed. As it stands Ireland is still dealing with the crisis, and attempting to reapply the logic and appropriate measured argued initially by the NESC report.

“The present recession has brutally amplified the interplay of factors which were already raising question marks over Ireland’s growth model. The fact is that this model provided the underpinning for the social pacts. It is too soon to say whether the present situation represents a temporary crisis or a complete breakdown. It is however certain that any rebirth of the social pact would have to be on different foundations, taking into account that Ireland has lost the specific relative advantage which has made it possible for the last twenty years”.

-International Labour Office

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Annex 1

Chart 2.9: Current Government Expenditure and Revenue, 1960-2010

Source: Department of Finance, Office of the Secretary.
Works Cited


