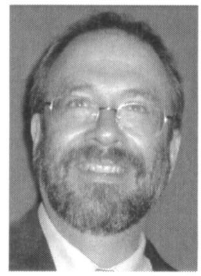
THE IRISH CRASH IN GLOBAL CONTEXT

Terrence McDonough

Terrence McDonough is Professor of Economics at National University of Ireland Galway. His current research interests include globalization, American and Irish economic history, political economy, the history of economic thought and economics education for labor and community groups. He has published in both academic and popular outlets. He has recently co-edited *Contemporary Capitalism and Its Crises: Social Structure of Accumulation Theory for the 21st Century* published by Cambridge University Press.



Abstract: This article will compare the development of the global neoliberal crisis and the Irish crisis, which is home-grown but, at the same time, an instance of the broader collapse of the recent stage of capitalism. This analysis will be carried out in the context of the Social Structure of Accumulation (SSA) Framework. While capitalism has long had an international dimension, prior to the global neoliberal era, this dimension was a shared international structure linked to discreet national SSAs. In the global neoliberal era, different national structures were integrated into a transnational SSA. One of the strengths of this structure is its ability to link different national formations into global commodity chains locating each productive operation in its potentially most profitable location. While non-neoliberal national formations were capable of integration into the global neoliberal order, the different locations within the global neoliberal SSA tended to produce national variations of the basic institutions of global neoliberalism. The Celtic Tiger era in Ireland will be analyzed as an instance and illustration of this phenomenon.

Key words: global neoliberal crisis; Irish crisis; social structure of accumulation; Celtic Tiger

Introduction

One of the most famous economic success stories of recent times has been the Celtic Tiger. This moniker was applied to Ireland in recognition of its high growth rates from 1987 to 2007.[1] Ministers and former ministers traveled the world, dispensing advice on how others could emulate "the Irish Model." The story of Ireland's subsequent decline has been equally dramatic. Ireland has experienced depression level declines in GDP and seemed to be in danger of sovereign default until the spotlight shifted to Greece. A rancorous domestic debate has opened up over who or what was responsible for the debacle, with the government emphasizing the international aspects of the crisis, while opposition parties sought to lay the blame at the feet of a domestic cabal of developers, bankers and governing party politicians.

The Irish crisis is in fact both international, indeed transnational, and domestic. The most important task of any analysis is the identification of the precise relationship between the transnational and domestic elements of the crisis. An understanding of the Irish crisis can serve as an example of the particular ways in which transnational and nation-state economic dynamics are intertwined in the current era. It is the thesis of this article that the character of the institutional contexts in which capitalist economies grow and crash has changed. Prior to the stagflationary crisis of the 1970s capitalist institutional structures were primarily national in character interacting with one another through a common set of *inter*national institutions. Afterwards, in the global neoliberal era, the primary institutional structure was itself transnational, with various national structures distinct from each other, but all nested within the larger transnational structure.

With this as background, national dynamics could be merely a relatively homogeneous local expression of the transnational crisis. At the opposite extreme, a still basically sound local structure could be involved in the crisis only through mitigating the impact of the crisis whose origins lie solely in the larger structure. Neither of these extremes is likely. While global neoliberalism has room for a wide range of local institutional structures, all national manifestations within it are to one degree or another implicated in it. Thus it is unlikely that a crisis of global neoliberalism will be wholly resisted by the local context. At the same time, national differences are bound to alter the expression of crisis dynamics to some extent rather than simply mirroring them.

In this context, the Irish crisis would likely be simultaneously both a manifestation of the global crisis of neoliberal capitalism and an expression of its own local dynamics. I will be making this case within the framework of social structure of accumulation (SSA) theory.

Social Structures of Accumulation, Old and New

The current crisis has revived interest in Marxist crisis theory. Social structure of accumulation theory rests crisis theory in a larger analysis of long periods of relatively unproblematic accumulation separated by periods of relatively intense crisis. These more stable periods constitute a succession of stages of capitalism. The crisis periods, while they hold the possibility of developing into a widespread crisis of the capitalist mode of production, are more specifically the crises of the stages of capitalism which precede them.[2]

Conducting crisis theorizing in this way does not ignore the general tendencies toward crisis identified in the Marxian theoretical tradition. They are seen as rooted in the basic structures of capitalism which subsist over the course of capitalist history. Nevertheless, they are concretely manifested in the context of the breakdown of a more historically contingent stage of capitalism which has been constituted as a complex of institutions which serve to stabilize and channel the inherent instabilities of capitalism as a mode of production and social formation. In addition, more historically localized factors can be brought into the analysis through this perspective.

Within this framework, recent events can be analyzed as the crisis of global neoliberalism, the social structure of accumulation, or stage of capitalism, which succeeded the stagflationary crisis of the 1970s.[3] While each SSA is different from those which preceded it, global neoliberalism constituted a break with previous SSAs in that these SSAs were primarily national, whereas global neoliberalism was located at the global level. The relation between the global and national aspects is therefore different in the contemporary SSA compared to the previous era. The postwar state-regulated SSAs can be thought of as a series of national state-regulated SSAs which were linked internationally by an appropriate set of international institutions, such as the Bretton Woods system and a particular form of US hegemony (McDonough 1994). By contrast, the global neoliberal SSA exists in its most pure form at the transnational level, where neoliberal principles became fully dominant as expressed in such institutions as the World Trade Organization (WTO), International Monetary Fund (IMF), and World Bank. Global neoliberalism is a transnational structure with local structures nested within it, with variation in the extent to which local structures reflect the neoliberal model.

Global Neoliberalism

This section will briefly review the constitution of the global neoliberal SSA or stage of capitalism, before examining the specifically Irish manifestation of this neoliberal stage.[4]

Every SSA has a wide range of institutional components, encompassing much of the economic, political and cultural/ideological levels of society. Any taxonomy of these institutions must of necessity be somewhat arbitrary. In the following, the institutional transformations which made up the transition to global neoliberalism will be grouped under four headings chosen to facilitate comparison with the local structures which constitute the Irish case. These headings are Globalization, Neoliberalism, Weakened Labor, and Financialization.

Globalization

Globalization is located in several developments. The first is a significant increase in the international movement of capital, goods, and money. Barriers to the free movement of goods, capital, and money have been greatly reduced. The deregulation of capital movements was an important development as well as increasing state hospitality to foreign direct investment. Technological developments in information and communication technology have been important here as well as containerization and other innovations in transportation. This increase in mobility has taken place both in the case of physical productive capital and of money capital through intensification of international financial activity.

The second development is in a geographical extension of capitalist relations of production. The collapse of the Eastern European regimes began a rapid transition to capitalism in the former Soviet sphere of influence. A slower and more measured transition process in China was started with the post-Mao economic reform process. These transitions have opened up vast supplies of raw materials, extensive investment opportunities, massive pools of cheap labor, and large new markets for global capitalism. These developments also mark the end of alternative sources of support, both economic and military, for less developed states.

The most consequential result of this new-found mobility is fragmentation of production into multiple and often distant components across borders and then reintegration of these components into global production chains through both trade and the internal logistical operations of transnational corporations. Each part of the production process can be located in a part of the world that is capable of carrying out that process in the most profitable manner (Gereffi and Korzeniewicz 1994; Kaplinski and Morris 2001).

From a Marxian perspective, a consequent transnationalization of class relations is of central importance. Globalizing the money circuit with the elimination of capital controls and the electronic linking of the world market transnationally integrates those who have a right to a portion of the surplus produced under capitalist relations of production. This is accompanied by the global integration of production in both the developed and less developed world. Thus a transnationalizing capitalist class is brought into relationship with a transnational working class. The neo-Gramscian school in international political economy (Cox 1987; Gill and Law 1988; Gill 1994), the Amsterdam school (Pijl 1997, 1998; Overbeek 2001; Appeldoorn 2004), and the political sociologist William Robinson (2004) have studied the formation of this transnational capitalist class.

The globalization of capitalist production and class relations inevitably raises the question of the creation of transnational institutions to govern these economic relations. Robinson (2004) has theorized the emergence of a transnational state. Unlike the traditional members of the nation-state system, the new institutions of transnational governance do not concentrate sovereignty over a particular territory. These institutions are layered and overlapping, existing at multiple geographical scales.[5]

Increased trade liberalization has had contradictory results, leading at the same time to increased competition on the product market and increased cooperation through reciprocal share ownership, joint ventures, tight subcontracting arrangements and the like (Castells 2000: 77–215). A merger wave has consolidated capitals across borders, leading to the creation of ever larger corporate entities.

Neoliberalism

Neoliberalism is a coherent, multi-leveled entity that includes political-economic institutions, policies, theories, and ideology. Neoliberal institutions include most prominently those charged with promoting the increasing openness of the global economy like the WTO and the IMF. The "hollowed out" domestic state could be included here as well as numerous think tanks and private political organizations.

Neoliberalism advocates at the policy level liberalization, privatization, and stabilization. The first, liberalization, refers to freeing markets and firms from state regulation, most especially the removal of barriers to the transnational movement of goods and capital. Privatization turns state enterprises over to private owners and also contracts out to private companies services that had traditionally been supplied by the state. Stabilization refers to a shift in monetary policy to preventing inflation rather than fostering lower unemployment. State fiscal policies are directed at reducing taxes on capital while reducing or eliminating social programs.

The dominant theory is a free-market version of neoclassical economic theory, associated with names such as Milton Friedman. Neoliberal ideology is marked by glorification of individual choice and markets. It views the state as inherently an enemy of individual freedom and economic efficiency.

As is evident from the above, neo-liberalism is intimately linked to the emergence of globalization. Neoliberal policies of free trade and the repeal of capital controls, as well as the overall "hollowing out" of the national state, fostered the globalization of production, trade, and class relations. Neoliberal policies promoted the elimination of capital controls, and the resulting freedom of movement of capital changed the balance of class forces decisively in capital's favor.

There is another aspect to the relation between globalization and neoliberalism. Protected national markets in the developed capitalist countries were invaded by growing import competition. As a consequence, the support of capital for active state regulation began to lessen. As big corporations found competition threatening their survival, they turned against state regulation and costly social programs (Kotz 2002). Thus, globalization fostered neoliberalism as well as neoliberalism promoted globalization.

Weakened labor

The conflict between capital and labor is usually at the heart of any Marxian analysis, and global neoliberalism is no exception. Global neoliberalism is founded in part on a drastic change in the balance of power between capital and labor. Under global neoliberalism, a shift in production location patterns made possible the development of a new labor control strategy through "spatialization." Taking advantage of improved communication and transportation technologies, capital became much more effective at using the threat of moving production, or the actual moving of production, from one location to another as a means to more effectively control labor. This has become a major means of establishing capital's power to control the wages and working conditions of the working class (Wallace and Brady 2010).

A prominent feature of global neoliberalism is the very noticeable weakening of the trade union movement in most countries. In industrial relations, power has shifted substantially to the employer. In the neoliberal era, many unionized primary sector jobs were transformed into jobs resembling secondary sector jobs under the previous SSA. Pay declined, benefits disappeared, and job security was abandoned. "Labor market flexibility" became a nearly universal slogan and strategy.

New production systems were introduced in the neoliberal era. In place of the mass production technology of the previous SSA, many industries shifted to new systems such as flexible specialization and world class management.

Financialization

Financialization has several dimensions. Its basic significance from a Marxian perspective is the routing of an increasing percentage of the surplus generated in the capitalist economy through financial institutions. This has greatly increased the return to financial capital. This reinforces a tendency to divert investment from the productive sector of the economy to finance. The manufacturing sector has become increasingly dependent on lending for investment and consequently the opinions of the bond markets. Short term performance and quarterly returns have become the measure of success, while top management moves from corporation to corporation, even industry to industry, losing any anchor in the fundamental health of the enterprise (Tabb 2010; Boyer 2010).

This has been facilitated by the neoliberal push for deregulation. In the wake of the financial collapse at the beginning of the Great Depression, banks and other financial institutions were heavily regulated and played a subordinate role in the economy. These limits were progressively eliminated in the global neoliberal era. This allowed banks to expand into new areas of financial activity and increasingly trade on their own account. Financial innovation brought new and exotic instruments to the market. Increasingly, government agencies lost the capacity as well as the will to regulate these activities.

The repeal of capital controls allowed the movement of capital and financial activity in general to cross borders. International trading grew in both volume and speed. Many European countries merged their currencies in the Eurozone. The mobility of transnational financial capital subjected whole countries to the policy control of the international financial markets. Financial crises became increasingly frequent and contagious, but until the latest major financial crash, were confined to those judged deserving of discipline.

Ireland in Global Neoliberal Context

Ireland, as the Celtic Tiger, was lauded as one of the most dramatic success stories of the global neoliberal era. As argued earlier, global neoliberalism is a transnational phenomenon. National social structures are nested within this larger structure. At the same time, there is no necessity for the local structures to directly reflect the characteristics of the transnational SSA. Indeed, one of the advantages of the global neoliberal SSA for capital is the opportunity to fragment the firm's accumulation process, locating each phase of the process in the most favorable area for profitability. This strategy depends, not only on integration into global neoliberal structures, but also on the existence of differences between locations. Consequently, deviations, sometimes substantial, from the overall pattern of neoliberal institutions can be expected. This section will examine Irish social structures in the global neoliberal era. It will find that these structures were overall quite consistent with global neoliberalism but also different in certain important respects. We will employ the same four categories utilized in the description of global neoliberalism above.

Globalization

Irish trade policy has been outwardly oriented since the late 1950s when a nationalistically oriented import substitution policy was abandoned. This orientation was further reinforced when Ireland followed Great Britain into the European Union. Foreign direct investment was actively pursued on a number of fronts. An extended tax holiday on exporting profits was introduced. When this was seen to be discriminatory by the European Union, the low tax regime promoted by neoliberal ideologues supplied an answer. In 1981, a corporate tax rate of 10 percent was introduced on all manufacturing profits whether export or domestically oriented. Subsequent legislation extended this low rate to a larger range of industries. Prominently, in 1984, the 10 percent rate was granted to data processing, computer software companies, and software development services. In the 1990s, most corporation tax rates were harmonized to a low 12.5 percent to avoid charges of discrimination against non-manufacturing industries (MacSharry and White 2001).

In addition, more active intervention by state agencies was oriented to connecting the Irish economy to the global. The Industrial Development Authority (IDA) has a history dating back to the 1960s in promoting foreign direct investment into Ireland. The 1980s saw the addition of a number of governmental efforts aimed at the linking of domestic firms with the transnational economy. These efforts were eventually concentrated in the Enterprise Ireland agency.

The Single European Act, amending the European Economic Community Treaty, came into force in 1987. The objective of the Act was to progressively establish the internal market over a period to 1992. The Single Market is defined as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured…." In 1992, the Maastricht Treaty on European Union implemented economic and monetary union. According to the EU's website this "put the finishing touches to the single market."[6] EU integration was to be further deepened by subsequent treaties and the accession of further countries, mostly from Eastern Europe. Both the Nice and the Lisbon treaties were rejected by Irish voters, but these negative decisions were overturned in subsequent referendums.

Foreign direct investment rose by over 700 percent over the previous year in 1989. It doubled in 1990 and doubled again by 1996 to €2.62 billion. It peaked at nearly €30 billion in 2002. Irish exports took off after 1990, rising from 56.7 percent of GDP and peaking at 100 percent of GDP in 2001 (World Bank development indicators).

Neoliberalism

In a sense the best evidence for the dominance of neoliberalism in Ireland in this period is Ireland's enthusiastic integration into international markets and openness to foreign direct investment as described above.

The Irish government's approach to regulation has been widely characterized as "light-touch." This has been most widely observed in the case of financial regulation. The Irish banking collapse has provoked a retrospective examination of the financial services regulatory regime. This was a light-touch approach which was "principles-based." This meant that the regulator laid down principles rather than rules and the banking institutions themselves decided how to implement these principles. Functions were divided, with the Central Bank evaluating threats to the banking system and the Financial Regulator dealing with individual firms. Central Bank evaluations were frequently ignored by the Regulator, who concentrated on consumer issues rather than prudential matters like capital adequacy or the soundness of loans. This approach persisted to the very end as reported by the *Irish Times* (April 26, 2010): "The banking and financial sectors played a central role in an expert group that was preparing light-touch financial regulation laws for the Government when the banking crisis hit in late 2008."

Former Minister for Finance, Charlie McCreevey summed up the prevailing attitude of the government toward its regulatory responsibilities (quoted in Fintan O'Toole, *Irish Times*, February 17, 2009[7]): "Don't try to protect everyone from every possible accident... And leave industry with the space to breathe and investors with the freedom to learn from their mistakes." He actually boasted of how "Many of us in this room are from the generations that had the luck to grow up before governments got working and lawyers got rich on regulating our lives. We were part of the 'unregulated generation'—the generation that has produced some of the best risk-takers, problem-solvers and inventors." This perspective unites a peculiarly Irish anti-authoritarian populism with an ideological neoliberal approach to regulatory matters.

Another area in which the neoliberal policy agenda has been actively pursued is in regard to privatization. Ireland had inherited a legacy of public corporations from an early history of public developmental projects in the new Irish Republic. These covered a wide range of economic activities from sugar to shipping. These were generally well-functioning (with the spectacular exception of Irish Steel). A privatization drive began in 1991, eliminating government participation in a wide range of markets. The largest privatization was the sale of the public telecommunications company, Eircom, raising substantial funds. This has also been in many ways the least successful privatization, with the company rapidly trading ownership and failing to invest in essential infrastructure. Table 1 details these privatizations.

Table 1 Privatization of Irish state-owned enterprises 1991–2006

Company	*Year*	*Sector*	*Exchequer Proceeds (€m)*	*Method of Sale*
Greencore	IPO in April 1991	Sugar/Food	210.65	IPO and Placements
Irish Life	IPO in July 1991	Insurance	601.93	IPO and Placements
B&I	1992	Shipping	10.80	Trade Sale
Irish Steel	1994	Steel	0	Trade Sale
Eircom	IPO in July 1999	Telecoms	6,399.91	Trade Sale and IPO
ICC Bank	Jan 2001	Banking	322.27	Trade Sale
TSB Bank	April 2001	Banking	408.35	Trade Sale
INPC	May 2001	Energy	20.00	Trade Sale
ACC Bank	December 2001	Banking	154.60	Trade Sale
Aer Lingus	September 2006	Air Transport	200.00	IPO
Total			€8,328.51	

Source: Forfas (2007).

The best evidence of a neoliberal approach to the domestic state lies in the establishment of an overall low tax regime. We have already noted the low level of corporation tax. The Irish tax as a percentage of GDP is, within the EU, at the level of the poorer Eastern European states (see Figure 1). This observation is underlined by the fact that, even at this low level of taxation, a disproportionate share of the tax take relied on various kinds of sales tax generated by the property boom.

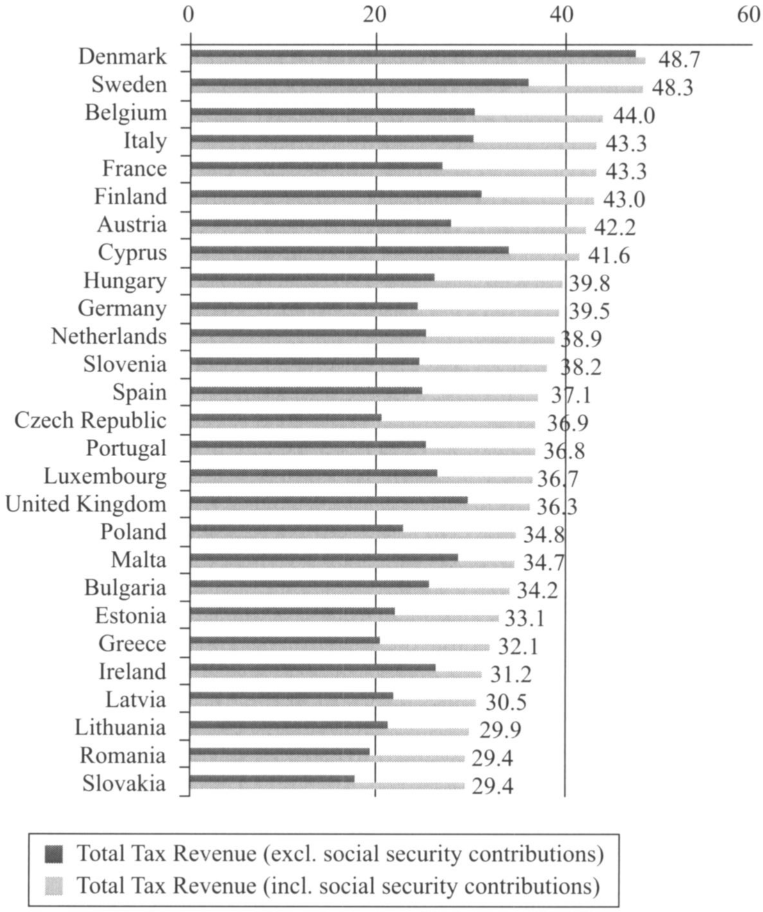


Figure 1 Tax as a percentage of GDP, EU countries, 2007

Source: European Anti-Poverty Network Ireland.

By way of summary, the Tánaiste[8] and leader of the Progressive Democrats, an explicitly neoliberal party in coalition government, famously told a meeting of the American Bar Association in Dublin that: "Geographically we are closer to Berlin than Boston. Spiritually we are probably a lot closer to Boston than Berlin."[9]

Weakened labor

Ireland also follows the general neoliberal pattern of a weakening of labor and the trade union movement. Parallel to the situation in many countries Irish trade union density has declined rather precipitously. It had reached a high of 62 percent in 1980. In 2007, this had fallen by half to 31 percent (Central Statistics Office Ireland—CSO). This is partially explained by the failure to unionize the growing multi-national sector which has imported an American style of industrial relations.

Nevertheless, the larger pattern of Irish industrial relations in the global neoliberal period does not at all resemble the market-driven models espoused in the US and Britain. Instead, the weakness of Irish organized labor found expression in the negotiation of a series of "social partnership" agreements.

The first of these agreements was struck in 1987 at the suggestion of the Irish Congress of Trade Unions. This was at the end of a period of economic stagnation, high unemployment and rising budget deficits. It was titled the Programme for National Recovery and ran over three years. This agreement set an overall pattern which was to persist with modifications through subsequent agreements. At its heart was an agreement to limit wage increases while compensating workers through the reduction of rates of personal taxation. The major partners were the government, trade unions, and employer confederations. The emergence of Reaganism in America and especially Thatcherism in Britain cemented the commitment of Irish unionism to the social partnership process. Five subsequent agreements were reached. Over time participation was granted to an ever larger range of civil society organizations, ultimately even including an "environmental pillar." The scope of policy issues addressed also broadened, including prominently social welfare policy. A number of administrative support structures were put in place to support the process. The process eventually drew criticism in that its increasing scope was displacing the parliamentary political process.

This process was judged successful in light of the economic expansion of the Celtic Tiger period. The results for the union movement, however, were distinctly mixed. As observed above, the institutionalization of the union's role in governing both the economy and the polity did not prevent a marked decline in union density. At the end of this period, only 25 percent of the private sector was organized. On the other hand, while wages were initially restrained, income, including that of social welfare recipients, roughly doubled over the entire period of the Celtic Tiger.

It is important to observe that increases in the standard of living have not prevented the emergence of a sharp increase in overall economic inequality. The doubling of income extended to the higher reaches of the income distribution. While at the beginning of the Celtic Tiger period incomes were bunched around a particular mode, at the end, top incomes had pulled far beyond those at the bottom. Figure 2 shows the change in the income distribution between 1987 and 2005.

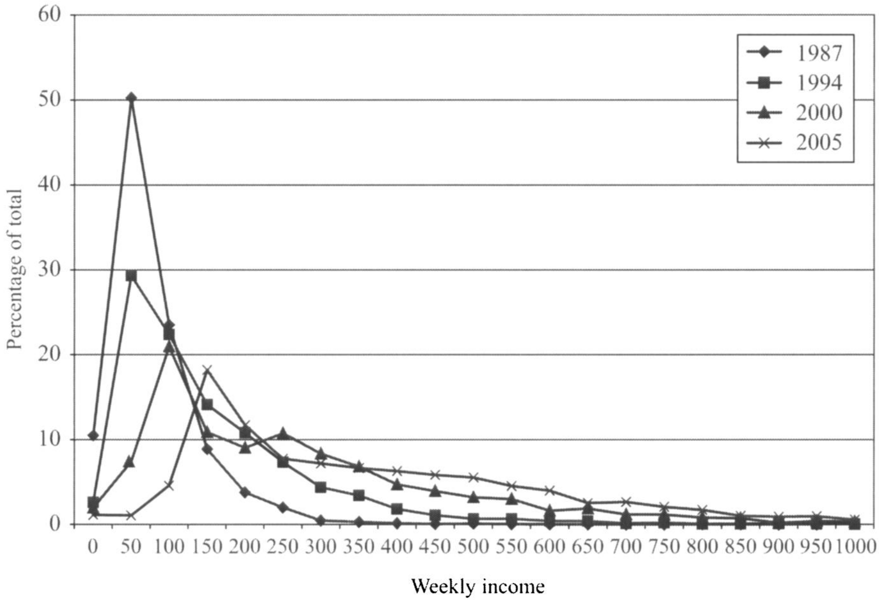


Figure 2 Changes in income distribution, Ireland, 1987–2005

Source: McDonough and Loughrey (2009).

Financialization

Ireland has been an enthusiastic participant in financialization. In 1987, tax relief was given to occupants of the Irish Financial Services Centre (IFSC), a government initiated facility built on 11 acres of derelict ground in the Dublin Docklands. This quickly became an important center for a wide variety of inter- and trans-national financial activity. The light-touch financial regulation discussed above was seen as essential to attracting this kind of financial services inward investment. Domestic financial institutions naturally moved to take advantage of this new ethos.

While the IFSC was doing its part to facilitate international financialization, a particularly Irish counterpart was built up around the coalescing of the interests of Irish developers and Irish banks. Fianna Fáil was the dominant political party during the Celtic Tiger years and had traditionally had a close political and financial interest with builders and property developers, as the fortunes of these businesses were often dependent on the rezoning of land. While the early and middle Celtic Tiger was rooted in multinational direct foreign investment, economic expansion eventually created a bottleneck in housing and commercial property. This dovetailed with a national preference for private home ownership and an exaggerated respect for the rights of private landholders. A property bubble was initiated. Construction became a disproportionate percentage of economic activity and a driver of growth. Construction constituted 29 percent of total value added in 2006 (DKM Economic Consultants 2007).

The growing involvement of the local banks led to a tapping of international capital flows to finance both the development of Irish property and the private purchase of this property once completed. This process massively inflated the property bubble. Growth increasingly depended on construction and private spending increasingly depended on borrowing and inflated home equity. This was the Irish counterpart to the sub-prime bubble in the United States though a relatively small percentage of the loans involved were actually of sub-prime grade. The Irish private sector became highly indebted.

Irish global neoliberalism versus global global neoliberalism

Irish social structures of accumulation generally reflected the overall SSA under global neoliberalism. Ireland was extensively integrated into global circuits of capital accumulation. Ireland became a center for the production of particular commodities, particularly ICT, software, pharmaceuticals, and food. It developed a financial services industry, mimicking on a more respectable level other offshore islands. It exported a substantial portion of its production while a substantial portion of its consumption was imported. Its government pursued a broadly neoliberal domestic policy strategy. The English language facilitated the importation of neoliberal ideology from its larger English speaking neighbor and the United States. Its banking sector was unleashed to participate fully in the international financial markets and build its own Irish version of a financialized economy, even if this consisted primarily of a massive property bubble.

Irish labor suffered declining power, but was able to leverage continuing influence through the creation of the Irish social partnership model. In the case of globalization, neoliberalism and financialization, the Irish institutions were local *versions* of the global. The social partnership model transcended the global neoliberal tendency to marketize the determination of wages and working conditions. In Ireland these questions were addressed in a negotiated forum the results of which were by and large respected by individual employers. Even as their membership rolls declined, union leaders quite literally kept their place at the bargaining table.

The implication of Irish institutions in global neoliberalism meant that the Irish crisis has to be properly regarded as a crisis of global neoliberalism. But this is true in two different senses. The Irish crisis is first a crisis of global neoliberalism because it was initiated through contagion effects and because its dynamics in certain respects parallel the global dynamics. The Irish crisis, however, is not simply the local expression of the global crisis. The Irish crisis is simultaneously the crisis of its own particular capitalist institutions. This simultaneous crisis is, however, the crisis of *Irish* global neoliberalism. The crisis is simultaneously the crisis of global neoliberalism and the crisis of the Irish form of global neoliberalism. The dynamics of one is not strictly reducible to the dynamics of the other. The next section develops these dynamics, both parallel and contrasting.

The Crisis of Global Neoliberalism

There is not space here to present a detailed analysis of the origins of the current crisis. Nevertheless, it is necessary to establish at least an outline in order to be able to draw out the comparisons with the Irish case. We will argue, consistent with the general perspective of SSA theory, that the crisis of global neoliberalism is rooted precisely in the institutional configuration which conditioned the recovery of capitalism from its previous crisis and which underpinned the preceding period of relatively healthy accumulation.

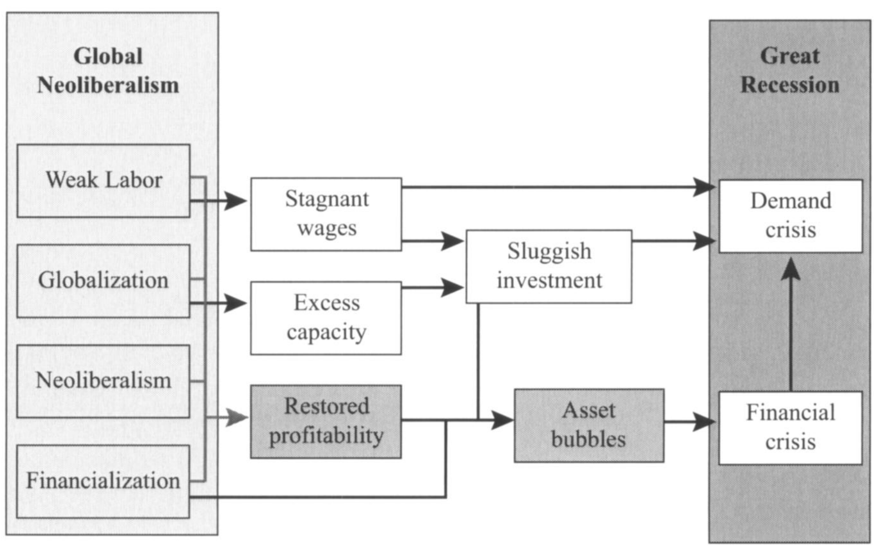


Figure 3 From global neoliberalism to the great recession

The analytical challenge, in Figure 3, is to proceed from the basic structure of global neoliberalism on the left to the inauguration of the current crisis on the right. The SSA which can be characterized as global neoliberalism led to restored profitability. The impact of weakened labor, the globalization of capital, the inauguration of neoliberalism as a set of institutions, a set of policies and an ideology, and financialization all initially contributed to restored profitability. Figure 4 demonstrates the recovery in the profit rate in both the US and Europe.

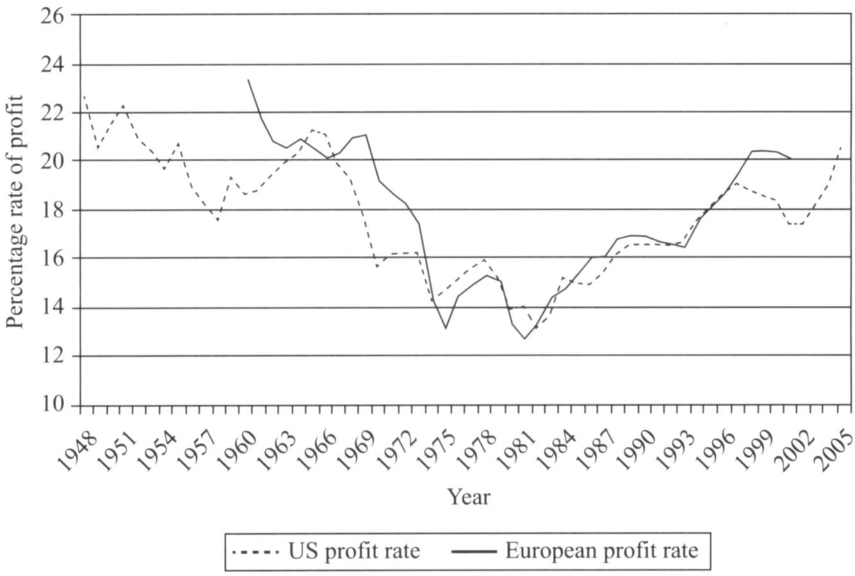


Figure 4 Rate of profit in the US and in three European economies

Note: The "European profit rate" is a combined rate of profit for Germany, France, and the UK.
Source: Kotz and McDonough (2010: 110).

Restored profitability led to a period of stability in the capital accumulation process. At the same time, the global neoliberal SSA immediately began storing up problems which would eventually lead to the breakdown of the SSA and the destabilization of the accumulation process. Weakened labor led to relatively stagnant working class wage levels across the Western World. At the same time, globalization was leading to a renewed era of competition, this time between giant transnational corporations descended from the national oligopolists of the previous era. This led inevitably to the emergence of excess capacity.

The combination of excess capacity and stagnant consumer income in turn led to sluggish investment in real productive capacity. The paucity of attractive investment opportunities coupled with the availability of funds due to the restoration of profitability created a pool of liquid capital seeking an outlet. This pool of funds was sucked into the growing financial sector and fed into a series of asset bubbles of increasing size. These asset bubbles underpinned an expansion of consumer debt which propped up the demand side of the accumulation process. Eventually the bursting of the last of these bubbles would create the current global financial crisis.

The credit crisis quickly fed into a collapse of demand from households, businesses, and ultimately governments. This credit-based collapse in demand brought to the fore the latent demand problems generated by stagnant wages and sluggish investment. At the time of writing we are still living with these consequences.

The Crisis of Irish Global Neoliberalism

In parallel with the larger crisis of global neoliberalism, the Irish crisis finds its origin in the institutions which conditioned the emergence of the Celtic Tiger. These dynamics are traced in Figure 5. The Celtic Tiger was founded on the flow of capital into Ireland as a consequence of the globalizing strategies of increasingly transnational corporations. This capital was facilitated by the adoption of capital-friendly neoliberal policies by the Irish government and the restrained wages and labor peace guaranteed by the social partnership arrangements. Financialization provided one leg of transnational investment and the life support of cheap and abundant credit in the declining Tiger years.

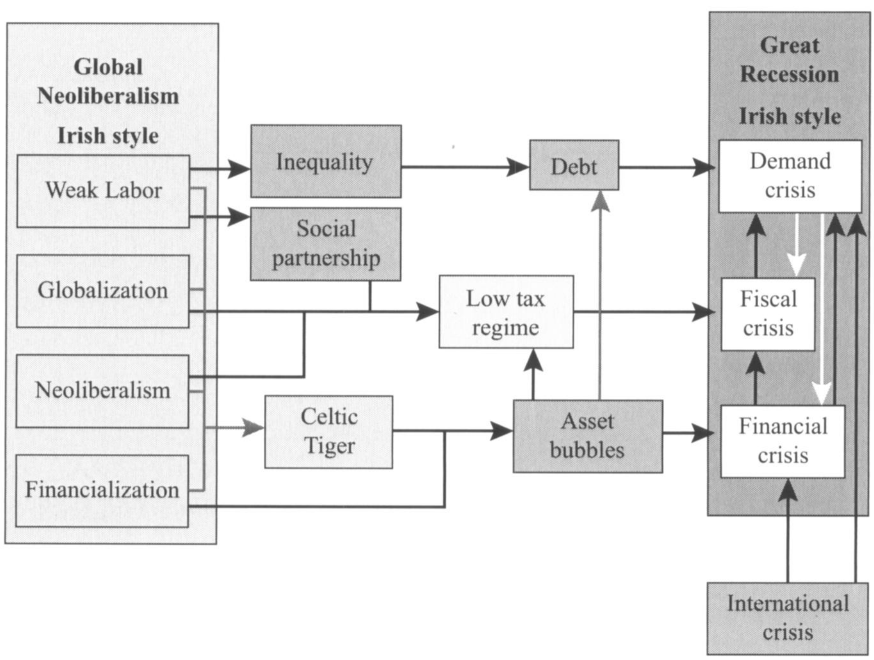


Figure 5 From the Celtic Tiger to the Great Recession, Irish style

The weakening of the social power of labor led to the adoption of the social partnership process. While this shielded Irish organized labor from the worst excesses of Thatcherism, it was unable to prevent the emergence of substantial economic inequality as detailed above. In trading wage moderation for personal tax reductions, the social partnership negotiations contributed to the emergence of Ireland's low tax regime. This low tax regime was encouraged by the scramble for foreign direct investment set in motion by globalization and ideologically underpinned by neoliberalism. The substantial intensification of inequality in Irish society was perhaps not as deleterious as the emergence of stagnant wages in other parts of the capitalist world, but it did contribute to the emergence of increasing indebtedness as those on the lower rungs of the ladder attempted to emulate rapidly rising consumption standards of those above.

The growth set off by the Celtic Tiger along with access to the international financial markets eventually set off a massive housing bubble (see Figure 6). This was facilitated by the political regime as discussed above. The tax revenues generated by this housing bubble contributed to the maintenance of the overall low tax regime. This housing bubble both demanded and facilitated the growth in personal indebtedness in Ireland (see Figure 7).

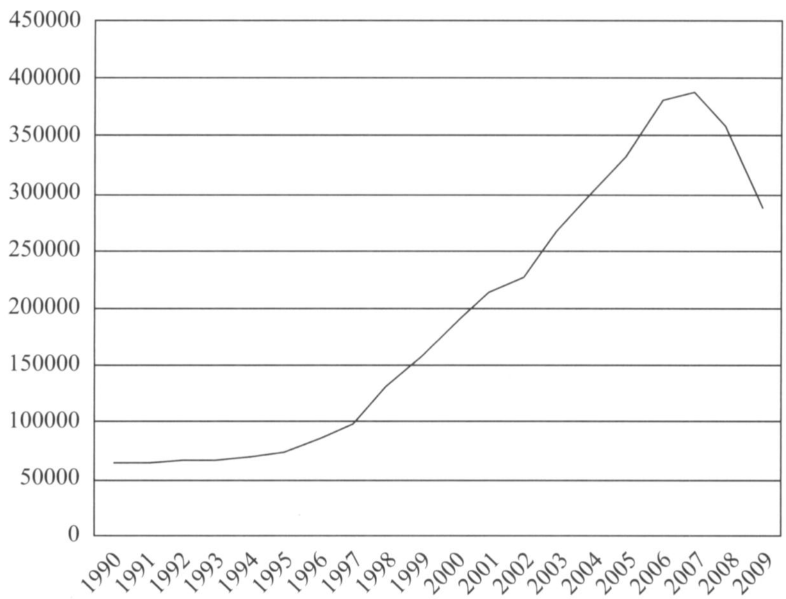


Figure 6 Irish average second hand house prices, 2nd quarter

Source: CSO.

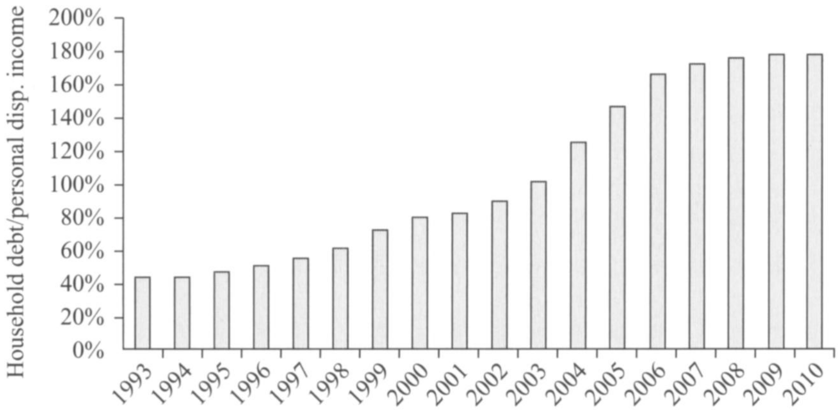


Figure 7 **Household debt as a percentage of disposable income, Ireland, 1993–2010**

Sources: Amárach Research (2009); Central Bank of Ireland; Goodbody estimates.

We are now in a position to identify the institutional sources of the Irish crisis. The Irish crisis is manifest in three closely interlinked aspects, a financial crisis, a fiscal crisis, and a demand crisis.

The Irish housing bubble was a disaster waiting to happen. House prices peaked in 2007 in advance of the international financial crisis. Anxiety created by the international financial crisis, however, greatly accelerated the slide. To date, house prices have fallen roughly 40 percent and are expected to decline further. The construction industry which at its peak accounted for 20 percent of economic activity has come to "a juddering halt," as one Minister put it.

Because of the progressive lowering of tax take from personal income tax due to the pursuit of neoliberal policy priorities and as a condition of the social partnership agreements, Irish taxes had become excessively dependent on income from stamp duties and VAT from the construction sector. The collapse of the housing bubble cut off these sources of funds, at the same time as the rising unemployment from this sector increased social welfare payments. Irish tax revenues to April 2009 fell 24 percent and a further 10 percent to April 2010 (Irish Exchequer returns) and Irish deficits rose from a 3 percent of GDP surplus in 2006 to a deficit of 14 percent in 2009 (EUROSTAT).

The final aspect of the crisis is the emergence of a demand crisis. The effect of the financial crisis on the housing industry has set off a classic Keynesian downward spiral of rising unemployment and falling demand. It has also led to the massive withdrawal of credit across the economy both to businesses and consumers. Credit standards have continued to tighten into the quarter just passed. The fiscal crisis of the Irish state has also seriously impacted overall demand. The government was forced to introduce a supplementary budget in April of 2009 that raised taxes by €1.8 billion and cut spending by €1.5 billion. The budget in 2010 contained a further €4 billion in cuts. Public servants have experienced cuts of up to 15 percent depending on income levels. Consumers, lumbered with debt and fearing unemployment, have added to the crisis. Retail sales fell by 14.1 percent in 2009 (CSO). Unemployment tripled from 4.5 percent in 2007 to 13.4 percent currently (CSO).

Conclusion: The Irish Crash in Comparative Perspective

The international financial crisis impacted Ireland and in some sense triggered the onset of the Irish crisis. Additionally, the Irish crisis shared a number of elements with the international crisis. The Irish property bubble mirrored the international asset bubbles. The upsurge in the indebtedness of Irish households is similar in its effects to the stagnation of working and middle class incomes in the international crisis. Nevertheless, the Irish crash has a number of distinctive characteristics. The Irish property boom had distorted the economy and a disproportionate amount of both economic activity and employment depended on construction. For this reason, the collapse of the property bubble delivered a sudden body blow to the economy.

The existence of the property bubble also encouraged the continuation of the tax cutting strategy pursued within the context of social partnership negotiations. As pointed out above, the social partnership process was a departure from the pattern of global neoliberalism. This dynamic seriously unbalanced the Irish tax structure and intensified the impact of the collapse of the property bubble on the public finances. As argued above, the rising inequality in Irish society contributed to the indebtedness which has deepened the demand crisis. This is, however, a somewhat different matter from the outright stagnation of ordinary consumer incomes in other parts of the global neoliberal order.

Two factors are then responsible for the distinctive character of the Irish global neoliberal crash. The first relates to the character of the Irish *version* of financialization in its channeling of a substantial amount of the available international credit into the property market. This is a variation within the overall pattern of global neoliberal institutions. The second factor involved was an Irish departure from the institutions of global neoliberalism in its development of a social partnership model responsible for negotiated national wage (and taxation) settlements. This social partnership model had contributed to the expansion through wage moderation, but the associated tax concessions weakened the fiscal position of the state in the face of the crisis.

The Irish case has served to concretely illustrate the relationship of local structures to the overall framework of global neoliberalism. Irish economic recovery after the previous crisis was delayed relative to much of the rest of the world, but when it came it was one of the most impressive. Naming the Ireland of the period the Celtic

Tiger deliberately drew parallels to the rapid postwar growth of the so-called Asian tigers. As such the pace of accumulation in Ireland exceeded that in the metropolitan countries of global neoliberalism. Symmetrically, Ireland has experienced a sharper downturn during the "Great Recession" period. Our analysis has shown that the institutional framework in Ireland was both basically neoliberal and participated in the globalization of capitalist relations in this period. At the same time local institutional factors modified the overall neoliberal pattern and were responsible for the locally contingent character of both the expansion and especially the subsequent contraction.

Notes

1. The intent was to compare Irish growth rates to those of the so-called Asian Tiger countries. Growth rates varied over this period from moderate to very high. Nevertheless, they were an improvement on the immediately proceeding and now succeeding performance.
2. For reviews of the SSA framework see Kotz et al. (1994) and McDonough et al. (2010).
3. See Kotz and McDonough (2010).
4. This section draws heavily on Kotz and McDonough (2010).
5. For a theoretical discussion of this issue, see Nardone and McDonough (2010).
6. http://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/treaties_maastricht_en.htm
7. www.irishtimes.com/newspaper/opinion/2009/0217/1224241277965.html
8. The Tánaiste is the Irish Deputy Prime Minister.
9. www.entemp.ie/press/2000/210700.htm, Department of Enterprise, Trade, and Employment website.

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