Development of the Irish Economy

Section D — Ireland Since the 1990s

Vincent Thorne, December 2020

Trade

- Trade and current account balances in the 90s
  - Steady trade surplus increase, reaching 10% of GNP
  - Current account hovering around 2%
- International partners
  - UK’s trade share continues to decline
- Export concentration
  - 10 firms accounted for 30% of all exports

Trade

- Importance of trade in early 2000s
  - Not the driver of growth it used to be, growth now driven by real-estate

Government

- Tallaght Strategy: spending and debt ratios in the 90s
  - Drastically decreased, despite increased capital spending
    - Debt to GNP: from 120% to 40%
    - Spending to GNI*: from 20% to 15%

  → The growth of the economy over is a large contributor in the fall of ratios
- Social partnership
  - Unions negotiating wages, neo-corporatist consensus
- Attracting foreign direct investment (FDI)
  - Low corporate taxes

Government

- Advent of the Euro in 1999 → changing policy toolkit for Ireland
  - No direct control on trade policy (single market)
  - No independent monetary policy (ECB)
- Early 2000s fiscal policy
  - Increased spending, “making up for lost time” political pressure
  - Tax cuts

→ economy “over heating”

Living standards

- Inflation, unemployment and migration in the 1990s and 2000s
  - Low inflation around 2%
  - Steady decrease in unemployment, from 15% to 4%
  - Net migration, population increase, up to 3%

  → Job creation employing all Ireland residents *and* creating enough jobs to attract migrants
- GNI per capita up to 2000
  - Largest increases on record: +40% 1995–2000

International context

- *Washington consensus*
  - End of Soviet Union (“victory” of capitalism), deepening globalization
  - Low inflation, focus on fiscal policy, unemployment and supply-side (production processes)
- ECB policy in late 1990s
  - Pro-cyclical (i.e. stimulating the economy when it’s doing well) policy directed to Germany and France → unsuited for Ireland → economy heating up: price increase, while output stays stable

International context

- Change in international capital markets and financial institutions
  - Financialization, deregulation and technological change
  - Exchange rate risk low with Euro
  - Savings glut in Asia → huge amount of money available on international markets

Housing

- Sale and rental prices in 1990s and early 2000s
  - Both prices increase, sales faster than rental

→ *yield* (also measured as the number of rents to buy property) falls (i.e., more and more rents are necessary to buy your house)

- Early 2000s
  - Growth now driven by real-estate

Recipe for disaster

- Pro-cyclical fiscal policy
- Cheap capital on international markets
- Growth-focused banks, shady financial products
- Increase debt exposure of Irish households

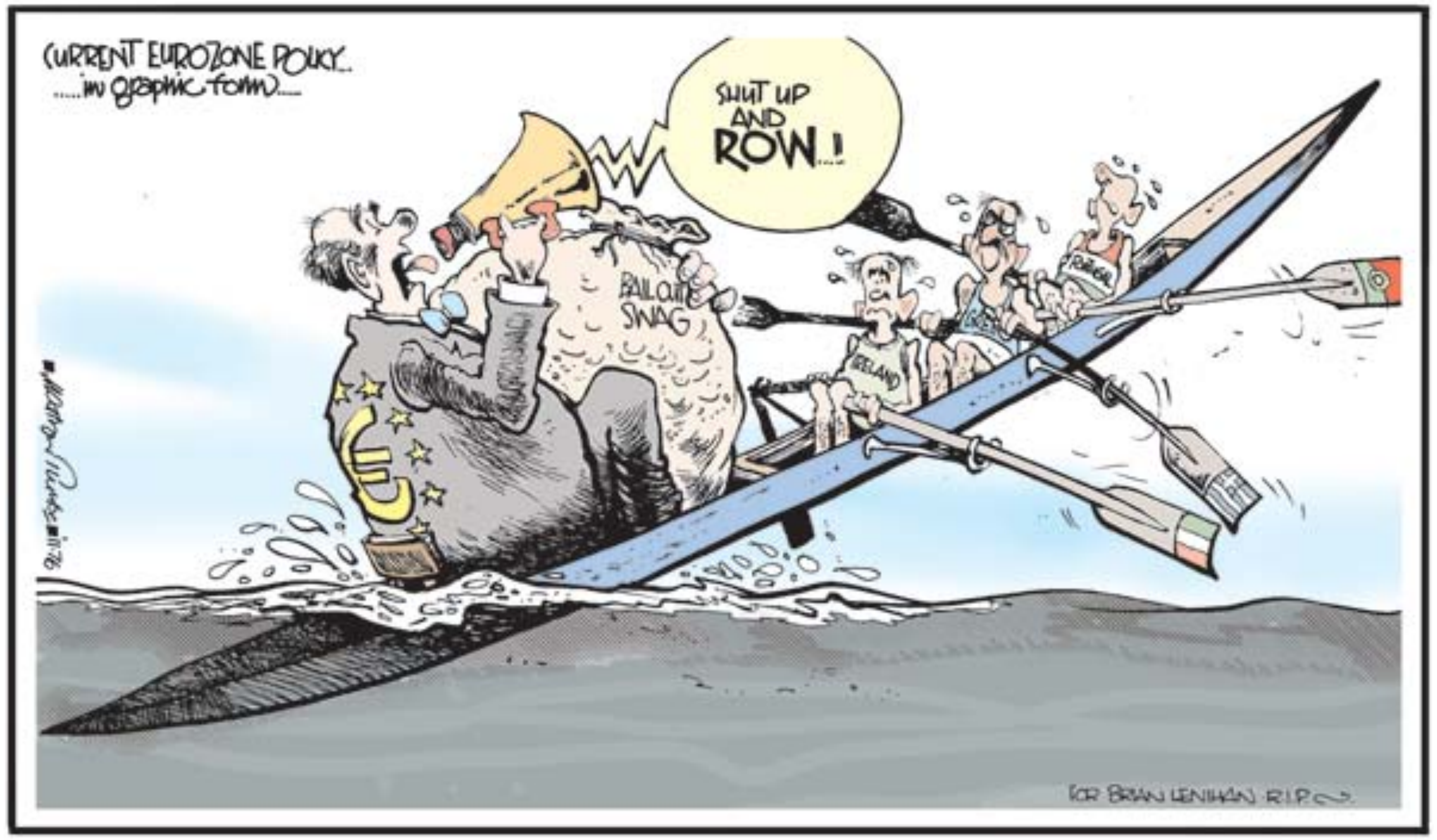
When the housing bubble burst, households couldn't serve their debt, banks stop lending to each other, the economy came to a halt

→ Recession, sharp decrease in living standards, state unable to respond to the crisis

Government

- Revenue before the crisis
  - Reliance on real-estate
- Liquidity crisis
  - Interest rates rose dramatically, while income fell
  - Could not serve the debt, plus tried to guaranty normal functioning of banks

→ IMF intervention, European troika



Government

- Spending after 2015
  - Rise from €16bn to €70bn, €5bn increase in health
- But in relative terms
  - Spending stayed stable as a ratio of GNI*
  - Debt to GNI* ratio decreased to 57% from 120% in 2012

Employment

- Construction sector’s relative employment size after the crisis
  - Fell, in favor of services mostly
  - Public sector doubled since 1999 to reach 25%
- Growing importance of international firms and Dublin
  - 51% of employment growth in government-supported firms (2010–2019)
  - Dublin taking close to 40% of that growth

Living standards

- Inflation since 2012
  - Low
  - Except for housing
    - Back on the rise
    - Because of low supply and continued population growth
- GNI*
  - Steady increase since 2012
  - Also in per capita terms

Taking stock

- Convergence / catch-up story
  - Ireland performing as expected: higher average growth because lower GDP per capita starting level
  - Ireland even over performing in some regards (1990s–2000s)
- Smaller country
  - Greater flexibility
  - Greater importance of trade
  - Importance of specialization → increased exposure to sector-specific shock

Taking stock

- Since independence
  - Shift away from Britain
  - Shift away from agriculture to services

→ Urbanization

- Services as international trade thanks to
  - Information Technology

Meet the data

The Great Recession, financial strain and self-assessed health in Ireland

Gintare Mazeikaite, Cathal O’Donoghue & Denisa M. Sologon — 2019

- Investigates the impact of the 2008 economic crisis...
  - on self-reported measures of poor health from 2008 to 2013
- Find that increased financial strain explains the largest part of increase in poor health measures
- Data
  - European Union Statistics on Income and Living Conditions (EU-SILC)
    - Yearly population representative estimates on self-assessed health, socio-economic conditions

The Great Recession, financial strain and self-assessed health in Ireland

- Sample
  - 17,955 observations for 2008 and 2013 periods
  - Repeated cross-section
- Method
  - Compare measures of poor health and try to explain it by different individual factors
    - Demographic, income, financial strain, environmental factors
  - Find strong correlations between financial strain and poor health measure