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Austerity in the European periphery: the Irish experience

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Abstract: Ireland has come to be seen as an exemplary case of the successful practice of austerity, both economically and politically. But these inferences would be misleading. The real story about fiscal adjustments in Ireland is more problematic, the reasons for recovery are more complex, and the political consequences are a good deal more nuanced. This paper sets the Irish experience alongside that of the other Eurozone periphery countries. It argues that these countries’ recovery prospects depend on the EU economic policy framework, but that Ireland’s connections to non-Eurozone economies also shape its growth prospects. Political stability is problematic in all the periphery countries, with the rise of challenger parties articulating values and priorities that may be difficult to accommodate within the current European policy regime. This is connected to a wider problem of the decay of older political identities and loyalties and the emergence of a new legitimation gap for EU member states.

Keywords: Austerity, fiscal adjustment, Ireland, Eurozone, periphery, recovery, EU economic policy, political stability.


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Introduction

Ireland has come to be seen as an exemplary case of the successful practice of austerity. Its success in exiting its 2010 loan programme, and doing so early, was lauded by the European Commission. Year-on-year GDP growth in 2015 was at the top of the EU league with a remarkable reported rate of 6%; job creation was buoyant; unemployment was below the Eurozone average of 10.5%. Ireland’s experience was in marked contrast with that of the southern European countries with which it had recently been closely linked (Brazys and Hardiman 2015 ). These outcomes have been attributed to thoroughgoing implementation of the austerity measures required by Ireland’s 2010 loan programme, supported by strong continuity in two successive governments’ policy stance. In addition, Ireland’s experience is taken to indicate that sustained pursuit of fiscal retrenchment need not be politically destabilizing or even particularly costly politically. But these inferences would be somewhat misleading. The real story about fiscal adjustments in Ireland is more problematic, the reasons for recovery are more complex, and the political consequences are a good deal more nuanced.

These issues cannot be fully understood without taking account of the wider European context of crisis. Many elements of this story are shared with the other countries in the Eurozone periphery that have been at the epicentre of the crisis, that is, Spain, Portugal, and Greece. The terms of adjustment were harsher in the periphery than they might have been, had a balanced EU-wide macroeconomic policy mix been in place. The severity of the recession varied across the periphery; we see variation both in the impact of austerity measures and in the prospects for recovery. Ireland does indeed show more signs of recovery than the others. But in Ireland as elsewhere, the political consequences of austerity have been far-reaching. Early anxieties that the crisis could pose a systemic threat to democratic government, analogous to that experienced in much of continental Europe during the 1930s, proved unfounded, as the combination of welfare buffers and official-level responses – albeit limited and belated – headed off the recurring risk of the collapse of the Euro itself. But across Europe, the politics of austerity has put representative government under growing pressure.
Austerity in the European periphery

The experience of crisis in the European periphery, including Ireland, cannot be understood independently of the broader political and economic governance of the Eurozone.

Uneven European institutional capacity to respond to the crisis

The institutional framework governing Economic and Monetary Union (EMU) constrained the repertoire of policy responses available to national governments and intensified the experience of austerity (Wolff and Sapir 2015). Simon Wren-Lewis, noting that we should draw a distinction between ‘ordinary’ fiscal consolidation, and fiscal adjustments that are tantamount to ‘austerity’ policies, defines austerity as:

fiscal consolidation that leads to a significant increase in involuntary unemployment, or perhaps more formally but less colloquially as leading to a noticeably more negative output gap

(Wren-Lewis 2015)

So why did Ireland, along with the rest of the European periphery, have to experience higher unemployment and a ‘more negative output gap’ than would have been required by the need to address the fiscal deficit? The story can be traced back to the perverse incentives for the countries of the periphery that followed from European Monetary Union. After 2000, they could avail of interest rates well below their historic averages. Growth potential made them attractive destinations for lending that was unconstrained by any central financial risk assessment. The surge of capital into both public and private sector borrowing contributed to driving inflation upward, yet governments could not raise interest rates to combat this, and were politically constrained in their capacity to control the consequences through fiscal policy alone (Dellepiane and Hardiman 2010). So when the crisis struck in 2008, these economies were very exposed to the risks of a ‘sudden stop’ of financial flows (Merler and Pisani-Ferry 2012; Dellepiane-Avellaneda et al. forthcoming). The collapse of economic activity and
plummeting revenues pushed Ireland and Spain into serious fiscal difficulties, intensified the public spending problems of the Greek state, and stalled the already anaemic economic activity in the Portuguese economy. The fiscal crisis of the Eurozone was a consequence of the collapse of the banking system, and not itself a primary cause of crisis (Baldwin and Giavazzi 2015).

Early responses to the crisis in 2008/9 had involved a coordinated G20-wide fiscal expansion that prevented a slump into depression analogous to the Great Depression. However, the exposure of the true scale of Greece’s fiscal problems in 2009 and the eruption of its sovereign debt crisis in May 2010 brought about a rapid change of course from the European authorities. The ‘unfinished architecture’ of the Eurozone (Schmidt 2010) resulted in slow and protracted series of attempts to generate sufficient consent, institutional capacity, and financial reserves to deal appropriately with the situation. The European authorities struggled to respond adequately to the banking sector crisis and its fallout for governments’ borrowing capabilities. After Greece, Ireland and then Portugal ceased to be able to borrow on international markets, and the permanent European Financial Stability Mechanism was only put in place in October 2012. An EU framework for resolution of failing banks was not agreed until 2014.

At the same time, the widespread yet misleading diagnosis of the Eurozone crisis as one of fiscal irresponsibility generated a new commitment at official level to control fiscal deficit and debt levels more firmly. From the outset, the Euro had been a very lightly governed currency, with no scope for fiscal transfers to member states in response to an asymmetrical shock, no overall lender of last resort to prevent bank system collapse, and (in principle) no possibility of bailout in the event of excessive debt liabilities resulting in a state being cut off from international markets. The intention had been to enforce member states’ conformity to broad targets of inflation, deficit, and debt levels, through active manipulation of fiscal policy at national level. Under the foundational legislation governing the Euro, the Commission was already empowered to initiate Excessive Deficit Procedures. The Fiscal Compact (that is, the Treaty on Stability,
Coordination and Governance in the Economic and Monetary Union) entered into force in January 2013. But by that time, the existential crisis of the Euro had abated – not because of the prospect of stricter fiscal rules, but because of the ECB’s market-calming assurances in July 2012 that it would ‘do whatever it takes’ to protect the Eurozone from collapse (De Grauwe and Ji 2013), followed in due course by a programme of monetary expansion or Quantitative Easing (QE).

This then was the context within which the European authorities became committed to strict enforcement of fiscal rules and strict timetables for deficit reduction. These were, in effect, the only continuous policy instruments in existence within the Eurozone, and this was the policy area in which it proved easiest to introduce stronger central controls. The European authorities were therefore committed to enforcing a rapid reduction in fiscal deficits even in the depths of recessionary conditions, and in the absence of effective policy coordination capable of offsetting the adverse macroeconomic consequences. Once again, the European periphery countries were locked into policy prescriptions set at EU level; notwithstanding the protections against global markets offered by loan agreements, the terms of adjustment were inevitably going to produce hardship for the countries worst affected by the crisis. They could not respond along the lines of past fiscal adjustments, by devaluing their currencies to gain competitive advantage and generate some new growth prospects, and allowing inflation to rise to reduce the real burden of debt. The full force of relative cost adjustment had to be borne through ‘internal devaluation’, that is, in effect, by reducing the living standards within the member states concerned. Pursuing retrenchment proved to be particularly difficult because it was expressed as a ratio, and a shrinking GDP could cause even real gains in fiscal retrenchment to be expressed as deteriorations in the overall deficit targets. Even if some measure of fiscal adjustment were indeed necessary, the absence of counterbalancing growth-promoting policy measures, and the speed with which fiscal retrenchment was required, undoubtedly intensified the experience of austerity (Guajardo et al. 2011; IMF 2012).
Asymmetrical macroeconomic policy mix

The countries that were subject to loan programmes – Greece, Ireland and Portugal, and Spain in respect of its banking sector – were subject to tight monitoring of their compliance with austerity measures. To varying degrees, they were also subject to additional ‘structural adjustment’ requirements, intended to facilitate new growth, in the expectation that supply-side liberalisation and deregulation was all that stood between these countries and renewed growth. These measures were subject to varying levels of implementation because they often proved most destabilizing to those groups, especially in the public sector, who were already adversely affected by austerity. But in any event, there was little evidence to support the expectation of significant growth from reforms such as these in the short or even medium term. And yet there were no other mechanisms in place to generate growth: public investments were constrained by the fiscal constraints these countries were required to observe, and private investments were limited due to the incapacity and unwillingness of banks to engage in new lending.

But not all Eurozone member states were subject to these tight constraints. The ‘core’, northern member states had more fiscal head-room and significantly depressed domestic demand, particularly Germany. If the Eurozone were to be envisaged as a single economic unit, deflation in periphery countries would have warranted inflation levels in Germany and other core economies of well above 2%, in order to produce an aggregate average inflation performance for the Eurozone as a whole of ‘close to but below 2%’, the ECB’s sole target. But German political – and public – opinion was highly resistant to this, and near-deflation persisted in Germany too. German economic performance, ever since reunification in 1990, had been strongly export-led, based on sustained suppression of domestic demand and intensified export orientation. Figure 1 shows the consequences.
This depiction of the harmonised competitiveness index based on unit labour costs shows the relationship between productivity and labour costs within each country relative to its own long-term average, over the period between 1995 and 2012. Wage costs are not the only determinant of competitiveness, of course, and the significant deterioration in the relative performance of the periphery countries after 2000 was driven primarily by the negative interest rates on borrowing that obtained after entry to EMU that were inappropriate to their circumstances, particularly in Ireland and Spain. But what is significant about this graph nonetheless is its reminder that the performance of individual European economies cannot be considered in isolation. Cost repression in Germany meant domestic wages were not rising in response to improved productivity. The surpluses generated, instead of contributing to additional demand across the European economy as a whole, were channelled into savings. These savings fuelled the capital flows that further destabilised the periphery economies.
The very sudden collapse of domestic living standards in the periphery after 2008 was also an unnecessarily painful experience, seen in a wider European context. In an integrated economy, dearth of demand in one region can be offset by its increase in another, facilitated by their common currency. But Figure 2 shows the highly asymmetrical adjustment required of the Eurozone periphery in the absence of increased economic activity in the core.

Figure 2: Asymmetrical macroeconomic adjustment in trade relations

![Graph showing the balance on current transactions with the rest of the world (% GDP)](source: EU Eurostat)

The current account balance in the periphery deteriorated very significantly, firstly in response to the flow of capital from the core to the periphery during the 2000s, and then in the depths of the crisis itself. The change in 2009 reflected the collapse of domestic demand in the periphery, which is apparent from the flat line apparent in the core as a whole, and the positive improvement in Germany's performance, due in part to its greater trade diversification, particularly to China. More generally, indeed, it could be noted that EMU gave Germany an added boost in pursuing its advantages in high-technology, high value-added production, while there were very few incentives or facilities to stimulate the southern
European periphery to break out of its traditional niches of low-end production and a concentration of activity in non-tradable sectors of the economy. The consumption boom and the unproductive housing boom in the periphery during the 2000s, associated with unrestrained lending from the core, had further reinforced these perverse asymmetries.

IMF research showed that the effects of fiscal retrenchment within the Eurozone member states after 2009 had cumulative effects that spread across borders, and that the multiplier effect of austerity was a good deal higher than anticipated in some of the worst-affected cases (IMF 2012). And yet the European Commission’s own new Macroeconomic Scoreboard, intended to track dimensions of potentially destabilizing economic performance that had hitherto attracted little attention, explicitly permitted a bigger maximum current account surplus (+6%, which Germany consistently exceeded since 2012 anyway) relative to the largest permissible deficit (a threshold of -4%).

**Variations in adjustment**

The experience of austerity in the European periphery cannot be understood without understanding its relationship to what was happening in the core. At the same time, there was a good deal of variation in the experiences of austerity across the periphery countries themselves. The economic impact of the measures taken depended on a number of factors including the fiscal starting conditions of each country, the configuration of its welfare provisions, the administrative and implementation capacity of the system, and the recovery capacity of the economy.

The fiscal effort each achieved was considerable. As Figure 3 shows, Greece – the poorest of the four Eurozone periphery countries and the one with the biggest problems of political and administrative capacity – implemented the most far-reaching change in fiscal balance between 2009 and 2012.
The preferred adjustment strategy supported by the official lenders favours spending cuts over tax increases; the revenues of the affected countries had in any case plummeted in the context of recession. Cuts in public spending may be considered more tolerable through the lens of prioritizing deficit reduction and limiting damage to output potential. But there are disproportionate distributional effects on those who depend on public transfers and public services. The social consequences of the austerity measures, implemented in the depths of economic crisis and without direct growth-promoting mechanisms, were severe.

Among the consequences was a sharp increase in unemployment. Figure 4 shows how dramatically this increased after 2008 from relatively low levels during the years of steady growth that preceded the crash.

In Ireland and Spain, some of the increase is attributable to the shock caused by the initial collapse of the construction sector. But prolonged recessionary conditions, the freeze in bank lending despite extensive recapitalisation, and the burden of private debt on households and on non-financial firms alike, resulted in a sustained period of stagnation across most of the periphery. Youth unemployment typically ran at about twice the average rate in the overall economy; in Spain and in Greece, there is little exaggeration in speaking of a ‘lost generation’ of youth with restricted employment prospects, limited access to welfare supports, and few prospects of independent living.

The distributive effects of austerity were variable across countries. In Ireland, the aggregate significance of the measures taken by the Fianna Fáil-Green coalition between 2008 and 2010, then the Fine Gael-Labour coalition from 2011 onwards, is contested. A study conducted in the Economic and Social Research Institute analysed ‘policy-induced income losses’ relative to what a ‘neutral’ budgetary stance would have yielded between 2009 and 2015. It found significant reductions in the income of all households, which were directly

Source: EU Eurostat
attributable to higher taxes and charges and cuts in public services and income transfers. These reductions were net of income losses from other sources such as unemployment, lower wages, and lower incomes from self-employment. The income drop was very similar across most of the income range at about 11%. But it was higher among the band of households with the lowest incomes. It was highest, at over 15%, in the top income group (Keane et al. 2015), in part because of the structure and incidence of taxation in Ireland. Among the lowest income groups, the increase in direct taxes and the introduction of new charges, combined with cuts in services, resulted in an increase in the incidence of deprivation, a measure of income adequacy to meet basic social needs undertaken by the Study of Income and Living Conditions (SILC) and reported by the Central Statistics Office. The categories particularly at risk were the unemployed and one-parent households. Deprivation rates rose from about one-quarter to half for the lowest income decile, and from almost two-fifths to three-fifths between 2008 and 2013 for the second-lowest income decile (Farrell 2015). On an aggregate index of ‘social justice’ including access to health care, education, the labour market, poverty prevention, and social cohesion, Ireland was among the lowest 10 of the EU28 (Schraad-Tischler 2015).

Ireland’s recovery began to become apparent during 2013 and 2014, with an increase in recorded GDP and an expansion in the value of goods and services as a proportion of GDP. This was more than just a feature of the way corporate profits were declared by the FDI sector in order to minimise their tax liabilities, always a problematic feature of Irish economic data because of Ireland’s internationally low corporate tax rates (FitzGerald 2013; Henigan 2014). Unemployment began to fall as more jobs were created. These are the indicators that have led some commentators to believe that the recovery came about as a consequence of austerity policies. This interpretation is fully in line with the European Commission’s own diagnosis of the most effective pathway to recovery in the Eurozone. The conditions for a return to economic growth, it is argued, require cutting wage costs to improve competitiveness, which in turn will stimulate the demand for exported goods and services – that is, a replication of
the German model of export-driven growth through wage and other cost repression.

But the inference that austerity caused recovery is not well grounded in the Irish case – if anything, it could be argued that recovery came about in spite of austerity. It is true, as Figure 1 shows, that Irish competitiveness based on unit labour costs showed some relative improvement during the recession. But the conditions behind this are more complex than the story of a beneficial ‘internal deflation’ might suggest. Firstly, the relative improvement in competitiveness began in 2007, before the implementation of any austerity measures, with the stalling of the housing boom and the end of the long spell of diverting investments into unproductive assets. Aggregate productivity data improved because of rising unemployment in the relatively low-skilled, low-value-added construction sector.

Secondly, a reduction in the wage rate in the private sector is expected to be one of the principal mechanisms behind better export performance, but this did not happen in Ireland. The exporting sector is highly concentrated in the foreign-owned, high-tech sectors that includes production in information and communications technology and in pharmaceuticals, and internationally traded sectors such as software design, insurance, and other financial services. The principal domestic exporting sectors are agriculture and food products. These sectors did not suffer relative losses in cost competitiveness during the boom, neither did they experience pay cuts during the recession (Breathnach 2010; Regan 2015). Employees who experienced pay cuts were mostly in the public sector or in construction, all of them non-traded sectors. Ireland’s long commitment to supporting sizeable FDI investments resulted in the presence in the Irish economy of a leading sector of capital-intensive activities that were relatively insensitive to wage-costs. The rate of investment in Ireland on the part of foreign multinationals increased during the period of recession. But the upturn is mainly attributable to mobile US capital made available by QE, incentivised by the continuities in Irish FDI policy rather than by austerity (Brazys and Regan 2015).
Thirdly, it is true that Ireland’s real effective exchange rate improved in parallel with the implementation of austerity measures, as Figure 5 shows.

Figure 5: Real effective exchange rates

![Real Effective Exchange Rate](image)

Source: Bruegel Dataset

But the most convincing explanation for this does not support the conventional austerity argument that better export performance followed from a combination of private sector wage-cutting and public sector cost-cutting. Rather, Ireland’s export performance is strongly connected to the fate of the British and US economies. The relative weakness of the Euro made Irish exports more competitive without internal price adjustments. Furthermore, while labour costs in the exporting sectors remained stable or increased in Ireland, they increased more rapidly among its trading partners (O’Farrell 2015). Since they had control over their own monetary and fiscal policies, they were not tied into the sluggish performance of the Eurozone economies, so domestic demand in these economies was also more buoyant.
Political effects of austerity

The economic crisis exposed new tensions between the need for unified European-level policy responses, where national economic needs were very diverse. What then were the implications for domestic politics? In the early stages of the crisis, it seemed that national governments would manage the crisis within the existing framework of debate and without major disruption to established party systems. Lindvall, for example, anticipated that the politics of conservatism would assert itself at first, as voters sought to restore stability, and that this would be followed by a resurgence of Social Democracy to tame the markets and reassert distributive priorities (Lindvall 2014). Sure enough, the initial elections held during the crisis resulted in changes of government in which the established opposition party or parties benefited. Those held responsible for implementing unwelcome austerity were punished electorally, whether in a shift from left to right (as in Spain and Portugal) or from centre-right to centre-left (as in Ireland). There seemed to be ‘no general ideological shift in response to the Great Recession’ (Bartels and Bermeo 2014, p.12).

But over the years, established political parties found they were coming under increased pressure. A new kind of politics began to emerge in the European periphery that involved direct mobilisation of disaffected groups, especially young people excluded from the labour market, reflecting a more generalised dissatisfaction with the available policy solutions (Coelho et al. 2016). In Spain, this took the form of the challenger parties Podemos on the left and Ciudadanos on the right, taking issue with the mainstream parties' perceived corruption and inability to offer an alternative to austerity. Neither party was as successful as their activists had hoped, but they created an unprecedented problem for government formation. A further source of fragmentation of the Spanish party system followed from the electoral successes during 2015 of the Catalan independence movement, which had gained new energy from the impact of austerity, and from the resistance of Rajoy's Partido Popular government to the level of regional autonomy required to facilitate change in fiscal priorities. Portugal had no new ‘anti-politics’ challenger party, but the outgoing centre-
right coalition of Social Democrats and Christian Democrats lost its majority in 2015 to a leftward surge in support not just for the mainstream opposition Socialists, but in particular for the smaller, far-left parties that had been excluded from government formation until now. As in Spain, no stable majority government could be formed, and the Socialists had to resort to building ad hoc coalitions to support policy, one issue at a time. The most dramatic collapse of the party system took place in Greece. The challenger party SYRIZA came from the radical left; it benefited from the all-but-complete collapse in 2012 of the mainstream social democratic PASOK and the discrediting of its main rival New Democracy – and from the frustrations of Greek voters with the hardships imposed in turn by PASOK and New Democracy and mandated by the terms of Greece’s loan agreements.

So what were the political consequences of austerity in Ireland in this comparative perspective? In broad terms, the trends in Ireland were very similar to those in the other periphery countries. The party system was undergoing change in the run-up to 2016 elections. The precipitous electoral collapse of Fianna Fáil in 2011, from its former long-held role as dominant party to a mere 17% of the total vote, is analogous to the implosion of PASOK. The other established parties, Fine Gael and Labour, stood together on their record in government, though campaigning separately. New challenger parties on the right (Renua) and on the centre-left (the Social Democrats) challenged their respective neighbour parties with a sharper policy focus. Labour also faced a threat from the dramatic gains in the polls made by Sinn Féin, which was now trying to broaden its niche support that had been based on strong nationalism, with a left-wing challenger party appeal to those who felt most aggrieved at austerity measures. But Sinn Féin also posed a threat to Fianna Fáil’s attempts at electoral recovery, because it tried to cultivate a similar kind of populist, cross-class appeal as Fianna Fáil’s. To this end, Sinn Féin toned down earlier, more radical plans for sharply progressive income tax and wealth tax in its efforts to become a leading player in government formation. So a profile of party system fragmentation and the rise of challenger parties was in evidence in Ireland as elsewhere.
But the Irish electoral system permitted something rather different too, that is, the emergence of a sizeable number of representatives elected on their individual credentials, either representing small leftist parties or organizing into looser alliances of blocs, and accounting for about 25% of voters’ first preferences. The prospects of forming a stable government in the wake of the parliamentary general election scheduled for spring 2016 were likely to depend on the decisions of at least some of these representatives. These fragmented challenger parties and candidates in Ireland mobilised much of their support through campaigns of opposition to the new taxes and charges introduced during the years of austerity. Ireland’s poorly-developed revenue system had long failed to tax important assets such as housing, and payment for services and utilities such as waste collection and domestic water usage had not been clearly linked to levels of consumption. Under the terms of the loan agreement, Ireland was required to broaden its tax base and to raise new revenues from these and other sources. A Universal Social Charge (USC) was also mandated, to rationalise a complex set of rates and bands governing different types of social insurance and other levies. The defenders of the USC noted that it improved the visibility of higher earners to the revenue authorities because it was hard to avoid. But its regressive incidence was widely resented.

Political dissent, in Hirschman’s formulation, can take the form of exit, voice, or loyalty. ‘Voice’ had, to some observers, been lacking in Irish politics – citizens seemed to reserve their dissent for the ballot box rather than taking to the streets as they did elsewhere in continental Europe (Naughton 2015; Pappas and O’Malley 2014). Demonstrations, marches, and direct action organised by ‘challenger’ groups after 2011 did not amount to mass action on a European scale. ‘Exit’ may have contributed to muting open expressions of dissatisfaction, since about 10% of its young population was estimated to have emigrated during the years of austerity. But this is not the whole story. Ireland certainly had grievances aplenty, mobilisers to act on them, and the opportunity to be heard (Kriesi 2014). The trade union movement had organised large-scale and well-supported street demonstrations in the early phases of the crisis, in protest at direct public sector pay cuts, transfer payments, and spending on social services.
To forestall continued clashes, they were willing to enter into negotiations with both of the governments that had held power; the ensuing agreements converted ‘voice’ into a grudging acquiescence, if not actual ‘loyalty’. The later waves of protest, organised by radical left organisations, mostly appealed to those sections of the electorate that did not feel represented by the trade unions – whether because they were unemployed, or because they perceived the unions’ actions and the Labour Party’s concerns to be more beneficial to public sector than to private sector employees.

The political effects of austerity on Irish politics were therefore in many ways quite similar to those seen in the other periphery countries. But there was one striking point of difference. Unlike the rest of the Eurozone, the Irish economy in 2014 and 2015 showed signs of renewed growth. The governing parties hoped that more jobs, more disposable income boosted by tax concessions, and some increased spending, would bring more voters round to supporting them in time for the 2016 elections. Protest vote intentions were strongest during the worst of the recession; an improvement in economic performance took some of the heat from the politics of opposition (Louwerse 2015).

However, the recovery was experienced unevenly. The exporting sector bounced back, and many domestic firms proved quite resilient; but investment, especially in public infrastructure, housing, and services, starved by austerity, remained low. Many people continued to be angry about the terms of bank recapitalisation in 2010 under some duress from the international lenders. Yet bank lending remained highly constrained. The sizeable small and medium enterprise (SME) sector suffered from large debt overhang, and over 1,000 businesses closed during 2015. Ireland's dysfunctional housing market developed many new problems. Very little new building had taken place during the recession, and in a relatively young population, this resulted in unaffordable high rents and pushed ever more people into homelessness. Meanwhile, home-owners with boom-time mortgages were often now on reduced earnings or without work and no-one was offering to bail out private sector debt. Social services were inadequate, health services were in chaos. But the capacity of the fragmented leftists to convert
dissatisfaction into protest, protest into votes, and votes into seats, let alone seats into bargaining capacity in government formation, was as yet untested.

Conclusion

We have noted that Ireland’s experiences of austerity cannot be fully understood without recognizing that Ireland, along with the other periphery states in the Eurozone, is embedded in a broader European economy, and that the economic fortunes of the periphery are not independent of what happens elsewhere. Ireland’s budgetary policy continued to be shaped by newly tightened European fiscal rules, but Ireland began to escape the pervasive stagnation of the southern periphery because its productive activities were more closely integrated into the Anglo-European economy. Nonetheless, its recovery depended on the congruence of favourable conditions whose continuation were beyond the control of national government, such as the appreciation of the dollar and sterling relative to the Euro, low interest rates on still very high sovereign debt and private debt, low oil prices, and stability in the wider international economy, including China.

We have also noted that across Europe, established party systems were coming under pressure in ways that were making existing forms of representative government more difficult. The economic crisis intensified these trends, but they had deeper secular roots in the slow decay of party identification among voters. Established parties were losing support, and the beneficiaries were new, challenger parties avowing a form of anti-politics, offering a new way of organizing, and promising a new set of priorities. Citizens’ trust in established political parties was at a low-point in most European countries, lower even than their trust in their national governments. The reason appears simple – increasingly, voters seemed to believe that it matters little for whom they vote, since the policies of the mainstream parties seemed all too similar. Hence the appeal of parties offering an alternative approach to politics.
The economic crisis may therefore have exposed something more fundamental about European politics, which is that political representation and accountability to voters is increasingly at odds with governments’ responsibilities toward actors outside the national territory: this is Peter Mair’s analysis (Mair 2014, 2013). Governments incur obligations to comply with EU treaties and rules, but the legitimacy of the EU itself depends heavily on good economic performance. If the EU can offer no hope of a better future, Euroscepticism and even far-right nationalism can flourish at the domestic level (Scharpf 2014). Governments are also obliged to anticipate the responses of international financial markets to their policy choices. Together, these constraints mean that no single government has the capacity to adopt a heterodox policy stance (Dellepiane and Hardiman 2012; Dellepiane-Avellaneda and Hardiman 2015). Greece’s attempts to alter the macroeconomic priorities of the EU in mid-2015 failed, and the terms of its new loan agreement were more severe than those which had facilitated the rise to power of SYRIZA in the first place.

Across Europe, the individualisation of voting behaviour as older loyalties eroded, combined with an apparent lack of responsiveness of national parties to voter anxieties about unemployment, stagnating incomes, and debt, contributed to a growing sense that there was little to choose between parties. All of this fed into a wider disenchantment with and cynicism about politics itself. Political organisations that offered a politics of greater responsiveness to popular concerns, whether from the left or the right, began to do well in the polls. The left challenger parties in the periphery were not hostile to the EU or to EMU. But the rise of the extreme right from France to Greece, and the accession to power of the nationalist right in Hungary and Poland, articulated an alternative view of national interests that would put them increasingly at odds with the EU itself. To some, the European democratic project itself was entrapped by the technocratic logic of the market (Offe 2014). It remained to be seen whether European countries, and the EU itself, could ‘get the politics right by enabling citizens greater say over decision-making in ways that serve to rebuild trust while counteracting the rise of the extremes’ (Schmidt 2015, p.112).
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