Economic globalisation

Economics, Macroeconomics

Over the past seventeen years, the Irish economy has transformed from a sleepy, depressed backwater of the European Union to the “ Emerald Tiger" (Inglis, 2008). A considerably lower rate of corporation tax increased Ireland’s attractiveness as a location for foreign direct investment and significantly contributed to the era of prosperity. As a result, the country witnessed rapid economic growth, low unemployment, immigration and fiscal stability. However, it is not unjust to state that current Ireland represents a shadow of its former self. National outrage at government policies has the country in a state of disarray. Therefore, one must pose the question, where did globalised Ireland go wrong? The purpose of this paper is to discuss, in relation to Irish society, the benefits and/or problems associated with economic globalisation. Firstly, it was deemed appropriate to define the term globalisation. Secondly, this paper will analyse the origins of globalisation in Ireland and the corresponding advantages and disadvantages. Finally, within the current economic context it is of relevance to address the trepidation now facing the Irish government due to globalisation. The term globalisation has many definitions. In general, the concept of globalisation is inadequately understood and habitually blamed for avant-garde world ills. For the purposes of this paper, globalisation refers to the “ shrinking" of the world and the increase in world consciousness. It describes changes in society and the world economy. Put simply, it is understood as a situation where the world is becoming a smaller place through developments across various sectors. As a result of globalisation western culture is creeping in more to everyday lives. However, Ireland pre-globalisation was a culture developed over centuries, inherited through socialisation (Inglis, 2008). It would not be unjust to state that a common perception of Irish culture was based on the catholic principles of chastity, humility, piety and self denial coupled with low levels of education and mass emigration. Moreover, it was known as the " Potato Country" where the poverty trap between rich and poor was ever widening. Unfortunately, for many, this remains a reality today. Indeed, Ireland is associated with having one of the highest income inequalities of the OECD (Organisation for Economic Co-operative and Development) countries. As stated previously, throughout the late 1990s and early 2000s the Irish economy grew at an uncontrollable rate. Globalisation had peaked and The Celtic Tiger was born, bringing with it substantial benefits such as low income tax, mass immigration and the highest levels of employment the country has ever witnessed. Of course, these factors brought with it significant other developments contributing to Ireland becoming a globalised nation. Improvements in technology, particularly the increase in internet usage, a considerably more educated work force and an influx of new employment terms such as flexible work practices introduced by multinational companies all assisted in making Ireland a global nation. However, the most noteworthy economic development in globalising Ireland were the social partnership agreements. Such agreements were essentially tradeoffs between the government, trade unions and employers who recognised the economy of the 1980s was in dire straits (O'Sullivan 2010). The agreements were advantageous to both employers and employees. In return for incremental wage increases, employers would benefit from increased production which inevitably led to increased company profit (O'Sullivan 2010). In turn this drastically enhanced public finances and until recently inflation was controlled at a considerably low rate. Such employment conditions, improved government finances in hand with an improvement in standards of living made Ireland an attractive place to seek employment. All of the aforementioned factors attributed to Ireland rapidly becoming the most globalised economy of the European Union and the third most globalised economy in the world- lagging just slightly behind Singapore and China (Kirby 2004). Throughout the Celtic Tiger years, Ireland was one of the world's leading economies. Economists wanted to effectively bottle Ireland's success. One must now consider how such a vulnerable open economy achieved such a prestigious position. As previously discussed globalisation brought many changes to Irish society. An initial look at Ireland prior to the economic crisis would see globalisation as a major contributor to the nation's success. However, in the current economic downturn, it is arduous to identify the benefits of globalisation for Ireland. Primarily, globalisation led to Ireland becoming internationally recognised. A failing economy in the 1980s saw the government introduce drastic measures to assist in reviving it. One such measure was significantly lower corporate tax on company profits when compared to other EU countries. During the years when the economy was thriving, corporation tax was a low as 6%. This reflected favourably on Ireland as they were heavily dependent on FDI to ensure economic development. Ireland's current rate of corporation tax is 12. 5% which is still considerably lower when compared with countries such as Germany and Spain whose rates are as high as 29%. Moreover, Ireland was able to offer attractive tax incentives due to its lack of industrialisation. What previously was preventing Ireland from developing economically suddenly became a benefit as such incentives were not plausible in mature industrialised economies (Murphy 2000). Increased investment as described above is a major benefit of globalisation due to investment stimulating economic growth. It also provides sociological benefits including increased employment opportunities which raise the standard of living, lower unemployment which directly results in improvements in public finances and as previously stated MNCs introduced the work practices operated in their own countries such as flexibility. These benefits reflect favourably on employees due to the intensified competitiveness of firms, competing on the basis of employment terms and opportunities. Stemming from this, globalisation enables the free movement of workers. Globalisation was described at the outset as the shrinking of the world. The result is that all economies, regardless of size depend on other economies to some extent (Leddin 2010). This provides the worker with increased employment choices. Due to this free movement, the workforce has become extensively more educated. Free movement facilitates the sharing of resources, knowledge and allows capital and labour flow effortlessly across countries. A more educated workforce has noteworthy implications for organisations including improvements in productivity. Competition highlights the importance of a flexible, dynamic labour market. Without competition, organisations become complacent within the market in which they operate. In other words, competition encourages firms to strive for the best work practices, to achieve innovation and constantly increase their competitive edge. Therefore, one can argue that without globalisation organisations would become stagnant, complacent giants. Alternative benefits of globalisation include considerable investment in education creating a more knowledge based economy, increased trading opportunities, improved production efficiency, and important developments in communication allowing for mobile working, working from home, video conferencing among other advantages. Recently Ireland has been subject to a significant downturn in economic activity. Many socio-economists regard Ireland as a vulnerable open economy and since the financial crisis it has been said that Ireland has paid the highest price for globalisation and uncontrolled consumer spending. During the boom, Ireland became known as the “ Credit Country". Much of the apparent wealth created as a result of globalisation was in fact due to irresponsible lending and the belief that the property bubble would never burst. Ireland went into rapid economic decline. In 2007, Ireland’s budget deficit was 1. 619 billion euro. By 2008, this deficit had increased twelve fold to 12. 714 billion euro (Saul 2009). This year the deficit is projected to be at least 14. 3% of gross domestic product. In light of this, what are the drawbacks of globalisation for Ireland? As previously stated, Ireland is heavily reliant on foreign direct investment. In 2008 there was a slowing of world economies and the US represents over 50% of Ireland’s FDI. As a direct result of the property bubble, Ireland’s prices started to soar with rapidly increasing inflation. The sluggish world economies resulted in a reduction of investment into Ireland from the US. The beginning of the recession witnessed many US companies operating in Ireland relocate to lower cost countries such as Poland. As a direct consequence, unemployment suddenly escalated. This in turn saw the weakening of demand in the economy as a result of the loss of purchasing power. Ireland also witnessed appreciation of the euro, increasing eurozone interest rates and volatility of Irish house prices (Gahan 2007). Moreover, Gahan (2007) argues Ireland is particularly vulnerable to the latter two threats as a result of growing Irish debt levels. All such drawbacks led to the most significant sociological factor, that of increased emigration. Other difficulties facing Ireland as a direct result of globalisation include remaining tax competitive and opposing tax harmonisation of the EU countries. The ultimate systematic risk of globalisation according to the OECD (2007) is poverty. For Ireland, this is a significant possibility as previously stated Ireland has one of the highest income inequalities in the OECD. It is a common belief that the poor of Ireland did not equally benefit from the rapid growth experienced during the Celtic Tiger. As economies prosper, income inequalities also rise thus globalisation is not an inclusive process (OECD 2007). Moreover, Weber (2007) argues the most significant consequence of globalisation in Ireland is the concern that the Irish poor are becoming increasingly unhappy in their socio-economic situation, as a direct result the possibility of serious crime rises and those suffering from major income inequalities thus may indeed vote the government out of power. In conclusion, globalisation was defined at the outset as the shrinking of the world leading to an increase in world consciousness. A brief outline was provided describing Ireland prior to globalisation where existed an underdeveloped ethnocentric Catholic society with traditions inherited through socialisation. In light of the above discussion, it is possible to infer that globalisation was undeniably a pyrrhic victory for Ireland. Those who wanted to clone the example Ireland was setting have retracted such statements. Although globalisation brought with it many advantages for Ireland including improved living and working conditions, increased investment and contributed to a producing a knowledge based economy, nevertheless, the uncontrollable spending power associated with it and the inadequately managed government finances witnessed as a result of the property boom significantly outweigh the benefits of globalised Ireland. In spite of global recession, Ireland continued with unrealistic spending while other EU countries began tightening their belts. For many, such consequences were unforeseen. Moreover, Ireland has reverted back to a pre-globalised state and has been spiralling backwards in terms of public finances and available credit. From the outlined benefits and consequences one can deduce that indeed the Celtic Tiger did contribute to globalising Ireland. Its contribution was luring Ireland into a state of a false sense of security, where consumers spent on credit, banks lent irresponsibly and the government adopted a back seat in terms of economic, social and financial control. The major concern facing the Irish government is the growing disparity of incomes between the rich and poor. It is plain to see that the globalisation of Ireland did not assist in improving such a disproportionate distribution of wealth. For Ireland to regain such a prominent position, it is imperative the government address such inequalities and redeem themselves as a prime location for MNCs to encourage investment. This in turn will assist in the stimulation of demand in the economy which is a significant requirement the government should be pursuing in order for Ireland to recapture the glory years of the Celtic Tiger. Moreover, the government must ensure significant measures be introduced to thwart such a depression of the economy in future. Indeed, Ireland may have gone from a “ Sleepy Backwater" to a National Model that other countries desperately wished to clone. However, Ireland has since paid the highest price for such outstanding economic growth due to globalisation and the Celtic Tiger. Thus, the quote at the outset proves to hold true. Globalisation did indeed make Ireland more prosperous, however, as a direct result has increased Ireland’s vulnerability in terms of world markets. Hence, the question remains did globalisation come at too high a cost for such a small open economy to carry?