International Political Economy Series
General Editor: Timothy M. Shaw, Professor and Director, Institute of International Relations, The University of the West Indies, Trinidad & Tobago

Titles include:
Andreas Bieler and Adam David Morton (editors)
SOCIAL FORCES IN THE MAKING OF THE NEW EUROPE
The Restructuring of European Social Relations in the Global Political Economy

Ian Bruff
CULTURE AND CONSENSUS IN EUROPEAN VARIETIES OF CAPITALISM
A ‘Common Sense’ Analysis

Steve Chan and A. Cooper Drury (editors)
SANCTIONS AS ECONOMIC STATECRAFT
Theory and Practice

Aldo Chircop, André Gerolymatos and John O. Iatrides
THE AEGEAN SEA AFTER THE COLD WAR
Security and Law of the Sea Issues

Chad Damro
COOPERATING ON COMPETITION IN TRANSATLANTIC ECONOMIC RELATIONS
The Politics of Dispute Prevention

Diane Ethier
ECONOMIC ADJUSTMENT IN NEW DEMOCRACIES
Lessons from Southern Europe

Jeffrey Henderson (editor)
INDUSTRIAL TRANSFORMATION IN EASTERN EUROPE IN THE LIGHT OF THE EAST ASIAN EXPERIENCE

Jacques Hersh and Johannes Dragsbaek Schmidt (editors)
THE AFTERMATH OF ‘REAL EXISTING SOCIALISM’ IN EASTERN EUROPE
Volume 1: Between Western Europe and East Asia

Peadar Kirby
THE CELTIC TIGER IN DISTRESS
Growth with Inequality in Ireland

Peadar Kirby
CELTIC TIGER IN COLLAPSE (Second Edition)
Explaining the Weaknesses of the Irish Model

Anne Lorentzen and Marianne Rostgaard (editors)
THE AFTERMATH OF ‘REAL EXISTING SOCIALISM’ IN EASTERN EUROPE
Volume 2: People and Technology in the Process of Transition
Gary McMahon (editor)
LESSONS IN ECONOMIC POLICY FOR EASTERN EUROPE FROM LATIN AMERICA

Árni Sverrison and Meine Pieter van Dijk (editors)
LOCAL ECONOMIES IN TURMOIL
The Effect of Deregulation and Globalization

International Political Economy Series
(outside North America only)

You can receive future titles in this series as they are published by placing a standing order. Please contact your bookseller or, in case of difficulty, write to us at the address below with your name and address, the title of the series and one of the ISBNs quoted above.

Customer Services Department, Macmillan Distribution Ltd, Houndmills, Basingstoke, Hampshire RG21 6XS, England

Also by Peadar Kirby
POVERTY AMID PLENTY
THE CELTIC TIGER IN DISTRESS
INTRODUCTION TO LATIN AMERICA
VULNERABILITY AND VIOLENCE: The Impact of Globalisation
Celtic Tiger in Collapse

Explaining the Weaknesses of the Irish Model

Second Edition

Peadar Kirby
Professor of International Politics and Public Policy,
University of Limerick, Ireland
I dedicate this book to Kitty O’Shea whose constant love and support since my childhood has helped make my life’s journey possible.
## Contents

*List of Tables* viii  
*List of Boxes* ix  
*Foreword* x  

**Introduction: The Collapse of the Irish Model** 1

**Part I  The Celtic Tiger and Its Aftermath**
1 Before the Tiger 13  
2 Assessing the Boom 31  
3 Best of Times? 50

**Part II  Different Readings of the Celtic Tiger**
4 Dominant Readings 71  
5 Critical Readings 90  
6 Elaborating Theory 108

**Part III  Ireland’s Political Economy**
7 State: Developmental or Competition? 127  
8 Market: Neo-liberalism Irish-style 146  
9 Society: Vulnerability and Control 165

**Part IV  Has the Irish Model a Future?**
10 Options 185

*Notes* 205  
*Bibliography* 208  
*Index* 228
## List of Tables

1.1 Patterns of NIC industrialisation 25  
2.1 Irish economic and employment growth, 1993–2008 33  
2.2 Key changes in economy and society, 1987–2005 33  
2.3 Per capita GDP growth, 2000–6: Ireland in the EU 34  
2.4 Sectoral changes in employment, 2002–6 (000s) 36  
2.5 Irish sectoral employment trends, 2000–8 (000s) 41  
3.1 Evolution of households in consistent poverty, 1994–2001 (percentage in poverty) 51  
3.2 Evolution of relative household poverty, 1994–2001 (percentage in poverty) 51  
3.3 Trends in poverty and inequality, 2000–7 52  
3.4 Households in poverty (60% of median income) by labour force status 1994–2007 52  
3.5 UNDP Human Poverty Index (HPI) for industrialised countries 2007–8 53  
3.6 Wage share of total economy, Ireland and EU12, 1960–2010 (percentage of GDP) 55  
7.1 Total tax as a percentage of GDP/GNP, 1987–2003 132  
7.2 Welfare rates 1994–2005 (as percentage of 60% of median income) 133  
7.3 Effect of state transfers on reducing the risk of poverty, Ireland and EU, 2000 and 2006 133
## List of Boxes

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1</td>
<td>‘Reykjavik-on-Liffey’</td>
<td>3</td>
</tr>
<tr>
<td>1.1</td>
<td>‘Can Costa Rica become Ireland?’</td>
<td>26</td>
</tr>
<tr>
<td>2.1</td>
<td>Ireland’s economic development: Taking the soft option</td>
<td>38</td>
</tr>
<tr>
<td>3.1</td>
<td>Sr Stan on the state turning away from people in need</td>
<td>61</td>
</tr>
<tr>
<td>4.1</td>
<td>The ESRI reading of the Celtic Tiger: Science or ideology?</td>
<td>85</td>
</tr>
<tr>
<td>5.1</td>
<td>Garvin on the causes of Ireland’s underdevelopment</td>
<td>96</td>
</tr>
<tr>
<td>6.1</td>
<td>Begg on Polanyi and the collapse of the Celtic Tiger</td>
<td>119</td>
</tr>
<tr>
<td>7.1</td>
<td>Boyle on ‘Europe’s most anorexic welfare state’</td>
<td>134</td>
</tr>
<tr>
<td>7.2</td>
<td>NESC on the ‘developmental welfare state’</td>
<td>138</td>
</tr>
<tr>
<td>8.1</td>
<td>Fink on Ireland's and Hungary's ‘uneven FDI-led development’</td>
<td>152</td>
</tr>
<tr>
<td>8.2</td>
<td>O'Brien on a ‘fitting epitaph for the Celtic Tiger’</td>
<td>160</td>
</tr>
<tr>
<td>9.1</td>
<td>FitzGerald on ‘pathetic inadequacy’ of public services</td>
<td>167</td>
</tr>
<tr>
<td>9.2</td>
<td>Crowley on ‘diminishing capacity for dissent’</td>
<td>178</td>
</tr>
<tr>
<td>10.1</td>
<td>Ireland’s ‘politics of easy options’</td>
<td>192</td>
</tr>
<tr>
<td>10.2</td>
<td>O’Sullivan on the need for a ‘second republic’</td>
<td>198</td>
</tr>
</tbody>
</table>
There could seldom have been as good a reason for a second edition of a book as there is for this one. Most second editions update texts, incorporating new developments and perhaps honing arguments in the light of the reception of the earlier edition and of ongoing debates on its subject. The change in the title of this edition from that of the first edition, *The Celtic Tiger in Distress*, indicates that this is much more than an updating since the sudden collapse of the Celtic Tiger in 2008 has thrown open in a dramatic way the predominant interpretations of the phenomenon. While discussions for a second edition were already underway before the collapse of 2008 – prompted by the continuing interest of the series editor, Professor Tim Shaw, in the book’s subject – that collapse has not only added an urgency to the need for a new edition but has also served to vindicate the basic theoretical framework that marks the book’s main contribution to social science literature. Suddenly, the benign consensus about the successful nature of the Irish model, both in academic circles and among the general public, has evaporated to be replaced by varying degrees of critical appraisal that were so lacking during the boom years. In many ways, this is virtually a new book, though the essential continuity of its framework of analysis with that of the first edition will be clear to readers of both. However, the period since it was written in 2001 was marked by an avalanche of books on the Celtic Tiger and by lively debates on key aspects of the Irish model, debates to which unfortunately both the media and policymakers paid little or no attention. This new edition therefore is able to draw on these debates substantially to refine its central argument about the nature of the interrelationship between state, market and society in the Irish case that allow for the identification of a recognisable Irish model. While the first edition was widely referenced in works on the Celtic Tiger, my frustration as author was that it became one of the two or three texts that were routinely mentioned as embodying a radical critique, without the central features of that critique being explained or engaged with. I suspect that many who referenced the book had never read it, certainly not with any care nor with a concern to understand and assess its central arguments. I hope that the more critical approach towards analysing the Celtic Tiger that is now underway may lead to such an assessment as a contribution to helping overcome the entrenched features of the Irish political, economic and social structures that the collapse so clearly reveals.

As always, the debts of gratitude mount at a time like this. The first must go to Tim Shaw who has from the beginning taken a great personal interest both in me and in the Irish case. It was a suggestion by him in April 2007
that first got me thinking about the possibility of a second edition and he has strongly supported me in bringing it to fruition, not least in championing the idea with the editorial team at Palgrave Macmillan. From our first contact, Alexandra Webster, associate director and head of social sciences at Palgrave Macmillan, strongly supported the idea and did more than anyone else to ensure that it has happened. It has been a great pleasure to deal with her and with her assistant Renée Takken who ably guided me through the practical tasks that are the necessary accompaniments of a project such as this one. I thank both of them for their support and help. The project was also warmly supported by my colleagues in the Department of Politics and Public Administration at the University of Limerick to where I moved from Dublin City University between the first and second editions. My new department has proven a very fruitful environment in which to discuss, debate and develop the key themes of this book – one where woolly thinking is quickly exposed and where high standards of rigorous analysis and careful use of evidence are upheld. To all my colleagues, most especially to my friends Dr Maura Adshead and Professor Tom Lodge, I want to say a most warm thank you. From his new home in Barcelona, my former PhD supervisor, Professor Fred Halliday, has continued to be an inspiration to me and has been a good friend through his interest in and support for my work. I greatly enjoy our occasional meetings at various points of the northern Mediterranean Spanish coast for Fred has few rivals as a committed and engaged intellectual with a rich questing mind and spirit. As well as being an inspiration, I have come to recognise that he is my role model for all that is good in academic life. As always, my greatest gratitude goes to my life partner, Toni, and our two wonderful and creative daughters, Bríd and Caoimhe, daughters of the Celtic Tiger who will hopefully help fashion a path beyond it to a better society. While I dedicated the first edition to them, my dedication this time is to Kitty O’Shea whose rejoicing in my career, success and life journey remains for me a most wonderful gift. Go raibh fada buan í inár measc.


Peadar Kirby
Limerick
September 2009
Introduction: The Collapse of the Irish Model

The collapse of the ‘Irish Model’

The year 2008 was a year of rude awakening for the citizens of Ireland. After a decade-and-a-half of high economic growth which had seen the country become the envy of many around the world and was looked to by policymakers as a model of successful development in this globalised era, the final months of 2008 brought humiliating collapse. The Irish, who had grown used to glowing praise by foreign leaders and the international media, now had to adjust to the realities of being not only in one of the most severe economic downturns in the European Union but in a depression that was estimated by the prestigious Economic and Social Research Institute (ESRI) would see Ireland’s economy contract by around 14 per cent between 2008 and 2010 which they described as being ‘by historic and international standards ... a truly dramatic development’ (Barrett et al., 2009: 32). European Commission figures showed a decline of 2.3 per cent in Ireland’s GDP in 2008, a forecast decline of nine per cent for 2009 and a further decline of 2.6 per cent in 2010. This put Ireland just behind the three Baltic states for the depth of its economic depression over these three years but Ireland found itself in the worst position in the EU in terms of its budget deficit. After years of running a budget surplus, the country’s public finances dramatically worsened in 2008 with a deficit that reached 7.1 per cent of GDP; the European Commission forecast in spring 2009 that this would reach 15.6 per cent of GDP by 2010, making it impossible to know when Ireland might return to the EU limit of three per cent of GDP. This compared to forecast deficits for 2010 of 13.6 per cent of GDP for Latvia and eight per cent for Lithuania, the two next worst cases in the EU (European Commission, 2009a). The IMF in mid-2009 predicted a GDP decline of about 13.5 per cent for Ireland between 2008 and 2010 with unemployment set to reach 15.5 per cent in 2010. It predicted a return to two per cent growth as late as 2014. It concluded that Ireland ‘was perhaps the most overheated of all advanced economies’ (IMF, 2009: 5) and said the Irish crisis ‘matches
episodes of the most severe economic distress in post–World War II history’ (IMF, 2009: 28).

At home the reality of economic recession hit with a force that shook the economic and political elites to the core. By mid-2009, unemployment had risen to 12 per cent, over double of what it had been a year previously, and the ESRI estimated it would reach 16.8 per cent of the labour force by 2010. The Taoiseach (Prime Minister), Brian Cowen, admitted publicly that living standards were likely to fall by between 10 and 12 per cent over the next few years. Tax revenues fell by €8 billion in 2008 and the government raised only €37 billion in tax, the same as it had raised in 2005. The current budget deficit reached €12 billion in 2008 and was predicted by the government to jump to over €20 billion in 2009. With tax receipts in freefall by early 2009, exceeding the government’s worst-case forecasts in a number of that year’s early months, the government slapped a levy on the salaries of all public service workers in early 2009 reducing annual salaries from three per cent for the lowest paid to just under ten per cent for the highest paid and followed that with further levies on income tax of between two and six per cent in an emergency budget. Even with these measures in place, by mid-year the exchequer deficit had widened to €10.6bn three times what it had been over the same period in 2008. As the *Irish Times* editorialised: ‘The question now is how 2009 living standards can be financed on a 2003 level of tax revenue. The answer is with great difficulty, and only with a high – and unsustainable – level of borrowing’ (*The Irish Times*, 4 June 2009: 17). For many Irish, this seemed a return to the grim days of the past that they had been led to believe were gone forever during the golden years of the Celtic Tiger boom.

During the 1990s, Ireland’s economy grew at an annual average rate of around 7.5 per cent and in some years towards the end of the decade surpassed ten per cent growth. Not only was this more than three times the average of European countries at the time but it made Ireland one of the most economically successful countries in the world, rivalling the growth of China. Unemployment, for long a deep structural problem of the Irish economy, was virtually eliminated and a country used for over 150 years to seeing generation after generation of its young emigrating now had the new experience of becoming a country of immigrants, with Eastern Europeans, Africans, Latin Americans and Asians coming to share in the Irish boom. By the mid-2000s, over ten per cent of the population was made up of immigrants and the Irish became used to hearing Polish spoken in the pubs and on the buses, to being served by Chinese waiters and Latin American waitresses in the restaurants, and seeing shops opened for Middle Easterners, Eastern Europeans, Africans and Asians. For the Irish, this became known as the Celtic Tiger, a term taken from the legendary success of the East Asian Tigers in the 1980s and early 1990s. Political and policy discourse changed completely with attention being focused on our innovative system of
partnership governance, Ireland’s developmental state showing how to ride the waves of globalisation successfully, and its activist social policies that ensured the benefits of the boom were widely shared. The ‘Irish model’ as it became known was seen as a beacon of success for developmental late-comers in central and eastern Europe, in Latin America, in Southern Africa and even among developed states like Canada. Ireland became the poster child of the EU, proudly mentioned as proof of the Union’s policy package. Ireland had become ‘a showpiece of globalisation’ (Smith, 2005: 2).

Box 0.1 ‘Reykjavik-on-Liffey’

In February 2009 the Economist (7 February) magazine made unflattering comparisons between Ireland and Iceland: what is the different between both countries, it asked, and answered: ‘one letter and six months’. The collapse of the Icelandic economy six months previously had forced the country into the arms of the IMF; by early 2009 Ireland’s plight seemed every bit as bad as Iceland’s except for one four-letter word, the euro. It was, in the words of the Economist, Reykjavik on the Liffey.

For a number of commentators, including the former Irish EU Commissioner, Peter Sutherland, the president of the European Central Bank, Jean-Claude Trichet, and the EU Commission president, Jose Manuel Barroso, what kept Ireland afloat was its membership of the euro. The fate of the two countries was also linked by Economics Nobel prize winner, Paul Krugman (see below).

The similarities between the collapse in both countries were striking. It originated in the banking sector which had overextended itself – in the Irish case through loans to property developers, in the Icelandic case through diversifying abroad and drawing in capital by offering high interest rates. When the US subprime crisis began to affect liquidity in the international banking system, both countries’ banks found it difficult to borrow and thereby to cover their liabilities which were growing by the day.

The economic impact of both crises was also similar with GDP predicted to decline by around nine per cent in both in 2009, unemployment in mid-2009 at below nine per cent in Iceland compared to 12 per cent for Ireland and a budget deficit of 14 per cent of GDP in Iceland compared to Ireland’s 12 per cent. The principal difference is that Icelanders were labouring under interest rates of around 15 per cent in an attempt to prop up the krona even though it was no longer being traded openly. Most Icelandic economists do not expect the national currency to ever trade on the open market again and are hoping that Iceland can join the
Celtic Tiger in Collapse eurozone as soon as possible. Meanwhile most Icelanders are holidaying at home as foreign currency is difficult to obtain.

Yet while Iceland is taking the pain, the devaluation of its currency means that its exports are soaring and tourism is booming so that it hopes to return to growth in 2010; meanwhile Ireland, locked into the eurozone with no possibility of devaluation as a means to stimulate exports, was said to be experiencing one of its worst summers on record for tourism in 2009 (Burke-Kennedy, 2009) and facing a long and painful adjustment that could last years.

So what had caused things to change and with such severity? While Ireland’s recession mirrored what was going on in most European states and further afield, the particular causes of the Irish economic crisis were decidedly local in origin as the Irish economy had come to be unsustainably dependent on house-building and private consumption since the dotcom crash of 2001 had undermined the key role the US information technology sector had played in creating the Tiger boom. Despite warnings from some economists and other academics, the feel-good factor generated by the boom made most politicians and much of the public believe the hype that the good years would last forever. Government subsidies fuelled a frenzy of building around the country, and banks lent recklessly to developers to buy land at grossly inflated prices and to customers to buy the houses and apartments built on this land at equally high prices. Being a member of the eurozone meant that interest rates in Ireland remained low which further added to the orgy of borrowing and consumption. Over these years, inflation rose to the highest levels in the eurozone. With state coffers awash with revenues from taxes on goods and services, and on the sale and buying of property, the state reduced income taxes and taxes on capital gains thereby seriously eroding its tax base. As long as high levels of growth continued, government tax receipts held up; as soon as growth declined tax revenues slumped disastrously. As former Taoiseach and professional economist, Garret FitzGerald, has written: ‘The idea that when the boom ended our public and social services could be maintained with such a minuscule level of income tax payments was patently absurd, although clearly many people fell for it – including our economically unsophisticated business community’ (FitzGerald, 2008a: 14).

Economists have made a distinction between the structural deficit in Irish state finances and the cyclical deficit; the first is due to domestic policy decisions while the second is due to the international recession (O’Leary, 2009: 6). While estimates of the size of the structural deficit vary from six per cent to ten per cent of GDP, the Irish government accepted before the April 2009 budget that eight per cent of the estimated 12 per cent of GDP budget deficit was structural (Collins, 2009: 11); this means they accept that two-thirds of the Irish collapse is the result of domestic factors.
If Ireland was studied in the late 1990s and most of the 2000s to learn the lessons of how a small, peripheral country, a relative latecomer to development, could so successfully avail of the benefits of globalisation, its sudden collapse raised a new and more troubling set of questions for many. The economics Nobel prize winner, Paul Krugman, addressed them in an article in *The New York Times* in April 2006. He wrote: ‘How did Ireland get into its current bind? By being just like us, only more so. Like its near-namesake Iceland, Ireland jumped with both feet into the brave new world of unsupervised global markets. ... One part of the Irish economy that became especially free was the banking sector, which used its freedom to finance a monstrous housing bubble. ... And the lesson of Ireland is that you really, really don’t want to put yourself in a position where you have to punish your economy in order to save your banks’ (Krugman, 2009). Yet however new the immediate reasons appear, they derive from more fundamental weaknesses in Ireland’s model of development, weaknesses that were already apparent at the height of the boom. The first edition of this book (Kirby 2002a), written in 2001, was devoted to identifying these weaknesses. It outlined three difficulties with the positive story of Ireland’s success, weaknesses that can now be seen as being central to its collapse.

**Three difficulties**

Ireland’s Celtic Tiger boom generated an extensive academic literature on economic, social, political and cultural aspects (see, for example, Ging et al., 2009; Ó Broin and Kirby, 2009; Bradley and Kennelly, 2008; Adshead et al., 2008; O’Donovan and Glavanis-Grantham, 2008; Kuhling and Keohane, 2007; Allen, 2007; Fahey et al., 2007; Bartley and Kitchen, 2007; O’Sullivan, 2006; Boyle, 2005; Paus, 2005; Smith, 2005; Taylor, 2005; Ó Riain, 2004; Clinch et al., 2002; Kirby 2002a; Allen, 2000; Nolan et al., 2000; Sweeney, 1999). While a very positive reading emphasising Ireland’s achievements and the policy instruments used (see Chapter 2) became dominant in the public debates both at home and abroad (particularly through the media) and fed into a widespread mood of self-congratulation (Mac Sharry and White, 2000), many scholars identified weaknesses in the model to which more serious attention is now being devoted since the economic collapse of 2008. These can be summarised under three headings: firstly, fundamental questions have been raised about the validity of the assertions that the Irish economy was transformed into a high-tech, high-growth economy. Secondly, economic success goes hand in hand with glaring social failures which again pose questions about whether the Irish case was a story of developmental success as distinct from a narrower story of an economic boom. Finally, the assertion that the Celtic Tiger was an example of how economic latecomers could adjust to the challenges of globalisation in a way that maximised the benefits for their society rested on
an inadequate understanding of the nature of globalisation and its impact on national states and societies, the limitations of which are now much more apparent. Each of these difficulties is briefly elaborated upon here and reference made in each case to later chapters where a fuller exposition of the critique is offered. This critique draws attention to the essential point of this book, namely that Ireland’s economic depression owes far more to long-standing structural weaknesses of its economy, society and political system; these weaknesses were camouflaged during the boom but become apparent again amid economic decline.

Economy transformed?
The first difficulty relates to the claims that the Irish economy has been transformed. Briefly, the mainstream case runs as follows: since the late 1980s, Ireland has progressed rapidly towards average European living standards after decades of little or no convergence. This is measured in increased per capita income and a growth in numbers at work, particularly in the most modern industrial sectors (chemicals, and metals and engineering) (Barry et al., 1999: 22–3) and in middle-class employment positions (O’Connell and Russell, 2007). This has been done through an upgrading of Ireland’s industrial structure particularly by means of attracting in a high share of foreign direct investment (FDI) which has ‘affected every corner of the Irish economy’ (Bradley, 2000: 12). ‘Ireland eventually succeeded in attracting sufficient firms in the computer, instrument engineering, pharmaceutical and chemical sectors to merit a description of sector “agglomerations” or “clusters”’ (ibid.: 13). Furthermore, at the height of the Celtic Tiger boom, indigenous Irish industry began to expand (in employment, output and, more erratically, exports) after decades of relative decline under the impact of free trade (O’Sullivan, 2000: 271). Thus, economists were claiming that ‘the Irish economy is truly undergoing something of a renaissance’ and, in belatedly catching up with the rest of its western European neighbours, it has, ‘in a sense, come of age’ (Fitz Gerald, 2000: 27 and 30). The critique of this reading rests fundamentally on two arguments. Firstly, as Bradley acknowledges, the ‘dominance of the Irish manufacturing sector by foreign multinationals ... [is] quite unique by OECD experience’ (Bradley, 2000: 13), leading one leading Irish economist to characterise the Celtic Tiger as ‘the US High Tech Tiger with the Celtic face’ (Murphy, 1998: 3). Thus the question was repeatedly raised as to whether the ‘Irish’ success was not largely a function of the boom in the US economy. As O’Sullivan wrote: ‘The “miracle” part of the Irish economy seems to be driven by a relatively low number of high-technology multinationals (mostly American), while indigenous firms are pedestrian by comparison’ (O’Sullivan, 2006: 76). Data on firms assisted by Ireland’s industrial development agencies supports this conclusion: in 2006 foreign-owned firms employed 153,510 while indigenous firms employed 151,610. However, the value of the output of the Irish firms came to €9.7bn
while that of the foreign-owned sector was €50.6bn or 83.9 per cent of the total output. Furthermore, the foreign-owned firms dominated the following sectors: chemicals and pharmaceuticals, electrical and electronic equipment, software and medical devices (Forfás 2008a). Secondly, through a more detailed empirical examination, Mary O’Sullivan has raised questions not only about the evolution of the microeconomic structure of the Irish industrial economy to more closely resemble a region of the US, but also about the concentration of indigenous success in a small number of firms and sectors (O’Sullivan, 2000: 283). And Michael O’Sullivan has drawn attention to the fact that ‘the public face of Irish business abroad is represented by private airlines, the speculative activities of Irish oligarchs [and] the expansion of Irish property empires’ (O’Sullivan, 2006: 82). This latter point is mirrored by the excessive role that construction began to play in the growth of the Irish economy following the bursting of the dotcom bubble in the US in the early 2000s. The claims made for Irish economic transformation, therefore, seem to rest on insufficient evidence and on a failure to appreciate the vulnerability of Ireland’s increased economic dependence on the US (in terms of FDI and of exports). The nature of Ireland’s Celtic Tiger economy is introduced in Chapter 2 and more fully explained in Chapter 8.

Economic success, social failure?

The second difficulty relates to the social impact of the Celtic Tiger economy. As will be detailed in Chapter 3, there is substantial social scientific evidence to show that Ireland’s economic boom disproportionately benefited new groups of technical professionals and self-employed small business entrepreneurs and that ‘the bulk of Irish society has … acquiesced to [sic] the increasing gap between themselves and the rising professional and business classes’ (Ó Ríain and O’Connell, 2000: 339). Furthermore, across a range of issues – housing and homelessness, public transport and traffic gridlock, declining quality of care and growing inequality of access to health services, a crisis in services for young people in need – there was growing evidence that Ireland’s level of social provision lagged badly behind that of many European countries. As former Taoiseach Garret FitzGerald wrote: ‘Our chaotic health service and our grossly understaffed education system, together with the many serious inadequacies of our social services, reflect very badly upon a political system that has massively maldistributed the huge resources we have created. The harsh truth is we have allowed far too much of our new wealth to be creamed off by a few influential people, at the expense of the public services our people are entitled to’ (FitzGerald, 2008b).

Finally, the Ireland of the Celtic Tiger has also been shown to have ‘diverged from the European pattern of welfare effort’ as the ratio of social security spending to GDP fell markedly in Ireland while it was maintained or increased in most European countries (Ó Ríain and O’Connell, 2000: 331; Kirby, 2008a: 28). However, the mainstream reading of Ireland’s transformation
failed to acknowledge sufficiently this ambiguity at the heart of the Celtic Tiger, preferring to concentrate on aggregate increases in living standards and employment rather than on how these are distributed or how Ireland’s levels of social provision compare with those of its European neighbours.

The Ireland of the Celtic Tiger therefore clearly gave priority to economic growth over social equity and discussion of what development might or should mean was remarkably absent from the mainstream debates at the time. Indeed, as Chapter 4 details, issues of distributional equity were largely ignored by mainstream theorists of the Celtic Tiger while, as Chapter 9 discusses, these have also largely slipped from the Irish state’s policy agenda, with only rhetorical lip service being paid to them. This book argues in Chapters 3 and 6 that such neglect of issues of social and economic equality not only undermines the claims made for developmental success but also undermines the sustainability of economic growth and social cohesion. Chapter 9 introduces the concept of vulnerability, arguing that this best characterises the social impact of the Celtic Tiger model as is shown in its dramatic collapse in late 2008. This vulnerability, of which the multiple inequalities outlined in this book are one cause, undermines the claims made for Ireland as a model for other countries to follow. Overall, then, a central theme of this book is to highlight the social impact of Ireland’s economic growth and, based on the empirical evidence, to map out how the economic boom exacerbated rather than resolved the country’s long-standing problems of poverty and inequality.

**Adjusting to globalisation? The role of the state**

This links closely with the third difficulty with Ireland’s growth model, namely the ways Ireland adjusted to globalisation and the lessons this holds. As the evidence of Ireland’s economic boom grew in the 1990s, it quickly became linked to the emerging topic of globalisation and came to be seen as one of its great success cases. In the widely referenced globalisation index published by the US *Foreign Policy* magazine from 2001 to 2007, Ireland emerged as one of the most globalised countries in the world, coming first place three years in a row (2002–4) and always within the top six (see A.T. Kearney/Foreign Policy, 2007, 2006, 2005, 2004, 2003, 2002, 2001). However, if globalisation had earlier been widely seen as a very positive force from which Ireland benefited, by 2009 attention was being focused on its vulnerabilities amid debates about who was to bear the severe cutbacks being required to maintain some semblance of order in the national finances. It was clear that not only were many more Irish people vulnerable to the fate of the economy but that Ireland itself was experiencing the vulnerabilities that countries in Asia, Africa and Latin America had experienced in the 1990s as they were hit by severe financial and economic collapses.

In seeking to benefit from globalisation, the Irish state played a decisive role in structuring the relationship between state and market. As Krugman
Introduction

put it, the state facilitated the freedoms given to the banking sector, it spurred the housing boom and it put in place a light-touch regulatory system seeking to encourage the market rather than restrain it. To this extent, the Irish case was sometimes seen as being an alternative to neo-liberalism because of the active role played by the state. As Nolan et al. (2000: 1) claimed in their widely referenced book, ‘the Irish growth experience and its distributional consequences is not a simple story of globalisation, forced withdrawal of the state and the promotion of neo-liberalism’. However, this overlooks the agency of the state in promoting the market freedoms that Krugman identified as being the principal cause of the depth and severity of Ireland’s crisis. This, therefore, raises major questions about the nature and role of the Irish state, and the ways it has been reconstituted over the course of the Celtic Tiger boom. These questions are discussed in the chapters on state, market and society in Part III and structure the discussion of the future of the Irish model in Part IV (Chapters 7 to 10).

The three difficulties outlined in this section lie at the heart of the Irish collapse. The reliance on stimulating an unsustainable construction boom to replace the growth model based on FDI and the role of the very lightly regulated banks in facilitating this, was the proximate cause, but the vulnerabilities this has exposed in the capacity and resilience of the Irish state derive from the low-tax regime that was seen as the central policy mechanism for attracting foreign investment. Behind these lie the role of the state and the ways in which it understood the opportunities of globalisation. What has collapsed therefore is Ireland’s dependent low-tax model of state-led development. This book is a contribution to focusing attention on this central and essential issue, as well as opening a discussion on how to construct a new model of development.

Outline

The principal contribution of this book to the social science literature on the Celtic Tiger and, more generally, to the literature on Ireland’s development, is its theoretical approach. It is this, it is argued, which has helped to identify core structural weaknesses of the Irish growth model, offering insights not offered by other theoretical approaches, insights that have been vindicated by subsequent developments. However, before discussing theoretical approaches in the literature on Irish development and specifically on the Celtic Tiger, Part I is devoted to chapters on the pre-Tiger period (Chapter 1), to assessing the boom (Chapter 2) and to interrogating its social impact (Chapter 3). Since a central part of the book’s case is to challenge the adequacy of the theoretical lens through which the Irish case is being interpreted and to outline an alternative theoretical approach, it devotes Part II to examining the ways in which the Celtic Tiger is being understood. Chapter 4 examines mainstream (neoclassical, new growth theory, modernisation
theory) approaches, while Chapter 5 looks at critical explanations (Marxist and dependency theory, and political economy approaches). Chapter 6 devotes its attention to outlining a more adequate theoretical approach, namely the international political economy of development. This provides the theoretical lens for Parts III and IV. Part III maps out the international political economy of Ireland’s development in the 1990s with chapters on state (Chapter 7), on market (Chapter 8) and on society (Chapter 9). Part IV asks if the Irish model has a future. Its one chapter examines the options facing Ireland following the collapse of the Celtic Tiger.
Part I The Celtic Tiger and Its Aftermath
1

Before the Tiger

Irish economic performance has been the least impressive in western Europe, perhaps in all Europe, in the twentieth century.

Professor Joe Lee (1989: 521)

The high-growth phase of Ireland’s development known as the Celtic Tiger is usually dated to the fiscal austerity programme implemented by the minority Fianna Fáil government which took office in March 1987 (for an insider account, see Mac Sharry and White, 2000). However, the nature and extent of economic transformation which followed cannot be fully appreciated unless seen against the backdrop of various phases of Ireland’s development since its independence in 1922. This is the purpose of the present chapter. Chapter 2 will describe the nature of the Celtic Tiger since its emergence in 1987 while Chapter 3 will examine its ambiguous social impacts.

In looking at the history of Ireland’s development, this chapter proceeds in four stages. It begins by highlighting the fact that, unlike most of its near neighbours, Ireland is a Newly Industrialising Country (NIC) bearing marked similarities to the development trajectory of East Asian and Latin American countries. The chapter then traces in more detail various phases of Ireland’s development up to the advent of the Celtic Tiger. It next outlines some distinctive features of Irish industrialisation such as the duality between foreign and domestic sectors, and its employment intensity. The nature and pace of Irish industrialisation is then compared to that of some East Asian and Latin American NICs. Finally, given the concerns of this book with the distributional impact of economic growth, it examines the extent of poverty and social inequality prior to the Celtic Tiger.

Ireland: A newly industrialising country

Irish economic development has followed a path very different to that of the main capitalist economies, either large or small, geographically contiguous
to Ireland, the experiences of which tend to inform mainstream economic theories. The divergence between the Irish experience and that of the rest of western Europe can be dated back to the nineteenth century; the incipient levels of industrialisation in the late eighteenth century did not prosper and, particularly following the Great Famine (1845–49), the economy became more and more dependent on agricultural production and, within that, on pasture. The only exception was the north-east of the island which became an industrial growth pole within the British economy. As this remained part of the UK when the rest of the island became independent, the new state had an economy which approximated to that of a typical ‘Third World’ mono-crop type. Excluding food and drink industries, it ‘was virtually without industries’ (Ó Gráda, 1994: 313).

Conservative economic management for the first decade of the new state’s existence made little attempt to change this situation. Only with a change of government in 1932 was a determined attempt made to foster industrialisation through a policy of import substitution industrialisation (ISI) similar to that followed by some Latin American countries such as Argentina, Brazil, Chile and Mexico (O’Malley, 1992: 32). Following initial successes, this policy ran up against the limitations of the small home market and led to balance of payments difficulties in the 1950s. This resulted in a complete change of economic policy with the liberalisation of the economy and the adoption of an export-oriented industrial strategy from the late 1950s. Foreign investment, with multinational companies setting up plants throughout the state, led to a second wave of industrialisation. On this occasion, however, it was oriented to export markets rather than to domestic needs and the requirements of the multinational sector came to dominate state policy.

This account of the political economy of Irish growth raises questions about the conventional categorisation of Ireland as a developed country. Though an original member of the Organisation for Economic Co-operation and Development (OECD), the group of the world’s most industrialised countries, and classified by the World Bank as a high-income country, Ireland’s distinctive development path distinguishes it from most of the other members of the OECD (with the exception of recent entrants Mexico and South Korea). This is due to its recent industrialisation and to its unique demographic profile which saw the population of the present territory of the Republic of Ireland decline from 6.5 million in 1841 to 2.9 million in 1925. It remained at this level until 1972 and began a marked increase only in the 1990s, from 3.6 million in 1996 to 4.2 million in 2006 (Maddison, 1995: 108, 109; the 1841 figure is taken from Ó Gráda, 1997: 193; the 1996 and 2006 figures are from the Central Statistics Office). This established a social pattern whereby emigration to Britain, the US and other English-speaking countries became a normal means for young Irish people to find work and the levels of emigration increased and decreased in tune with the
fortunes of Ireland’s economy. During periods of acute economic downturn, such as the 1950s and the 1980s, it reached about one per cent of the population in some years while in the boom years of the 1970s and the 1990s to 2000s, it gave way to net immigration. The persistence of emigration has been described as ‘one of the key driving forces in the Irish economy’ allowing rising living standards to go hand in hand with de-industrialisation (O’Rourke, 1995: 420).

If we allow for the fact that, due to emigration, Irish income levels have been higher than they would otherwise have been and accept that it has been a late industrialiser, it can be seen that the Republic of Ireland approximates more to the category of an NIC than to the developed countries of western Europe. Furthermore, the nature of its industrialisation confirms its similarity to many (though not all) of the NICs. For Irish industrialisation has been extremely reliant on foreign direct investment (FDI) with the result that foreign-owned industry controlled 77 per cent of net manufacturing output in 1995 with 52 per cent of that coming from the high-tech sector which employed only 29,406 workers out of a manufacturing labour force of 220,578 workers (Murphy, 1998: 15).

Many scholars have recognised Ireland’s resemblance to countries in what we call the developing world. Four distinctive groups can be identified – those taking a political economy or sociological approach to Irish industrialisation and poverty (O’Malley, Girvin, Jacobson, Ó Riain, Breen et al., and Curtin et al.), scholars working within variants of dependency theory (including world-systems theory) (O’Hearn, Crotty), a scholar working within International Political Economy (Jacobsen) and scholars working within development theory (Mjøset and Kirby). In addition, Barry, a neoclassical economist, has stated: ‘Notwithstanding the fact that Ireland has been regarded internationally as a successful example of the application of the outward-oriented strategy, the dual nature of its economy is very marked, and it might usefully be thought of as a high-income developing country rather than a low-income industrialized country’ (Barry, 1991: 86). O’Malley (1989) draws lessons for Irish industrialisation from the experiences of Japan, South Korea, Taiwan, Singapore and Hong Kong while O’Hearn sees Ireland as an NIC which is ‘an exception to the exceptions’ in following a more laissez-faire approach in comparison with the state-led approach of the East Asian NICs (O’Hearn, 1989). O’Hearn has also detailed the similarities between the Irish and the Singaporean industrialisation strategies (O’Hearn, 1998). Girvin and Jacobsen broaden the comparison though neither does more than mention the countries to which they consider Ireland comparable, with Girvin citing Greece, Brazil and Argentina (Girvin, 1989: 9) and Jacobsen giving a list of NICs which includes, in addition to those mentioned already, Mexico, Spain, Portugal, Yugoslavia and, possibly, Israel (Jacobsen, 1994: 10, note 25). Kirby has drawn some comparisons between the development experiences of Mexico and Ireland in the 1980s and early
1990s (Kirby, 1994). In their study of rural poverty, Curtin et al. (1996: 25) state that, ‘as a whole, the Republic’s development had more in common with the experience of other NICs’. We can conclude, therefore, that Ireland is best categorised as an NIC2 and that comparison with other NICs in East Asia and Latin America can help elucidate Ireland’s development trajectory and prospects.

**Phases of Irish development**

Ireland entered the twentieth century as a largely rural, agricultural society. Since the Great Famine in 1845–48, production patterns had changed as tillage gave way to cattle and sheep (and thus from more intensive to more extensive cultivation). Massive rural depopulation took place, especially among cottiers (tenant farmers) and labourers, while a thorough land reform at the end of the century effectively eliminated the landlord class. The economic legacy of the nineteenth century has been summarised as follows: ‘By the beginning of the twentieth century the population of most rural communities had been reduced and transformed from a teeming mass of impoverished labourers, small cottiers and very small tenant farmers, into a stable, conservative, land-owning peasantry, established on family farms which, for the most part, and by modern standards, are quite small’ (Breen et al., 1990: 185). The economy of the newly independent state was largely dependent on this sector which employed 670,000 in a total labour force of 1.3 million. Furthermore agriculture, food and drink products accounted for 86 per cent of exports in 1924 (Daly, 1992: 15). Three phases can be broadly distinguished up to the 1980s: comparative advantage from 1922 to 1932, protectionism from 1932 to 1959 and liberalisation from 1959 to the present.

**Comparative advantage, 1922–32**

This period, during which power was in the hands of the Cumann na nGaedheal party, was marked by policy continuity based on what was seen as the new state’s comparative advantage, namely the production and export of dairy products, bacon, eggs and beef. The state’s first agriculture minister, Patrick Hogan, emphasised in a memorandum to the cabinet in January 1924 that ‘national development in Ireland for our generation at least is practically synonymous with agricultural development’ (Daly, 1992: 16). Policy was based on the premise that Irish agriculture was retarded by ignorance and lack of capital (Crotty, 1966: 115). Attempts made to improve the quality of both inputs and outputs included establishing a farm advisory service, improving breeding stock, promoting agricultural education and setting up a lending institution for farmers, the Agricultural Credit Corporation (ACC). Coupled with these policies oriented to production, the Land Commission was set up to redistribute farmland more evenly
and more efficiently, though the scope for such redistribution was very limited. Despite being energetically pursued, the results of this policy were disappointing with ‘no significant change in the volume of agricultural output during this decade’ (Crotty, 1966: 115). Or, as Daly evaluated it more sharply: ‘Hogan’s policy entailed an emphasis on cost cutting, education, and quality control. It offered little to those facing emigration or inadequate living standards’ (Daly, 1992: 17). Industrial development was largely neglected. The one major developmental project was the establishment of the state-owned Electricity Supply Board in 1927 and the building of the Ardnacrusha hydroelectric generation plant on the River Shannon to substitute for Ireland’s lack of coal. Overall the period was marked by a failure to recognise the need for the state to take an active role in fostering a more extensive process of socio-economic development. Indeed, as Lee has written, ‘the role of the state was to keep out of the way of private enterprise, and keep taxation as low as possible and therefore, at least in the short term, social services, as meagre as possible. This was to be a competition-based, market-driven economy’ (Lee, 2008: 36).

Developmental nationalism, 1932–59

The coming to power in 1932 of Fianna Fáil (the ‘republican’ party which had been defeated in the civil war) saw a major change in policy on both the economic and social fronts. Representing small farmers and rural labourers as well as the small urban proletariat, Fianna Fáil came to power with a radical policy of using the state to initiate a process of native industrialisation behind high tariff barriers. The energetic Seán Lemass built the Department of Industry and Commerce as a counterweight to the conservative Department of Finance and used it to spearhead ‘a strategy of national industrialisation’ (Girvin, 1989: 97). The Department built strong links with Irish industrialists who, though ‘they did not acquire a veto over policy, they did receive significant rights of access and consultation’ (ibid.: 98). When the financial institutions still showed their reluctance to lend to industrialists despite the government's decision to guarantee such capital, Lemass got approval to establish a state bank, the Industrial Credit Company ‘which played a crucial role in ensuring that a prospective company flotation would be successful’ (ibid.: 102). An extensive regime of protection of these infant industries was quickly established with the average tariff level rising from nine per cent in 1931 to 45 per cent in 1936 and with tariffs on some goods ranging between 50 and 75 per cent. Other non-tariff measures included quotas, import licences and regulations while the Control of Manufactures Acts in 1932 and 1934 sought to ensure that Irish manufacturing stayed in Irish hands. By 1937, Irish tariffs were one-and-a-half times as high as those in the UK, twice as high as those in the US, Japan, Belgium and France but one-third of those in Germany (Kennedy et al., 1988: 43). As Girvin put it: ‘Whereas under Cumann na nGaedheal the state had been passive