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Moving beyond the Legacies of the Celtic Tiger

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Abstract

The Celtic Tiger boom, and now its collapse, has been largely analysed through the lens of neo-classical economics and modernisation theory with much attention being paid to economic issues such as the role of foreign direct investment (FDI) and the need for cost competitiveness, or social issues such as the liberalisation of values and practices, upward social mobility, increased living standards and debates about social polarisation. While these lens offer many valuable and valid insights, they tend to neglect the particular and distinctive structural characteristics of the way the Irish economy and Irish society have developed, and the reasons for these. This paper takes a more structuralist approach, identifying the 'Irish model' that emerged during the boom years, a particular form of structured power. The paper places this 'model' in the wider context of the emergence of financialisation as a driver of a particular kind of global economy. Focusing attention on the role of the financial sector in structuring and driving this so-called 'new economy', allows the Irish boom to be more clearly and accurately identified as one example of national development that was profoundly shaped by the flows, the power and the values of financialisation, though with a particular Irish hue reflecting long-standing features of Irish society such as the role of property speculation and so-called 'developers'. The paper then interrogates the legacies of the boom derived from the multiple restructurings that have transformed Ireland. In the light of these legacies, the paper concludes by offering a reading of possible future scenarios as they can now be identified amid the debates and politics of the post-boom crisis.

By late 2008 there was recognition by Irish policy makers and the general public that the boom years of the Celtic Tiger were well and truly over and that the country was facing what is widely regarded as its most severe economic and social crisis since independence in 1922. The role of this paper is to discuss the legacies of the boom, analysing its key features, placing it in the wider context of the global financial crisis, and mapping out likely future scenarios. Drawing on our different disciplinary backgrounds, but with a common grounding in international development theory, we intend in this way to draw out some of the key lessons to be learnt from the Celtic Tiger boom.

The paper begins by arguing that the boom, and now its collapse, have been largely analysed through the lens of neo-classical economics and modernisation theory.

Therefore much attention is paid to economic issues such as the role of foreign direct investment (FDI) and the need for cost competitiveness, or social issues such as liberalisation of values and practices, upward social mobility, increased living standards and debates about social polarisation. While these lens offer many valuable and valid insights, they tend to neglect the particular and distinctive structural characteristics of the way the Irish economy and Irish society have developed, and the reasons for these.

The approach taken here identifies the ‘Irish model’ that emerged during the boom years, a particular form of structured power which both reflects and shapes the power structures of the Irish economy, the polity, the society and, indeed, the power of dominant ideas. The paper then moves to place this ‘model’ in a wider international context that profoundly shapes it, again something that tends not to be sufficiently probed by the dominant analytical approaches mentioned above. Particular attention is paid to the emergence of financialisation as a driver of a particular kind of global economy which we have tended loosely to label ‘globalisation’. Focusing attention on the role of the financial sector in structuring and driving this so-called ‘new economy’, allows the Irish boom to be more clearly and accurately identified as one national development experience that was profoundly shaped by the flows, the power and the values of financialisation, though with a particular Irish hue reflecting long-standing features of Irish society such as the role of property speculation and so-called ‘developers’. In these ways, the paper intends to map out more fully and analytically the contours of what has led Ireland to the deep crisis in which it now finds itself. This provides the foundation for interrogating the legacies, for these derive from the multiple restructurings that have transformed the Irish economy and society over the past two decades. Drawing on a wide range of social scientific analyses, the paper identifies what it regards as the most significant legacies of the Celtic Tiger for Ireland's longer-term development. In the light of these, it concludes by offering a reading of possible future scenarios as they can now be identified amid the debates and politics of the post-boom crisis.

The 'Irish model'

The 'Irish model' has been recognised more abroad than at home. The remarkable upgrading of sections of the Irish industrial and service economy, as illustrated for example by van Egeraat and Barry (2009), the rise in living standards that places Ireland as having one of the highest per capita gross domestic product (GDP) rates in the world, the turnaround in employment which saw Ireland move from having one of the highest unemployment rates in the EU to one of the lowest, the high and sustained growth rates that placed Ireland more on a par with China and East Asian countries than with its neighbours, and the emergence of Ireland as a significant destination for emigrants from various eastern European and African countries especially, all helped draw worldwide attention to the Celtic Tiger. However, beyond the manifestations of success, what attracted particular attention was that Ireland seemed to be bucking the neo-liberal trend since it was recognised that the state played a key role in the achievement of these successes. The Industrial Development Authorities (IDA's) success in winning high levels of foreign investment, particularly in attracting to establish in Ireland most of the leading companies in certain high-tech industries such as computers, biotechnology, pharmaceuticals and financial services, caused not a little envy. Coupled to that was the role of social partnership which was widely seen as underpinning a broad consensus approach to policy making that laid solid foundations for the success to continue. As the much referenced *Foreign Policy* magazine globalisation index showed Ireland to be one of the most globalised countries in the world (see A.T. Kearney/Foreign Policy, 2007, 2006, 2005, 2004, 2003, 2002, 2001), Ireland's success came to be seen as 'a showcase of globalisation' (Smith, 2005: 2), a model for other latecomers to development in this era of globalisation.

The Irish case was therefore widely seen as an alternative to neo-liberalism. As influential Economic and Social Research Institute (ESRI) scholars, Nolan, O'Connell and Whelan had put it, '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' (2000: 1). Not only did this reading become widely accepted overseas but it was also the dominant one at home. However, due to the dominance of a neo-classical economic outlook with its focus on large flows of investment, exports and profits, and on the modernisation of Irish society, both of these ideas actively propagated through the media (Phelan, 2009) too few critical questions were asked about what exact role the state was playing and in whose interests. It was only with the sudden collapse of the Celtic Tiger that such questions began to be asked. As Nobel Economics prizewinner, Paul Krugman put it in a *New York Times* article that greatly annoyed the Irish government, '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). By late 2009, the unhealthy nexus between senior politicians and state bureaucrats on the one hand and property developers and bankers on the other had at last come to be appreciated more widely and questions began to be asked about what precise role the state was playing: was it restraining and guiding the market in a developmental direction, as had been the widespread reading of the Irish model, or instead was it being captured by national and global market forces. Fears that state attempts to salvage the Irish banking system by setting up a so-called ‘bad bank’, the National Asset Management Agency (NAMA), sparked widespread public opposition in 2009 since it was seen as an attempt by the state to bail out the property developers and bankers that had landed the Irish economy and society in such a mess.

The collapse of the Celtic Tiger shows up the severe limitations of the dominant lens through which it was analysed, both by academics and in public discourse. If the benign reading that was unassailable through the boom years concentrated on economic flows, the more critical reading that quickly emerged with the collapse began at last to concentrate on power, not just formal political power but the strength of elite vested interests that to a great extent managed to capture that power for their own interests. This focus on the structures of power in the Irish political economy is necessary if one of the major legacies of the period is to be identified and its lessons learnt. Only in this way can the true nature of the Irish model as a power structure be uncovered and its economic and social consequences identified. A number of key features of this Irish model can be readily identified.

Key features of the Irish model

The first and perhaps most important is the highly dependent nature of the productive economy. What distinguishes the Irish economy from other so-called developed economies is its extreme dependence on multinational capital. Over 25 years after the landmark report on Irish industrial strategy, the Telesis report of 1982, recommended that the state move away from such heavy reliance on multinational investment, the Irish economy finds itself even more dependent for its growth, output and exports on such investment. Indeed, Grimes and Collins (2009) show even the state's belated strategy of investing in research and development (R&D) capacity is heavily influenced by the needs of multinational capital. As Dan O'Brien of the Economist Intellegence Unit has stated: 'The imperative of attracting and keeping foreign firms has soaked deep into every nook and cranny of the apparatus of the state in a way not to be observed elsewhere' (quoted in Collins, 2007: 118). The full significance of this dependence is only captured by the approach being followed here, namely through a focus on power structures rather than just on economic flows. For what we have at the heart of the Irish model is the entrenched power of foreign capital and this limits severely the room for manoeuvre of domestic policy makers. Nowhere is this better illustrated than by the state's (and indeed the public's) acceptance as unquestionable that taxes on corporate profits must remain low, even amid the severe fiscal crisis of 2009 as the Irish state desperately required to raise additional revenue from whatever source to try to bridge a burgeoning budget deficit. It is simply outside the pale of reasonable political discourse, or 'common sense', to ask why ordinary wage earners should be asked to carry the burden of hefty new taxes imposed as a crisis response to the fiscal crisis of the Celtic Tiger's collapse even as some of the world's most powerful multinational companies continue to make lavish profits in Ireland, way beyond what they can make elsewhere. As Gottheil has written, the profit rates as a percent of sales of US multinational operating in Ireland have been ‘scarcely short of awesome’ (Gottheil, 2003: 731). The failure of the Irish state and private sector to generate strong export-oriented, high-tech sectors in the domestic economy raises major questions about development policy, the culture and capacity of the private sector and, indeed, about the goals of the state itself that are far too little asked. Even the much vaunted software sector, that seemed in the late 1990s to mark a breakthrough in this regard, has proved in hindsight to be a disappointment, with most of the successful firms being bought out by multinationals.

The developmental consequences of this heavy dependence are best seen in the second key feature of the Irish model, namely its reliance on low-taxes since it is seen as a key mechanism to attract foreign investment. Not only is the overall burden of taxation low in Ireland but the structure of the tax base was changed during the Celtic Tiger boom in such as way as to increase the vulnerability of the state’s finances. The overall composition of the tax system was changed over the course of the boom, with reductions in taxes on capital gains and a low tax on corporate profits while the state relied significantly more than other EU countries on taxes on goods and services (Value Added Tax), widely regarded as hitting the poor most severely. As was stated by O’Toole and Cahill a little before the Celtic Tiger collapse, the structure of this taxation system ‘leaves the Irish economy particularly vulnerable to an economic shock’ (O’Toole and Cahill, 2006: 207), which is precisely what happened in 2008-09. Furthermore, as a tradeoff for wage moderation, income taxes were reduced at the height of the boom, further eroding the state’s tax base. Former Taoiseach (prime minister), Garret FitzGerald, has written scathingly of these consequences: ‘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). This commitment to low taxes is deeply entrenched in the psyche not just of state officials and many politicians but also of the Irish voter, too used to inefficient public services and the evident waste of public monies. It was revealing that among the instructions given to the Commission on Taxation when established in early 2008 was that it keep the overall burden of taxation low and not increase the tax rate on corporate profits. But the consequences of this commitment to a low-tax regime is on the spending side, particularly spending on welfare. The Irish welfare state has been described as 'a pay-related welfare state' the expansion of which 'was accomplished in such a manner as to leave privilege essentially undisturbed' (O'Connell and Rottman, 1992: 206) as middle class citizens benefit from state spending on pensions, education or health care while supplementing this through their own private spending. In Boyle's telling phrase, the Irish welfare state ended the Celtic Tiger period as 'Europe's most anorexic welfare state' opting always for low-cost and short-term solutions to complex social problems (Boyle, 2005: 115). The results of this feature of the model were well summed up by FitzGerald: '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: 16). Therefore, a particularly perverse legacy of the Celtic Tiger boom is the failure to improve public services and the high levels of relative poverty and inequality that persist.

Nature of the Irish state

These features of the model allow a re-examination of the active role played by the Irish state. For, far from being a progressive state moulding market forces for developmental ends, the activism of the Irish state has been used to make the development of Irish society all the more dependent on providing the conditions for global corporations to make very large profits in Ireland. This has led some analysts to argue that the Irish state is an exemplar of the 'competition state' which prioritises the needs of global competitiveness over those of the welfare of society (Kirby and Murphy, 2008) rather than being, as others have argued, a new form of 'developmental network state' (Ó Riain, 2004). One important example is the culture of weak regulation which, in Collins's words, 'is rather more informed by economic theory than democratic principles or electoral considerations' (Collins, 2007: 131), implementing light-touch regulation that essentially trusted the market to operate for the good of society rather than for its own good. The deep crisis of the Irish banking system which rashly lent to property developers at the height of the boom is one consequence of this 'regulation-lite'.

A central feature of the Irish model of state has been the role of social partnership as a principle of policy making. This has been seen by some analysts as being similar to the concertative policy-making of progressive social democratic states; however, closer examination casts doubt on this and highlights how social partnership has functioned to create a cosy consensus within policy making circles and co-opted elements such as the trade unions and community and voluntary sector (NGOs working with marginalised and disadvantaged groups) which had the potential to take a more critical stance on the Irish model. Taylor finds that ‘almost perversely, these institutionalised forms of intermediation appear to have become a vehicle for imposing a neo-liberal political agenda’ (Taylor, 2005: 14), while Roche and Cradden conclude that ‘social partnership in Ireland since 1987 can best be understood in terms of the theory of competitive corporatism’ (Roche and Cradden, 2003: 87), namely the enhancement of national competitiveness and the flexibilisation of the conditions for labour. Yet, once given a seat at the policy-making table, trade union and NGO representatives found themselves locked into a tight embrace by the state. Most, though privately critical of how little the process offered them, saw the balance of advantage as lying in staying in rather than getting out as their members benefited modestly from the distribution of the largesse of the economic boom. However, as Ó Broin has concluded, the cost is that ‘the state has engaged in a process of bureaucratising potential vehicles for dissent’ (Ó Broin, 2009: 123), thereby severely weakening the bases for any serious challenge to the Irish model or laying the foundations for an alternative.

With the sudden collapse of the Celtic Tiger, the model that had seemed so successful while the boom lasted was exposed as being a major contributor to the severity of the Irish crisis and as posing obstacles to economic and social recovery. The high levels of dependence on foreign investment at a time of intense international competition for such investment, the weak capacity of the Irish state to develop its own productive resources in a more sustainable way and its culture of regulation-lite, the undermining of state capacity and social investment caused by the low and vulnerable tax base, the co-optation of the trade union and community and voluntary sectors into social partnership, all contributed to the failure to restrain the exuberance of the market and to the severely restricted options now faced by the Irish state and society. In comparing the Irish and Danish models, Sørensen drew attention to the fact that 'the Danish model has been developed and strengthened by having to cope with several major challenges, including two world wars and the economic crisis of the 1930s' whereas 'the successful Irish model has not faced a real critical challenge so far; it's been all smooth sailing in sunshine and tailwinds' (Sørensen, 2007: 8). As difficulties did emerge in 2008, they immediately exposed these weaknesses of the Irish model, most evidently in the severe budget deficit that opened up virtually overnight and that has constrained the Irish state from introducing the sort of stimulus measures that formed a core part of the recovery plans in other countries. At the time of writing it remains to be seen how successful the Irish state will be in rescuing its banking sector and in laying the foundations for a more sustainable model of development to emerge; what is obvious is that one of the perverse legacies of the Celtic Tiger boom is a model that constrains rather than aids recovery.

The Contradictions of Neoliberal Globalisation: Financialisation and Property Prices

As noted above Ireland's political economy was inserted into the ongoing process of globalisation from the 1980s to the 2000s in distinctive ways. However, in order to understand the nature, depth and extent of the current crisis of economy and politics in Ireland and how they are manifest socially in increasing unemployment and deprivation it is also important to understand the constitutive features of neoliberal globalisation more generally and how these shaped the evolution of both the Irish economic boom and the subsequent dramatic contraction.

Amongst the developed countries Ireland's economic contraction is one of the most severe. Estimates vary as to the precise scale of economic contraction during 2009, but go as high as double digits. The Economic and Social Research Institute (ESRI) estimated Ireland's economy would 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 9 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 with the European Commission forecasting in spring 2009 that this would reach 15.6 per cent of GDP by 2010 well above those even of the Baltic states (European Commission, 2009). The International Monetary Fund (IMF) in mid 2009 predicted a GDP decline of about 13.5 per cent for Ireland between 2008 and 2010 and said the Irish crisis 'matches episodes of the most severe economic distress in post-World War II history' (IMF, 2009: 28). The depth of the Irish collapse therefore mirrors the heights of the Irish boom when GNP growth during 1995-2000 averaged over 8 per cent per annum.

The speed and severity of the economic contraction is a reflection of the broader contradictions of globalisation and how these become spatially embedded. The globalised capitalist economy is a technologically dynamic system that has generated massive increases in gross world product since the end of the Second World War in particular. This is in part an outcome of what economists term Say's law: supply creating its own demand. As new factories and other units of economic production come into being the wages of workers, and profits for capital provide a source of demand for the products of other firms and industries. However, this potentially virtuous cycle of economic growth is disrupted through the spatially constituted and expressed contradiction between the forces and the relations of production. As more mobile forms of productive capital seek out cheaper labour – the well known phenomenon of off-shoring – they potentially undercut the purchasing power of the global working class and create an underconsumptionist dynamic in the global economy. As most workers in China, now the 'workshop of the world', cannot afford to buy many of the products they produce, primarily for export, demand patterns are unstable. In most foreign owned factories in the Pearl River Delta in 2004 the minimum was US $54 a month in 2004, and companies often deducted the costs of food and accommodation from this (Breslin, 2009). Lack of domestic demand is also exacerbated by the policies of the Chinese Communist Party in forcing very high levels of savings over 40 per cent of GDP. If the expansion of productive capacity is limited by the constraints of global market size, this presents a problem as to where the newly created capital can be profitably invested. This in turn has led to capital moving into globalised financial circuits in search of valorisation, or profitability[2].

David Harvey (2003) has described this phenomenon as one of over-accumulation: that is an excess of capital relative to the productive outlets in which it might be invested. Consequently there is a need to seek out other avenues of valorisation, or ways of increasing the value of investments, through currency speculation and other forms of financial engineering. Over-accumulation also manifests itself through asset price appreciations or bubbles as excess capital flows into stock and property markets.

[2] The other partial 'solution' has, until recently, been debt-fuelled consumption in the rich world, particularly the United States.

This inflow of capital pushes prices higher encouraging further investment and 'artificially' inflating prices. However, these ultimately become unsustainable and just as all investors want to be in on a rising market, they rush for the exits once asset values start to substantially decline (see Taylor, 1988 for a discussion).

According to Kallis *et al.* (2009: 15) 'at the roots of the crisis is the growing disjuncture between the real economy of production and the paper economy of finance'. However, the financial circuits of globalised capital accumulation are only partially autonomised from the real economy, as the production of exchange value is still ultimately dependent on work being undertaken to produce use values. Money is a claim on the production of goods and services produced in a country or currency area and therefore linked to expectations about productivity growth for example (Cohen, 2000). This link between finance and production cannot be fully broken despite the creation of additional fictitious commodities (Polanyi, 1944), such as mortgage-backed securities, which were the initial vehicle for the crisis to break in the United States. Speculation does not create use value, it merely reallocates gains and losses through the redistribution of social surplus.

This is the broader economic context in which the global property boom of late 1990s and early 2000s materialised. Capital which could not be invested in expanded productive capacity given the limitations on market size and demand found outlets in other areas, particularly stock market and property price appreciations. From 1997-2004 housing prices in Ireland increased on the order of 160 per cent: an astonishing increase, although outstripped by South Africa where they increased 200 per cent (Bond 2006). According to the Economist the world housing boom represented the ‘biggest bubble in history’ (cited in Bond, 2006) and Ireland participated in the inflation of this bubble at a disproportionate rate. At the height of the boom Irish house prices were rising at a unbelievable 30 per cent a year.

It was thought that that the ‘new’ global economy based on high technology and financial trading could defy the laws of economics and avoid a hard landing. US house prices had not gone down since the Great Depression and perhaps the Irish economy could replicate this experience? The well-known macro-economist Robert Gordon referred to the ‘goldilocks economy’ in the US which was not too hot or too cold (Gordon, 2004), but it was forgotten that Goldilocks was a fairytale.

The Irish Policy Regime and Property Prices

The precise contours of the housing bubble were also shaped by the domestic Irish policy regime. As is well known Ireland’s erstwhile economic success up until the 2000s was built on the attraction of inward foreign direct investment, particularly of US-based transnational corporations in the high-tech and pharmaceutical sectors. Ireland received inflows of foreign direct investment of US$140 billion from 1995-2004 (Finfacts Team, 2005). This was only slightly less than Mexico with a population roughly thirty times larger. Unbelievably in 2003 Ireland attracted almost the same level of inward foreign direct investment as the United States. The sustainability of these flows should always have been open to question, given their scale and their likely macro-economic impacts. According to the United Nations Conference on Trade and Development the stock of foreign investment in Ireland peaked in 2003, and subsequently went into decline (UNCTAD, 2008).

As economic convergence was achieved with mainland Europe, some of the cost advantages which attracted these companies to establish were eroded, though not totally supplanted, as evidenced by continuing high rates of profit, depending on sector. Also the nature and geography of input linkages is important in determining the level of embeddedness (see Brennan and Breathnach, 2009). However, new sources of growth had to be found to underwrite the domestic social compact whereby most social groups experienced rising incomes at the cost of dramatic increases in inequality. The formula of tax cuts in exchange for wage restraint had run its course as the growth dynamic became introverted, however. This was a central economic, social and spatio-temporal contradiction of the Celtic Tiger economy. As Van Egeraat and Barry note (2009) dependence on foreign investment means that a large portion of the value created in the economy is not captured in Ireland.

As Ireland's cost-base increased and the shift towards domestic driven growth was encouraged by reckless tax cuts, Ireland's external position suffered. Ireland's trade surplus fell from €38 billion to €26 billion from 2002 to 2006 and 2007 (CSO, 2009). However multinational companies continued to extract profits at an increasing rate, with net factor income on the current account showing a deficit of €27 billion in 2007 versus €23 billion in 2002 (CSO, 2009). This gave Ireland the 171st worst performance on the current account out of 190 countries in the CIA World Factbook (CIA, 2009); the worst being the United States which also experienced its own debt-fuelled housing boom. The resulting gap had to be plugged by inflows of capital (loans) on the capital account of the balance of payments. The consumption and property booms were thus two sides of the private sector debt-fuelled expansion of the economy from 2002. However, these were inherently unsustainable as the productive basis of the economy was undermined by rising cost levels, including the affordability crisis in the housing sector.

The Irish boom was sustained beyond its ‘natural’ life span of catch-up growth by imports of capital and labour, particularly from Eastern Europe. However this growth was not autocentric in the sense of there being a sustainable propulsive dynamic in the domestic economy. Rather it was still characterised by dependence (O'Hearn, 2001), but, in this phase of the growth cycle, not so much on productive inward investment, but on inflows of financial capital, much of it from Germany (McWilliams, 2006), which inflated the domestic property bubble, with attendant over-reliance on taxes from the sale of property. The limits of the Laffer curve had been well and truly breached[3].

While taxes from property revenue buoyed the public finances in the 2000s, the contradiction between the low-tax model and the need for sustainable sources of revenue to finance government expenditure was hidden, but would become dramatically evident once the current recession hit. While domestic policy mistakes undoubtedly contributed to the housing bubble in Ireland, another way to look at it is that it was the outcome of the particular foreign direct investment-dependent model pursued by successive Irish governments. The very success of this model in attracting foreign investment laid the basis for particularly severe economic contraction as it generated asset price appreciations that were unsustainable, particularly in the context of the global financial crisis.

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[3] Laffer is credited with beginning the so-called supply side revolution in economics by drawing a graph on a napkin in a restaurant purporting to show that by cutting taxes and thereby reducing the ‘dead weight’ cost to the economy, the overall tax-take could be increased as economic growth yielded higher tax revenues.

Tiger's Claw: Social Inequality as a Constitutive Feature of Neoliberal Globalisation

As discussed then cycles of boom and bust are constitutive features of a globalised capitalist economy and the largely unregulated neoliberal economy exacerbates this tendency by allowing capital to flow unrestricted across borders in response to short-term demand patterns rather than underlying economic 'fundamentals', such as debt sustainability ratios.

As noted earlier off-shoring and 'free' trade put pressure on the wages of unskilled workers in the developed world, in tradable sectors in particular. The stagnation of wages in the United States over the last three decades has changed consumption patterns and given rise to growth of discount retailers such as Wal-Mart, which has annual sales in excess of the size of the entire economy of Sub-Saharan Africa (Stiglitz, 2006). However, as roughly three quarters of economic activity in the United States is based on internal consumption, interest rates cuts and associated house price increases served to enable continued mass consumption. As house prices appreciated, consumers could remortgage their houses to release (fictitious) equity to further fuel the consumption boom. As the Nobel Laureate Joseph Stiglitz (2009: 7) asks: 'Why did Greenspan [the Chairman of the US Federal Reserve] create a bubble? … In the absence of lax monetary policy, there would have been insufficient aggregate demand in the United States and in the world.'

In the Irish case the entry of Ireland into the European Economic and Monetary Union locked in low interest rates more suited to relatively depressed economic conditions in Europe's largest economy Germany, but were pro-cyclical in a booming Irish context, adding further fuel to the flames. These macroeconomic conditions served temporarily to disguise the deep-seated problems of growing inequality and associated and co-constituted over-accumulation.

The mobility of capital and highly-skilled labour under conditions of economic globalisation increase the structural power of capital to influence domestic policy regimes (Gill, 2003) and further add to the combined and uneven growth dynamic of the global capitalist economy. Booming centres of capital accumulation attract inflows of both capital and labour, to the detriment of other parts of the global economy. The phenomenon of Indian software programmers working in Silicon Valley is well known, but a site visit to Intel's plant in Leixslip, Co. Kildare reveals the same cosmopolitan mix of high-skilled workers from around the world.

As Saskia Sassen (2001) has shown, the defining sectors of the global informational economy – financial services and high-tech industry – create both high and low-skilled jobs such as janitors and canteen workers. In the initial phases of the Celtic Tiger, Ireland's economic growth was based on these two most globalised sectors. One of the poster-children for the Celtic Tiger growth model was the International Financial Services Centre based in Dublin's docklands, where financial capital only paid corporation tax of 10 per cent up until 2003 (MacSharry and White, 2000). These companies were avoiding paying higher tax in their home countries and taking advantage of Ireland's favourable tax regime, meaning Ireland constituted in some ways an off-shore tax haven, even if it did not conform to the international definition of what constitutes a tax haven. The distributive implications of this tax policy need to be noted, although in the Irish case the domestic consequences of this were not as severe since many capital owners were overseas shareholders. However, growing inequality at both national and international levels was a constitutive feature of this highly mobile economy. Its very favourable conditions for capital, therefore, made of Ireland a 'courtesan state' (Mittleman, 2000) with high levels of inequality an essential element of the Irish growth experience.

Esping-Anderson (1999) in his seminal work on welfare regimes includes Ireland in the minimalist or residual Anglo-Saxon category, where welfare and social service provision is not a universal public good, but targeted at the socially excluded. This is certainly the approach that has been pursued in line with the 'low-tax, enterprise-economy' approach that has been pursued by successive governments since the mid-1980s. This achieved remarkable success in terms of the reduction of unemployment and 'economic inclusion' but at the cost of social inclusion, as partly expressed through the property boom. Social inclusion and exclusion are dialectically related. Greater social inclusion, however defined, may generate deeper exclusion for some groups who remain marginalised as their experience deviates further from societal norms. For example, those who are illiterate are more deeply marginalised when the literacy rate is 90 per cent rather than 50 per cent. The Celtic Tiger was also associated with new forms of exclusion in Irish society (see both Howley and Conlon, 2009).

Ireland's Structural Position Under Globalisation

As stated above Ireland's role as a poster-child of neoliberal globalisation was based on its rapid economic growth based on attracting inwards flows of capital and then labour once full or near full employment had been reached. However, such were the scale of inflows that the domestic economy's overheating was even more severe than the global overheating and the subsequent meltdown has been worse. The previous dot.com bust of 2001 had also led to a shakeout in the indigenous Irish software industry in particular and encouraged a reliance on speculative economic activity to fuel economic growth. While it is now widely acknowledged that domestic political decisions helped fuel this speculative bubble with disastrous consequences for the banking system and for Irish society more widely, what is little acknowledged is that this speculative activity was intimately connected to the dynamics of global flows and the structural nature of the global economy into which Ireland so enthusiastically integrated itself. Neither the scale of Ireland's boom nor the depth of its collapse would have been possible in an earlier era, as both were based on inherent features of neo-liberal globalisation – vast amounts of capital sloshing around the world with few controls or conditions attached, and speculative activity emerging through which this capital appeared to be able to grow itself without limits. The inevitable crash has been all the more painful for those countries that were seduced by its seemingly painless road to riches, if not quite to a balanced social development.

The other side of this coin of seemingly painless growth is the fuelling of inequality. It is little surprise that Ireland displays one of the highest levels of income inequality in the developed world (Smeeding and Nolan, 2004) which the gap between its levels of income and its levels of social development also distinguish it. According to the United Nations Development Programme (UNDP) Ireland had the fourth highest per capita income in the world, yet it ranks 26th in life expectancy, bringing up the bottom of the Organisation for Economic Cooperation and Development rankings (United Nations Development Programme, 2008). Because of its exceptionally high per capita income, Ireland had gained ground on the composite Human Development Index, in which it had previously underperformed. However, with relatively poor life expectancy and cutbacks in educational and health care provision associated with the recession, Ireland's position is likely to fall considerably on this index. It may be that the recession will have a positive effect on income inequality as it reduces the wealth of the capital holders, yet the gaps between economic and social development will remain a marked feature of the Irish case.

Ireland's economic success was built on the sharing of sovereignty and the blurring of the distinction between the internal and external. The Single European Act meant that Ireland's 'internal' market was the EU, whereas it still retained the ability to set its own, low, corporation tax to attract inward investment (see Carmody 2003 for a fuller discussion). Ireland then occupies an anomalous space in the global political economy: displaying both highly developed forces of production and an acute on-going dependence on inflows of foreign capital. This has resulted in a structural gap between an economy with high-tech dynamic features and a society that benefits far too little from this through low levels of social investment to help counteract the deep inequalities that the particular mode of insertion into the global economy has generated. Kirby (2002) called this 'economic success with social failure'. Furthermore, the foundations of the economic model itself were built on shifting sand as the country's very success in attracting these inflows laid the basis for the subsequent scale of the economic bust which was to follow, both reflecting the global financial and economic crisis, but also Ireland's very dependent position within the global order.

Legacies and future scenarios

As outlined above, the economic collapse in 2008-09 has allowed a fuller appreciation of the ambiguities of today's neoliberal and speculative globalisation and how Ireland has integrated itself in a very naïve and dependent way into the intense flows of capital, exports and, to a lesser extent labour, that it generated. The principal legacy, largely unthinkable as recently as late 2007, are a collapse in property prices that has dragged down the whole banking system forcing the state to put it on a life-support system. Paradoxically, as evidenced by continuing buoyant exports from key sectors of the economy dominated by multinational companies, particularly the pharmaceutical sector, the Irish crisis is much more home grown than is the case among most other industrialised countries. While this has been recognised by Irish economists, what is less recognised are the structural features that this reveals. For essentially it shows a disconnect between the engines of 'growth' of the economy, essentially in the hands of multinationals which continue to make good profits in Ireland even as the national economy enters into severe crisis. Therefore, the structural dualism between the booming foreign-owned sectors of the Irish economy and the much weaker domestically owned sectors has been deepened over the course of the Celtic Tiger boom, with the fate of the Irish economy more than ever in the hands of the foreign-owned sector. This is one key structural legacy of the boom years, which further constrains the room for manoeuvre of policy makers as they seek to lay the foundations for economic recovery.

Comment [PK1]: Why put 'growth' in inverted commas?

Perhaps the principal constraint imposed by this (path) dependence has already been alluded to in the commitment of political and business leaders to Ireland's low-tax model. Not only is this undermining the capacity of the Irish state to undertake the levels of economic and social investment that could help generate a sustainable recovery, but it means that the many social deficits accumulated over the course of the boom, and exacerbated by the economic collapse, will be left fester with minimal attention from the state. It is to be expected therefore that the already creaking health and education systems as well as the many inadequate social services, particularly for the most needy and vulnerable, will grow worse over the coming years with inestimable consequences for the health and cohesion of Irish society. A second legacy of the boom therefore is that Ireland's ability to move into a more high-tax road to development is even more limited than before due to the extreme dependence on multinational companies. Perhaps more than anything else, it is this severe limitation on the state's ability to fund a stimulus package that marks out the Irish response from that of most other countries. Yet, little attention is being focused on the likelihood that, as the former chief economist of the Central Bank of Ireland, Michael Casey, put it, opting so far not to implement a stimulus package, 'could prove to be the worst own goal in our history. … If economic activity falls further, so will revenue, and the Government will find itself chasing a target from which it is constantly moving away' (Casey, 2009: 10). In other words, the Irish state finds itself caught in a vicious circle which could exacerbate its problems rather then help resolve them.

The analysis in the previous section of the nature of financialisation in the structural conditions of neo-liberal globalisation draws attention to a third legacy of the Irish boom that has been missed by most analysts. For, effectively, what allowed the Irish model to continue and what hid its inherent contradictions was the ability of the state to generate tax income from essentially speculative activity in the housing sector. In other words, it was the property bubble that allowed the low-tax model continue, not only generating income for the state but also fuelling the consumer boom that was the other motor of economic growth over recent years through employment and wage growth in the construction sector in particular. This legacy relates to the wider context which allowed the Irish model continue but which has now fundamentally changed because its foundations have collapsed. So not only does the Irish political economy find itself locked into a situation of extreme dependence and weakened capacity, but it is now inserted in a fast changing global context that is far less benign than the one in which the Irish boom took place. For neoliberal globalisation was both a class and a (trans)national project. It reflected the structural power of transnational capital, in particular US capital. Ireland was able to position itself economically as a bridge between the US and Europe, as a gateway for US transnational corporations to access the European market while also availing of low tax rates and the benefits of EU infrastructural expenditure. Ireland was after all the largest recipient of foreign (EU) aid in the world in the 1980s (Hanlon, 1996). Yet, not only is this lucky conjuncture of elements not going to come together again, but the very structural nature of the global economy that it rested on is fundamentally changing, posing major new challenges for Ireland.

Conclusion: Power transitions and prospects

The precise shape of the international policy regimes that will emerge from the global economic slowdown is as yet uncertain. However, the global financial crisis is both a conjunctural and structural event marking fundamental power transitions. During the Celtic Tiger era Ireland hitched its star to the global hegemon, the United States. The growth episode from the 1990s was then the result of the particular alignment of globalisation (US transnational investment) and regionalisation (the creation of the single European market). However the nature of globalisation is being altered by both structure (the rise of China) and conjuncture (the global financial crisis). These two are also interrelated. Indeed one way to look at the global financial crisis is as marking a fundamental shift of the power of the global political economy to the East. The imbalances between the US and China played into crisis formation, as the Chinese government gave loans to finance the massive US current account deficit (Dumas and Choyleva, 2006). The shift of productive capacity to China would appear to be a world historic event exercising ever greater influence over the economic prospects of distant parts of the world such as Africa and Latin America (see Paus, 2009). How will Ireland be affected by these power shifts? Will transnational capital be subject to increased regulation at source, through the taxing of off-shore profits, as has been suggested in the US for example? These questions indicate the hugely uncertain context in which Ireland now finds itself.

In the light of these principal legacies of the Celtic Tiger boom, we can now ask how Ireland can move beyond them. Here again we find the state in a most restricted position, largely due to the depth and extent of the crisis in which the Irish banks find themselves. Having already guaranteed all bank deposits, a gesture far more generous than anything offered by other states, the establishment of the National Asset Management Agency (NAMA) and the government’s commitment to pay above current (late 2009) market prices for the bad loans held by the banking system, has committed the state to a most risky endeavour which could, in the eyes of experts, leave it with massive liabilities for many years to come. Already locked into a low-tax model and in a situation of severe economic uncertainty, the state finds itself with few options other than to take on immense financial commitments. Therefore, the attempt to maintain the present model of heavy dependence of US investment and of a low-tax fiscal system while assuming immense liabilities in order to save the banking system is fraught with huge uncertainties. While there exist no options that offer any greater certainty, the structural legacies outlined here would seem to indicate that a greater attempt must be made to break with them, best summed up in the proposal for the founding of a ‘second republic’. As articulated by O’Sullivan (himself a banker), this would involve a fundamental reform of the institutions of the political system and of the state, seeking to develop a capacity for strategic thinking and leadership that has been conspicuously lacking. As he wrote, ‘the way we think about the economic, social and political issues facing Ireland in a post-credit crisis world needs to be revolutionary rather than the tame fumbling we are used to’ (O’Sullivan, 2009: 10). Inherent in this proposal, though not alluded to by O’Sullivan, is the need for a new class alignment in Irish society, marginalising from power the narrow nexus of politicians, speculators and ‘developers’ and developing a broader alliance of entrepreneurial and progressive political and business interests, backed by a wider social mobilisation pressing for a rebalancing of the subservient nature of the state’s relationship to the market. This is a way of breaking out of the far too restricting structural legacies of a model that has run its course and is now in severe crisis.

Ireland is both a mirror and prism for neoliberal globalisation. It is a mirror in the sense that the growing inequality which has been a feature of neoliberal globalisation has been reflected in the evolution of the Irish social structure during the era of the Celtic Tiger. But it also offers us a prism through which to view the fundamental power shifts that have taken place in the global political economy over the last several decades and the way in which power is being reconfigured in the current crisis. This is the approach adopted in this paper. The key question facing Ireland therefore can be posed as follows: Is Ireland trapped by a dying neo-liberalism or has it the capacity to find a way beyond it? Will Europe move towards regulation of capital through tax coordination for example? It is going to be very interesting over the coming years to observe how an answer to this question will be fashioned out of the clash of different social and political forces.

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