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Celtic Tiger Ireland as a Case Study in the Practical Application of Neoliberal Economic Policy

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CELTIC TIGER IRELAND AS A CASE STUDY IN THE PRACTICAL APPLICATION OF NEOLIBERAL ECONOMIC POLICY

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Abstract

The Celtic Tiger economic boom, which occurred in Ireland from approximately 1987 to 2009 has generally been considered one of the most remarkable economic turnarounds in any country in the modern era. My purpose in this project was to identify the primary causes and effects of such rapid and dramatic economic growth and development to determine whether it is sensible for other countries emerging from colonial rule to seek to emulate the Irish economic model. Through a review of the economic literature on the Irish economy in the last three decades, I identify Ireland's implementation of a neoliberal economic policy regime as the catalyst for the Celtic Tiger and illustrate that the boom was simply a manifestation through foreign direct investment of growth in the U.S. high-tech sector. This neoliberal model created the appearance of unprecedented growth while having little effect on the overall economic health of the country. It also deepened existing weaknesses in the Irish economy as well as creating new vulnerabilities. As such, I conclude that a purely neoliberal economic model such as the one that underlay the Celtic Tiger is unsustainable in practice and inherently creates unnecessary economic vulnerabilities.

Key Words: economics, neoliberalism, Celtic Tiger, Ireland, multinational corporations (MNCs), economic globalization, foreign direct investment (FDI)

Dedication

This paper is dedicated to my parents, for teaching me to think for myself and loving me unconditionally; to my advisor Sarah, whose help and advice were critical to making this paper the best it could be; and to Jeff Clapper and the 2014-2015 Sioux Falls Christian High School debate team, with whom I first studied the topic of economic globalization. Who knew I would still be talking about it four years later?

Introduction

Financier Kevin Gardiner, writing for Morgan Stanley in 1994, coined the term ‘Celtic Tiger’ to describe the unprecedented economic boom Ireland was then experiencing (Burke-Kennedy, 2014). The name emerged from comparisons of the Irish economy to the “tiger” economies of the newly globalizing Pacific Rim countries of Southeast Asia (Battel, 2003). The Irish boom began in the late 1980s and continued through the mid-2000s, up to the global recession beginning in 2008; however, much of the Celtic Tiger growth would have been impossible without the decades of policy groundwork laid earlier in the 20th century.

The Irish boom and bust cycle from approximately 1987 to 2009 offers a case study in the outcomes of the practical application of neoliberal economic theory. Murphy (2000) emphasizes that “it is wrong to over ascribe to Ireland some unique magical qualities” (p. 4). Far from a magical turning of the tides of Irish economic fortune, the Celtic Tiger was a misrepresentation of one particularly striking manifestation of the global technology boom of the late 20th century, brought about by a decades-long regime of neoliberal Irish economic policy.

For purposes of this study, neoliberalism is defined as the economic ideology emphasizing continuous economic growth as society’s greatest means for progress, and free trade, including the free flow of capital, as the most efficient means of allocating resources to achieve that growth (Smith/Encyclopedia Britannica, n.d.). Neoliberal economic policy is thus characterized by the deregulation of domestic markets, low tariffs, and low-tax regimes, all of which are intended to give the free market the power to allocate resources within the economy on the basis that the competing forces of the free market inherently do so more efficiently than governments.

Ireland provides a valuable case study in the practical application of neoliberal theory and offers lessons to policymakers around the world as the tide of globalization demands ever-greater awareness of one's position within the ecosystem of global economics for the formulation of successful macroeconomic policy. While it is commonly believed that the rising tide of the Celtic Tiger lifted all Irish boats, in fact, neoliberalism created a façade of prosperity by laying the necessary groundwork for the boom, transforming growth in the United States high-tech economic sector into the appearance of growth in the Irish economy, and concealing the fundamental problems of rising inequality, excessive deregulation, and an unsustainable fiscal policy regime, all of which were evident even at the height of the boom. Ireland's remarkable economic turnaround in the Celtic Tiger era appeared too good to be true—and it was. The Celtic Tiger was an illusory phenomenon created by the implementation of a neoliberal economic policy regime and should caution public officials against the over-application of neoliberal theory in policymaking.

Legacy of Colonization

Prior to the Celtic Tiger period, Ireland, as the only Western European country once colonized by a modern world power, exhibited a poorly diversified economy dependent mainly on agricultural exports (Kirby, 2003). Under British colonial rule, Ireland functioned essentially as a sector of the British economy: 90 percent of its exports went to Britain, and virtually all of its imports came from Britain. Due to its colonial exploitation, Ireland never experienced a nineteenth-century industrial revolution akin to its neighbor countries in the West. Thus, Ireland emerged from colonial rule economically dependent almost solely on agricultural exports. Further, when the Republic of Ireland achieved independence in 1922, Northern Ireland elected to remain with Britain, meaning that the new nation lost its only semi-industrialized economic sectors, all of which were based in the six counties of Northern Ireland (Battel 2003). While severely detrimental for most of the twentieth century, this lack of industrialization ultimately set the stage for the remarkable transformation labeled the Celtic Tiger.

In the years immediately following independence, policymakers sought to stabilize the young Irish economy; however, this worthy goal devolved rapidly into a series of damaging protectionist policies as the government attempted to insulate Ireland's private sector from competition while it caught up to its industrialized neighbors. Now widely regarded as poor economic strategy, protectionism was particularly doomed to fail in Ireland, a country with few natural resources, little land area, and a small population. Taken together, these challenges meant that the domestic Irish market generated insufficient demand to sustain the Irish economy and make it competitive on a global scale.

The private sector recognized this problem almost immediately, but Irish officials, desirous of greater domestic control over the economy after centuries of colonial rule, took years to reach the same conclusion. Rather than heeding the concerns of the private sector, they introduced tariffs that launched a trade war with Britain. They also stipulated in the Control of Manufactures Acts—two of the most restrictive pieces of protectionist legislation—that a controlling interest in all new companies founded in Ireland must be owned by Irish nationals (Battle, 2003). Murphy (2000), explains that, "effectively [the Control of Manufactures Acts] ensured that foreign capital would not move into the Irish economy" (p. 8). However, there were no restrictions on Irish capital leaving the country, so the period of the 1930s through the 1950s was characterized by an epidemic of capital flight, particularly in the banking sector.

Modernization and Globalization

By the late 1940s, the Irish economy had stagnated as many countries were enjoying post-war economic booms. It was at this point that the failure of the protectionist policy regime became fully evident. Ireland thus entered the second half of the twentieth century committed to developing an open, modern economy. Policymakers abolished the Control of Manufactures Acts in 1957, and the next year Department of Finance Secretary T. K. Whitaker published *Economic Development*, a document detailing his vision for the Irish economy, including a plan for attracting foreign direct investment (FDI) through tax incentives (Murphy, 2000). His work is now hailed as the blueprint for the Celtic Tiger (Battel, 2003). It also represents the launch of a new neoliberal Irish policy regime that did not fully manifest itself until the 1980s, in the buildup to the Celtic Tiger period.

Alongside this move toward modernization and openness in the Irish economy, mid-20th century education reform provided a crucial building block for the attraction of FDI in the Celtic Tiger period. In the 1960s, Ireland implemented free secondary education and free student transportation to and from school. Shortly after these reforms, a network of regional technical colleges (RTCs) was established based on the traditional post-primary school vocational training undertaken by most working-class Irish children. These new institutions offered post-secondary education programs relevant to a variety of emergent high-tech industries. This series of reforms greatly expanded education access throughout Ireland and was the driving force in the development of a highly educated, tech-savvy working-age population by the 1980s (Battel, 2003). This was key to incentivizing multinational corporations (MNCs) to invest in the Irish economy in keeping with Whitaker's economic plan.

As these important education reforms were taking effect, the Irish economy took its next steps toward integration into the global economy by signing the Anglo-Irish Free Trade Agreement in 1965 and joining the European Monetary System (EMS) in 1978. In the 1970s, the country also began courting foreign investments from emerging high-tech MNCs via the office of the Industrial Development Authority (IDA). The IDA identified chemicals, pharmaceuticals, computers, software, and telecommunications as high-growth industries before the global tech boom began and actively marketed Ireland to U.S. companies in these sectors as a destination for international expansion (Murphy, 2000). In combination, education reform, increasing participation in global markets, and the work of the IDA brought about the remarkable levels of FDI that came to characterize the Celtic Tiger period.

In spite of policymakers' abandonment of protectionism, the Irish economy continued to struggle as tapering emigration caused unemployment to spike and the oil crises of the 1970s introduced into the newly open Irish economy the same stagflation problem afflicting much of the world. The national debt grew enormously to more than 150 percent—a debt-to-GNP increase of nearly 90 percent. The inflation rate during this recession peaked at 20 percent (Battel, 2003). Murphy (2000) notes that the debt spike was a direct result of a failed economic stimulus enacted to address unemployment. The crisis of the 1970s was characterized by the over-exposure to global economic shocks typical of neoliberal policy regimes and the failure of Irish policymakers to counteract troubling economic trends. It became a powerful foreshadowing of what was to come during the global recession three decades later.

The Birth of the Tiger

By the early days of the 1980s, Ireland's economic situation was dire. In the January 1988 article "Poorest of the Rich," Frances Cairncross, writing for the *Economist*, describes Ireland as "a tiny, open ex-peasant economy… with a passionate desire to enjoy the same lifestyle as its former masters, but without the same industrial heritage or natural resources." He contends that the inevitable result of this situation was "extravagance, frustration, [and] debt." Indeed, these frustrations were a primary cause of the unsustainable debt-to-GNP ratio Ireland maintained even as the world emerged from the recession of the 1970s (Murphy, 2000).

In an attempt to bring the national debt back to a stable level, the Irish government introduced the Programme for National Recovery in 1987. The implementation of these austerity measures while the economy was in crisis once again demonstrated Ireland's tendency toward procyclical policy. In keeping with Whitaker's 1957 economic reform plan, education funding was one of the few components of the federal budget left intact as both current and capital expenditures were slashed. Because the implementation of the Programme for National Recovery coincided with the beginning of the Celtic Tiger period, that phenomenon has been misattributed by policymakers and commentators alike to a restoration of confidence in Ireland's public sector and a corresponding increase in private investment and consumption that resulted from the implementation of austerity measures. Kirby (2003) notes that some economists believed they were witnessing in Ireland the first instance of a new economic phenomenon, which they labelled "expansionary fiscal contraction" (p. 21). This label served to legitimize for Irish policymakers their tendency toward procyclical policy and entrench their belief in neoliberal economic theory.

In parallel to the Programme for National Recovery, the Celtic Tiger was born out of what Battel (2003) calls a “national system of innovation” that coalesced in Ireland in the 1980s (p. 100). This set of conditions, including the new Single European Market (SEM), the technological revolution, the IDA’s decades of work to attract foreign investment, the fruition and continuation of earlier economic and education reforms, and significant corporate tax incentives merged to create the appearance of unprecedent Irish economic growth throughout the 1990s and early 2000s. Further, European Union (EU) structural funds given to Ireland in the late 1980s as part of a program to reduce inequality between EU countries came with economic planning requirements that forced Irish policy-makers to think long-term, creating a foundation for economic growth (Battel, 2003).

With the advent of the SEM in 1992, Ireland fully embraced neoliberal ideology, eliminating virtually all regulation of capital flows. This resulted in an initial period of inflation, followed by speculative attacks on the Irish pound that pushed interest rates up and depressed demand. Irish commitment to the European Monetary Union (EMU), which came to fruition in 1999, helped buoy investor and consumer confidence and created a certain amount of predictability, which helped to stabilize the market and successfully mitigated these inflationary pressures by 1993 (Murphy, 2000). The 1992-1993 period was a somewhat sudden reversal of the capital flight Ireland experienced in the early years of independence. It also illustrated the vulnerabilities associated with the economic openness and deregulation inherent in a neoliberal policy regime, as well as Ireland’s reliance on forces outside its own control.

FDI Influx

In an increasingly open world economy, high-tech U.S.-based MNCs chose Ireland as a platform from which to access the emerging SEM in the early 1990s because its combination of a highly skilled English-speaking workforce, low corporate tax rates, modern infrastructure, and flexible work culture in which a significant portion of the population worked less than full-time made it ideal for this purpose (Battel, 2003). Ireland's openness to the global market, as demonstrated by its commitment to the EMU, and the work of the IDA to market Ireland as a destination for international expansion were also critical to bringing FDI into the country, particularly because the UK was not committed to the EMU. Given a choice between the two English-speaking countries as a European headquarters, U.S. MNCs vastly preferred the one with a vested interest in the Eurozone. Other influential macroenvironmental factors included the rapid and widespread economic globalization that began in the mid-20th century, the growing interconnectedness of the economies of the U.S. and newly formed EU, and Ireland's geographic location, which essentially made it a physical gateway between the U.S. and Europe (Murphy, 2000).

In 1989, Intel became one of the first MNCs to enter Ireland, followed soon by other tech companies including Microsoft and Dell (Battel, 2003). These high-profile companies' positive experiences entering Ireland attracted subsequent waves of FDI. U.S. high-tech companies brought the technological revolution to Europe, and their decision to do so by way of Ireland resulted in the appearance of unprecedented Irish economic prosperity. By 2000, Ireland was the world's second-largest exporter of packaged software, and all of *Fortune Magazine's* top ten pharmaceutical companies, as well as twelve of the top twenty electronics companies, had operations in Ireland (Murphy, 2000). Between 1985 and 2000, FDI inflows to Ireland grew by

145 percent, from $164 million in 1985 to $24 billion (Kirby, 2003). By the mid-1990s, Ireland was unrecognizable from just a decade prior, having taken on a central role in the global economy (Murphy, 2000).

Leap-Frog Economic Growth and the Boom and Bust Cycle

This decisive jump distinguishes Ireland as Western Europe's only leap-frog economy. As noted, Ireland is unique in that it was unable to participate in the Industrial Revolution. For this reason, Ireland's economy lagged significantly behind those of the U.S. and other Western European countries until the late 1980s. However, Ireland's lack of industrial-era infrastructure and private industry development positioned it perfectly to take advantage of the turn-of-the-century tech boom in in a way that other nations were not. Unlike its industrialized neighbors, Ireland was able to capitalize on the tech boom's revolutionary, market-disrupting innovations because it was not hampered by "obsolete capital and rigid labor practices" (Murphy, 2000, p. 4). This enabled Ireland to "[leap-frog] over the intermediate hump of industrialization," catching up to, and even surpassing, industrialized countries economically (Murphy, 2000, p. 4).

Murphy (2000) explains that part of this leap-frog effect was due to a paradigm shift in the concept of economic geography, which was brought about by the technological revolution. Due to rapid advancements in telecommunications and other technologies, the definitions of 'center' and 'periphery' in the world market shifted from a basis in geography to a basis in education and access to communication technologies. Through the culmination of prior policy decisions and the circumstances brought on by its colonial heritage, Ireland was rich in both.

Ireland further benefited from unique macroenvironmental factors that caused Celtic Tiger-era growth to skyrocket in a way that would otherwise have been impossible. That the technological revolution and its accompanying U.S. economic boom coincided with monetary union and a devaluation of the euro relative to the U.S. dollar was particularly fortuitous for Ireland, as was a declining dependency ratio. High emigration in the 1950s, the baby boom of the 1970s, and the declining birth rate during the Celtic Tiger period all combined to form an Ireland with a high working-age population relative to its dependent elderly and youth populations at the time of the Tiger. This low dependency ratio allowed for low federal spending on social programs, enabling the continuation of the very low corporate tax rates that were instrumental in attracting a steady inflow of FDI (Kirby, 2003).

The suppression of federal expenses made possible by the low dependency ratio masked the problems created by the low-tax regime, which significantly shrank the country's tax base; however, these problems rapidly came to light in the mid-2000s as the recession set in and an increased need for social welfare programs was met with a decline in tax revenue (Kirby, 2003). This inevitable consequence of Ireland's economic policy regime highlights a critical flaw in the neoliberal assumption that the private sector is best suited to allocate an economy's resources. During the boom, the prosperity associated Ireland's low dependency ratio and with huge inflows of FDI from high-growth sectors of the U.S. economy created a façade of prosperity; however, when the economy entered a recession in 2007, the government lacked the tax revenue to provide a sufficient social safety net and the economic stimulus necessary for recovery, and the private sector failed to provide these in its stead.

While culpability for the magnitude of Ireland's post-Celtic Tiger bust lies mainly in the hands of Irish policymakers, it is understandable that a sense of optimism permeated fiscal policy at the time. The convergence of all of the historical, macroenvironmental, and policy factors previously discussed caused the Irish economy to take off at a pace seemingly impossible given its immediate prior afflictions. Gross national product (GNP) grew by an average of 7.5 percent between 1994 and 1999, unemployment fell to only 6 percent, and the debt to GNP ratio fell by more than half between 1987 and 1999 (Murphy, 2000). The percentage of Irish 18- to 21-year-olds enrolled in post-secondary education doubled between 1985 and 1994, bringing educational participation rates in Ireland closer to EU and Organization for Economic Cooperation and Development (OECD) averages and making Ireland increasingly globally competitive (Kirby, 2003).

As job prospects improved, college graduates tended to stay in Ireland. Many Irish emigrants returned to the country, as well, further increasing its skilled labor pool. Irish entrepreneurs, witnessing the success of MNCs, took advantage of the positive economic climate to create native Irish high-tech companies (Murphy 2000). These companies were supported by a network of national agencies dedicated to scientific and technological research and development (R&D). As a side-effect of this entrepreneurship, high-productivity economic sub-sectors began to replace low-productivity sub-sectors, boosting the overall productivity of the economy (Kirby, 2003). A trend of success begetting further success pervaded the Irish economy from the entrance of the first MNCs in the 1980s until the crash that ended the Celtic Tiger period in 2007 (Murphy, 2000).

Underlying Problems with Celtic Tiger Growth

While the economic growth of the Celtic Tiger period was unprecedented, its causes were clearly rooted in the success of U.S. MNCs. Thus, certain problems were inherent to this growth. First, the Celtic Tiger was almost entirely dependent on FDI, with an additional boost in the form of EU structural funds. In spite of the rise in Irish entrepreneurship discussed above, by the mid-

1990s, the vast majority of new companies opening in Ireland were foreign-owned. By 2003, three of the ten largest companies in Ireland by turnover were U.S.-based computer companies (Battel, 2003). Perhaps most telling, Ireland's FDI as a percentage of GDP was only 2.2 percent in 1990; ten years later, that figure had jumped to 49.2 percent (Kirby, 2003).

Ireland's foreign dependency problem was compounded by a lack of diversification: not only was a significant major of the growth concentrated in U.S. companies, it was also based almost entirely in highly volatile sectors such as electronics. For Ireland, this meant high exposure to "the risk of a significant diminution in… U.S. economic exuberance" (Kirby, 2003, p. 24). In spite of federal support, the Irish economy also exhibited below-average R&D spending during the Tiger period. Battel (2003, p. 103) thus suggests that the high-tech sectors that created the boom were "grafted on rather than growing organically out of the Irish economy." Murphy (2004, p. 14) takes this analysis a step further, arguing that:

> "It is more accurate to look at [the Celtic Tiger] as a predominantly U.S. high-tech multi-national tiger nurtured in a special Irish tax reserve which is part of the united states of Europe. A considerable part of the economic growth witnessed in Ireland is U.S. growth that was waiting to happen somewhere in Europe. Ireland has been able to appropriate and harness this U.S. led growth of fuel its domestic economy."

Kirby (2003) provides a possible explanation for the relative lack of R&D expenditure in Celtic Tiger Ireland: control. He argued in the latter half of the Celtic Tiger period that attempts to create so-called "organic growth" of the Irish economy through R&D were doomed to fail because U.S.-based companies had few incentives to relinquish control over product development to a foreign subsidiary. Kirby further finds that the majority of successful Irish firms in the Celtic Tiger period were in sectors such as cement, food processing, and brewing that retained a higher level of protection from foreign competition. This finding suggests that Irish companies themselves did not grow significantly in efficiency, prestige, or profitability outside of Ireland, implying that organic Irish economic growth that was seen in this period was simply a side-effect of increased domestic demand due to the presence of the MNCs and Irish emigrants returning to take jobs with those companies.

This phenomenon of non-organic, or “grafted-on” growth is further evidenced by the fact that, during the notably high-growth years of 1994-1996, high-tech MNCs in Ireland increased net output by 88 percent, other MNCs increased net output by 37 percent, and Irish manufacturing companies—representing organic growth—increased net output by a comparatively meager 22 percent (Murphy, 2000). By 2003, electronics and software alone, both sectors heavily dominated by U.S. companies, accounted for 40 percent of Irish exports (Kirby, 2003). This phenomenon of inorganic growth is explained in part by MNCs’ use of transfer pricing in their financial reporting, which accounts for a significant portion of the disparity between the productivity of Irish- and foreign-owned companies in Ireland during the Celtic Tiger. Ireland’s low corporate tax rate—just ten percent for manufactured goods and financial services in the mid-1990s, incentivized the use of transfer pricing to attribute inordinately high percentages of production to their facilities in Ireland in order to decrease the corporation’s overall income tax liability. This resulted in a dramatic spike in the Irish facilities’ productivity from an accounting perspective while actual worker productivity gains remained much closer to the increases seen in Irish-owned companies. In this way, Murphy (2000, p. 18) explains, “transfer pricing, produced by the tax skills of corporate accountants metamorphoses the U.S.

high tech ‘tiger’ into an Irish worker who is then misrepresented by the local and world media as the ‘Celtic Tiger.’”

In addition to transfer pricing, one of the critical sources of Celtic Tiger growth was a dramatic increase in Irish exports, which rose by 162 percent—€57.2 billion—between 1995 and 2001. The largest export increases of the period all occurred in U.S.-dominated high-tech sectors. At the same time, Irish exports into the U.S. market increased by 111 percent (Kirby, 2003). These concurrent phenomena reveal the extent of the boom’s dependence on the U.S. economy and indicate that Ireland during the Celtic Tiger period, thanks to a neoliberal economic policy regime, developed essentially as a sector of the U.S. economy, echoing its history as an economically subservient British colony less than a century earlier.

The lack of diversification and organic growth that resulted from policymakers’ prioritization of FDI weakened the foundations of the Irish economy by causing it to amplify any hit taken by the large high-tech MNCs that accounted for the bulk of economic growth (Battel 2003). Underneath the mask of the MNCs’ success, the native Irish economy was still relatively weak and peripheral compared to its neighbors in the EU and North America. Its inordinate exposure to shocks in the global market due to the dominant neoliberal ideology of the period and the related presence of many MNCs proved fatal to the modest organic gains within the Irish economy in this period.

The problems of non-organic growth and overexposure to global market risk were aggravated by failures to rectify the growing problem of economic inequality in Ireland. Kirby (2003, p. 36) observes that the period saw a “dramatic increase in the share of national income going to profits and a concomitant decrease in the share going to wages,” which was especially troubling given the pattern of capital repatriation through transfer pricing that prevailed during the Celtic Tiger period. The dependence of the boom on FDI meant that much of the wealth generated in Ireland during the Celtic Tiger left the country in the form of corporate dividends, prompting questions even at the time about the accuracy of extolling the Celtic Tiger as an Irish phenomenon (Battel 2003). Capital repatriation out of Ireland was so extensive that gross domestic product (GDP) cannot be used as an accurate measure of Irish economic growth during the period because it bases economic performance on the productivity of firms operating within Ireland's borders, rather than on the productivity of Irish-owned firms, which GNP measures. The significant proportion of profits flowing out of Ireland via capital repatriation makes the two measures incomparable: GDP numbers during the Celtic Tiger period vastly overstate Ireland's economic performance by ignoring the effects of capital repatriation. Kirby (2003) notes that by the end of the 1990s foreign MNCs were repatriating more than 17 percent of Irish capital.

Poverty and Inequality

Because so much of the growth of the Celtic Tiger period was grafted onto the Irish economy, and due to the maintenance of the neoliberal economic policy regime that had begun the boom, Ireland struggled to translate prosperity on paper into the accomplishment of public policy objectives to uphold the social contract, even though the country experienced the largest jump in living standards of any of the OECD or Newly Industrialized Countries (NICs) in the 1990s (Kirby, 2003).

According to the state's definition, poverty increased during the Celtic Tiger period, in keeping with the rise in living standards; however, a lack of leadership surrounding social issues caused economic inequality to spike. For those with the qualifications in demand in Ireland's newly modern economy, new opportunities did lead to poverty alleviation, but less employable groups—particularly the elderly and disabled—fell further behind, primarily because social welfare payments failed to keep pace with rising prices (Battel 2003). Increased inequality was one of the earliest symptoms of the unsustainable low-tax regime described by Kirby (2003) to which Ireland remained committed for purposes of currying continued favor with U.S. MNCs. As the economy slowed in the mid-2000s, the problems only became more pronounced.

An increase in economic inequality concurrent with a decrease in poverty as measured by the federal government evidences an additional challenge brought on by the Celtic Tiger: a need to redefine poverty. Battel (2003, p. 106) explains: “In a society where many, and possibly the majority, of the older generation knew poverty as actual hunger, there is some resistance to the idea that anybody is ‘really’ poor in comparison to the hardship they suffered.” In spite of this resistance, by the mid-1990s, state agencies transitioned to an expanded definition of poverty that accounted for both income and a variety of deprivation indicators. This revealed new trends in the way Ireland experienced poverty. During the Tiger, urban poverty became more prevalent than rural poverty for the first time in the country’s history, and poverty in Ireland became more directly attributable to specific disadvantages—most importantly lack of access to education, which was vital to keep up in an economy where demand for unskilled and semiskilled labor was falling steadily (Battel, 2003).

The most important trend uncovered in Ireland’s transition to a broader definition of poverty was that, when considered relative to the rapidly rising living standards of the period, poverty actually increased in both depth and frequency during the Celtic Tiger period, a problem that can be described as the phenomenon of “those falling below relative income thresholds… falling further behind the middle of the income distribution” (Kirby, 2003, p. 35). Over the course of the 1990s, the bottom 30 percent of households by disposable income experienced a redistribution of wealth away from them (i.e. a further drop below the average disposable income), while those in the fourth through ninth deciles experienced a redistribution of wealth towards them. In effect, the boom benefited those who were already relatively wealthy before it began and harmed those who were already economically disadvantaged. These facts were noted in the economics literature as early as 2003 (Kirby, 2003).

As these poverty trends emerged and it became clear that the deregulated forces of the free market were failing to address them, the Irish government did make certain efforts to bring about greater equality. EU structural funds, in particular, were a vital component of these efforts. These funds were contingent on the commitment of complementary federal and domestic private funds, which forced Irish policymakers to create a cohesive, forward-thinking plan for continued development of social welfare programs. They also provided the extra funding needed to launch programs or bring them up to contemporary EU standards and had notable impacts on Irish infrastructure, human resource training programs, private sector grants and subsidies, and income support for rural areas. The funds were particularly impactful as they came on the heels of the austerity measures of the 1980s; they helped develop Ireland's infrastructure and workforce to levels capable of supporting, albeit imperfectly, the explosion of growth in the 1990s and 2000s. The planning requirements that accompanied the structural funds also laid the groundwork for an era of decentralized planning and unprecedented policy innovation during the Celtic Tiger period (Kirby, 2003).

While clearly of significant benefit, the EU structural funds committed to Ireland in the 1990s were a double-edged sword. They did encourage vital policy development and innovation, but they did so in a way that allowed Ireland to craft policy based on the expectation of continued EU funding for social programming and infrastructure development. In this way, the structural funds aided and abetted the underfunding of Irish social welfare programs by the Irish government itself, a problem whose full magnitude would not become apparent until the onset of the recession (Kirby, 2003).

The Truth of the Celtic Tiger Story

Although, as Murphy (2000, p. 19) notes, “the Irish success story always reverts back to the role of the MNCs,” the Celtic Tiger did produce some legitimate domestic gains in Ireland. The problem with these gains is that they were built on the weak foundation of an unsustainable series of neoliberal economic policies. MNCs influenced four primary components of the Irish economy—exports, GDP, employment, and taxes—and created the impression of an unprecedented domestic economic boom via carryover effects throughout the economy.

The growth in the Irish economy during the Celtic Tiger period was due in large part to increased exports. Murphy (2000) demonstrates that MNCs produced over 50 percent of Irish exports, which he estimates accounts for approximately 20 percent of GDP growth between 1990 and 1996. Thus, MNC exports alone account for 10 percent of overall nominal GDP growth in the heart of the Celtic Tiger period.

As well as GDP, the MNCs’ success increased employment—both directly, as foreign corporation hired in the Irish labor market to staff their new Irish offices, and indirectly, as they generated demand for a variety of services to support their operations. Increased employment meant increased tax revenue for the Irish state, as did MNCs’ rising corporate profits. This increased tax revenue enabled the Irish government to bring the debt to GNP ratio back under control, particularly given the lesser demands on social welfare programs that come with an economic boom. Increased employment, accompanied by a related, pervasive market confidence, also boosted demand throughout all sectors of the economy. This propelled both employment and tax revenue further upward over the course of the boom, ultimately introducing significant inflation, particularly in the real estate sector (Murphy, 2000).

These various spillover effects of the MNCs' presence in Ireland reveal the fragile position of the Celtic Tiger-era Irish economy. It is of particular interest that an estimated 62 percent of corporate tax revenue at this time came from the relatively small number of MNCs subject to the 10 percent corporate rate (Murphy, 2000). This put the country in a highly dependent, fragile economic position. The weakness of the Irish neoliberal model was further demonstrated in the mild downturn of the early 2000s, during which the Irish economy stagnated briefly but did not enter a full recession. Unwilling to deviate from the low-tax regime that enabled the boom, Ireland faced reduced tax revenue from both corporate and personal income taxes. Policymakers, obligated to devise a system to continue meeting EU budget requirements, cut both social program and capital investment expenditures in keeping with the influence of the 1987 austerity budget model (Kirby, 2003). This mild contractionary period demonstrated the inherent weakness and unsustainability of the Celtic Tiger boom and the economic reasoning that underlay it, and it evidenced a continued inability or unwillingness on the part of Irish policymakers to implement effective countercyclical policy. Phillip Lane posited in 1998 that this inability "[imposed] costs on the Irish economy that [were] likely to become more severe" with membership in the EMU (Kirby, 2003, p. 21). Failure to internalize the lessons of not only the turn-of-the-century downturn, but also the economic crises of the 1970s and 1980s would soon prove Lane correct.

In truth the Celtic Tiger story is not about the growth of Irish industry but about the ability of the Irish government to attract foreign companies and capitalize on their successes in the short term through specific policy initiatives. Throughout the Celtic Tiger period, labor relations remained stable and labor practices flexible, which fostered greater economic growth than would have otherwise been possible. The Irish government also remained committed to investing in education, which sustained a highly skilled workforce with a significant competitive advantage in the new access-based economic geography described by Murphy (2000). The combination of fiscal retrenchment and tax amnesty at the outset of the Celtic Tiger brought the federal budget back into back into balance while also attracting FDI, which restored public confidence in the Irish market. Further, Ireland capitalized on its small size by making public officials readily accessible to company executives to resolve problems and assure MNCs of a smooth transition into Ireland. This, coupled with deregulation and cost reduction in the vital transport and telecommunications sectors, enhanced the country's ability to benefit from FDI by attracting more MNCs and helping those companies to flourish (Murphy, 2000). These and other neoliberal policy initiatives of the Celtic Tiger period created the illusion of an unprecedented Irish economic boom where none truly existed, and they simultaneously lay the groundwork for the major downturn that followed the boom.

The Great Recession and the Deficiency of Neoliberal Economics

On the basis of these apparently growth-generating policy decisions, one might conclude that the Irish state made the correct set of choices when implementing the neoliberal policy regime that fostered the Celtic Tiger boom, and many economists have offered such a conclusion. This analysis, however, fails to consider not only the costs, such as a spike in economic inequality, associated with the Tiger period, but also the aftermath of the period, during which the dark side of neoliberal policymaking was brought to bear on the Irish people.

A variety of underlying issues precipitated the crash. First, low capital gains taxes coupled with significant, widespread deregulation gave private financiers a great deal of freedom to determine the course of the Irish economy. They invested heavily in real estate and financial assets, creating price bubbles in the housing and securities markets that were not constrained by the forces of the free market as policymakers supposed they would be.

Second, the union of European financial markets in the EU countries caused rampant financial speculation, which only fueled the already developing bubbles. These bubbles were not readily detectable as a serious risk to the economy as a whole during the boom period, so, in keeping with neoliberal theory, regulations were not put in place to restrain their growth.

Third, the low corporate taxes that were the centerpiece of the Celtic Tiger policymaking blueprint shrank the tax base and left the federal budget exceedingly vulnerable to economic shocks. That vulnerability became an unavoidable pitfall when the Great Recession necessitated increases in federal spending to fund social welfare programs (O'Riain, 2014).

Due to the financial crisis, Ireland once again implemented austerity measures in order to bring the federal budget back into line (McDonough, 2018). While some aspects of the program were intended to meet European Central Bank (ECB) and other outside requirements, the implementation of federal spending cuts during a major economic downturn represents a repetition of past failures to enact necessary countercyclical policy. McDonough (2018) notes that, while policymakers point to Ireland's commitment to austerity as the reason for its relatively successful economic recovery over the past decade, Greece struggled far more than Ireland did over the same period after imposing *more* severe austerity measures. This suggests that, rather than learning from the past, Irish policymakers are again intent on repeating it in the future. Recent Irish GDP figures have also begun, once again, to exhibit MNC-related inflation in recent years. The devaluation of the euro, especially in relation to the U.S. dollar and the pound, has also contributed significantly to recent Irish GDP growth because the Irish economy remains heavily dependent on exports to the U.S. and Britain.

Conclusions

Ireland during the Celtic Tiger boom and bust cycle of 1987-2008 offers a valuable case study on the practical application neoliberal economic theory. In the decades since its abandonment of protectionist policy, Ireland has served as a prototypical example of the theory's inherent weaknesses: Ireland successfully capitalized on its factor endowments to create the appearance of unprecedented short-term economic growth during the Celtic Tiger period; however, the policies that created the appearance of unprecedented success masked major economic problems and led predictably to the economy's downfall when the global economy faltered in late 2007. The excessive deregulation, overexposure to market risk, and fragility of the federal budget characteristic of neoliberal policy regimes all combined in Ireland—magnified by the Irish economy's dependence on the inherently volatile high-tech sector of the U.S. economy—to cause an unnecessarily brutal recession. In it, the poor, who had already experienced a redistribution of wealth away from them due to the belief that the private sector should be trusted virtually unilaterally to allocate resources, inevitably suffered most.

Ireland offers valuable lessons for other countries still emerging from colonial rule. Neoliberal theory promises opportunities for economic growth and development that are hard to resist; however, for a country to pursue economic success responsibly, the ideals of free trade and an attractive low-tax, low-regulation economic landscape must be balanced with sensible regulations and public investment in social welfare programs in order to prevent an economic catastrophe akin to Ireland's post-Celtic Tiger economic collapse. By deliberately regulating the economic sectors most vulnerable to speculation, striving for diversification in the pursuit of FDI, investing in the infrastructure and education programs necessary to position a country at the center of the contemporary economic landscape, and prioritizing the funding of the social welfare programs needed to maintain economic equality and opportunity, countries that share some or all of the criteria that made the Celtic Tiger possible can reap the benefits of a modern, open economy while avoiding the dangers inherent in a purely neoliberal economic model.

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