

TOWARD THE CELTIC TIGER:
INTEGRATION AND POLICYMAKING
IN IRELAND'S RECENT ECONOMIC DEVELOPMENT

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Introduction

Beginning in the late 1980s and continuing until the mid-2000s, the economy of Ireland (i.e., of the 26-county Republic) grew so rapidly and even exuberantly that its admirers coined the term, “the Celtic Tiger,” to denote its apparent similarity to the then-booming “Tiger economies” of southeast Asia. Now a bitter memory, the Celtic Tiger phenomenon has become a field of research closely examined by historians and economists alike. The disintegration of the Celtic Tiger, once proclaimed a model for global emulation, has forced scholars to excavate both its merits and inadequacies. Sadly, it has become evident that the model’s flaws were more significant than its strengths.

To better understand the circumstances surrounding the recent boom and bust of the Irish economy, exploring its foundations and catalysts is essential. The Celtic Tiger was not a sensation that simply occurred out of thin air. Rather, it was the culmination of consciously guided policy-making at a domestic level, as well as a consequence of macro-level developments in the global financial and economic system.

This summation may be criticized by a variety of scholars, as many of those who have explored the development of the Irish economy have tried to situate its growth within two competing theoretical frameworks. The first of these frameworks conceptually lies within delayed-convergence theory. Essentially, this structural analysis asserts that Ireland simply “caught up” to economic standards experienced by other industrialized economies, resulting in a period where economic performance was greater in Ireland due to rapid development. However, this is not to say that proponents of delayed-convergence theory suggest that this process happened without impetus. Instead,

they view policy-making as the primary catalyst behind economic growth, in terms both of spurring progress through policy incentives and of removing barriers and obstacles that previously obstructed economic development. Unfortunately, delayed-convergence theorists largely devalue the relevance of external forces in shaping both the development and character of the Irish economy. This fault cannot be ignored, due to Ireland's dependent economic status dating back to (and before) Independence.

However, where delayed-convergence theory falters, the competing framework of Ireland as part of a regional boom begins to materialize. Advocates of this scope of analysis argue that, "Ireland's small size means that it should be treated as a region of a larger entity,"¹ and furthermore it "implies that the key cause of growth is the performance of those industries in Ireland's export base." As will be seen, this is very much evident in the Irish model, as the economy turned from looking inward through import-substitution and indigenous development, toward policies that advocated export-oriented growth through attraction of foreign direct investment (FDI) from multi-national corporations (MNCs).

It should also be stated that this regional boom hypothesis carries with it the implications that because small size economies are part of a larger economic sphere, their vulnerability to booms and busts within these larger systems is much higher. Once again, this was very much the case in Ireland, both during the period of the Celtic Tiger and during the economic malaise of the 1970s - an era largely overlooked in Irish economic

¹ Eoin O'Leary, "Reflecting on the 'Celtic Tiger': before, during, and after," *Irish Economic and Social History*, Vol. 38 (2010): 81.

history. Concurrently, this framework suggests that in this structure, “industry is more specialised than diversified, so that shocks affecting it have larger effects.”²

Basically what this debate boils down to is whether the performance of the Irish economy was the result of proactive policy-making (delayed-convergence) or a reaction to external forces. What I argue is that Irish economic performance during the latter half of the twentieth century, can be characterized as being proactive in regards to domestic economic policy as a reaction to global economic conditions. Obviously this could be viewed as a way to circumvent this debate, but I contest otherwise. Each of these frameworks contains inadequacies in its analysis that can be corrected by its counterpart. It is indisputable that the external forces of globalization and economic integration compelled Irish policymakers to adopt a more outward-looking approach to economic policy formation and development.

The other issue to examine here is when and how did these transformations occur. Historians and economists alike have regarded these processes as having commenced with the ascension of Seán Lemass to Taoiseach in 1959. This period in history is widely considered a watershed in Irish society, as political and economic institutions began to drift away from adherence to nationalist ideals promoted by Eamon de Valera during his more than twenty years in power. In contrast, Lemass steered Ireland toward a more outward looking approach, specifically in economic policy, to conform to international developments that began to escalate in the postwar period.

As will be explored, the Lemass Era created an economic model subsequent governments followed and expanded upon. As large-scale circumstances changed within

² O’Leary, “Reflecting on the Celtic Tiger,” 81.

both Europe and the broader Western economic sphere, Irish policymakers steered toward favorably situating the Irish economy within these structures. The primary avenue through which this was done was attracting foreign investment to Ireland. Throughout the latter decades of the twentieth century, the direction and image of the Irish economy were molded in the attempt to draw foreign capital to the domestic market, due largely to the historical lack of indigenous industrial development. This economic platform was implemented through a variety of different policy mechanisms, including favorable corporate taxation, transfer pricing, the appearance of tranquil labor relations, and a supply of relatively cheap labor. These and other devices worked in conjunction to create an “MNC-reliant strategy” that grew the economy in terms of its gross output, but largely failed to develop any semblance of a sufficient indigenous economic base.

An important issue to mention regarding Ireland’s economic performance during this period is how to adequately measure Irish economic growth. As previously noted, the period under analysis was distinguished by massive influxes of foreign capital. In turn, many of the profits accumulated by foreign investment were repatriated through various schemes and taken out of the Irish economy. Thus, it is important that we measure Irish economic performance through measurements of gross national product (GNP), as opposed to gross domestic product (GDP). As an example of the disparity between these two performance gauges, in 1999 Irish GNP was only 85% of the country’s entire GDP.

Before discussing and analyzing the origins of Ireland’s recent economic boom, it is necessary to define the term “the Celtic Tiger.” Beginning in the early 1990s, the Irish economy began to grow at a rate not previously experienced. This period of uninterrupted growth continued from 1994 until early 2008. Many economists and

historians divide the Celtic Tiger into two separate eras. The first of these periods was dominated by an influx of FDI from numerous MNCs, mainly from the United States. These corporations generated an economy based on high-tech production and an emerging services sector, while also enjoying a friendly business environment based on favorable corporate tax rates. However, after the dot-com bubble of the early 2000s, many of the high-tech corporations that located to Ireland in the 1990s left the country as economic conditions compelled them to reduce costs in human and financial capital.

In order to fill the hole left by a reduction in MNC investment in the economy, the Irish government sought to stimulate economic activity by prompting investment in the Irish property market. Working with Ireland's banks and property developers, the government created a growing property market that increased employment numbers in the construction sector, while also fulfilling demand for investment in the property market. However, this property boom eventually transformed into a property bubble that was based on over-speculation by the banks and overdevelopment by property developers. As the global financial system began to crumble in 2007 and 2008, the Irish property market collapsed as credit markets began to freeze, creating a liquidity crisis in the Irish banking system. The mounting costs of this financial crisis forced the government to step in and guarantee liquidity in the banks. This would eventually bankrupt the Irish government and drive the economy into depression. By the end of 2008, the Celtic Tiger was dead.

Another important term to define to understand Ireland's recent economic development is modernization. The economic growth theory of W.W. Rostow is most applicable in describing Ireland's economic modernization. Rostow's growth theory

proposes that historically, economies undergo five different stages in development. Formulated in the post-World War II period, Rostow's framework sought to create a model that revered Western capitalist ideals. This model's purpose was to present an economic standard which small emerging economies could follow in order to achieve the economic prosperity that had already been attained by the "modernized" economies of the Western economic sphere, namely that of the United States. The first of Rostow's stages of growth pertains to the traditional society in which science and technology are largely neglected. Rostow argues that a ceiling in productive capacities in the traditional society results "from the fact that the potentialities which flow from modern science and technology were either not available or not regularly and systematically applied."³ The second stage of growth is made up of an era of transition in which societies embrace developments in science and technology that allow economies to grow their productive capacity.

The third of these stages, labeled by Rostow as "the take-off," marks the "great watershed in the life of modern societies."⁴ During this stage, previous barriers to extensive growth and production are overcome, and new techniques in economic development "come to dominate the society." Additionally, investment in the economy rises as more wealth is created by a seemingly unlimited production capacity. The fourth and fifth of Rostow's stages of economic development pertain the most to Ireland's recent economic development. The fourth stage concerns an economy's maturation, as it gradually evolves from an industrial society into a more complex and technologically-

³ W.W. Rostow. *The Stages of Economic Growth: A Non-Communist Manifesto* (London: Cambridge University Press, 1960), 4.

⁴ Rostow. *The Stages of Economic Growth*, 7.

based economy. Rostow argues that, “This is the stage in which an economy demonstrates that it has the technological and entrepreneurial skills to produce not everything, but anything that it chooses to produce.”⁵ Eventually, this process of maturation transitions into a new stage based primarily on mass consumption. Furthermore, Rostow argues that this stage in economic development provides the foundation for the emergence of the welfare state and the modern age of consumerism.⁶

Rostow’s theory is somewhat broad and ambiguous as to when and how economies move from one stage to the next, but it provides economists and historians with a basic framework through which to interpret and analyze economic growth. However Rostow’s argument, while at points mentioning sectoral distribution in the economy, underemphasizes the necessity of economic diversification in ensuring growth and development. In the case of the Irish economy, a lack of sufficient diversification contributed to an economic system that at certain times was forced to develop at rates the economy could not adequately sustain.

Though economic history can at times be tedious and dull, it gives scholars of various interests a foundation to construct upon. Modern politics and society are so ingrained with economic rhetoric and thought that it is almost impossible to analyze either without some incorporation of an economic perspective. However, economic history can be constricted by the fact that it is confined to certain metrics of analysis that are somewhat incontestable. But what can be considered confining could actually be viewed as liberating, as continuous development in economic thought and interpretation

⁵ Rostow. *The Stages of Economic Growth*, 10.

⁶ Rostow. *The Stages of Economic Growth*, 11.

allows for economic history to be constantly reevaluated. This topic is one example of such reevaluation.

The constant reinterpretation and expansion of modes of analysis prove that economics is not a science. It is instead a branch of scholarship in which there are no proven laws. Previously advanced theories rest solely upon the idea that humans will act rationally in economic relations and considerations. As seen throughout modern history, this idea cannot be considered accurate.

I. An Economic Background: Independence to the 1950s

In 1922, with the realization of Irish independence, one would expect that the Irish political elite would steer Ireland toward a more autonomous outlook in regards to politics and economics. However, in the first few years after Independence, neither of these two processes occurred. The subsequent Irish Civil War disrupted the social and economic development that many thought would come after independence was secured. The formation of pro-Treaty oriented Cumann na Gaedheal (CnG) in 1923, independent Ireland's first governing party in the Dáil, ensured that an era of "caution and continuity" would be Ireland's first experience as an independent nation.⁷

Until 1927, Cumann na Gaedheal's hold over the Dáil continued unimpeded. A general lack of indigenous industrial development, as well as the proclivity to maintain rural Ireland's historical agricultural export base in Britain, was at the forefront of CnG's economic agenda. Coupled with a cautious fiscal policy, which did little to aid development from within, this platform resulted in a period that secured Ireland's economic dependence on Great Britain.

It was not until 1927 that CnG encountered any semblance of political opposition. This was the point at which Eamon De Valera (colloquially referred to as "Dev") and his Fianna Fáil party took their seats in the Dáil and began to participate within the formal Irish political structure. As unemployment began to steadily rise, CnG's brand of conservatism lost favor with the Irish public. The perfect substitute to fill this political vacuum was Fianna Fáil, and in particular, De Valera himself.

⁷ Cormac Ó Gráda, *A Rocky Road: The Irish Economy Since the 1920s* (Manchester: Manchester University Press, 1997), 4.

As an ardent republican, De Valera's vision of an *Irish* Ireland appealed to voters across the social spectrum. His trademark populism attracted rural small farmers and urban workers alike, and he was able to consolidate the support of these two important social groups through his own vision of economic nationalism. In 1932, Fianna Fáil took over control of the Dáil, and De Valera assumed the Presidency of the Executive Council.

The economic platform De Valera quickly enacted upon his ascension to power consisted primarily of two key policy mechanisms. The first of these was aimed at Irish farmers. As opposed to CnG's agricultural policy, which proposed specialization in livestock and dairy production (aimed for export to Britain), De Valera sought to move the agricultural sector away from grazing in favor of tillage. This would shift the power balance toward small farmers and landless laborers, and away from the large graziers who had previously dominated the agricultural sector.⁸

De Valera's policy toward industrial development, however, is more important to understanding Ireland's economic development during its early years. Fianna Fáil sought to impose its brand of economic nationalism on industry primarily through its broader policy of import-substitution. Through this broad mechanism, indigenous manufacturing would be developed to a point that would ensure industrial output would be sufficient to supply the domestic market, thus ensuring some semblance of industrial self-sufficiency. In addition to import tariffs and export quotas (the norm across Europe during this time), policy enacted at the national level would aid in the development of a manufacturing base through the creation of both public and private factories.

⁸ Ó Gráda, *A Rocky Road*, 5.

Though Dev was the broad overseer of the implementation of this economic and political program, his right-hand man throughout this time, especially in regard to economic policy, was Seán Lemass. As Minister of Industry and Commerce, Lemass was the main architect of Ireland's industrial development throughout the 1930s. He consolidated control over economic affairs within his department, and emerged as De Valera's ablest associate in both economics and politics.

The primary avenue by which Lemass' Department of Industry and Commerce pursued its developmental strategy was the institution of the Control of Manufacturers Acts, formulated between 1932 and 1934. These policy mechanisms were very much in line with De Valera's emphasis on economic nationalism, as they sought to control industrial development through various modes. The first of these was to ensure that new industrial endeavors would be financially backed by native investment, meaning that a majority of shareholders in a new company would be Irish citizens. Industry and Commerce was able to control this process through its issuance of licenses to new entrants into the industrial sector. The intent behind this was twofold. Not only did this ensure that Irish industrial development would be developed by predominantly Irish investors, but it would also reduce the predominance of British finance within the Irish economy. However, various historians have noted that this ideological motive was subsumed by the necessity of development within the broader European economy. At various points, the structures of the Controls of Manufacturers Acts were bent to accommodate investment from foreign sources.⁹

⁹ Andy Bielenberg and Raymond Ryan, *An Economic History of Ireland Since Independence* (New York: Routledge, 2013), 13-14.

With the onset of the Great Depression, countries in Europe (and throughout the Western economic sphere) sought to protect themselves from vulnerability. The primary way governments did this was through tariff protection. It should be noted that Ireland's use of tariffs and quotas, as well as its broader policy of self-sufficiency, were not born out of a response to the Depression, but rather because of De Valera's nationalist program, being implemented by Seán Lemass and the Department of Industry and Commerce. Various measurements provided by Brian Girvin show that tariff protection instituted during this period led to increased employment in almost every industrial sector, except for umbrella making (which decreased by a total of five workers). Between the time when tariffs were first put in place and the outbreak of war in 1939, employment in the food, drink, and tobacco industry grew by seventy percent, while employment in the textile industries doubled. On an even more remarkable level, employment in the apparel industry grew by 1000 percent, from 2,038 workers when tariffs were first put in place, to 21,820 workers in 1939.¹⁰

With the benefits of protectionism evident, Lemass sought to move toward the second phase of his plan to increase Ireland's self-sufficiency. As a way to ease some of the costs of the import-substitution strategy, Lemass looked to promote the domestic production of raw and semi-manufactured goods, which had predominantly been imported previously. This would have benefited Ireland's economy by creating new manufacturing opportunities in the production of unenumerated goods, as well as allowing for an expansion of the self-sufficiency model. However, this expansion was

¹⁰ Brian Girvin, *Between Two Worlds: Politics and Economy in Independent Ireland* (Savage, MD: Barnes and Noble Books, 1989), 107.

prevented by the advent of World War II. The ensuing “Emergency” greatly inhibited further Irish industrial development.

Historians such as Cormac Ó Gráda surmise that, during World War II, “the economy was virtually closed off from world markets.”¹¹ This summation can be misleading though, as it is undetermined who in fact did the “closing off.” It is natural that warring countries, Britain in particular, would close off foreign trade to markets they deemed to be not worth trading with, in order to increase economic vitality during a period in which production and investment was crucial to the war effort. Ireland was a victim of this process.

In the face of an unfavorable international economic situation, Irish policymakers essentially had to make do with what they had. To deal with the Emergency, De Valera appointed Seán Lemass as Minister of Supplies to institute regulation on consumption across a wide array of areas. For instance, the use of private cars was limited to only doctors and clergymen during the period. Furthermore, the government imposed a stalemate on wages. Not only did this inhibit bargaining power for workers, but it also had an adverse effect on consumer demand. In addition, the bargaining power of labor was destroyed due to the implementation of a prohibition of labor strikes that sought the increase of wages.¹²

Though these drastic measures were undoubtedly detrimental to the Irish economy, policymakers were left with no alternative in the face of European circumstances. Much as in other European countries, state intervention increased dramatically during the war. Limits on consumption were instituted across the board.

¹¹ Ó Gráda, *A Rocky Road*, 16.

¹² Ó Gráda, *A Rocky Road*, 17.

Fuel conservation was key to sustainability, as was rationing of various foodstuffs. As countries around the world were curtailing the export of raw materials and supplies in order to produce for the war effort, countries that were reliant on the importation of these goods suffered materially. By all measures, living standards in Ireland fell during this period. It is evident from the Irish experience during this period that although self-sufficiency and autarky were thought to alleviate vulnerability to foreign markets, Ireland had not yet achieved the full realization of either of these objectives.

What is interesting to note during this period, is that historians have found an area in which Ireland continued exportation: its people. Between 1939 and 1945, almost 200,000 travel permits were issued to Irish citizens, roughly one-third to females and the remainder to males. The outflow of people was the result of the historic push-pull dichotomy that appeared once again with the onset of WWII. Naturally, British demand for labor was very high during this period. Apart from this increase in demand, the attraction of Irish workers to the British market was further encouraged by stagnant development in the home market. Furthermore, the wage gap between the two nations accelerated during the war. As Ireland's wages remained static, real wages in Britain increased by 20 percent during the same period.¹³

After the conclusion of WWII, patterns in consumption reversed dramatically, as the Irish people looked to "make up for loss time." "Personal expenditure rose by almost a quarter between 1945 and 1950."¹⁴ Almost every sector of the Irish economy was propelled by this rise in consumer spending. But more important than the rise in money flows, the postwar period also resulted in independent Ireland's first significant

¹³ Ó Gráda, *A Rocky Road*, 18.

¹⁴ Ó Gráda, *A Rocky Road*, 22.

experience in economic relations with the United States. Prior to the war, American imports only accounted for roughly 5 percent of total imports, but afterwards this rate rose to 13 percent. Additionally, Marshall Plan funding supplied the Irish treasury with nearly half of its governmental investment from 1949 through 1952. Though the Irish experience under the Marshall Plan was not as dramatic as those of other European countries (such as Britain and Germany), this process laid the foundation for the prospect of furthering economic relations in the future.¹⁵

But whatever rebound Ireland experienced in the immediate postwar period was swiftly subdued by the economic and social depression of the 1950s. Economic innovation in the form of protectionism, which had produced substantial gains during the 1930s, was neglected in the 1950s due to “the era of good feelings” created by the postwar boom in consumption. Furthermore, Girvin argues that political instability during the 1950s worked to disguise continuity in economic policy during this period. This is evident in the fact that between 1948 and 1957, each incumbent government failed to win reelection.¹⁶ This continuity, described by Girvin, was grounded in the fact that economic management was “being utilized to preserve stability rather than generate a modern industrial economy.”¹⁷ The import-substitution strategy up to this point had allowed indigenous producers to cater solely to the domestic market, which produced growth in employment and production as evidenced by the experience of the 1930s. In the late 1940s and 1950s however, the Irish government imposed deflationary measures to combat a balance of payments crisis. Both direct and indirect taxes were increased,

¹⁵ Bielenberg and Ryan, *An Economic History*, 17-18.

¹⁶ Girvin, *Between Two Worlds*, 169.

¹⁷ Girvin, *Between Two Worlds*, 171.

which once again limited consumer spending.¹⁸ As a response to the growing crisis, Fianna Fáil, was voted out of power in 1954, and the second inter-party government, led by Fine Gael, took control over the state's political and economic apparatus. However, this produced little change as policy continued to focus on alleviating Ireland's balance of payments situation, while neglecting domestic economic stimulation. To combat the economic malaise of the 1950s, the Irish citizenry resorted to its historical avenue through which to escape economic vulnerability: emigration. By 1956, emigration levels had reached their highest position since the Great Famine, resulting in a society greatly troubled by its circumstances and wary about the direction of the nation.¹⁹

The importance of the 1950s in Ireland's economic history cannot be overstated. Disillusioned by the social and economic ills produced by stagnation, policymakers reoriented Ireland's economic outlook to accommodate changes in global structures. Some historians have labeled the economic crisis of these years as "the defining event of post-war Irish economic history."²⁰ In 1957, Fianna Fáil was returned to power in the Dáil, and a new man emerged as the leader of the party: Seán Lemass. As Lemass encountered a nation without a clear direction, he sought to transform Ireland's economic and social orientation, from one characterized by an inward looking society based on self-sufficiency, to a more outward approach that called for Ireland to integrate itself on a much higher level within both the European and global economic systems.

Did protectionism and the program of economic nationalism work? As can be seen, this is a question that is still open to debate. Proponents of protectionism contend

¹⁸ Ó Gráda, *A Rocky Road*, 25.

¹⁹ Bielenberg and Ryan, *An Economic History*, 19.

²⁰ Bielenberg and Ryan, *An Economic History*, 19.

that the approach instituted by De Valera reordered the Irish economy to focus more on industrial development, rather than the historical predominance of agriculture.

Furthermore, the extenuating international circumstances brought on by the Great Depression and World War II, forced Ireland to accommodate itself within a broader framework of economic uncertainty. Evidence from the 1930s suggests that the processes begun by Seán Lemass generated benefits in industrial employment and production. However, subsequent phases in Ireland's economic development were necessarily curtailed by Dev and Lemass in the late 1930s, as Ireland had to deal with the drastic economic concerns created by the Second World War. Critics of De Valera's economic program would highlight the fact that during the period between Independence and the 1950s, Irish economic performance lagged behind European standards, especially in relation to Britain and Northern Ireland in particular. However, if we view the economy in a broader historical and international context, the post-Independence period produced an economy that was much more domestically developed than it had been prior to 1922, that had begun the course toward industrial development, and that had also built a social, political, and economic infrastructure that allowed subsequent growth to be realized on a scale previously not thought to be possible.

II. *Sink or Swim: Laying the Foundations in the Lemass Era*

The general consensus among historians regarding the advent of the “Lemass Era” of the 1960s is that it represented a watershed in Irish society, most notably in the realm of economics. Though this period in Irish history lasted only for seven years between 1959, when Seán Lemass became Taoiseach, and 1966, the effects and consequences of this period were profound. Not only did the governments headed by Lemass introduce an economic outlook predicated on export-orientation, they also reoriented the political discourse that had dominated Ireland since Independence.

The lasting impact from this period, however, is much more complex. In terms of the parameters of this discussion, this era introduced the economic outlook that carried on through subsequent decades. Though export-oriented growth was instrumental in this broader context, the role of the state in policy-making complicated this process. As trade liberalization became the primary tool of the state in its policy formulation, this created an awkward dichotomy within broader ideological economic frameworks in which an apparent contradiction between neoliberal economic policy and active state intervention materializes. This in turn resulted in a precarious economic situation in which macroeconomic circumstances produced policy that was geared toward integrating Ireland within the larger global economy. As will be seen, this process is complicated for small, dependent economies like Ireland’s.

The process of reorienting Ireland’s economy from one based on protectionism and self-sufficiency, to one more open to foreign trade and investment, was not solely the product of Lemass himself. In fact, scholars have highlighted the fact that various policy mechanisms were proposed and enacted before he took over as Ireland’s leader in 1959.

Andy Bielenberg and Raymond Ryan have noted this quite astutely. With the second inter party government of Fine Gael and Labour in 1956, economic policymakers slowly began to seek integration within international structures. The most significant way in which this was formulated was through the enactment of Export Profits Tax Relief in the same year. This not only lowered the tax burden on firms that were part of the indigenous economy, but also allowed the few foreign companies operating in Ireland to enjoy lower corporate taxes.²¹ Bielenberg and Ryan argue that this laid the groundwork for future corporate tax structures that made Ireland the tax haven of multinational corporations in later decades; this became an important component of the Celtic Tiger. Furthermore, they also note that even in 1953, Taoiseach John Costello argued for some dismantling of the Control of Manufactures Acts in order to induce foreign investment.

These instances give us a more nuanced view not only of Seán Lemass, but also of the process of economic reorientation. To add more to this perspective, Bielenberg and Ryan point to the work of Bryce Evans and Ronan Fanning. Fanning argues that Lemass was simply a lucky bystander in a period in which European, and particularly British, growth rates achieved high levels. But Evans is the scholar who introduces an issue that is perhaps of more significant consideration and importance. He argues that, “a national coming of age...happened to coincide with his [Lemass’] own coming of age.”²² While it is understandable how Evans would come to this viewpoint, the context behind this assumption requires further analysis.

As previously discussed, Lemass was the primary underling of Eamon de Valera during the latter’s time as Taoiseach. During this period, Lemass staunchly advocated for

²¹ Bielenberg and Ryan, *An Economic History*, 19

²² Quote from Bielenberg and Ryan, *An Economic History*, 19-20.

direct intervention in industrial development as Minister of Industry and Commerce, and to even a greater extent as Minister of Supplies during the Emergency years. His economic ideology was largely regarded as protectionist. However, as the period wore on, Lemass began to develop a more “pragmatic” outlook in regards to economic policy by adopting Keynesian views. This is evident in Lemass’s advocacy of state-intervention in a free trade environment, resulting in a mixed economy. It is apparent from his various policy implementations during his time in office, as well as his tenuous alliance with T.K. Whitaker, that by 1959 Lemass no longer adhered to state-sanctioned protectionism and De Valera’s brand of economic nationalism. But how did this come about? This is where Evans’ argument comes into play.

As the generation of politicians concerned with republican and nationalist ideas began to fade away, new political leaders began to take their place. This younger generation was removed from the bitter fighting that precipitated the Irish Civil War and poisoned political discourse in subsequent decades. While Lemass was not necessarily part of this new generation, his influence in reshaping Irish politics greatly impacted his new political peers. During this period, political and social discourse was reoriented to place more of an emphasis on economic progress and prosperity. Not only did Lemass participate in this discourse, he helped mold it to fit within his own framework.²³

It has hopefully become evident that the “gloom and doom” years of the early 1950s resulted in a reexamination of Ireland’s political and economic orthodoxy. Concerns over attitudes toward nationalism and self-sufficiency were gradually being replaced with an approach more tailored toward economic rejuvenation. Using the

²³ Henry Patterson, *Ireland Since 1939* (Oxford: Oxford University Press, 2002), 151.

political skills he had acquired in over thirty years of public service, Lemass transformed nationalism from being founded on territorial integrity and self-reliance, to a nationalism grounded in economic self-respect. Lemass sought to gain this respect by proving Ireland was a viable economic entity within the broader economic sphere. To Lemass, self-reliance was no longer the program to be emphasized by the political apparatus, but rather sustainability and prosperity within a liberalizing economic environment.

Furthermore, Lemass was able to merge his new nationalism with the issue of Partition, especially against more ideological nationalists. Henry Patterson summarizes Lemass' stance on this facet of the issue stating, "Economic success became the supreme national value because only through it could national unity be restored."²⁴ Though political discourse continued to be the dominating force in shaping the issue of Partition, it is evident that Lemass was at the very least trying to reorient this issue to fit within his economic program.

Between 1959 and 1972, industrial output in Ireland grew at 5.9 percent annually, the manufacturing work force grew by almost 25 percent, and industrial exports as a percentage of total exports grew at a rapid pace.²⁵ It is clear that Lemass was able to generate a period of great industrial productivity that helped Ireland secure a better position within the Western economic sphere. But how did this rapid increase in production come about?

Lemass recognized that trade liberalization was perhaps the only route toward economic prosperity. In turn, he sought to remove some of the barriers that he himself

²⁴ Patterson, *Ireland Since 1939*, 151.

²⁵ Patterson, *Ireland Since 1939*, 152.

had formulated and put in place during the period of protectionism in the 1930s, such as the Control of Manufactures Acts of 1932 and 1934. Furthermore, Lemass and his government implemented a variety of policy mechanisms and state-run organizations that would work to create efficiency within indigenous industry, while also working to attract foreign investment through a wide variety of means. It will become clear that these broad conceptions would come to characterize Irish economic policy through the twentieth century.

A general misconception regarding this period in economic history is the central role of T.K. Whitaker. Though undoubtedly Whitaker maintained substantial influence as Secretary of Finance during this period, it has become clear that much of the formulation of state policy was not his doing. Brian Girvin illuminates this by highlighting the discrepancies between Whitaker's policy proposal entitled *Economic Development* (1958), and the *Programme for Economic Expansion*, published as a White Paper upon Lemass' ascension as Taoiseach in 1959. Girvin does note that there are similarities between the two documents, but he characterizes Whitaker's *Economic Development* as a "transitional document, one that attempts to face up to the complex aspects of a changing society, but finally opts for the traditional policy style and approach."²⁶ Whitaker's proposals were traditional in the sense that they continued to emphasize export-oriented agriculture, restrict demand through deflationary budgets, and maintain the primacy of the Department of Finance in policy-making. Patterson notes that the only similarity with Lemass' *Programme* was "in its recommendations for an

²⁶ Girvin, *Between Two Worlds*, 192.

easing of the restrictions on foreign investment, for a move towards freer trade, and in favour, at least formally, of the need for a development perspective to be at the centre of state policy.”²⁷

In contrast to Whitaker’s advocacy of traditional policy, Lemass’ *Programme for Economic Expansion* offered new positive alternatives that would shift government’s role entirely in regards to the economy. Lemass believed the government had a role in developing Ireland’s economic resources. But the main conduit through which this was to be accomplished was through industrial expansion and export-led growth. The primary way to achieve this, Lemass argued, was to open access to capital aimed at productivity. In particular, Lemass hoped that the vast majority of productive investment would be from private sources. In his White Paper, Lemass stated: “the primary aim of government policy in the industrial sector, therefore, is to stimulate a vast increase in private industrial investment.”²⁸ In conjunction with his attempt to stimulate investment, Lemass noted the development of the Irish banking sector. He argued that, “the facilities provided by the banks, financial institutions, and the stock exchanges are of great importance in securing that capital is placed at the disposal of productive enterprise.”²⁹

Apart from industry, Lemass also recognized that agriculture did have a role to play in the nation’s economic development. While his primary focus was still concentrated on industrial expansion, Lemass hoped to promote agricultural exports by increasing output and lowering costs. He contended that this would allow Irish

²⁷ Patterson, *Ireland Since 1939*, 114.

²⁸ Seán Lemass, “Programme for Economic Expansion,” Laid by the Government Before Each House of the Oireachtas, Nov. 1958, p. 35.

²⁹ Lemass, “Programme,” 9.

agriculture to remain competitive in the expanding and opening of European markets, stating:

The test of agricultural policy, therefore, is whether in the long run it enables output to be increased at costs which exports profitable without subsidization. On this depends not only the possibility of a higher income for the agricultural community but the future development of the whole economy.³⁰

But perhaps the most important aspect of Lemass' *Programme for Economic Expansion* was his vision of the future role of the state in terms of economic development. Lemass acknowledged that the onset of trade liberalization would force the government to evolve new attitudes toward economic development, specifically in contrast to the previous era's policies of protectionism. He stated: "it would be unrealistic, in the light of the probable emergence of a Free Trade area, to rely on a policy of protection similar to that applied over the last 25 years or so."³¹ He would go on to say that, "the rules of the Free Trade area require a gradual and systematic reduction of *existing* tariffs."³² Additionally, Lemass also sought to maintain state aid in development, but to place the primary emphasis on private investment. The state's fundamental role would be to encourage productive investment. This was to be done by providing cheap access to capital, maintaining some form of protection for emerging infant industries, and also attracting foreign investment.

The first way in which Lemass enacted his foreign investment program was through the amendment of the Control of Manufactures Acts. As stated before, this was a policy proposed earlier in the decade by the government led by John Costello. However,

³⁰ Lemass, "Programme," 11.

³¹ Lemass, "Programme," 37-38.

³² Lemass, "Programme," 38.

this process did not commence until 1958, and the Acts were not fully repealed until 1964.³³ Though the repeal of the Acts could be viewed as a largely symbolic gesture to the increasing free trade mindset of the Western economic sphere, there is no doubt that over the next decade, foreign investment in Ireland increased dramatically. In 1973, 40,000 people were employed in foreign owned firms, representing one-fifth of the industrial workforce.³⁴ By the end of the 1960s industrial exports surpassed agricultural exports in value.³⁵

Along with policy implementation aimed at attracting foreign investment, the government also set out on a publicity blitz to announce to the world that Ireland was open for business. The primary avenue through which this was accomplished was through the Industrial Development Authority. Though this state-run apparatus was founded in 1949, it was not until the Lemass era that it was really put to work and fully implemented. The main purpose of the IDA was to help stimulate industrial growth through grants and other financial incentives. Between 1960 and 1973, the IDA aided in setting up 418 businesses, of which 352 were still in operation in 1973. These businesses alone created 44,822 new jobs. However, Conor McCabe has brought to light the fact that perhaps the IDA did not accomplish the goal it had initially set out with in terms of industrial development. Instead, McCabe provides figures that show only thirty percent of the jobs created were in the industrial sector, while the remaining seventy percent “were created in commerce, construction, professional and public service employment,

³³ Bielenberg and Ryan, *An Economic History*, 22.

³⁴ Patterson, *Ireland Since 1939*, 152.

³⁵ Frank Barry, John Bradley, and Eoin O'Malley, “Indigenous and Foreign Industry: Characteristics and Performance,” in *Understanding Ireland's Economic Growth*, ed. Frank Barry (London: MacMillan Press Ltd., 1999), 46.

banking and insurance.”³⁶ This is an important aspect to note, particularly in terms of the commerce, banking, and insurance sectors, as these categories were important in the advent of the services industry, which would later assume a primary role in the Celtic Tiger boom.

Apart from attracting foreign investment, Lemass also recognized that in order to develop industry and the economy in general, relations between labor and capital in Ireland would have to be strengthened. To accomplish this, Lemass set out to create a corporatist model that would create an alliance between unions, business, and the Irish state. In the *Programme*, Lemass asserted: “restrictive practices, whether by employers or labor, inflate costs of production and distribution and retard the expansion of output and employment... It is essential, therefore, that restrictive practices be abolished and it will be an object of government policy to secure enlightened cooperation.”³⁷ His proposals outlined in the *Programme for Economic Expansion* were received with great approval by the unions, with ITGWU lauding “its imagination, initiative, enthusiasm, and tendency to long term planning which has attracted many new industries to the country.”³⁸ This alliance with the unions was vital to Lemass’ vision of corporatism.

So what did this partnership mean for economic growth? Though it is evident that something positive was gained by this version of corporatism, unions suffered most of its negative consequences. The main purpose behind corporatism was to increase Ireland’s competitiveness within the European labor market. This was accomplished primarily through controlling wage demands. In return for adherence to wage controls, trade

³⁶ Conor McCabe, *Sins of the Father: Tracing the Decisions that Shaped the Irish Economy*, (Dublin: The History Press Ireland, 2011), 95.

³⁷Lemass, “Programme,” 46.

³⁸ Patterson, *Ireland Since 1939*, 153.

unions were acceded some form of role within policymaking. Whether this trade-off was successful is quite ambiguous. In 1964, Ireland led the world in terms of man-hours lost through labor stoppages. However, Lemass somewhat alleviated labor strife through small-scale increases in social spending, and also by providing generous concessions in the 1964 national wage agreements. These indeed did assuage some of the unions' concerns as Fianna Fáil actually increased its representation in the Dáil in the 1965 elections, due considerably to the relationship with trade union leaders. Patterson highlights the fact that this was the first time Fianna Fáil was able to gain votes as the incumbent leadership.³⁹

But more than the development of corporatism's immediate effects, the formation of a partnership between the unions, business, and government set a precedent that was to be followed over twenty years later with the social partnership of the 1980s. Once again, this projected Ireland as an economic entity that "had its house in order" and was friendly to foreign interests. Furthermore, it established the state's central role in economic planning.

Improvement in education was another aspect of Lemass' policy program that would have a future impact on the Irish economy. During the 1960s, it was recognized that economic goals could not be attained "without a transformation of the quality and quantity of education."⁴⁰ Throughout the decade the Department of Education sought to improve regional educational equality, as well as expand opportunity for students with less financial means. Between 1961 and 1963, the amount of secondary-school scholarships tripled from 621 to 1775 with the help of state aid. With the appointment of

³⁹ Patterson, *Ireland Since 1939*, 153-4.

⁴⁰ J.J. Lee, *Ireland 1912-1985: Politics and Society*, (Cambridge: Cambridge University Press, 1989), 361.

Donogh O'Malley as Minister of Education in 1965, the process of opening educational opportunity accelerated, as his primary initiative was the introduction of free secondary education. Though O'Malley died in 1968, his enterprise in this regard was undoubtedly successful. By 1969, the number of secondary students had grown to 144,000, compared to just over 100,000 three years previously.⁴¹

At the university level, the Department of Education also looked to increase educational opportunity for those less affluent. Between 1968 and 1975, the number of state grants given to university students increased from 1119 to 6168. Additionally, initiatives were enacted to provide polytechnic education in areas that the university curriculum largely neglected.⁴² Though some of these developments did not have the immediate effect that had been hoped for, improvement in education created a more skilled and knowledgeable workforce that in the future would be promoted as one of the greatest benefits of doing business in Ireland.

So was the Lemass Era a period of economic success? It is evident from employment figures, as well as economic growth in general, that from 1960 to 1973 the Irish economy performed well in a historical perspective. However, Ireland still lagged behind other European countries in various economic indicators. While many observers have considered this a revolutionary moment in Ireland's economic history, it is important to state that Ireland did not move toward classical *laissez faire* policy. Instead, Lemass and his government sought to use the structures and powers of the state to guide the economy in a pragmatic direction. Some have characterized Lemass during this period as turning away from his nationalist roots grounded in protectionism and Irish

⁴¹ Lee, *Ireland*, 362.

⁴² Lee, *Ireland*, 363.

self-sufficiency. It would be fairer to characterizing him as flexible in shaping his ideology and subsequent policy to conform to the necessities of changing circumstances at home and abroad.

This raises the issue of whether Ireland was developing positively as a result of the various policy mechanisms Lemass put in place, or if the Irish were simply along for the ride of economic expansion within Europe. This is a topic still debated by scholars. As will become evident in the next chapter, international integration was central to Ireland's economic growth, and the structures put in place by Lemass worked to accentuate progress and prosperity, but within an international context.

So though Lemass may not be solely responsible for Ireland's economic rejuvenation, the period in which he presided as Taoiseach was significant in reshaping Irish society. Brian Girvin states, "In a broad sense Ireland acquired 'modernity' during this decade, becoming increasingly industrialised, secularised, urbanised, and bureaucratised."⁴³ Furthermore, this period affirmed the belief of older nationalists that independence could produce social and economic prosperity for Ireland, even though this was not accomplished through the previous brand of economic nationalism, which had been pursued by elder nationalists to fulfill the Sinn Féin ideal of "ourselves alone."

⁴³ Girvin, *Between Two Worlds*, 200.

III. *Laying the Foundations, Part II: Understanding European Integration*

The process of Ireland's integration into the wider European economic sphere is a process that historians have frequently looked to in order to understand Irish economic growth during the 1960s and early 1970s. As it became evident to policymakers during this period that situating Ireland within a larger economic community could hypothetically be beneficial to the nation's economy, policies on broad and local levels were reoriented to fit within the emergence of a European framework. It was the formation of supranational organizations such as the European Economic Community (EEC) and the European Free Trade Association (EFTA) that compelled the Irish government to form policy that was congruent with mechanisms such as trade liberalization as well as favorable to Ireland's international economic reputation. European integration was a long process in which various stages of assimilation were attained along the way, culminating ultimately in Ireland's accession to the EEC in 1973. Understanding this process is necessary to elucidate the shape that the Irish economy would take, domestically and internationally, leading into the period before the rise of the Celtic Tiger.

As previously noted, Ireland's real experience with European integration began during the post-WWII period with the influx of Marshall Plan funds and participation in the Organization for European Economic Co-operation (OEEC) in 1947.⁴⁴ While the significance of Irish participation in the OEEC is disputed, this development ultimately marked the advent of economic cooperation with Europe by the Irish government.

Materially, however, ERP funding did little to stimulate the Irish economy, as much of

⁴⁴ The Organization for European Economic Co-operation was the predecessor for the Organization for Economic Co-operation and Development, formally established in 1961.

the postwar boom was facilitated by increased consumption that was spurred by Irish consumers' desire to "make up for lost time."⁴⁵ Brian Girvin has argued that the OEEC was relatively less significant than the trade agreements devised with the British government in 1948; these had a much larger real impact on the Irish economy, as they ensured greater access for Irish agricultural exports to Britain while still allowing the Irish government to maintain much of its previous tariff system.⁴⁶ It is clear that during the immediate postwar period, Ireland's economic outlook was still geared toward the domestic market. Apart from the developments outlined in the introduction, Ireland declined to partake in the newly formed International Monetary Fund (IMF), and rejected participation in the General Agreement on Tariffs and Trade (GATT), both of which were constructed in 1948.⁴⁷

However, Ireland's abstention from international economic affairs began to lessen during the 1950s. With the formation of the EEC in 1957, the first supranational economic alliance in Europe came to fruition. The countries that made up the initial makeup of the EEC included Luxembourg, Belgium, the Netherlands, Italy, West Germany, and France. Other than Great Britain, these countries constituted the most economically vibrant countries of Europe. In response to formation of the EEC, Britain led the way in forming the European Free Trade Association two years later with six other European countries.

The implications of these developments for Ireland were immense. Shortly after the formal establishment of the EEC in 1957, Ireland elected to join the IMF and also

⁴⁵ Ó Gráda, *A Rocky Road*, 22.

⁴⁶ Girvin, *Between Two Worlds*, 172, 194.

⁴⁷ Bielenberg and Ryan, *An Economic History*, 17-18.

began to participate in the World Bank. But in terms of participating within either of the two European economic alliances, the EEC or the EFTA, the Irish government took its time to decide which would be of more benefit to Ireland. However, this decision was made more difficult for a couple of reasons. First, the Irish economy during this period was still ultimately dependent on British markets. Any action that looked to circumvent economic ties with Britain would have unknown consequences and repercussions from Britain. Second, at this point, Ireland's economic prospects were viewed in a relatively negative light by many Western countries, and its participation within the EEC would have been broadly seen as bringing nothing to the table for the other participating countries. This is not to say that Irish policymakers did not look at integration within these larger frameworks as beneficial. The EEC in fact was seen as more attractive to Ireland due to its quite favorable attitudes toward agriculture as manifested in its CAP (Common Agricultural Policy) mechanisms. But the prospect of joining the EEC was pointless without British presence in the organization. Furthermore, the Irish government was wary of Britain's sponsorship of the EFTA, as British participation in the EFTA could possibly foster new trading relationships between Britain and other European countries, thus weakening Anglo-Irish economic ties. However, by the end of the 1950s Britain reassessed its position in European trade networks, and began to adopt a more favorable attitude toward joining the EEC. In turn, Great Britain applied to join the EEC in 1961. Already with a positive outlook toward the EEC and its CAP guarantees, plus the wish to maintain economic ties with Britain, Ireland followed suit in application. In an effort to secure admission to the EEC, Lemass himself made a plea to the six founding members of the community on January 18, 1962. In his statement to the ministers of the

six governments of the EEC, Lemass hoped to clarify that Ireland was working at a rapid pace to ensure a more open economy, and also hoped to make it clear that the Irish government was fully committed to European integration. In regards to the correspondence of Ireland's agricultural and industrial sectors, Lemass explained his intentions to create a dynamic balance in developing both sectors, stating:

I propose to deal first with agriculture, which has a particularly important place in our economy. It generates about one-quarter of the national income, employs over one-third of the gainfully-occupied population, and is responsible, directly or indirectly, for three-quarters of our exports. With the development of industry these proportions will decline, but for Ireland agriculture will always be of major importance. We are, naturally, anxious that, through membership of the European Economic Community, Ireland should be able to look forward to a balanced development of agriculture and industry.⁴⁸

In attempting to sell Ireland's recent success in industrial development, Lemass highlighted a variety of statistical measures that exhibited Ireland's recent patterns of growth to the six member governments:

A Programme for Economic Expansion initiated in 1958, the objectives of which are entirely consistent with those of the Community, has had encouraging results. The volume increase in gross national product, which averaged only 1 percent per annum in the preceding decade, amounted to 4 ½ percent in 1959, 5 percent in 1960, and not less than 5 per cent, it is estimated, in 1961. The greater part of this expansion is attributable to the industrial sector.⁴⁹

Lemass concluded this portion of his speech by stating, "These results confirm not only the considerable scope for economic development in Ireland but the capacity of Irish

⁴⁸ Statement by Mr Sean F. Lemass, Prime Minister of Ireland, to Ministers of the Governments of the Member States of the EEC, January 18, 1962, p.3, http://www.cvce.eu/obj/statement_by_sean_lemass_brussels_18_january_1962-en-0187eb1a-39f6-4268-9f0e-e527f2e8b088.html

⁴⁹ Statement by Mr Sean F. Lemass, p. 4.

initiative and effort, augmented by Western European enterprises to exploit the existing potentialities.”⁵⁰

In concluding his statement to the EEC, Lemass addressed the Irish economy’s close relationship with that of Britain’s. He affirmed the close ties between them and requested that the two nations’ requests for admission be taken together. Lemass proposed: “Because of the close inter-relationship of the economy of Ireland and that of the United Kingdom, and the vital interest of Ireland in agricultural trade, the Irish government would hope that the discussions for the admission of Ireland to the Community might be brought to completion at the same time as those for the United Kingdom.”⁵¹ However, member status for both countries was quickly vetoed by French President Charles de Gaulle in 1963. For Ireland this blackball was multifaceted. Not only did de Gaulle recognize the inherent link between Britain and Ireland in refusing Irish accession, but furthermore, at this time Ireland’s lack of actual development was still apparent. However, Ireland’s application also informed other European countries that the Irish economy, as well as Irish society in general, was becoming more “modern,” and that the Irish government was laying the groundwork for economic structures that would be favorable to cooperation within a broader European sphere.

Bielenberg and Ryan view this episode as vital to understanding the onset of Ireland’s open economy. They argue that Ireland’s first unsuccessful bid “laid important ground work that contributed to the perception among existing members that it was a credible candidate,” and also “bought much needed time for the Irish economy to make

⁵⁰ Statement by Mr Sean F. Lemass, p. 4.

⁵¹ Statement by Mr Sean F. Lemass, pp. 5-6.

some of the initial adjustments to free trade.”⁵² Additionally, they argue that the failed bids of Britain and Ireland both reopened and strengthened their economic ties, culminating in the Anglo-Irish Free Trade Agreements (AIFTA) of 1965.⁵³

Though Irish nationalists would certainly decry the agreements reached between Ireland and Britain in 1965, the economic alliance produced during this time had both immediate and lasting ramifications for the Irish economy. The direct benefits for the economy during this period were varied. Fitzgerald argues that AIFTA “gave it [Ireland] the chance to develop the range and quality of its products for expanded markets on a reasonably gradual basis.”⁵⁴ He also highlights the fact that closer links with Britain allowed the country to prepare for broader cooperation with other economies, as well as providing Ireland some degree of security during a time when future economic prospects were quite uncertain. Although the IDA looked to attract foreign investment, as well as other export markets for Irish goods, Great Britain remained the predominant “partner” in Irish economic affairs, with seventy percent of Irish goods destined to the UK.

Additionally, AIFTA also had political implications that worked to somewhat alleviate nationalist concerns over the new agreements. Among these was the return of the remains of Roger Casement to Ireland for reburial, as well as the flag raised over the GPO during the Easter Rising of 1916. The political benefits should not be overlooked in this case, as they worked to promote cooperation between the two countries.

⁵² Bielenberg and Ryan, *An Economic History*, 24.

⁵³ Bielenberg and Ryan, *An Economic History*, 24.

⁵⁴ Maurice Fitzgerald, *Protectionism to Liberalization: Ireland and the EEC, 1957 to 1966* (Farnham, UK: Ashgate, 2000), 293.

With the economic relationship with Great Britain secured during this period, Ireland still ventured to expand its outward orientation. One aspect of these developments that should not be overlooked is that there was a broad consensus among the Irish political elite that joining the EEC would be advantageous. With momentum toward integration building once again after the signing of AIFTA, both Ireland and Britain re-applied for EEC membership in 1967. Once again, they were both turned away by de Gaulle. But at this point, as Fitzgerald notes, it was apparent that Paris was the main obstacle to EEC ascension, not economic or political deficiencies.⁵⁵ With the resignation of de Gaulle in 1969 as President of France, Ireland's eventual membership in the EEC was inevitable.

In the meantime, the Irish government furthered its liberalization efforts by joining the General Agreement on Tariffs and Trade in 1967. Additionally, the retirement of Seán Lemass took place in 1966. Some scholars have viewed this as the point at which a new generation of political leadership came to power in Ireland. I would argue that although true in terms of age, this was not the case in terms of ideology. First, the fact that Lemass' Finance Minister, Jack Lynch, succeeded him as Taoiseach shows continuity with the previous government's political and economic ambitions. But perhaps more importantly, the new political leadership was very much molded by Lemass during this period, as he looked to turn away from older nationalist leanings and toward a new era in Irish politics shaped by economic and social modernization. These processes were not curtailed by the new leadership, but in fact continued.

⁵⁵ Fitzgerald, *Protectionism to Liberalization*, 306.

With EEC membership still at the forefront of the government's plans for economic expansion, negotiations in the Dáil for a third and final bid commenced in 1970. These were eventually concluded in January of 1972, and Ireland's bid was ratified the following May. The following year, the European Economic Community accepted the Irish membership bid, and Ireland was formally admitted as an EEC partner.⁵⁶

The implications of Ireland's entrance to the EEC have been widely discussed by a variety of scholars. F.S.L. Lyons has argued that being too close in time to events does not allow for a comprehensive historical perspective, and that this is the constant dilemma for contemporary historians.⁵⁷ However, we can trace the immediate benefits and consequences of European integration, and elucidate how these would come to drastically reshape the orientation of the Irish economy as well as the ideology driving its outlook.

Thus, a cost-benefit analysis of Ireland's EEC accession is imperative. The costs of Ireland's European integration are perhaps less evident than its benefits. On a more micro scale, Bielenberg and Ryan have noted the negative impact of the EEC's Common Fisheries Policy on Ireland. As part of this policy, all community members had equal access to offshore waters. Ireland was able to secure a twelve-mile offshore limit to protect its domestic fishing industry, but this did little to provide security for the fishing industry in Ireland, and ultimately this sector of the economy suffered rather than

⁵⁶ Bielenberg and Ryan, *An Economic History*, 25.

⁵⁷Jonathan Haughton, "The Historical Background," in *The Economy of Ireland*, ed. J.W. O'Hagan (London: Macmillan Press Ltd., 1999), 38.

benefitted from EEC membership. Furthermore, Ireland was fiscally responsible for contributing 0.6 percent of its GDP annually to the EEC's community budget.⁵⁸

These small-scale costs, however, were overshadowed by the broader implications of EEC membership. Maurice Fitzgerald has discussed a variety of such greater costs, including the dilution of Ireland's neutrality and nationalism, two inextricably linked features of Irish politics. Fitzgerald notes that since Independence, neutrality had been the cornerstone of Irish foreign policy. As discussed above, this was evident in Ireland's abstention from WWII as well as its rejection of participation in NATO. The EEC presented a problem in maintaining Ireland's traditional neutral policy due to the fact that, although predominantly an economic organization, the EEC was also grounded in political cooperation. However, as Ireland's desire to join the EEC became more evident throughout the 1960s, it was clear to other member countries that Ireland's neutrality policy would not pose a threat to its becoming a member. Bill McSweeney has observed, "Ireland's policy of neutrality has always been conditional upon the possibility of abandoning it for a political end."⁵⁹ The EEC represented such a political end. Thus, Ireland's primary foreign policy mechanism was largely subverted by European integration.

Secondly, Fitzgerald's discussion of the implications of EEC membership for Irish nationalism are quite intricate. Historically, nationalism represented one of Ireland's primary political features. However, participation in the EEC could represent a threat to nationalism, as it would prompt a move toward a more European outlook. But for a variety of reasons, these concerns were alleviated. The reorientation of nationalist

⁵⁸ Bielenberg and Ryan, *An Economic History*, 25.

⁵⁹ Fitzgerald, *Protectionism to Liberalization*, 308.

political discourse was the primary reason for this assuagement. Economic growth had now become the new nationalist aim, and the EEC presented an avenue through which this could be secured. Furthermore, the historical importance of agrarian society in nationalist discourse had been greatly transformed with the perceived benefits of integration. This is evident in the EEC's Common Agricultural Policy, which would greatly enhance the economic vitality of rural farmers. Thus, European integration and its attractiveness to agriculture mitigated the role rural society played in shaping nationalism.⁶⁰

Fitzgerald concludes his analysis of these consequences by stating: "nationalism became a very secondary consideration; the collective Irish psyche was weighing up the advantages of 'Europeanism.'"⁶¹ But what were these advantages? The prospects of the community's CAP policy were obviously beneficial to Ireland's rural community. But even apart from CAP, there were other benefits to agriculture. First, increased subsidization through central funds would ensure stability in the agricultural sector, while also improving the farmers' financial standing through higher fixed prices. Secondly, the EEC would add a more diverse market base within which farming could increase both the variety of its produce and the amount of its total exports. Interestingly, Fitzgerald also argues that these benefits would also "slow down the rural to urban population shift" that Ireland was experiencing during this period of modernization.⁶²

Along with agriculture, the EEC offered a more diverse export base for the industrial sector as well. By 1974, "new industry accounted for over sixty percent of

⁶⁰ Fitzgerald, *Protectionism to Liberalization*, 309-10.

⁶¹ Fitzgerald, *Protectionism to Liberalization*, 309.

⁶² Fitzgerald, *Protectionism to Liberalization*, 306.

industrial output.”⁶³ Between 1973 and 1979, manufacturing output sustained an annual growth rate of 5.1 percent.⁶⁴ Efficiency in manufacturing also increased. Between 1968 and 1985 Ireland’s net output per worker surpassed levels in Great Britain, rising from 82 percent to 128 percent of British levels. However, these metrics can be somewhat misleading, as employment levels in manufacturing remained stagnant during the 1970s, even as production grew.⁶⁵ As will be explored in the next chapter, low employment levels would become one of the more pressing concerns faced by Irish society.

But perhaps most importantly, Irish membership in the EEC reduced economic dependence on Great Britain. Though Britain remained Ireland’s dominant individual trading partner throughout the rest of the century, 1973 marked the point at which Ireland turned away from Great Britain and toward Europe.⁶⁶ Fitzgerald notes, “in 1966 nearly 70% of total Irish goods went to the UK.”⁶⁷ However, by 1992 only thirty-two percent of Irish exports were bound for Great Britain, compared to forty-three percent of exports to other EU countries.⁶⁸ While the Lemass Era reoriented the makeup of Irish exports to include more industrial-based products, EEC membership reoriented their destination.

But did all this change anything immensely for the Irish economy? It is evident that this period saw a restructuring of Ireland’s sovereignty, toward a more European dimension. It should also be noted that the EEC offered the prospect, rather than the

⁶³ Haughton, “The Historical Background,” 37.

⁶⁴ Mary O’Sullivan, “Manufacturing and Global Competition,” in *The Economy of Ireland*, ed. J.W. O’Hagan (London: Macmillan Press Ltd., 1999), 366.

⁶⁵ Frank Barry, “Irish Growth in Historical and Theoretical Perspective,” in *Understanding Ireland’s Economic Growth*, ed. Frank Barry (London: Macmillan Press Ltd., 1999), 36.

⁶⁶ Haughton, “The Historical Background,” 37.

⁶⁷ Fitzgerald, *Protectionism to Liberalization*, 298.

⁶⁸ Haughton, “The Historical Background,” 38.

guarantee, of economic prosperity. This sense of hope created an era of good feelings in Ireland, as evidenced in the sweeping political coalition that regarded the EEC as the most positive and forward-looking possibility for subsequent economic growth.

However, arguments for the benefits of European Economic Community could be offset by the argument that integration merely transformed Ireland from a British neo-colony to an EEC neo-colony. Furthermore, economic liberalization and participation in global markets prompted Ronnie Munck to declare that Ireland was a “small, subordinate cog in an enormous capitalist wheel.”⁶⁹ There have been attempts to challenge these assertions by suggesting that European integration could assuage swift or long-term economic shocks. But this belief would soon be undermined by the global economic malaise of the mid and late 1970s.

⁶⁹ Quote from Fitzgerald, *Protectionism to Liberalization*, 292.

IV. 1973-82: *The Forgotten Era*

The period immediately following Ireland's accession to the European Economic Community (which would later become the European Union) is an era that has been largely overlooked by Irish historians in terms of economic performance. Obviously, from 1968 on, the evolution of the Troubles would put more of a focus on politics during this time, but it remains that 1973 to 1982 also represents a period in which international circumstances and domestic policy once again reshaped the orientation and operation of the Irish economy. Thus, it is necessary to examine the international economic situation as it pertains to Ireland during this period, as well as the reactive government policy that would come to plague the country's finances and usher in an era of rising government spending.

Shortly after gaining membership in the EEC, Ireland faced its first challenge as an integrated part of the international economic community. Following entry, the Irish economy actually became more exposed to both European and global fluctuations. But for Ireland, 1973 also marked a political turning point, as a coalition government led by Liam Cosgrave took power in the Dáil. To meet the onset of the first oil shock of 1973, Cosgrave developed a new form of fiscal policy that looked to stave off an economic downturn through public spending. To better understand these policy directions and their consequences, an analysis of the tenets and formulation of fiscal policy is in order.⁷⁰

Essentially, the debate regarding fiscal policy is split between two divergent ideological positions. The first of these is very much in line with neoclassical economic theory. Fundamentally, this school of thought "attaches a low value to fiscal policy as an

⁷⁰ Ó Gráda, *A Rocky Road*, 30.

independent instrument of macroeconomic management.”⁷¹ Any form of public spending should only be implemented with regard to economic efficiency, and should also be independent of “natural” market forces. Furthermore, this model is based on the assumption that shocks to the market system are created through interference in the market by taxation or other forms of public interference.⁷²

Contrary to the neoclassical model, the Keynesian school advocates an activist approach to fiscal policy that places a great emphasis on demand management. The basic tenets of Keynesianism accept that modern economic structures are inherently unsteady and that government spending can be a mechanism to sustain some semblance of economic stability. Thus, when economic output is below the level that would be achieved with full employment, the government should implement an expansionary fiscal agenda, including lowering taxes and/or increasing public spending, to stimulate levels of demand. On the contrary, when periods of growth above levels of full employment are being experienced, Keynesianism would call for taxes to be raised or spending to be cut, in order to stabilize output and reduce the prospect of unexpected shocks to the economic system. However, Keynesianism is quite ambiguous as to the levels of taxation or spending that would be sufficient in either situation.

During the postwar period and carrying into the 1970s, Keynesianism was dominant in the Western economic sphere. Interestingly, the advent of the Phillips Curve in 1958 theorized that there was a stable yet inverse relationship between inflation and unemployment, concluding that rising levels of both could not be experienced during the

⁷¹ Leddin and O’Leary, “Fiscal, Monetary, and Exchange Rate Policy,” in *The Economy of Ireland*, ed. J.W. O’Hagan (London: MacMillan Press Ltd., 1999), 161.

⁷² Leddin and O’Leary, “Fiscal, Monetary, and Exchange Rate Policy,” 161.

same period. However, the first oil shock of 1973 made evident that this was not the case. In response to the crisis brought on by the first oil shock, the government reacted with increasing levels of public spending, in hopes of stimulating demand.⁷³

However, Anthony Leddin and Jim O'Leary have identified Ireland as an anomaly of sorts due to its status as a small open economy. Because of this, they argue that Ireland is more fundamentally supply-oriented than demand-oriented within global economic structures. Furthermore, as Ireland turned away from domestic demand to export-oriented growth, expansionary fiscal measures would do little to spur economic growth.⁷⁴ Thus, it is evident that an economy such as Ireland's within this international context could be seen as more vulnerable for two concurrent reasons. First, in an international economic downturn, countries that would encourage demand through lowering taxes or raising spending would be attempting to incite domestic growth, thus inhibiting preexisting patterns of trade. Countries heavily dependent on free trade and exports (such as Ireland in this circumstance) would suffer the most in an economic environment in which free trade is not the primary mechanism through which to stimulate growth. Concurrently, in an export-oriented economy, expansionary fiscal measures would be of little consequence unless they were directed toward domestic demand and domestic production.

However, in reaction to the first oil shock, Ireland did indeed introduce expansionary fiscal policy measures. While these did work in a sense to offset the economic malaise of these years, the economy swiftly recovered by 1975, much like the other Western economies, after the oil embargo was lifted. What part fiscal policy played

⁷³ Leddin and O'Leary, "Fiscal, Monetary, and Exchange Rate Policy," 161.

⁷⁴ Leddin and O'Leary, "Fiscal, Monetary, and Exchange Rate Policy," 166.

in alleviating a domestic slump is difficult to ascertain. However, it is apparent that the most important result of these developments was the precedent of deficit spending.⁷⁵

Deficit spending would continue unimpeded for the rest of the decade and into the early years of the 1980s. The coherence and logic of this policy is highly questionable, as it followed neither the neoclassical nor the Keynesian framework in that spending continued without regard to changing economic circumstances. The deficit spending introduced by the younger Cosgrave's government would be continued and accentuated by Fianna Fáil in 1977 when it took back control of the Dáil. The primary reason for Fianna Fáil's election victory was its "irresponsible election programme that advocated tax reduction and increased public spending" in a time that did not call for either to stimulate the economy.⁷⁶

However, it is interesting to note that throughout the latter years of the 1970s, the economy continued to perform well. Whether this was due to deficit spending is once again difficult to ascertain. Some argue that deficit spending and constant borrowing were necessary to ensure growth, while others argue that growth would have occurred nonetheless. But the second oil crisis of 1979 changed circumstances dramatically.

This is the point at which it should appear obvious that Ireland was essentially at the will of other countries in regard to economic developments. As Bielenberg and Ryan explain, economic expansion took a backseat during this period, in terms of various countries' economic policymaking. Instead, governments hoped to stem the tide of inflation by focusing on stabilizing prices and maintaining high interest rates. In conjunction with these unfriendly international circumstances, the Irish political situation

⁷⁵ Ó Gráda, *A Rocky Road*, 30.

⁷⁶ Ó Gráda, *A Rocky Road*, 30.

also deteriorated with three different elections being called in 1981 and 1982. As the economic downturn took hold in Ireland, the government did not take any corrective measures to ensure economic stability, but instead opted to continue deficit spending.⁷⁷

In fact, as the Irish economy entered the 1980s, deficit spending actually increased to a high of 7.9 percent of GNP in 1982 and 1983, as compared to only 3.6 percent in 1977. Here we can also see the decidedly marked shift undertaken by Fianna Fáil with an increase to 6.1 percent deficit in 1978, the year after they took power.⁷⁸ But how are we to interpret budget deficits? Do they have any real effect on either an individual country's strength or performance?

It remains a fact that of the three leading economies in the world, two of them (the U.S. and Japan) have debts accounting for more than one hundred percent of GDP. In fact, Japan carries the highest debt-to-GDP ratio in the world at over two hundred percent. However, these unfavorable circumstances have done little to affect the strength or economic prospects of either country. Their economic status has not been brought into question. However, in Ireland during the late 70s and early 80s, a mounting debt eventually forced the government to institute corrective measures of austerity in order to "save face" internationally. Thus, we can see from the examples of the United States and Japan, as well as the historic experience of Ireland, that there is indeed an international economic hierarchy in which smaller, less advanced economies are viewed more skeptically than historic powerhouses. Unfortunately for Ireland, it falls in the former category. In turn, smaller countries have to do more to prove themselves to larger trading

⁷⁷ Bielenberg and Ryan, *An Economic History*, 32-33.

⁷⁸ Leddin and O'Leary, "Fiscal, Monetary, and Exchange Rate Policy," 167.

partners, formulating and maintaining relationships that are highly beneficial for larger economies but less favorable for smaller ones.

During this period, Ireland was also undergoing a domestic reorientation that threatened to attract disadvantageous international attention. As has already been discussed, the evolution of the Troubles and political anxieties had already worked to throw the nation into a state of concern. But at the same time, the tenets of “social partnership,” as outlined in chapter one, were being undermined by growing agitation in the workforce, caused by developments in domestic policy as well as by European integration.

Much of this agitation was born out of the inequitable structures of the Irish tax system. As formulated by the earlier corporatist agenda, the relatively equal burden of the income tax system, despite its numerous inadequacies, had worked to alleviate conflict. However, as previously discussed, EEC membership brought with it favorable conditions to the agriculture sector not only in guaranteed subsidies and price levels; in addition, Irish farmers had long been exempt from paying income taxes. This, in conjunction with a prevailing favorable corporate tax system, escalated the burden on those outside those two sectors, resulting in a 50 percent increase on those subjected to paying income taxes during the 1970s.⁷⁹ Additionally, the amount of indirect taxation as a percentage of total taxation during this period remained among the highest in the EEC.

⁷⁹ John Key Jacobsen, *Chasing Progress in the Irish Republic: Ideology democracy, and dependent development* (New York: Cambridge University Press, 1994), 131-132.

The unrest caused by this eventually culminated “in a one-day national strike on 20 March in 1979 with 150,000 protesters in Dublin and another 40,000 in Cork.”⁸⁰ In a memorandum presented before the Irish Transport and General Workers Union (ITGWU), the massive inequalities and inefficiencies in the Irish tax code were brought to light by P. Sweeney: “the PAYE sector, which made up two-thirds of those at work, were paying 90 percent of all income tax.”⁸¹ Sweeney went on to assert: “The essential point is that the tax base is too narrow in Ireland, and that the burden falls too heavily on one sector with relatively low incomes.”⁸² In contrast, the ITGWU memorandum noted that during the late 1970s and early 1980s, “Governments continued to impose more and more tax on the PAYE sector, while at the same time reducing taxes on capital.”⁸³ This was accomplished through maintaining low taxes on corporate profits, the abolition of the wealth tax, the replacement of duties, and a decrease in capital gains taxes.

In terms of the corporate tax structure, it was during this period that Ireland began to be utilized by MNCs (multinational corporations) as a tax shelter, as well as a platform to the European market. This was especially evident in regards to the development of foreign-owned companies operating in Ireland. In a report commissioned by the National Economic and Social Council (NESC) in 1980 and published in 1982, known as the Telesis report, the disparity between the progress of foreign-owned firms and the relative stagnation of Irish-owned industry became apparent. In the report, the NESC noted that,

⁸⁰ Patterson, *Ireland Since 1939*, 273.

⁸¹ P. Sweeney, “The PAYE Sector’s Perspective of Taxation and Trade Union Demand for Reform,” read before the Irish Trade and General Workers Union, November 2, 1983, 27, http://www.tara.tcd.ie/bitstream/handle/2262/7828/jssisiVolXXV27_35.pdf?sequence=1

⁸² P. Sweeney, “The PAYE Sector’s Perspective,” 33.

⁸³ P. Sweeney, “The PAYE Sector’s Perspective,” 31.

“Currently, most foreign-owned companies use Ireland as a convenient manufacturing satellite for sales in the EEC.”⁸⁴ Though the report noted that foreign-owned industry helped add roughly 22,000 jobs to the Irish economy between 1973 and 1980, the NESCC also highlighted the fact that foreign-owned companies did not demonstrate a real interest in the overall well-being of the Irish economy but rather an inherent self-interest. The report states: “Foreign-owned industrial operations in Ireland with few exceptions do not embody the key competitive activities of the businesses in which they participate; do not employ significant number of skilled workers; and are not significantly integrated into traded and skilled sub-supply industries in Ireland.”⁸⁵

Contrarily, the NESCC report also exposed the declining position of indigenous-owned industry, noting that Irish ownership “represented two-thirds of total manufacturing employment in 1980, down from three-quarters in 1973.” Additionally, the orientation of this sector did not fall into the government’s broad strategy of export-orientation. The report notes that Irish businesses “represent only 30% of total Irish exports in manufactured goods.”⁸⁶ The NESCC also observed that, “Statements on Irish industrial strategy have emphasized indigenous resource and manufacturing based industry. Government resources committed and actually spent do not reflect this goal.”⁸⁷

Compounding these matters was a shift in bargaining power that had developed during the 1970s. Towards the latter half of the decade, the Irish government undertook a more interventionist role in labor relations. In 1979, bargaining between labor and

⁸⁴ Telesis Consultancy Group, “A Review of Industrial Policy,” (Dublin: National Economic and Social Council, 1982), 18.

⁸⁵ Telesis Consultancy Group, “A Review of Industrial Policy,” 24.

⁸⁶ Telesis Consultancy Group, “A Review of Industrial Policy,” 17.

⁸⁷ Telesis Consultancy Group, “A Review of Industrial Policy,” 29.

employers, mediated by the state, resulted in the drafting of “The National Understanding for Economic and Social Development,” which looked to reinstitute the previous precedent of wage restraint in return for increased public servicing of health, education, and employment.⁸⁸

But even as these aspects of labor’s grievances were being attended to, unemployment was still increasing, as it went over the 100,000 mark in July of 1980. These factors led to the eventual resignation of Jack Lynch as head of Fianna Fáil, and brought into power one of Ireland’s most fascinating and controversial political figures, Charles Haughey. When Haughey’s became Taoiseach in late 1979, he recognized that one of the more pressing concerns for the Irish economy was fiscal rectitude. While this was undoubtedly the case, the way in which the Haughey government approached this proved to be one of the more detrimental experiences in government directed economic policy. In an unstable economic environment, Haughey hoped to encourage domestic production and consumption through the Industrial Development Authority by formulating new subsidies for industry and agriculture, while also maintaining existing appropriations. Additionally, he hoped to encourage a reinvigoration of the domestic economy with his “buy Irish” campaign, which ultimately proved ineffective. While Haughey’s measures did very little to stimulate domestic growth, they do represent one of the few times in which the government looked inward towards domestic driven growth, since its volte-face of the late 50s and early 60s.⁸⁹

Haughey’s most drastic misstep was in how he paid for his attempts to stimulate economic growth. Increased borrowing to service both the debt and needs of public

⁸⁸ Patterson, *Ireland Since 1939*, 273.

⁸⁹ Jacobsen, *Chasing Progress*, 140.

funding worked once again to relegate Ireland to dependent status. By 1979, 27 percent of state revenues was appropriated to servicing the nation's debt, and since deficit spending continued to increase during the 1980s, this percentage assuredly increased as well.⁹⁰

But even as deficit spending increased, unemployment also continued to increase, reaching 12 percent in 1981. In the general elections of 1981, Fianna Fáil was not only kicked out of office by the Irish electorate because of the continuing economic malaise, but more notably for its drastic change in economic policy that placed an emphasis on restoring the nation's finances, no matter the cost. Once again this would usher in a new era in Ireland's economic development, as the government looked to institute austere measures in order to eliminate deficits and lessen Ireland's fiscal debt. In setting out to accomplish these goals, the government ignored the primary recommendation of the NESC report: "Perhaps the greatest need for Ireland's industrial policy in the 1980's is to better manage the development of indigenous industry."⁹¹

⁹⁰ Jacobsen, *Chasing Progress*, 140.

⁹¹ Telesis Consultancy Group, "A Review of Industrial Policy," 35.

V. Milton Friedman Comes to Ireland

As a new era of political fragmentation began in Ireland during the early 1980s, Irish economic structures underwent a fascinating period of stagnation and malaise. Beginning in 1981, the political prospects of Fianna Fáil were in flux. The fate of their government lay in its adoption of a new economic policy geared towards austerity. This program was spearheaded by Ray MacSharry, Minister of Finance at the time. In response to a massive rise in foreign debt, MacSharry suspended automatic raises in public sector pay and instituted spending cuts across the board. However, though this program could be seen as pragmatic in terms of stabilizing the country's finances, the political and socioeconomic consequences were dramatic.

The 1980s saw the emergence of a new theoretical consensus based around classical economic liberalism. The rise of this new dominant ideology was based around two newly developed economic theories: New Classical Macroeconomics (NCM) and the Efficient Markets Hypothesis (EMH). New Classical Macroeconomics was developed by Milton Friedman in the 1970s and eventually became the dominant ideology in university curriculum. Broadly speaking, NCM advocated for reduced deficits and debt, maintain low rates of inflation, and placing restrictions on formulating budgets. The Efficient Markets Hypothesis, considered the “ideological soul mate of NCM,” was developed by Eugene Fama, another economist based at the University of Chicago. Generally, EMH embraced the inherent efficiency of financial markets, and argued that markets were self-regulating and needed little, if any, independent regulation.⁹²

⁹² Donovan, Donal and Antoin E. Murphy. *The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis* (Oxford: Oxford University Press, 2013), 38-39.

These two theories in conjunction with one another resulted in a reorientation of macroeconomic orthodoxy. The results of this new consensus were quite profound. One of the primary modifications within this model was a smaller emphasis placed on unemployment and economic growth, and more focus placed on maintaining stable levels of inflation. Furthermore, this new economic philosophy stressed an adherence to supply-side policies, rather than the Keynesian approach of demand management. This would be facilitated by an environment in which regulation was either greatly diminished or dismantled. Maintaining minimal levels of debts and controlling deficit spending placed an emphasis on controlling a nation's public finances at almost any cost. As is evident in the case of the Irish economy during the 1980s, this new ideology would greatly influence how Irish policymakers sought to deal with emerging problems in the Irish economy. However, this new ideology would greatly inhibit economic development in a small, open economy like Ireland's.⁹³

In the early 1980s, various political factions on the left ceased support for Fianna Fáil, and as a result in 1981 a new coalition led by Garrett Fitzgerald and Fine Gael took control of the government. The coalition also included the Labour Party, which had increased its seats in the Dáil to sixteen. In terms of economic policy, Alan Dukes took control of the Finance ministry and essentially carried on MacSharry's program of "economic realism." His view was that the primary goal of the government should be "to cut the budget deficit by the maximum amount possible, almost regardless of the political consequences." But unfortunately for Fine Gael, and especially for Labour, the political consequences would be drastic.⁹⁴

⁹³ Donovan and Murphy, *The Fall of the Celtic Tiger*, 40.

⁹⁴ Patterson, *Ireland Since 1939*, 283.

Beginning with the budget of 1983, the Fitzgerald government instituted a series of draconian cuts to public spending, as well as increases in taxation. While this did accomplish its goal of eliminating budget deficits and decreasing the nation's public debt, these drastic cuts also had an immense effect on Irish society. In this period, borrowing decreased from a high of 21 percent of GNP in 1982, to just 1.5 percent in 1989. Additionally, inflation rates, which policymakers had continuously labored to control, were reduced from 17 percent to 4 percent over the same period. The consequences of these developments were very harsh. In the same period, income per head (after taxes) dropped twelve percent, and emigration averaged 25,000 per year. As a result of the lower standards of living produced by these austerity measures, in the 1986 election the Labour party's support dropped to its lowest level since de Valera had first become Taoiseach back in 1932. In conjunction, Fine Gael's representation dropped from seventy seats in the Dáil to fifty-one. Additionally, at this point the political left had become greatly fragmented in Ireland, while Fianna Fáil represented itself as a centrist party, committed to promoting pro-growth policies. In 1987, Fianna Fáil returned to power, with Haughey once again as Taoiseach.⁹⁵

In order to understand the evolving political situation, we must explore further the perplexing dimensions of the Irish economy during this period. As previously stated, drastic austerity measures were instituted. The consequences of these should be obvious to most. However, there are other aspects of the economy to consider if we are to gain a better understanding of why this period is one of the more disconcerting eras in Ireland's economic development.

⁹⁵ Patterson, *Ireland Since 1939*, 283-5

As draconian cuts were being implemented by the Fitzgerald government, the power of the state to regulate and institute control over the economy seemed evident. However, this presents somewhat of a paradox if we are to view Ireland through the lens of larger economic structures. Furthermore, the counterintuitive nature of policymaking during this period suggests that it was not government policy that allowed the economy to recover toward the end of the decade. Consequently, it will be shown that larger international developments, beginning in 1987, were actually responsible for precipitating economic recovery and providing the immediate impetus for the rise of the Celtic Tiger.

As previously stated, the Irish economy lagged during most of the 1980s. However, if we look closer at growth, output, and employment, we are presented with somewhat of a paradox, as industrial output during the period actually grew while unemployment continued to remain at high levels, breaking down the perceived relationship between economic growth and employment. At the same time, we also see a marked rise in FDI from the United States, from 986 million pounds in 1977 to 3.8 billion in 1983. So why was this period characterized by stagnation?⁹⁶

The answer to this question lies in real income per head, various consumer metrics, and the rise of economic liberalism as the dominant ideological framework for economic policymaking. John Kurt Jacobsen has identified that the twin goals of the political and economic discourse of the period were to “restore order to the public finances” and to “create the right climate for investment.”⁹⁷ Thus, in order to promote an image of fiscal responsibility, massive spending cuts and tax increases were instituted.

⁹⁶ Jacobsen, *Chasing Progress*, 156.

⁹⁷ Jacobsen, *Chasing Progress*, 160.

As discussed in the previous chapter, this fiscal policy actually worked against both the neoliberal and Keynesian models. All this policy would achieve would be to “get the fiscal house in order,” while doing little to stimulate economic growth or employment through either public or private investment. Furthermore, spending cuts and tax increases worked in conjunction to actually discourage demand, and in turn encourage sluggishness in the economy. Between 1980 and 1985, domestic demand fell by 11 percent, while domestic investment also fell by 2 percent.

Thus, while we can see a growth in output, but a decline or stagnation in real incomes, the only logical reason for these developments is a different program being introduced by the business sector. In fact, Jacobsen sees this turn of events as marking the point when Irish business became more concerned with wealth creation than employment.⁹⁸ Undoubtedly, this fostered a more antagonistic relationship between labor and business. However, with little economic means through which to exercise bargaining power, labor had little choice except to tolerate the extenuating circumstances of the time. To complicate matters for trade unions, the partner they thought they were putting into power with the ascension of the Fine Gael-Labour coalition government, was actually more hostile toward their grievances than previously recognized. This was manifested in a quote taken from a Fine Gael representative stating, “social partners have no right to decide economic and social policy.”⁹⁹ If this is the case, then why institute social partnership at all? It could be suggested that social partnership was simply a façade to alleviate labor concerns, while promoting a friendly business environment to potential international investors.

⁹⁸ Jacobsen, *Chasing Progress*, 162.

⁹⁹ Jacobsen, *Chasing Progress*, 148.

While these aspects were detrimental to the Irish economy, the coalition government did accomplish Alan Dukes' goal of getting the nation's public finances under control. But the political consequences for the coalition government were dire. The 1987 election saw the return to power of Fianna Fáil and Charlie Haughey. With rising unemployment and a decline in social partnership, Irish trade unions backed Haughey and his government, and were incorporated into a new partnership scheme that called for modest wage increases over a three-year period in exchange for cuts in public spending, amounting to 485 million pounds.¹⁰⁰

With a more active partner in the government, it appeared a new era in labor relations was on the horizon in Ireland. However, while Haughey's initial efforts to work productively with labor might be interpreted as a major alteration in Ireland's economic makeup, it is actually more accurate to characterize Fianna Fáil's transition to power as one of continuity rather than interruption. This is manifested in the Tallaght Strategy, which was introduced by the major political parties shortly after Fianna Fáil came to power. This development was born out of the programme instituted by returning Minister of Finance, Ray MacSharry. His fiscal policy, which continued Fine Gael's fiscal approach of slashing public expenditures, so impressed the outgoing Alan Dukes, now leader of Fine Gael, that Dukes committed his party to not opposing the new government so long as it continued to enact a contractionary fiscal policy. Essentially, this conceived a broad ideological consensus that not only worked to cement Fianna Fáil's political power, but also virtually excluded the only viable leftist political parties:

¹⁰⁰ Patterson, *Ireland Since 1939*, 283-5.

Labour and the Worker's Party.¹⁰¹ Most importantly, the Tallaght Strategy disempowered the Irish electorate by giving voters no viable political alternative to challenge the Irish political élite.

Shortly after MacSharry enacted his cuts (amounting to roughly 900 million pounds between 1987 and 1989), the Irish economy actually began to recover from previous economic stagnation. Many contemporaries attributed this upturn to the economic shock therapy implemented by Finance, resulting in the laudatory celebration of the policy of expansionary fiscal contraction.¹⁰² However, to ascribe the recovery of the Irish economy to fiscal policy mechanisms and a slash in public expenditure would be somewhat misleading.

To explain the causes of economic recovery, Patrick Honohan has put forth competing frameworks to help explain both why the economy experienced recovery and why reform was delayed. The first of these is the "institutional hypothesis" theory, which broadly puts forth that government policymaking was to blame for Ireland's economic malaise in the 1980s. This hypothesis works in the sense that government action in the form of spending cuts and tax increases did little to stimulate demand and a reasonable domestic economy, and Honohan also maintains that the continuity in economic policy between the coalition and Fianna Fáil governments demonstrates that this theory could not fully explain the Irish economy's rebirth.¹⁰³

¹⁰¹ Patterson, *Ireland Since 1939*, 285.

¹⁰² Patterson, *Ireland Since 1939*, 285.

¹⁰³ Patrick Honohan, "Fiscal Adjustment and Disinflation in Ireland: Setting the Macro Basis of Economic Recovery and Expansion," in *Understanding Ireland's Economic Growth*, ed. Frank Barry (London: MacMillan Press Ltd.: 1999), 84-5.

Another of these hypotheses is the “external conditions and changing sacrifice ratio” theory. This hypothesis relies on “shifting external factors to explain the timing of adjustment.”¹⁰⁴ Honohan explains that the British recession occurring during the same period reduced the demand for Irish exports. Since Britain was Ireland’s largest trading partner, any decrease in British demand would have a significant impact on the Irish economy.

Additionally, Honohan explains how fiscal policy was antithetical to both recession and recovery, stating that, “fiscal retrenchment was procyclical in the early unsuccessful phase, and anticyclical in the later successful phase.”¹⁰⁵ Thus we can overturn the assumption that activist government policy was the reason behind either recession or recovery. Instead, we have to assert the primacy of international circumstances in provoking both growth and decline. It is evident from this period in Ireland’s economic history that this is the case.¹⁰⁶

By 1987, the economy was slowly recouping the losses it had seen in the previous years. Budget deficits were eliminated in 1987, and a surplus was even recorded in the following year. More importantly, however, international conditions were also improving. Honohan states, “the UK boom sucked in migrants from Ireland, lowering the unemployment rate at home.”¹⁰⁷ Moreover, as the Irish economy was being bolstered, new developments in the EEC were also materializing. These would have tremendous implications for the rise of the Celtic Tiger in proceeding years.

¹⁰⁴ Honohan, “Fiscal Adjustment,” 86.

¹⁰⁵ Honohan, “Fiscal Adjustment,” 86.

¹⁰⁶ Honohan, “Fiscal Adjustment,” 86-7.

¹⁰⁷ Honohan, “Fiscal Adjustment,” 82.

As the EEC began to develop on a more institutional basis, those steering the organization sought a way to integrate member countries to an even fuller extent. This culminated in the Single European Act in 1987. What this proposed was a greater reduction of national sovereignty in order to create a more efficient system in which there would be “free movement of capital and labor, as well as goods and services.”¹⁰⁸ More specifically, the Single European Act entailed the relaxation of border controls, agreement on technical standards, and the liberalization of the finance and service sectors. All of this taken together would allegedly ensure a more efficient system based on competition, a decrease in costs of production, and, consequentially, increased production. All of these aspects of this program fit onto a wider supply-side oriented framework.

The establishment of the Single European Act had an immense impact on the Irish economy. Various studies have shown that the foundations of the Single European Act actually had more significant consequences for Ireland and other peripheral countries than for the core countries of the EEC. Particularly for Ireland, the opening of the European market would enormously encourage FDI inflows, especially from the United States. A quantitative analysis of this will be developed in the following chapter. But in order to stay competitive in a more open European economy, Ireland had to develop a system of wage rates that would remain attractive to foreign MNCs.¹⁰⁹

¹⁰⁸ Dermot McAleese and Fiona Hayes, “European Integration, the Balance of Payments and Inflation,” in *The Economy of Ireland: Policy and Performance of a Small European Country*, ed. J.W. O’Hagan (London: MacMillan Press Ltd., 1995), 280.

¹⁰⁹ Frank Barry, John Bradley, and Aoife Hannan, “The European Dimension: The Single Market and the Structural Funds,” in *Understanding Ireland’s Economic Growth*, ed. Frank Barry (London: MacMillan Press Ltd.: 1999), 99-102.

John Key Jacobsen has labeled this as one of “the ironies of chasing progress.”¹¹⁰ He goes on to propose, “Elites inform job holders that in order to catch up with EEC living standards they must lag behind the rates of wage (and by extension, social wage) growth among trading partners.”¹¹¹ This suggests a hypocritical paradox in which wage earners are forced to remain near the bottom of European living standards in order to facilitate wealth creation. This aspect will also be explored in following chapters, in an analysis of increasing levels of income inequality.

It is evident that further liberalization in integration and trade generated both costs and benefits to the Irish economy. Though the Single European Act is unquestionably the most important development in terms of Ireland’s recovery and subsequent progress in the late 1980s, another development within the European community also aided Ireland’s efforts to rebound from earlier economic recession. The increase in the availability of European Structural Funds had both short and long-term effects. In the short term, these funds were allocated to infrastructure projects, as well as assisting investment and innovation in the private sector by reducing the costs of capital. In terms of long-term progression, funds were directed toward human resource development in the form of training and education. This is perhaps more relevant in the case of Ireland as its relatively highly educated workforce was a considerable contribution to its attractiveness for FDI. In turn, Barry, Bradley, and Hannan argue that the increase in FDI from the effects of human resource development also raised the demand for unskilled labor. Though this may be true, the development of a more integrated Europe would mitigate these effects, as a more liberal movement of labor, as well as wage competitiveness,

¹¹⁰ Jacobsen, *Chasing Progress*, 154.

¹¹¹ Jacobsen, *Chasing Progress*, 154.

would either result in allocating investment to countries that have lower labor costs or force wage levels to remain comparatively low. Growing income inequality in Ireland in the 1980s and 90s demonstrates that the latter is a valid argument.¹¹²

So while Ireland was experiencing a more stable and prosperous economy entering the 1990s, there were inherent weaknesses in the economic structure that would persist until the eventual collapse of the Celtic Tiger in 2008. However, this does not give a full picture if we are to understand Ireland's economic growth during the 1990s. Furthermore, these weaknesses did not ultimately come to fruition until Ireland's boom was in full swing. To understand the growth of the Celtic Tiger, it is vital to analyze how the various policy mechanisms from both the government and the EU were put into operation, and what actual effect they had on the nation in terms of both economic and social conditions.

¹¹² Barry, Bradley, and Hannan, "The European Dimension," 107-115.

VI. *The Celtic Tiger Years: 1987-2002*

The years that witnessed the rise of the Celtic Tiger are of great fascination to historians and economists alike. It was not just the fact that the Irish economy experienced high levels of growth, but also that this growth happened with such velocity. Donovan and Murphy in their book, *The Fall of the Celtic Tiger*, have highlighted a profound shift in the public and media perception of Ireland in just ten short years by noting two articles published in *The Economist*. The first of these was published in 1988 under the title “Poorest of the Rich,” and explored how Ireland was easily the most meager of the relatively well-off countries of northwest Europe. The authors then highlight a cover story on the Irish economy published by *The Economist* in 1997 under the heading “Europe’s shining light,” which explored Ireland’s high and sustained growth patterns and prosperous future prospects.¹¹³

Undoubtedly the Irish economy underwent a dramatic transformation during this period, characterized by massive exports, rising levels in GDP, and sensational financial innovation. But how was this achieved? Previous chapters have explored how since the late 1950s the foundations for economic growth were put into place. Though the economy sustained levels of growth that had not been experienced prior to the liberalization of the 1960s, subsequent fluctuations in both the world economy and problems in policymaking inhibited sustained growth for Ireland’s small and open economy. However, as will be shown, the late 1980s and early 1990s presented the great opportunity Irish leaders had been looking for. Though Ireland’s path toward progress and prosperity had been long and arduous, the period of the Celtic Tiger brought Ireland

¹¹³ Donovan and Murphy, *The Fall of the Celtic Tiger*, 15.

to the forefront of the global economy, as international structures began to shift and Ireland moved from the economic periphery to the world's economic core.

The term "Celtic Tiger" was minted in 1994 by Kevin Gardiner, an economist working for Morgan Stanley. However, the principles underlying the rise of the Irish economy were put into place and practice years before this. With the creation of the Single European Act in 1987, the groundwork for a drastic shift in the world economy was put into place. Five years later, in 1992, Ireland signed the Maastricht Treaty, officially entering into the Single European Market. This is what would cement Ireland's economic status for the next fifteen years. Though Ireland was already positioned, and in fact being utilized, for American access to the European market, this marked the point at which American FDI grew at an astounding rate.¹¹⁴

But this only explains one side of the shift in international economic structures. Donovan and Murphy explain how the advent of the American high-tech revolution in the early 1990s allowed Ireland to build upon its existing foreign industrial sector. As high-tech firms flocked toward Ireland for a platform to the European market, other MNCs followed suit.

What should be obvious here is what Donovan and Murphy term "the coming together of two economic tectonic plates, those of the United States and the European Union."¹¹⁵ This is what allowed Ireland to move from the economic periphery to the global financial core. They further assert, "Without Ireland intermediating the high-tech

¹¹⁴ Donovan and Murphy, *The Fall of the Celtic Tiger*, 16.

¹¹⁵ Donovan and Murphy, *The Fall of the Celtic Tiger*, 17.

revolution between Silicon Valley and Europe, it is quite likely that there would have been no ‘Celtic Tiger.’”¹¹⁶

However, the ambiguities of the Irish economic boom are much more complicated and interrelated than merely a shift in international structures. Though this is what precipitated the rise of the Celtic Tiger, the impact on the economy was more than just an experience of high growth patterns and a massive increase in exports. To find how this shift affected Ireland on a more domestic level, it is necessary to explore the consequences these profound developments had on sectoral distribution, labor and employment, and most importantly, the disparity between foreign and domestic ownership. These taken together will help explain why the economy grew with such exuberance, but also how it crumbled so swiftly.

In terms of economic growth, the prosperity Ireland enjoyed during the 1990s and early 2000s was the highest in the nation’s history. Looking at this period broadly, between 1987 and 1997 Irish GNP grew by 70 percent. In comparison, the US economy grew 27 percent, Great Britain 20 percent, and the EU 24 percent during the same period. GNP per head grew from 59 percent of the EU average in 1987 to 88 percent in 1997.¹¹⁷ In terms of employment, during the same ten-year span 23 percent more jobs were added to the economy. Furthermore, real wages during this period grew 22 percent. Along with this, indices show an increase of roughly 20 percent in productivity per employee.¹¹⁸

¹¹⁶ Donovan and Murphy, *The Fall of the Celtic Tiger*, 27.

¹¹⁷ Barry, Frank, “Introduction,” in *Understanding Ireland’s Economic Growth*, ed. Frank Barry (London: MacMillan Press Ltd.: 1999), 1.

¹¹⁸ Barry, Frank, Aoife Hannan and Eric Stroble. “The Real Convergence of the Irish Economy and the Sectoral Distribution of Employment Growth,” in *Understanding Ireland’s Economic Growth*, ed. Frank Barry (London: MacMillan Press Ltd.: 1999), 16.

A closer examination of sectoral distribution reveals not only how the economy grew at an extraordinary rate, but also how the economic composition in Ireland shifted toward service sector domination, a marker of a newly industrialized country. Though employment had increased during each year since 1989, this increase was experienced at various levels depending on sector orientation. For instance, agriculture experienced a loss of 29,000 jobs (or roughly 18 down percent from its 1989 levels) in the eight years leading up to 1997. By contrast, the market services sector underwent a dramatic rise in sectoral employment, which amounted to a 37 percent increase, or a net gain of 165,000 jobs. Of the almost 250,000 jobs created as a whole by the economy during this period, market services accounted for nearly two-thirds. Both industry and the non-market services sector experienced growth in employment figures but on a substantially smaller scale than the market-oriented sector. In terms of accounting for how these various sectors contributed to the overall economic growth, agriculture is the outlier in this regard, as both employment and productivity decreased.¹¹⁹

Sectoral Employment and Percentage Change

	1989	1997	% job change
Agriculture	163,200	134,200	-18
Industry	306,400	386,400	+26
Market services	442,000	607,100	+37
Non-market services	178,300	210,700	+18
Total Employment	1,089,900	1,338,400	+23

Source: Barry, Hannan, and Stroble, “The Real Convergence,” 20.

¹¹⁹ Barry, Hannan, and Stroble, “The Real Convergence,” 19

Looking at market services more specifically, the highest growth in this sector can be seen in insurance, finance, and business services, as well as in the “other” category, which includes both tourism and international financial services. These two, taken in conjunction with one another, contributed over 120,000 new jobs to the economy. This could only suggest that the economy itself during this period was being reoriented to promote an environment favorable to corporate interests, in terms of various business and financial services serving the needs of the growing numbers of MNCs setting up bases in Ireland. What is needed next is an examination of the influx of foreign investment and corporations to Ireland, and how this also contributed to the reorientation of the Irish economy to one more fixated on international circumstances than the needs of its own domestic market.¹²⁰

With Ireland entering the Single European Market in 1992, FDI escalated at a rapid pace. Though American companies had been attracted to Ireland in previous periods, due primarily to its corporate-friendly tax structure, the opportunity Ireland presented as a European platform was too enticing for foreign corporations to pass up. However, it is interesting to note that there was actually a delay between when investment was made in Ireland and when actual growth was experienced in the economy. The efforts of the Industrial Development Authority (IDA) in attracting emerging sectors in the economy to invest in Ireland cannot be overlooked. Though this process had begun in the 1970s and 1980s, the IDA had the foresight to target investment in high-tech industry, such as computers, pharmaceuticals, and telecommunications. This, coupled with the emergence of the high-tech revolution, fostered the perfect

¹²⁰ Barry, Hannan, and Stroble, “The Real Convergence,” 21.

environment for MNCs to erect operations in Ireland. Consequently, between 1991 and 1993, American investment in Ireland tripled.¹²¹

In comparison to other European countries, the massive influx of human and financial capital to Ireland was quite extraordinary. Paul Krugman calculated in 1997 that American investment in Ireland was six times higher per capita than in France and Germany, and five times more per capita than in Britain. The latter of these comparisons is more remarkable in that the British economy was the only other predominantly English-speaking member of the European Union. This differentiation derives from Ireland being much more committed to the process of full European integration than was Great Britain, evidenced in the fact that British politicians refused to enter into the European Monetary Union and maintained its adherence to sterling.¹²²

The composition of the influx of FDI from MNCs should be noted. Companies in high-tech sectors made up the bulk of this investment, including “companies such as Apple, Boston Scientific, Coca Cola, 3 Com, Dell, Gateway, IBM, Hewlett Packard, Microsoft, Motorola, Northern Telecom, Pepsi, Pfizer...”¹²³ By 1993, output in the five sectors that accounted for the lion’s share of MNC investment (computers, software, chemicals, pharmaceuticals, and cola concentrates) amounted to 43 percent of Ireland’s total manufacturing production. In 1996, this rose to 53 percent. As the successes of these various MNCs became undeniable, others followed suit in constructing a base of operations in Ireland.

¹²¹ Donovan and Murphy, *The Fall of the Celtic Tiger*, 24-25

¹²² Donovan and Murphy, *The Fall of the Celtic Tiger*, 25

¹²³ Donovan and Murphy, *The Fall of the Celtic Tiger*, 25.

It should be apparent that much of the growth experienced during this period can be attributed to the massive inundation of foreign capital. However, at a domestic level, Irish policymakers were doing well in making sure prospects for the continuance of economic expansion were not inhibited by government policies. Even as domestic government investment nominally increased, policymakers were still able to maintain a constant balance in the country's finances. The reinvigoration of the corporatist model of social partnership (or at least the appearance thereof) was vital to presenting Ireland as a good place to do business, as it was in previous decades. However, as will be seen in the next chapter, the fragility of this partnership, and its inherent contradictions, would ultimately be a contributing factor to the demise of Ireland's economic growth.

But for all the previously mentioned initiatives enacted by domestic policymakers to ensure the perpetuation of economic prosperity, where the domestic policy failed was in its inability to develop and intensify a functioning and dynamic domestic base. What will be argued here, is that during the first phase of the Celtic Tiger, the Irish economy transformed into a two-tier system, dominated by the foreign-owned sector of the economy, while the domestically-owned sphere of the Irish economy lagged behind in both growth and real production.

The disparity between foreign and domestic owned industry became much more revealing during the period of the Celtic Tiger. Firstly, the historically dominant role of agriculture was essentially erased during this period. As one of the more domestic oriented sectors of the Irish economy, the decline in agricultural employment and production presents just one facet of the development of this dichotomy.

On a more profound and consequential level, the emerging market-services industry gives us a perfect model in which to view this problem. In the financial services sector alone, there was a dramatic increase in terms of employment in foreign-owned firms. In 1989, 5,586 workers were employed in foreign-owned financial services firms. This increased by almost 20,000 in the next eight years, resulting in an employee percentage growth of 254 percent. Though domestic-owned employment also grew in this sector, from 4,113 in 1989 to 9,790 employees in 1997, both real employment numbers and percentage growth were roughly less than half of that experienced in foreign-owned firms during the same period.¹²⁴

To supplement these figures, manufacturing employment also followed this pattern. In the same time period, employment in indigenous manufacturing grew by only 8 percent, while employment in the foreign-owned sector rose 24 percent. These numbers are even more dramatic when we consider the five sectors previously mentioned as comprising the bulk of MNC investment. Both pharmaceuticals and chemicals experienced percentage growth twenty points higher in foreign-owned industry as compared to domestic-owned. In an even starker contrast, the office and data processing sector of the new high-tech economy enjoyed a 181 percent growth in foreign-owned employment, compared to just 21 percent in indigenous owned firms.¹²⁵

In contrast to the growth in high-tech manufacturing and market services, the sectors that lagged behind were those that had previously been characterized by indigenous proprietorship. Barry, Hannan, and Strobl note that, “The sectors in which both groups shed jobs consisted of largely non-tradeable sectors – non-metallic minerals

¹²⁴ Barry, Hannan, and Stroble, “The Real Convergence,” 22.

¹²⁵ Barry, Hannan, and Stroble, “The Real Convergence,” 22.

and drink and tobacco – and two easily entered low-wage sectors: textiles, and clothing and footwear.”¹²⁶

Apart from the fact that growth was being experienced most acutely and rapidly in the foreign dominated sectors, government policy, especially in the form of the tax system and other financial mechanisms, greatly favored the expansion of foreign industry and investment. As previously noted, the corporate tax structure in Ireland was extremely friendly toward MNCs and foreign investment. By this point, the government had actually “raised” corporate taxes to 12.5 percent of manufactured exports. However, Donovan and Murphy highlight that there were other advantages to MNCs doing business in Ireland, including “capital grants, generous investment depreciation allowances and tax exemptions pertaining to research and development activities.”¹²⁷ While these were available to both foreign and indigenous firms, the benefits of this system were enjoyed predominantly by the vastly larger multinationals.

One of the mechanisms within this system that requires further explanation is transfer pricing. Transfer pricing allows corporations to reallocate profits to branches in the corporation that are located in nations where profit taxation is more favorable, essentially creating a device in which corporate tax avoidance becomes legitimate. What this allows is companies to generate profits in other areas around the globe, while maintaining that their predominant base of operations is in Ireland, thus allowing them to take advantage of Ireland’s low corporate tax rates. The ethical practice of this method of profit reallocation is ambivalent. Hypothetically, MNCs could set up a building or base of operations with a small number of employees and claim that this represents their

¹²⁶ Barry, Hannan, and Stroble, “The Real Convergence,” 23.

¹²⁷ Donovan and Murphy, *The Fall of the Celtic Tiger*, 25.

corporate headquarters. Thus, while doing little to stimulate growth or employment in Ireland, corporations are able to take advantage with no risk and little cost. This mechanism obviously presents us with another example in the disparity between foreign and domestic owned companies, and also exemplifies the opportunity gap that persisted in this two-tier system.¹²⁸

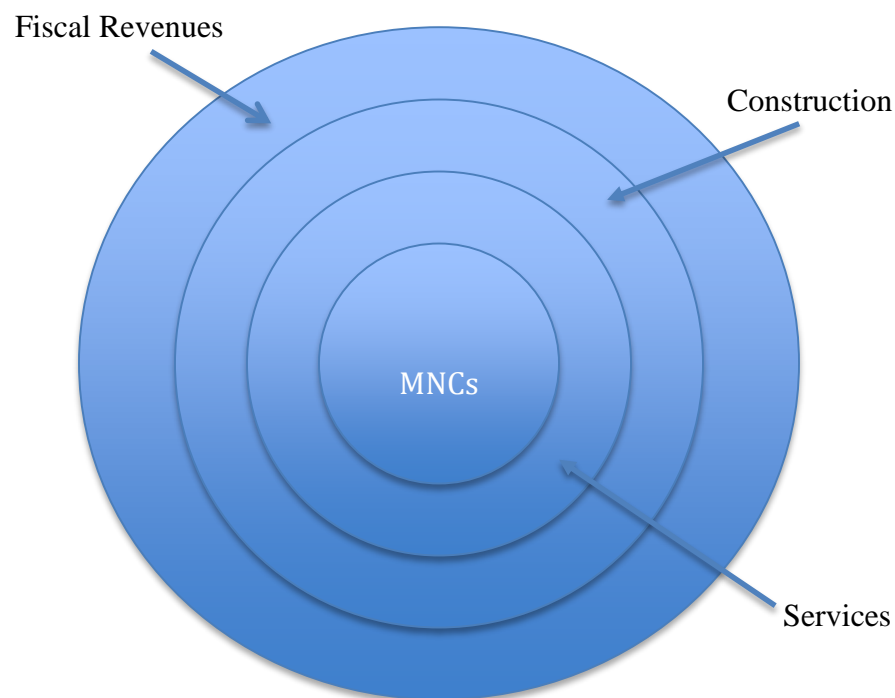
The evidence of disparities between the foreign and domestic elements of the economy is somewhat difficult to elucidate, particularly in the form of transfer pricing and repatriation of profits. However, one measure through which we can expose this divergence is comparing GDP and GNP measurements in the economy. GNP excludes both foreign debt interest payments and capital that has been removed from the domestic economy, and thus “provides a better measure of the income earned by Irish capital and labor.”¹²⁹ The discrepancy between the two can be seen in the fact that in 1999, GNP was actually 15 percent lower than GDP. When examining this in monetary terms, GNP was measured at 75.975 billion euros, and GDP at 87.371 billion euros - a gap of almost 12 billion euros.

Another framework through which to view this system is presented by Donovan and Murphy. In their model, a series of concentric circles is used to demonstrate four interrelated facets of the economy that they say were the most important to the Irish boom. At the center of the circles, we see the MNCs, which they assert lay at the core of economic growth. Moving out to the second circle is the services sector. Donovan and Murphy maintain that the growth of the services sector (including banking, law, and accounting, hotels and restaurants, and transportation) spawned from the needs of the

¹²⁸ Prem Sikka, “Shifting Profits Across Borders,” *The Guardian*, February 12, 2009, accessed April 17, 2014, <http://www.theguardian.com/commentisfree/2009/feb/11/taxavoidance-tax>

¹²⁹ Barry, Hannan, and Stroble, “The Real Convergence,” 14.

MNCs and the subsequent influx of both capital and employment. Radiating from this is the circle for construction, which served the “demand for property in the form of factories, offices, houses and apartments” that logically followed this period of growth. Finally, the last of these circles deals with fiscal revenue. With levels of prosperity continuing into the 2000, the government was actually able to “increase expenditure while simultaneously lowering tax rates.” Because of this, domestic consumption and real incomes grew during the period. Donovan and Murphy propose that the result of all these factors in conjunction with one another amounted to “what many believed was the start of an eternal golden age.”¹³⁰



But this “golden age” did not persist. With the bursting of the American tech bubble in the early 2000s, many of the computer, software, and other technical companies

¹³⁰ Donovan and Murphy, *The Fall of the Celtic Tiger*, 27-28

began to curtail investment in Ireland. As corporate activity in the Irish economy was comparatively reduced during the early 2000s, export-led growth in Ireland plummeted. To make up for this, the economy shifted from export-orientation to a system propelled by domestic demand. The primary mechanism that spurred this demand was in the construction sector. As property prices skyrocketed, both investment and demand geared for this sector.¹³¹ But as will be shown, the boom in construction was actually a bubble waiting to burst. Unfortunately for Ireland, by the time the property market had come to the brink of collapse, it was so integrated with the rest of the Irish economy that it threatened to bring down the entire system. And it did.

¹³¹ Donovan and Murphy, *The Fall of the Celtic Tiger*, 28-29.

VII. *Short and Long Term Deficiencies*

“Success breeds a disregard of the possibility of failure; the absence of serious financial difficulties over a substantial period leads to the development of a euphoric economy in which increasing short-term financing of long positions becomes a normal way of life”

Hyman Linsky¹³²

When the Celtic Tiger collapsed in the Fall of 2008, the Irish economy was sent into a downfall as remarkable as its rise. However, the demise of the Irish economy was not an isolated event, but rather one case within the larger economic collapse that precipitated what has come to be known as the Great Recession. The example of the Irish economy in this circumstance can be viewed in a variety of ways. In the short term, the Celtic Tiger during the mid to late 2000s was becoming less of an autonomous actor in the global economy. Instead, Ireland’s economic structures moved even further toward global integration. By both following examples set by American financial institutions and seeking to create wealth predicated on increased financialization, the Celtic Tiger would eventually fall under its own weight.

On an international level, the decade of the 2000s represented an era in which the world’s leading economic thinkers began feeling a sense of ease and confidence. Even after the dot-com bubble reached its peak in 2001, economists and policymakers entered into an era of assurance and consensus regarding macroeconomic theory that came to be termed as the Great Moderation. In particular, future Chairman of the Federal Reserve Ben Bernanke generally posited that “depressions were a thing of the past and that macroeconomics had reached its Golden Age.”¹³³

¹³² Quote taken from Donovan and Murphy, *The Fall of the Celtic Tiger*, 33.

¹³³ Donovan and Murphy, *The Fall of the Celtic Tiger*, 32.

In this era of economic assurance, economists and financiers sought new ways to create wealth for both themselves and their institutions' shareholders. This was primarily accomplished through new innovations in banking and finance. After the dot-com bubble of the early 2000s, financial institutions became much more advanced and creative in devising new profit generating schemes. Specifically, these institutions focused on the emerging property sector that began to expand at a rapid rate during the early and mid 2000s as a lucrative investment opportunity.

Specifically, large banks created new securities that permitted unqualified homebuyers to purchase properties, and also allowed financial institutions to gain substantial profits. This was mainly accomplished through creating new securities, such as collateralized debt obligations (CDOs) and mortgage-backed securities (MBSs). Beginning in the early 2000s, large financial institutions began forging partnerships with mortgage lenders, both large and small, in order to mitigate risks for lenders and also to generate profits. CDOs were the primary avenue through which this was accomplished. Mortgage lenders would loan to sub-prime borrowers and would then sell these mortgages to larger financial institutions, in order to reduce their own risk of borrower default. These institutions would then bundle mortgages together in order to create lavish securities to sell to various hedge funds, brokerage firms, or other actors in the financial market. While this created profits for both lenders and the big banks, predatory lending that was encouraged by financial innovation was predicated on imposing a disadvantageous requirement on borrowers. As time wore on, borrowers became less

able to make monthly mortgage payments, and the CDOs that were bought and sold by large firms eventually became valueless, causing banks to lose billions of dollars.¹³⁴

In combination with CDOs, financial institutions also created derivatives known as credit default swaps (CDSs) that ensured small and steady profits. CDSs worked as a form of insurance that institutions sold to other actors in the global market. As a form of leverage, banks sold CDSs as insurance against their positions in CDOs. The various entities they sold these to would hold the insurance certificate and compensate banks with regular payments. However, if any of the CDOs that were insured by the CDSs defaulted, banks would have to pay an exorbitant sum to the holder of the CDS as compensation. As CDOs began to default, bank payments to holders of CDSs began to grow exponentially, to the point at which it drove some institutions to the verge of collapse.

CDOs and CDSs were inherent deficiencies in the property boom of the 2000s, and were encouraged by the self-assured atmosphere of the Great Moderation. Although in Ireland, these two examples of financial innovation were not implemented in real terms, the Irish banking sector's increasing integration into the international banking sector (specifically with American banks) exposed the Irish banking system to the inherent hazards presented by these new securities and derivatives.

Similar to American financial institutions, in the early and mid 2000s, Irish banks began to turn to the property market as the new center of Irish wealth creation. The impetus for stimulating domestic growth through property development was twofold. Because of the dot-com bubble of 2001, computer and software companies (as well as

¹³⁴ For a more in depth analysis of the evolution of securities and derivatives based on property values during this period, see Lewis, Michael. *The Big Short: Inside the Doomsday Machine*. New York: W.W. Norton Publishing, 2011.

other MNCs in the technology sector), on which Ireland had based its MNC-reliant strategy began to gradually withdraw capital and investment away from Ireland. To combat the losses being incurred by this process, policymakers and the banking sector began to look inward to fill this gap. As previously explained, the construction industry was the logical successor to fill the void of losses in both jobs and production that would follow decreases in MNC investment. Thus, with encouragement from the government, banks and developers worked in conjunction with one another to create a new property boom that many believed would continue the economic success established during the first phase of the Celtic Tiger.¹³⁵

Through massive overseas borrowing, Irish banks created and stimulated a property boom that was geared toward both residential and commercial development. This was done through exorbitant lending to property developers, as well as an excessive amount of loans to prospective homebuyers. As this process gradually continued, the property market created by the increase in construction projects turned into a classic asset bubble. Donovan and Murphy contend that the transition from boom to bubble was fueled by overproduction on the part of property developers. The surplus that was created in the property market was being facilitated by overlending from Irish banks, which had turned away from practices characterized by astute lending and investment. Instead, banks began to ground their methods of generating profits in speculation, which had been encouraged by the atmosphere created by the Great Moderation.¹³⁶

But even as the situation in the property market began to worsen, policymakers took no corrective measures in order to ensure that a crisis would not ensue. In April

¹³⁵ Donovan and Murphy, *The Fall of the Celtic Tiger*, 79-80.

¹³⁶ Donovan and Murphy, *The Fall of the Celtic Tiger*, 70-74.

2008, just five months before the Irish bank-guarantee on September 29, the Department of Finance was confident about Ireland's economic situation, specifically in regards to the housing market, stating: "while a correction to the very strong Irish housing market was necessary, the downswing is anticipated to be short-lived."¹³⁷ A report released by the ESRI (Economic and Social Research Institute) was in fact welcomed by Finance and its Minister, Brian Lenihan. Lenihan, writing in May of 2008, issued a statement in which he lauded a positive assessment of Ireland's medium-term economic prospects delivered to him from the ESRI. In the release, Lenihan unequivocally remarked that, "The key message that we can take from the Review is that Ireland's economy is flexible and resilient. Because of our sound economic and fiscal fundamental factors, our economy has the ability to absorb shocks in an efficient manner."¹³⁸ Just four months later, he was proven wrong.

So what happened in the months leading up to the Irish financial collapse in September of 2008? Apart from the demise of Ireland's domestic housing market, the Irish banking system began to import international problems. At the same time that the Irish property market began to decay, the same situation was taking place in the United States but on a much larger scale. As foreclosures and mortgage defaults increased at an alarming rate, the property market in the U.S. began to crash. In turn, the various forms of securities and derivatives predicated on property values eventually became worthless, causing the big banks (who had created these forms of financial innovation themselves) to lose billions of dollars. As institutions began losing money on both their holdings of

¹³⁷ Department of Finance, April 16, 2008, <http://www.finance.gov.ie/news-centre/press-releases/tánaiste-and-minister-finance-brian-cowen-td-welcomes-positive-assessment>

¹³⁸ Department of Finance, May 14, 2008, <http://www.finance.gov.ie/news-centre/press-releases/minister-finance-brian-lenihan-td-welcomes-esri's-positive-assessment-0>

CDOs and their positions in CDSs, the American financial system was on the verge of collapse. With the eventual bankruptcy of Lehman Brothers on September 15, the fear of financial contagion had caused international credit markets to freeze.

The consequences of this for Ireland's banking system were dire. Because of the Irish banks' reliance on international borrowing, the freeze on global lending (specifically from U.S. banks) was disastrous. It soon became clear to policymakers and bankers that the liquidity positions of the banks (the reserve funds the banks were holding) would not be able to deal with a public run on the banks without access to outside capital. Specifically, the situation of Anglo-Irish Bank was of concern due to its freefalling share prices and worsening liquidity position. After failing to find a potential partner to either merge with Anglo or buy them outright, the government grew more worried. After days of contemplating how to deal with the impending crisis, the government decided to provide liquidity to Anglo in the form of publically financed and state-backed financial guarantees.

The bank guarantee that was implemented on September 29, 2008, has proven to be one of the most controversial acts of economic policy in Ireland's history.¹³⁹ Though the main target of the bank guarantee was Anglo-Irish Bank, and its worsening financial situation, the government also decided to guarantee the deposit requirements of Ireland's five other major financial institutions: Allied Irish Banks (AIB), Bank of Ireland, Educational Building Society, Irish Life and Permanent, and Irish Nationwide Building Society (INBS). This was done not only to provide solvency assurances to the public

¹³⁹ Interestingly, the day before the Irish bank guarantee decision was made, the U.S. Congress voted against implementing TARP emergency assistance to rescue the American financial institutions that were at risk of total collapse.

regarding these five institutions, but also to not draw attention to the specific individual weaknesses of Anglo.¹⁴⁰

At the time, what this meant was that the government was insuring roughly €440 billion in liabilities spread among the six financial institutions. However, at the time policymakers believed the amount of capital that was to eventually be injected into the banks would never approach this number. Though the guarantee was a blanket promise for all of the big banks, the focus still remained on Anglo. To sell the guarantee to the taxpayers, Lenihan, in a statement made a day after the guarantee decision, lectured the public on the systemic importance of Anglo, stating: “Anglo Irish Bank is a major financial institution whose viability is of systemic importance to Ireland. Anglo has a balance sheet of some €100bn with a substantial deposit base.” Lenihan continued: “the Government is committed to making a new start for Anglo, in the best interests of the State and the taxpayer.”¹⁴¹ Less than three months later, Anglo was nationalized by the Irish government.

By October of 2010, the amount of lending to Ireland’s aforementioned financial institutions from the Central Bank of Ireland amounted to €64 billion, or 40 percent of Ireland’s GDP. The financial consequences of recapitalization would eventually force the Irish government to appeal for a bailout of its own from the European Central Bank (ECB). Though the calamity of the bank and government bailouts could be perceived as the result of an unavoidable international crisis brought on by structural deficiencies in the global financial system, the exceptional nature of the case of Ireland in the Great

¹⁴⁰ Donovan and Murphy, *The Fall of the Celtic Tiger*, 200.

¹⁴¹ Department of Finance, September 30, 2008, <http://www.finance.gov.ie/news-centre/press-releases/publication-anglo-irish-bank-accounts-year-ended-30th-september-2008>

Recession indicates inherent weaknesses in the Irish economic model that preceded the rise and fall of the Celtic Tiger, in addition to this international economic crisis. In fact, these inherent weaknesses can be traced back to the 1950s, and were first recognized by Seán Lemass. In his *Programme for Economic Expansion*, Lemass astutely noted: “our economy is subject to acute fluctuations in external trade, the impact of which falls primarily on the liquid external reserves of the commercial banks, affecting their ability to extend domestic credit.”¹⁴² It seemed little had changed in over fifty years.

At the domestic level, Keiran Allen has highlighted that the rise of the Celtic Tiger actually worked to increase class disparities in Ireland, and created what he calls a “discontented majority” comprised of those who were excluded from the benefits of Ireland’s economic boom. However, the word “discontented” is perhaps less appropriate to describe this group than “powerless.” The development of this powerless majority derived from their exclusion from Ireland’s economic system and political process that occurred prior to the rise of the Celtic Tiger and escalated during it.

Economically, levels of income inequality in Ireland had been among the highest in the Western economic sphere, dating back to the 1970s. The only other two economies that could be compared to Ireland in levels of income inequality, were those of the U.S. and Great Britain. Writing during the height of the Celtic Tiger, Brian Nolan and Bertrand Maître argued that Ireland’s economic boom presented the Irish government with an opportunity to deal with income inequality, stating, “new found prosperity opens

¹⁴² Lemass, “Programme,” 48.

up choices.”¹⁴³ However, as the economy grew during the years of the Celtic Tiger, levels of income inequality remained high, and welfare efforts as a percentage of GNP decreased. Furthermore, for the first time since 1960, wages as a percentage of GDP in Ireland actually fell below the European average, further disenfranchising Irish workers.¹⁴⁴

More importantly, however, the Irish political consensus that was first developed with the Tallaght Strategy and strengthened during the economic boom, subjected the powerless majority to a subservient position in the political process. The way in which this was accomplished was twofold. First, the strength of the Irish political establishment, and the alliance of Fianna Fáil and Fine Gael, created an atmosphere in which the Irish electorate was left without a viable political alternative to check the political power of the élite. Secondly, any viable alternative to the political consensus that did begin to emerge was quickly deemed irrelevant and irrational. During the early years of the Celtic Tiger, the élite were quick to dismiss and condemn anyone who questioned the positive nature of the Irish economy. This is particularly true of Irish trade unions, which lost a great deal of influence during the Celtic Tiger due to legislation aimed at moderating union demands and forcing unions to conform to the state’s various economic policy objectives. But while the creation and development of the powerless majority was instrumental in ushering in the Celtic Tiger and ensuring its unquestioned supremacy, the advent of Ireland’s economic boom and bust would not have been

¹⁴³ Brian Nolan and Bertrand Mâitre, “Economic Growth and Income Inequality: Setting the Context,” in *Best of Times? The Social Impact of the Celtic Tiger*, eds. Tony Fahey, Helen Russell, and Christopher T. Whelan (Dublin: Institute of Public Administration, 2007), 41.

¹⁴⁴ Kirby, Peadar and Mary Murphy. *Towards a Second Republic: Irish Politics and the Celtic Tiger* (London: Pluto Press, 2011), 95, 102-103.

possible without larger economic forces that were put into place long before the rise of the Celtic Tiger.¹⁴⁵

The processes of European integration and globalization offered many perceived benefits to the Irish economy during the latter half of the twentieth century. Opening Ireland's economy to foreign investment and increasing Ireland's involvement in global trade were thought by many to be the springboard for Ireland's eventual economic ascendance. However, in the long run these processes proved detrimental to Ireland's economic growth and sustainability.

Both Europeanization and globalization forced Ireland to rapidly develop into a modern economy at an unsustainable rate. Proponents of delayed convergence theory would argue that Ireland's economic advances in the last half of the 20th century were phenomenal, as Ireland's economy turned to economic modernization as its primary objective. However, the forces of globalization actually caused Ireland to "catch up" to Western economies at such an accelerated pace that the domestic economy was not allowed to sufficiently mature to a stage at which it could tolerate the vulnerability that comes with participation in the international economic system. Throughout the latter half of the twentieth century, Irish policymakers were forced to choose between two divergent paths regarding the model of the Irish economy. The first of these was an economy based on sustainable and gradual development with a diverse domestic base, but on the periphery of the global economic system. The second was to enact policies geared toward innovative and rapid growth that would ensure Ireland's place at the core of the international system; however, this would leave the Irish economy at the mercy of global

¹⁴⁵ Allen, Kieran. *The Celtic Tiger, The myth of social partnership in Ireland* (Manchester: Manchester University Press, 2000.)

markets and vulnerable to international shocks. At almost every instance, Irish policymakers chose the latter path.

It is clear that macro-level forces largely shaped the direction of the Irish economy during the last half of the twentieth century. This was accomplished not only by Irish participation in the global system itself, but also by market influences compelling the Irish government to enact policies at various times aimed at integrating the Irish economy into the international economic system. The onslaught of European integration and globalization forced the Irish government to either join in these phenomena, or to fall even further behind than they had been before. Though at first integration offered Ireland a chance to progress economically, it also created situations in which the economy was left weak and vulnerable. However, in the late 1980s Irish policymakers thought they had figured out the global economy. This opinion was even further cemented by the rise of the Celtic Tiger and the era of the Great Moderation, emerging in the 1990s. With the prosperity brought on by Ireland's economic boom, policymakers were presented an opportunity to evolve their economic model to ensure future sustainability. Instead, the Irish élite decided to maintain the status quo in order to not upset a system that was perceived to be working so well, and also to further their own benefit. The opportunity presented by the Celtic Tiger was regrettably missed, and this proved unfortunate for all of Irish society.

Epilogue

After the bank guarantee of September 2008, the Irish financial system was perceived as sufficiently stabilized by both the government and the general public. There was a general feeling that government intervention had ensured that the worst was over and that the Irish banks would gradually recover from the financial crisis of 2008. However, both the banks and the government failed to recognize the depth of the financial sector's problems. Share prices of the major banks began again to fall as they had before the bailout, and there was a massive withdrawal of liquidity from the banks' deposits. Not only did this leave the banks in a continuously deteriorating position, but the government was also put at risk due to its guarantee of sufficient capitalization for the banks.

By the middle of 2009, it became evident that the initial estimates of the financials sector's losses were grossly underestimated. The government was required by the terms of the bailout to inject capital into the banks, as losses continued to mount. But even more detrimental to the nation's finances was the loss of revenues that were triggered by the international crisis and a massive decline in economic activity. The collapse of the property market and the construction sector lay at the center of the fiscal crisis that the government was now experiencing. During the second phase of the Celtic Tiger, the government was able to amass revenues due to a new tax system aimed toward taxing developers and property-holders. As property development eventually ceased, and values began to plummet, government revenues began to experience a drastic decline. To account for these losses, the Department of Finance enacted expenditure cuts that did little to alleviate the Exchequer's deficit problems, while at the same time moving funds

away from social spending and out of consumer's pockets. Even as cuts increased, Ireland's debt continued to grow heavily, with deficits accounting for 11.8 percent of GDP in 2009 and 11 percent in 2010.

As the fiscal situation was worsening in Ireland, the concerns of the EU and ECB (European Central Banks) regarding the Irish economy began to grow. Though participation in the EU and ECB had been thought to bring some financial security to Ireland, the neglect of the EU, and the ECB, and its regulators during the impending crisis beginning in the summer of 2008 proved that this was not the case. The ECB and its regulators, like Irish officials, did not recognize the depth of the crisis and were largely absent during both the crisis itself and the formulation of the bank guarantee. However, as the situation began to worsen they took a more involved role to ensure that economic instability would not spread to the rest of Europe. This was first evident in their mounting pressure on the Greek government to accept a bailout from the IMF and ECB in April of 2010.

It was around this time that it was becoming conceivable that the Irish government would have to follow the precedent of Greece's bailout. As the government continued to inject capital into the nation's banks, the cost of international borrowing began to increase to 6.7 percent as the credit rating on Ireland's debt began to plummet. On October 1 of 2010, a group of EU officials arrived in Ireland for the first time to discuss with Irish policymakers what the plan for the future was. Over the next two months, EU and ECB officials placed mounting pressure on the government and further involved themselves with formulating the future strategy of the nation's financial and

fiscal administration. At the same time, the government was continually assuring the public that a bailout was out of the question. By late November, this proved false.

On November 19, 2010, the ECB issued an ultimatum to the Irish government: Dublin was required to request a bailout or the ECB would withdraw support from the government's continuous attempts to preserve its financial system. The letter that was sent to the Irish government has not been made public. Two days later, the government announced that it would accept financial relief from the EU and IMF, and just a week later terms were finalized in providing emergency relief to the Irish government. The situation had finally evolved from a bank bailout to a government bailout, resulting in the ultimate loss of Ireland's economic sovereignty.

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