

Ship of Fools

*How Stupidity and Corruption
Sank the Celtic Tiger*

FINTAN O'TOOLE



PUBLICAFFAIRS
New York

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Also by Fintan O'Toole

SHAKESPEARE IS HARD, BUT SO IS LIFE
A TRAITOR'S KISS
WHITE SAVAGE

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To JOHN O'REILLY and JOHN CONNOLE,
better builders

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My debt to Clare Connell is, as always, both incalculable and inexpressible.

Glossary

Dáil - the lower house of the Irish parliament

Fianna Fáil - the dominant party in Irish politics since 1932

Fine Gael - the largest opposition party

IFSRA - the Irish Financial Regulatory Authority, established in 2003 as the separate supervisory arm of the Central Bank; it was subsequently known as The Financial Regulator

Progressive Democrats - a small but highly influential neo-liberal party formed in 1985 and wound up in 2009

Protestant Ascendancy - the governing and landowning class, adhering to the Protestant state church, that dominated Irish society from the seventeenth to the nineteenth century

Tánaiste - the deputy prime minister

Taoiseach - the prime minister

TD - member of the lower house of the Irish parliament, Dáil Éireann

A Note on Sources

Since this book is intended as a polemical, rather than a historical or academic work, it does not have an apparatus of references and footnotes. All of the facts and statistics used here are, however, easily available on line from the relevant Government departments, the Revenue Commissioners, the Comptroller and Auditor General, the Central Statistics Office, the reports and transcripts of the McCracken, Flood and Moriarty tribunals, the DIRT inquiry, the reports of the all-party Oireachtas Committee on the Constitution, the National Competitiveness Council, Eurostat, the OECD and the International Monetary Fund.

References to contemporary events are drawn from the archives of the *Irish Times*, the *Sunday Tribune*, the *Sunday Business Post*, the *Irish Independent*, the *Sunday Independent* and the *Irish Mail on Sunday*.

PROLOGUE

Three Ships

1

In July 2004, the property developer Seán Dunne celebrated his second marriage, to the former gossip columnist Gayle Killilea, in a seventeenth-century villa on the Italian Riviera. The guests, as *M* Killilea's newspaper gushed, were 'a fascinating sample of Irish society: bankers and footballers, designers and theatre directors, not to mention, given the groom's background, political deal-makers'. The only notable absentees were the serving Taoiseach, Bertie Ahern, and his Minister for Finance, Charlie McCreevy.

Ahern had been due to arrive for the wedding, flying straight from the National Day Commemoration ceremonies to honour Ireland's war dead, and to stay as a guest of the property magnate at the Hotel Splendido in Portofino. When news of his plans to travel to Italy was leaked to the press, he decided not to go. During the speeches, however, a phone call from Ahern was played over the speakers to the guests: 'Dunner, you and I go back a long way. I wish I could be there,' he said. 'I'm sorry I couldn't come but I would have been more trouble to you than I'd be worth.' The Taoiseach, Killilea explained to the *Sunday Independent*, 'didn't want our wedding to turn into all being about him. Then Charlie McCreevy said he better not come either.'

The party cost €1.5 million, but it was merely the prelude to a longer, more lavish nuptial celebration. The couple had hired Aristotle Onassis's old yacht, the *Christina O*, venue for the wedding receptions of Onassis and Jackie Kennedy in 1968 and of Grace Kelly and Prince Rainier in 1956. Forty-four guests were taken on a two-week cruise around the Mediterranean. The cost of chartering the yacht is €65,000 a day, not including food, drink and fuel. The fuel charge was €575 an hour.

But the real cost of the *Christina O* was borne by a couple of million people in Ireland, who probably did not know that they had paid for much of it. The *Christina O* Partnership Limited was registered in the Cook Islands but owned by a consortium of Irish businessmen, who purchased it in 2000. It cost them €65 million to buy and refit the yacht in lavish style, including a bronze-bordered swimming pool inlaid with mosaic frescos of ancient Crete that, at the push of a button, could be turned into a dance floor.

The expense was largely borne by the Irish taxpayer. Under Ireland's beneficent tax regime for the rich, the wealthy businessmen who put up the cash got most of it back from the state. In November 2008, the Revenue failed in a court case in which it had challenged the right of one of the investors, Pino Harris, to claim back most of his outlay on the *Christina O*. Harris had put up €14.3 million and got €9.12 million of it from the state in the form of tax refunds. Assuming that the other investors got back the same proportion of their investment from the tax authorities, the Irish taxpayer lavished

about €40 million on the *Christina O*. It was money well spent - a state in the throes of a demented property cult needed somewhere suitable for its new aristocracy to disport itself in style.

Less than a year after his epic epithalamion in the Mediterranean, Seán Dunne pushed Irish property prices to new heights by buying the Jurys and Berkeley Court hotels in Ballsbridge, Dublin, for €200 million, with the intention of demolishing them to build a new high-rise city quarter to rival London's Knightsbridge. He paid €53.7 million per acre for the land; the previous record was €35 million. He then bought a small adjacent site, Hume House, for the equivalent of €195 million an acre - believed to be one of the highest prices paid for a piece of real estate ever, anywhere. In all, he spent €375 million on his Ballsbridge site.

In August 2009, Ulster Bank, a subsidiary of the Royal Bank of Scotland, moved loans it had given Dunne to buy the Jurys and Berkeley Court site into a new 'quarantine' division for dodgy assets, a prelude to eventually offloading them to a British or Irish state 'bad bank' for toxic debts that were unlikely ever to be repaid in full.

The *Christina O* sailed on.

2

At two o'clock on the morning of 11 September 2008, twelve miles west of the island of Belle-Ile in the Bay of Biscay, the bilge alarm sounded on the Irish national yacht, the *Asgard II*. The brigantine was the successor to and namesake of the original *Asgard*, on which, in 1916, the nationalist revolutionary Erskine Childers and his wife Mary ran a consignment of German guns into Howth harbour and delivered them to the Irish Volunteers. The original ship was enshrined in nationalist mythology and eventually preserved in the national museum. The *Asgard II*, the state's official sailing training vessel, inherited some of its aura as a symbol of the nation. Its masthead was an image of the sixteenth-century 'pirate queen' Granuaile, who had defied Elizabethan encroachment on her West of Ireland coastal fastness.

The sound of the alarm that morning meant that the *Asgard II* was taking in water. The captain gave the order to abandon ship, the crew was evacuated, and the *Asgard*, her decks awash, sank sadly to the bottom of the bay. There was some hope that she might be raised, but in February 2009 the government decided that there was not much hope of salvage. Nor was there much prospect of building a new boat to symbolise the nation. The government was so broke that it quietly pocketed the €3.8 million in insurance money and left the *Asgard* to its watery fate.

There was something almost too neat about the symbolism. A fortnight later, the Irish banking system, awash with waves of bad debts owed by property developers, collapsed. The great Irish economic miracle of the 1990s and early twenty-first century was over and the global Cinderella was returning to rags and ashes. The *Asgard* had never functioned quite so eloquently as an image of Ireland.

3

A joke:

A magician gets a job on a cruise ship. The captain keeps a talking parrot to amuse himself and his passengers. At first, the magician is charmed by the parrot's smart-arse repartee. When he gives his magic show, however, the parrot hangs out of a light fitting above his head. When the magician makes a dove disappear, the parrot squawks: 'It's up his sleeve.' When he makes a playing card vanish, the parrot shrieks: 'It's behind his ear.' When he makes a rabbit evaporate into thin air, the bird screeches: 'It's in his hat.'

The enraged magician can't take any more and he starts to swipe at the bird with his cane. Just then the ship hits an iceberg. The magician is nearly trampled in the rush for safety and he has to dive into the water and swim. As he finally drags himself into the lifeboat, the parrot, perched on the stern, looks him in the eye and says, 'Okay, you've got me. How did you make the ship disappear?'

El Tigre Celta

‘un “american dream” à l’européenne’

- *Le Monde on Ireland*

In Tegucigalpa, at 7 p.m. on the evening of 19 February 2009, members of the Honduran National Business Council filed into the 700-seater La Concordia ballroom of the Marriott Hotel. They had paid \$150 a head to hear a lecture about the Irish economic miracle and how it could be emulated by those still wallowing in the swamps of underdevelopment. Its title was *El Tigre Celta: Modelo Irlandés de Desarrollo* ('The Celtic Tiger: The Irish Model of Development'). The speaker was the former Taoiseach, Bertie Ahern, described in the promotional literature for the event as the 'driver of the Irish economic model'.

The speech so impressed the right-wing Honduran National Party that it quickly issued a statement proclaiming its close affinity with Ahern's inspiring leadership: 'The development model followed by Ireland to become the "Celtic Tiger" coincides with that promoted by the Nationalist candidate Porfirio Lobo Sosa, nationalist leaders said after meeting with former prime minister of that European country, Bertie Ahern . . . The nationalist leadership knew all about the development program implemented by Ahern when he served in office between 1997 and 2008 which allowed him to place Ireland at the head of the wealthiest nations of Europe at present'.

It was perhaps as well that, for most Hondurans, Ireland is a faraway country of which they know nothing. Back home, on the day after Ahern's speech about the Irish model of development, it was disclosed that the newly nationalised Anglo Irish Bank had over the previous few years given €22 billion in loans to its own directors, chief among them its chairman, and Ahern's good friend, Seán FitzPatrick.

During the same week, it emerged that Anglo Irish had lent a secret consortium of investors €300 million to buy the bank's own shares. The European Commission in Brussels publicly rebuked the Irish government for failing to control the public finances during the boom years. Social welfare officials were warning that they couldn't cope with the wave of benefit claims from the newly unemployed. Ahern's highway to development was looking increasingly like a road to nowhere.

Ahern's speech on 'the Irish model of development' had been greatly in demand, not because he had any oratorical skills, but because the globalised Irish economy had itself become a global brand. He had delivered the same script in both Korea and Ecuador in October 2008 - reportedly for a fee

€30,000 each time.

Sadly, this source of income dried up as news of the collapse of the Irish economy finally reached distant parts. In early August 2009, the Celtic Tiger speech was quietly dropped from Ahern's portfolio by his agents, the Washington Speakers Bureau. The Irish model of development had come to seem more like a threat than a promise.

By then, Ireland was outstanding in the global economy, but not quite in the way that Ahern's listeners might have been led to believe. The International Monetary Fund was predicting that Ireland's Gross Domestic Product (GDP) would shrink by 13.5 per cent in 2009 and 2010 - the worst performance among all the advanced economies and one of the worst ever recorded in peacetime in the developed world. Government debt almost doubled in a year. The level of debt among Irish households and companies was the highest in the European Union. The country's gross indebtedness was larger than Japan's, which has thirty times the population. The average Irish person owed €37,000.

Irish house prices had fallen more rapidly than any others in Europe. With a fifth of its office spaces empty, Dublin had the highest vacancy rate of any European capital and was rated as having the worst development and investment potential of twenty-seven European cities. The Irish stock exchange had fallen by 68 per cent in 2008 - a much more dramatic collapse than in other developed countries.

The average Irish family had lost almost half its financial assets, whose worth had fallen from €95,000 at the height of the boom in 2006 to €51,000 in mid-2009 - not counting the steep decline in the worth of its house. Unemployment rose faster than in any other Western European country, increasing by 85 per cent in a year. Ireland also ended up establishing a massive bad bank, the National Asset Management Agency (Nama), to take over €77 billion in loans to developers from banks that would otherwise be insolvent. (The State was consciously paying much more than the loans were now worth - shelling out €55 billion for loans worth no more than €47 billion.) This was another global number one for Ireland: Nama will hold more assets than any publicly quoted property company in the world, dwarfing giants such as GE Capital Real Estate and Morgan Stanley Real Estate, which own assets of €60 billion and €48 billion respectively.

In its rise and fall, Ireland made Icarus look boringly stable. The relationship of its recent past to its present was that of party to hangover - the headache was in direct proportion to the indulgence that preceded it. But the reversal of fortune in which the Celtic Tiger became a bedraggled alley cat was not simply an Irish concern. As Bertie Ahern's untimely posturing on the world stage demonstrated, the Irish economy was, for a full decade, the poster child of free-market globalisation. It was understood, not simply as the story of how one small and peripheral European country moved from relative poverty to prosperity, but as a moral tale with a happy ending for all those who learned its lessons. For most of the twentieth century, Ireland had struggled to be like other countries. But between the late 1990s and 2008, other countries were told they must struggle to be like Ireland. This, ironically, was particularly true in the years when the Irish economy was most like Humpty Dumpty: bloated, fragile, sitting smugly at a great height and headed for a fall.

The Republic of Ireland is a small place. Its population grew rapidly in the boom years to a peak of 4.5 million, placing it somewhere between Kentucky and Alabama. In terms of GDP, its economy was comparable in size to that of Nevada or Maryland. It was not, even at the height of its success, all that

rich in American terms. In 2002, when the boom had been under way for a decade, Ireland's GDP per capita was somewhat higher than that of Mississippi or Arkansas, roughly similar to that of Florida and Oregon and about half that of Connecticut. Even in 2006, by the more accurate measure of gross national product (GNP), Ireland would have been the sixth poorest US state.

So why all the fuss about a small European country becoming richer than Arkansas? What made Ireland interesting to people around the world was not so much its destination as its journey. Its story had a Hollywood-style narrative arc. It was a tale of misery, struggle, transformation and triumph. And it came with a ready-made moral: neo-liberal globalisation works. The magic of the market had turned Europe's Cinderella into a glittering princess. It was, as a briefing paper for the right-wing Heritage Foundation put it in 2006, 'hard to believe the Ireland depicted in the film *The Commitment* even existed 15 years ago'.

Instead of being a small place with very specific circumstances, Ireland came to stand for a formula that could be applied anywhere from Armenia to Zambia.

In 2005, the official government publication *Lithuania in the World* announced that 'Lithuania keen to repeat the economic growth story of Ireland, the Celtic Tiger'. In 2006, two centre-right Latvian parties, Latvia's Way and Latvia First, promised the electorate that they would follow the Irish path and raise living standards to Irish levels within a decade. In January 2007, the government of Trinidad hosted a seminar on 'The Irish Model of Economic Development - Lessons For Trinidad and Tobago'. The following August, the Americas Society and the US/Uruguay chamber of commerce heard a presentation on Ireland, concluding that the 'Irish model is a strategy that can work for other countries, irrespective of time and place'. Even as late as February 2008, the first minister of Scotland, Alex Salmond, was pledging that 'we will create a Celtic Lion economy to rival the Celtic Tiger across the Irish Sea'.

Much of this enthusiasm for the 'Irish model' was driven by the neo-liberal Right in the US. *Fox News* and *The Wall Street Journal*, for the Cato Institute and the Heritage Foundation, Ireland was the living proof that 'tax and spend' Democrats were wrong and Reaganism right. Benjamin Powell on *Fox News* and in Cato Institute papers praised Ireland for its 'radical course of slashing expenditures, abolishing agencies and toppling tax rates and regulations'. *The Wall Street Journal*/Heritage Foundation Index of Economic Freedom gave the little country regular pats on the head as 'Europe's shining star'. Heritage Foundation authors pinned their most coveted medals to the tail of the Celtic Tiger. It was the embodiment of 'Thatcherism triumphant'. Its 'Reagan-style tax rate reductions' had taught the world the lesson that 'tax cuts are a recipe for prosperity'. By 2004, there were suggestions that the Irish story held a lesson, not just for the underdeveloped countries of eastern Europe or Latin America, but even for the US itself. Daniel Mitchell of the Heritage Foundation suggested that 'the United States should learn a lesson from Ireland, which has turned itself from the "sick man of Europe" into the "Celtic Tiger" by slashing the corporate tax burden'.

The crowning glory of this interpretation of the 'Irish model' arrived precisely at the moment when that model was tripping over its high heels and falling off the catwalk. For centuries, the Irish had dreamed of being like Americans - an ambition that millions of them fulfilled in the flesh. Then, in one of history's weirdest reversals, there was a moment when some Americans with a serious prospect of power began to dream of being more like Ireland. Not as in wearing Aran sweaters, drinking pints of Guinness and waxing lyrical in a charming brogue, but in real, serious economic terms.

In April 2008, Phil Gramm, the former Republican senator and economics advisor to presidential candidate John McCain, told *US News and World Report* that ‘The only place socialism is seriously debated in the world is in Washington, DC . . . Ireland is a perfect example. Senator McCain’s people immigrated from Ireland along with millions of others because they were hungry. Today, Ireland has among the lowest tax rates in the world, one of the best business climates in the world, and as a result they have overtaken Americans in per capita income’.

In September, McCain himself picked up the theme in one of his televised presidential campaign debates with Barack Obama: ‘Right now, the United States of American business pays the second highest business taxes in the world, 35 per cent. Ireland pays 11 per cent. Now, if you’re a business person, and you can locate any place in the world, then, obviously, if you go to the country where it’s 11 per cent tax versus 35 per cent, you’re going to be able to create jobs, increase your business, make more investment, et cetera’.

McCain got the figures wrong (the corporation tax rate in Ireland is 12.5 per cent) and his timing was rotten: even as he spoke the Irish banking system was frantically trying to hide the scale of the bad loans to property developers that rendered it effectively insolvent. But in citing Ireland as the model that his presidency would follow, he was putting the final seal on the idea that this previously benighted island offered empirical proof that the way forward for everyone was extreme economic globalisation, low personal and corporate taxes, ‘business-friendly’ government and light regulation. The Irish formula was the new universal truth of economics, society and development. It transcended history and geography and, as the Uruguayans had been told, it worked ‘irrespective of time and place’.

It had, indeed, defied geography by inserting the American way of doing business into Europe. Even sceptical Europeans began to believe this: in May 2008, an extensive article in *Le Monde* hailed Ireland as ‘un “american dream” à l’européenne’.

The problem with this idea was not just that it was wrong or that it was believed by politicians and policy makers around the world. It was that the Irish themselves came to believe in it. They managed collectively, to misunderstand why they had become prosperous and in doing so to waste and eventually to destroy that prosperity. The rise and fall of the Celtic Tiger was indeed a kind of moral tale, but the lesson was not that free-market globalisation is a panacea for the world’s ills. It is, on the contrary, that politics, society, morality and collective institutions matter.

There is no doubt that Ireland’s economic performance in the late 1990s was genuinely remarkable. The rate of unemployment in the fifteen European Union countries as whole remained more or less static throughout the 1990s. In Ireland, it was cut in half, from a desperately high 15.6 per cent to 7 per cent (and shortly afterward to less than 5 per cent). The level of consistent poverty fell from 15 per cent of the population to 5 per cent. In 1986, Irish GDP per head of population was a miserable two-thirds of the EU average, and even in 1991 it was just over three-quarters. In 1999, it was 111 per cent of the average, and significantly higher than that of the UK.

The Irish share of foreign investment by US-based corporations rose from 2 per cent to 7 per cent. By 2000, Ireland had \$38,000 of foreign investment for every man, woman and child - more than six times the EU average. World-leading corporations like Pfizer (which makes all of its Viagra in County Cork) or Intel (whose European base is in County Kildare) created good, well-paid and increasing highly skilled jobs.

This was a new way for a country to get rich: Ireland became far more dependent on foreign investment for its manufacturing base than almost any other society. By 1999, half the manufacturing jobs were in foreign-based companies compared to 20 per cent for the EU as a whole. But it seemed to work. At the end of the 1990s, Ireland had become the largest exporter of computer software in the world. The overall value of exports more than doubled between 1995 and 2000. In the ten years to 2004, the growth of Irish national income averaged over 7 per cent, more than double that of the US and almost triple the average growth rate in the eurozone.

Mass emigration, with all of its debilitating economic, social and psychological effects, ended and was gradually replaced by large-scale immigration - a phenomenon that had been utterly unimaginable to generations of Irish people. Coming to Ireland to look for work would have been, at the start of the 1990s, like going to the Sahara for the skiing. By the time of the 2006 census, one in ten of those living in Ireland were born elsewhere.

Partly as a result of these two factors, the population rose at a phenomenal rate. While the rest of the EU added one person to every 1,000 between 1998 and 2008, Ireland added ten. For a country in which depopulation had been the ultimate mark of despair, the simple fact that there were a lot more people around was a historic achievement.

All of this was great, and it was also a lot of fun. Coinciding with the gradual establishment of peace in Northern Ireland after the Good Friday agreements of 1998, it made Irish people feel a lot better about themselves. Ireland shook off much of its authoritarian religiosity and became a more open and tolerant society. The pall of failure that had hung over the Irish state for most of its independent existence seemed to have been blown away for ever. Ireland was young, buoyant and energetic, and to those who complained that older spiritual values were being lost, the ready answer was that having a job and a house and a choice about staying in your own country can be pretty spiritually uplifting too. Even the undertone of hysteria in the increasingly frantic consumer spending could be forgiven - Irish people had been relatively deprived for a long time and were now working at least as hard as they played.

Yet the very speed of the transformation contained its own problems. There was little time to absorb what had happened, to weigh it and understand it. How much of it was about Ireland and how much a mere side-effect of a global boom? How much was due to good policy decisions and how much was sheer dumb luck? It was easier to adopt a simple explanation that had the virtue of chiming with what the rest of the world (and especially those in the US who championed an extreme version of the dominant free-market ideology) wanted Ireland to prove.

A narrative emerged. Fianna Fáil and the small, radically neo-liberal Progressive Democrats came to power in 1997, with the PDs (supported by the Fianna Fáil Minister for Finance, Charlie McCreev) pulling the centre of gravity of Irish governance sharply to the right. Income taxes were cut, foreign companies were courted with massive tax breaks and the promise of light regulation. Enterprise was encouraged and rewarded (or, in plainer words, the rich were idolised and allowed to avoid petty restrictions like paying tax). The power of free-market globalisation was unleashed and Ireland became a large-scale version of a TV makeover show, with the 'before' pictures showing a slovenly, depressed wretch and the 'after' images a smiling, bling-bedecked beauty, who went on to start her own self-improvement course for similarly abject little countries.

It was a good story, and like most good stories, it was mostly untrue. The reality is that far from

being a model that could be applied 'irrespective of time and place', the Celtic Tiger was the product of a very specific place at a very particular time. A lot of things came together in Ireland in the mid-1990s, and not many of them had much to do with the application of free-market Reaganite orthodoxy.

For a start, one of the reasons the Irish economy grew so fast after 1995 is that it had grown so slowly before that. The performance of the Irish economy since independence in 1922, and especially during the post-war boom that transformed the rest of Western Europe in the 1950s, was utterly miserable. Cormac O Grada and Kevin O'Rourke noted of Irish economic performance from the end of the Second World War until 1988 that the country was a 'dramatic underperformer during this period', a 'spectacular outlier' and 'the sick man of Europe'. As the historian Joe Lee noted in 1988, 'No other European country, east or west, north or south, for which remotely reliable evidence exists had recorded so slow a rate of growth of national income in the twentieth century'. Much of what happened in the 1990s was simply that Ireland caught up with the living standards of the region it belongs to - Western Europe - and got to where it should have been all along. The energy unleashed by the process of catching up, combined with the advantages of not having an old heavy industrial base, allowed Ireland (temporarily) to outperform those European neighbours. In a longer perspective, what that was happening was a regional levelling-out.

A second factor was the long global boom of the 1990s. The growth in world economic output between 1995 and 1998 exceeded that during the entire 10,000 year period from the dawn of agriculture to the start of the twentieth century. The growth of the world economy in 1997 alone far exceeded what was achieved during the entire seventeenth century. As part of this trade-fuelled boom, American companies invested more money abroad in the 1990s than in the entire previous forty decades. Half of their investment of \$750 billion went to Europe. It is not a wonder that a small but significant slice was invested in Ireland, a stable, Anglo-phone country with EU membership, relatively low wages and a well-educated workforce. It would, in fact, have been truly amazing if that had not happened. To put it another way, if Ireland hadn't experienced rapid economic growth during the extraordinary global investment boom of the 1990s, the case for letting it sink beneath the Atlantic waves would have been unanswerable.

There were other key factors that are not dreamt of in freemarket philosophy. Some of them were rooted specifically in progressive politics. Feminism, for example - the Irish women's liberation movement began in the early 1970s and involved a long struggle against the control of female sexuality and reproduction by the Catholic Church and Fianna Fáil. (The sale of contraceptives, for example, was not fully legalised until 1992.) Paradoxically, the Ireland of the 1990s reaped enormous economic benefits both from the repression of women before the 1970s and from their subsequent relative liberation. The old culture produced a demographic boom - Irish fertility had been startlingly high well into the 1980s, with the result that there were a lot of youngsters around in the 1990s. At the same time, however, those fertility rates dropped dramatically as women gained more freedom, allowing ever larger numbers of mothers to join or stay in the paid workforce.

Together, these factors had a lot to do with the creation of the boom. There were simply a lot more people in a position to earn money. In 1986, every ten workers in Ireland supported 22 people who were too young or too old to work, who were women working in the home, or who were unemployed. By 1999, those ten workers were supporting just fourteen dependents, and by 2005, just five. With grim irony, Ireland was also reaping the economic benefits of mass emigration in the 1950s, which meant that many of the elderly people who should have been in Ireland were actually in the UK and

elsewhere and being cared for by other societies.

As well as feminism, the Irish boom was fuelled in part by another progressive force of which free market conservatives tend not to be overly fond: social democracy. Ireland was blessed that the kind of right-wing populist politics it practised at home was not in vogue in Europe for much of the 1990s. A good, old-fashioned French socialist, Jacques Delors, was president of the European Commission. Citing quaint notions like solidarity and equality, he oversaw a doubling of the EU's regional, social and structural funds, of which Ireland was the most obvious beneficiary. The whole of Ireland was declared a disadvantaged area and the EU poured in IR£8.6 billion in aid between 1987 and 1998.

These structural funds alone accounted for 2.6 per cent of Ireland's Gross National Product during the 1990s, giving a crucial lift to growth and in particular funding the infrastructural development without which that growth would have quickly stalled. Perhaps more importantly, by underwriting Irish agriculture through the Common Agricultural Policy, the EU allowed rural Ireland to accept a sugar-coated version of modernity, ensuring that Ireland could transform itself socially without significant instability. All of this was classic Big government interventionism - the precise opposite of what free-market ideologists like Phil Gramm and his local imitators would have decreed. It is hardly surprising that accounts of the Irish miracle from American neo-liberals find this rather galling and tend either to ignore it or to insist, as Benjamin Powell did in 2003, that EU subsidies had actually set back Ireland's progress because they did 'nothing but hinder consumer-satisfying economic development'.

Lastly, even though *The Wall Street Journal* and the Heritage Foundation gave Ireland 'good marks for its low level of government intervention in the economy', Irish governments themselves did two things to make the boom possible, and the very mention of either of them would have caused the average Republican senator in the US to call for an exorcism. One was to invest heavily in the expansion of state-funded third-level education. A rare reason to be cheerful after the bursting of the Irish bubble was that 42.3 per cent of the population aged 25-34 had completed third-level education, the second highest rate in the EU. The other intervention was the construction of a highly sophisticated system of social partnership in which the state, employers, trade unions and other social actors agreed frameworks, not just for wages, but for national policy on a range of issues. This process had its weaknesses and limitations but it did ensure a remarkable level of industrial peace and helped to create a consensus around basic social and economic goals.

With the exception of social partnership, which he managed with consummate skill, none of this had much to do with Bertie Ahern or the government he led to power in 1997. Ahern in fact inherited the boom from the previous Fine Gael/Labour administration: exports had started to rise rapidly in 1993, and by the time Ahern took office had already doubled in five years. In 1997, Ireland had already reached the average EU level of GDP per head of population. Short of some global disaster, the overwhelming likelihood was that Irish economic growth would continue under its own steam.

The questions that the ruling trio of Ahern, McCreevy and the PD leader Mary Harney really faced were about how the money that was now flowing into the state coffers should be used and how the economy could become successful in the long term, beyond the inevitable succession of bust to boom. They had an opportunity that was unique in Irish history. They had the resources to invest in the creation of a decent society, one that would be economically, socially and environmentally sustainable. They had a population that was optimistic, self-confident and ready for a challenge. They had incredibly favourable global conditions.

And they blew it. They allowed an unreconstructed culture of cronyism, self-indulgence and, at its extremes, of outright corruption, to remain in place, with fatal long-term consequences. They fostered alongside the real economy in which people created goods and sold them, a false economy of facades and fictions. They practised the economics of utter idiocy, watching a controlled explosion of growth turn into a mad conflagration and aiming petrol-filled pressure-hoses at the raging flames. They amused themselves with fantasy lifestyles and pet projects while the opportunity to break cycles of deprivation and end child poverty was frittered away. They turned self-confidence into arrogance and optimism into swagger, aspiration into self-delusion.

And they did this because they bought in to the fallacy that the Irish had somehow discovered a 'model of development' that would work anytime, anywhere. Instead of the complex social, historical and political processes - and the sheer good fortune - that had created the Celtic Tiger, they had captured a genie whose golden lamp need only be stroked to ensure success. The formula was ultimately simple - be nice to the rich. Give capital its head, don't stand in its way and it will work its magic. Let the wealthy become ever more wealthy and everyone will benefit. The tragedy was not that Ireland's rulers and their cheerleaders chanted this mantra. It was that they actually believed in it.

This self-delusion became stronger as the Celtic Tiger boom was actually petering out. In essence the real boom lasted from 1995 until 2001. What made it real were two forces that were not at all magical and could be precisely measured: sharp rises in output per worker (productivity) and manufacturing exports. Both of these forces began to wind down in the new millennium. Productivity growth between 2000 and 2006 slowed to its lowest level since 1980. It was half what it had been in the classic boom years and actually slipped below the average for the developed (OECD) economies. By 2008, Irish productivity levels were below the OECD average.

So was the level of growth in Irish exports. Ireland's total share of the world's trade in goods, which had risen steadily from the mid-1990s, peaked in 2002 and then started to decline every year. While there was a steady rise in the export of services (especially of financial services), it was more than offset by the fall in the share of trade in tangible merchandise. Between 2000 and 2006, the number of manufacturing jobs in Ireland actually declined by about 20,000 - a fall masked by large rises in the numbers at work in construction and the public services. (By 2006, construction accounted for one in seven Irish workers, compared to one in seventeen in the US.)

Up to the turn of the century, Ireland's overall balance of payments (national income minus national expenditure) was just marginally in the red, and in 2003 the country pretty much broke even. Thereafter, though, the downhill slope was like something from the Winter Olympics and by 2007, the country was €10 billion in the red. This huge gap was being filled by equally enormous levels of borrowing.

None of this was disastrous in itself. The boom had given Ireland a historic opportunity. There was money in the government coffers. There were more and more people at work. The demographics were uniquely favourable. The air of depression and inferiority had been banished. What was needed was a vision of how a boom could be shaped into a steady and socially just kind of prosperity.

At this point, the creation of decent public services and of an equal and inclusive society should not have been mere afterthoughts to the creation of wealth. On the contrary, the sustainable generation of wealth itself demanded investment in innovation, creativity and cohesion. That, in turn, meant investment in people - health, education, childcare, affordable housing.

What made the real end of the Celtic Tiger after 2001 disastrous, however, was the decision of the Fianna Fáil-led government to replace one kind of growth with another. Ireland had become prosperous because its workers were unusually productive and because its economy was exporting goods that people wanted to buy. The government decided that it would stay prosperous by going for what the National Competitiveness Council would later call 'growth derived from asset price inflation, fuelled by a combination of low interest rates, reckless lending and speculation'. Being prosperous would be replaced by feeling rich. Consumption would replace production. Building would replace manufacturing as the engine of growth. The nation was to think of itself as a lottery winner, the blessed recipient of a staggering windfall. It was to spend, spend, spend. And understanding what had happened and how it could be sustained was much less important than the manic need to keep growing, and spending, at all costs.

Stupidity and corruption shaped this process.

The role of sheer idiocy should not be understated. As finance minister, Charlie McCreevy's credo was a textbook statement of macroeconomic illiteracy: 'When I have the money, I spend it, when I don't have it, I don't spend it'. This childish mantra, motivated by an apparent desire to dance on the grave of John Maynard Keynes and obliterating at a stroke everything that governments worldwide had learned about the need to restrain a runaway economy by spending less and boost a flagging one by spending more, was the economic equivalent of bulimia: binge and purge, binge and purge. Much of the binging was breathtakingly brainless, with money thrown at pet projects or vote-catching exercises without any attempt to analyse the costs and benefits. It was McCreevy who announced that he was giving free GP services and medical prescriptions to all those over seventy, on the basis of a back-of-the-envelope calculation that it would cover 39,000 people at a cost of €19 million. In fact, the first year, it covered 63,000 at a cost of €126 million. It was he who announced, with no costing and no detail, the folly of the so-called 'decentralisation' of government departments and agencies to provincial towns which meant, for example, buying five large sites at the height of the property boom for €16 million and allowing them to lie idle indefinitely, and a running total of €230 million spent on the schemes by 2008. Both of these policies were straightforward pre-election gimmicks.

And all of this was done in a way that was deliberately socially regressive. McCreevy made sure that the boom would preserve the deep inequalities in Irish society by using his budgets to redistribute income upwards. His budget for the year 2000, for example, made the incomes of the poorest 20 per cent of the population rise by less than 1 per cent, those of the middle-income groups rise by 2-3 per cent, and those in the top 30 per cent by about 4 per cent.

McCreevy gave priority to tax cuts over everything else. The cumulative effect was to create a fantasy land in which taxes could be cut while public spending was rising. People were encouraged to think that they didn't have to make choices - lavishly wasteful public expenditure didn't matter because no one had to pay for it. And the long-term effect of pumping all of this money into the economy through tax cuts and an artificial property boom was a massive rise in inflation which seriously damaged economic competitiveness. Inflation under McCreevy rose at twice the rate of Ireland's EU partners. Prices in Ireland in 2004 were 28 per cent above what they were when McCreevy took office in 1997; the corresponding figure for the EU was 14 per cent.

This stupidity was not about a lack of intelligence: McCreevy, Harney and Ahern were all very bright people. It was induced by a lethal cocktail of global ideology and Irish habits. On the one side, so-called free market ideology held government in contempt. When McCreevy boasted of spending

money when he had it and not spending it when he didn't, he was expressing a deeply held belief that it was not the business of governments to interfere, for good or ill, in the workings of the economy. More broadly, if you believe, in accordance with the doctrines that dominated official thinking, that government itself is essentially evil, the very idea of using political power to effect the long-term transformation of a society is anathema.

On the other side, there was the ingrained Irish political habit of thinking only in the short term. Fianna Fáil in particular existed as a machine for the gaining and holding of power. It was in general inimical to political ideas that could be spelled out in detail or tested against reality. If ideas had to be worn at all, they could also be easily discarded. Bertie Ahern brought the party's contempt for coherent political values to new heights. This was a man who declared himself a socialist in 2000, having told his biographers six years earlier that 'I don't believe in all that socialist stuff. I've never met a socialist in my life'. This free and easy way with ideas meant that there could not be, from the top, any kind of vision for how Irish society should develop. When Ahern remarked, of his dream for a €1 billion white elephant sports stadium on the far outskirts of Dublin (quickly dubbed 'the Bertie Bowl'), that it would be the legacy of the Celtic Tiger, he betrayed the staggering poverty of social ambition that underlay the second phase of the Irish boom.

McCreevy and Harney were not personally corrupt, but Ahern saw nothing wrong with accepting large sums of cash from businessmen. In general, the government did not just tolerate low standards of public life and business by doing little to challenge them. It preserved the attitudes that kept them in place. In doing so, it failed to alter the well-established climate of financial adventurism, in which recklessness was encouraged by impunity. An atmosphere of insider intimacy in which cronyism thrived continued to hang over boomtime Ireland. On their own, either political stupidity or tolerance for sleaze would have threatened the sustainability of the Irish economic miracle. Together they ensured its demise.

Jonathan Swift, in leaving money in his will for the founding of a mental hospital in Dublin, noted that 'no nation needed it so much'. The government adapted Swift's satire to its own exercise in insanity:

We used up all the wealth we had
To build a ship for fools and mad
And, knowing it proof against all shocks,
Steered it blithely towards the rocks.

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