Ship of Fools

How Stupidity and Corruption Sank the Celtic Tiger

FINTAN O'TOOLE

PUBLICAFFAIRS
New York

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To JOHN O'REILLY and JOHN CONNOLE,
better builders

Acknowledgements

I would like to thank Dr Jim Stewart and Professor Justin O’Brien for help and advice with parts this work, though neither of them is responsible for my use of those gifts. I am also grateful Geraldine Kennedy, editor of the *Irish Times*, and her predecessor Conor Brady, for allowing me t express many of the ideas that are developed here, even when they were badly out of kilter with th mood of the times. Paddy Smyth and later Peter Murtagh on the opinion pages have been particular patient and supportive.

This book would not have been undertaken without Neil Belton’s support and perhaps misplace optimism, and would not have been possible without Charles Boyle’s acute work on the text. I am als grateful for the work of my agent Derek Johns.

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 ar 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 wou up in 2009

Protestant Ascendancy - the governing and landowning class, adhering to to the Protestant sta 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 hav an apparatus of references and footnotes. All of the facts and statistics used here are, however, easi available on line from the relevant Government departments, the Revenue Commissioners, th Comptroller and Auditor General, the Central Statistics Office, the reports and transcripts of th McCracken, Flood and Moriarty tribunals, the DIRT inquiry, the reports of the all-party Oireacht Committee on the Constitution, the National Competitiveness Council, Eurostat, the OECD and th International Monetary Fund.

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

PROLOGUE

Three Ships

1

In July 2004, the property developer Seán Dunne celebrated his second marriage, to the former goss 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 footballer 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 Financ 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 proper magnate at the Hotel Splendido in Portofino. When news of his plans to travel to Italy was leaked the press, he decided not to go. During the speeches, however, a phone call from Ahern was played speakers to the guests: 'Dunner, you and I go back a long way. I wish I could be there,' he said. 'I' sorry I couldn't come but I would have been more trouble to you than I'd be worth.' The Taoiseac Killilea explained to the *Sunday Independent*, 'didn't want our wedding to turn into all being abo 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 nupti celebration. The couple had hired Aristotle Onassis's old yacht, the *Christina O*, venue for t wedding receptions of Onassis and Jackie Kennedy in 1968 and of Grace Kelly and Prince Rainier 1956. Forty-four guests were taken on a two-week cruise around the Mediterranean. The cost chartering the yacht is €65,000 a day, not including food, drink and fuel. The fuel charge was €575 hour.

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

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

about €40 million on the *Christina O*. It was money well spent - a state in the throes of a demente
~~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 proper prices to new heights by buying the Jurys and Berkeley Court hotels in Ballsbridge, Dublin, for €26 million, with the intention of demolishing them to build a new high-rise city quarter to rival London Knightsbridge. He paid €53.7 million per acre for the land; the previous record was €35 million. H then bought a small adjacent site, Hume House, for the equivalent of €195 million an acre - believe to be one of the highest prices paid for a piece of real estate ever, anywhere. In all, he spent €37 million on his Ballsbridge site.

In August 2009, Ulster Bank, a subsidiary of the Royal Bank of Scotland, moved loans it had give Dunne to buy the Jurys and Berkeley Court site into a new ‘quarantine’ division for dodgy assets, prelude to eventually offloading them to a British or Irish state ‘bad bank’ for toxic debts that we 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 the Bay of Biscay, the bilge alarm sounded on the Irish national yacht, the *Asgard II*. The brigantin was the successor to and namesake of the original *Asgard*, on which, in 1916, the nationali revolutionary Erskine Childers and his wife Mary ran a consignment of German guns into How harbour and delivered them to the Irish Volunteers. The original ship was enshrined in nationali mythology and eventually preserved in the national museum. The *Asgard II*, the state’s official sa training vessel, inherited some of its aura as a symbol of the nation. Its masthead was an image of th sixteenth-century ‘pirate queen’ Granuaile, who had defied Elizabethan encroachment on her West o Ireland coastal fastness.

The sound of the alarm that morning meant that the *Asgard II* was taking in water. The captain gav the order to abandon ship, the crew was evacuated, and the *Asgard*, her decks awash, sank sadly to th bottom of the bay. There was some hope that she might be raised, but in February 2009 th government decided that there was not much hope of salvage. Nor was there much prospect building a new boat to symbolise the nation. The government was so broke that it quietly pocketed th €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 bankin system, awash with waves of bad debts owed by property developers, collapsed. The great Iris economic miracle of the 1990s and early twenty-first century was over and the global Cinderella w returning to rags and ashes. The *Asgard* had never functioned quite so eloquently as an image Ireland.

3

A joke:

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

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

1

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 Nation Business Council filed into the 700-seater La Concordia ballroom of the Marriott Hotel. They had pa $150 a head to hear a lecture about the Irish economic miracle and how it could be emulated by tho still wallowing in the swamps of underdevelopment. Its title was *El Tigre Celta: Modelo Irlandes d Desarrollo* (‘The Celtic Tiger: The Irish Model of Development’). The speaker was the form Taoiseach, Bertie Ahern, described in the promotional literature for the event as the ‘driver of th Irish economic model’.

The speech so impressed the right-wing Honduran National Party that it quickly issued a stateme proclaiming its close affinity with Ahern’s inspiring leadership: ‘The development model followed b Ireland to become the “Celtic Tiger” coincides with that promoted by the Nationalist candida Porfirio Lobo Sosa, nationalist leaders said after meeting with former prime minister of that Europe 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 plac 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 kno nothing. Back home, on the day after Ahern’s speech about the Irish model of development, it wa disclosed that the newly nationalised Anglo Irish Bank had over the previous few years given €22 million in loans to its own directors, chief among them its chairman, and Ahern’s good friend, Seá FitzPatrick.

During the same week, it emerged that Anglo Irish had lent a secret consortium of investors €30 million to buy the bank’s own shares. The European Commission in Brussels publicly rebuked th Irish government for failing to control the public finances during the boom years. Social welfa officials were warning that they couldn’t cope with the wave of benefit claims from the new 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 h had any oratorical skills, but because the globalised Irish economy had itself become a global bran 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 reache distant parts. In early August 2009, the Celtic Tiger speech was quietly dropped from Ahern portfolio by his agents, the Washington Speakers Bureau. The Irish model of development had com 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 listeners might have been led to believe. The International Monetary Fund was predicting th Ireland's Gross Domestic Product (GDP) would shrink by 13.5 per cent in 2009 and 2010 - the wor performance among all the advanced economies and one of the worst ever recorded in peacetime the developed world. Government debt almost doubled in a year. The level of debt among Iris households and companies was the highest in the European Union. The country's gross indebtedne was larger than Japan's, which has thirty times the population. The average Irish person owe €37,000.

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

The average Irish family had lost almost half its financial assets, whose worth had fallen fro €95,000 at the height of the boom in 2006 to €51,000 in mid-2009 - not counting the steep decline the worth of its house. Unemployment rose faster than in any other Western European countr increasing by 85 per cent in a year. Ireland also ended up establishing a massive bad bank, th National Asset Management Agency (Nama), to take over €77 billion in loans to developers fro banks that would otherwise be insolvent. (The State was consciously paying much more than the loan were now worth - shelling out €55 billion for loans worth no more than €47 billion.) This was anoth global number one for Ireland: Nama will hold more assets than any publicly quoted proper company in the world, dwarfing giants such as GE Capital Real Estate and Morgan Stanley Re 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 i present was that of party to hangover - the headache was in direct proportion to the indulgence th preceded it. But the reversal of fortune in which the Celtic Tiger became a bedraggled alley cat wa not simply an Irish concern. As Bertie Ahern's untimely posturing on the world stage demonstrate the Irish economy was, for a full decade, the poster child of free-market globalisation. It w understood, not simply as the story of how one small and peripheral European country moved fro relative poverty to prosperity, but as a moral tale with a happy ending for all those who learned i lessons. For most of the twentieth century, Ireland had struggled to be like other countries. B between the late 1990s and 2008, other countries were told they must struggle to be like Ireland. Thi 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 4.5 million, placing it somewhere between Kentucky and Alabama. In terms of GDP, its economy comparable in size to that of Nevada or Maryland. It was not, even at the height of its success, all th rich in American terms. In 2002, when the boom had been under way for a decade, Ireland's GDP pe ~~capita was somewhat higher than that of Mississippi or Arkansas, roughly similar to that of Floric~~ and Oregon and about half that of Connecticut. Even in 2006, by the more accurate measure of gro 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 mad Ireland interesting to people around the world was not so much its destination as its journey. Its stor had a Hollywood-style narrative arc. It was a tale of misery, struggle, transformation and triump And it came with a ready-made moral: neo-liberal globalisation works. The magic of the market ha turned Europe's Cinderella into a glittering princess. It was, as a briefing paper for the right-win Heritage Foundation put it in 2006, 'hard to believe the Ireland depicted in the film *The Commitmen* even existed 15 years ago'.

Instead of being a small place with very specific circumstances, Ireland came to stand for a formu 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-rig Latvian parties, Latvia's Way and Latvia First, promised the electorate that they would follow th Irish path and raise living standards to Irish levels within a decade. In January 2007, the governme of Trinidad hosted a seminar on 'The Irish Model of Economic Development - Lessons For Trinida and Tobago'. The following August, the Americas Society and the US/Uruguay chamber of commerc heard a presentation on Ireland, concluding that the 'Irish model is a strategy that can work for oth countries, irrespective of time and place'. Even as late as February 2008, the first minister Scotland, Alex Salmond, was pledging that 'we will create a Celtic Lion economy to rival the Celt Tiger across the Irish Sea'.

Much of this enthusiasm for the 'Irish model' was driven by the neo-liberal Right in the US. Fo *Fox News* and *The Wall Street Journal*, for the Cato Institute and the Heritage Foundation, Ireland w the living proof that 'tax and spend' Democrats were wrong and Reaganism right. Benjamin Powel on *Fox News* and in Cato Institute papers praised Ireland for its 'radical course of slashin expenditures, abolishing agencies and toppling tax rates and regulations'. *The Wall Stree Journal*/Heritage Foundation Index of Economic Freedom gave the little country regular pats on th head as 'Europe's shining star'. Heritage Foundation authors pinned their most coveted medals to th tail of the Celtic Tiger. It was the embodiment of 'Thatcherism triumphant'. Its 'Reagan-style tax ra reductions' had taught the world the lesson that 'tax cuts are a recipe for prosperity'. By 2004, the were suggestions that the Irish story held a lesson, not just for the underdeveloped countries of easte Europe or Latin America, but even for the US itself. Daniel Mitchell of the Heritage Foundatio suggested that 'the United States should learn a lesson from Ireland, which has turned itself from th "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 whe that model was tripping over its high heels and falling off the catwalk. For centuries, the Irish ha dreamed of being like Americans - an ambition that millions of them fulfilled in the flesh. Then, one of history's weirdest reversals, there was a moment when some Americans with a serious prospe of power began to dream of being more like Ireland. Not as in wearing Aran sweaters, drinking pin 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 presidenti candidate John McCain, told *US News and World Report* that ‘The only place socialism is serious debated in the world is in Washington, DC . . . Ireland is a perfect example. Senator McCain’s peop immigrated from Ireland along with millions of others because they were hungry. Today, Ireland ha among the lowest tax rates in the world, one of the best business climates in the world, and as a resu they have overtaken Americans in per capita income’.

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

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

It had, indeed, defied geography by inserting the American way of doing business into Europe. Eve sceptical Europeans began to believe this: in May 2008, an extensive article in *Le Monde* haile 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 ar policy makers around the world. It was that the Irish themselves came to believe in it. They manage collectively, to misunderstand why they had become prosperous and in doing so to waste ar eventually to destroy that prosperity. The rise and fall of the Celtic Tiger was indeed a kind of mor tale, but the lesson was not that free-market globalisation is a panacea for the world’s ills. It is, on th contrary, that politics, society, morality and collective institutions matter.

There is no doubt that Ireland’s economic performance in the late 1990s was genuinely remarkabl The rate of unemployment in the fifteen European Union countries as whole remained more or le 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 p cent of the population to 5 per cent. In 1986, Irish GDP per head of population was a miserable tw thirds of the EU average, and even in 1991 it was just over three-quarters. In 1999, it was 111 per cer 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 cer By 2000, Ireland had $38,000 of foreign investment for every man, woman and child - more than s times the EU average. World-leading corporations like Pfizer (which makes all of its Viagra in Coun 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 foreig ~~investment for its manufacturing base than almost any other society. By 1999, half the manufacturin~~ jobs were in foreign-based companies compared to 20 per cent for the EU as a whole. But it seemed work. At the end of the 1990s, Ireland had become the largest exporter of computer software in th world. The overall value of exports more than doubled between 1995 and 2000. In the ten years 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 ar was gradually replaced by large-scale immigration - a phenomenon that had been utterly unimaginab to generations of Irish people. Coming to Ireland to look for work would have been, at the start of th 1990s, like going to the Sahara for the skiing. By the time of the 2006 census, one in ten of tho living in Ireland were born elsewhere.

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

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

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

A narrative emerged. Fianna Fáil and the small, radically neo-liberal Progressive Democrats cam 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, foreig companies were courted with massive tax breaks and the promise of light regulation. Enterprise w encouraged and rewarded (or, in plainer words, the rich were idolised and allowed to avoid pett restrictions like paying tax). The power of free-market globalisation was unleashed and Irelan became a large-scale version of a TV makeover show, with the ‘before’ pictures showing a slovenl depressed wretch and the ‘after’ images a smiling, bling-bedecked beauty, who went on to start h 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 fro being a model that could be applied ‘irrespective of time and place’, the Celtic Tiger was the produ of ~~a very specific place at a very particular time. A lot of things came together in Ireland in the~~ mi 1990s, and not many of them had much to do with the application of free-market Reaganite orthodox

For a start, one of the reasons the Irish economy grew so fast after 1995 is that it had grown slowly before that. The performance of the Irish economy since independence in 1922, and especial during the post-war boom that transformed the rest of Western Europe in the 1950s, was utter miserable. Cormac O Grada and Kevin O’Rourke noted of Irish economic performance from the e of the Second World War until 1988 that the country was a ‘dramatic underperformer during th period’, a ‘spectacular outlier’ and ‘the sick man of Europe’. As the historian Joe Lee noted in 198 ‘No other European country, east or west, north or south, for which remotely reliable evidence exist had recorded so slow a rate of growth of national income in the twentieth century’. Much of wh happened in the 1990s was simply that Ireland caught up with the living standards of the region belongs to - Western Europe - and got to where it should have been all along. The energy unleashed b the process of catching up, combined with the advantages of not having an old heavy industrial bas allowed Ireland (temporarily) to outperform those European neighbours. In a longer perspective, a that was happening was a regional levelling-out.

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

There were other key factors that are not dreamt of in freemarket philosophy. Some of them we rooted specifically in progressive politics. Feminism, for example - the Irish women’s liberati movement began in the early 1970s and involved a long struggle against the control of fema sexuality and reproduction by the Catholic Church and Fianna Fáil. (The sale of contraceptives, f example, was not fully legalised until 1992.) Paradoxically, the Ireland of the 1990s reaped enormo economic benefits both from the repression of women before the 1970s and from their subseque relative liberation. The old culture produced a demographic boom - Irish fertility had been startlin high well into the 1980s, with the result that there were a lot of youngsters around in the 1990s. At th same time, however, those fertility rates dropped dramatically as women gained more freedo 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 mo people in a position to earn money. In 1986, every ten workers in Ireland supported 22 people w were too young or too old to work, who were women working in the home, or who were unemploy 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, whic meant that many of the elderly people who should have been in Ireland were actually in the UK a 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 fre market conservatives tend not to be overly fond: social democracy. Ireland was blessed that the kin of right-wing populist politics it practised at home was not in vogue in Europe for much of the 1990 A good, old-fashioned French socialist, Jacques Delors, was president of the European Commissio Citing quaint notions like solidarity and equality, he oversaw a doubling of the EU's regional, soci and structural funds, of which Ireland was the most obvious beneficiary. The whole of Ireland wa 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 durin the 1990s, giving a crucial lift to growth and in particular funding the infrastructural developmen without which that growth would have quickly stalled. Perhaps more importantly, by underwritin Irish agriculture through the Common Agricultural Policy, the EU allowed rural Ireland to accept sugar-coated version of modernity, ensuring that Ireland could transform itself socially witho significant instability. All of this was classic Big government interventionism - the precise opposite what free-market ideologists like Phil Gramm and his local imitators would have decreed. It is hard surprising that accounts of the Irish miracle from American neo-liberals find this rather galling an tend either to ignore it or to insist, as Benjamin Powell did in 2003, that EU subsides had actually s back Ireland's progress because they did 'nothing but hinder consumer-satisfying econom development'.

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

With the exception of social partnership, which he managed with consummate skill, none of th had much to do with Bertie Ahern or the government he led to power in 1997. Ahern in fact inherite the boom from the previous Fine Gael/Labour administration: exports had started to rise rapidly 1993, and by the time Ahern took office had already doubled in five years. In 1997, Ireland ha already reached the average EU level of GDP per head of population. Short of some global disaste 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 face were about how the money that was now flowing into the state coffers should be used and how th economy could become successful in the long term, beyond the inevitable succession of bust to boon They had an opportunity that was unique in Irish history. They had the resources to invest in th creation of a decent society, one that would be economically, socially and environmentall sustainable. They had a population that was optimistic, self-confident and ready for a challenge. The had incredibly favourable global conditions.

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

And they did this because they bought in to the fallacy that the Irish had somehow discovered ‘model of development’ that would work anytime, anywhere. Instead of the complex social, historic and political processes - and the sheer good fortune - that had created the Celtic Tiger, they ha captured a genie whose golden lamp need only be stroked to ensure success. The formula w ultimately simple - be nice to the rich. Give capital its head, don’t stand in its way and it will work i magic. Let the wealthy become ever more wealthy and everyone will benefit. The tragedy was not th 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 essenc the real boom lasted from 1995 until 2001. What made it real were two forces that were not at a 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. Productivi growth between 2000 and 2006 slowed to its lowest level since 1980. It was half what it had been the classic boom years and actually slipped below the average for the developed (OECD) economie 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, whi had risen steadily from the mid-1990s, peaked in 2002 and then started to decline every year. Whi there was a steady rise in the export of services (especially of financial services), it was more tha offset by the fall in the share of trade in tangible merchandise. Between 2000 and 2006, the number manufacturing jobs in Ireland actually declined by about 20,000 - a fall masked by large rises in th numbers at work in construction and the public services. (By 2006, construction accounted for one 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 minu national expenditure) was just marginally in the red, and in 2003 the country pretty much broke eve Thereafter, though, the downhill slope was like something from the Winter Olympics and by 2007, th country was €10 billion the red. This huge gap was being filled by equally enormous levels borrowing.

None of this was disastrous in itself. The boom had given Ireland a historic opportunity. There wa money in the government coffers. There were more and more people at work. The demographics we uniquely favourable. The air of depression and inferiority had been banished. What was needed was 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 n have been mere afterthoughts to the creation of wealth. On the contrary, the sustainable generation wealth itself demanded investment in innovation, creativity and cohesion. That, in turn, mea 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 th ~~Fianna Fáil-led government to replace one kind of growth with another. Ireland had becom~~ prosperous because its workers were unusually productive and because its economy was exportir goods that people wanted to buy. The government decided that it would stay prosperous by going fo what the National Competitiveness Council would later call ‘growth derived from asset pric inflation, fuelled by a combination of low interest rates, reckless lending and speculation’. Bein prosperous would be replaced by feeling rich. Consumption would replace production. Building wou replace manufacturing as the engine of growth. The nation was to think of itself as a lottery winne the blessed recipient of a staggering windfall. It was to spend, spend, spend. And understanding wh had happened and how it could be sustained was much less important than the manic need to kee 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 cred was a textbook statement of macroeconomic illiteracy: ‘When I have the money, I spend it, when don’t have it, I don’t spend it’. This childish mantra, motivated by an apparent desire to dance on th grave of John Maynard Keynes and obliterating at a stroke everything that governments worldwic had learned about the need to restrain a runaway economy by spending less and boost a flagging on by spending more, was the economic equivalent of bulimia: binge and purge, binge and purge. Muc of the binging was breathtakingly brainless, with money thrown at pet projects or vote-catchin exercises without any attempt to analyse the costs and benefits. It was McCreevy who announced th he was giving free GP services and medical prescriptions to all those over seventy, on the basis of 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 costin and no detail, the folly of the so-called ‘decentralisation’ of government departments and agencies provincial towns which meant, for example, buying five large sites at the height of the property boo for €16 million and allowing them to lie idle indefinitely, and a running total of €230 million spent o 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 su that the boom would preserve the deep inequalities in Irish society by using his budgets to redistribu income upwards. His budget for the year 2000, for example, made the incomes of the poorest 20 p cent of the population rise by less than 1 per cent, those of the middle-income groups rise by 2-3 p 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 fantasy land in which taxes could be cut while public spending was rising. People were encouraged think that they didn’t have to make choices - lavishly wasteful public expenditure didn’t matt because no one had to pay for it. And the long-term effect of pumping all of this money into th economy through tax cuts and an artificial property boom was a massive rise in inflation whic seriously damaged economic competitiveness. Inflation under McCreevy rose at twice the rate Ireland’s EU partners. Prices in Ireland in 2004 were 28 per cent above what they were whe 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 ver bright people. It was induced by a lethal cocktail of global ideology and Irish habits. On the one sid so-called free market ideology held government in contempt. When McCreevy boasted of spendir money when he had it and not spending it when he didn’t, he was expressing a deeply held belief th it ~~was not the business of governments to interfere, for good or ill, in the workings of the econom~~ More broadly, if you believe, in accordance with the doctrines that dominated official thinking, th government itself is essentially evil, the very idea of using political power to effect the long-ter transformation of a society is anathema.

On the other side, there was the ingrained Irish political habit of thinking only in the short terr Fianna Fáil in particular existed as a machine for the gaining and holding of power. It was in gener inimical to political ideas that could be spelled out in detail or tested against reality. If ideas had to b worn at all, they could also be easily discarded. Bertie Ahern brought the party’s contempt f coherent political values to new heights. This was a man who declared himself a socialist in 200 having told his biographers six years earlier that ‘I don’t believe in all that socialist stuff. I’ve nev met a socialist in my life’. This free and easy way with ideas meant that there could not be, from th top, any kind of vision for how Irish society should develop. When Ahern remarked, of his dream for €1 billion white elephant sports stadium on the far outskirts of Dublin (quickly dubbed ‘the Bert Bowl’), that it would be the legacy of the Celtic Tiger, he betrayed the staggering poverty of soci ambition that underlay the second phase of the Irish boom.

McCreevy and Harney were not personally corrupt, but Ahern saw nothing wrong with acceptin large sums of cash from businessmen. In general, the government did not just tolerate low standards public life and business by doing little to challenge them. It preserved the attitudes that kept them place. In doing so, failed to alter the well-established climate of financial adventurism, in whic recklessness was encouraged by impunity. An atmosphere of insider intimacy in which cronyisi 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. Togethe they ensured its demise.

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