The Celtic Tiger Follows the Asian Tigers to Extinction

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The financial collapse of Ireland, coming as the latest in a string of disasters, hardly shocks global public opinion. For people engaged in the development debate, however, it is resonant with meaning.

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With the European Union and the International Monetary Fund now having to bail Ireland out to the tune of a whopping 85 billion euros, this is not the “Celtic Tiger” of recent lore. The Irish economy that drew the admiration of a whole generation of neoliberal economists and technocrats was one that successfully rode the wave of globalization to become Europe’s fastest growing economy from the 1990’s to the middle of this decade. In 1988, the *Economist* described Ireland as “the poorest of the rich.” By 1997, it was pitching Ireland as “Europe’s shining light.” By 2005, the country’s per capita gross domestic product (GDP) was the second highest in the European Union, after Luxembourg’s.

After the Asian financial crisis brought down Asia’s tiger economies in the late nineties, Ireland remained, along with China, the stars of export-oriented growth, seen by orthodox economists as the road to prosperity in the era of globalization. China learned the lessons of the Asian financial crisis and kept its financial sector under a tight leash. Ireland did not, and paid the price when the western financial system unraveled in 2007.

The “Irish Miracle”

Like Korea and the Southeast Asian tiger economies, the Irish economy passed through two phases. In the first phase of export-oriented growth, Ireland experienced real growth, especially in manufacturing and services. The growth was foreign investment driven, particularly in high tech. As *Irish Times* economic columnist Fintan O’Toole notes, the country became the premier international location for U.S. investment in information technology, with Intel leading the pack with 5000 employees, Dell with 4300, IBM with 3500, Hewlett Packard with 2500, and Microsoft with 1200. By the mid-2000’s, tiny Ireland, whose population was not more than 4.5 million, had become the world’s leading exporter of computer software and the source of a third of all personal computers sold in Europe.

Much of what has been written about the Celtic Tiger—a sobriquet thought up by Kevin Gardiner of the Wall Street investment bank Morgan Stanley—was hype. But not all. By the turn of the century, the boom in the real economy had brought down the country’s chronically high unemployment rate to five per cent and the poverty rate to the same figure as well.

At that fateful conjuncture in the early part of this decade, writes O'Toole, the Irish "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 favorable global conditions."

Lessons not Learned from Asia

Fifteen years earlier, the export-led economies of East Asia, then at their apogee, were at a similar crossroads…and took the wrong turn. Tempted by foreign speculative capital knocking at the gate of the "East Asian Miracle," the economies of the region liberalized their financial sectors. Hot money came flooding in, for investment not in industry or in agriculture but in real estate and the stock market. Overinvestment in real estate led to a collapse in property prices, which led to dislocations in the rest of the economy, which in turn led to panicky flight by foreign investors. In the summer of 1997, some 100 billion dollars that had flowed into the East Asian economies in the period 1994-1997 flowed out of the region. The end result of this toxic cocktail of hot money and volatile property was a three-year recession that brought an end to the East Asian Miracle.

Had Ireland's leaders paid attention to the East Asian tragedy of the late nineties, they would have been more careful about the dangers associated with financial liberalization and property development. They would have also avoided the second phase of the Asian growth process — illusory growth. How, instead, the Celtic Tiger followed in the footsteps of the Asian tigers is summed up cogently by the *New York Times*: "Before Ireland joined the euro, its banks tended to do business the old-fashioned way, financing their lending through the deposits they took in. Once in the euro zone, banks were suddenly able to borrow huge sums of money inexpensively on international markets with nearly no exchange rate risk, an activity that was barely regulated by policy makers. With easy access to these funds, banks like Anglo Irish lent huge amounts to prominent Irish developers, leading to a frenzy of overdevelopment."

In the five years from 2003 to 2008, analyst David Smith points out that the net foreign borrowing of Irish banks increased from 10 percent to 60 percent of GDP. Lending standards were driven down to entice prospective homeowners, many with low or no credit history, much like the subprime phenomenon in the United States. And as in the United States, regulators stood on the sidelines unwilling to take away the punch bowl, probably because so many of the top figures of the ruling party, Fianna Fail, were tied to the bankers and developers.

Ireland's finances were already rotten when the global financial crisis blew in from Wall Street in 2007-2008. The crisis simply exposed the decay. With Ireland's lenders becoming jittery, the country's finance minister guaranteed all debt and deposits in the six main Irish banks and financial institutions, effectively nationalizing the debt and bailing out the country's banking elites. But that move did not inspire confidence that the Irish state would be able to meet its financial obligations, should foreign creditors call in their loans. Smith points out that the spread between the interest rate on Irish government bonds and that on German government bonds, regarded as Europe's solid benchmark, rose from just 30 basis points in September 2008 to 284 basis points by March of the following year.

The abrupt shut-off of the foreign financial tap triggered what can only be described as a disaster in the real economy. The GDP collapsed by three percent in 2008 and 10 percent in 2009. It is expected to shink by 13.5 per cent in 2010. Unemployment, down to five percent in the middle of the decade, shot up to a Depression-level 13 percent. The amount of debt among Irish households and companies, according to Fintan O'Toole, is now the highest in the European Union, with the average Irish citizen owing 37,000 euros at the start of 2010. That figure has risen several notches higher with the recent EU-IMF 85 billion euro bailout.

The global financial market that was once so enamored with the Irish has not been pacified by the bailout. Bond yields dropped insignificantly in the aftermath of the government's announcement that it would accept the EU-IMF offer. The *New York Times* characterized the quid pro quo for the bailout as the "toughest austerity program in Europe," involving "the loss of about 25,000 public-sector jobs, equivalent to 10 percent of the government work force, as well as a four-year, $20 billion program of tax increases and spending cuts like sharp reductions in state pensions and minimum wage." The adjustment will be more savage than that imposed on Greece earlier this year. Yet this has not convinced the now merciless markets that, as the Economist put it, "Ireland, having looked dodgy for so long…would ever be able to repay its debts."

The End of the Miracle Era?

With the East Asian miracles history, with the Irish miracle having turned into a catastrophe, only one miracle of the era of export-oriented growth is left standing: China. The latter's non-liberalization of its financial sector is the key reason for its escaping the fate of the smaller tigers so far.

But is financial protectionism enough to stave off the global impact of the crisis of the real economy that is engulfing Europe and the US, on which China has been severely dependent for its exports? Or does disaster await the biggest tiger of them all?

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