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The Celtic Tiger: A Success and a Letdown

In the 1990s, while the Asian Tiger period was coming to a close, Ireland took the throne as the new king of economic progress. A set of innovative macroeconomic policies finally broke through Ireland's perpetual cycle of slow growth rates, reliance on agrarian sectors, and lack of future economic prospects to fuel a historic economic boom. Ireland is, of course, not in Asia, but its period of remarkable growth in the 1990s and early 2000s modernized its economy so drastically that Ireland also got a flashy title: The Celtic Tiger. First coined in a Morgan Stanley report in 1994, the Celtic Tiger period transformed Ireland's economy from among the poorest in Europe to one of the richest. In under 15 years, Ireland's GDP grew nearly fivefold with a nearly fourfold increase in GDP per capita.[1] Low effective corporate tax rates brought top global firms to Ireland, and Ireland invested heavily in education to produce the talent that would keep them there. Ireland now ranks in the top three countries on the planet in GDP per capita, topping $100,000 per year. The Celtic Tiger period is a standout case for economic modernization in present times with its innovative solutions to long-existing problems. However, beneath the stellar statistics, a slew of questions, problems, and interesting phenomena remain. As widely pointed out by economic scholars, unusually large jumps in nominal GDP question the practical benefits to average Irish citizens that the steep GDP graphs indicate. Indeed, huge jumps in education and high-quality employment from the Celtic Tiger have ended Ireland's long history of poor, agrarian economics, but the newfound wealth was not spread equitably - far from it - nor

[1] World Bank, GDP per Capita - Ireland (2024)

did it sustain itself in the long term. As glowing as the global rankings and GDP per capita stats are, the Celtic Tiger felt more like a letdown than it should have. To that end, this essay will discuss how beneficial the Celtic Tiger truly was, in the context of the circumstances that preceded the Celtic Tiger, the decisions and policies that contributed to it, and the problems that emerged upon its conclusion.

## Ireland Before The Celtic Tiger

To truly comprehend the growth of the Celtic Tiger, its statistics must be viewed against the backdrop of the Irish economy that preceded it. Throughout its history, Ireland's economy revolved around agriculture with close ties to Britain, for better or worse. A lack of regional power and access to natural resources left them no room to grow in the long term. Themes that often arise when discussing pre-partition economics in Ireland include, poverty, lack of opportunity, and slow growth, among others. And that's not for no reason. For decades after the partition, Irish GDP per capita consistently ranked among the lowest in Western Europe, with most other countries continuing to increase the separation in quality of life.[2] While Western European countries modernized their economies throughout most of the 20th century, Ireland was left behind, failing to industrialize and implementing mistaken policy after mistaken policy. The myriad of economic issues that Ireland experienced during the 20th century compounded on each other, entrenching themselves firmly in Irish society. Firstly, Ireland could not maintain a stable population. In terms of the active labor force, Ireland is alone among Western nations in that net employment in its economy shrunk by 10% since its independence in the 1920s, marked by a brain drain of over 400,000 in the 1950s to decent jobs elsewhere.[3] Hope emerged in the 1960s, with years of consistent GDP per capita growth at about three percent per year, but

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[2]Ó Gráda, O'Rourke, The Irish Economy during the century after partition (2021)
[3]Kennedy, Kieran, "ECONOMIC GROWTH in IRELAND: WHERE HAS IT COME FROM, WHERE IS IT GOING?" (2001)

momentum was quickly lost in the '70s following oil crises, high inflation, and poor taxation policy resulting in a public debt crisis. By 1993, just before the beginning of the Celtic Tiger, Ireland's unemployment rate sat at 16 percent. By all measures, Ireland had few reasons to be proud of their economy heading into the mid-1990s. The economic stagnation and political crises from decades before put the country in a difficult situation with little hope.

## The Turnaround

The debt crisis of the 1980s was unequivocally rock bottom for the Irish economy, as mentioned above. High debt-GDP ratios, widespread unemployment, and lost momentum from decades before made the gap between Ireland and the rest of Europe even more pronounced. The turning point was cuts to public spending.[4] With less money required to fund public services, the Irish government could afford to lower tax rates for corporations. The corporate tax rate was cut to 10 percent, putting Ireland firmly in the "tax haven" category and quickly attracting high levels of foreign direct investment (FDI).[5] As well, the perceived economic stability that comes with austerity politics likely increased consumer and investor confidence in the economy moving forward. In that light, perhaps the most important individual moment in the creation of the Celtic Tiger was the establishment of Apple's headquarters in Cork. Essentially overnight, jobs in manufacturing, logistics, technical services, and marketing were opened, with more bound to come in the future. It marked the first time an international firm set up a headquarters on Irish soil. A wealthy global corporation took a chance on a developing nation with a need for growth and people eager for new opportunities. However, the macroeconomic strategy preparing for FDI, in the form of Apple, was hardly new. In 1966, Donagh O'Malley's government made secondary schools free for all Irish citizens, emphatically striking down the barrier to entry that

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[4] McAleese, Options Politiques (2000)

[5] Conefrey, Thomas, and John D. Fitz Gerald. 2011. "The Macro-Economic Impact of Changing the Rate of Corporation Tax.

had long existed in the Irish economy. As one might expect, enrollment rates and graduation rates in Irish secondary schools greatly increased in the decades following the decision.[6] Later, the exception to the widespread cuts in public services after the 1980s debt crisis was indeed education. Following O'Malley's policy, huge investments specifically in technical education laid the groundwork for an economic boom.[7] The Irish government recognized the value of preparing its young people for high-skill, top-paying jobs that would attract major firms to Irish shores. It would lessen the effects of the mismatch between the labor market and the standards that would attract foreign direct investment, finally chipping away at the unemployment rate that plagued the economy in the 1980s. In essence, the quantity and quality of job prospects greatly increased, giving opportunities for major improvements to quality of life in Ireland.

With one tech firm came the rest. Intel and Microsoft headlined other industry players that quickly recognized the need to complete when Apple struck gold. Pharmaceutical and financial services giants also cemented themselves as a major player in this new economy. Once the international corporations noticed the opportunity available to them in Ireland - high-skilled, productive workers in a tax-haven country with room for growth - they hit the ground running. The important takeaway from the influx of FDI and global firms is not that they came to Ireland, providing jobs for Irish workers, but that the quality of employment they offered to workers was beyond any standard that had previously existed in the Irish economy. Looking at this economic transition from a broader perspective, this concept of labor mismatch continues to assert itself in the conversation of Irish economics. The Celtic Tiger was not a revolution in labor productivity - a stat that had been increasing steadily for decades beforehand[8] - but instead the much-needed

[6] Ó Buachalla, Education Policy in Twentieth Century Ireland (1988)
[7]Carone, Michael. "Education in Ireland: Past Successes and Future Problems Education in Ireland: Past Successes and Future Problems." (2001)
[8]O'Leary, Eoin, "Reflecting on the 'Celtic Tiger': Before, during and After." Irish Economic and Social History (2011)

accomplishment of attaining well-fitting jobs for the labor force that Ireland had to offer. As previously mentioned, the unemployment rate of Irish workers was frighteningly close to a quarter in the late 1980s and early 1990s. With the funding towards technical education finally bearing fruit and major firms offering jobs arriving, the Celtic Tiger saw the unemployment rate fall to four percent by 2000 and stay in that area throughout the 2000s decade.[9] In a short period, chronic labor surplus turned to intense labor scarcity.[10] Labor scarcity drove up wages, FDI, and exports, delivering at least some benefit to the average employee in the process. In short, after decades of falling behind the rest of Europe, Irish economic planners finally struck the ideal orientation of the economy to match employee talent with job opportunities from top firms; no revolutionary strategies, just rooting out longstanding unemployment.

Perhaps no individual actor played a larger role in ending that problem and instigating the Celtic Tiger economic boom than Apple. What makes Apple unique among companies investing in Ireland's economy, however, is the relationship it developed with the Irish government. The symbiosis apparent between Apple and the Irish economy is more pronounced than any other player during the Celtic Tiger period. It began with Apple's arrival into the Irish economy in 1980. That timing is not in the slightest bit coincidental. Upon joining the EEC in 1973, Ireland agreed to phase out the 1956 policy of ten-year tax breaks for corporations that establish sites within their borders by 1981. Apple made their move at the eleventh hour to secure financial stability in Ireland for a decade during a vulnerable era for the company. They established operations at their Cork campus and finally offered a glimpse of prosperity for Ireland. When the decision to stay crept up at the end of the ten years, Apple held massive leverage over the Irish government. That fact can be seen in the special corporate tax rate set for Apple: an effective rate

[9]O'Leary, Reflecting
[10] Kennedy, Reflections

of 2% on the high end and 0.05% on the low end.[11] The special tax status for Apple opened the door for them, as a major international firm, to capitalize on loopholes in taxation surrounding intellectual property. In this scheme, Apple's Irish subsidiary, Apple Ireland, would claim IP rights for all Apple products made and sold outside of the United States. Then, anytime a sale occurred, profits would be funneled to the low-tax Irish company, allowing Apple to avoid billions of dollars in non-territorial US taxes.[12] Meanwhile, the money not lost to government taxes would be reinvested into Apple's operations. This strategy was part of a larger avoidance scheme called the Double Irish. The legality of this symbiotic relationship between Ireland and Apple is debatable. In fact, the EU investigated the partnership and found that Apple broke tax laws, imposing a $14.5 billion fine in 2016. As important as Apple's presence and boost to the Irish economy was, by that point, the damage had already been done. Tax money that could have been reinvested into the Irish economy, especially to help the least well-off, was lining the pockets of wealthy American executives. Perhaps more accurate "real" economic stats - uninhibited by Apple profit shifting - may have reined in wildly risky banking and investment strategies and promoted long-term economic thinking in Ireland. We will never know what fruit those trees could bear. We do know, however, how quickly this newfound wealth was lost.

## The Crash of the Celtic Tiger

In 2008, the housing bubble built on subprime mortgages and cheap debt in the United States collapsed, leading to a meltdown of the global financial system. Unaware of the potential for crisis, the Irish government failed to prepare its newly rich economy for collapse. Instead, they doubled down. For example, private lending arrangements compiled around 60% of GDP numbers in 2003, a standard level for a booming economy. By 2008, however, lending

[11] Barrera & Bustamante, The Rotten Apple: Tax Avoidance in Ireland (2018)
[12] Barrera & Bustamante, The Rotten Apple: Tax Avoidance in Ireland (2018)

arrangements hit 200% of GDP in 2008.[13] Such a stat indicates that the Irish banking industry and economic planners were comfortable with a high-risk, high-reward strategy after 15 years of sustained, meteoric growth. What compounded this debt crisis was a housing bubble manufactured throughout the 2000s by developers and investors looking to cash in. Just like in other Western economies, housing was treated as a trivial commodity, leading to notably unwise trends in the housing market. During the years of the Celtic Tiger, 1.1 million mortgages were approved and nearly 600,000 new houses were built in a country of less than 5 million people. In terms of housing prices, while other EU countries showed around a 50% increase, the average home price in Ireland increased by over 250% in the two decades before 2008. That increase is even more pronounced in Dublin, where prices shot up by over 500%.[14] Any competent economic mind should immediately recognize that such trigger-happy investing in the housing market is simply not sustainable. Ireland did not, however, and the bubble soon burst. In other words, they chose to gamble, and they lost. Ireland's economy was among the hardest hit by the global financial crisis. The result was a return to pre-Celtic Tiger statistics, marked by unemployment rates comfortably in double digits and a sobering hit to GDP and GDP per capita numbers that had only skyrocketed in recent memory - consecutive years of five percent losses in GDP.[15] The Irish stock market lost 80 percent of its value and housing prices fell by 60 percent in one year. Just like in the 1980s, the debt-GDP ratio of 54% hampered prospects for the Irish economy. An economy with only a couple million workers holding massive debts could not organically sustain the damage of hundreds of billions in lost private liabilities, and only survived thanks to major financial bailouts from the Troika - the IMF, European Central Bank, and European Commission.

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[13] McCann, Gerard, "The 'Celtic Tiger' in Hindsight." (2013)
[14] Fintan O'Toole, Ship of Fools: How Stupidity and Corruption Sank the Celtic Tiger (2009)
[15] International Monetary Fund, "Real GDP Growth." (2024)

By 2015, Ireland was largely recovering from the 2008 crisis, slowly returning to lower unemployment and increased exports that defined the 2000s decade. At this point, however, the Celtic Tiger period was definitively over, and a unique phenomenon surrounding GDP was discovered that poked a major hole in the perception of the Celtic Tiger. According to economists, money made from intellectual property is just as valid a contribution to GDP as manufactured goods or services. In Irish economic history, 2015 stands out for its astounding 25% GDP growth. Such enormous GDP growth in one year is unthinkable for even the fastest-growing developing countries, never mind one of the richest economies in the world by GDP per capita. In 2015, Ireland did not export 25% more goods or increase worker productivity by 25% that year alone. Instead, Apple restructured their Double Irish tax-avoiding subsidiary, ASI, funneling billions of dollars in IP rights into Ireland that would count toward GDP. The European Commission found in a report that 23% of Irish GDP was made of multinational corporations' royalty payments.[16] That stat alone deals a death blow to the high global rankings Ireland boasted after the Celtic Tiger. Inherently, the gains of the '90s and '00s reported in national stats can no longer be attributed to genuine gains in Irish industry, exports, or consumer spending. Profit-shifting processes from American multinational corporations inflated the nominal GDP so greatly that the Central Bank of Ireland replaced GDP with a fundamentally new metric, gross national income (GNI). At its height, Irish GDP was 62% higher than GNI in 2017. By accounting for corporate profit shifting by using GNI per capita, Ireland's $37,805 is comparable to the UK's $40,572.[17] Any weight GDP stats once held was now gone. Of course, Ireland is no longer the poor country it once was, but is far from the world's richest economy.

[16] "Economic and Financial Affairs Post-Programme Surveillance Report EUROPEAN ECONOMY." (2016)
[17] Central Statistics Office, "Measuring Ireland's Progress 2017." (2018)

With this idea in mind, the mythical growth observed during the Celtic Tiger feels like exactly that - a myth.

The Ireland of today, a well-off EU economy with a variety of productive industries, is unrecognizable compared to 1980s Ireland, ravaged by political corruption, mounting public debt, and mass unemployment. Living standards increased dramatically during the Celtic Tiger economic boom, opportunities were more available than ever before. However, once the market crashed and Ireland gained the benefit of hindsight, it's hard to look at the Celtic Tiger in an entirely positive light. Risky bets on novel wealth seemed to return the Irish economy to the debt-ridden, high-unemployment times that preceded the boom. Emerging from the crisis, stark inequality in wealth and growth potential between urban and rural areas point to the fact that swaths of the population largely missed out on the benefits of the Celtic Tiger.[18] Tax avoidance schemes taint the stunning GDP growth statistics so much that it makes one consider if the Celtic Tiger's growth was even "real." It's a fascinating paradox. The Celtic Tiger, branded as an economic miracle that revolutionized a society, feels as much of a disappointment as it does a success.

[18]Central Statistics Office "County Incomes and Regional GDP 2021." (2022)

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