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10 Ireland's Multiple Interface-periphery Development Model: Achievements and Limits¹

Joseph Ruane

From the mid 1990s to the summer of 2008 Irish identity was re-fashioned around a narrative of success. It contrasted two eras. The first was post-independence Ireland, in particular the period from the 1930s to the 1950s – ‘DeValera’s Ireland’: inward-looking, poor, rural, economically and culturally stagnant, its potential restricted by protectionist policies, ‘anti-materialist’ values and the power of an all-powerful Catholic Church which saw development as a threat to its position. The second was the Ireland of the 1990s and after – ‘Celtic Tiger Ireland’: successful, outward-looking, dynamic, liberalising, globalising, self-confident, post-Catholic, secularising, pluralist, rich and becoming richer, European, a place of immigration rather than emigration and a model for developing countries everywhere. In this account of events, the foundations of the new Ireland were laid in the 1960s when Lemass replaced DeValera as taoiseach and began the task of opening Ireland up to the wider world. In the decades that followed trade barriers were removed, foreign investment and membership of the European Union (EU) were secured, educational levels rose, there was investment in infrastructure, the power of the Church was challenged, the values of material progress and modernity were embraced. It took time for the new policies to bear full fruit; when they did, they had transformed Ireland from one of the EU’s poorest countries into one of its richest.²

Between June and December 2008 that narrative collapsed. The first blow was the rejection of the Lisbon Treaty in a referendum on June 9, 2008. This was not the first time the Irish had rejected an EU treaty: the Nice Treaty was also rejected at its first referendum in 2002. But on this occasion there was greater hostility to the EU project and more evident disregard for the possible consequences.³ The

1. The research for this paper was aided by a grant from the College of Arts, Celtic Studies and Social Sciences, University College Cork. I am grateful to John Doran, Jennifer Todd and Richard Jenkins for comments on a previous version.
2. For examples of the new identity in the making, see Sweeney (1998), Mac Sharry and White (2000), McWilliams (2005). For critical observations on the process, see Kirby, Gibbons and Cronin (2002), Coulter and Coleman (2003).
3. See, for example, ‘Majority are happy with the Lisbon result – poll’, Irish Times, 25 July 2008.

defeat of the Lisbon Treaty was a single event; the crisis in the economy took place over several months. A slow-down had been in evidence for a year, particularly in construction, a sector that had boomed for almost a decade. But there were different views of how this would unfold. Some economists predicted a crash to be followed by a severe recession (for example, Kelly, 2007). But the possibility had been discussed for years without it happening. With contrasting opinions to draw on, government chose the optimistic one: that the construction industry would have a 'soft landing' followed by a period of adjustment and then a resumption of growth at lower levels than before, and if anything did go wrong the banks were well-capitalised and would be able to deal with the problem.⁴ But as the crisis deepened the 'soft-landing' turned out to be a collapse, and on September 30 the massively indebted banking system was rescued by an unlimited government guarantee of all deposits.⁵ The property collapse was followed by a fiscal crisis, the consequence of the government's heavy dependence on tax revenue from the construction industry and personal consumption and the increased demands on exchequer spending. By the end of the year the picture had become clearer: the crisis was global, and Ireland's was among the most severe.⁶ Assessments in the spring and summer of 2009 concluded that between 2008 and 2010, GDP would contract by about 13.5%,⁷ GNP per head would be lower in 2010 than in 2002,⁸ and unemployment would rise to 16.1% in 2010 (*ibid.*). Making relatively optimistic assumptions, the earliest hope of a return to a 'very modest growth' was mid-2010 (*ibid.*).

The public response to what had happened was initially one of bewilderment, then of anger. They had taken at face value government assurances that the fundamentals of the economy were sound, that Ireland had put in place an exceptional development model, that its wealth would continue to grow and that the development problems of the past had finally been overcome. They now concluded that for at least a decade they had been living an illusion. The period since the crash has been as much a search for a new identity as for a new economic and political model. It will take time for an adequate explanation for what has happened to emerge. Enough is known, however, to begin the search. The question considered

4. For the optimistic view, see Allied Irish Banks, *The Irish Economy: Economic Outlook 2007*. See also Alan Ahearne, 'Stop worrying, our bank deposits are safe', *Sunday Independent*, 21 September 2008.
5. The Irish government was the first to make that commitment and remains one of the few. It has also taken on more contingent liabilities than any other Euro area government, around 215% of GDP (European Central Bank, *Monthly Bulletin*, July 2009, p. 68).
6. OECD Economic Outlook 2009, pp. 65-66, 68, 75, 78, and Country Summaries; IMF World Economic Outlook, April 2009, p. 65.
7. IMF Country Report No 09/195, June 2009, p. 5.
8. ESRI Quarterly Economic Commentary, Summer 2009, Summary, p. 1.

here is whether what has happened is in any way attributable to the nature of the Irish development model.

Firstly, what is the model? There are different understandings of it. For economists, its point of departure is a view of Ireland as a small economy with limited resources whose prosperity depends on successfully trading internationally.⁹ Though the policies implemented to achieve this have evolved over time, there is substantial continuity. In agriculture they have centred on the EU, its high guaranteed prices for foodstuffs, and its support for investment and modernisation. In industry the emphasis has been on securing foreign direct investment by means of a low corporate profit tax (CPT) rate and other financial incentives, and developing the physical, communications and educational infrastructure to support this. More generally, it involves an emphasis on productivity, efficiency and competitiveness. In the 1990s the model was broadened to include a greater emphasis on indigenous industry, a focus on financial services as well as manufacturing, greater concern with science and technology, a system of multi-layered social partnership to ensure social inclusion and national consensus, a strong pro-business and pro-EU stance, and (in the late 1990s) a positive immigration policy.¹⁰

For economists the implementation of the model could be further improved, but in its broad outlines it is well suited to Irish circumstances. What went wrong in the 2000s was a failure to adhere to it: in particular, to have allowed construction rather than manufacturing to emerge as the engine of growth, to have based a large part of public expenditure on the windfall revenues generated by the construction boom, to have failed to regulate the over-extended banking system, and to have ignored the decline in competitiveness.¹¹

The social-science version of the model is more complex since it incorporates a range of non-economic variables. It is also internally more diverse and includes such varying approaches as the 'Atlantic economy' approach of O'Hearn (2001), the 'competition state' approach of Kirby (2002), and the 'developmental network' state approach of O Riain (2004). They share a more critical view of the model, though the intensity of the criticism varies. The two main criticisms are the inherent vulnerability of so dependent a model, and its uneven social consequences. The origins of the social-science approach go back to the late 1970s and 1980s and to some extent reflect the conditions of that time, one of recession in the Irish economy and the theoretical dominance of dependency theory. That theory stressed the problems faced by peripheral economies under conditions of international capitalism and the

9. For an economist's view of how the model fits into Ireland's long term-economic development, see Haughton (2008).

10. For a close analysis of the policy issues, see Honohan and Walsh (2002).

11. For a regularly updated analysis by Irish economists of what went wrong, see www.irisheconomy.ie

self-reproducing nature of the peripheral condition (Frank 1979; Amin et al. 1982; Seers et al. 1979).

The Celtic Tiger of the 1990s challenged these arguments. If Ireland was converging in its living standards with the developed economies, and then surpassing these economies, it meant either that it was no longer peripheral (which the theory did not allow for) or that a country could be peripheral and rich (which raises the question of whether peripherality really matters). There was also in the 1990s the theoretical challenge of the new paradigm of globalisation, which questioned whether in a world of global communications anywhere was still peripheral. The concept continued to be used, however, and analogous concepts were used by some economists, including the idea that the Irish economy was now essentially a regional economy and the Celtic Tiger a 'regional boom' (Barry, 2002).

The peripherality theorists of the 1980s would not be surprised that the Irish boom has ended in a crisis: according to their theories, peripheral economies were prone to crises, and crises at the core have a particularly severe impact on peripheries (Amin et al. 1982). But is Ireland peripheral, and if it is, is the nature of its peripherality still the same? I will argue that it continues to be peripheral but is now a different kind of periphery. During the British period and until the end of the 1950s, it can be described as a *simple periphery*; today it is best described as a *multiple interface-periphery* (MIP). The question then is whether its multiple interface-periphery form has contributed to the current crisis.

Ireland: from simple periphery to multiple interface-periphery

As used in the 1970s and 1980s, the concept of peripherality implied that for each periphery there was a single primary core, and the relationship between them was one of distance and dependence. The imbalance of power left the periphery vulnerable to exploitation and uneven development and, once established, it was a condition that was difficult, if not impossible, to break out of (Frank 1979; Cardoso and Faletto 1979). For social scientists during that decade the relevance of the concept to Ireland seemed obvious: historically Ireland was a periphery to the English core (Hechter 1975); its uneven economic development in the 19th century and its crises were the product of its peripherality (Crotty, in Seers et al. 1979); its party system had its roots in interlocking internal and external core-periphery relations within the British Isles (Garvin 1981); and the slow progress of the decades after independence and the crisis of the 1980s were due to Ireland's continuing dependency (O'Hearn 1989).

The advent of the Celtic Tiger challenged this line of analysis. It was not simply that the economy was enjoying exceptional rates of growth (annual growth rates

averaging 9% in the late 1990s); the whole society seemed in process of mutation. By the end of the 1990s employment in agriculture had fallen to 7.3% of the total workforce (NESC 2008: 7); the proportion of married women in the workforce was approaching 50% (Fahey et al. 2000: 254); educational participation was rising fast, even if still low by EU standards (Newman 2005: 288)¹²; satellite dishes brought global television to the most remote of villages; and airport traffic had more than doubled since 1990 (Killen, 2007: 110). The culture of consumerism was being enthusiastically embraced (O'Connell 2001), and there was an expanding class of super-rich bankers, developers and property investors (McDonald and Sheridan, 2008). Ireland's traditional culture was being modernised and successfully marketed internationally (O Cinnéide 2002). With the removal of the constitutional ban on divorce in 1995, the long delayed 'liberal agenda' was completed in all aspects except abortion. The conflict in Northern Ireland – a constant reminder of nationalism's 'unfinished business' – had ended (more or less) with the Good Friday Agreement of 1998. Ireland was an integral part of the EU and now counted among the most globalised countries in the world. In what sense could it still be peripheral?

The concept continued to be used, however, though in an increasingly sophisticated way. Two striking versions of it appeared at the beginning of the 2000s. The first was Denis O'Hearn's (2001) world-systems view of Ireland, which theorised its *longue durée* development as part of the Atlantic economy. Different Atlantic conjunctures had set different conditions for the Irish economy and its political elites. The most recent set the conditions out of which the Celtic Tiger emerged. From this standpoint, the Celtic Tiger does not constitute a radical break with the past; nor is it the product of a new and inspired development strategy, but of the interests of US companies in locating within the European Union (EU) and doing so in an agglomerative way. A new Atlantic conjuncture could have very different implications for Ireland. The second was O Riain's (2004) network view of globalisation and his 'developmental network' model of the Irish state. Ireland belonged to the category of semi-peripheral states which, unlike peripheries, had the possibility of moving upwards in the world order. Ireland's developmental network approach to targeting foreign investment and encouraging indigenous industry had enabled it to move up. But staying up was not guaranteed. Indeed the further growth of the indigenous sector was being put at risk by the neo-liberal politics of the new technical-professional class whose own success had been made possible by state support.

If peripherality remained a key concept for some, and a background assumption for others, by the 1990s it was less widely used. Two new models were drawn on.

12. Convergence did not take place until the 2000s (Harmon & Newman, 2008, p. 334).

One was 'convergence': the view that Ireland's development had simply been delayed and the Celtic Tiger was its catching up. After independence it turned inwards, shut itself off from the modern world and went into decline. When it realised the futility of this and re-opened itself to the outside world, it began to catch up. Having caught up and learned its lesson, there was no reason why it could not stay up with the leaders (O Grada 2002; Garvin 2004). The other model was 'globalisation', a much more complex paradigm that was now re-shaping the social sciences. Some applications of the concept to Ireland were hostile, echoing the arguments of an earlier generation of dependency theorists about Ireland's dependency and vulnerability, and stressing its social, cultural and environmental consequences (K. Allen 2000; Kirby 2002; R. Allen 2004). Others were less deterministic and less pessimistic, stressing the benefits that Ireland had already drawn from it and the potential for others (O Riain, 2004; O'Sullivan, 2006; Mays, 2005).

In the wider public discourse - of journalists, politicians and government development agencies - a more positive view of Ireland and globalisation emerged that fed into the process of self-re-definition that produced the Celtic Tiger identity described above. In this account the globalised world was characterised by *interdependence* rather than dependence. Ireland was benefiting from foreign direct investment, but it was also investing abroad. The Irish were consuming foreign cultural products in ever-increasing quantities, but they were also exporting their own. If decisions in international fora were impacting more and more on Ireland, Ireland had a voice in these and individual Irish people were prominent in the international arena. Irish politicians enjoyed unprecedented access to the White House and Downing Street, and the success of the Irish economy had earned Ireland a new respect in Brussels. Moreover, in this transformed world, many of Ireland's past misfortunes were proving to be a strength: the loss of the Irish language gave the Irish direct access to the premier world language and made Ireland more attractive to foreign investors; and the emigrants of the past had given birth to the global Irish diaspora whose support was now benefiting Ireland.¹³

There were obvious problems with so optimistic a view. If the Irish were investing in the United Kingdom, the United States and elsewhere, their investments were pinpricks in those economies, whereas foreign companies now controlled the major part of Ireland's industrial and retail economy. If the Irish were successfully exporting their culture - *Riverdance*, U2, the Irish pub, poetry, literature - its impact on its host countries was minuscule compared to the blanketing effect of outside (essentially British and American) cultures on Ireland. If Ireland was punching above its weight internationally, this was relative to a country of very small size.

13. The origins of some of this revision pre-date the Celtic Tiger. See Kearney (1988).

The Irish government's greater influence in Downing Street owed much to the fact that it was cooperating with the British government in managing its troublesome Northern Irish province. If it had the ear of the White House it was because of the size of the Irish-American vote. If it had influence in Europe this came from being *communaux*, concentrating on the small number of issues that were of most relevance to Ireland (Laffan and O'Mahony 2008: 252-3) and vindicating the wisdom of EU policies on regional development.

Optimists saw the pessimists as people stuck in the past, unable to come to terms with Irish success.¹⁴ The pessimists saw themselves as realists, able to see through the 'spin' of government ministers and agencies. More important is what made such contrasting judgements possible: the difficulty of making sense of what was going on. Ireland was changing, but from what, and into what? If 'convergence' captured some of it, and 'globalisation' other parts, neither offered a sufficient explanation. Indeed, the concepts could also mislead. The concept of 'convergence' ignored the question of the structure of the economy. The concept of 'globalisation' conjured up a vision of a globally connected Ireland; in fact its global connections, to the extent to which they existed at all, were largely extensions of its much closer relationship with its three neighbouring political, economic and cultural cores – the US, UK¹⁵ and mainland EU – and Ireland's relationship to them was characterised much more by dependence than by interdependence.¹⁶

But there was a paradoxical aspect to what on the surface was increased dependence and external control. Ireland during this period had an enhanced sense of capacity and autonomy, and there were repeated references to the new Irish 'confidence'. Assuming that this reflected the reality and was not simply an illusion, what explains it? Increased wealth played a role, as did enhanced international status. But the crucial difference was that, while the relationship with each power – the US, the UK and the EU – was an unequal one, there was a process of balancing each against the other and using each one to extract resources from the other. Membership of the EU was used to bid for US foreign direct investment (FDI); the US was used as a counter to British power in negotiations about Northern Ireland; membership of the EU was a counter to the fear that Ireland might lose itself in an Anglo-American world; and Ireland's 'central' position in the North Atlantic world meant that it was not simply a peripheral part of Europe. Even if the increasing US, UK and EU presence in Ireland was constraining in some

14. See, for example, the address of the Taoiseach, Bertie Ahern, ICTU Conference, Bundoran, 4th July 2007 (www.taoiseach.irishgov.ie).

15. The UK is also, of course, part of the EU. But Ireland's relationship with Britain has a completely different dynamic to its relationship to the EU as a body. It is rooted in the interlocking histories of the two countries and continues independently of their common membership of the EU.

16. On the geographically confined nature of Ireland's 'global' trade, see Smith (2005, pp. 65-66).

degree, the resources they brought meant that the reduced space for manoeuvre could be better used.¹⁷

This raises the question: what kind of *geo-political* entity had Ireland now become? O'Hearn's (2001) concept of Ireland as an 'intermediating periphery' between the US and the EU is suggestive, but it puts undue weight on the relationship between the two blocs and insufficient weight on the scope for Irish agency in negotiating the relationship between the blocs. A term that lends itself to this purpose is Stein Rokkan's concept of an 'interface periphery'. He used the term to refer to territories located historically in the zones of overlap between different political and cultural regions that looked outwards to both (Flora 1999, 191-194; 202-208). His list of such territories forms a diverse group. Some are ethnic interfaces; others are segments of one culture world integrated politically into another. As border regions most bear the scars of history, but today some are able to exploit the opportunities in the interface situation.¹⁸ Most interface peripheries have been dependent regions, but some have been autonomous states, notably 19th century Finland positioned between Sweden and Russia (Alapuro 1982: 113-164).

Applying the concept of interface periphery to Ireland gives us a way of thinking about Irish peripherality today that grasps at once its new forms of dependence and its increased sense of autonomy and agency. It has allowed its territory to become a point of interface between three cores – the UK, the EU and the US – and can therefore be seen as a *multiple interface-periphery*. It has used its sovereignty to control the way this has happened, and it uses it today to exploit the potential in the interface situation, including maintaining and enhancing its autonomy. This is, of course, the ideal; we will see that the MIP situation also carries risks.

Turning Ireland into multiple interface-periphery is not what Irish nationalists set out to do when the country achieved independence in 1922. The intention then was fully to de-peripheralise Ireland and to make of it a conventional nation-state. Nor did those who led the 'turn to the outside' in 1959 think they were departing from this goal. At the same time the development model they put in place pointed in that direction. The term MIP can describe a development model as well as a territory. As a development model it is a strategy of opening up to several cores at once to draw benefits from each while preserving its independence of all of them. This was already implicit in the new departure of the 1960s – the application for EU membership to secure an alternative market for Irish farm produce, the search

17. This may explain why the increase in external influence did not provoke a nationalist response. There were occasional stirrings, for example with the arrival of Tesco in Ireland in 1997, more particularly after it re-named the Irish chains it had bought up.

18. Alsace is an example. It uses its proximity and a common dialect to access job opportunities on the other side of the Rhine, while having all the normal benefits of membership of the French state.

throughout the developed world for FDI – but it became more explicit and systematic as time went on.

From a strategic point of view, a multiple interface-periphery does not face the same problems as the simple periphery analysed by the theorists of the 1970s and 1980s. The latter is locked into a dependent relationship with a single core which can, if it chooses, use its power to siphon off the periphery's resources. The MIP has autonomy and room for manoeuvre, and by balancing one external power off against another, it is able to draw on their resources rather than lose its own. At the same time it faces its own challenges. It has to balance multiple relationships, external and internal, in a world of conflicting pressures, demands and swiftly changing flows, and it has to do this under conditions of risk and uncertainty. A conjuncture may be positive but not remain so for long, and a change in one key relationship can alter a whole configuration.

There is a further issue. One of the problems of the simple periphery is the difficulty it encounters in building a centre of its own. The MIP is not immune from such de-centring pressures; indeed centrifugal tendencies are inherent in the MIP situation. Becoming connected up with different external cores brings the risk of socio-spatial fragmentation, loss of cultural coherence and a more difficult task of internal and external political management. At the limit one could conceive of a society so penetrated by external networks and systems and so weakened in its identity and autonomy that the capacity for political management ceases entirely. Things are unlikely ever to go this far, but it is possible to imagine a situation where the capacity is seriously impaired or becomes so difficult that the centre stops making the effort. At that point a multiple interface-periphery would have become an 'intermediating periphery' (O'Hearn 2001).

This brings us back to the Irish case, the exceptional growth of the 1990s and 2000s, and the severity of the current crisis. As already suggested, core-periphery theorists of an earlier generation would not be surprised at what has happened. But does the severity of the Irish crisis suggest that multiple interface-peripheries are also prone to crises, and if so, how do they occur and what form do they take? More particularly, did Ireland's multiple interface-peripheral condition play a role in the current crisis?

From 1950s Crisis to Celtic Tiger to New Crisis

Ireland's MIP development model did not spring fully grown from the heads of Irish policy makers in 1958 as they confronted the crisis of the 1950s. Insofar as the new direction was underpinned by a general principle, it was that Ireland had to modernise and to adopt a more outward-looking approach if it was to deliver

the jobs and quality of material life necessary to hold onto its population (Garvin, 2004). Since modernisation had not proved possible from within, it had to be brought in from outside. Learning from the outside, and profiting from its inputs, ideas, technology, managerial practices and organisational models, became the hallmarks of the new direction.

In the case of agriculture the imperative was increased investment and output and the modernisation of farm practices. The priority here was membership of the EU with its high guaranteed prices. The first application was in 1961; membership was eventually secured in 1972, bringing an immediate bonanza for Irish farmers and a long-term support system paid for by EU consumers and taxpayers. Expanding the industrial sector could not be done the same way. The existing sector had grown up under protection and was inefficient and un-enterprising. Here the solution was to bring in new firms with their technology already advanced and their markets already in place. Given the poor quality of Ireland's infrastructure and educational levels, what came was the 'poor man's' FDI – low-paying, mass production, 'sunset' industries offering limited linkages to the local economy – but it was a beginning and it led to an immediate and rapid increase in industrial exports.

The new economic departure made an immediate impact which diffused throughout the other sectors of the society. GDP had averaged 2% growth per annum between 1949 and 1961; it averaged 4.1% per annum between 1961 and 1973, and 3.6% per annum between 1973 and 1981 (Nolan 1987: 258). The destination of Irish exports changed: in 1960 75% had gone to the UK and only 6% to the other EEC 10; in 1980 43% went to the UK and 32% to the other EEC 10. The composition of exports also changed: in 1960 just 19% of merchandise exports were of manufacturing goods; in 1980 the figure was 54% (Kennedy, Giblin & McHugh 1988: 183-5). While this was happening, there were improvements in infrastructure, increased access to second-level education (free from 1967), the opening of a national television service (1961) and the beginnings of an industrial and consumer society. The impetus for change came as much from the private sector as from government: Irish businessmen pursued opportunities abroad, estate agents in scenic areas advertised properties to Europeans interested in second homes, travel agents opened up the foreign travel market, and Irish television programmers sourced many of their programmes abroad and based their own on borrowed formats.

The process of opening up had acquired its own dynamic. The emphasis on attracting foreign firms led to a neglect of the indigenous sector and increased still more the need for FDI. The increase in farm incomes meant that this would have been an enormous burden if the Irish exchequer had to pay it, and it reinforced dependence on the EU. The greater the access to foreign media the more demand there was for it. The more aware Irish people became of the outside world, the more it became their point of reference and the more critical they became of their

own society. The response to what was happening was mixed. Some welcomed the change, seeing in it the promise of a more liberal and pluralist society; others saw it as the attempted modernisation of a society that still had to be de-colonised (Crotty 1979; Fennell 1982). Conservative Catholics and liberals clashed on issues such as contraception, homosexuality, abortion, divorce, and the position of the Catholic Church. Differences in how to respond to the continuing conflict in Northern Ireland sharpened in the wake of the Hunger Strikes and the rise of Sinn Féin.

The primary concern of the 1980s was, however, the deep economic recession. It had a structural basis in the reduced flow of inward investment and retrenchment of existing foreign companies, the collapse of the indigenous sector and the failure to develop a new one (O'Hearn 2001: 158). But it was compounded by government fiscal policies: a decision in 1977 to address the problem of long-term unemployment by expansionary fiscal policies (Honohan and Walsh 2002: 7). The result was an expanded public sector and an increase in the national debt from 54.5% of GNP in 1973 to 142.2% in 1985 (Kennedy, Giblin and McHugh 1988: 89), while the rate of unemployment went from 5.2% in 1972 to over 17% by the mid 1980s. By the end of the decade emigration had returned to levels not seen since the 1950s.

It was at this unlikely moment that economic recovery began. The factors that carried the recovery operated at several different levels. The US-EU context was crucial. The late 1980s saw the beginning of a long US boom, a re-assertion of US leadership in high-tech industries, and a new surge in US FDI wanting to locate within the EU at a time when the single market was being completed, and to do so not simply as individual firms but as industry agglomerations (O'Hearn 2001: 170). There was also increased EU direct funding. Net receipts represented 4% of GDP in 1989, rising to 6.5% in 1991 and then gradually declining to 1.1% in 2001, with the largest absolute amount in 1997.¹⁹ But the success in securing FDI in more advanced sectors than in the past was not a foregone conclusion. It required the strategic targeting of those sectors (in particular computer hardware and software, chemicals and pharmaceuticals) and upgrading the package of what Ireland had to offer. The package now included careful fiscal management of the economy, a corporate profit tax of 10% (later 12.5%), income restraint in exchange for lowered incomes taxes, a system of social partnership designed to achieve industrial peace and social cohesion, continuing investment in education and infrastructure in the sectors in question, and a pro-business and pro-enterprise political culture (Honohan & Walsh 2002).

The growth in the manufacturing sector played a key role in the upward growth trajectory. Employment in manufacturing increased by 27% and net output by 249% between 1991 and 2001. Sixty four percent of the growth in employment

19. Department of Finance, Budgetary and Economic Statistics: March 2004 (Department of Finance, 2004) Table 7.

came from foreign companies, with US companies accounting for almost 90% of this increase (Ruane and Ugur 2005). On the other hand, growth was broadly based. Manufacturing as a percentage of total employment fell during this period and the major growth was in 'market services', including financial and legal services, retail, hotels and catering. Building and construction was another growth sector: from 6.6% of total employment in 1985 to 10.2% in 2000. Public-sector employment increased, but only very slightly as a share of total employment (Honohan and Walsh 2002: 17, Table 4, 32). From the mid-1990s to 2000 exceptional rates of GNP growth were achieved: 6.3% in 1994, 9.4% in 1997, 10.4% in 2000 (Honohan and Walsh 2002: 33, table 3). By 2000 unemployment had fallen to 4.3% of the workforce, the national debt had fallen to 41.4% of GNP, and the exchequer balance was in massive surplus (Smith, 2005, Table, 2.1, 40)

Did Ireland's increased wealth mean that it was now an 'advanced economy'? At the level of living standards, the answer was yes. At the level of structure the answer is less clear and opinions were divided. For some, Irish growth was a largely US FDI and EU phenomenon, with Ireland doing little more than provide a platform for US industry in Europe, supported by EU subsidies and vulnerable to EU policies of tax harmonisation (O'Hearn 2001; Murphy 2000). For others, the internal contribution was as important as the external: US FDI could have gone anywhere; it chose Ireland because Ireland pursued it and had a lot to offer. This included more than just a low CPT rate; it included improvements in education, the inauguration of social partnership, a new entrepreneurial spirit, the careful management of the public finances. For its part, the government stressed the importance of the EU to Ireland but also re-positioned Ireland, away from Europe and towards the US.²⁰

The decade of the 1990s is now viewed as the first phase of the Celtic Tiger that ended with the dot.com crash of 2001. The extremely high growth rates of the second part of the 1990s were not repeated, though average growth rates remained high: 5.4% in real GDP between 2000 and 2007 (Haughton 2008: 154). The structure of the economy was also changing. US FDI continued to arrive, but on a smaller scale than before, and employment in manufacturing was falling in absolute and relative terms: from 18.7% of total employment in 2000 to 14.1% in 2006. The new employment growth areas were construction (from 10.4% to 13.6%), health (8.2% to 10.2%), education (6.0% to 6.8%), public administration and defence (4.6% to 5.1%), and financial and business services (12.5% to 13.5%) (NESC 2008: 7). The up-turn in house-building began in the late 1980s, became more rapid from 1994, accelerated again after 2002 and peaked in 2007 (Haughton 2008: 162). By 2001-3 Irish rates of housing completion were dramatically higher

20. There was also a shift towards the UK. For the terms in which these shifts were debated and justified, see Tonra (2006), chapter 8.

than any other EU country, and the gap would widen still further (Fitzgerald 2005: 8). The demand for property came initially from a growing population, but as time went on the speculative component became increasingly important. Government policies encouraged this with tax breaks for builders and investors, and reduced capital gains taxes and mortgage relief for householders. The finance came from low EU interest rates, with the Irish banks lending to developers on the one hand and house purchasers on the other, increasingly with 100% mortgages. By 2008 household indebtedness in Ireland was among the highest in the euro area, 81% of GDP, with 80% of personal credit secured on property (Malzubris 2008: 4).

As already noted above, cautionary voices were raised about the property boom long before the collapse: claiming principally that it was a bubble that must soon collapse but also that it was having damaging environmental consequences, was inflationary in its effects, was contributing to a decline in competitiveness, was drawing on investment capital that would be better put to other uses, and was leaving young home-owners with a lifetime of heavy mortgages. The government's argument was that it reflected the real demand of a wealthier economy and an expanding population, and that a slowdown would lead to even higher prices. But there was also the importance of the construction industry as a source of tax revenue. This revenue made it possible to lower income taxes (which the government believed contributed to further growth) and to increase spending on infrastructure, health, education and R & D and public-sector salaries.²¹ The reaction to this was very divided: I was welcomed by those who believed that the Celtic Tiger had still to yield its social dividend, but decried by those who focused their attention on waste and budget overruns in the public sector and ever higher public-sector salaries.

The property - then banking - then fiscal - collapse of 2008 revealed the flawed nature of the assumptions on which the later Celtic Tiger had rested. It undid some of the fortunes it created and left many thousands of homeowners with negative equity and an uncertain employment future. More generally it revealed the magnitude of the state's policy and institutional failure in the years that preceded it. The failure was all the more noteworthy given the frequent references made during the Celtic Tiger years to the earlier failures, when they were cited as cautionary tales and a demonstration of how much more enlightened today's policy makers were than their predecessors. Those who questioned the magnitude of the achievement of the original Celtic Tiger could now feel confirmed. But the failure of the second phase does not necessarily cast a doubt over the first. A more useful angle is to ask whether there was a difference between the two periods that might explain how such a miscalculation could have occurred.

21. As late as 2007 there was yet another round of income tax cuts (with another promised for 2008) while the surge of lending by Irish banks continued, even as the sub-prime mortgage crisis deepened in the US.

A first point is that the post-2001 environment was more challenging and did not offer the same clarity of options as that of the 1990s. The international situation had become more volatile. The gap between the economies of the US and UK and those of France and Germany widened not simply in growth rates but in the models on which they were based. For a number of reasons – US FDI, a shared language, an ideological commitment to market processes – Ireland was drawn to the US and UK side of that division. In selecting it, it chose a model in which a property boom and a lax approach to bank regulation made sense. On the other hand, in line with its pro-EU policy Ireland joined the EMU in 1999. In doing so it ceded control of its interest rates to the ECB. Low EU interest rates proved to be a key factor in the property boom. There were other ways in which the boom could have been controlled if the government had wished, but they were politically more difficult. Besides, did it not offer evidence of the dynamism of the economy and the superiority of the Irish and Anglo-American market model? Moreover, during the period, the question of the long-term strategic development of the economy was also addressed. The goal identified was the creation of a ‘knowledge economy’ through investment in education, innovation, science and R & D. The difficulty is that this is a long-term goal with less measurable outputs than the search for more foreign investment and jobs. Even more challenging was public-service reform, where the problems of decades had accumulated, existing practices were deeply entrenched, and the trade unions were exceptionally strong.

The change in the environment is not sufficient, however, to explain how such bad decisions were made and why they were persisted in for so long. Analysis in the media has stressed the elaborate web of economic and political interests that the construction boom had woven. Developers and property consortia made fortunes. The banks reported enormous profits, their higher executives enjoyed exceptional salaries and bonuses, shareholders gained from the increases in share values. Landowners sold agricultural land rezoned for building at extraordinarily high prices. The professions linked to property and construction – estate agents, architects, solicitors, valuers – did extremely well. Workers in construction made very good wages. Individuals on quite modest incomes bought buy-to-let properties in the expectation of having their mortgage covered and the value of the property rise. Even householders with just their family home took satisfaction in its rising value. The parties in power and local councillors received campaign contributions from developers. The fiscal windfall paid for the salary increases of politicians and public-sector workers and the ‘quangos’ to whose boards the government appointed political supporters and representatives of the social partners. Light regulation of the banks gave bankers the freedom to pursue profits as they chose; the government appointed bankers to the committees that decided on the pay awards due to higher politicians and civil servants. The electorate, convinced that the parties in

government would keep the boom going indefinitely, returned them to office for the third time in a row in 2007.

The relative importance of these different interests and how they impacted at the level of politics remains to be established. But two crucial alignments made by the government during the early phase of the Celtic Tiger appear to have impacted on its independence of judgement during the later phase. One was with the corporate elite of developers, bankers, financiers and large investors, a group that was indulged by tax breaks and other concessions during the years of the boom. The justification – insofar as it was thought necessary to offer one – was that they were Ireland's wealth-creators, whose entrepreneurialism had played a key role in the boom and who had a key role to play in future developments. It is difficult to separate the political from the personal and the ideological in all this. But it seems clear that the close personal relationships and shared assumptions that developed between members of the government and members of this group played a central role in allowing the property boom to continue as long as it did, as well in the failure adequately to regulate the banking system.²²

The second alignment was with the social partners. The system of social partnership was put in place by government in 1987 as a way of ensuring industrial peace and keeping the economy competitive. Later its goals broadened to include issues such as social inclusion and the promotion of an entrepreneurial culture (Honohan and Walsh 2002: 13). But it took on a life of its own, leaving it increasingly unclear where the border lay between the powers of government and the rights accrued by the social partners. Most telling of all, the public sector was expanding and public-sector salaries rising significantly (and very rapidly at the higher levels) without evident progress at the level of organisational reform.²³

The alignments – with the corporate elite and the social partners – were quite distinct and had a different ideological as well as political basis. But they came together in the fact that construction was the key source of the revenues that funded the expansion in the public sector.

22. Breaches of banking regulation done with the knowledge of the Governor of the Central Bank and the Financial Regulator were sometimes framed in pseudo-nationalist terms, referred as 'donning the green jersey'. See 'An opportunity amid a crisis.' *Irish Independent*, 12 February 2009.

23. The failure of public-sector reform had multiple sources, not least the organisational models being implemented by the government. For the health sector, see Burke (2009).

Conclusion: Ireland as a Multiple Interface-Periphery and the Current Crisis

States routinely fail to keep pace with wider developments, and when confronted by a serious challenge they fall short. They take stock, renew themselves and (ideally) solve the problem, at which point the cycle recommences. Sometimes the failure is a direct product of structures and strategies put in place during the previous period, a systemic crisis properly so-called (Offe 1984). The question to be considered here is whether there is a systemic aspect to the current crisis, a link between it and the multiple interface-periphery development model put in place at the end of the 1980s.

The MIP developmental model has two key requirements if it is to work, and each is always at risk. One is to maintain the balance in, and between, the internal and external relations. Given that these change over time, sometimes very quickly, it is a task that demands constant attention. The other is to maintain the capacity and autonomy of the state. Because of the centrifugal tendencies inherent in the MIP situation, this too demands constant attention. The two tasks interlock. Without an effective state, balance is impossible to maintain. Without balance, the autonomy of the state is at risk. Successful management of an MIP development model requires, therefore, a proactive state, one that constantly monitors what is happening and quickly intervenes, particularly when its capacity or autonomy is threatened.

If we look at the behaviour of the Irish government in the later Celtic Tiger period, we find a systematic failure to do this, a failure that in turn contributed to the conditions out of which the crisis emerged. I take three examples.

One of the distinctive features of the Irish state in the early 1980s was the manner in which it maintained its autonomy in respect of the major socio-economic and cultural groups in the society and secured its own project. It did this by playing the projects of different groups off against each other, adopting those that were consistent with its own and ignoring, or rejecting outright, those that were not (Peillon 1982). The Celtic Tiger brought changes that would challenge its ability to do this. The first was the expansion it produced in the numbers and power of the corporate elite. The second was the growing power of the social partners. It was not powerless in the face of either of these developments since its policies underpinned the wealth of the first and the power of the second. It could have responded by using its power to upgrade its capacity and re-affirm its primacy. Instead, it chose to accommodate itself to the new situation, accepting the power of these groups and coming close to treating them as if they were equal 'partners' in a common endeavour. The consequences of that choice were a diminished capacity to address the increasing irrationality of the property boom, a failure to deal with the irregularities and excesses of the banking system, and the unsustainability of an expanding public sector funded by wind-fall tax revenues.

Until 1989 the world was still divided into two blocs with the US, Japan and the EU as the members of the Western bloc. Ireland identified its interests very closely with those of the EU, and contrasted its pro-Europe stance with the 'Euroscepticism' of Margaret Thatcher's Britain. The collapse of the Soviet Union, the emergence of the US as the sole remaining super-power, the eastward expansion of the EU, and the emergence into sharper focus of the English-speaking world created a new situation. As an English-speaking country whose economic development was heavily dependent on US FDI, Ireland was being drawn away from the EU and towards the Anglo-American world, including its economic models and political attitudes. The government could have resisted this, on the principle of maintaining balance in its geo-politics. It chose instead to allow it to happen, justifying this in terms of Ireland's close cultural ties with the US and the superiority of the Anglo-American economic model (Tonra 2006). A consequence was the acceptance as normal – and even desirable – of an Anglo-American style property boom and lax regulation of the banking sector. It took the failure of the Lisbon Agreement to reveal how far the process had gone, and the economic crisis to focus attention on its consequences.

The capacity and autonomy of a state rest in part on the identity and solidarity of the members of the society, and their confidence that the state represents them and not particular groups. Identity and solidarity change over time in complex processes of dis-assembling and re-assembling. Times of crisis are also times of transition. The late 1980s and early 1990s were one such period.²⁴ The identity that came to dominate public discourse from the mid 1990s was Ireland as 'Celtic Tiger', a meaningless term, but one which announced the arrival of a new Ireland: ambitious, assertive, enterprising, competing successfully in the global marketplace.²⁵ It was a media creation, but government and government agencies drew on the image it conjured up to sell Ireland abroad and justify policies at home. Solidarity, much emphasised during this period, was to be achieved through social partnership, a device that in time would produce its own divisions. But while stressing solidarity and inclusion, leading ministers celebrated the values of individualism, wealth and consumerism and blurred the boundaries between themselves and the corporate elite. The crisis revealed the shallowness of the new identity and the limits to social solidarity. It also showed how weak had become the government's claim on public trust. Early in the crisis, the Minister for Finance appealed to people to respond in a 'patriotic' way. The appeal met with shock and disbelief, and was not repeated.

The examples show three ways in which, during the period of the Celtic Tiger, the Irish government was faced with challenges that threatened to erode the capacity and autonomy of the state. The manner of its response augmented rather than

24. See O'Toole (1990, 1994).

25. For a semantic analysis, see Keohane and Kuhling (2004, chapter 7).

contained the threat. This raises the question of why the government responded as it did. Explanations in the media stress the character of the then taoiseach, Bertie Ahern, or other ministers, or aspects of the parties then in power.²⁶ The argument advanced here is that both the challenges and the failure to respond adequately to them are closely bound up with the risks associated with the MIP development model and the centrifugal tendencies and vulnerabilities of the kind of society it is creating.

Detailed research will be needed to explore this hypothesis further and, in particular, to identify more of the mechanisms involved. It should extend to the historical roots of these mechanisms. The history of Ireland for the last millennium is one of peripherality. It was the context in which its constituent groups acquired their political habitus and developed their political skills. For most of that period the important skills were those for dealing with distant power-holders.²⁷ The skills necessary for self-rule were a later acquisition and are still being acquired. A pressing issue now is what the total repertoire of skills should be. The implication of this analysis is that it should comprise the variety of skills necessary to handle the distinctive demands of a multiple interface-periphery development model.

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26. Those relating to Ahern refer to his preference for a politics of negotiation and compromise, his lack of long term political vision, his ideological contradictions, his personal financial situation. Those relating to Fianna Fáil include its pragmatism and its links with the construction industry.

27. This partially explains Garret Fitzgerald's recent observation that Irish political leaders have been more effective on the international stage than on the domestic one (G. Fitzgerald 'Irish political leaders prove to be home devils and away angels', *Irish Times*, 27 June 2009).

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