Review of Seán O’Riain’s *The Rise and Fall of Ireland’s Celtic Tiger*


From famine to financialization: O’Riain’s *Celtic Tiger* is an important stepping stone on the way to a theoretical revitalization of the semiperiphery. This book and the recent collection of excellent articles in JWSR (Vol 22, No 1, 2016) provide a strong case for updating—not ignoring or obliterating—the concept of the semiperiphery. Reflecting on O’Riain’s book from a world-system perspective, I was struck by similarities with other semiperipheries. Ireland is a small open economy with significant legacies of post-colonialism and underdevelopment. O’Riain’s main goal is to trace the road by which Ireland evolved from massive government debt, high levels of inequality, unemployment, and emigration in the 1980s, to the Celtic Tiger, an economic miracle with indigenous and foreign investment, rising employment, and market-led globalization with high-tech exports in the 1990s, and then to the vertiginous collapse followed by aggressive austerity policies.

O’Riain provides an extensively researched and detailed analysis of the social, economic, and political conditions which came together to produce the disastrous 2008 crash. He describes the process by which the earlier Irish development project was undermined. He considers the interaction among FDI, international factors, and domestic politics in building up a precarious economic base and their contribution to the devastating financialization.
The 2008 collapse was like a haboob sweeping across the Sahara (and Arizona): unexpected and sudden, a haboob is a moving wall of dust that can rise to a height of 3,000 feet and stretch as wide as 100 miles, leaving behind tons of dust. O’Riain and others judge the Irish crisis to be one of the worst in history. First there was a financial crisis brought on by the reckless lending of bankers and a lack of governmental oversight. In 2003, 20% of Irish banks’ net liabilities were owed to international lenders; by 2008 it had risen to almost 80% (99). Secondly, a fiscal crisis precipitated by the burden of bailing out failing banks, and a deficit due to reduced tax revenues as the bubble burst (168). Thirdly, an economic crisis as productive investments and domestic demand fell. Fourthly, a social crisis as citizens experienced a cutback in social services, a rise in unemployment, and negative equity in property. The social pacts that had been embedded in institutional arrangements to promote growth, development, and well-being were sidelined by financialization and liberalization. Fifthly, O’Riain describes a reputational crisis as international lenders hesitated to finance government debt. These five crises reverberated in a sixth—a political incapacity of any group reaching a level of support that would have allowed for the formation of a government (226).

*Celtic Tiger* receives fitting praise from Bradley (2016), who writes that O’Riain “uncovers the full extent of the flawed processes that produced alternating boom and bust as Ireland strove to become more like the stable, successful small economies of northern Europe than the externally dependent post-colonial economy of its early years of independence.” O’Riain’s book systematically lays out the deep societal factors that contributed to the dramatic economic collapses of the mid-1950s, the 1980s and the mid-2000s. Bradley applauds the advances that O’Riain makes beyond the myriad (and sometimes mediocre) explanations of the acute Irish economic collapse.

O’Riain’s analysis exposes the challenges faced by Ireland, as well as by semiperipheral, and developing countries more broadly. He raises the general question: what configuration of institutions and global integration will yield growth, development, and well-being? By embedding the Irish crisis in the crisis of global capitalism, we learn much about Ireland and about the effect of global forces on semiperipheral nations.

Do world-system “semiperipheries” exist in today’s global economy? Yes, though recall O’Hearn’s (2016) caveat that the world-system is reformed over time. In the early design of world-system theory, the flow and character of goods determined a country’s status. Portugal in 1910 was an iconic semiperiphery (Schwartzman 1989). Portugal was clearly dependent on England and simultaneously held nine colonies. This semiperipheral position was reflected in a disarticulated economy. Some sectors behaved as peripheral economies producing agricultural commodities for export to core countries (England).
Other sectors produced manufactured goods for export to peripheral countries (Portuguese colonies). This disarticulated economy resulted in a highly fractious political system and the eventual collapse of the Portuguese Republic. The flow of raw materials in one direction and of processed goods in another typifies semiperipheral world-system exchanges through much of the 20th century.

Clearly this characterization is of limited utility today. Nevertheless, semi-peripheries remain disarticulated when global exchanges involve foreign direct investment (FDI). Brazil is such a case. It is a major recipient of FDI from countries including: Canada, South Korea, Switzerland, Germany, United Kingdom, United States, France, China, and Portugal. At the same time, Brazil has investments in Africa. Brazil’s JBS S.A. is considered the world’s largest protein company (meat processor) and has recently bought out the Tyson and Pilgrim’s Pride poultry installations in Mexico. JBS S.A. now holds 75% of Pilgrim’s Pride stock.

As O’Riain makes abundantly clear, Ireland was smitten with and inundated by FDI. In 1998, capital gains tax was reduced from 40% to 20% (82). The economy was characterized by a dualism. The profitable manufacturing and high-tech firms were dependent on foreign capital. The Irish Times (2015) reported that Ireland was the number one destination in the world for U.S. FDI. At the same time, Irish MNCs did exist. Cement Roadstone Holdings, a Fortune 500 company in the building materials market, claims over 4,000 locations worldwide. The Kerrygold group operates in the food, beverage and pharmaceutical industries in more than 25 countries. While modest, Irish outward foreign investment suggests a fractionalized economy of a sort unlikely to be present in a peripheral nation.

To those earlier world-system phases of commodity and FDI exchanges, we must now add financialization—foreign capital investments (equity and loans). O’Riain provides an in-depth view of this phase. Ireland was awash in capital flows from the IMF, ECB, and Anglo-Irish Bank. The banks, responding more to European stagnation than to the “heating up” of the Irish economy, left interest rates extremely low (152). For Ireland this spawned the speculative economy based on a property bubble (64). O’Riain highlights how the EU’s trade and monetary union contributed to the crises. In short, Ireland struggled to promote developmentalism within a trading and monetary union (134). Bound by the EU monetary policy, Ireland was unable to use monetary tools to respond to economic crises (116). In this context, political decisions became “technical judgements.”

Ireland shares three characteristics that are common to semiperipheries in all phases (commodity exchanges, FDI, and equity/loans). First, the economies become disarticulated. Secondly, semiperipheral economies are hyper-vulnerable to the vagaries of
the international market. Thirdly, semiperipheral countries suffer from shaky political coalitions.

First, the Irish economy became fragmented (disarticulated). O’Riain identifies four distinct projects extending from the mid-1990s to 2007. The dynamic export sector, for example, was driven by foreign firms (202). As capital drifted toward property developers (a construction and related-industry project), it moved further away from other productive industries. Capital flows became delinked from public and private productive investments; they were sidelined by an asset bubble rooted in financial and property speculation in the 2000s (67). And as O’Riain stresses, equity financing is not long-term patient capital. Ireland, like many semiperipheral nations, had a difficult time capturing those profits. Foreign companies repatriated them. O’Hearn (2016: 204) also points to the practice of larger U.S. companies buying out (or merging with) smaller domestic industries and relocating headquarters in Ireland to take advantage of low taxes. O’Riain attributes much of the crisis to the fragmented production regime.

Secondly, semiperiphery countries are extremely vulnerable to the vagaries of the international market because they lack economic depth in other areas. Historically, Ireland has suffered from a lack of backward linkages: little processing of raw materials in the colonial phase, and minimum domestic content with insignificant spin-offs in more recent times. In the 2008 crash, though awash in FDI, Ireland was slow to create institutions or domestic financing that would promote indigenous enterprise. What little there was came from domestic and EU-funded public investment. In the end, financialization triumphed over an alternative that would have channeled investment toward high-technology production and innovation (30). Vagaries of the international market create booms and busts. Ireland experienced a boom, for example, during the Napoleonic wars (1793-1815), which saw a bigger demand for grains and beef. Profits drew land owners into these commodities, leading to property inflation and further subdivision of land (Williams 1990:111). The economic recession following the Napoleonic war boom, set the stage for the devastating potato famine. Or, take the case of Argentina: as Europe recuperated following World War II and eventually reached its prewar level of agricultural production, cattle exports from Argentina plummeted. This caused severe problems for Peron’s import-substitution/populist project which was dependent on foreign currency earnings from beef exports.

Thirdly, semiperiphery countries suffer from unstable political coalitions. Historically, Ireland and Latin America had similar economic projects following the Great Depression. Ireland in 1932, like Mexico and Brazil, created a political regime that envisioned development with an ISI model (Fianna Fail, Cardenas, and Vargas, respectively). These
regimes were semiperipheral rejections of the dominant agro-export projects—legacies of colonialism. The fall of Fianna Fail replicates the end of the PRI regime in Mexico. Both political parties lasted for six-plus decades (from the 1930s to 1973 and 2000, respectively), and both maintained their hegemony with cross-class bases—a brokerage system with social pacts. Both political transformations occurred in the midst of struggles with global integration.

Thinking about Ireland and Latin America in the current world-system phase of foreign portfolio equity investment, we can see that Marx’s 1848 prediction has finally come to fruition. In The Communist Manifesto, Marx wrote:

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilization into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image. (Marx and Engels 1848 [2002]:224)

Contrary to Marx’s prediction, multiple modes of production survived flows of commodities and FDI, but not financialization. The heavy artillery was not cheap commodities, but cheap credit; the death knell came not from capitalist industrialization, but neoliberalism and financialization! In this phase, the ‘emerging markets’ are not coerced by the military or even by the World Bank, but by powerful international credit rating agencies: Moody’s, S&P, and Fitch. As O’Riain argues, they reinforced the flawed insights that flowed from market ideology (103). Although Ireland’s acceptance was tempered by civil society, its state institutional capacities for regulation, direction, and governance were inadequate. The walls were battered down and Ireland was compelled to introduce “civilization” (neoliberalism) into its midst.

A cursory comparison of Ireland and Mexico illustrates a number of similarities. In 1922 the Fianna Fail party favored smallholding farmers over urban working classes and supported an agricultural policy to maintain family farms (42). In a similar way, Mexico created the ejido system as a way to support small farmers. While land distribution was written into the 1917 Mexican Constitution, the quantity of land distributed under President Cardenas (1934-1940) surpassed that of all previous presidents.
O’Riain describes the Irish policy of welcoming FDI in the 1960s as a building block for an export-oriented economy. In 1965, the Mexican government created the Twin Plants Program (pre-NAFTA) to stimulate industrialization near the U.S-Mexico border.

Presented with easy credit terms in the 1970s, Mexico borrowed heavily. The flow of petrodollar-based loans stimulated the economy. When, in 1982, Mexico declared its inability to service its debt, renegotiations were contingent upon implementation of austerity under the “guidance” of the IMF and the structural adjustment programs. O’Riain outlines the negative externalities of an EU integration of unevenly developed countries which have different models of capitalist development, different social compacts, and dissimilar political institutions (117). This is certainly a useful framework for understanding Mexico’s circumstances in the era of NAFTA.

In conclusion, the world-system perspective including the semiperiphery remains a useful analytical framework. Perhaps reading O’Riain’s book will inspire future Europe-Latin America comparative research.

References


Kathleen Schwartzman
Department of Sociology
University of Arizona
kcs@email.arizona.edu