The fall of the Celtic Tiger

Lunchtalk, 1 October 2013

At this event Donal Donovan, former deputy director at the IMF and a member of the Irish Fiscal Advisory Council, and Antoin E. Murphy, a Professor Emeritus of Economics at Trinity College Dublin, presented their new book "**The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis**", published by Oxford University Press in June 2013.

Ideology and financial innovation

In the years before the crisis, there was a widespread consensus among economists on some policy points:

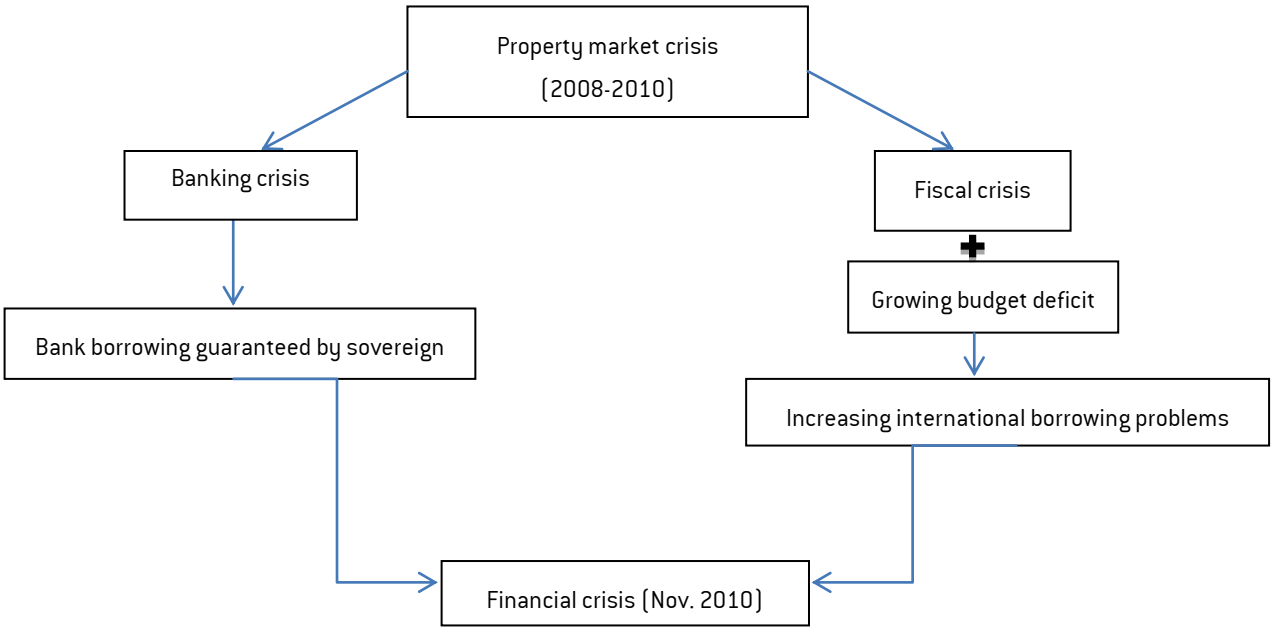
I. Less focus on unemployment and growth level, more focus on inflation
II. Deregulation of markets
III. Independent central banks run by technocrats
IV. Shift from demand management policies to supply side policies
V. Establishment of fiscal rules involving ceilings on budget deficits and public sector debt
VI. Emphasis on light touch financial regulation

Nobody was prepared to confront the crisis.

The Build-up to the Irish Crisis

During the nineties, Ireland succeeded in becoming one of the richest countries in Europe. The export-led growth began to transform into the property bubble that burst in 2008, triggering in quick succession a banking crisis, a fiscal crisis, and a financial crisis.

In September 2008 the Government decided to guarantee all deposits and borrowings for six Irish-owned banks. Due to increasing international borrowing problem, in November 2010 Ireland had to seek an emergency bail-out from the IMF and the EU.



Lessons from the crisis

Who is to blame for what happened? In the authors' opinion, the international context had a role, but higher responsibility lay at the domestic level. Not only bankers and developers, but also politicians and the media were glad to benefit greatly from the artificial boom. Moreover, neither the Financial Regulator, nor the Central Bank, nor most of the economists claimed the need for a "stop", despite the abnormally high rates of growth of property and construction lending. They all share responsibility.

Secondly, once the financial crisis began in 2008, could things have gone differently? What could have been the lesser evil among the possible solutions? Would it have been possible to avoid the bail out from the EU/International Monetary Fund (IMF) troika? The authors thought this is very doubtful. In view of the vital need to prevent the failure of the banks and their potentially catastrophic consequences, it is difficult to state that the bank guarantee granted by the Irish government could have been avoided. Simultaneously, given the increasing budgetary deficit, the consequent intervention by the EU/IMF became unavoidable.

Finally, what should Ireland – and all the other countries – learn from this crisis? The first step to solve a problem is recognizing that you have a problem, Murphy and Donovan stressed. It's therefore of prime importance that Irish decision-makers and citizens fully understand the reasons that lead to the Irish emergency and reinforce self-questioning and internal debate, a feature that clearly lacked in Ireland in the years before the crisis.

Event notes by Silvia Carrieri