

How the Celtic Tiger lost its roar

Ireland is tottering on the brink of insolvency after a series of financial blunders have derailed its economy

BY PAT CARNEY, SPECIAL TO THE SUN
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Declan Flynn is an Irish property developer. I met him on the ferry from the fabled Aran Islands, with their fields of rocks and empty pastures, sailing to Galway on Ireland's west coast. Declan was taking a break from his business troubles, he told me as we huddled on deck in the cold Atlantic spray.

Troubles indeed. His properties are worth 10 per cent of the price he paid for them. There are no buyers. He faces certain bankruptcy. And in Ireland it takes 12 years to regain your credit, he told me. He wants to know my opinion on opportunities in Canada.

As the Greeks riot in the streets of Athens at harsh austerity measures aimed at cutting Greece's bloated government deficit, there is an underlying fear that Ireland is next in line for possible insolvency. It has received an 85-billion euro bailout from the Economic Union and International Monetary Fund and may require more monetary aid.

The booming economy of the fabled Celtic Tiger has become a financial tabby, tamed by runaway government spending, huge government deficits and falling revenues, declining domestic production, collapsing property values, fewer jobs and rising unemployment. Declan and his countrymen and women are now paying the price.

"What were you thinking?" I asked as he hoisted my bags ashore. "Surely you knew it couldn't last." His reply was classic. "Sure we knew it would end. But not just yet."

On my last visit to Ireland to see the relatives a few years ago, the Celtic Tiger was roaring. An infusion of development funds on Ireland's entry into the European Union expanded the republic's infrastructure.

The geographic gateway to Europe, Ireland attracted new high-tech and software companies, lured by the country's well-educated labour force. Jobs were plentiful.

For the first time since the Great Famine of the 1840s, when a million people poured through its port cities seeking new lives abroad, Irish men and women returned to find work and lives "at home." And life was good. Ireland's full-time employees work 38.4 hours a week on average, the second lowest work week in the EU, where the average is 40 hours. Denmark, at 37.7 hours, is the lowest.

How things have changed. Unemployment is 15 per cent and rising, impacting the young and educated. A 40- to 50-per-cent drop in property values. Rising taxes and higher prices. A budget deficit galloping ahead of government revenues as Ireland's public debt is forecast to reach nearly 100 per cent of gross domestic product (GDP), the market value of goods and services produced this year.

Greece's public debt-to-GDP ratio is about 145 per cent. In contrast, Canada's public debt-to-GDP ratio is 30 per cent. Higher interest rates that would result if Greece defaults on its sovereign debt could crater the fragile Irish ability to pay down its burgeoning debt. How did this happen?

One friend blamed European immigrants seeking Ireland's generous social benefits: an unemployed Polish worker in Ireland can send four times the amount of child benefits to his children back in Poland than he could collect in his own country.

But Ireland has benefited from its membership in the EU, says a former Canadian resident. And the country was built over the centuries by waves of immigrants from Europe, including the Celtic tribes, the Vikings who invaded much of Ireland, the Normans and the British.

Still, EU policies such as agricultural subsidies seem excessive. Asked why those Aran Island pastures are so empty, Flynn explained Aran farmers now get the same subsidies for their four or five cows as they did for the 20 they owned when the EU livestock census was taken. The same money for less work, less production.

The debt-ridden banks, with their diminished assets and Scrooge-like lending, are a handier villain. In 2010, faced with a 20-billion euro (\$27.8 billion Cdn) run on the Bank of Ireland's deposits by a panic-stricken populace spooked by the financial crisis threatening Europe, the Irish government guaranteed the debt of the Irish banks, using the bailout money Ireland borrowed from the EU and IMF to recapitalize the banks.

But damage had already been done by an earlier decision, which unwisely allowed Ireland's banks to partner with property developers like Flynn and take an equity position in housing and commercial projects, many now bankrupt. The results include the infamous "ghost estates," unsafe, unfinished projects. Their co-owners, the banks and property developers, don't put them into receivership in order to avoid the responsibility of cleaning and maintaining the sites or filling the trenches and ditches, leaving them to scavengers and squatters.

Canadian banks are not permitted to indulge in such lending practices, another case of how a little government regulation can go a long way in our own economy, an island of stability in an ocean of global financial turbulence.

"No riots in the streets yet, but there is a resentment of rich, well-paid bankers felt by Irish people whose incomes are falling and taxes are rising," said my friend. And whose savings have been given a crew cut, not just a haircut.

At the recent annual general meeting of the Bank of Ireland, whose share prices have dropped from a high of nearly 12 euros (\$16.70) in 2007 to about 12 cents in June, one small shareholder declared: "Being at this AGM is like being at a wake with the bank being a corpse."

An Irish cousin, whose family did not emigrate to Canada in those terrible famine years, is a civil servant who manages a county near Dublin. As we drove through the verdant fields and towns to a family reunion, he explained the effect of Ireland's uncertain future on his grassroots local economy.

When people's mortgages are higher than their equity, they can't sell their properties. If they can't sell their homes they can't move to new jobs elsewhere. And when there is no bank credit available, businesses can't borrow the money needed to invest in new jobs, which produce new goods and services.

One senses that unlike the embattled Greeks, the Irish will swallow their medicine imposed by the IMF and EU and get on with it. The Guinness flows in the pubs and the lineups are long at the race track betting booths.

But as the Celtic Tiger retreats, emigration from Ireland has increased, including Europeans returning to their home countries and Irish citizens like Flynn seeking opportunities abroad.

For the first time in generations, a young, educated member of my family has left Ireland for a high-tech job in Canada. Our gain. Ireland's loss.

Special to The Sun Pat Carney is a former MP, cabinet minister and senator. She began her career as a journalist and continues to contribute to Canadian newspapers.

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