

## [The Celtic Tiger](#) [1]

Written by [Dr Sean Barrett](#) [2] | Wednesday 16 January 2008



House prices in Ireland fell 4.7 percent last year, or 9 percent when you take inflation into account. Some people see that as a big worry, since house building has been a very large chunk of Ireland's heretofore booming economy. And forecasters say that Ireland's 5.1 percent growth rate last year could fall to just 2.1 percent this year - still positive but things will seem very tight after years of rapid expansion. But house price falls are perhaps just one part of the changes that are needed to make Ireland a more competitive economy. Without its own currency any more (Ireland is part of the Eurozone), there are few ways for Ireland to adjust to a downturn. And anyway, in other sectors such as tourism, manufacturing and services, things are still looking not too bad. Agriculture, too, has benefited from the sharp rise in wheat and dairy product prices.

The government, though, might have a problem, having made tax revenues too dependent on housing. Instead of the old rates system and a short-lived property tax plan, Ireland opted for stamp duty at the point of purchase as its means of taxing house property. With prices falling, so does the revenue. And with growth slowing, other taxes are under pressure too. So the government needs to get more of a grip on public expenditure and the value for money that it gets from public spending: as usual, when things were booming, nobody had to worry too much about being efficient. They do now. But reality is asserting itself, and a benchmarking report on public service pay recommended only a 0.3 percent rise overall.

On the bright side, unemployment in 2007 was just 4.6 percent compared to 17 percent in 1986 before the Celtic Tiger stirred itself, and the number of people in work has doubled over the past two decades. Ireland this year surpassed Switzerland in GDP per head. Norway might be passed in three to four years if sensible policy is pursued. Reinstating the policies that created the Celtic Tiger would take Ireland on a strong growth path in 2009. A return to the high tax-high borrowing policies of the 1970s and early 1980s would undermine growth as it did in Japan, Germany and France.

Ireland's strong ties with the United States should help too, but the essential recipe for success in a small, open economy is simple: invest in education, cut taxes, pursue value for money in public expenditure, deregulate markets, and support world free trade. It's a recipe that would work for Alex Salmond's Scotland

just as it has worked in the past for Ireland.

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