



Ireland—An Economic Success Story

By Breffni O'Rourke

One of Europe's economic success stories is the Republic of Ireland, a small and seemingly remote country on the far western edge of Europe, facing the Atlantic Ocean.

History has not been kind to it. For centuries it was a place of civil conflict between the largely Celtic indigenous population and the ruling British. It suffered poverty and continuous emigration.

But from being an economic backwater only two decades ago, Ireland has emerged as one of the world's strongest-growing developed economies — a "Celtic Tiger," as it is called. How did it achieve this, and what lessons does it offer the post-communist states now seeking similar transformation?

The Republic of Ireland, which emerged after World War II, has seen stable government and civil calm — two key basics for economic expansion. Northern Ireland, a province still ruled by the British, remains a place of strife.

The single-minded policy of the Irish Republic has been to attract investment by offering itself to multinational companies as a base for service, distribution, or manufacturing. This achieved only limited success until the 1970s, because the country has a market of only 3.5 million people, and transport costs are high. But then came membership in the European Union, and perspectives changed.

Suddenly Ireland looked attractive to companies, particularly from the U.S., as a stepping stone into the huge EU market. Added to this was an incentives package including low taxes on company profits and capital grants.

Major EU grants over the years have given the country a modern infrastructure. Today, Ireland attracts close to \$11 billion annually in direct investment, and — in a remarkable turnaround — has become a country of immigration, as Irish-based companies seek to recruit extra Irish staff from the U.S., Europe, and even New Zealand.

The major sectors of growth are manufacturing of computer equipment, particularly software, the manufacture of pharmaceuticals, the marketing of financial services, and general service-sector activities like international telephone marketing.

Fergal Shortall, research specialist with the Economic and Social Research Institute in Dublin, says Ireland offers three lessons on how to prosper in modern conditions. He lists these as emphasis on social partnership between government and governed, workforce flexibility, and education.

Social partnership in this case means that for more than ten years, the Dublin government has been able to conclude national wage agreements with the employers and labor unions. Each agreement lasts several years, and has dampened wage rises, thus keeping down costs to employers.

The government's intention is to pass on gains in economic wealth to the people not just through wage increases, but through tax relief. It is continuing to reduce individual tax burdens as a means of increasing spending power.

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Also, the taxes on wages which employers have to pay are lower than on the European continent, as are other social-security levies on employers. An employer has to pay to the government in various taxes the equivalent of about one-third of the wage of each employee. In Germany, the figure is about 100 percent.

Labor-market flexibility relates to the willingness and ability of the work force to take on new jobs and skills as technology and market requirements change. To try to minimize dislocation and cushion the impact on individuals, the government offers job re-training schemes, generous unemployment benefits, and free medical care for those whose incomes drop below a certain level.

On education, Shortall notes that emphasis on schooling means that up to half those entering the work force are university graduates. They thus have a good employability profile and are able to contribute a high return to the economy.

The result of all this is a modest prosperity in which joblessness, always one of the scars on Ireland's social fabric, is dropping. Unemployment stood at 15 percent in 1993, but is now below 10 percent — which is beneath the EU average — and it is still dropping.

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Comment

by Doug Strickler

Ireland's formerly high corporate and personal taxes are now seen as a leading cause of decades of high unemployment, low economic growth, and massive national debt.¹ Since the late 1980s, the Irish government's free-market reforms have been credited with a large part of the nation's economic renewal.² Ireland is currently ranked 7th in the world in terms of economic freedom.³ For the past five years Ireland's economic growth rate has approached 10% annually -- the highest growth rate of any developed nation.⁴ Unemployment is expected to fall to 5% within the next two years as Ireland accelerates its privatization program.⁵ Perhaps most telling, Ireland has experienced a net gain of nearly 33,000 people through immigration in the last three years, many of whom are returning natives. This is a stunning turnaround for a nation accustomed to exporting its children, who have historically been enticed by opportunities available in nations other than Ireland.⁶

Notes:

1. "Innovative Irish budget as Celtic Tiger economy booms." *Agence France Presse* 12/2/98.
2. "Harney briefs NZ business on Irish success." *The Irish Times* 2/6/99 p.20.
3. Hanke, S. and J. Walter. "Economic Freedom, Prosperity, and Equality: A Survey." *The Cato Journal* 17, 2. <<http://www.cato.org/pubs/journal/cj17n2-1.html>>
4. Huhne, C. "Ireland Shows UK the way to Euroland." *The Independent* (London) 8/23/99 p.17.
5. "Harney briefs NZ business on Irish success." *The Irish Times* 2/6/99 p.20.
6. Kerber, R. and M. Gaughran. "Celtic Tiger' shows its teeth: New prosperity and progress luring many back to Ireland." *The Gazette* (Montreal) 7/4/99 p.A7.

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