

Lessons From Ireland on Economic Growth

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Wednesday, Jul 02, 2008
Last Updated Friday, Jul 18, 2008

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For most of the past 300 years or so Ireland has had the dubious distinction of being a country more known for the hardships suffered by its inhabitants than for its beautiful countryside. While people in other parts of the United Kingdom and in Europe enjoyed a relatively high standard of living Ireland lagged far behind. Up until the early 1970's the average income in Ireland was approximately one half of that of the rest of the UK. Over the next 35 years that status would change dramatically.

Today Ireland is rated one of the best countries in the world in which to live. Ireland boasts the fourth highest gross domestic product per person and very low unemployment. University tuition is free and there are a high percentage of skilled positions available.

How did Ireland accomplish such a dramatic turnaround?

New Economic Policies

Economists who have analyzed the emergence of the "Celtic Tiger" (a popular nickname for this period of unprecedented economic growth) have identified economic policies that encouraged growth. Beginning in the 50's and 60's Ireland began to shift away from protectionism and started to plan long-term for expansion and to increase international trade. Corporate tax rates were lowered and tax incentives were offered to foreign investors. Initiatives to expand exports were adopted.

In the 70's the currency was strengthened and stabilized with Ireland's entry into the EU. EU membership also provided Ireland access to substantial subsidies from France and Germany which was invested into public works projects to improve and expand infrastructure and education. Ireland now had greatly expanded access to European markets and began to increase exports. As its economy began to respond, Ireland focused on lowering its public debt and eventually achieved a 35% debt ratio, lower than most of other countries in the EU. As her financial position improved Ireland initiated several new programs that were aimed specifically at attracting high tech businesses and other growth industries. Ireland now offered an unbeatable combination of stability, favorable tax and trade policies, and a well educated English speaking labor force available at relatively low wages. This brought in employers from all over the world to do business in Ireland. By the end of the 90's unemployment had fallen from 18% to 4%.

Ireland is not the only country to follow this basic formula for economic expansion (think of China, Brazil, Russia, India, and Mexico). Yet Ireland seemed to reap much higher dividends than most of the other countries adopting a similar approach. Looking at other changes in Irish society that occurred in concert with the changes in economic policy reveals that other factors may have played a critical role in the phenomenal success of the Celtic Tiger expansion.

Long-Term Planning and Investment in Basic Infrastructure

It is important to note that Ireland committed to a long-term plan for growth nearly 20 years before the Celtic Tiger expansion really took off. Ireland was willing to commit to new economic policies and maintain fiscal discipline for many years before substantial results were forthcoming, although there were clear signs of growth after the first five year plan was implemented. Ireland also invested for the long-term by initiating many public works projects designed to strengthen her infrastructure and education system. This increased Ireland's production capacity and the quality of its workforce while creating jobs - which in turn increased income per capita and with it, consumer spending. By investing in the long-term Ireland was perfectly poised to take full advantage of favorable economic conditions when they occurred years later.

Energy Independence

Some of the public works projects that Ireland committed to prior to the expansion included investing in her capacity to generate energy. Ireland invested in hydroelectric plants. The island's numerous peat bogs were utilized to create a fuel for heating from dried peat products, and local off-shore gas fields were tapped. Prior to and during Celtic Tiger Ireland could operate without the financial burden of dependence on foreign oil. It is worth noting that as Ireland's demand for energy began to surpass the capacity of her local energy sources her economic growth slowed in concert with her increasing dependence on foreign oil. Apparently these lessons on energy production were not wasted on the Irish. Today, Ireland is creating new capacity by developing wind based power generation facilities.

Political and Social Reforms

Prior to this renaissance Ireland had suffered from rampant corruption in high political offices. Society was divided politically and in the conflict between Catholics and Protestants there seemed to be no end in sight. Civil liberties were restrictive compared to other modern countries. These factors coupled with high unemployment and low wages caused Ireland to suffer from a kind of social and economic pessimism.

By the 80's Ireland had cleared up much of its political corruption and began to develop a more cooperative political climate. Government, employers and trade unions forged landmark compromises to work together to bring in trade and investment. Universal education made it possible to maintain a highly educated workforce. More women pursued advanced education and entered the workforce. Birth rates per capita dropped as more women pursued careers. This reduced the ratio of dependents to wage earners and helped to lift the gross domestic product per capita.

During the most robust phase of the expansion Ireland benefited from the leadership of President Mary Robinson who garnered a 93% approval rating during her term. President Robinson was a true diplomat bringing together parties within Ireland and forming cooperative relationships with other nations. Robinson was also instrumental in expanding civil liberties. Shortly after Robinson left office to become the United Nations High Commissioner on Human Rights, the Belfast Agreement was signed bringing together political and religious foes to work to end the violence in Northern Ireland. All of these changes lifted the spirits of the Irish people and helped them feel better about their future.

The Power of Optimism

One could characterize the Celtic Tiger expansion as a journey from pessimism to optimism. An optimistic social climate is a powerful economic stimulus. When consumers feel good about the future they spend more money. When business leaders feel optimistic they are much more likely to invest in research and innovation and expand their operations and increase their workforce. What made the Celtic Tiger different is that the economic policies were supported by a cooperative political and social climate, a willingness to invest for the long-term and social policies and leaders who fostered optimism.