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The Irish Miracle

by Karl Sigfrid

European advocates of the freedom philosophy are rarely enthusiastic about their own continent—a world center for high taxes and overregulated markets. When asked to pick their favorite society, they will usually select Hong Kong or—less often—the United States. Too often, we Europeans forget that we have a free-market success story in our own backyard. During the last 15 years, Ireland— believed by many to be a poor nation of farmers—has transformed into the second wealthiest member state of the European Union (EU). The tax level, measured in actual government consumption, is lower than the tax level in the United States.

Ireland's contrast with the rest of the EU is stark. In the EU, unemployment is close to 10 percent. The tax burden is heavy. The labor market is massively regulated, and social mobility is low. Meanwhile, Ireland has moved in the opposite direction and has even outperformed many of the east Asian tiger economies. The unemployment rate is a third of what it was only a few years ago. Foreign companies stand in line to move in; and to meet the demand for labor, companies as well as the authorities encourage immigration.

It wasn't long ago that the Irish situation was the reverse, with a standstill economy, huge deficits, and an unemployment rate close to 20 percent. In 1987 the average income in Ireland was only 63 percent of that in Great Britain. Ireland was poorer than Spain and only slightly less poor than Portugal and Greece. The public debt had skyrocketed from 65 to 120 percent of GDP. The nominal pay raises were high, but with 20 percent inflation they represented no increase in buying power. All growth took place in the public sector, which ate most of the country's production and still had to be financed with borrowed money.

The economy depended on agriculture and exports to its rich neighbor, Great Britain. Except for that, Ireland had little trade with the world outside. Perhaps because of this isolation, Ireland wasn't modernized and fell further and further behind the rest of Europe. Many Irishmen emigrated to seek their fortunes elsewhere.

The country's transformation into a hi-tech center and a portal to Europe for foreign investors has more than once been called a miracle. Luckily, it's not a literal miracle, but the result of insightful political ambition. The road that Ireland took is open to any other country that faces similar problems.

While 1987 marked the bottom of a long recession, it was also the year Charles Haughey took over as prime minister and decided that the economic system should be rebuilt from scratch. He even managed to sell his idea to the opposition and to the most important interest groups, including the unions.

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During the last 15 years, Ireland has transformed itself into the second wealthiest member of the European Union.

Unlike Margaret Thatcher in Great Britain, who confronted the powerful interest groups, Haughey chose to sit down with them. What would later be called a miracle started with a social contract between the government, the employers, and the unions. The contract included tax cuts and some financial support for those worst off.

The public sector was quickly slimmed, and so the private sector had more room to grow. The economy accelerated. The government cut taxes for corporations and working citizens, while the jungle of regulations was cleaned up. Publicly owned banks were prepared for privatization.

It might seem strange that the unions would support a political agenda with tax cuts and a smaller public sector. In retrospect, however, we can conclude that the Irish employees did the right thing. Nobody was happy with the previous situation. The labor market was anything but flexible, and there was no growth to distribute.

Another important condition for Ireland's economic development was its openness to foreign business. By attracting new categories of businesses that didn't do things the traditional Irish way, Ireland transformed its economy.

Foreign investors only need to deal with one government bureau, the Irish Development Agency. They are also attracted by low corporate taxes; the rate is now 12.5 percent for both foreign and domestic corporations. With 1 percent of the total euro-zone market, Ireland gets a third of the American investments, which makes other countries complain about unfair tax competition.

Magnet for Job-Seekers

The Irish are not the only people who can enjoy the prosperity that has followed investments from such companies as IBM, Intel, Gateway, Fujitsu, and Motorola. From being a nation of emigrants, Ireland is now a country to which people move to find jobs. Approximately 40,000 people immigrate annually, while only half as many leave the country. Businesses active in Ireland advertise in American newspapers to find employees, and there are plenty of opportunities for multilingual Europeans. From 15 percent in 1993, the unemployment rate by 2000 had fallen to less than 4 percent. And unlike other European countries, Ireland doesn't hide joblessness in its statistics. The long-term unemployment rate is down to 1.7 percent.

In 1997 *The Economist* noted that Ireland's per capita GDP had reached the EU average, but the magazine doubted that the progress could continue at the same pace. But that's exactly what has happened. In 2000 the growth rate reached a record 10.7 percent and exceeded the government's own prognosis. Today, Ireland is the second richest country in the EU and the fourth richest in the Organization for Economic Cooperation and Development. That growth is three times as high as that of western Europe as a whole. Rather than trying to stop healthy tax competition from Ireland, the rest of Europe should learn from its example. □