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The Celtic Tiger: Ireland's Economic Success Story

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The Celtic Tiger:

Ireland's Economic Success Story

by Kieran McGowan

Keynote

Roughly forty years ago, Ireland was described as "just one big farm." Today, Ireland is the second only to the United States in software exports. Over the past five years, Ireland has experienced an average Gross Domestic Product growth more than double than that of any other country in Europe and record low inflation levels. Such growth has not been accidental. As Kieran McGowan noted in his keynote address at the June 14, 1999 Governor's Economic Development Conference, four key factors have aided Ireland's transformation: a young and highly educated workforce, an aggressive and well-funded inward investment program, European Union transfers, and a partnership approach to economic planning. McGowan's address also emphasized how Maine might learn from Ireland's economic success story. Indeed, as a largely rural country, Ireland is challenged by its own "Two Maines" problem and a steady decline in its traditional industries. In describing Ireland's approach to tackling such issues, McGowan suggests Maine has many of the right ingredients for achieving similar economic success.

I am honored to be invited to address this year's Governor's Economic Development Conference. Today, I would like to talk about the economic progress in Ireland since 1987, and to consider the relevance of the story of that progress to the state of Maine.

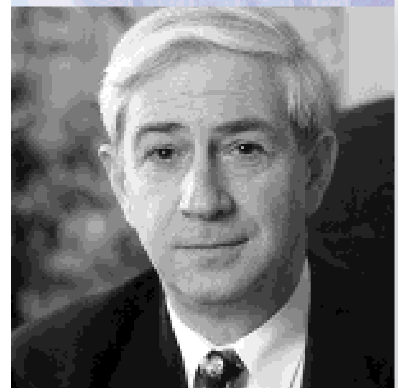
Before beginning, let me say a word about geography and demographics: With a land area less than one-third the size of Maine, Ireland has a population of 3.6 million—roughly three times the population of Maine. Ireland represents the most westerly part of Europe and, in recent years, with the completion of the Channel Tunnel between the United Kingdom and France, Ireland became the only island off the coast of Europe. At one and the same time Ireland is one of the oldest and one of the youngest countries in Europe. It is one of the oldest in that we have monuments and burial grounds dated earlier than the Egyptian Pyramids or Stonehenge. On the other hand, having gained independence in 1922, Ireland is only seventy-seven years of age.

Forty years ago (in 1958), the foundations for the country's present economic policies were put into place. Until then, Ireland was largely an agricultural country, with the only industries of note those that relied on agriculture—such as brewing, distilling, flour milling and breadmaking. One of Ireland's Industrial Development Authority (IDA) ads in the 1980s proclaimed "Missing the Industrial Revolution was the Best Thing that Ever Happened to Ireland." It referred to the fact that Ireland never had an industrial revolution basically because the country had no industry to have a revolution about. It is rather remarkable that this same country, which only forty years ago was—as one commentator described it—just one big farm, has now become the second largest exporter of software in the world (after the United States), and home to many of the world's most advanced information technology companies. Ireland is the only base in Europe for Intel, which employs more than four thousand people in two wafer fabrication facilities, and Dell Computer, which every year ships hundreds of thousands of personal computers all over Europe from their only manufacturing base in Limerick, Ireland, and for many other world-class corporations. All this growth has occurred within a generation. How did it happen? What were the key decisions and milestones along the way that really made the difference?

First came the 1958 decision to reverse gears, to change from an inward looking agricultural economy based on protection and tariffs to one that would be open and welcoming to trade and investment. This was followed in quick succession by decisions in 1965 to enter a Free Trade Area Agreement with the United Kingdom; in 1969 to set up a specialist agency—the Industrial Development Authority (IDA)—to market Ireland internationally as a location for inward investment; and, in 1973, to join the European Economic Community.

Second, two crucial decisions were made in the 1960s and 1970s in relation to education. The first was to make secondary or high school education available free of charge to everybody; the second was to build eight new third-level regional technical colleges to supplement the universities at Dublin (where there are four), Cork, Galway and Limerick. This was an early recognition of the importance of education, not just in its own right, but as a fundamental building block of Ireland's economic policy.

Ireland has been fortunate to have an outstanding and largely free inheritance in second-level education by the teaching orders—the priests and nuns and brothers who did not have the family commitments of other lay teachers, and who gave of their time above and beyond the call of duty. Even though the religious



Kieran McGowan retired as Chief Executive Officer of IDA (Industrial Development Authority) Ireland in December 1998. IDA Ireland has national responsibility for securing new investment from overseas in manufacturing and international services sectors and for encouraging existing foreign enterprises in Ireland to expand their businesses. Most of Mr. McGowan's career has been with the IDA and, for the last decade, he has been a pivotal figure in the transformation of Ireland's economy into today's Celtic Tiger.

role has fallen dramatically, this inheritance has continued to give us an edge. The influence of our priests, nuns, and brothers has been replaced by a deep commitment to education by Irish mothers, along with a level of respect for our teachers that, I believe, is higher than in other European countries.

However, excellence in second-level education—while absolutely essential in its own right—is not enough to support the kind of knowledge-based industries of today and tomorrow. That is where the regional technical colleges, of which there are now twelve, along with the universities, have played a vital role.

In the early 1980s, Ireland also made a third major decision that, in my opinion, was far-sighted, wise and highly influential. Basically, we decided to replace the country's entire telecommunications infrastructure, which was dire—the only word to describe it—with the most sophisticated digitalized switching and trunking systems. At the time of Ireland's investment these systems were the most advanced of any country in Europe. In a moment I will revert to how these decisions were made: What was the process? Who was involved? For me these are the most interesting questions with the most relevant lessons for the future of not only Ireland but perhaps Maine as well.

First, I would like to talk about another important milestone of a very different kind: In 1987 the Irish economy was almost bankrupt. Despite all the good decisions about education and telecommunications and inward investment, in 1987 we had the highest debt in Europe (130% of Gross National Product); the second highest unemployment rate (over 18%); and one of the highest inflation rates (over 15%). The country had been spending way beyond its means. For example, earlier governments had abolished all property taxes and, as a result, we were becoming a case for International Monetary Fund treatment. Drastic action was called for and the government that was elected in April 1987 was elected on a mandate of severe measures to pull us back from the brink. Spending was cut back; hospital beds had to be closed; tensions ran high. The reason it is relevant now is that I am convinced the nation received a collective shock during that election campaign and we were galvanized into cooperative programs to address the problems of unemployment, inflation and government debt. These programs are the foundation of Ireland's present day success story. I have to say that it is doubtful if we would have been able to get the kind of across-the-board commitment to reform if we hadn't first experienced such problems in 1987. The real challenge for policymakers in Ireland (and possibly also in Maine), is to try to get acceptance for these kinds of programs without first having to sink to levels where one is staring disaster in the face.

In our case the "fright" worked. Ireland is now the economic success story of Europe with average Gross Domestic Product growth over the past four years of 8%—well over twice as high as the next best country in Europe and accompanied by record low inflation. New job creation has averaged over sixty thousand per year and unemployment is well below the European average. The main factors that have led to this growth have been:

Demographics

As a result of three different factors interacting with one another, Ireland has a unique demographic situation. First, higher natural birth rates lasted until the early 1980s, whereas they had ended at least ten years earlier in other countries such as the United Kingdom. Second, female participation rates in the labor force were lower in Ireland for longer than elsewhere. Third, many people who had emigrated to the United Kingdom or to the United States have returned. These three factors have served to feed the high rates of growth we've experienced. Experts believe these advantages will continue for another six or seven years and then begin to taper off.

European Union Transfers

European Union transfers of approximately $3 billion per year have been a significant benefit to improving Ireland's infrastructure and bringing the country up from 75% of average European levels of income per capita to over 100%. Sometimes this factor can be overstated. While the transfers have been a definite benefit—especially in the beginning, when we were not doing as well as we are now—they have never been responsible for roughly more than two percentage points of Ireland's growth rate.

The Partnership Approach to Growth

Put in place in 1987, this is a unique approach to economic planning that involves all the social partners—business, trade unions, farmers and government. Three-year agreements have been established that give trade unions a say in decisions about taxes, government spending and social welfare allowances in return for their commitment to keep demands for wage increases at competitive levels. These agreements have been sustained for the past twelve years with the fourth three-year agreement coming to an end this year. They have been of central importance to the economic progress of our country. Unfortunately, it is becoming increasingly difficult to reach agreement each time a new three-year term comes up for consideration. It seems to me that the further away we get from the painful memories of 1987, and the more we experience the comfortable conditions of prosperity, the more difficult it becomes to sign a new three-year agreement. I hope we can continue with this model of social and economic progress for the next three years—although I have some concerns as to its feasibility. If such an agreement is signed, it will have to have a very different shape to those that went before.

Inward Investment

With only 1% of the population of Europe, Ireland has succeeded in winning a 26% share of all new inward investment projects from the United States into Europe. Over 40% of the entire manufacturing workforce is employed in overseas-owned, IDA-backed companies. Apart from the direct employment effect, these companies contribute very handsomely to the Irish Exchequer in the form of corporate taxes—over $800 million last year alone. Some of the key success factors to attracting inward investment have been:

- A professional and well-funded agency to promote inward investment. Ireland has not put forward a halfhearted or disjointed effort as has sometimes been the case in other countries. For example, IDA has six different offices across the United States and an annual budget of $200 million. It has clear targets and objectives and operates a business.
- A common and consistent commitment to industrial policy across all parties and all governments for the past thirty years. In other words, the rules don't change even when the government does.
- Because of the importance of inward investment to the economy, large companies can be quite influential in decisions about resource allocations in the areas of infrastructure. IDA has had direct access to government ministers for and on behalf of these companies. It is a true one-stop shop that not only promotes Ireland as a location but also helps "fashion the product" to ensure it is competitive.
- As a small country where, to a great extent, "everybody knows everybody," short lines of communications and easy access to even the most senior members of government make decisionmaking faster and more responsive than in larger, more fragmented administrations. The planning and implementation of Dublin's International Financial Services Centre (IFSC) is a classic example of this phenomenon at work. The IFSC is located in what was—only twelve years ago—an unused warehouse site in the heart of Dublin Port. Today this "warehouse" boasts over one million square feet of space and houses four hundred of the world's best-known financial institutions.

Big decisions—such as the ones I referred to earlier about free education or the more recent example of the IFSC—require a particular set of characteristics that are not always present in a state or national gov-

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ernment. In particular, such decisions need a champion or driver who has a vision and also sufficient power or seniority to press ahead with the implementation of that vision—despite the sometimes formidable blocking activities of other groups within society or within government itself.

> Each year places like Maine and Ireland will lose low-end jobs and, hopefully, replace them with higher-quality, more sustainable jobs in the newer technologies.

While Ireland's economy has undoubtedly been successful in recent years, that very success could become our downfall if we're not careful. Complacency could set in and wipe out all our hard-won progress of the last twelve years.

I'd like to touch on a few of the issues we still face and say a word about how we propose to go about resolving them. I believe at least some are common to those you face here in Maine.

THE "TWO MAINES" PROBLEM

In Ireland, we have the exact same problem, except that in our case it's Dublin versus the rest of the country—especially the border counties and the west. Dublin, like Maine's southern and coastal economies, is growing strong right along with spiraling housing prices, shortages of staff in many businesses and infrastructure overload. The cost of a house in Dublin is now considerably higher than one in London, Amsterdam and many other larger European capitals. Yet places like Donegal, Leitrim, Mayo and Roscommon are experiencing decline and high rates of unemployment. These also happen to be the location of many of our traditional industries, which are closing or moving to lower-cost economies in Eastern Europe or North Africa.

In Ireland, we have decided to focus on building up a number of "poles" of growth around the country—probably based on the locations of our universities and regional technical colleges (now called Institutes of Technology). We plan to develop a total of twelve different centers across the country. IDA is now engaged in discussions with all the relevant parties in these areas about the kind of infrastructure that will be required for success, based on the experience of multinational companies. The aim will be to put together a package in each of the chosen areas which would comprise:

- Degree or diploma courses in areas such as computer science, electrical engineering, etc., so as to supply young people with relevant and appropriate skills and qualifications for the knowledge-based industries of today;
- A living environment or "quality of life" that young professionals will find attractive. This includes pubs, restaurants and a nightlife, which make places such as Dublin and Galway appealing to young people from Ireland as well as other countries;
- Attractive physical infrastructure, including business and technology parks, that are serviced by roads, water, sewage and telecommunications infrastructure as well as appropriate access alternatives.

DECLINE IN TRADITIONAL INDUSTRIES

Every year—even in these so-called good times—we lose about ten thousand jobs in manufacturing, primarily in sectors such as clothing and textiles. Unfortunately, these jobs are often based in the most sensitive of remote locations. For example, Fruit of the Loom in Donegal is in the process of laying off one thousand people and migrating these jobs to Morocco, where wage costs are less than 20% of the equivalent level in Donegal. There is no way of avoiding this painful process of constant evolution and "churn."

Each year places like Maine and Ireland will lose low-end jobs and, hopefully, replace them with higher-quality, more sustainable jobs in the newer technologies. To do so requires an active inward investment program to continually upgrade the base. It also requires good quality retraining programs for the workers concerned. In cases like Fruit of the Loom, the upgrading process can begin before the old jobs go, especially if the writing is on the wall for some time before it actually happens. I say this because it takes between twelve and twenty-four months to find a replacement industry—and at the outer limits of this timescale some of the workforce may have had to disperse to other places. It's important to also recognize that not all jobs in traditional sectors are vulnerable (no more than all jobs in knowledge-based areas are secure). Businesses with a niche market or a particular design, brand or some other feature that ensures they are not relying solely on cost-based competitiveness, can survive and indeed thrive in developed economies such as Maine.

GROWING YOUR OWN TECHNOLOGY-BASED STARTUPS

The most attractive kind of industrial development in any country or state is that which produces a flow of new high-potential business startups of the kind that Silicon Valley has been producing for decades. At one time or another, most locations have sought to replicate the Silicon Valley environment, but usually without success. Until recently, Ireland has been no real exception. However, in the past few years Ireland has produced a flow of exciting new companies in areas such as computer-based training, software and telecommunications. Most of these new companies have done initial public offerings and created a good headline effect. Another agency of government—Enterprise Ireland—is largely responsible for creating or encouraging this new breed of entrepreneurs. The main tools they have used to stimulate development have been four fold. The first is creating and pump-priming a whole new venture capital industry aimed at early-stage, high-potential businesses. A total of thirteen different funds have been established in the past five years—each managed by a different fund manager (e.g., one of the banks), and each funded partly by Enterprise Ireland and partly by private funds. Enterprise Ireland sits on the investment board of each fund and ensures that the emphasis, while commercial, is also developmental and geared toward the kinds of businesses they're trying to stimulate rather than more developed later-stage propositions. Other tools used to stimulate development are to directly fund the businesses themselves, alongside the venture funds; promote success stories to try to achieve a demonstration effect; and help universities set up incubator facilities on their campuses.

In conclusion, I ask the question: How is Ireland's story of progress relevant to Maine? First, Maine has many, many advantages—some of them in the very areas that are most difficult to create such as "quality of life." Maine's public schools are acknowledged to be among the very best in the nation—rated number one by *Forbes Magazine* among all the states. The state's advanced telecommunications infrastructure has spawned a whole new series of businesses of tomorrow. Fifty-two percent of Maine households now have a personal computer and every school and library in the state is connected to the Internet (I wish I could say the same about Ireland). Maine also has had significant success in creating a new biotechnology sector with the establishment of several new businesses in that area in recent years. So, I would say congratulations on these impressive achievements. I have absolutely no doubt that Maine can, if it chooses, become one of the most successful states at bringing in new inward investment. After all, Maine has at least as many strengths as Ireland, and probably a lot more. I hope that what I've had to say about Ireland's story will help you decide what you want to emphasize and focus on in the years ahead.