

Certain Aspects of Economic Growth in the Republic of Ireland

Introduction

In the last decade of the previous century the unusually high economic growth rate observed in the Republic of Ireland drew the attention of specialists as well as the public at large. Oftentimes the interest was caused by the desire to adapt the Irish economic growth model and use it for other developing countries and to achieve the same pace of the economic growth quickly. We should state at this point that the success of Ireland is due to several essential and unique factors or their combination. So, a direct replication of the Irish model must be considered very carefully. It should also be noted that the experience of other countries must be examined while analyzing modern cases of economic growth of certain countries. In the second half of the 20th century the similar growth rates were observed for long period in different countries with various size, institutional arrangements and political orientation, such as: South Korea, Thailand, Taiwan, Japan, Singapore, Botswana, China and etc. Hence we can assume that underpinning factors of fast economic growth of those countries are the same in many cases, although we should also take it into account that the successful countries managed to identify, recognize and effectively use specific factors contributing to the growth of their countries.

Methodology

We should also state what it means to share the experience of a country, in this case of Ireland, from the practical point of view. We should manage to identify those factors that are decisive for economic growth in a country. Such factors are capital, demographic resources and natural resources at the country's disposal, its geographic location, foreign relations and such institutional and human factors that less changeable as a result of the measures taken by the political leadership of the country. Such parameters are of fundamental character and it is impossible to substantially change them by political or economic processes in a short or medium term. Obviously, each country all over the world has unique combination of all the above mentioned factors.

Secondly, there is a set of pure human or institutional factors, which might determine the growth rates and characteristics of a country. Fiscal and monetary policy, support or restriction of development of financial infrastructure and foreign trade, the character of regulatory environment, education and healthcare policy, and etc all represent such factors. It is clear that a creative consideration of those factors and adaptation to our situation can be implemented with certain

success. The analysis of the success achieved by Ireland can be done using this methodology in order to reveal those peculiarities that contributed to the fast economic growth. The role of private sector should be discussed, because it has a key role in the economy while the state should only have a supporting role in the best case. Further in the text we will refer to potential reasons for Ireland's high economic growth though the reasons will not be analyzed deeply at this stage. Apart from this we will discuss negative aspects of economic growth as well as issues that are expected to arise in future.

Short History of Ireland's Economic Growth

Republic of Ireland was developing at quite confident rate after the World War II. Though the country was considered as one of the poorest in Europe it was catching up little by little till 60s of the last century. Since 70s of the last century the country entered the phase of unstable success. Membership of European Union in 1973 enabled Ireland to enter European markets although its inconsistent fiscal policy, inflation, unfavorable foreign relations and debt significantly impeded the development of the county and Ireland was one of the most unsteady country in European Union from the point of view economic stability and its annual economic growth rate exceeded only that of Great Britain.

Impressive economic growth started in 90s. During some years economic growth rate exceeded 10%. Ireland was even called the 'Celtic Tiger', evoking comparison with the Asian countries. Living standards enhanced significantly and in 2005 Ireland moved to the second place in European Union after Luxemburg by GDP per capita. The structure of economy changed considerably and the share of agriculture decreased substantially. Importance of industry, technologies and service increased. Nominal GDP in 2005 equaled to USD 200 billion, which makes USD 48 thousand per capita. It should also be noted that the share of corporate profit in GDP of Ireland is higher compared to other countries due to the domination of foreign investments in the economy of the country. Most of the corporate profit flows out of the country in the form of dividends and some economists rightfully make a statement that the use of **Gross National Product** as a measure of the country's wealth is more logical. This indicator, in contrast with GDP does not contain actual income generated and repatriated by residents of Ireland on the territories of other countries. This adjustment reduces Ireland's GDP by about 15%. This is crucial though the economic success of the country is not diminished at all. It should also be noted that the reasons for fantastic growth over the last 15 years shall also be sought in peculiarities of the previous development periods. The country was slowly developing until 90s of the last century but the foundation for subsequent impressive economic growth was made at that time. Analysts often make a mistake when they consider the economic growth of a country in just one time period out of context. For example, they forget that this country

emerged as an industrial giant at the end of the 19th century, after the Industrial Revolution and not just after the World War II. This does not mean that countries can not achieve serious results in a short period of time as examples of South Korea and Thailand shows but we will reiterate that wider range of factors must be looked against the historical background.

Some Key Factors in the Economic Development of Ireland

In general, the analysis of economic development process should be started by examining the production factors in a country. This includes the size of labor force and qualification of labor force, the development level of primary education and healthcare, the natural resources available, the poverty level, the inequality of income distribution, the amount of capital, financial and physical infrastructure, etc. Additional factors are openness to trade and investments, the state regulation, direct investments, geographic location, foreign relations, level of development of neighboring economies, and other exogenic factors. The list of main factors for Ireland is given below:

1) **Qualified and cheap labor.** Unemployment and employment in the agrarian sector was high in Ireland until 1990. The migration of rural population and employment of females expedited along with the economic growth. A simple analysis of production process will show that a country can produce more output if it employs more labor and capital in production. Until recently it was the increase of employment that became a precondition of fast economic growth of the country. Besides, the productivity of labor is relatively lower in the agrarian sector compared with the industrial sector. The participation of rural population in industry gave an additional impetus to economic growth. The age structure of Ireland is also worth mentioning. The average and median age of labor force was lower in Ireland than in Europe on average.

2) During 70s the law on **Free Secondary Education** was adopted in Ireland. Investment in this sphere by the state gives positive results in every country. Ireland is not an exception. Apart from this the primary healthcare was more or less accessible for population at large, which plays a very positive role in boosting the labor productivity.

3) **Natural resources** of Ireland consist of mainly agricultural land. Agricultural products, specifically live animals, had significant share in export of the country until 80s. Although, it is difficult to state that this factor had a direct and essential impact on the recent success of the country.

4) Empirical studies show that poor countries with low level of **social inequality** have better starting conditions for development than richer but with high social inequality. It is noteworthy

that the income distribution in Ireland was comparatively equal before acceleration of the economic growth.

5) Ireland was considered in European Union as a country with constant lack of **capital resources**. Notwithstanding, we should remember that until recently the migration has been characteristic for this country for several centuries. About 20-40 million persons only in the USA considers themselves to be Irish. Some analysts explain the influx of foreign investments to Ireland by this fact. Another favorable factor for capital inflow is that Ireland is an English speaking country and until recently most of international capital was concentrated in Anglo-Saxon countries.

6) Massive investments made by the state in the **physical infrastructure** should be noted. This might be even a decisive factor for export oriented small island country.

7) **Financial Infrastructure and private ownership primacy** is a traditional advantage of Anglo-Saxon countries. Corporate and banking capital is channeled to potentially most profitable projects when the state does not intervene. Besides, a cheap capital is accessible for Ireland, which is difficult to achieve for many countries.

8) It should also be noted that Ireland managed to successfully implement **liberal reforms**. The country managed to solve foreign and domestic debt issues, simplified **Labor Market Regulations**, and achieved the **fiscal stability** by optimization of state expenditures. Besides, Irish **foreign exchange rate was fixed**, which is important for small open economies.

9) The Irish economy is **extremely open to foreign trade**. This policy has been consistently implemented for several decades and it was impossible not to bear fruits. Presently the export of Ireland almost equals GDP of the country and significantly exceeds Gross National Product of the country. Foreign direct investments made by the US in high-tech industries played an important role in Ireland. 4% of the US investments made in Europe in 90s were channeled to Ireland. The corporate tax in Ireland is one of the lowest in the world (10%) and it is several times lower than those of developed countries.

10) According to some experts economic growth of Ireland occurred because this country joined **European Union** and received **structural financing** from Brussels. Multi-billion funds of EU played a role indeed but certainly not a decisive one. According to the empirical studies the economic growth rate of Ireland would have been 2% lower had it not received the structural financing. This financing was ineffective and even often impeded the growth. At the same time it is possible that the inflow cheap resources enabled the government of the country to free up resources for financing other spheres and reduce budgetary burden.

11) Ireland has a very **convenient Geographic** location. The country is situated close to the **richest and the most developed countries** of the world whose welfare level and its improvement

has a direct impact on Ireland through trade and investments. The location at the Greenwich meridian enables Ireland to render services to American corporations after working day is over in the USA. American corporations used this fact and moved the legal and accounting functions to Ireland. Besides, English is a state language in Ireland, which gives certain advantage to Ireland compared to other European countries.

12) The Irish boom and its preceding period coincided with so cold **"Golden Age" of Europe's Economic Development** and comparatively crisis-free **foreign economic relations** in this and other countries. The technological boom in the world enabled Ireland to sell its high-tech products in developed countries.

13) **Neutral country** status of Ireland might be an additional although not a decisive factor for the country's economic development. Neutrality itself requires quite big amount of resources. This is the case in Sweden and Switzerland, who have quite serious armies and are distinguished by significant military expenditures. These expenditures are comparatively low in Ireland, which is an additional opportunity for freeing up the resources necessary for economic development.

Flaws of Ireland's Economic Growth

Negative factors accompanying Ireland's economic growth must also be noted. These are **problems in budgetary expenditure management, increasing level of corruption, inflation, enhancement of inequality in income distribution, aggravation of regional development problems**. Besides, 6% of the country's population still lives **below the poverty level**. It should be noted that foreign corporations account for the biggest share of economic growth and the country has difficulties in **setting up local companies**, which will play a significant role in domestic and world economy. Experts think that the growth rate will be reduced as cheap production resources are diminished and the only way for economic growth of Ireland is through **innovations and improved management** i.e. through the enhancement of efficiency of capital and labor. According to the experts this country had problems with this regard even during the economic boom. This statement is quite controversial although it is clear that during the boom period the economy was growing in an extensive way not on account of **innovative factors**. Recently the most alarming trend is sharp increase of real estate prices in Ireland. This might lead the country to loss of productive resources if the prices will be reduced sharply due to an unexpected shock. **Increasing labor costs** is a threat to reduction of economic growth rate. Dependence of the country on foreign **energy** sources is increasing. This is an unfavorable prospect under the circumstances of rising oil and gas prices.

Current Situation in Irish Economy

Expectations of those experts who believed that economic growth of Ireland would be diminished in the 21st century proved to be partially true. The recession in 2001-2002 was followed by upturn. The recent growth rates are lower than those of 90s boom, but it still far exceeds Europe's economic growth rate and fluctuates within the range of 4-5%. Whether it is due to economic upturns in Europe, investments in technological spheres, favorable foreign relations or some other factors, it is not known yet. Notwithstanding, it is clear that the economic growth rate of Ireland significantly decreased and will decrease further but it will remain at a higher level than an average European growth rate.

Conclusion

The economic growth of Ireland, even though very impressive, is not a miracle and the term 'economic miracle' in general does not have much in common with the reality. The economic growth of Ireland is a result of certain factors and implementation of consistent economic policy. Furthermore, there are unique factors specific to Ireland, which are difficult to be taken into consideration. The economic growth is quite a complex, difficult process and requires an in-depth analysis. In any case, some common positive factors contributing to the development of any country can be identified. Those factors are of fundamental significance for economic growth. **Development of education and healthcare, optimal, consistent and transparent implementation of liberal policy by the state, law enforcement** etc are among such factors. Any country is more or less able to implement those measures, which is indispensable for its stable economic development.