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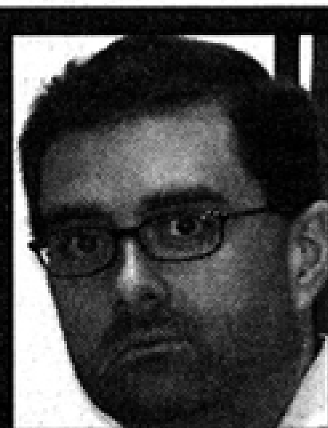
A close look at the Celtic tiger



Sergio Marxuach
Commentary

Academics, economists, politicians and other assorted talking heads usually hold up the Irish economy as a model for Puerto Rico to emulate. In the mid-1980s, Ireland was referred to as the "economic basket case of Europe" but by 2001 it was spoken of in reverential tones; it had transformed into the fearsome "Celtic tiger."

On paper, the performance of the Irish economy during the period between 1987 and 2005 is simply astonishing. The number of people employed increased by 45 percent between 1987 and 2001, the unemployment rate decreased from 17 percent to 4 percent, and Gross National Product growth exceeded 7 percent and sometimes reached double figures during the same period. Output grew by 350 percent between 1995 and 2005, personal disposable income doubled, and exports increased five-fold.

How did this transformation come about? In "Luck & the Irish: A Brief History of Change, 1970-2000" (Allen Lane, 2007), R.F. Foster, Carroll Professor of Irish History at the University of Oxford, provides some of the answers. Being a historian, it is not surprising that he goes further back than economists and political scientists to unearth the origins of the multiple policy streams, usually unrelated, which converged into a veritable torrent of economic growth in the 1990s.

Foster points out that since the late 1950s and through the 1960s a series of initiatives was embarked upon by a new generation of Irish politicians, "who were unhampered by the shibboleths" that had constrained the previous generation of Irish leaders. Of primary importance among these initiatives was the "liberalization, extension, and funding of education."

Half a century ago, according to Foster, Irish education was "a narrow, unrealistic parody imposed by morons on the hopeless putty of Irish children." During the 1960s, this picture changed drastically with the introduction of free secondary education, the upgrading of vocational schools, and the introduction of community schools, regional technical colleges and eventually two new universities. Enrollment increased substantially across all levels, culminating in a twenty-fold increase in university enrollment between 1961 and 1991, "an expansion that took off in the 1980s and was turbocharged by the removal of university fees in the next decade."

In addition to its investment in education, Ireland benefited enormously from its accession in 1973 to what was then known as the Common Market (now the European Union). Joining Europe meant qualifying for (among other things) massive Common Agricultural Policy subsidies that boosted Irish farming and stabilized the agricultural sector just prior to Ireland's big push for industrialization. Furthermore, entry into the European Monetary System in 1979 forced the Irish government to control public expenditure, reduce budget deficits and keep inflation in check.

This macroeconomic discipline was useful when, after ordinary white-collar taxpayers took to the streets to protest high taxes, the Irish government negotiated an unprecedented series of "social partnership" agreements with unions and industry leaders, "whereby wages, taxation and productivity are linked in a structure that ensures growth and inhibits industrial unrest and inflation."

The first set of these agreements contained commitments by the government to reduce spending and cut back taxes, by the unions to withhold salary demands for three years, and by employers to increase investment and limit layoffs. Surprisingly, not only were these social agreements negotiated, they were by and large kept by all the parties.

Ireland has also openly embraced and taken full advantage of the globalization process. Indeed since 2001, Ireland has consistently been held to be one of the most intensely "globalized" countries, by such criteria as economic integration, trade, foreign direct investment, capital flows, travel and tourism, international telephone traffic, Internet use, cross-border financial transfers and membership in international organizations. These credentials have allowed Ireland to "experience globalization in an essentially positive way — partly through pragmatism and partly through keeping state involvement at a low level."

Finally, Ireland has developed a series of agencies, most notably the Irish Development Agency (IDA), to implement an aggressive and well thought-out industrial policy. With respect to the IDA, Foster notes that "having become impatient with the sclerotic approach of government departments" it became an independent organization in 1970 (though with links to government) and ever since it has "devoted its impressive intellectual horsepower to tempting foreign business investment into Ireland."

Notwithstanding all of the above, the Irish experience is not without its critics. Foster, to his credit, does a good job of synthesizing their objections, some of which will be familiar to students of the Puerto Rican economy. Among these we note that there are: concerns about the growing gap between national income (GNP) and national product (GDP) due to the repatriation of profits by foreign firms; apprehensions about the growing influence and dependence on U.S. firms, mostly in the fields of electronics, pharmaceuticals, healthcare, and software; fears that Irish trade data are being distorted by the way U.S. multinationals use Ireland as a tax haven; worries about growing inequality, urban sprawl, and a lack of planning guidelines; and anxieties about protecting the Irish historical heritage and "authentic" Irish culture.

So, what are the lessons for Puerto Rico? Well, it should be clear to any reader of Foster's book that there is no "Irish model" or master plan to copy or follow, they found Irish solutions to their own Irish problems. Indeed, economists to this day are not entirely sure why economic growth exploded in Ireland during the 1990s. Foster is remarkably honest about this when he states that in the end it is "hard not to recognize that in several spheres, not just the economic, a certain amount of good luck was maximized by good management." Two factors that have been in short supply in Puerto Rico for quite some time now.

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