Ireland's Rapid Economic Convergence: The Role Of Government Policy And European Union Structural Funds For Ireland's Boom Economy During The Nineteen-Nineties

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Contents

CONTENTS 2

TABLES 2

SUMMARY 3

ORIGINALITY 3

ABBREVIATIONS 4

1 INTRODUCTION 5

2 THE CELTIC TIGER 7

3 SOCIAL PARTNERSHIP 18

4 IRELAND’S EXPORT ECONOMY 28

5 EUROPEAN UNION FUNDS 40

6 CONCLUSION 51

BIBLIOGRAPHY 55

Tables

TABLE 3.1: HISTORICAL IRISH INCOME TAX RATES CHANGES 23

TABLE 4.1: FDI NET INVESTMENT IRELAND (MILLIONS $) 32

Summary

This dissertation investigates the origin of Ireland's economic boom of the 1990s: high growth rates that produced net employment creation, increased exports and produced near full employment. Government policy takes a central role for the analysis in three main areas: industrial development and the role of foreign investment in manufacturing; the macroeconomic policy; the contribution of the 'Social Partnership' agreements to competitiveness; and the role of European Union Structural Fund expenditure in the economy. Policy was orientated to promote an export orientated economy and technology sector employment and coincided with the US boom and high levels of mobile foreign investment globally. Furthermore, the massive increases in education expenditure and employment subsidies increased cost competitiveness and reduced business expenditure. At the same time, the living standard of the Irish population was improved through tax reform. The dissertation ultimately concludes that neo-corporatist polices, aimed at manufacturing sectors, greatly contributed to the employment, output, exports and GDP growth. Nevertheless, the policy made significant contributions to the reduction of poverty and increased Irish living standards as a result of participation and employment growth.

Originality

I confirm that this dissertation is entirely my own work: all references have been cited and all sources used specifically for the formation of this dissertation are included in the bibliography.

David Nolan – 25 September 2003

Abbreviations

AIFTA	Anglo-Irish Free Trade Agreement
BMW	Border, Midland and Western region
CAP	Common Agricultural Policy
CEO	Chief Executive Officer
CSF	Community Support Framework
CT	Corporate Tax
CTR	Corporate Tax Rate
DART	Dublin Area Regional Transport
DSL	Digital Signal Line / Broadband
EAGGF	European Agricultural Guidance and Guarantee Fund
EBR	Exchequer [Public Sector] Borrowing Requirement
EC	European Commission
ECB	European Central Bank
ECU	European Currency Unit
EEA	European Economic Area
EEC	European Economic Community
EMEA	Europe, Middle East and Africa commercial market
EMS	European Monetary System
EPTR	Export Profits Tax Relief
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESB	Electricity Supply Board
ESF	European Social Fund
ESRI	Economic and Social Research Institute
EU	European Union / European Community / European Economic Community
EU-15	European Union 15
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IDA	Industrial Development Authority
IFSC	International Financial Services Centre
MNC	Multinational Corporations/Companies
NDP(s)	National Development Plan(s)
NFF	Net Factor Flow
NUTS	Nomenclature Unit of Territorial Statistics
OECD	Organisation for Economic Cooperation and Development
PNR	Programme for National Recovery (1988-1990)
RTC(s)	Regional Technical College(s)
SE	Southern and Eastern region
SME	Small to Medium Enterprises
UK	United Kingdom
US	United States of America

1 Introduction

The development of the Irish economy in recent years has transformed the perception of Ireland, at home and abroad. At her accession to the common market in 1973, Ireland was the union's poorest member-state and her position deteriorated even further during the 1970s and 1980s with growth rates consistently lower than OECD averages for the period.[1] In terms of the EU-15 average, the Irish economy improved only slightly since membership from 61 percent, in 1973, to 66 percent, in 1986.[2] During the 1990s, the upward trend dramatically altered the assessment of Ireland's economy with productivity generating a 10-11 percent GDP growth peak and massive foreign-direct-investment contributions from US companies.[3] As a result, Ireland's economic position has been transformed: Ireland had the second highest GDP in 2001, overtaking the major economic players in the process by some way.[4] Therefore, this analysis will focus on the development of the economy during the 1990s.

Ó Gráda's (1997) was important for readers of historical backgrounds and concluded his history of the Irish economy since 1800; began in Ó Gráda (1993). Amidst the statistics of economic success during the early 1990s sat images preoccupied with economic stagnation, 'feckless' industrial activity and a history of continued mass emigration since the 1840's Famine.[5] Its pessimism mirrored the dissection of the economy that Lee (1989) had offered nearly a decade earlier. Like many commentators, Ó Gráda (1993: 234) seemed unwilling to offer too optimistic an economic note: instead, concluding with further questions regarding the impact of government fiscal policy and the effects of net transfers to farmers and industrialists.

The list of publications on the Irish boom continues to expand and with it the evolution of sentiment, opinion, optimism and renewed pessimism as growth rates decline. Sweeny (1998/1999) began to come to terms with contributions of government policy measures to the economic successes of the 1990s. White (2000) further underlined the importance central government and the EU funds in attracting foreign-direct-investment. However, a critique of the social partnership model and uneven spatial development emerged to condemn the failures of Irish government

policy to create the social consensus promised since 1987 and purportedly unpinned by the economic boom. Allen (2000) and Goodman (2000) criticise both regional cohesion policy and the social partnership models that have been factored into the success of the Irish economy as a necessary pre-condition to the development of 'consensual' macroeconomic policy.

There is general agreement on the list of factors that contributed to the growth of the economy and the interrelation of such factors through a process of cumulative and circular causality.[6] The relative importance of each factor is the contentious obstacle to a thorough understanding of the origins of the Celtic Tiger. The macroeconomic policies pursued by the succession of governments since 1987, the impact of EU funds, the investment in human capital, foreign investment and the deregulation that accompanied the Single Market programme had their part to play. It is the purpose of this essay to assess the contribution of public policy and structural funds to the success of the Irish economy during the period of the Celtic Tiger.

NOTES

[1] MacSharry (2000: 384)
[2] Eurostat (2003: 45)
[3] 'Warning signs for Ireland Inc' The Irish Independent (24 April 2003)
[4] European Commission (2003); Eurostat (online)
[5] See Ó Gráda (1997: 213-4)
[6] McAleese (2000: 47)

2 The Celtic Tiger

The term 'Celtic Tiger' was first proposed by a Morgan Stanley economist in London who suggested that the high growth rates in the first half of the 1990s were best compared to the Asian economies in terms of performance. It is difficult to pinpoint the birth of what has come to be known as the Celtic Tiger economy. For the majority of economists, 1994 is signalled as the unofficial birth of Ireland's economic success. Growth in GDP from 1987 combined with tax revenue to the Exchequer and unemployment began to fall rapidly. Between, 1994 and 2001 unemployment fell from 15 percent to 4 percent in 2001.[1] Over the same period, exports grew dramatically, equivalent to 114 percent of GNP in 1999, and Ireland became the European centre for large multinational corporations.[2]

The primary economic indicators of Gross Domestic Product (GDP) and Gross National Product (GNP) began converging towards the EU average from 1989: throughout the 1980s the gap between the EU average and Irish GDP had widened.[3] It was a dramatic turnaround. By 1994, the GDP divergence had narrowed significantly to 87.4 percent of the average with annual growth rates averaging 9.9 percent compared with the EU-wide average of 2.6 percent.[4] The suspicions of economists that growth was a 'statistical illusion' were strengthened by the slow reaction of employment growth.[5] Indeed, unemployment rates decreased from 1987 to 1991, from 17 to 13 percent,[6] but had risen again to nearly 16 percent in 1994.[7] Since then, the growth of Foreign Investment (FDI) into the economy has made significant contributions to both GDP and employment opportunities: attracted by low corporate tax and skilled labour force.[8]

The Irish Question

It is an historical irony that a nation that has exported much of its population over the past two centuries because of economic retardation should be among one of the richest nations in the EU. Throughout much of the twentieth century Irish growth lagged behind most European nations, but consistent with UK growth, and her most famous

export was her population.[9] Leddin and Walsh (1995) argue that the break from sterling in 1979 and membership of the European Monetary System created the impetus for export competitiveness. Moreover, that independence from the reliance on the UK exports market allowed the Irish economy to diversify into new markets. However, the decline of the global economy during the 1980s and continued conflict in North Ireland did nothing to change the international perception of Ireland.

Increasing growth from 1987 and the Peace Process in Northern Ireland altered the perception of Ireland abroad. Initially there was some disagreement on the long-term sustainability of the growth, its causes and its effects on unemployment. Indeed, much of the questions were centred upon the effects of net budgetary EU transfers. The scepticism of O'Malley (1989) and Ó Gráda (1997) has been replaced by renewed confidence in the stability of the Irish economy in the twenty-first century. Although caution has been voiced (Sweeny 1998), economists' opinions on the long-term benefits of export orientated growth and the associated increase in the standard of living has been optimistic (McAleese 2000).

The Global Economy

The emergence of the Celtic Tiger coincided with the global buoyancy of the US and global economy. The Irish economy diverged from traditional trading partnerships and grew considerably. In 1999, the EU accounted for 65 percent of exports whilst accounting for just 54 percent of imports. Moreover, exports to the US grew to become Ireland's second most important individual trading partner behind the UK, accounting for 16 percent of exports.[10] Current export markets are in stark contrast to historical patterns: during the 1950s the UK accounted for 90 percent of exports.[11] The growing trade with the US was beneficial for economic growth because many European economies were experiencing low growth throughout the 1990s.[12]

The US boom of the Clinton administration was the longest uninterrupted period of US growth since the Second World War and the 1992 Single Market programme involved 'a panoply of pro-competition commitments which proved highly beneficial to the [Irish] economy' (McAleese 2000: 48). Both factors aided economic growth and Ireland became deeply integrated with the global economy. As a result, the recent

growth in unemployment and reduction in job vacancies is consistent with the emerging recession in the global economy. However, the ESRI expects the economic conditions to improve from 2005 and annual growth to increase to five percent until 2010.[13]

Rising GDP

The high levels of GDP growth was identified as a staple indicator that the standard of living in Ireland was converging with advanced European economies: that the process towards closer European integration was yielding economic rewards. It was credible for the EC to applaud their successes in regional policy. However, in the absence of extensive relevant GDP/GNP data, analysis of growth at the regional level remains difficult.[14] As a result, national data has been used to compare the high growth levels favourably with those of the Asian Tiger economies, exceeding those of South Korea, Singapore, Hong Kong and Taiwan for the majority of the 1990s.[15] The "Celtic Tiger" tag seemed appropriate.

Rising GDP indicated improved living standards in Ireland throughout the 1990s. The convergence toward the European average occurred within a decade, giving the Commissioners optimism that regional and cohesion policy was assisting peripheral economies with convergence.[16] However, the disparity of growth rates across Ireland's twenty-six counties is significant. Whilst there is limited data concerning the comparative growth of GDP in each county, there remains a significant disparity between the Southern and Eastern region,[i] 115.2 percent, and the Border, Midlands and Western Region,[ii] 83.8 percent, of average EU-15 GDP in 2000.[17] It is therefore important to assess the regional dimensions of economic data and to resist the temptation to treat Ireland as a single territory unit of statistics.

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[i] Southern and Eastern counties: Dublin, Kildare, Meath, Wicklow, Carlow, Kilkenny, Waterford, Wexford, Cork, Kerry, Clare, Limerick and Tipperary.

[ii] Border, Midland and Western region counties: Donegal, Galway, Mayo, Roscommon, Cavan, Sligo, Leitrim, Offaly, Laois, Longford, Westmeath, Monaghan and Louth.

Rising Employment

The boom of the 1990s saw a substantial fall in unemployment combined with growth in the labour market and significant net job creation. Unemployment of 17.7 percent from a labour force of 1.3 million, in 1987,[18] dropped to 4.6 percent while the labour force increased to 1.85 million, in the first quarter of 2003.[19] In 2001, the unemployment rate dropped below the four percent barrier;[20] under Irish conditions the figure constitutes full employment.[21] The resurgence of employment opportunities is impressive given the 42 percent increase in the labour market and offers a tangible economic benefit to the long-term sustainability of economic success. Again, there is regional disparity in employment data with more unemployed in the BMW region (5.3 percent) than in the SE region (3.5 percent) during 2001. Moreover, the participation rate in the BMW region is lower: 57.1 percent compared with 60.6 percent.[22]

GDP is a fine indicator for the overall growth of capital in an economy but employment data offers a more concrete indicator of economic success for the population as a whole. Whilst the early period of GDP growth, 1987-1994, was often categorised as 'jobless growth' the huge increase in jobs from 1994 confounded these initial sceptics.[23] As President Kennedy had put it: "a rising tide lifts all boats'.[24] As an indictor to the social dimension of the economy, employment growth offers real signals for successful economic convergence and prosperity growth. As such, the success of Government policy and associated state agency achievements should be viewed with reference to the growth and sustainability of the high level of employment throughout Ireland.

Moderate Inflation

Inflation growth is a key indicator to the long-term success of the Irish economy and it's competitiveness. Dell computers, one of Irelands largest employers with 5,000 workers has signalled dissatisfaction at such rises suggesting that 'rising wage costs are impacting Ireland's attractiveness'.[25] Inflation of 5.3 percent in 2000, 4 percent in 2001 and 4.7 in 2002 exceed the trends of inflation stability.[26] Prices are already 12 percent higher than the EU average and it has been estimated that it will surpass Finland to become Europe's most expensive economy, in 2003.[27] Price rises and

pressures on labour competitiveness have been further compounded by the weak dollar rate and the fixed ECB interest rate.

Inflation growth, in terms of wages and consumer prices, remained moderate throughout much of the 1990s boom: hovering at around two percent.[28] 'Social Partnership' arrangements, from 1987, organised by successive coalition governments helped to maintain government expenditure, restrain wage increases and ease industrial relations. At the same time, taxation was eased which increased real income by some 80 percent while wage increases had been 58 percent and inflation 32 percent to 1998.[29] The role of central government policy was an important contributor to the maintenance of low inflation prior to 2000.

Productivity and Profitability

Labour productivity, measured by the growth of GDP per employed person, showed an average gain of 3.5 percent between 1986 and 1989.[30] In the period 1994-2002, it rose from 106.3 percent of the EU-15 average to 122.6 percent.[31] Over the same period, wage rate and labour unit cost growth remained at more acceptable levels with productivity and wage growth growing proportionally from the 20 percent gap in the mid-1970s. The development of macro-political centralised wage bargaining assisted proportionality in growth and created an atmosphere for sustainable growth agreed by the 'Programme for National Recovery' (1988-1990).[32]

The balance of payments has been transformed and export trade has diversified. Dependency on exports to the UK market fell to 22 percent, by 1998, from 60 percent in 1973. By 1999, exports of goods amounted to IR£58 billion compared with imports of IR£50 billion creating an effective balance of payments was a positive IR£8 billion balance.[33] Until 1985, imports had exceeded exports: historically accounted for by remittances sent home from Irish emigrants and more recently by increased budget deficits. Recent trends in world trade have diversified Irish exports and growth outside the Eurozone has risen to three-fifths.

Standard of Living

GDP is used by the European Commission to assess the standard of living in EU member states. However, growth in the standard of living is more difficult to assess. The *Third Survey on Working Conditions* suggests that opinions toward work in Ireland have improved, as has the take home pay of workers.[34] The same can be said for the increasing number of women participating in the workforce.[35] Moreover, Eurobarometer (2000) figures show that 88 percent of Irish citizens are fairly or very satisfied with their standard of living, among the highest in the European Union. Nevertheless, qualitative data also shows a decline in life satisfaction since the 1970s, when GDP per head was much lower than the rates experienced during the 1990s.[36]

Growing employment, participation and increases in real income have certainly made the population economically stable. Increased car ownership is one indicator of increased living standards: from 201 to 261 per 1000 between 1986 and 2001.[37] As is the high level of Internet penetration into Irish households: 47.9 percent in 2002.[38] Moreover, ESRI studies show an improvement in social conditions and a reduction in poverty.[39] Allen (2000) and Goodman (2000) have voiced concerns that satisfaction is not unanimous throughout Ireland: particularly in terms of employment and low incomes in outlying areas. Similarly, house price inflation has offset much of the gains in real income, as has inflation in consumer prices. The dissatisfaction has grown as inflation has increased almost unanimously throughout Ireland whilst wage growth has not been uniform.[40] As a result, the standard of living is difficult to assess but employment figures and net immigration show positive improvement.

Statistical Problems

Unlike the majority of national economies globally, there is a large divergence between GNP and GDP. The gap has widened over the course of Irelands economic boom and GNP grew at a slower rate. For example, the gap between GDP and GNP was 11.3 percent in 1995 but grew to 12.3 percent in 1999 and that gap is widening.[41] This Net Factor Flow (NFF) is complicated by interest and repayment contributions against the Irish national debt held abroad and because leading Irish companies are now major investors abroad.[42] Throughout the 1980s, the budget was in deficit and the Exchequer Borrowing Requirement averaged 13 percent of GNP between 1979 and

1987. Moroever, outward flows of interest repayments peaked at 4.9 percent of GNP.[43]

Transfer price-fixing further compounds the problem of relying upon economic indicators such as GDP and GNP. It is a statistical dilemma that Irish growth data has been exaggerated for many years because of how the statistics have been complied. A primary explanation for such overstatements was that multinationals (MNCs) were engaging in transfer price fixing. In recent years, the growth rates have been revised downward to take account of early over-estimation but growth rates remain impressive.[44] This is important to remember in the evaluation of economic growth to take note of the corporate accounting practices.

Social Capital

Ireland has a youthful and expanding population: 21 percent of the population is under 15 and the labour force is rapidly expanding.[45] In addition, the dependency statistics are matched by the highest total fertility rate in the EU, at 1.98 per women in 2001.[46] Ireland has favourable demographics with pension costs below 3 percent and is expected to remain constant over the next for decades, according to the National Treasury Management Agency.[47] Natural population growth combined with net immigration flows and rising female participation rates have contributed to the stability of the economy and growing labour force. The favourable demographics suggest that the long-term sustainability of growth can be maintained, particularly in addition to the government's commitment to education expenditure.

Ireland has a high standard of educational excellence and public policy is committed to delivering a highly educated workforce: expenditure on education has increased by 150 percent since 1985.[48] In 1997, 81 percent of students completed the Leaving Certificate,[49] the highest secondary level qualification and over 30 percent of 20-30 year-olds had completed courses at third level.[50] Of 20-30 year-olds, 2.18 percent had graduated in science and technology, the highest in the EU: double that of Denmark and more than triple that of the Netherlands. In 2000, the figure rose to 2.32 percent.[51]

The rise in second- and third-level education completion was greatly aided by the policy of fee-free education by consecutive Irish governments. Expenditure on tertiary education accounted for 3.6 percent of total public expenditure in 2002, the highest of any EU member state government. The value of this expenditure is evident for employers: admissions to science and technology courses rose to a third, in 2001.[52] Hyland (1997) and Coolahan (1997: 191) assert that the centrality of government policy toward second- and third-level education has proved a positive contribution to the Irish economy. Specifically 'the rate of return' on education expenditure, estimated at 12 percent based on the current tax system.

The growth of Institutes of Technology (Regional Technical Colleges) accounts for the vast majority of tertiary education expenditure. Allen (2000: 90-3) criticises public expenditure on tertiary education arguing that it aids wealthy and middle-class students. However, anecdotal evidence suggests that the majority of middle-class Irish students choose to be educated at universities in the UK, taking advantage of subsidised education by the UK government available to EU citizens. As a result, the benefit for low-income students is more apparent, particularly for poorer students who tend to be educated at the RTCs rather than the limited number of university places in Ireland. In 2001, more Technology students graduated from RTCs than from university: 6894 compared with 5974: the trend is similar for accountancy and business qualifications. The impact of expenditure is great for potential graduates and employers, creating a highly educated and technologically advanced workforce. As a result, The *IMD World Competitiveness Yearbook 2002* scored the Irish education system highest among EU member states in serving the needs of a competitive economy.[53]

Based on employment figures of 1997, Redmond (2000: 112) concluded that the 'emerging picture is of demand for a labour force with ever-higher qualifications'.[54] The conclusion is consistent with corporate management and foreign investors in Ireland that cite the highly educated workforce as a major contributory factor for investment and continued development in Ireland.[55] Certainly, over half of third level qualifications attained are in areas specifically tailored for employment in technologically advanced operations.[56] Moreover, the impact of education policy applies to workers as whole. The importance of labour grants from the IDA and the

impact from the European Social Fund should not be underestimated as they facilitate mobile skilled workers.

Transport Infrastructure

The rail and road networks have both suffered from the partition of the Island. The problem in Ireland is particularly acute in the BMW region where much of the rail and road network cross the border with Northern Ireland. For example, in 1922 there were 20 'border' crossings but just one remains on the Belfast-Dublin 'Enterprise Line'. Four BMW counties, Monaghan Cavan, Leitrim and Donegal, are now 'completely bereft of rail transport' (Smyth 1995: 173). In addition to the loss of connections, the length of rail diminished from 3,536 (km) in 1958 to 1,919 (km) in 2001.[57] Certainly, the decrease is a product of the growth in road usage but its effect on regional populations, particularly with regard to frequency, has restricted freight growth in those areas. Whilst the Irish rail and road networks are less extensive in terms of the country size, the length of rail and road in terms of population is 145 and 211 percent of the EU average, respectively.[58]

Much of the road network is rural and the standard of road is poor with only 125 miles of motorway in 2001.[59] Much of that volume is the M50 Dublin circular and the M1 cross-border route. As a result, roads have not been a major contributory factor for economic growth. In terms of impact on economic growth, the road network is lacking: particularly in terms of major cross-country arteries into the BMW region, southeast and southwest. Moreover, the road network has been strained throughout the 1990s due to the growth in car ownership and the increase of road usage in terms of freight: the road network carried 96 percent of freight in 2001.[60] The road/rail infrastructure has served economic growth in areas where prosperity increased. However, infrastructure shortages into the north, west and midlands have been a contributory factor to regional disparities in economic growth.

Telecommunications Infrastructure

According to the IDA website, Ireland invested over US$5 billion in the telecommunications infrastructure during the 1990s 'and offers a reliable fully digital

telecommunications system'. It adds that; 'this substantial investment means that Ireland has one of the most advanced telecommunications systems in Europe'.[61] The strength of the telecommunications network to investors is huge, particularly as much of the transatlantic fibre-optic network is routed through Ireland. Recent deregulation of the Irish domestic market has increased competitiveness and infrastructure investment. However, whilst telecommunication may be referred to as 'fully digital' in terms of international marketing for Dublin, Cork and Limerick, the reality is different.

Much of the Irish domestic market relies upon analogue lines and exchanges, especially in areas where economic development has been slower comparatively. Whilst the Sligo Chamber of Commerce may refer to itself as the 'e-commerce capital of the northwest' the availability of digital signal lines (DSL) are limited. For example, software company Infacta are forced to host Internet services in the US and use a satellite uplink to receive office e-mail. The managing director commented: 'the only option I can see is a leased line, and in Ireland it's too expensive'. Nevertheless, the competitive advantage of such locations still offsets this disadvantage.[62] As a result, whilst the availability of DSLs has afforded the majority of companies with competitive advantage in major urban and industrial centres, the disparity persists in more rural areas because of market cost.

NOTES

[1] Clinch *et al* (2002: 27)
[2] OECD (2001: 114)
[3] MacSharry (2000: 384)
[4] Eurostat (online); Growth refers to 1994-1999
[5] McAleese (2000: 46-7)
[6] OECD (1991: 14)
[7] Clinch *et al* (2002: 27)
[8] IDA (2002)
[9] Ledin and Walsh (1995: 22); Sweeny (2000: 26)
[10] OECD (2002: 7)
[11] Leddin and Walsh (1995: 22)
[12] OECD (2001)
[13] 'ESRI warns of more job losses over 18 months' RTE Online (July 18 2003) <http://www.onbusiness.ie/2003/0718/esri.html>
[14] Carroll and Bryne (1999: 181)
[15] Sweeny (1989: 14); see Table 1.2
[16] MacSharry (2000: 153)
[17] Irish Regions Office (2003)
[18] OECD (1991: 14)
[19] CSO (May 2003)
[20] Eurostat (Online)

[21] Clinch *et al* (2002: 188)
[22] CSO (May 2003); Data refers to Sep-Nov 2001.
[23] McAleese (2000: 47)
[24] Clinch *et al* (2002: 31)
[25] 'Warning signs for Ireland Inc' The Irish Independent (24 April 2003)
[26] Eurostat (Online)
[27] 'Irish rise has no one smiling' TIME (2 June 2003)
[28] Eurostat (Online)
[29] MacSharry (2000: Appendix)
[30] OECD (1991: 14-15)
[31] Eurostat (Online)
[32] OECD (1991: 15)
[33] Sweeny (1999: 65)
[34] Paoli and Merllié (2001)
[35] European Foundation (2002)
[36] Clinch *et al* (2002: 167-8)
[37] EUROSTAT (2003: 115)
[38] Eurostat (Online)
[39] 'Poverty Levels Falling' RTE Online (8 August 2003)
<http://www.onbusiness.ie/2002/0808/esri.html>
[40] The suggestion derives from Ireland.com website message boards.
[41] Data adapted from OECD (2001: 26)
[42] Sweeny (1999: 50)
[43] Boylan (2002: 15) – Refers to 1985
[44] Sweeny (1999: 50)
[45] Enterprise Ireland (2003)
[46] EUROSTAT (2003: 31)
[47] Somers (2000: Presentation)
[48] Enterprise Ireland (2003)
[49] IDA (March 2003: 7)
[50] Redmond (2000: 112)
[51] Eurostat (Online)
[52] IDA (March 2003: 7)
[53] IDA (March 2003: 7)
[54] The view is supported by Coolahan (1997) and Hyland (1997)
[55] Dell Website <http://www.dell.ie>; IDA (Summer 2003)
[56] IDA (March 2003)
[57] EUROSTAT (2003: 111)
[58] Smyth (1995: 168)
[59] EUROSTAT (2003: 113)
[60] Eurostat (Online); CSO (August 2003)
[61] IDA Website <http://www.ida.ie/whyireland/infrastructure.asp>
[62] 'Digital Ireland', The Irish Independent (24 April 2003)

3 Social Partnership

Teague (1995) argued 'Social Partnership' agreements enabled the economy to adjust to the fiscal crisis of the 1980s and reduced budgetary deficits.[i] More recently, Allen (2000: 60) and trade unionists have criticised the policy for allowing the wealthy to take 'advantage of numerous state subsidies to increase their wealth. Yet at the same time wage increases have been pegged down, despite the unprecedented boom'. Earlier conservative economists criticisms were focused at the orientation of the policy toward trade unions and their subsequent input into macroeconomic development.[1]

The significance of the Irish Social Partnership model is an important element in the evaluation of the success of the Celtic Tiger: not only does it raise questions about the relationships within Irish public policy that helped create it but also its relative success in achieving economic prosperity for all. It is also of significance to EU member states that have adopted similar approaches. For example, Kioukias (2003) noted that much of Ireland's 'Social Partnership' was beginning to emerge in Greek policy areas as part of the European Employment Strategy.

Fiscal Prudence

The Programme for National Recovery (PNR) was a product of the emergence of fiscal crisis that escalated throughout the 1980s as a product of earlier high tax and expenditure policies.[2] Whilst employment decreased, public provision expanded and consecutive governments used tax rises and borrowing to plug the gap. 'Ireland had one of the highest debt [to GDP] ratios in the industrialised world'; the debt ratio peaked at 129 percent in 1986.[3] Annual budget deficits ran higher than 10% of GNP throughout much of the 1980s. The 1987 budget attempted to reduce the Exchequer

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[i] The 'Social Partnership' deals were the *Programme for National Recovery* (1988-1990), *Programme for Economic and Social Progress* (1991-1993), *Programme for Competitiveness and Work* (1994-1996) and *Partnership 2000* (1997-1999).

Borrowing Requirement (EBR) from Ir£1.7 billion that represented 9.4 percent of GNP.[4]

There is a general agreement amongst commentators that 1987 marked a decisive turning point in the reorientation of macroeconomic strategy marking a clear division between the period preceding it and the economic growth that followed.[5] The fiscal policy pursued by the Fianna Fáil headed coalition government, under the auspices of Finance Minister Ray MacSharry, was not without it critics: the stagnation and relative decline of GDP growth and rising unemployment of the 1980s was signalled by some as a failure of central government to develop indigenous industry. As O'Malley (1989: 191) put it: 'consequently, and no doubt correctly, the emphasis is now shifting more to developing Irish indigenous industries in internationally traded activities'.[6] In hindsight, this did not occur.

Growth of GNP declined compared to the EU average from 1973 and unemployment grew from 88,000 in 1979 to record highs of 232,000 in 1987.[7] From 1977, the EBR went into deficit and within a year the deficit increased above 10 percent and remained there for the next ten years.[8] The new coalition government of 1981 further exacerbated the debt crisis with a mini-budget that 'identified a strategy of increasing taxes rather than cutting expenditure as the most effective way of addressing the fiscal situation'. The 1981 EBR increased to 20.3 percent of GNP, the highest ever recorded.[9] However, due to the 'absence of any tax buoyancy given the poor economic growth, the budget deficit increased and with it the public sector borrowing requirement'.

Mobile international investment, that had characterised Irish economic growth in the 1960s and 1970s, declined in volume during the early 1980s.[10] As growth declined and unemployment rose between 1981 and 1987 it became essential to curb national borrowing and reduce the annual interest bill that was close to Ir£2 billion.[11] The coalition government (Fine Gael/Labour) of 1982 switched policy objective to an alleviation of the budget deficit in a strategy designed to cut expenditure. The policy put forward by a major policy document in 1984, *Building on Reality 1985-87*, combined with rises in taxation and attempts to reduce public expenditure. However, increased taxation negated economic stimuli and the public sector wage bill increased.

Moreover, the policy, despite limited successes, failed to stop the increase of the debt/GNP ratio by 25 percent between 1983 and 1986.[12]

Political Consensus

The Tallaght Strategy developed following the collapse of the Fine Gael/Labour coalition on the issue of proposed cuts in public expenditure. Fine Gael was heavily defeated in the 1987 election and Alan Dukes replaced Garret Fitzgerald as leader of the party. The Fianna Fáil government that took over in March 1987, three seats short of an overall majority, immediately engaged in tackling the fiscal crisis. The position of the new coalition government was strengthened by the commitment of the outgoing Taoiseach to support Fianna Fáil 'in the national interest if the party in government pursued similar fiscal policies to those outlined in Fine Gael's draft budget in January 1987'.[13]

The Tallaght Strategy became a stabilising force against the fragmentation of politics that often occurs in political systems that use proportional representation. The speech delivered by the now minority Fine Gael leader, Alan Dukes, at the Tallaght Chamber of Commerce in September 1987 proved to be one of the most significant political speeches in recent Irish economic history. It promised conditional political support for the government on economic matters. The preoccupation of the minority Fianna Fáil government had to be the fiscal crisis and the support of Fine Gael proved invaluable to that challenge.[14] The new finance minister, Ray MacSharry (2000: 75), expressed it best reminiscing that the government's fate, and that of the fiscal crisis, 'lay with Fine Gael and how it voted in Dáil divisions'.

The Tallaght strategy facilitated MacSharry's 'radical' 1987 budget to pass the Dáil with a comfortable majority and facilitated Fianna Fáil to tackle the budget deficit.[15] The March Budget reduced the EBR to 9.4 percent of GNP and produced a saving of some Ir£242 million over the Fine Gael draft budget of January 1987.[16] Similarly, the 1987, 1988 and 1989 budgets successfully reduced public spending and EBR was reduced to manageable levels.[17] Despite changes of government throughout the 1990s, the Tallaght Strategy became a reciprocal consensual agreement on economic policy once the success of public spending reductions had been established.

Social Consensus

The Irish Social Partnership 'experiment' was an agreement by trade union elites 'to tough measures being introduced to allow the economy to adjust to the fiscal crisis and to further European integration' (Sweeny 1999: 102). The nature of these agreements covered many aspects of public policy such as a reduction in health and social expenditure in return for tax reductions and an increase in real take home pay. Not withstanding the importance of support for spending constraint from the trade unions, the Social Partnership agreements appeared to be a contradiction. Between 1990 and 1994, public expenditure on health provision increased by Ir£716 million and had doubled in the ten years to 1994.[18] Public spending as a proportion of GDP has fallen but the volume of spending had risen particularly in education and health.[19] Similarly, expenditure on social service provisions extended from 55 percent to 59 percent of government expenditure between 1990 and 1996.[20]

The IDA had been successful in attracting foreign investment throughout the 1970s and early 1980s. Major investors such as Ferenka (AKZO group), Black and Decker, AT&T and Hyster came to Ireland between 1969 and 1982: producing sizable employment opportunities. However, external factors such as the scale of the recession during the early 1980s made market conditions difficult for international business and reduced company profitability globally. Nevertheless, the competitiveness of the Irish economy was extensive as well as the beneficial corporate tax regime and the US-Ireland double-tax agreement.[i] However, deteriorating union-management relationships and rising industrial disputes closed each of these Irish operations by 1987. The desire to stabilise the working environment and reduce disputes was great: in 1979 over a million days were lost annually.[21]

Given the high unemployment rates between 1987 and 1994, the wage demands of labour movements proved less attainable and proved far from sustainable. The PNP reoriented public policy and centralised wage negotiation at the government level intended to generate economic competitiveness. MacSharry (2000: 145-146) points to

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[i] See Chapter Four

the success of the social partnership agreements in terms of a reduction of days lost to industrial disputes (264,339 in 1987 to 37,374 in 1998) and the substantial rise in employment.[22] However, the labour market changed throughout the 1990s and traditional links with trade unions diminished as new industry emerged within Ireland.

As Sweeny (1999: 103) argues: 'in the absence of [Social Partnership] agreements, income determination would have been more fractious, with more strikes and higher pay settlements for the most powerful groups. Yet there would still be a large number of collective agreements within particular sectors, some covering tens of thousands of workers… Thus, free collective bargaining is not really free – it is the strongest organised workers who set the trends and gain the most'. In the short-term there was little freedom for the labour movement to agitate for greater wage concessions given the high unemployment. As MacSharry (2000: 128) asserted: 'unless the unions adapted to these changed circumstances they risked being marginalized and becoming irrelevant. Social Partnership offered power with responsibility and a way of adapting to those changed circumstances'. Indeed, many conservative critics of the Irish social partnership model objected to the involvement of trade unions as 'insiders' and blamed the agreements for the high level of unemployment before 1994.[23]

The social consensus underpinning the four agreements since 1987 were broader and stronger than any previously established. Centralised wage bargaining proved important to allow the government to tackle fiscal issues without unstable labour militancy. However, the policy was not about centralisation: later adaptations of area-based partnerships in local development targeted long-term unemployment in regional policy. As a result, whilst being a 'national agreement' it did not rely exclusively upon the 'muscle' of central government to augment consensus.[24]

Facilitated by political and social consensus the debt burden decreased as a result of public expenditure. National debt remained at moderate levels below 3% of GDP throughout the 1990s and a surplus was recorded in 1997. By 2002, the debt GDP ratio reduced to the second lowest level within the EU at 34 percent.[25] The reduction in budgetary deficits can, in part, be explained by the reduction in public expenditure. However, it cannot explain how income tax reductions could be facilitated while

government income increased from Ir£7.6 billion to Ir£8.7 billion between 1988 and 1991.[26]

Competitiveness

The European Commission identified the macroeconomic policies initiated by the Fianna Fail government as a decisive change that forged the basis of strong economic growth. The Commission (1996) argued that the macroeconomic policy 'was adopted involving three main components; fiscal consolidation, enhanced exchange rate stability and a broad based social consensus agreement which included a competitiveness orientated wage agreement'.[27] Leddin and Walsh (1997) concurred that the stabilisation of the economy through policy and the resultant economic environment contributed dramatically to the growth that was to follow.

The commitment to reductions in taxation was the government commitment as part of the social partnership agreements in return for reduced expenditure on public services and wage moderation. The real income of workers increased: particularly those at the lower income thresholds. Initially, income tax bands were extended above inflation prior to tax reductions throughout 1990s. Reductions in tax rates accounted for almost a third of the increase in real net income between 1987 and 1997.[28] For example, the tax burden (including national insurance) for low paid workers has reduced from 26.5 percent in 1993 to 16.6 percent in 2001.[29]

Table 3.1: Historical Irish Income Tax Rates Changes

	1987 Tax Bands		**2003 Tax Bands**	
	Tax Rate	**Tax Band (€)**	**Tax Rate**	**Tax Band (€)**
Single	35 %	5,972	20 %	28,000
	48 %	3,558		
Married	35 %	11,944	20 %	37,000
	48 %	7,115		
Higher Rate	58 %	Balance	42 %	Balance

Note: €1 = £0.878
Source: **Irish Taxation Institute (2003)**

The emergence of the Celtic Tiger coincided with a raising standard of living agreed with the trade unions. Standard and higher rates of tax fell from 35 and 57 percent in 1988 to 25 percent and 48 percent in 1997.[30] For 2003, tax has decreased again to 20 percent (standard) and 42 percent (higher).[31] Moreover, arguably the most important

factor in increased real earning has been the extension of tax bands: the increase in tax bands and decrease in income tax have increased post-tax earnings. O'Brien (1997) concluded that tax reforms had a positive impact on competitiveness that significantly increased real earnings yet maintained low labour costs for business. For example, the hourly compensation costs for workers was €12.50, the lowest in the EU in 2002.[32]

The labour force expanded rapidly during the 1990s. The Economic and Social Research Institute (ESRI) attributed much of that increase to the reorganisation of taxation and increased tax bands. Furthermore, the tax reforms encouraged participation and created greater employment incentives. Specifically, women responded to tax cuts in the upper income bands and married women could chose tax 'separation', which effectively increased the married tax band to €56,000 rather than €37,000. As Brendan Keenan commented: 'the extraordinary growth in the number of women participating in the workforce during the 1990s was the main reason the economy was able to expand so rapidly'. Moreover, the growth of female participation was also able to contain wage inflation and meet the labour demand.[33]

Despite the positive note of Keenan's commentary, female participation cannot hope to meet the labour demand for construction vacancies where wages increased by 12 percent in 2001,[34] in a sector accounting for 6.5 percent of GDP.[35] Furthermore, there is a great urgency for immigration to relieve pressure in areas such as construction but the growth of 'non-Irish' immigration is constrained by the position of the Immigration Control Platform. As a result, whilst the growth of female participation may not have been 'the main reason' for facilitating economic expansion, the proportion of women in total employment was able to increase from 31.9 percent to 40.9 percent between 1986 and 2001. It should be noted, however, that female participation in Ireland is the third lowest in the EU, below the average of 42.8 percent and considerably lower than those of the Scandinavian nations, the UK and Portugal.[36] Nevertheless, female participation has made a positive impact to the workforce enabled by income tax revisions.

Labour cost moderation was matched by policy orchestrated to promote export competitiveness. Successive Punt devaluations of 1986 and 1993 within the Exchange Rate Mechanism made exports more affordable internationally and provided a major

impetus to the growth of exports.[37] At the same time, the devaluations made Ireland more attractive to foreign investment making the cost of investment within Ireland more competitive over her European rivals. That said the promotion of an export-orientated economy had been fostered as early as 1956 with the introduction of Export Profits Tax Relief.[38] As a central pillar of economic policy since the 1950s the larger importance of industrial policy and foreign investment in the Celtic Tiger will be explored in Chapter Four.

Social Partnership or Neo-Corporatism

The success of the Social Partnership model has been characterised by its positive effects for competitiveness and subsequent economic growth. However, critics of social partnership point to the economic disparity that still exists within Ireland.[39] For example, in 2000, the relative wealth of the Border, Midland and Western region was 22 percent lower than the national average compared with the Southern and Eastern region, 10 percent higher.[40] Carroll and Byrne (1999: 181) have voiced the EC's concerns that there has been 'little national debate over regional disparity' and that the Irish government has been most concerned with promoting industrial employment to compensate for the declining agricultural sector. The BMW region, which is the least developed area, accounted for only 20.5 percent of jobs created in 2000 compared with its 25.5 percent share of the labour market.[41] As a result, the promotion of industrial employment has failed to achieve even employment distribution, at least for the BMW region.

The development of export-orientated employment policy was in contrast to the economic stagnation and ensuing crisis of the 1950s: leading directly to the abandonment of the earlier protectionist strategy. The rapidly changing external environment of post-war Europe was dominated by free trade liberalisation and the initiation of trading relationships on the basis of major trading blocks.[42] Leading directly from this policy was the emergence of zero- and low-rate export corporation tax that benefited the emergence of an indigenous manufacturing sector and attracted Foreign Direct Investment. The leading principle of the policy was the development of employment and industry, the tax receipt issue was a secondary concern: as the Export Profits Tax Relief demonstrated during the 1960s.

The neo-corporatist perspective of low corporate and other capital taxation is often cited as a major criticism of the Social Partnership model. Allen (2000) argues that because 37.3 percent of all tax revenue comes from income tax while only 12.1 percent is from corporation tax, the 'heavy burden on employees means punitive tax' for low-income workers.[43] However, such criticisms fail to take account of increased post-tax earnings and the effects of employment growth generated by beneficial corporate tax rates. Nevertheless, criticisms of the neo-corporatist nature of the policy are extended to the elite level. The premiership of Charles Haughey has since been tarred with allegations of 'cronyism' and charges of fraud.[i] Particularly following continued investigations surrounding his involvement with Celtic Helicopters and potential political benefits that businessmen received following investments in the company.[44]

The effects of the Social Partnership arrangements were important to balance the budget, reduce the debt to GDP ratio and reduce debt interest payments in order to facilitate long-term competitiveness and generate growth. The macroeconomic policies initiated in 1987 helped to develop conditions for economic growth that combined with political and social consensus to keep labour demands contained. Irish growth rates, compared to EU average growth, became evident from 1989. Initially, commentators began to suggest that high growth rates were a 'statistical illusion' or 'the product of transfer-pricing-inflated multinational profits in high-tech sectors rather than "real" bread and butter economic activity' (McAlesse 2000: 47). This was a particularly concrete argument because unemployment remained high: 15.6 percent in 1993.[45] However, net employment creation after 1993 and growth in tax revenues silenced much of that criticism. The Social Partnership agreements were important to enable net employment creation and harmonising industrial relations: ultimately contributing to growth of the economy.

NOTES

[1] Sweeny (1999: 102)
[2] Boylan (2002: 17)
[3] MacSharry (2000: 60-64)

[i] Charles Haughey was Taoiseach of the 1997 Fianna Fáil government that initiated the *Programme for National Recovery* and the 1997 Budget.

[4] MacSharry (2000: 60-64)
[5] Boylan (2002: 13)
[6] O'Malley (1989: 191)
[7] Boylan (2002: 17)
[8] MacSharry (2000: 389)
[9] Boylan (2002: 17)
[10] O'Malley (1989: 188-9)
[11] MacSharry (2000: 63)
[12] Boylan (2002: 18)
[13] MacSharry (2000: 62)
[14] Boylan (2002: 18-19)
[15] MacSharry (2000: 75-84)
[16] MacSharry (2000: 64)
[17] MacSharry (2000: 67)
[18] Ó Muircheartaigh (1997: 214)
[19] Sweeny (1999: 102)
[20] Ó Muircheartaigh (1997: 77)
[21] MacSharry (2000: 145-146)
[22] MacSharry (2000: 145-146)
[23] See Sweeny (1999: 102)
[24] MacSharry (2000: 142)
[25] Eurostat (online) Only Luxembourg has a lower GDP to debt ratio.
[26] OECD (1991: 45)
[27] Boylan (2002: 19)
[28] Boylan (2002: 19)
[29] Eurostat (Online)
[30] Boylan (2002: 22)
[31] Tax Ireland Website <http://www.taxireland.ie>
[32] IDA (March 2003)
[33] Brendan Keenan, 'Separation', the Cheap way to tax couples at the lower rate' Ireland's Sunday Independent (Sept 14 2003)
[34] OECD (2001)
[35] EUROSTAT (2003: 77)
[36] EUROSTAT (2003: 77)
[37] Boylan (2002: 21)
[38] MacSharry (2000: 227)
[39] Goodman (2000: Chapter II)
[40] Irish Regions Office (2003)
[41] Forfas (2002: 18) The report also shows that previous years had shown fewer net jobs created.
[42] Boylan (2002: 23)
[43] Allen (2000: 83) Data refers to 1997. Income Tax Revenue for 2001 was 33.3%, Corporate Tax was 14.8% and VAT increased to 28.2% from 26.6% reflecting the growing disposable income on luxury products: Revenue Commissioner (2002), Revenue Commissioner (1998)
[44] Kerrigan and Brennan (1999: 47-49); Allen (2000: 140-1)
[45] Eurostat (Online)

4 Ireland's Export Economy

> **It is an economic truth that Ireland, if to be self-contained, must remain poor; it can only become wealthy if it is enabled to employ the resources of other lands as well as its own – which it can only do by developing foreign trade.**
>
> \- Oldham (1917:5)

An Export Orientated Economy

The stagnation and relative decline of the Irish economy during the 1930s and 1940s, compared to the UK, demonstrated the failure of the isolationist and protectionist policies, created by Fianna Fáil in 1932. Whilst the growth of the Irish economy was comparable with the UK between 1913 and 1986, the decline in growth rates caused by the imposition of import tariffs prior to the 1950s weakened economic expansion. At the same time, Irish companies were encouraged to focus their production on domestic markets before the foreign markets were served. However, the population decline throughout the period resulted in a continuously contracting market: economic expansion could not be reconciled with decreasing domestic demand and GDP per head weakened against the UK.[1] Between 1930 and 1959, Ireland's workforce became her most important export: 750,000 people emigrated.[2]

Faced with the reorganisation of the world economy on the basis of trading blocs during the 1950s, Irish policy committed itself to the dismantling of protectionist tariffs and progressed towards a free trade position. The signing of the Anglo-Irish Free Trade Agreement (AIFTA) in 1965 and entry into the EEC in 1973 marked that process.[3] AIFTA was an important progression in that tariff restrictions to Ireland's traditional partner were eliminated much earlier than those with the other seven member-states. By 1977, although many barriers remained in the form of different national standards and regulations, the elimination of customs duties was a major hurdle toward the Single Market. Moreover, exports of new foreign owned companies set-up to serve the new market helped increase Irish exports and shift the pattern of

trade: the UK accounted for 55 percent of exports in 1971 but had dropped to 38 percent by 1976.[4]

To promote export, the 1956 Finance Act introduced the Export Profits Tax Relief (EPTR) with a 50 percent remission on export related profits, extended to complete remission two years later. The final foundation of the export-orientated policy was the repeal of the Control of Manufactures Act, in 1964: removing the restriction on foreign direct investment.[5] The relative stagnation prior to EU membership led directly to the export orientated strategy of development. In 1950, the Industrial Development Authority (IDA) was established to initiate proposals for industrial development from indigenous and foreign sources. Further grant awarding bodies were established in 1952, 1956 and 1959, to award non-repayable grants in designated areas of under-development.

The success of the policy shift was characterised by growth rates as high as 7.2 percent, in 1968.[6] The Export Profits Tax Relief (EPTR) was an important contributor to the reorientation of the Ireland as an exporting economy. The growth in exports since the EPTR's inception had a positive effect on both growth and employment, particularly in manufacturing: it gave companies financial incentive to export. The EPTR was replaced from 1982 with a new 10% manufacturing rate, following objections from the EC concerning the disparity between taxation on goods destined for domestic consumption and those for exports.

The 10 percent manufacturing rate gave incentive to manufacture in Ireland, both for internal and external supply. The incentive has continued to 2003 when the manufacturing rate was harmonised with standard corporate taxation at 12.5 percent.[i] The EPTR and manufacturing corporate tax rate demonstrate the 'business friendly' attitudes of consecutive Irish government; applying policies designed to promote industrial production and export potential in emerging industries.

[i] Existing companies enjoying the 10 percent manufacturing rate can benefit until 2010, 2005 for IFSC and Shannon Development supported companies.

The Industrial Development Authority

The Industrial Development Authority is the autonomous state aided agency responsible for the extension of industrial development throughout Ireland. It was established within the Department of Industry and Commerce, in 1950, and became independent outside of the civil-service structures in 1969 when the IDA was merged with the grants board: *An Foras Tionscal*. The independence of the IDA allowed more flexibility in industrial policy and the absence of government interference. In reality, IDA policy would affect government policy over the next three decades. The extension of IDA grant awarding powers, in 1981, and the rejection of the *Telesis Report* (1982) by the *Industrial Policy White Paper* (1984) reinforced the government's confidence in the IDA's commitment to attracting foreign firms.[i]

The IDA was a deliberately structured organisation from the 1970s. At every operational level prescribed procedures and precise delegated powers of decision were established. This layered structure was used to make decisions with fast turnaround times. Foreign target companies were identified and likely investment requirements assessed and measured against Ireland's ability to meet the development needs of those companies. The policy template was compelling: to identify the potential 'customer', go directly to them and make the case for locating in Ireland. Armies of 'cold calling commandoes' laid the groundwork for attracting foreign investment. Using this direct marketing approach, IDA executives made individual presentations to 105 different target companies in 1971, 775 companies in 1972 and 2,600 in 1973. In the five years to 1974, the IDA made 4,000 direct presentations to target companies across the world.[7]

The idea of 'king-size presentations' was also introduced as a method of targeting potential investors with tailor-made presentations to convince multinationals to locate in Ireland. Detailed investment proposals were formulated for selected companies that suggested why specific product lines should be manufactured in Ireland. The reports included extensive financial projections and each report showed a fine profit. This

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[i] The *Telesis Report* (1982) criticised the over-reliance on foreign industry, favoured a 'better' balance towards indigenous industry and recommended a reduction in grants to foreign owned firms. Furthermore, it favoured the Department of Industry and Commerce over the IDA in the formulation of industrial strategy.

enhanced marketing benefited areas of employment decline quickly: digital electronics companies established in Galway and Ballinasloe and healthcare manufacturer, Baxter Travenol, located in Castlebar.[8] The international exposure of Ireland was also extended over the same period with up to 400 advertisements placed in global printed media that highlighted Ireland as the 'most profitable industrial location in Europe'.[9] These presentations were expanded in the late 1980s and directed at emerging and established multinationals such as IBM, Intel and Microsoft.

Following on from the negotiating process, the IDA used incentives to influence location in Ireland and into her less industrialised areas. Non-repayable cash grants of up to 60 percent to new manufacturing in designated areas of underdeveloped industry compared with 45 percent elsewhere. In addition, generous training grants are provided to companies locating in areas where there was a shortage of native industrial skills. Furthermore, the IDA provides both business parks and factories to new investing companies that are either sold or rented to the investors at favourable rates. Moreover, where industrial development requires an in-migration of workers, the IDA (supported by the National Building Agency) commits itself to providing affordable housing for key workers.[10] These incentives are in addition to those developed at the macroeconomic level such as the Exports Profits Tax Relief, the ten percent rate for manufacturing or the new 12.5 percent rate.

The IDA began shifting its promotional emphasis towards fast-growing new technology sectors such as technology and pharmaceuticals during the 1980s,[11] whilst consciously resisting the risks involved in investing in ventures such as the DeLorean project.[12] The technological development of the 1970s and 1980s saw huge growth in the technology sector worldwide: the most important of these was the development of the Intel 8086 microprocessor, the production of IBM's 'Personal Computer', Microsoft's Disk Operating System and the Apple Macintosh, the first general user interface operating system. Similarly, the growth in personal healthcare and increased demand from consumers for over-the-counter medicines expanded the operations of pharmaceutical companies such as Pfizer and GSK. Each of these companies invested heavily in Ireland from 1987.

Foreign Direct Investment

The growth in FDI has made an important contribution to the rapid GDP growth of Ireland in recent years. For a peripheral nation on the edge of the EU, equivalent to one percent of the overall population, its impact has been substantial. In the early period of GDP growth, from 1987, Ireland received up to 25 percent of all US originated FDI.[13] US FDI to Ireland averaged just over two percent with investment valued just over US$200 million annually during the 1980s.[14] However, the value of FDI has decreased during the 1990s but the figures are still substantial and far greater than those of the 1970s (see Table 4.1).

Table 4.1: FDI Net Investment Ireland (millions $)

Year	FDI Ireland	FDI Europe	% Europe
1994	-337	34,380	-0.98%
1995	695	52,275	1.33%
1996	1,954	40,148	4.87%
1997	2,266	48,318	4.69%
1998	7,891	86,129	9.16%
1999	4,741	109,484	4.33%
2000	9,823	77,976	12.60%
2001	196	44,720	0.44%
2002	4,870	66,761	7.29%
2003	852	14,387	5.92%
1994-2002	32,951	57,4578	5.73%

***Source*: US Bureau of Economic Analysis**

The individual impact of foreign investments is also impressive. For example, Dell's revenue during 2002 equated to 5.8 percent of GDP and exports amounted to €7 billion, equivalent to 7.8 percent of all Irish exports. At the same time, Dell expenditure in the economy was €240 million and employed over 5,000 people.[15] Similarly, Intel have invested $4 billion in addition to employing 3,200 with a further 1,000 employed by subcontractors at the Leixlip site. By 2005, a further $1 billion will have been invested in the production of the next generation of microprocessors based on the new 0.13-micron technology process.[16]

Despite the success of the IDA in attracting foreign-owned firms, closures during the 1980s aroused public resentment and led to the questioning of the entire foreign-investment policy. Until the 1990s, a degree of national sentiment and support for Irish owned companies created the expectation that native industry was capable of

developing employment and exports.[17] Negative attitudes toward foreign-owned companies were prevalent during much of the pre-Celtic Tiger era. Moreover, critics argued that multinationals would chop foreign manufacturing branches at the first resort, when encountering global trading difficulties.[18] However, White (2000: 256) argues that the attitude toward foreign owned companies is now different: 'Irish plants are no longer one of a number of vulnerable branch plants. Increasingly these [locations] are now largely the European base for a whole product range'. As a result, manufacturing operations of multinationals have become an integral part of the Irish economy.

While economists acknowledge the importance of FDI for the Celtic Tiger, the critique emphasises that the employment figures are small compared with the growth of employment throughout the economy.[19] Of the 1.75 million in employment in 2002,[20] just 8.7 percent were employed in foreign manufacturing.[21] The general argument is that FDI 'was far from being the predominant factor behind the economy-wide growth' given that foreign investment fails to explain the remaining 80 percent of employment growth.[22] That said, the employment in manufacturing increased by 236,000 between 1993 and 2002: the largest increases were in foreign owned companies.[23] The impact of foreign owned companies to employment was of major importance in the technology sector. More important, however, was the efficiency with which foreign owned companies were able to produce: employing similar numbers but producing a disproportionately high level of exports.

Agency Supported Companies

State agencies were important for attracting foreign firms to locate in Ireland. For simplicities purposes these have been expressed in relation to the IDA, thus far. However, Shannon development and Údarás na Gaeltachta also attract foreign development into Ireland. Moreover, Enterprise Ireland supports export orientated indigenous companies developing manufacturing and financial operations in Ireland. Each of these agencies receives funding through the National Development Plans and subsequently from structural funds. The role of these state agencies is largely identical

to that of the IDA.[i] The importance of non-foreign investment should not be underestimated. As a result, all data for state agency supported companies should be considered in their impact on the Irish economy.

In 2002, employment in manufacturing and international finance accounted for 303,500 full-time positions, foreign companies as a whole employed 153,000 compared with the remainder employed by Irish owned companies. These figures are in addition to the 33,000 employed in part-time, temporary and short-term contracts. Growth of employment in manufacturing has increased by almost a third since 1993.[24] Employment in Irish owned manufacturing and technology companies expanded consistently with that of foreign owned manufacturing. These substantial gains in manufacturing have demonstrated the importance of Ireland's competitive corporate tax (CT) policy and its impact on both employment and GDP in that sector.

A significant aspect of the economic growth evident in the Celtic Tiger has been the growth of exports. Between 1989 and 1999, exports increased from 77 percent of GNP to 114 percent.[25] Notwithstanding the small impact of foreign manufacturing employment against overall employment, the growth of output *can* be attributed to foreign manufacturing. In 1990, foreign companies accounted for 70 percent of output and 22 percent of employment compared with 80 percent of output and 50 percent of employment in 1998.[26] At the same time, exports of emerging sectors in foreign owned manufacturing increased from 29 percent to 57 percent of total exports.[27] Therefore, while the impact on employment in manufacturing from foreign-owned firms was small compared with employment growth overall, the impact on the growth of exports and associated GDP was significant. Particularly given the efficiency of such enterprises: Dell's Limerick site, accounting for all manufacturing to EMEA, is considered by management to be their most efficient plant worldwide.[28]

Direct expenditure in the economy by state agency supported companies totalled €34 billion for 2001. Irish owned companies accounted for €15.5 billion (46 percent) for this figure. The significance of foreign owned manufacturing could be over estimated,

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[i] The Industrial Development Authority was split into three bodies in 1991: IDA Ireland, responsible for attracting foreign investment; Enterprise Ireland, focusing on the expansion of indigenous industry; and Forfás, concerned with policy advice.

therefore. That is not to say that foreign investment was not a major contributor to the Irish economy. Instead it demonstrates the importance of state agencies to promote export-orientated firms to establish manufacturing operations in Ireland and that capital was more readily available to foreign-owned enterprises. The data also demonstrates the efficiency of foreign owned firms compared with Irish-owned companies: direct expenditure in the economy accounted for 25.8 percent of sales for foreign owned manufacturing, compared with 64.6 percent for indigenous firms.[29] Alternatively, the figure may simply demonstrate the extent of transfer price fixing and tax relocation that occurs as a result of the low-tax regime.

Corporate Tax

Throughout her membership of the EU, corporate taxation in Ireland was complex compared to many other European Union member states. Profits derived from manufacturing, and those of state-agency supported companies, have received preferential low CT rates vis-à-vis companies operating in other sectors. As a result, there has been major growth in exports from, and employment in, manufacturing and financial operations. Nevertheless, all employers benefited from the lowest social security contributions in the EU at 12 percent compared with 12.8 percent in the UK and 33 percent in Sweden.[30] However, throughout the 1990s the Irish government came under increasing pressure from the EC to harmonise corporation tax across all sectors of the economy. As a result in 1998 the Irish Government began moving towards convergence of corporation tax.

The 1998 measures agreed with the EC replaced all corporate tax rates with a common 12.5 percent rate from 2003. As a result, CT concerning non-manufacturing companies was phased down in stages to 12.5 percent from 28 percent in 1998.[31] The 12.5 percent rate will apply to all indigenous and foreign owned companies across every sector of the Irish economy providing Ireland with the lowest CT rates in the EEA. Hitherto, the benefits of the 10 percent CT rate had applied disproportionately to different sectors, part of the objections of the EC. Certainly, prior to 1998 such corporation profits were taxed much higher than 28 percent, with the exception of Shannon Development supported companies and those in manufacturing where the 10 percent rate applied. The new common rate gives companies greater incentive to

develop, manufacture and market products from Ireland.[32] The lower rates, combined with double-tax agreements with the UK, Japan, US and major trading partners, give further cost incentive to operate European operations from Ireland.[33]

The low levels of corporate taxation in Ireland are cited as important to the decision of MNCs to locate operations in Ireland. However, the importance of CT is difficult to assess because corporations do not talk publicly about how the management operates its CT rate. However, O'Reilly (1995: 5) maintains that 'in private conversations with American business leaders and bankers, the ten per cent tax is constantly highlighted as a very important incentive'. Over the last decade, 3com, Apple, Dell, Eastman Kodak, DSC Communications, HP, Seagate, IBM, Intel, Microsoft and Xerox have established substantial Irish manufacturing operations in sectors where the 10 per cent rate applied.[34] Each of these companies is a field-leader in the technology sector and their manufacturing operations require highly skilled well-educated staff that Ireland offers in abundance.

A major criticism of the 10 percent rate must be that tax incentives concentrated towards manufacturing failed to deliver 'higher function' administrative operations to Ireland (O'Malley 1989: Ch.7). As a result, research and design expenditure was lower than most technologically advanced EU states.[35] The universal 12.5 percent CTR offers more to companies in terms of return of investment enabling marketing, distribution and professional services to be taxed at this new low rate.[36] The benefits for multinational diversification and expansion are great: the fastest computer server ever developed, the z990, is to be manufactured and marketed by IBM Ireland representing two-thirds of global production.[37] The benefit for IBM is that each aspect required in production will receive low-tax incentive, previously only available for profits made directly from manufacture. Similarly, the common CT rate will financially benefit the reorientation of Apple Ireland as a European development and marketing operation.[38]

Ireland's low tax economy is not without its statistical dilemmas, particularly in terms of its impact for government revenue from multinationals that was an earlier criticism of 'jobless growth'.[39] At its most basic form transfer price-fixing is a method of tax relocation, or offshore evasion. The benefit to the Irish Exchequer is great,

contributing to the amount of corporate tax revenue attributed to, and taxable in, the Irish economy. Tax revenue from multinational operations in Ireland is substantial, to use just one example. The International Financial Services Centre (IFSC) in Dublin's Docklands generated IR£240 million worth of tax revenue from 5,100 workers. Because of the nature of the tax incentives applicable to IFSC, the 10 percent CTR applies; the total profit gained by investment corporations in that location was over IR£2.4 billion in 1997 or a profit close to IR£500,000 per worker.[40] The amount of transfer price-fixing attributed to the Irish taxation system is difficult to assess but the IFSC example indicates the extent to which tax avoidance abroad can alter the economic indicators of the Irish economy.

The 10 percent rate that applied throughout the emergence of economic growth applied to many IDA, and other state-agency, supported operations. The IFSC at Dublin is a prime example based on its contribution to the growth of Irish GDP and corporate tax revenue, if not employment.[41] As White (2000) argued, the government commitment to apply the 10 percent rate at the IFSC was significant contributory factor for companies to operate financial services operations out of Dublin. However, the competitive costs regarding rent and wages were often great. As a result, the loss of IFSC tax incentives, from 2005, may prove beneficial to such operations when approved IFSC companies can operate throughout Ireland at the 12.5 percent rate and reduce operational costs.[42]

This harmonisation of CT removes much policy interference, allowing market demands to develop growth throughout Ireland based on competitive advantage. Hitherto, preferential tax rates have applied to specific areas in Ireland such as the IFSC or the Shannon area: limiting the choice and competitiveness of relocating companies. The lowest corporate tax regime in the EU now applies throughout Ireland. As a result, economic activity has the potential to expand into areas where development has been slower than in the Dublin, Limerick and Cork greater-regions. In future, it will be infrastructure incentives and the availability of skilled labour that can facilitate firms to locate in less developed areas such as the BMW region. Therefore, it is important that the 2000-2006 National Development Plan can address infrastructure degradation to allow firms to locate in areas with the greatest competitive advantage but with the benefits of an advanced industrial nation.

Throughout the lifespan of the Celtic Tiger the commitment to low levels of corporate taxation for manufacturing has promoted production for export purposes. Irish companies, and those invested in Ireland, have enjoyed the benefits of low corporate taxation for manufacturing and large multinationals have been attracted by the competitiveness of the Irish economy. Productivity was 16.9 percent above the European average in 2003;[43] labour cost in manufacturing was amongst the lowest in the EU according to the US Department of Labor,[44] and exports accounted for 79 percent of GDP in 2002.[45] The common 12.5 percent CT rate offers the opportunity for firms in Ireland to research and develop technological advances that take advantage of the highly educated Irish population. In public, multinationals and indigenous firms may play down the importance tax incentives but its benefit is very real.

NOTES

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[1] Leddin and Walsh (1995: 22)
[2] Sweeny (1999: 37)
[3] Boylan (2002: 23)
[4] Connellan (1999: 190-1)
[5] MacSharry (2000) p.227
[6] Leddin and Walsh (1995: 16)
[7] White (2000: 230-232)
[8] White (2000: 233)
[9] See MacSharry (2000: 256 insert)
[10] IDA (1972: 66)
[11] Connelan (1999: 190)
[12] White (2000: 260-1)
[13] 'Warning signs for Ireland Inc' Irish Independent (April 2003)
[14] O'Malley (1989: 190)
[15] Dell Website <http://www.dell.ie>
[16] IDA (2003: 1-2)
[17] MacSharry (2000: 266)
[18] O'Malley (1989)
[19] McAleese (2000)
[20] CSO (2002)
[21] Based on the McAleese (2002) using updated Forfas (2002) manufacturing employment data divided by CSO (2002) employment figure.
[22] McAleese (2002: 48)
[23] Forfás (2002: 18)
[24] Forfás (2002: 18-19)
[25] OECD (1991: 7), OECD (2001:7)
[26] McAleese (2000: 48)
[27] OECD (1991: 7), OECD (2001:7) Sectors including organic chemicals, pharmaceuticals and office and electrical machinery.
[28] Dell Website <http://www.dell.ie>
[29] Forfás (2002: 20)
[30] Invest UK (2002)
[31] See Lowtax.net website for specific details on annual reductions <http://www.lowtax.net/lowtax/html/jirdctx.html>

[32] Ernst and Young (2002: 3)
[33] For further details see KPMG (2002), KPMG (1998) and lowtax.net website <http://www.lowtax.net>
[34] Sweeny (1999: 240-3)
[35] Eurostat (online)
[36] Ernst and Young (2002: 3)
[37] IBM Website <http://www.ibm.com/news/ie/2003/05/11.html>
[38] IDA (Summer 2003: 5)
[39] McAleese (2000: 46)
[40] Sweeny (1999: 51-2)
[41] Sweeny (1999: 51-2)
[42] MacSharry (2000: 349-353)
[43] Eurostat (online)
[44] IDA (2003: 4), Irish manufacturing costs were second lowest in the EU. Only production costs in Spain were lower.
[45] IDA (March 2003: 2)

5 European Union Funds

The European Social Fund (ESF) was established by Article 123 of the Rome Treaty to 'improve employment opportunities for workers… thereby contributing to raising the standard of living'.[1] The European Regional Development Fund (ERDF) was added in 1975 with a regional aspect to develop regions a result of 'the growing economic difficulties of the early 1970s'.[2] The established ESF and ERDF funds were again added to by with the Cohesion Fund from 1994 to aid the poorer states toward European Monetary Union (EMU). Cohesion funds were specific to Ireland, Spain, Portugal and Greece but Ireland received a disproportionately high value of these additions: in relation to her population size, and GDP above the 75 percent Objective One threshold at 87.4 percent of the EU-15 average in 1994.[3] The growth of structural funds made a significant contribution of net inflows into the Irish economy, throughout the 1990s, but their actual contribution is rarely assessed in depth.

For the purposes of this chapter, transfers from agricultural payments and subsidies will be excluded from analysis. Whilst Common Agricultural Policy contributions are beneficial to the 7 percent of the population engaged in agriculture, transfers derived from the CAP are consistent with other member states. Moreover, the sector is in obvious decline with employment in agriculture dropping from 12 percent in 1995 and from 24 percent from 1973. The decline in agricultural employment has coincided with a reduction of agricultural holdings through consolidation and redevelopment: declining by 35 percent since 1986.[4] As a result, agricultural subsidies cannot be seen as contributing to growth of the economy, but rather maintaining current employment and easing the impact of agricultural decline. Nevertheless, the EAGGF, the rural development pillar of the CAP, shall be considered in relation to its impact on vocational training in the rural economy.

The Irish Regions Office (2003) argue that Structural Funds in Ireland have made two important contributions in terms of regional and economic policy by increasing the net capital inflow and by co-financing structural measures for regional development, human resources and infrastructure. Indeed, MacSharry (2000: 153) argues that EU funding contributed a major investment that facilitated the major economic expansion:

'the EU moneys were one among many factors that helped to set the country on a sustained growth path in the 1990s, stimulating the economy to expand more rapidly than other member states'. It is the effects of net capital inflows and the progress of regional economic development that will be assessed here. Specifically, with reference to how the Structural Funds directed toward regional development may have contributed to sustained economic growth during the 1990s.

Net Transfers

Ireland's net receipts have grown considerably since EU membership. In 1974, the first year of membership, Ireland received Ir£3.6 million from the ESF equivalent to just Ir£1 per head. As MacSharry (2000: 147) noted, 'it was scarcely the crock of gold many envisaged when they voted with such enthusiasm'. Income has grown following the development of additional structural fund initiatives such as the ERDF and cohesion funds. As late as 1999, Ireland received transfers equivalent to approximately 4 percent of all Structural Fund expenditure.[5] The figure is considerable given that Ireland has only one percent of the Union's population and her GDP per head was above the EU-15 average, since 1997.

In terms of GDP growth, EU transfers certainly made a substantial contribution: between 1992 and 1999 Ireland received net payments equal to 5.15 percent of GDP. Ireland was the single largest net recipient from EU funds ahead of Greece at 4.45 percent and Portugal at 3.06 percent.[6] When taking Ireland's growth rates into account, these large transfers should be noted such that the real growth rate of the economy can be determined. GDP growth looks more moderate if these transfers are factored. Certainly, the 1994 annual growth of 5.8 percent is reduced to 0.65 percent if considered in these terms. That said GDP growth from 1994 is almost double: for the period 1994-1999 real growth of around 5 percent is unaccounted for by simple net transfers.[7]

The Irish Economic and Social Research Institute's (ESRI) macroeconomic model concluded that the cumulative impact of the 1989-1993 and 1994-1999 National Development Plans contributed an additional 2 percentage points to GNP.[8] European net inflows for the national plans amounted to €10.5 billion over the 11-year period,

less than half of the NDP budgets.[9] The annual contribution that EU net inflows directed into the Irish economy were large in relation to the size of Ireland's population and with respect to the nominal GDP value. For example, average gross annual inflows from EU Structural Funds halved, in percentage terms of GDP, between 1995 and 1999.[10] By 2000, the total inflow from the EU (including agriculture) amounted to 2.6 percent: including payments to the EU, the net inflow drops to 1.2 percent of GDP.[11]

Net financial transfers to Ireland have been considerable throughout the 1990s. Indeed, annual appropriations from the ERDF and Cohesion Fund were 207 ECU per head per year (1988-94) and rose to 327 ECU (1995-99). For the 2000-2006 programming period payments are reduced to just €147 per head.[12] Of which the ESF alone allocated Ecu 2.1 billion (€1.9 billion) to Ireland during the 1994-9 period.[13] Ó Gráda (1997) echoed many economists scepticism regarding growth figures suggesting that much of the growth might be the effects of 'EU structural funds and distortionary transfers to farmers and industrialists'.[14]

The direct casual relationship of net transfers and GDP growth may have appeared genuine before 1994; the same cannot be said for the latter period. That said, it should be seen as more than just coincidence that in 2001 growth above 2 percent only occurred in Ireland, Greece and Spain: all major recipients of EU transfers.[15] Nevertheless, the importance of EU transfers can be overestimated in terms of the growth that the Irish economy experienced during the 1990s.

As GDP has grown, the size of the transfers in relation to GDP has dropped considerably. Growth has accelerated well beyond the nominal effect of net transfers alone. For example, whilst annual GDP growth hovered close to 10 percent, net transfers dropped comparatively. As a result, the importance of net transfers to explain annual growth rates of 10 percent has diminished. Their functional importance with regard to spill over and the success of the appropriations to create the conditions for economic prosperity has replaced it. The role in directing the transfers is also important, particularly the role of the Irish state in controlling expenditure on services.

National Development

National Development Plans have been Ireland's Community Support Framework for directing EU net transfers into the economy: directed from the state level. Throughout the EU, community support frameworks have been the applied method to address regional disparity. Ireland was classified as a single NUTS region and therefore has not concentrated its programmes in areas of significant disparity with the country. Indeed, much of the priority areas have been directed by state agencies based upon government policy to lessen the impact of agricultural decline and promote jobs, wherever possible.[16] MacSharry (2000) has argued that EU investment during the 1990s created the conditions for the economy to develop in infrastructure and social capital. However, the involvement of state agencies in attracting and developing manufacturing employment has played a substantial role in creating sustained employment beyond that of EU aided investment programmes.

In the initial programming period, a considerable value of net receipts was allocated to employment related expenditure. The 1988-1993 National Development Plan received allocations totalling €3.67 billion for the programming period. Of that amount, the 39 percent was spent on human resource development (employment related education) and a further 14.5 percent spent on job creation in industry and services sectors. In contrast, transport infrastructure received 18.9 percent of allocations and industrial development in rural areas, 18.34 percent. The appropriations reflected contributions from the various structural funds: ERDF (44.83%), ESF (37.36%) and the EAGGF (17.81%).[17]

The initial NDP demonstrated the commitment of the Irish government to develop social and economic infrastructure that continued into the 1994-1999 programming period when a total of €2.76 billion worth of structural funds, or 49 percent, was spent on industrial and human development.[18] Much of the expenditure was channelled through national agencies such as the IDA and Enterprise Ireland to promote national and regional export-orientated production by domestic and foreign firms, through employment related grants. Social capital, and the increase of work-related skills, was a priority area for Ireland's NDPs.

Investment on transport infrastructure derived from structural funds was smaller, however, reflecting the short- to medium-term aspirations of the Irish government to prioritise job creation through competitiveness rather than transport infrastructure. Whilst structural fund expenditure on infrastructure grew between the two programming periods from 694 million to 888 million, it dropped in percentage terms from 18.9 percent to 15.8 percent. The figures contrast greatly with other cohesion countries, such as Greece, where expenditure on infrastructure accounts for around 45 percent of structural fund allocations. However, additional Cohesion Fund allocations of €1301 million facilitated greater investment potential for the 1994-99 National Development Plan.[19] Cohesion funds were useful in that up to 75 percent of major infrastructure projects could be financed directly from EU transfers.

Regional Development

Structural Funds expenditure on regional development in non-industrial areas accounted for €836 million, or 22.4 percent, of allocations for the 1988-94 programming period and more than doubled to €1736 million, or 30.8 percent, for the 1995-99 programming period. Of those allocations, the extension of EAGGF funds added to expenditure on rural projects. Indeed, for the second programming period expenditure on rural projects came almost exclusively from the EAGGF.[20] Moreover, investment expenditure on infrastructure projects has been directed to modernisation projects in rural and peripheral areas such as rural electrification and water supply. The regional aspects of Structural Funds have facilitated rural diversification and have maintained an increasing standard of living. However, regional expenditure has failed to create employment and there is a widening gap with urban areas.

Expenditure in rural areas has not failed to alleviate the problem of rural underdevelopment and regional disparity. NUTS II differentiated the poorer, generally rural, BMW region from the more industrialised SE region: 83.8 percent of the EU average compared with 126.4 percent in 2000.[21] However, pockets of underdevelopment persist throughout the Southern and Eastern region: the Southeast, for example, is comparatively underdeveloped with wealth calculated at 80 percent of the national average. Similarly, the Border area with Northern Ireland is the only area in decline compared with the rest of Ireland.[22] This decline occurred despite a further

€100 million allocated to region at the Berlin Council in 1999.[23] Cross-border development took a secondary role according to Goodman (2000) and there has been resistance in the Irish government to fund initiatives that would benefit Northern Ireland.[24] On the other hand, EU funds may be restricting regional development. Adshead (1999) suggests that the concentration and reliance on structural funds in outlying areas may be increasing disparity because resources are redirected.

Declining agriculture in large areas of the country, which are remote from major urban centres, has restricted the spatial pattern of development in Ireland. Indeed, much of rural Ireland shares similarities with northern Scandinavian territories in terms of population.[25] Lack of transport infrastructure has hampered industrial development away from urban centres. In turn, the lack of industrial development in rural areas has contained the demand for infrastructure investment. Historical reasons for infrastructure deficits in the BMW region have weakened its capacity for industrialisation. Moreover, the low population density in rural counties within the BMW and SE region has restricted economic development for major manufacturing. However, the low 12.5 percent corporate tax rate should allow smaller service sector and financial operations that require smaller workforces to spread into areas with low population densities.

Human Resources

The priority of government policy through the Social Partnership framework was both the reduction of the budgetary deficit and the reduction of unemployment through attracting foreign and industrial development by policies directed toward competitiveness. The priority for the 1988-99 programming periods was, thus, to create a highly skilled workforce competent in the three 'C's: communications, computing and chemicals. For that purpose, the 1988-93 National Development Plan allocated €1372 million from the European Social Fund. For the 1994-99 NDP the figure increased to €1953 million. ERDF funds supplemented those available from the ESF for employment related training throughout the 1990s. Indeed, for the 1988-93 NDP structural fund expenditure on human resources development exceeded ESF funds by €70 million. This small deficit excludes the much higher expenditure on

'Industry and Services', totalling €534 million, of which a significant percentage was allocated to grant-aided industrial training.[26]

The commitment to technological advancement in the labour force was consistent with advancement in third-level education. Financial contributions toward employment skills increased technical expertise in the labour force. Furthermore, the orientation of vocational training toward communications and computing met employer's technical and financial demands for a competitive and well-educated workforce. Expenditure on Human Resources accounted for between 30 and 40 percent of structural fund investment over the two CSF programmes, consistent with ESF funding over the period.[27] Moreover, it should be noted that subsidies for employment expansion and education were also allocated from the ERDF for educational development in rural areas. As a result, the government commitment to education and vocational training was extended beyond that envisaged by the ESF structural fund allocations.

The development of Human Resources was a priority area for the Irish government faced with high unemployment. ESF and ERDF funds were used to address social capital deficits in regional and urban areas and to meet the labour demands of established, developing and locating industries. During the 1989-93 CSF, half-a-million people benefited from educational courses aimed at work related skills.[28] Expenditure on work-related skills and education was important for three reasons. Firstly, it allowed a diversification of skills in rural areas; secondly, it reduced the associated costs of employment expansion in the economy for indigenous and foreign companies and, thirdly, it contributed funds to the diversification of employment through research and development. As a result, cost competitiveness was increased through assistance directed through the IDA, Enterprise Ireland and the Department of Enterprise Trade and Employment.[29]

Industrial and Productive Investment

Industrial Development accounted for €1029 million, or 18.3 percent, of structural fund expenditure between 1994 and 1999.[30] This investment contributed to productive development in the employment sector by aiding government funding of agencies

such as Forfás, the Industrial Development Agency and Enterprise Ireland to encourage and develop employment in the economy. This investment is co-financed by the Irish government but structural fund contributions spill over into the employment sectors through grant-aided development and employment incentives offered by development agencies.[31] Industrial and Productive investment has been generally positive. Government attitudes toward pre-skilled employment policies and technology development have reduced private sector costs through government and structural funding initiatives.

Employment costs have become more competitive and the standard of education has risen. From the perspective of competitiveness, funding of employment expansion and vocational and life-long training has reduced the investment required to create new jobs in the economy. Furthermore, structural funds supported the extension of research and development in the economy by providing up to 50 percent of associated costs.[32] ESF funds also support childcare costs, thus facilitating growth in female participation.[33] However, the policy has created much spatial disparity throughout Ireland because its impact relies on the placement of industry. Nevertheless, the development of 'tech-companies' outside of traditional urban centres has been positive.[34] The development of indigenous software and e-commerce SMEs have benefited from the impact of Human Resources policy that have developed computing skills in the workforce throughout Ireland.

Infrastructure

The 2000-2006 National Development Plan has allocated over €26 billion to infrastructure investment, greater than the total NDP expenditure between 1988 and 1999: planned investment on national roads and public transport is valued at €9.7 billion.[35] In contrast, the majority of the 1988-99 infrastructure investments allocated by national plans were focused on technology, social and health infrastructure. For example, expenditure on economic infrastructure such as electricity supply in rural areas (€320 million) and telecommunications (€37 million) accounted for a large proportion of the €888 million in Structural Funds designated for infrastructure improvements during the 1994-1999 programming period.[36] Cohesion fund

investment was therefore a more important addition to the development of transport infrastructure.

The principal criteria of EU structural funds that ensure that transfers are in addition to national expenditure, *additionality*, ensured that the long-term benefits of infrastructure were unaffordable if combined with Social Partnership derived policy to reduce public expenditure. As a result, budgetary deficits restricted investment potential on infrastructure and prioritised expenditure in attempts to generate employment through industrial, rather than regional, development.[37] That said significant cohesion fund investment relied on a less stringent criteria where the majority of investment of major projects could be financed independent of other sources. For example, the €180 million Belfast-Dublin Rail upgrade was 85 percent financed by EU funds. Nevertheless, that expenditure has largely been directed towards projects in areas of industrialised and urban centres: particularly on road bypasses in congested areas and local urban public transport systems, such as the Dublin DART.[38]

In contrast, major cross-country networks have lacked investment and the capacity of much of the road network has not been extended beyond the industrialised urban centres of the SE region. Infrastructure investment has tended to serve local economies in established areas to meet the effects of economic prosperity on infrastructure resources, such as the M50 project. Much of the development of transport infrastructure has occurred outside of the influences of structural funds. However, Structural Fund contributions to Rosslare, Dublin and Cork seaport upgrades have increased capacity and aided the export potential of manufacturing industry, directed from the supranational level to create transport gateways. Of the allocations available for transport infrastructure a large volume has been directed toward the construction and upgrades of 'trans-European networks' such as the M1 and Belfast-Dublin rail project.[39]

Honohan (1997) identified the urgency in upgrading non-urban roads to promote economic growth in regional areas. However, transport expenditure was concentrated in urban areas and on road resurfacing. Infrastructure into the regions is not yet guaranteed given the reductions in construction competitiveness. Whilst the value of

structural funds transport investment has been large, its contribution to growth in the economy is hard to assess. Growth in the construction sector can be, in part, attributed to the growth in infrastructure construction expenditure but its impact to export capacity is conjectural. Nevertheless, industry leaders have signalled dissatisfaction with the deficiencies of infrastructure in terms of competitiveness.[40] Nevertheless, technological infrastructure in terms of computerisation and communications has proved beneficial to productive employment and industrial expansion. The Irish population share the dissatisfaction: due to the rise in automobile ownership traffic congestion has worsened.

Government Policy

National Development Plans invested significant funds into state agencies to promote employment expansion and human resources development. Government policy directed net transfers towards developing a coordinated strategy for employment and promoting a skilled, trained and adaptable workforce. The growth of state agency supported employment has made important contributions to the growth of GDP and social stability. Allen (2000) argued that the policies were neo-corporatist in that the direct benefits tended to reduce expenditure for employers. To an extent, this criticism is appropriate. However, the benefit of training and employment policy to the workforce and labour mobility *is* positive and allowed the Irish economy to adapt to the decline of agriculture and rural employment and tackle the historically high levels of unemployment. Almost a decade before the promotion of the 'knowledge based economy' was initiated at the supranational level with the development of the European Employment Strategy; the Irish government developed the strategy at the national level to create the most competitive knowledge-based economy in the world.

Infrastructure has been a low priority area for expenditure in terms of the size of the 1988-1999 National Development Plans. Whilst the transport infrastructure has developed only slightly during the 1990s, expenditure on telecommunication, electricity and health services have made positive contributions to the 'standard of living' described in Article 123. In a 2001 public opinion poll, some 80 percent of those questioned said infrastructure had deteriorated whilst only 6 percent noted an improvement.[41] It is clear that transport infrastructure has failed to meet the demands

of Ireland's economic development, despite expenditure from structural funds. However, the promotion of a skilled workforce was the highest priority for employers, which MacSharry (2000) argues was the main focus of the structural fund receipts. The Irish government used ESF, EAGGF and ERDF funds to create a skilled workforce responsive to the economic change in advanced technological industries.

NOTES

[1] Rome Treaty, Article 123
[2] Geyer (2000: 138)
[3] Eurostat (online)
[4] EUROSTAT (2003: 67, 87)
[5] Figure calculated from Irish Regions Office (2003) / Geyer (2000: 151)
[6] Pinder (2001: 91); The European Commission calculates the figure based on earlier GDP data that does fully account for the growth in GDP.
[7] Eurostat (online)
[8] Irish Regions Office (2003)
[9] Irish Regions Office (2003)
[10] Calculation using Eurostat / Irish Regions Office (2003) data
[11] European Commission (2003); Enterprise Ireland (2003)
[12] Irish Regions Office (2003)
[13] Geyer (2000: 129); Irish Regions Office (2003)
[14] Ó Gráda (1997: 234)
[15] European Commission (2003)
[16] Carroll and Byrne (1999)
[17] Irish Regions Office (2003)
[18] Irish Regions Office (2003)
[19] Irish Regions Office (2003)
[20] Irish Regions Office (2003)
[21] European Commission (2003)
[22] Irish Regions Office (2003)
[23] Allen (2000d: 258)
[24] See also Robb (1995)
[25] Smyth (1995)
[26] Irish Regions Office (2003)
[27] Irish Regions Office (2003)
[28] MacSharry (2000: 156)
[29] EU Structural Funding in Ireland Operational Programmes 1994-1999 <*http://www.eustructuralfunds.ie/htm/projects/index.htm*>
[30] Irish Regions Office (2003)
[31] For further information see the IDA <http://www.ida.ie> and Enterprise Ireland <http://www.enterprise-ireland.ie> websites.
[32] EU Structural Funding in Ireland Operational Programmes 1994-1999 <*http://www.eustructuralfunds.ie/htm/projects/index.htm*>
[33] 'An update from Brussels' In Progress (Volume 2, June 2003) <http://www.ndp.ie>
[34] 'Digital Ireland' Irish Independent (24 April 2004)
[35] Government of Ireland (1999)
[36] EU Structural Funding in Ireland Operational Programmes 1994-1999 <*http://www.eustructuralfunds.ie/htm/projects/index.htm*>
[37] Connellan (1999); Carroll and Byrne (1999)
[38] EU Structural Funding in Ireland Operational Programmes 1994-1999 <*http://www.eustructuralfunds.ie/htm/projects/index.htm*>
[39] MacSharry (2000: 156-158)
[40] 'Warning signs for Ireland Inc' The Irish Independent (24 April 2003)
[41] Clinch *et al* (2002: 173)

6 *Conclusion*

The Irish economy grew during the 1990s, despite the scepticisms of economists. It was a complex interaction of a number of factors that contributed to stability of government finances, the growth of exports and the raising of living standards. MacSharry (2000) argues that the Social Partnership agreements and EU subsidies were paramount. In contrast, the OECD (2001) stresses the importance of foreign investment and education policy in securing economic prosperity during the 1990s. McAleese (2000) on the other hand, emphasises the importance macroeconomic policy aimed at the reduction of public spending and income taxation in order to create competitiveness in the economy.

The 'Social Partnership' agreements, throughout the 1990s, were important in maintaining cost competitiveness in the economy through wage moderation and reductions in public spending. This policy also facilitated an amelioration of the Exchequer Borrowing Requirement and the stability of Ireland's public finances. In return, the workforce received tax reductions throughout the 1990s contributing to significant increases in take home pay and employers received a reduction in industrial disputes. The policy proved successful. Despite the reduction in the rates of income tax, government revenue grew at high rates as more of the Irish workforce entered employment: revenue increased by 20 percent and unemployment fell by 4 percent between 1993 and 1996, dropping to 4 percent by 2000. The revenue trend continued throughout the 1990s, income tax revenue almost doubled between the 1993 and 2000 accounting periods.[1]

Foreign Direct Investment in the Irish economy played an important role for the growth of the manufacturing sector and exports. O'Malley (1989: 211) argued that the importance of foreign firms was greater for Singapore's outward-looking policies than it was for the Irish economy during the 1980s. However, the growth of manufacturing in foreign owned enterprises in Ireland, during the Celtic Tiger, period has much in common with the Singapore experience of the 1970s. In 1978, foreign-owned firms in Singapore accounted for 52 percent of manufacturing employment and 71 percent of output.[2] Two decades later, foreign-owned firms in Ireland accounted for 47 percent

of employment and 82 percent of output.[3] Like Singapore, Ireland has proved to be an attractive location for mobile, efficient and technologically advanced foreign industries destined for export. Particularly, companies associated with the US technology boom of the 1990s.

State agencies have played a crucial role in the development of Ireland's outward-looking economy, specifically encouraging employment in the manufacturing sector. White (2000) argues that the Industrial Development Authority deliberately targeted high-tech emerging firms, such as Intel and Dell, and the policy has been of incredible importance to the Irish economy. Intel has invested €4 billion in Ireland since 1989. The foreign investment in Ireland during the 1990s dwarfed structural fund expenditure of €9292 million between 1989 and 1999.[4] Moreover, the US MNCs are amongst the largest single manufacturing employers in the Irish economy. The state agencies have maintained a fundamental role in developing and diversifying private sector employment and have lobbied the Department of Trade for increased economic freedom and incentives to attract investment.

The state-sponsored incentives have greatly reduced the expenditure required by firms to locate in Ireland. Employment, training and infrastructure grants were the main vehicle with which the Irish government encouraged employment growth in the economy. Moreover, the support that locating and expanding companies received from the IDA, Forfás and Enterprise Ireland was also important for long-term sustainability of manufacturing in the economy. Whilst grant aid was important, the volume of aid has been small: below one percent of GDP throughout the 1990s, among the lowest in the EU alongside the UK and Denmark.[5] In addition to state aid, therefore, the importance of ESF funds for training and employment grants has been beneficial to employers and employment.

The low corporation tax rates in Ireland should also be considered as a major incentive for foreign manufacturing to investment in Ireland, particularly the 10 percent rate on profits in that sector. O'Reilly (1995) argues that whilst corporations do not talk publicly about the importance of accounting; privately, the corporate tax rates in Ireland are a major incentive for multinationals to invest. As CEO of Heinz, his assertion is valid. Corporation tax income has also been of significant benefit to the

government; corporate revenue has more than tripled since 1993 and accounted for 14 percent of revenue in 2000.[6] The growth of corporate profits raises questions about the impact of transfer-price-fixing and tax avoidance. Indeed, the UK has categorised Ireland as a 'tax haven' for the purposes of its Controlled Foreign Company legislation.[7] However, in terms of its impact on the economy, the growth of government revenue has been positive: attracting employment and reducing the government debt. Similarly, low rates of corporate tax added to the competitiveness of the Irish economy.

The impact of education policy has also been significant to the growth of the Irish. Investors have emphasised the importance of Ireland's standard of education throughout the 1990s.[8] As a result of high investment in education, third level attainment reached 27 percent of 25-34 year olds in 1995, above the OECD average of 23 percent.[9] Moreover, the investment of structural funds produced a skilled workforce proficient in the expertise required to contribute to the emerging technology and manufacturing sectors of the Irish economy. Despite reductions in public spending as a percentage of GDP, expenditure on education, public health and employment increased with the addition of structural funds directed toward employment in computing, communication and chemicals.

Each argument used to explain the growth of the Celtic Tiger acknowledges the importance of European Union net transfers but fail to quantify their importance. The size of transfers has made a contribution to the rise in GDP but does not explain the high growth rates throughout the period. As discussed in Chapter Four, the importance of EU moneys was to contribute to employment growth through state agencies and the promotion of vocational training. The impact on infrastructure, even with the addition of cohesion funds, was small and focussed on attempting to extend urban living standards into regions with low population density. Government policy encouraged the growth of employment using structural funds as financial incentive for firms and to produce the skilled captive workforce that the employment market demanded.

The skilled workforce, EU transfers and US boom have certainly contributed to the growth of the economy but national policies to encourage industrial expansion and diversification have ensured the continuous growth of established firms. Central

government maintained an impressive role throughout the 1990s in its support for state agencies and its concentration of structural funds on work-skilled training and employment grants. The impact of competitiveness orientated neo-corporatist policies, ensured by the 'Social Partnership' agreements, attracted manufacturing investment and developed the skilled workforce demanded by employers. As a result, structural fund funds, directed through national policy, aided work-skills and training, encouraged employment, improved the return on investment and contributed to the long-term competitiveness of the Irish economy that Ireland's skilled workforce now offers.

NOTES

[1] Revenue Commissioner (1997, 2000, 2001, 2002); Eurostat (Online)
[2] O'Malley (1989: 211)
[3] OECD (2001: 28)
[4] Irish Regions Offices (2003), IDA (Summer 2003): Further details of multinational investment are available online at the Dell <http://www.dell.ie> and IBM <http://www.ibm.ie> websites.
[5] Eurostat (online)
[6] Revenue Commissioner (1997, 2001)
[7] Jason Gorringe 'Brits classify Ireland as Tax Haven' Tax-News.com (30 July 2002)
[8] Dell Website <http://www.dell.ie>, O'Reilly (1995), OECD (2001)
[9] McAlesse (2000: 48)

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