

A Private Sector Perspective on the Celtic Tiger Experience



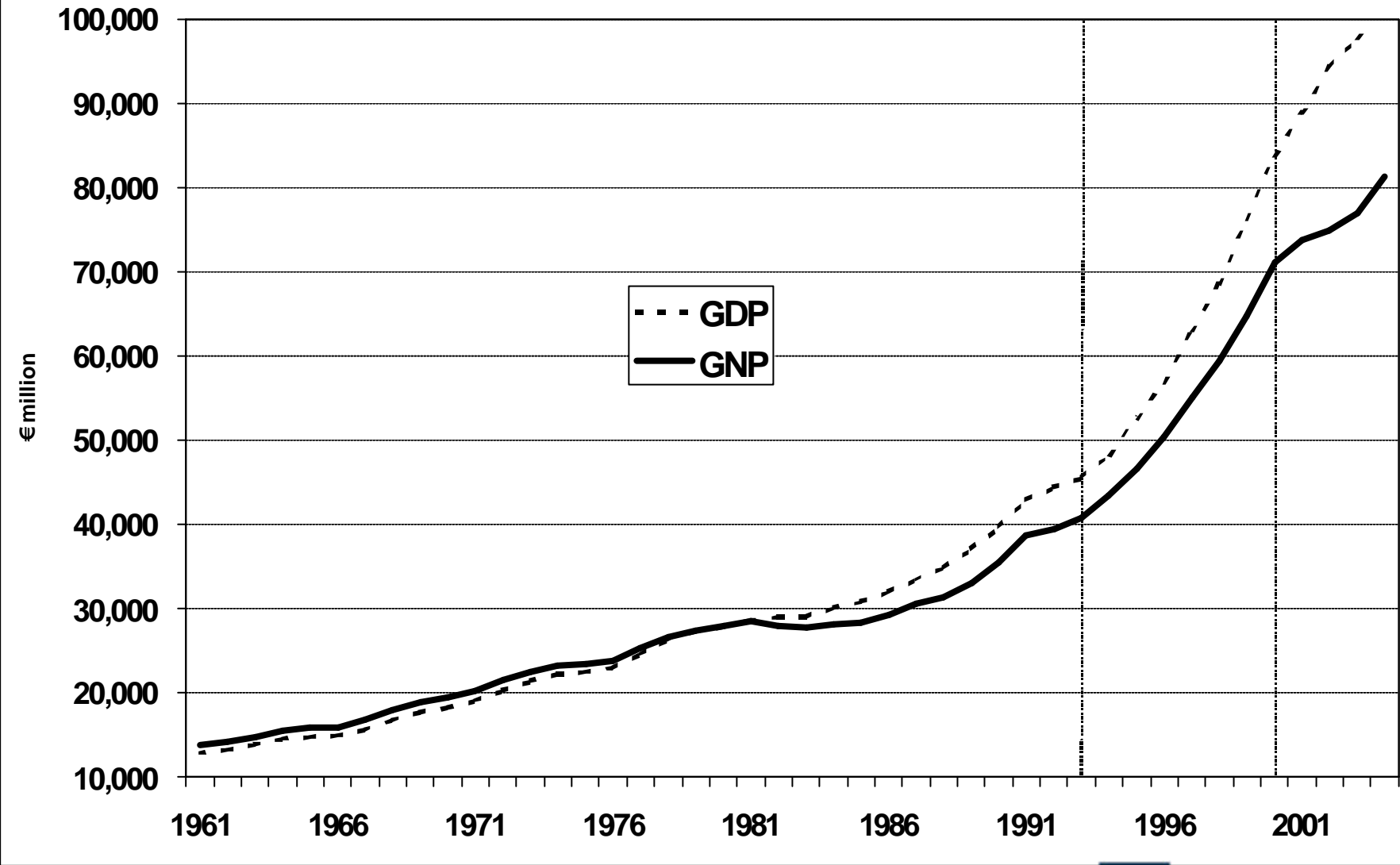
Pat Mc Ardle, Chief Economist

4 Oct 2005

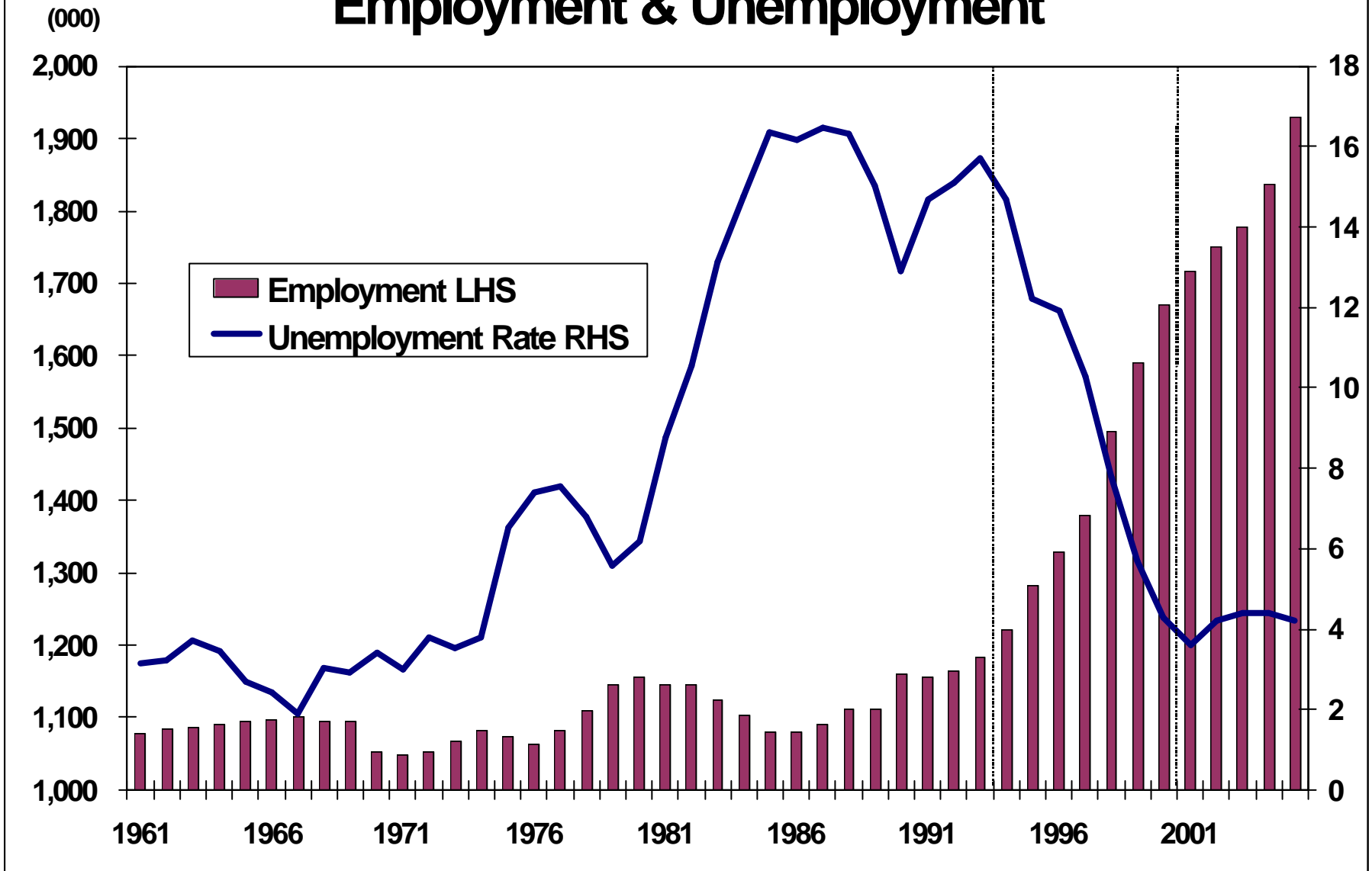
Summary

Period	GNP growth rates	Events of the period
1961-1972	4.2%	Open trade, developing manufacturing sector, booming growth
1973-1978	3.6%	EEC membership, oil crises, rising unemployment
1979-1986	0.7%	Recession, growing national debt, increasing taxes, EMS membership.
1987-1993	4.0%	Fiscal rectitude, turnaround, national pay agreements
1994-2000	8.3%	Celtic Tiger era
2001-2004	3.4%	Economic slowdown, convergence complete

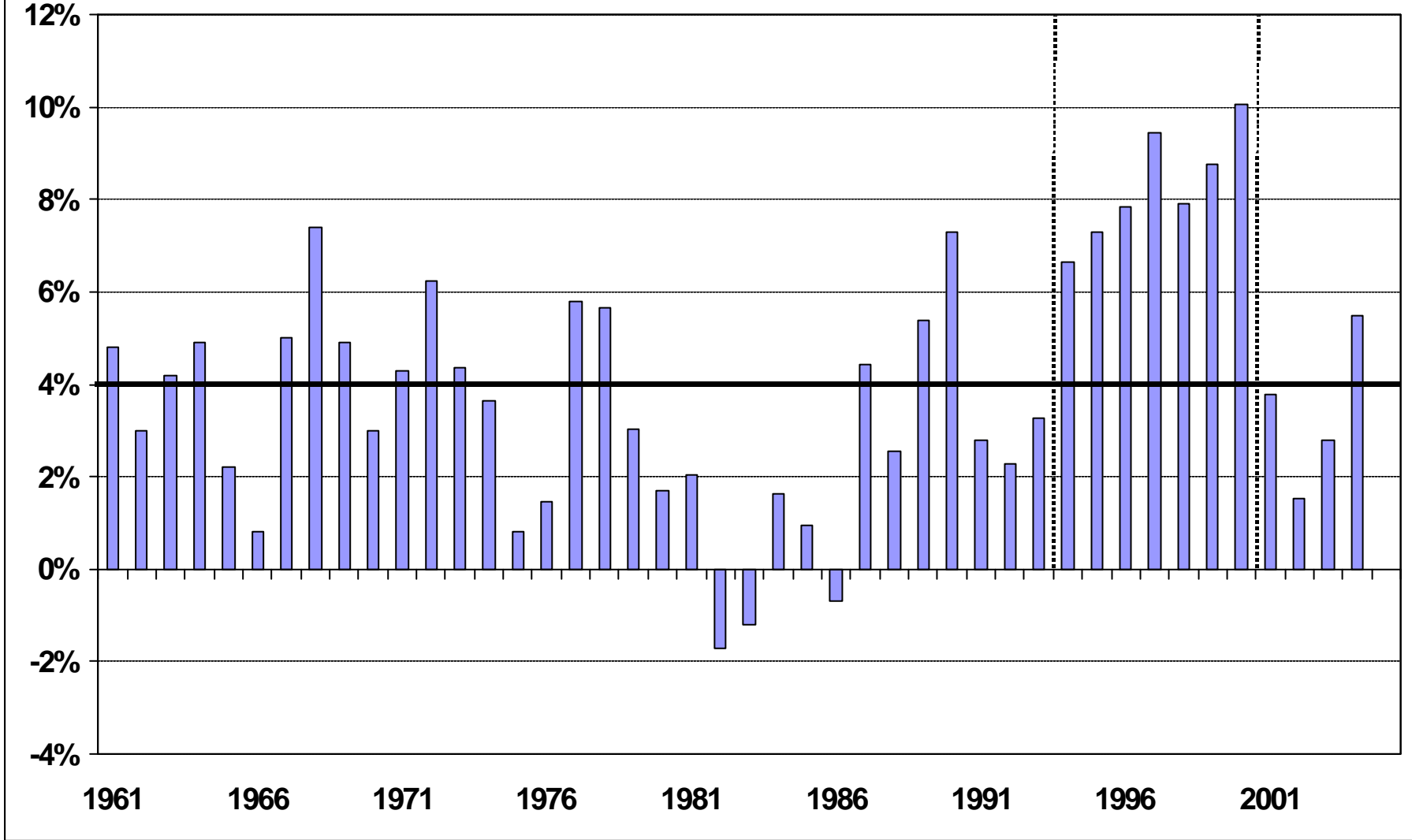
GDP & GNP at Constant 1995 Prices



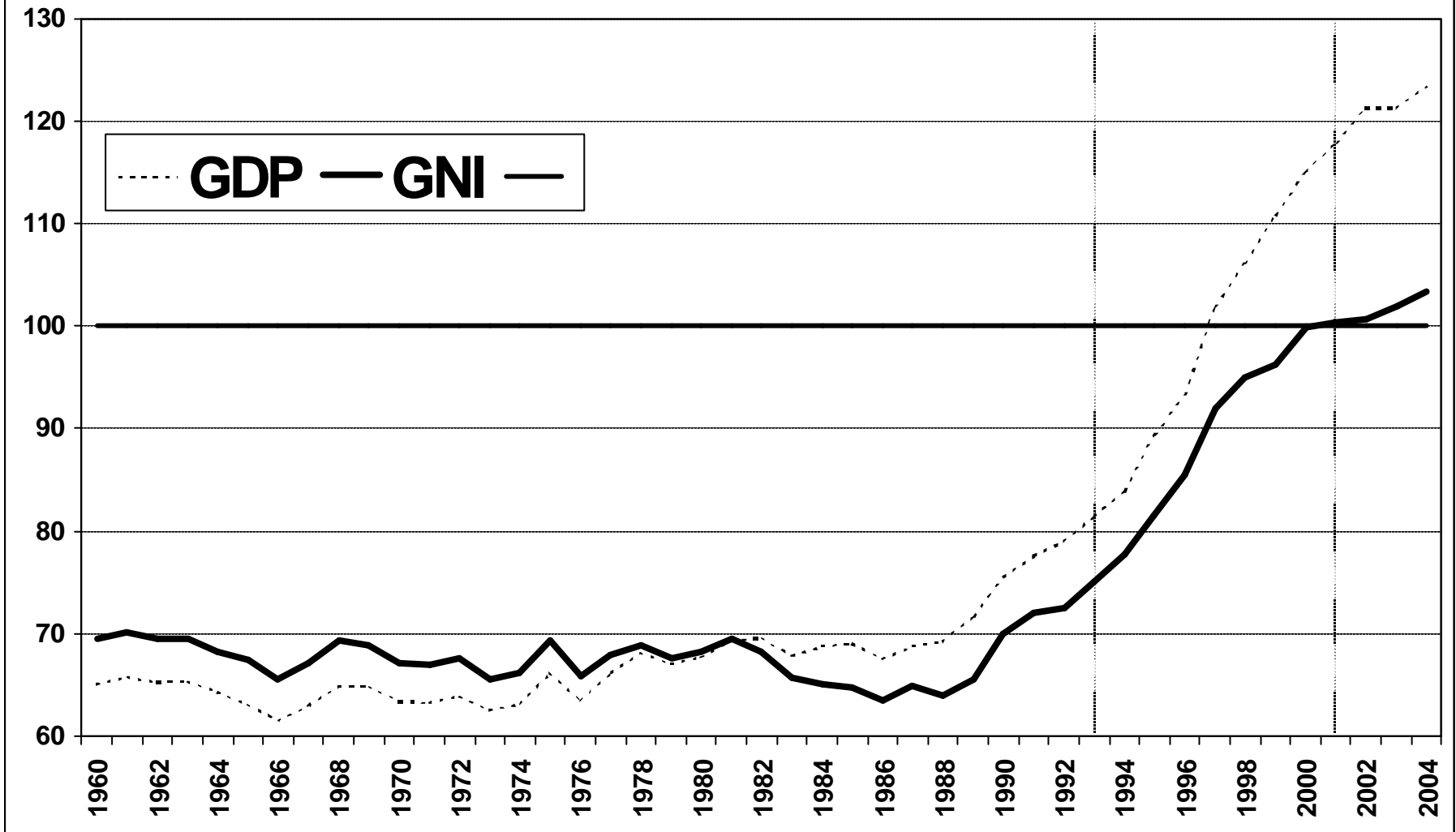
Employment & Unemployment



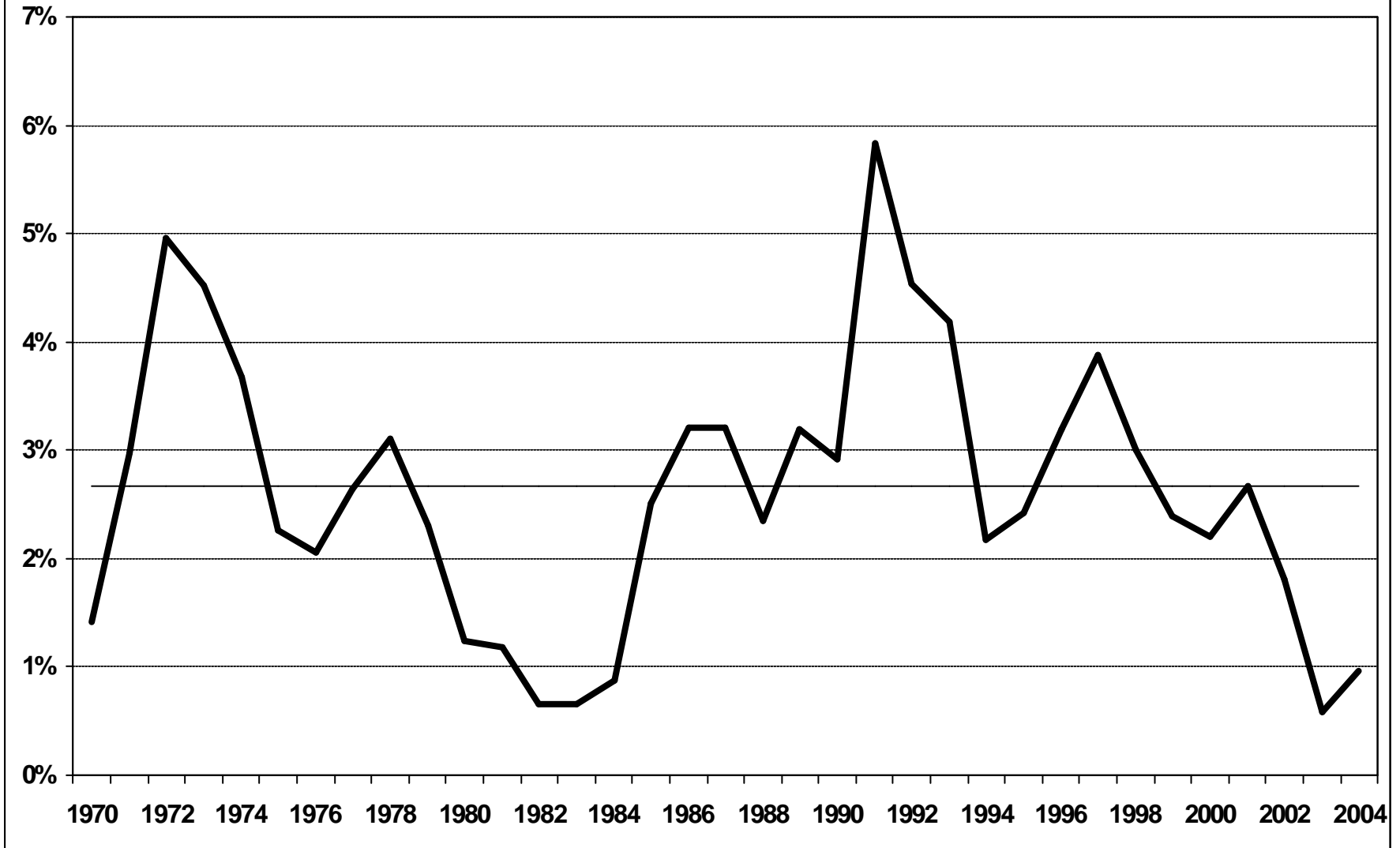
GNP Volume Growth



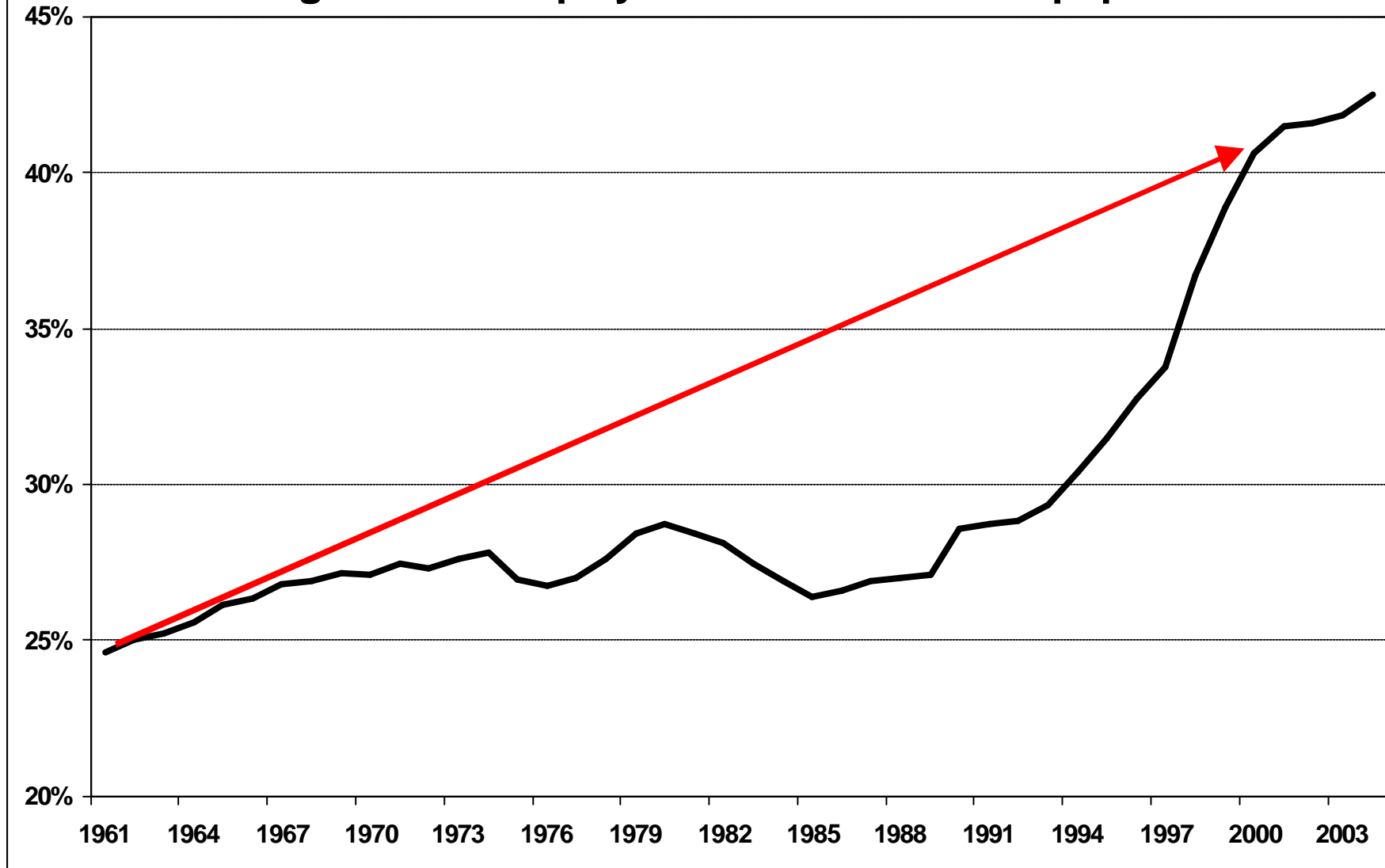
Irish per capita income % EU15



Output per worker

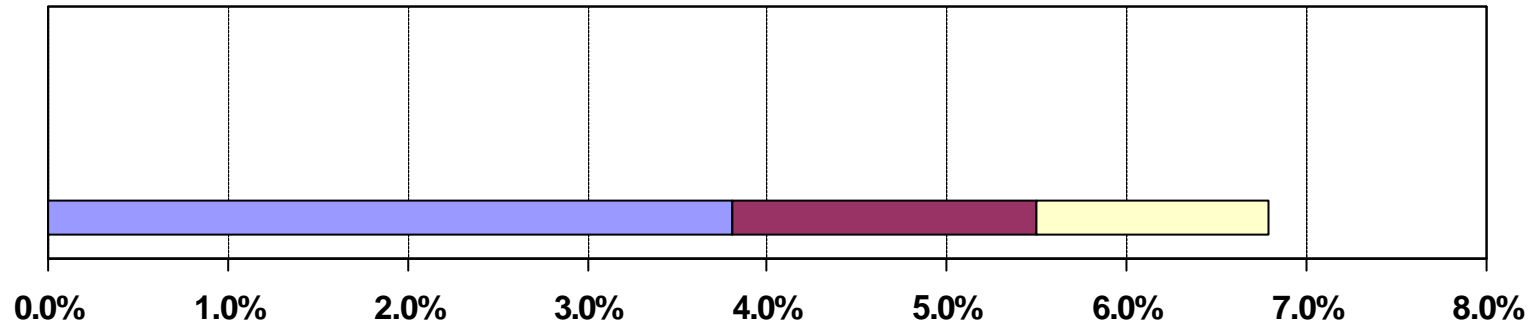


Non-Agricultural employment as share of total population

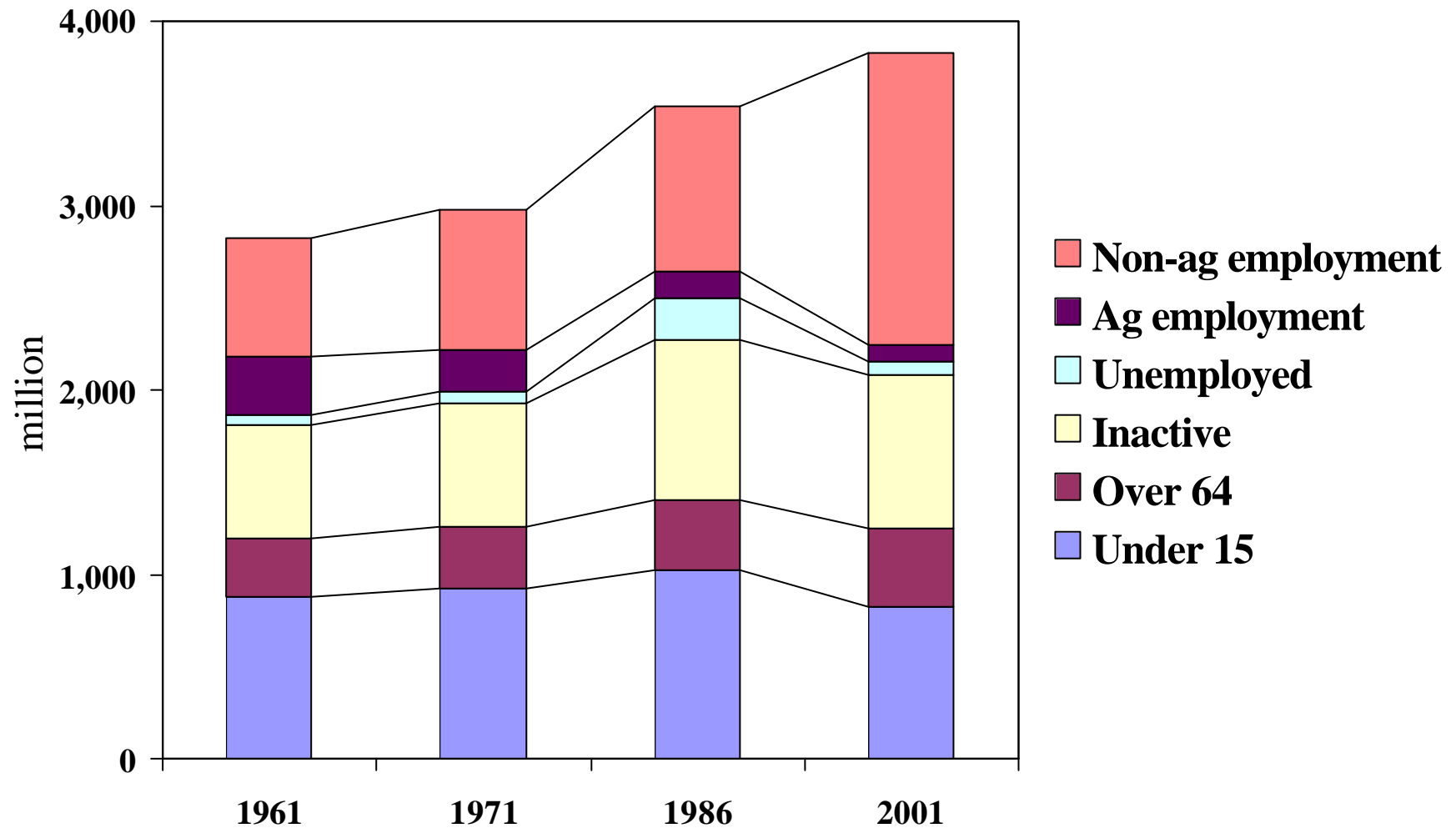


Contribution to per capita GNP growth 1993-00

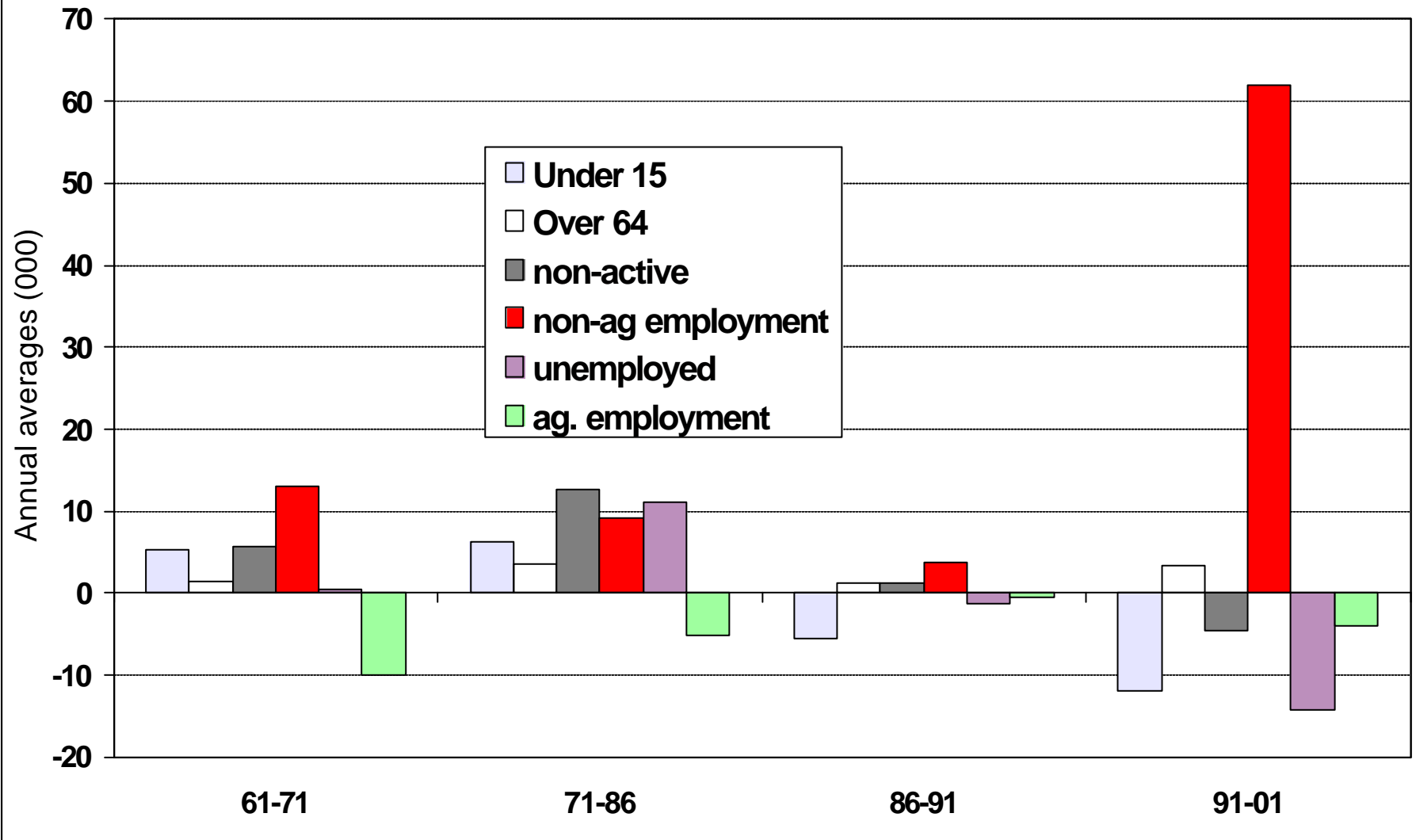
■ Productivity ■ Employment Rate ■ LF Participation ratio



Distribution of population 1961-2001



Population change by economic status



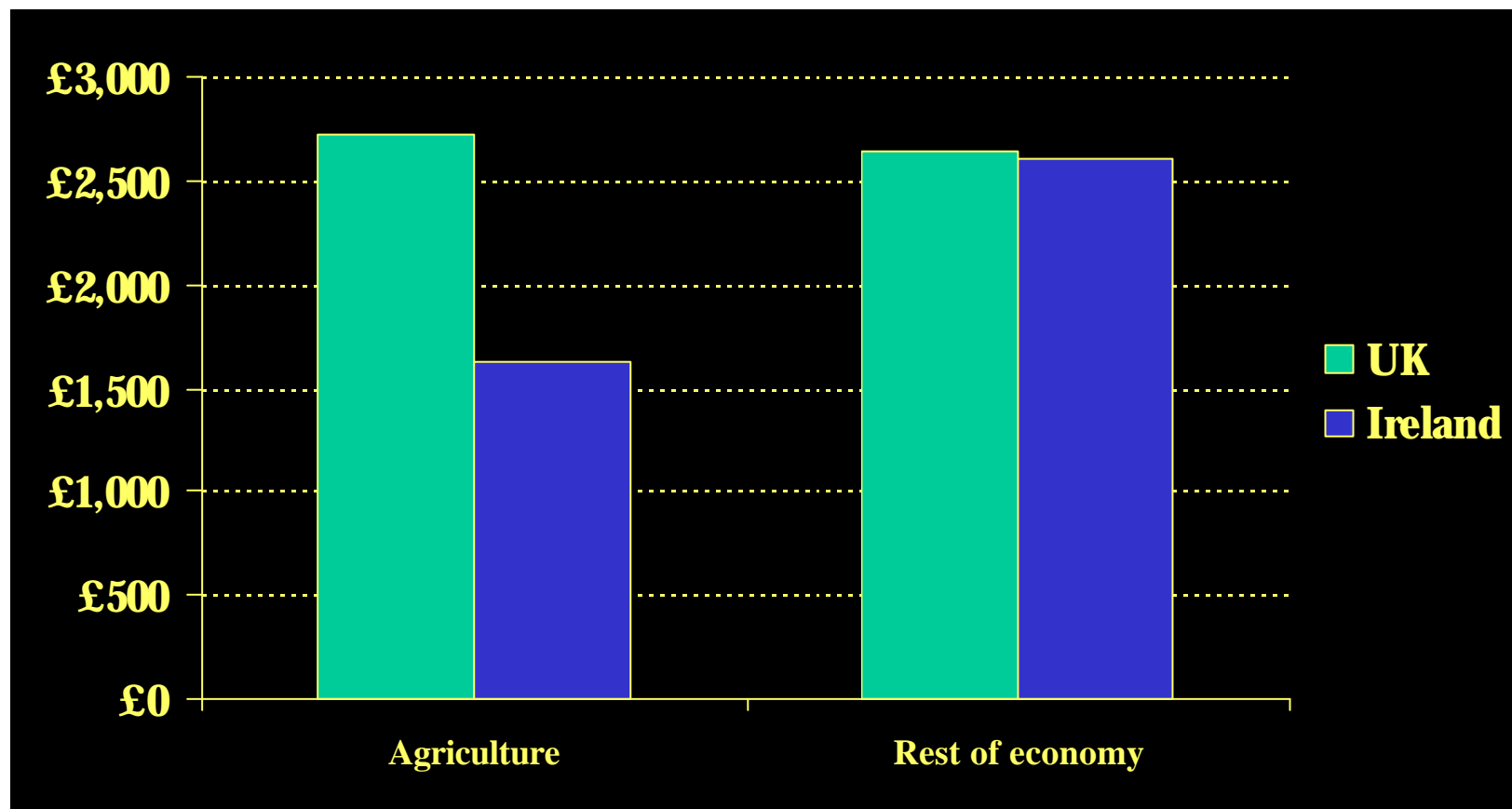
Employment Changes

(000)	1994	2001	Change	% Change
Agriculture	148	120	-20	-19%
Industry	252	317	65	+26%
Construction	92	180	88	+96%
Retail & W/Sale Trade	169	248	79	+47%
Hotels & Restaurants	68	105	37	+54%
Transport & Comms	56	110	54	+96%
Finance & Business	114	218	104	+91%
Government	<u>248</u>	<u>325</u>	<u>77</u>	<u>+31%</u>
Total	1,221	1,717	496	+41%

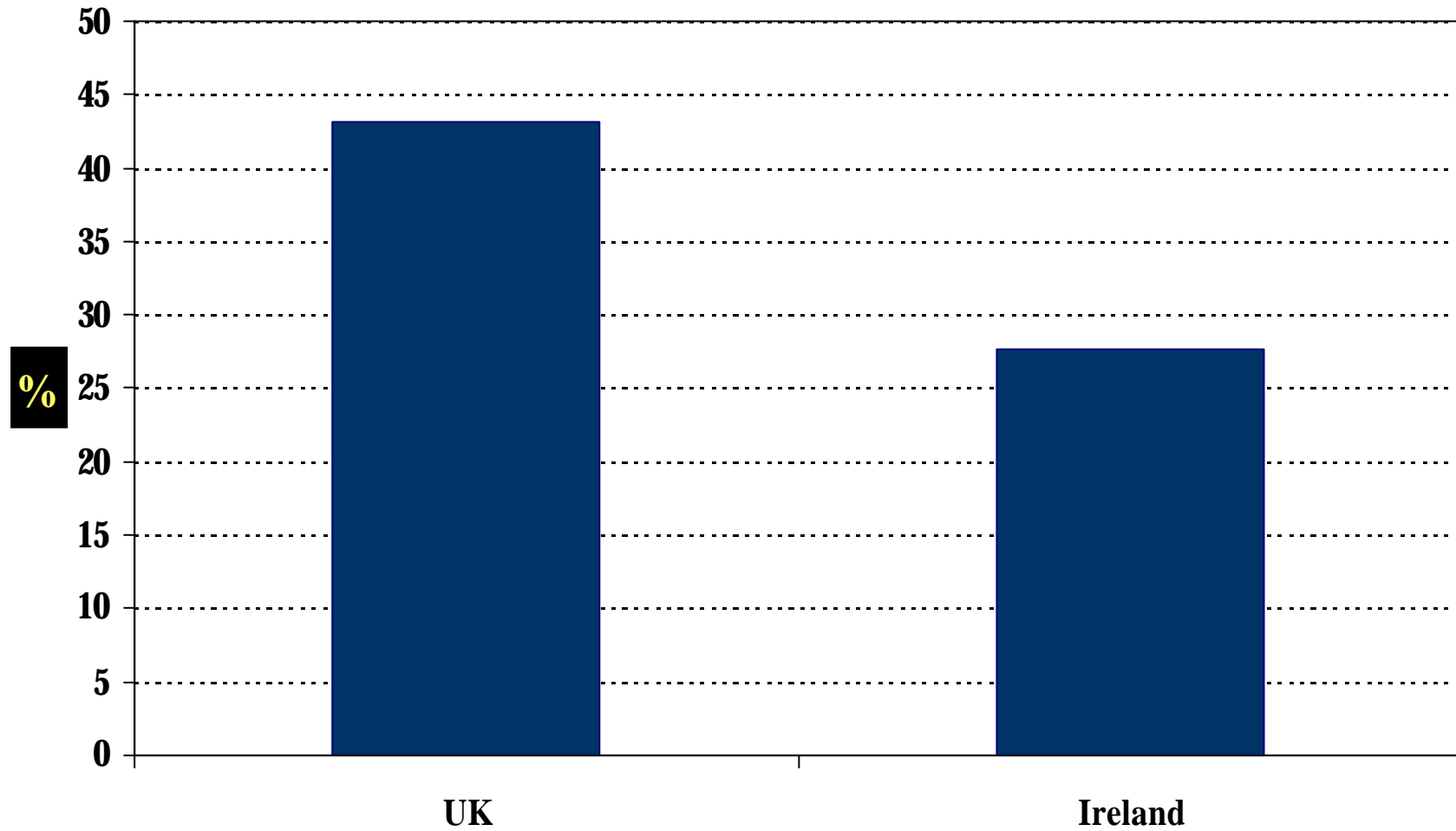
Our interpretation

- ✚ **No productivity miracle**
 - ⌘ **GNP/Pop gap at 1973 already due only to low share of population at work (outside traditional agriculture)**
- ✚ **Convergence postponed from 1973**
 - ⌘ **By policy errors after 1973**
 - ⌘ **Fiscal crisis withdrew demand; increased taxation, costs; lowered confidence**
- ✚ **Convergence resumed after 1986**
 - ⌘ **Removal of obstacles -- return to traditional, sound policies allowing wage restraint**
- ✚ **No single magic policy ingredient (*pace* others)**

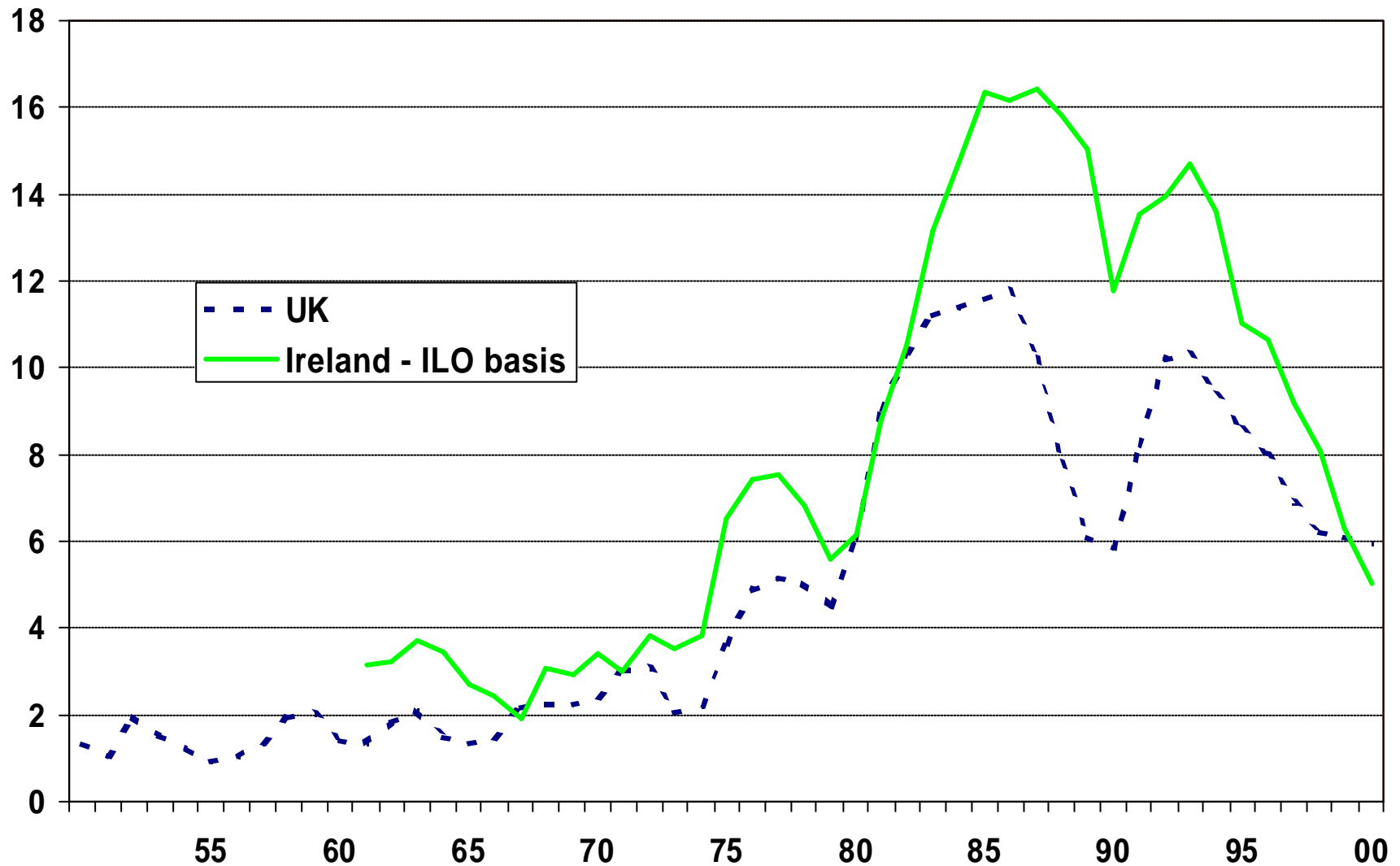
Productivity in UK and Ireland, 1973



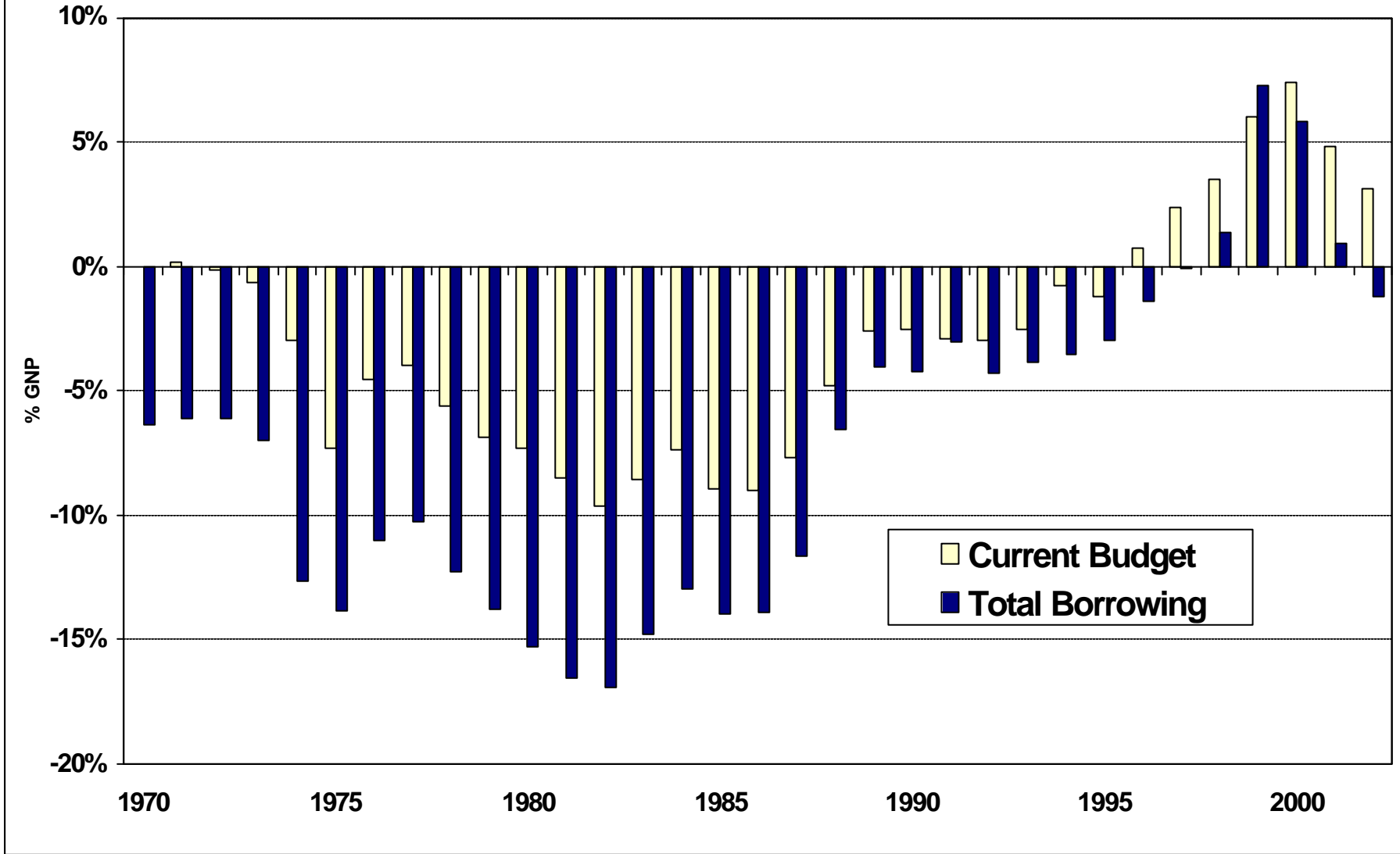
Non-agricultural employment as % of population, 1973



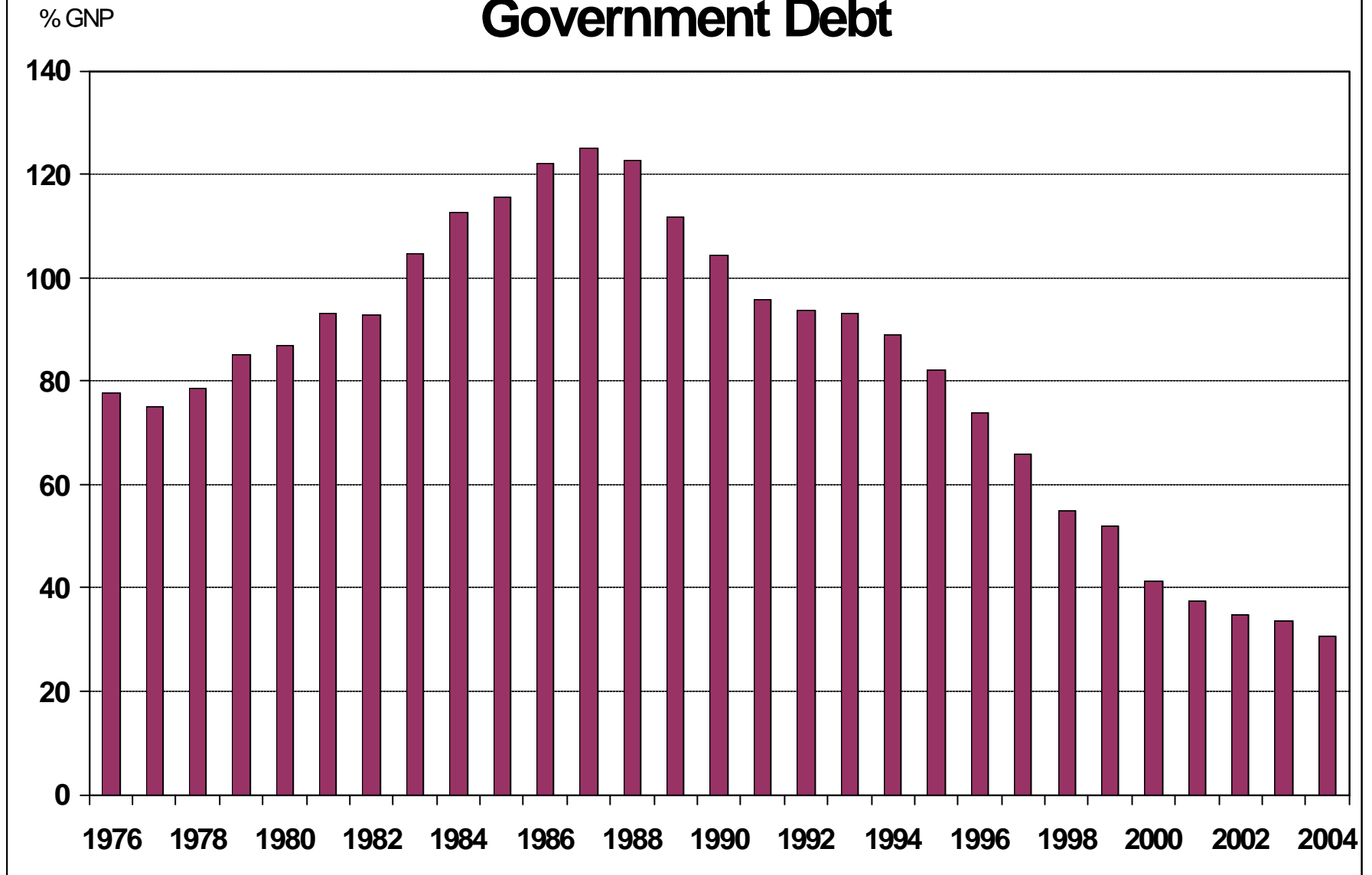
Unemployment rate: Ireland and UK



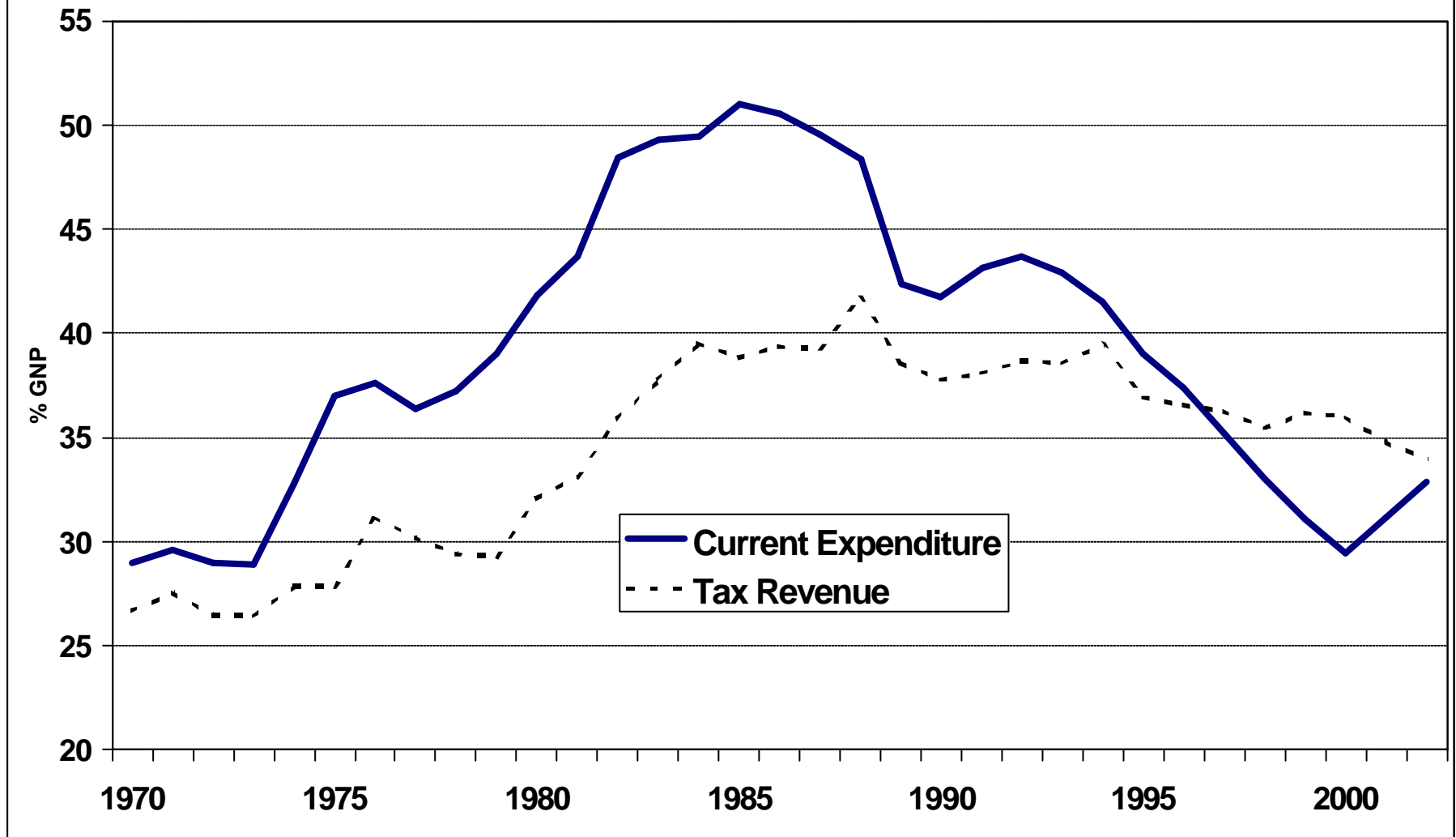
Government Balances



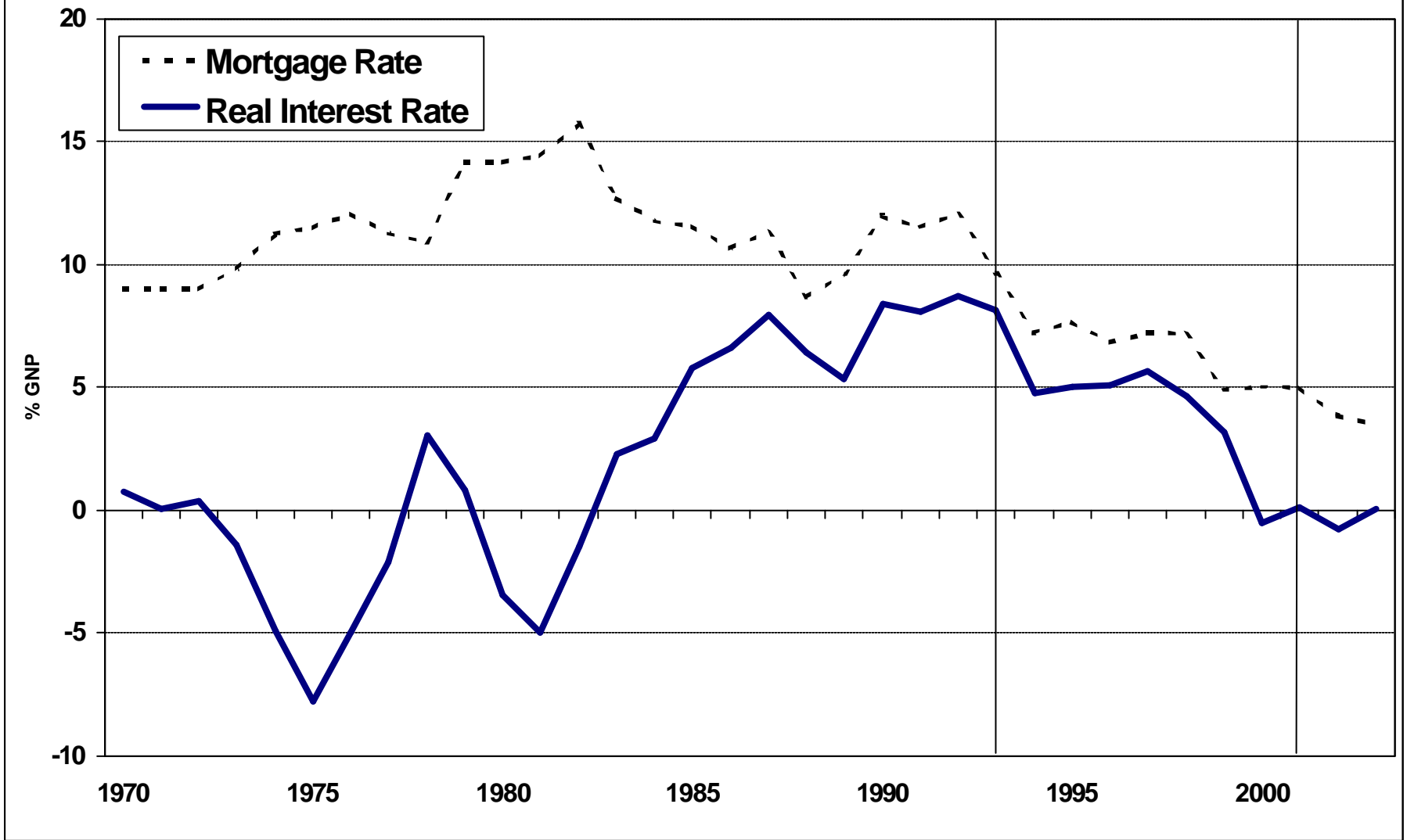
Government Debt



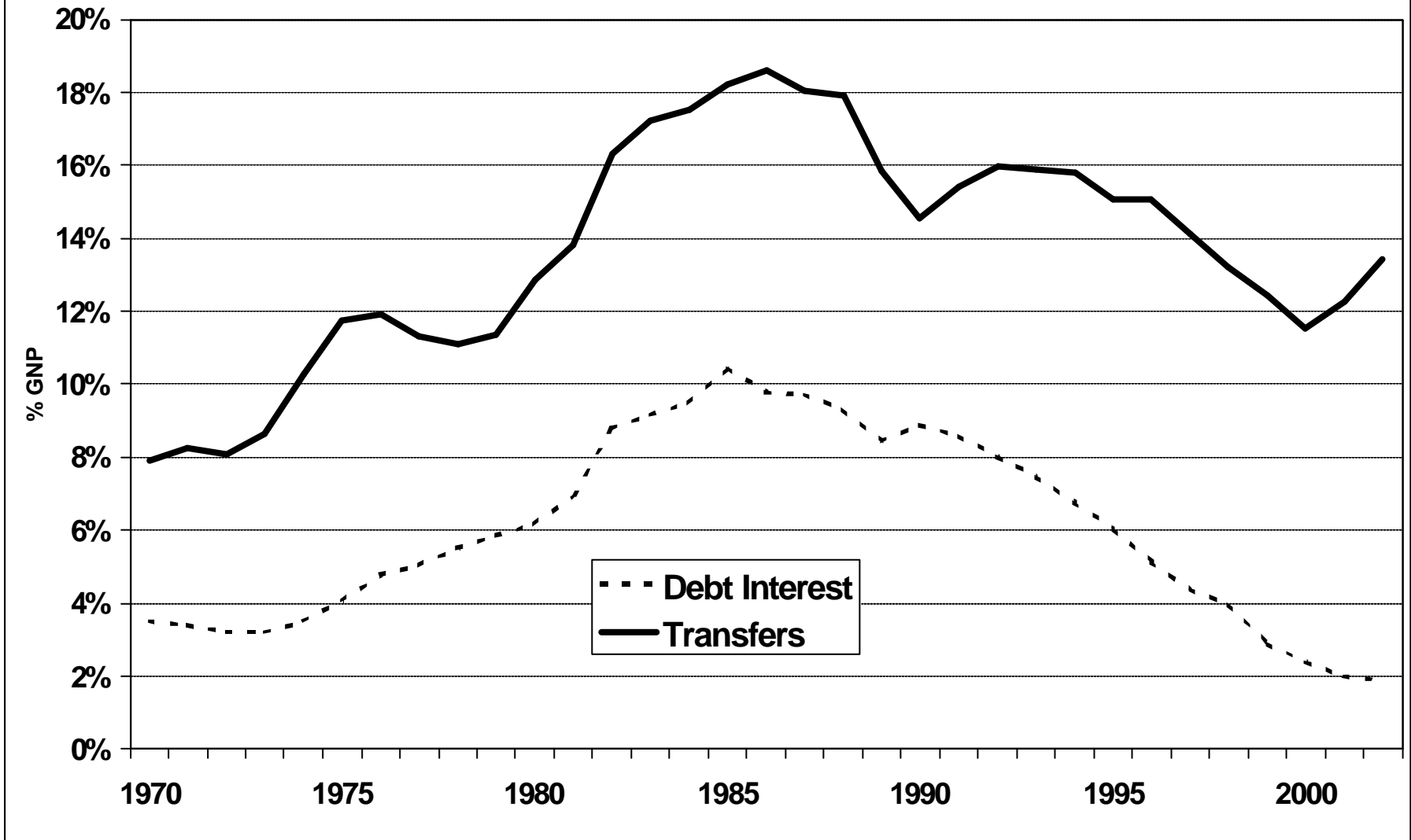
Taxes & Current Expenditure



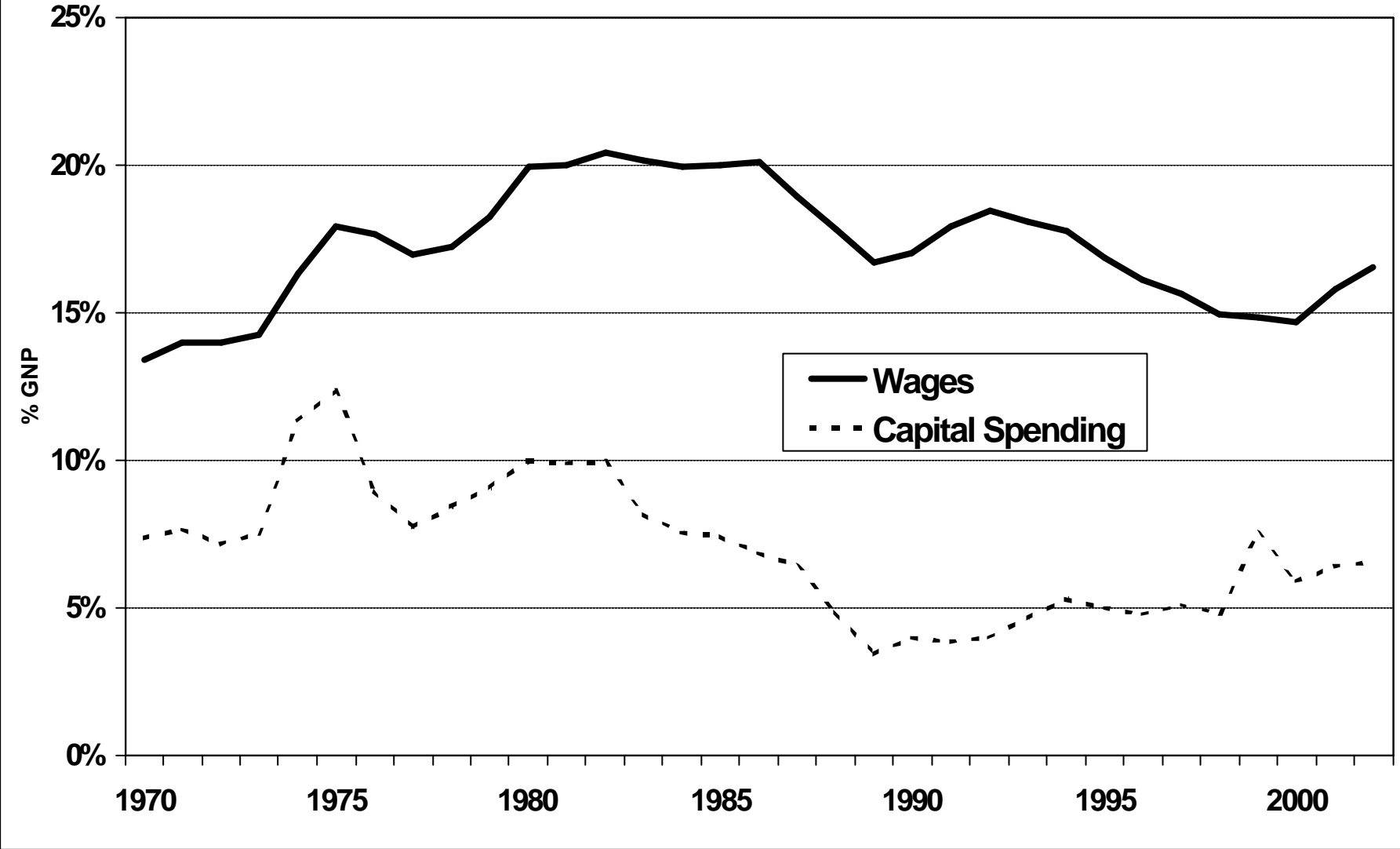
Interest Rates



Interest & Transfers



Wages & Capital Spending



The ingredients: Simmering

▣ Education

- ⌘ Relatively late effort

▣ Falling burden of age-dependency

- ⌘ Belated drop in birth rate after 1980

▣ Promotion of Ireland as an industrial location

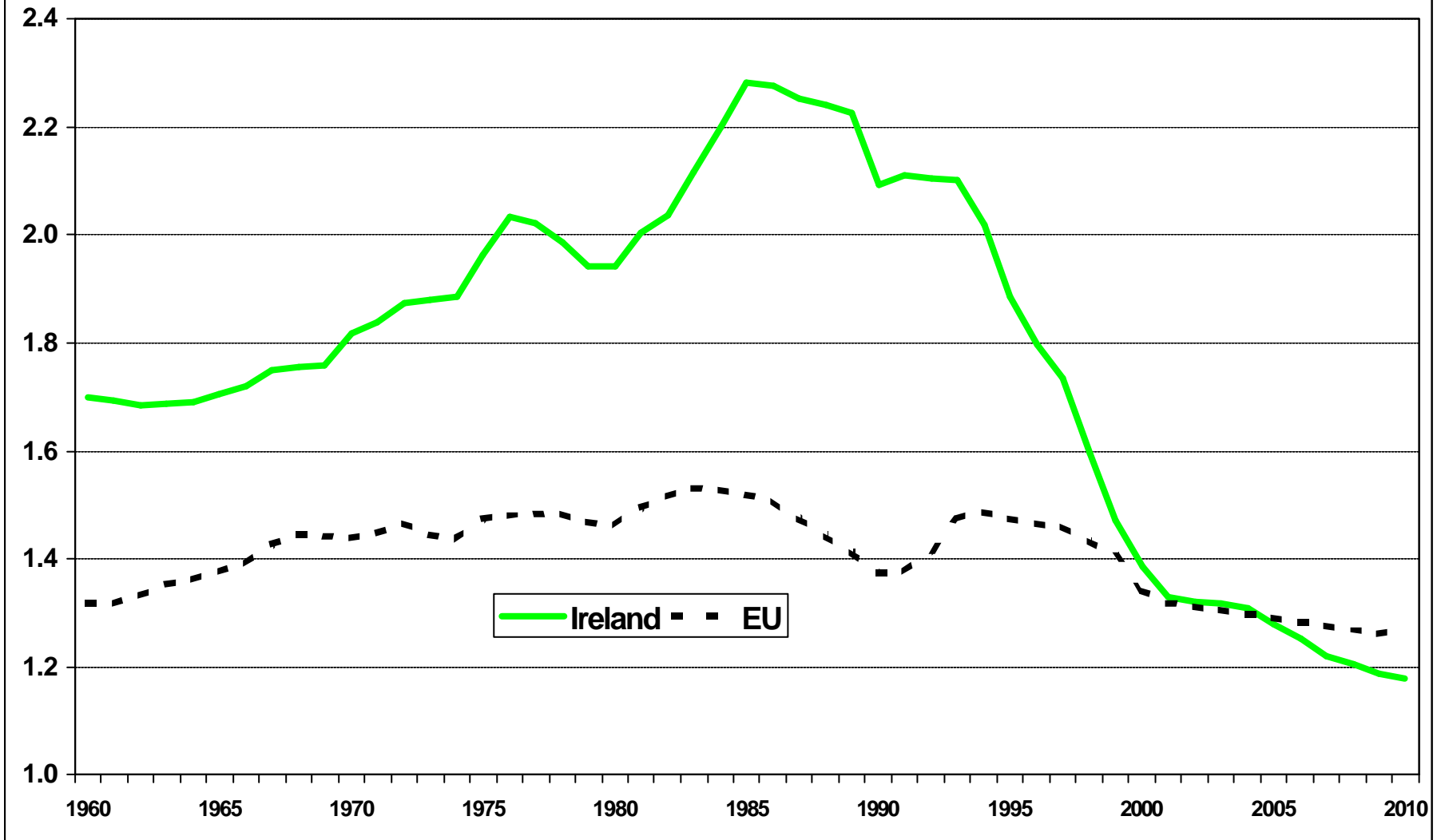
- ⌘ Grants / Low corporation tax

▣ Good governance!

- ⌘ e.g. ability to raise 40% of GDP in taxes

▣ Cultural factors?

Dependency



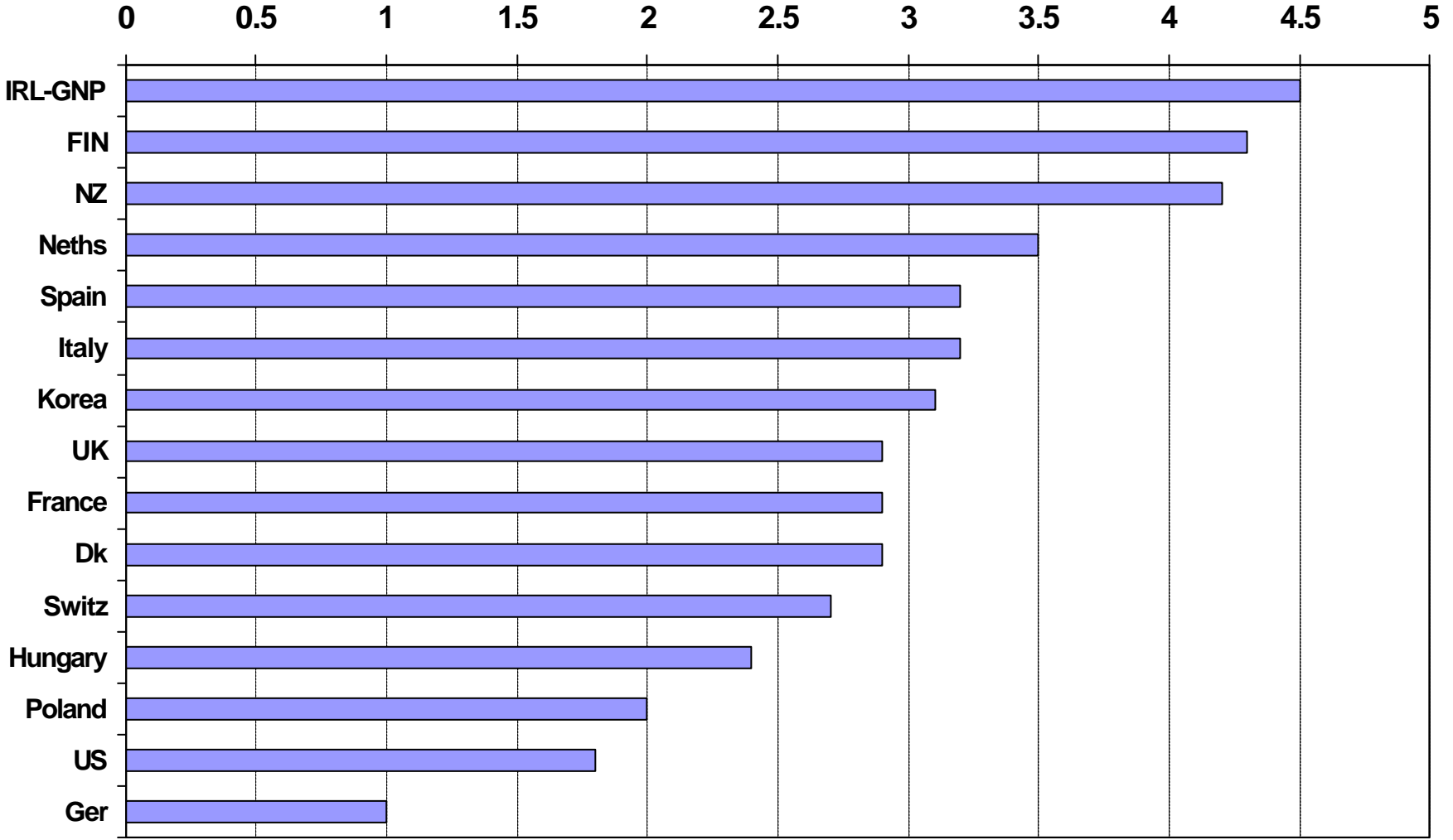
Catalysts for the turnaround

- ▣ **EU funds (3% of GDP)**
- ▣ **Devaluations (1993 and especially 1986)**
- ▣ **Improved industrial incentives (IFSC)?**
- ▣ **Tourist boom ?**

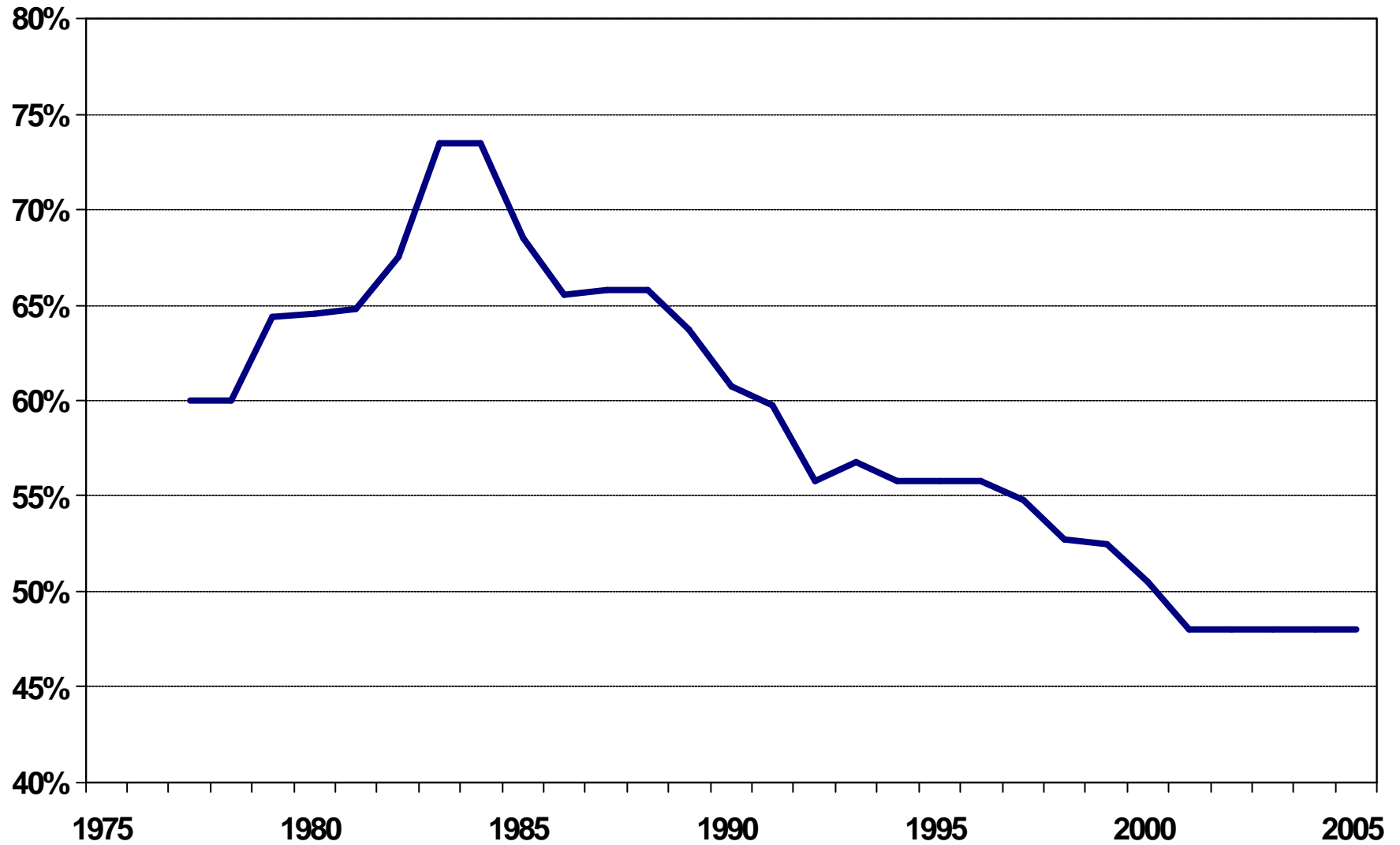
But mainly:

- ▣ **Improved wage competitiveness,**
 - ⌘ **lower taxation**
 - ⌘ **realistic wage-setting - corporatism**
 - ⌘ **improved fiscal environment**

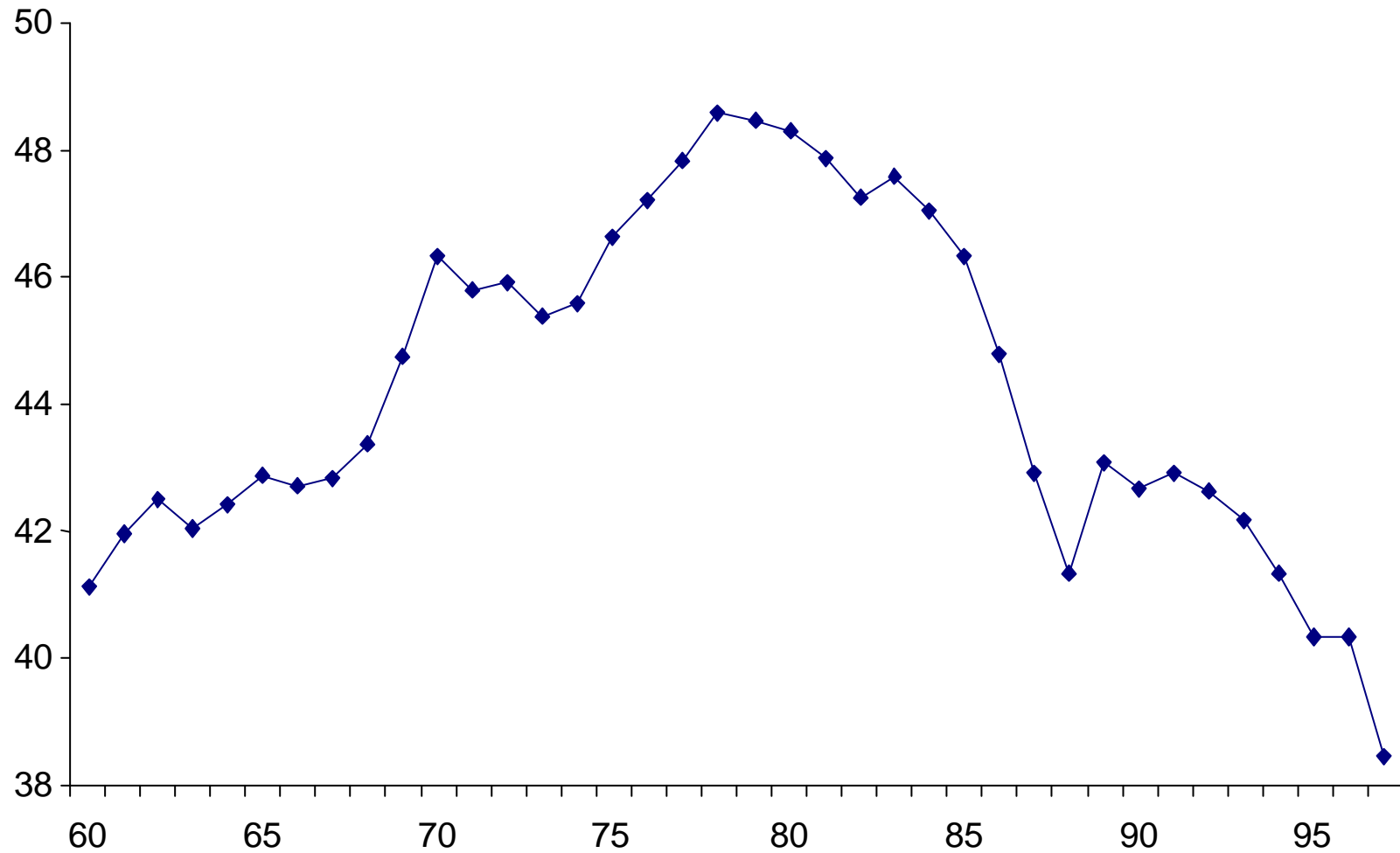
Corp Taxes as % GDP, 2002



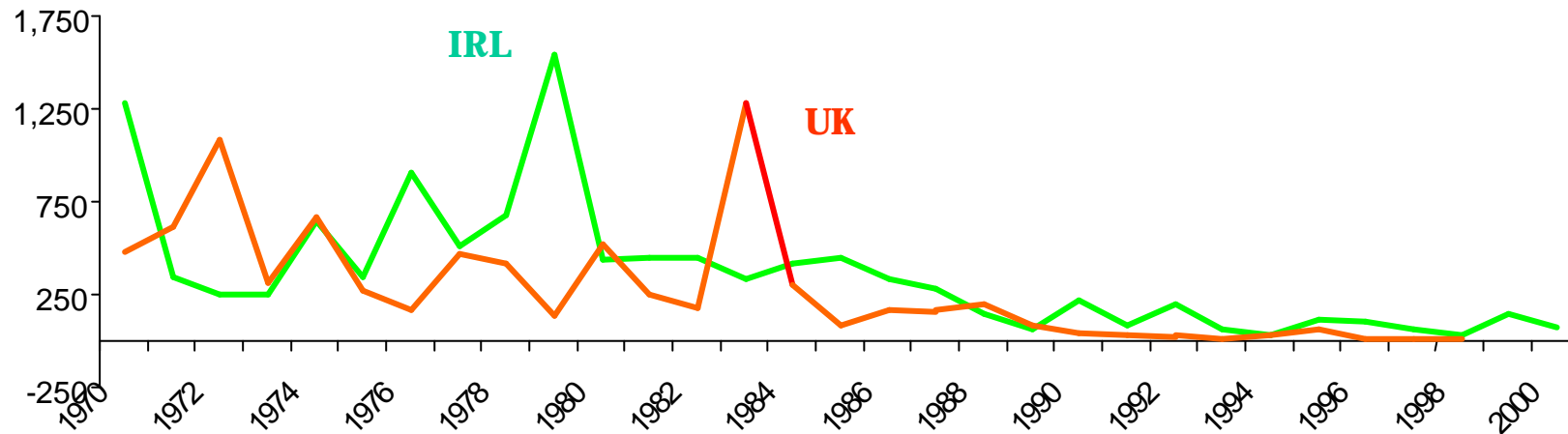
Top Rate of Income Tax & Social Security



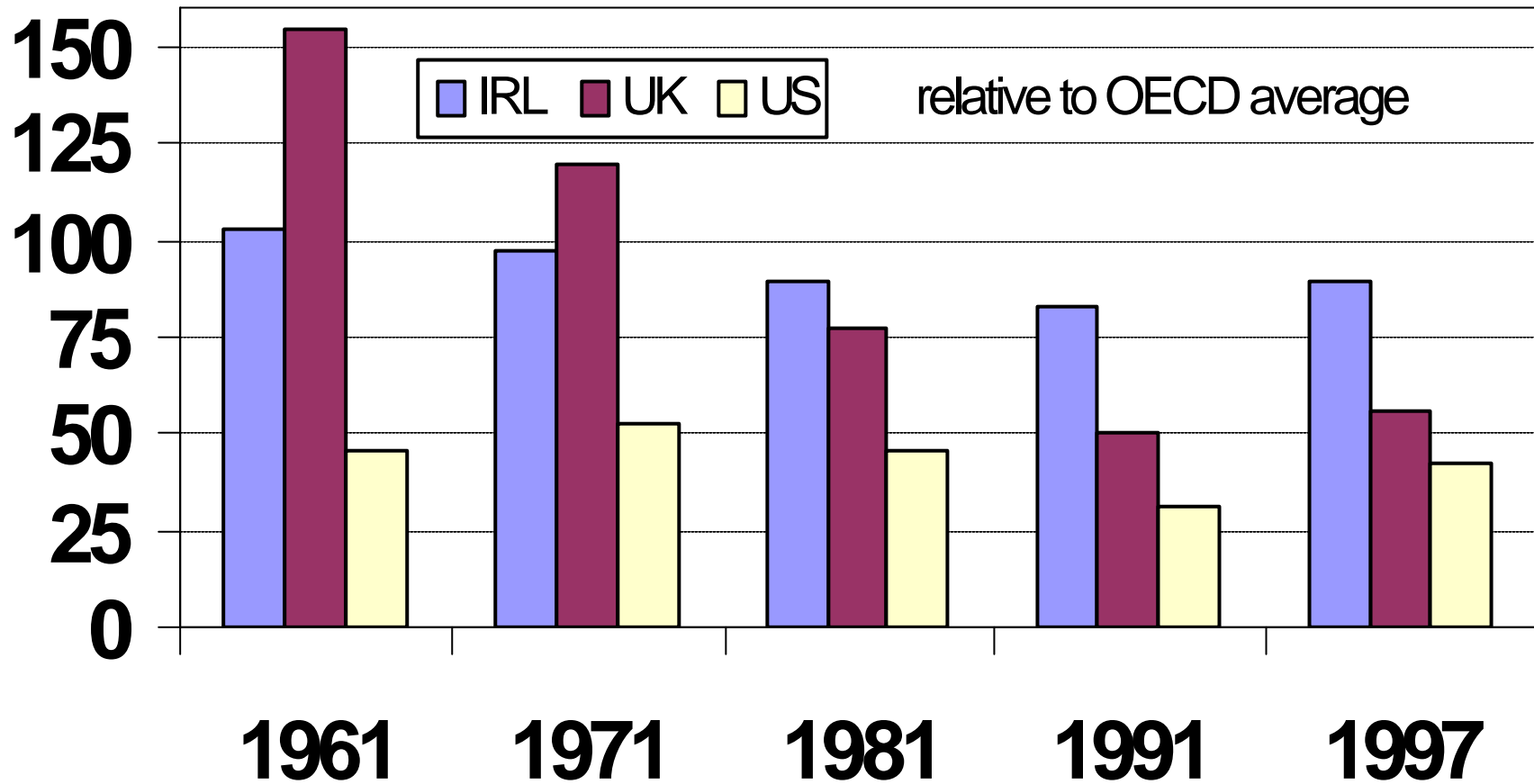
Union Density (non-ag)



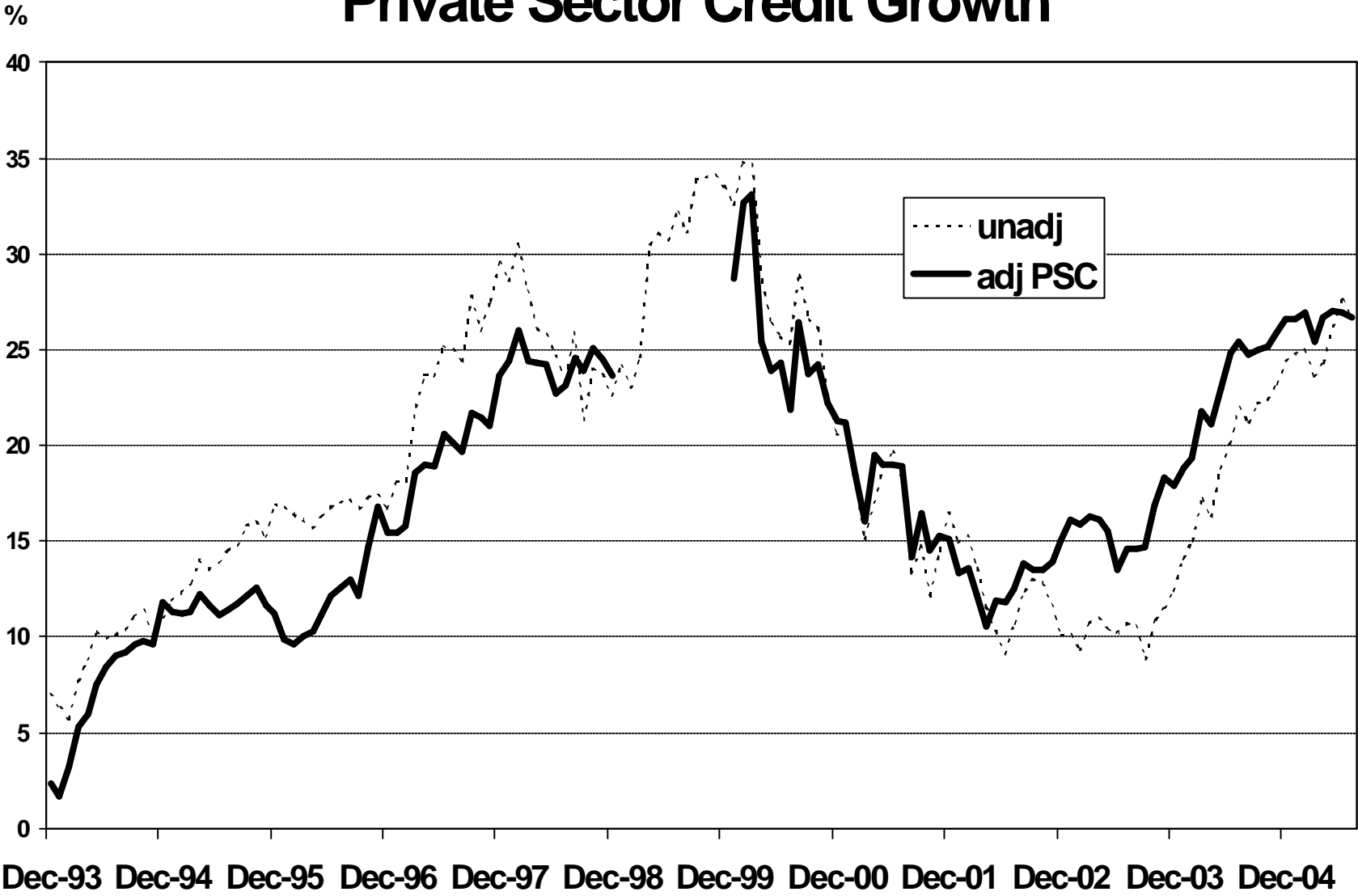
Number of days lost through industrial disputes, Ireland and UK (rates per 1000 employees)



Replacement rates



Private Sector Credit Growth



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