Ireland's Economic Performance: An Overview

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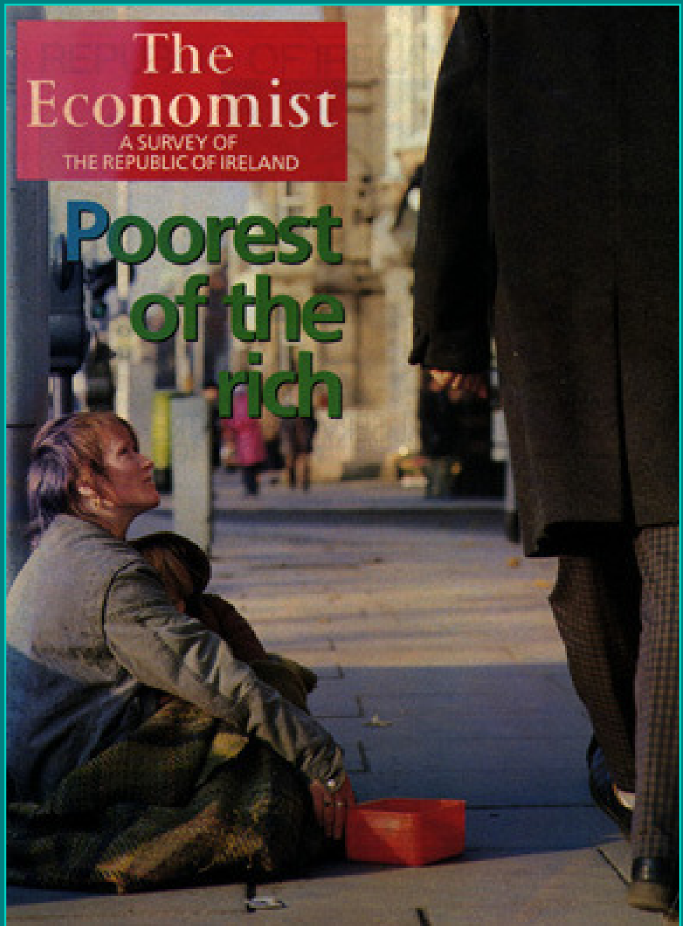
Format of Presentation

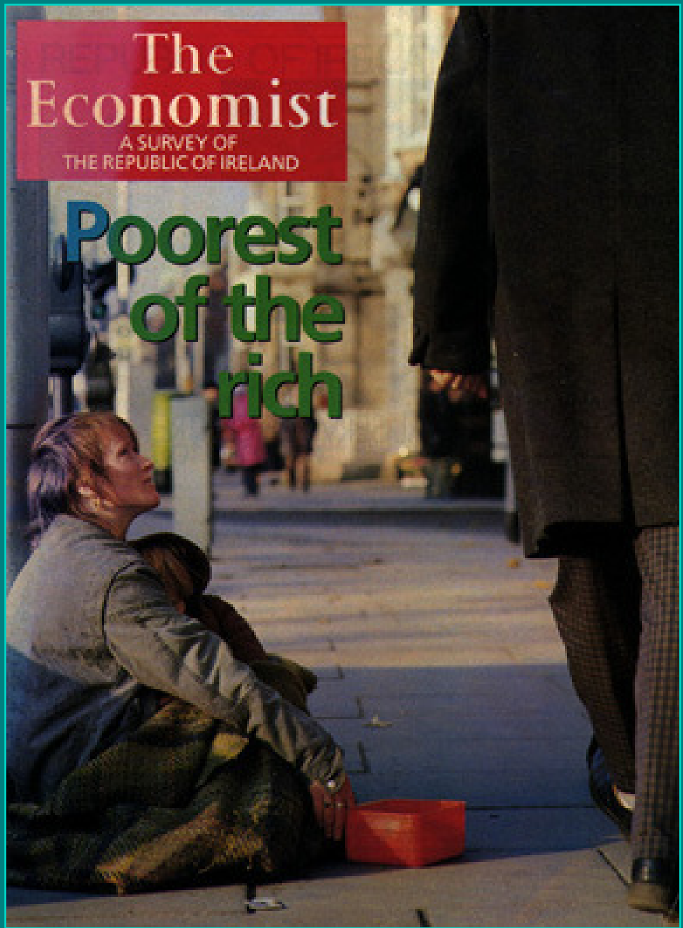
- A Remarkable Transformation?
- Recent Performance
- How Did it All Come About?
  - Openness & EU
  - Foreign Direct Investment (FDI)
  - Human capital
  - Demography and the labour market
  - Other policy factors
  - Some Challenges and Lessons

From Poverty…

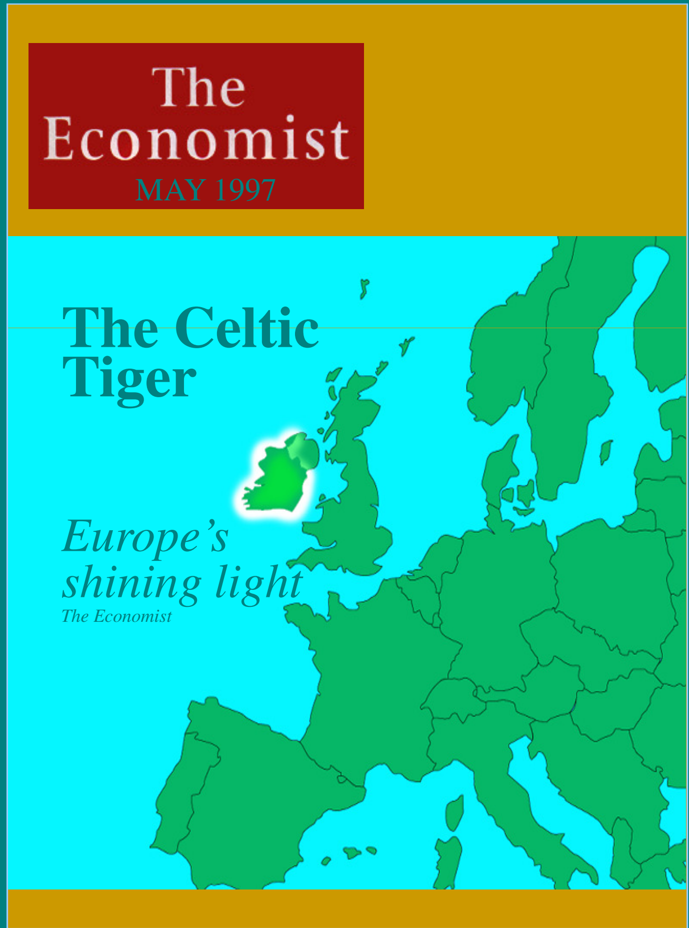


1988

..to Shining Light in a decade



1988



1997

What Kind of Economy is It?

- *Classic Small Open Economy*
  - *Small Domestic Market*
    - *Constitutes about 1% of the euro area*
  - *Large Reliance on Trade*
    - *Constitutes 180% of Output*
    - *Living standards depend on performance as an export base*
  - *Regional Economy within EMU*
    - *Limited macroeconomic control instruments*
  - *Rich?*
    - *Moving up the OECD income rankings*

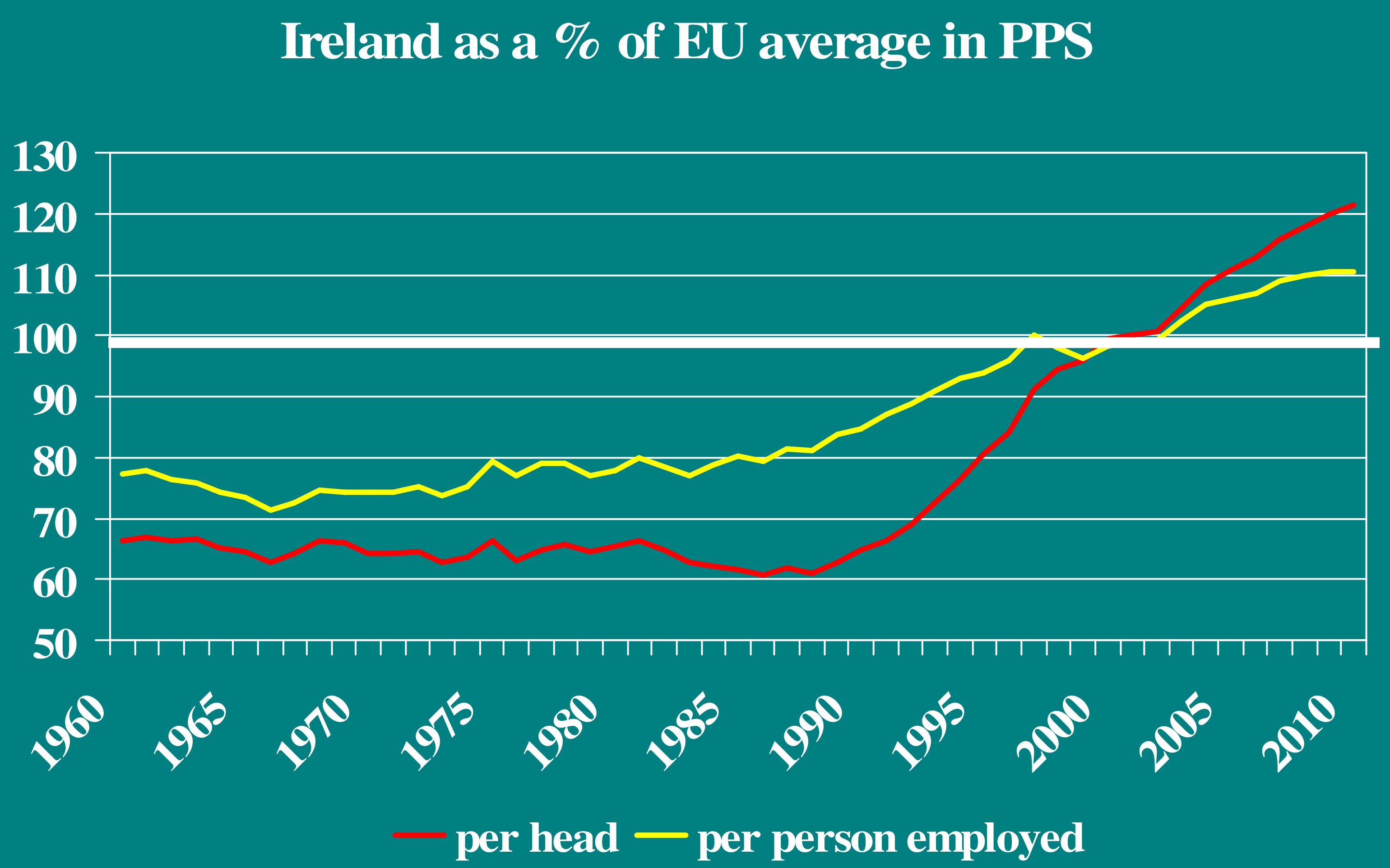
A Remarkable Transformation?

- Independence from the UK in 1922
- Protectionism until the late 1950s
  - Inward looking focus
- "Opened up" at the start of the 1960s
- Joined the European Union in 1973
  - Outward looking focus / reference points
  - Embraced European developments at almost every stage – Single Market, Single Currency … steady path?

A Remarkable Transformation?

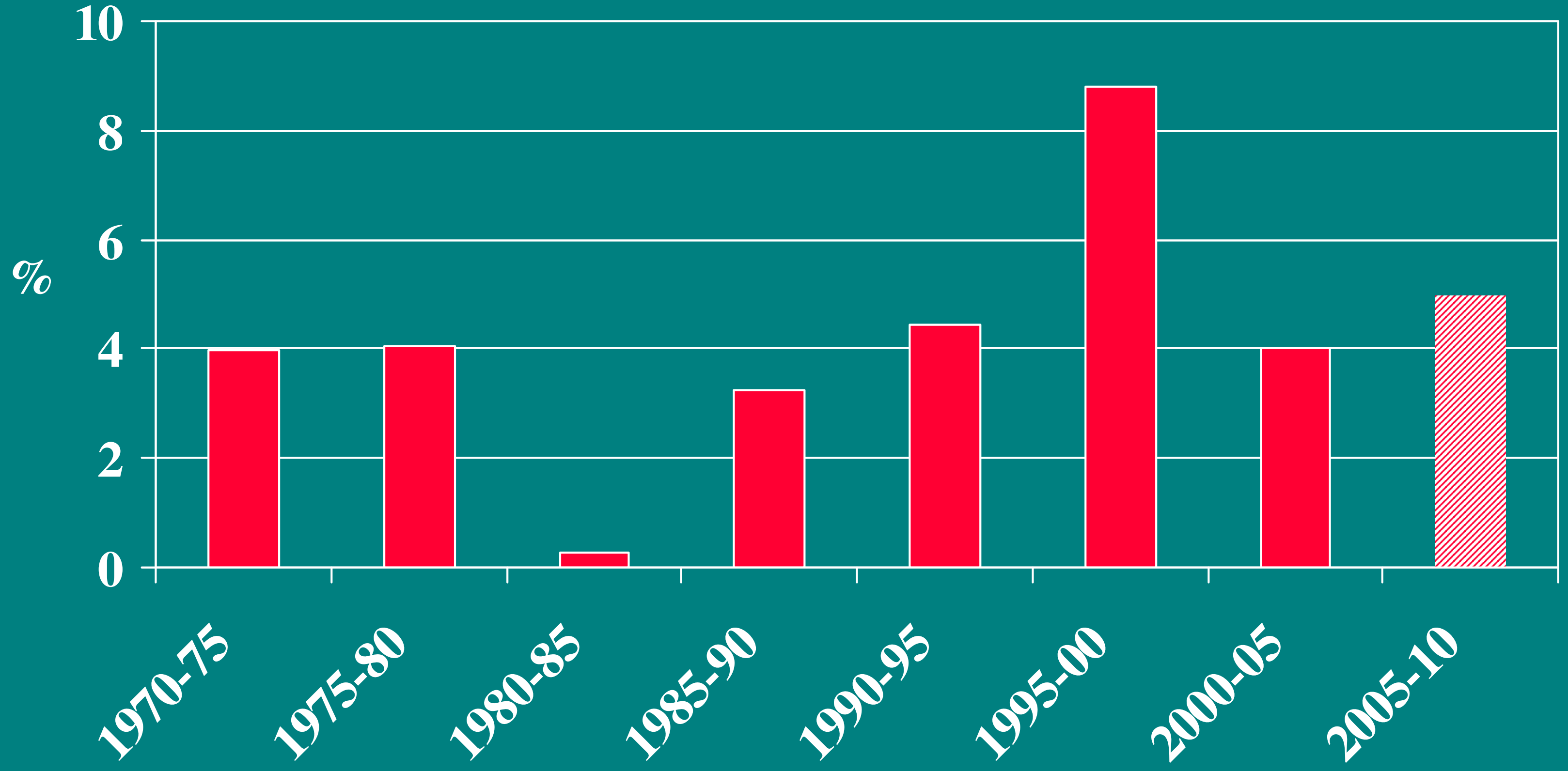
- Major Fiscal errors in the 1970s =>
- “Third world” type debt problems in the 1980s along with high inflation, unemployment and emigration
- Turnaround in economic fortunes in the late 1980s … many reasons
- Rapid expansion in the 1990s
- Overall:
  - A Story of Delayed Convergence

Relative GNP



Average Growth in GNP

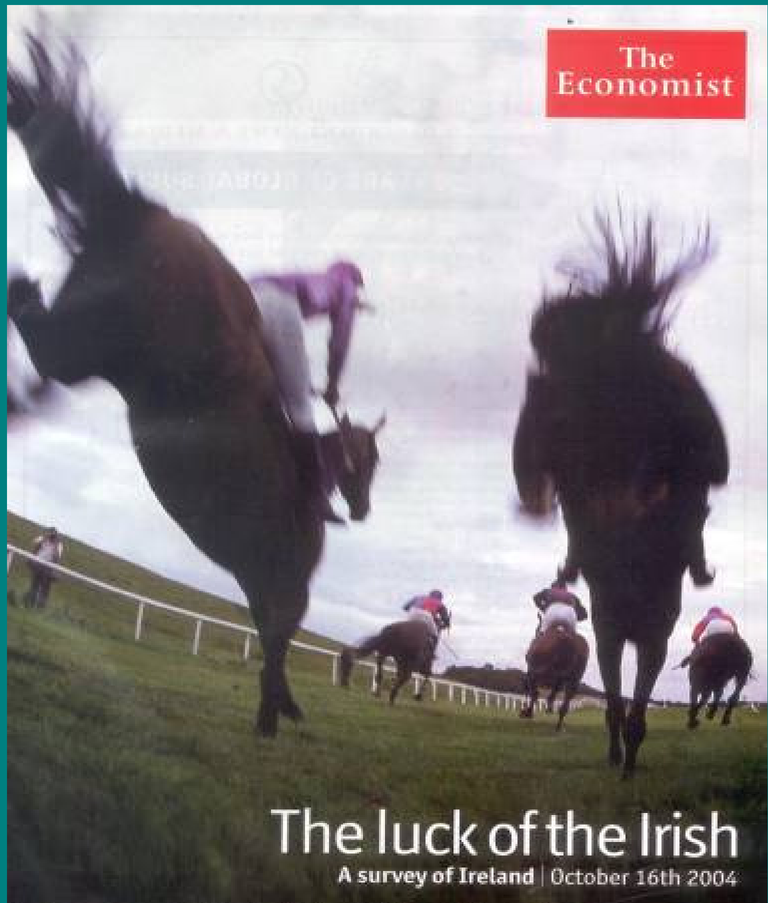
Performance spectacular in terms of historical experience



How did it come about?

- No single factor
- A number of elements came together at the same time
- Allowed the economy move from a "vicious" circle to a "virtuous" circle

The Luck of the Irish?



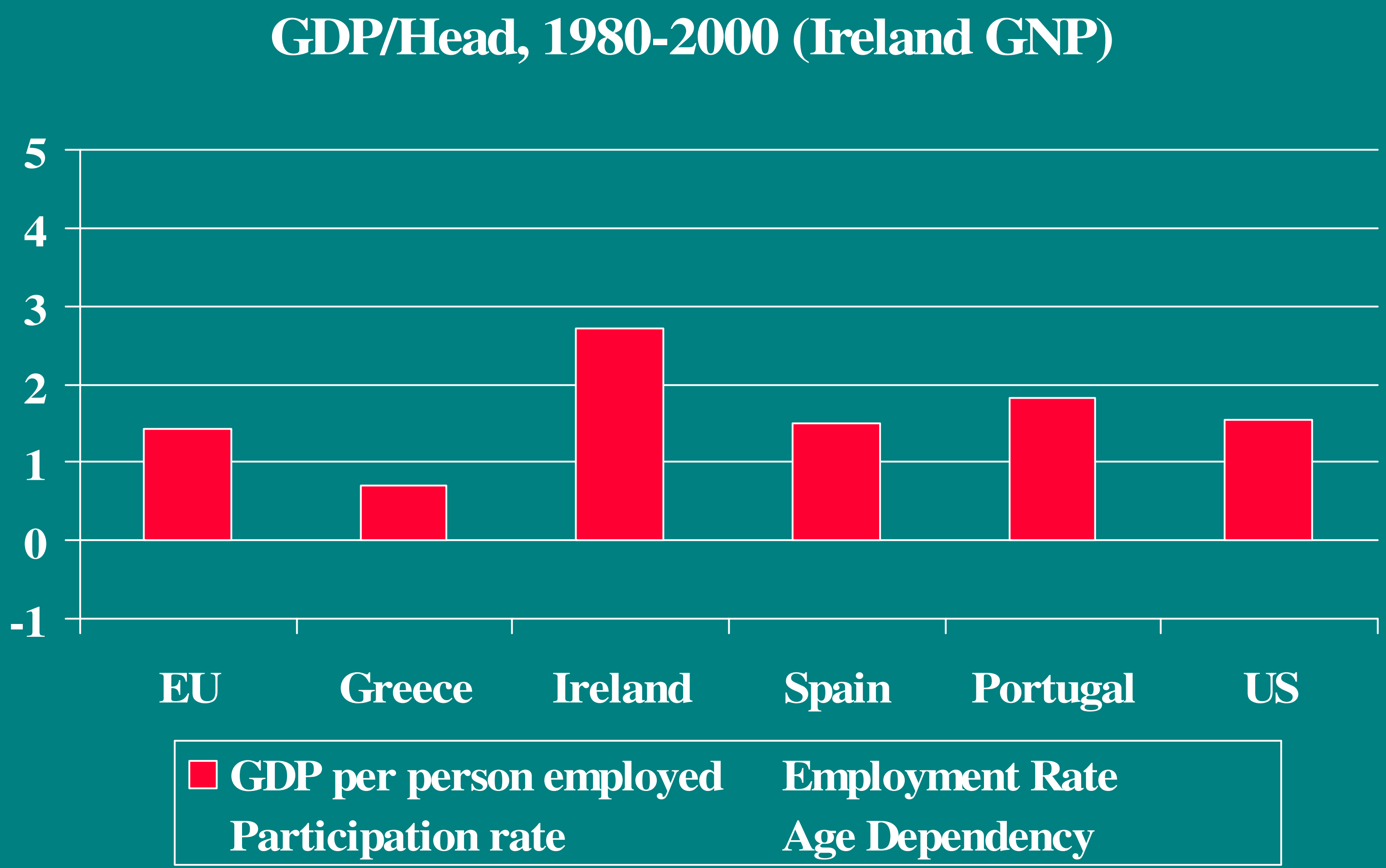
2004

Decomposition of Growth

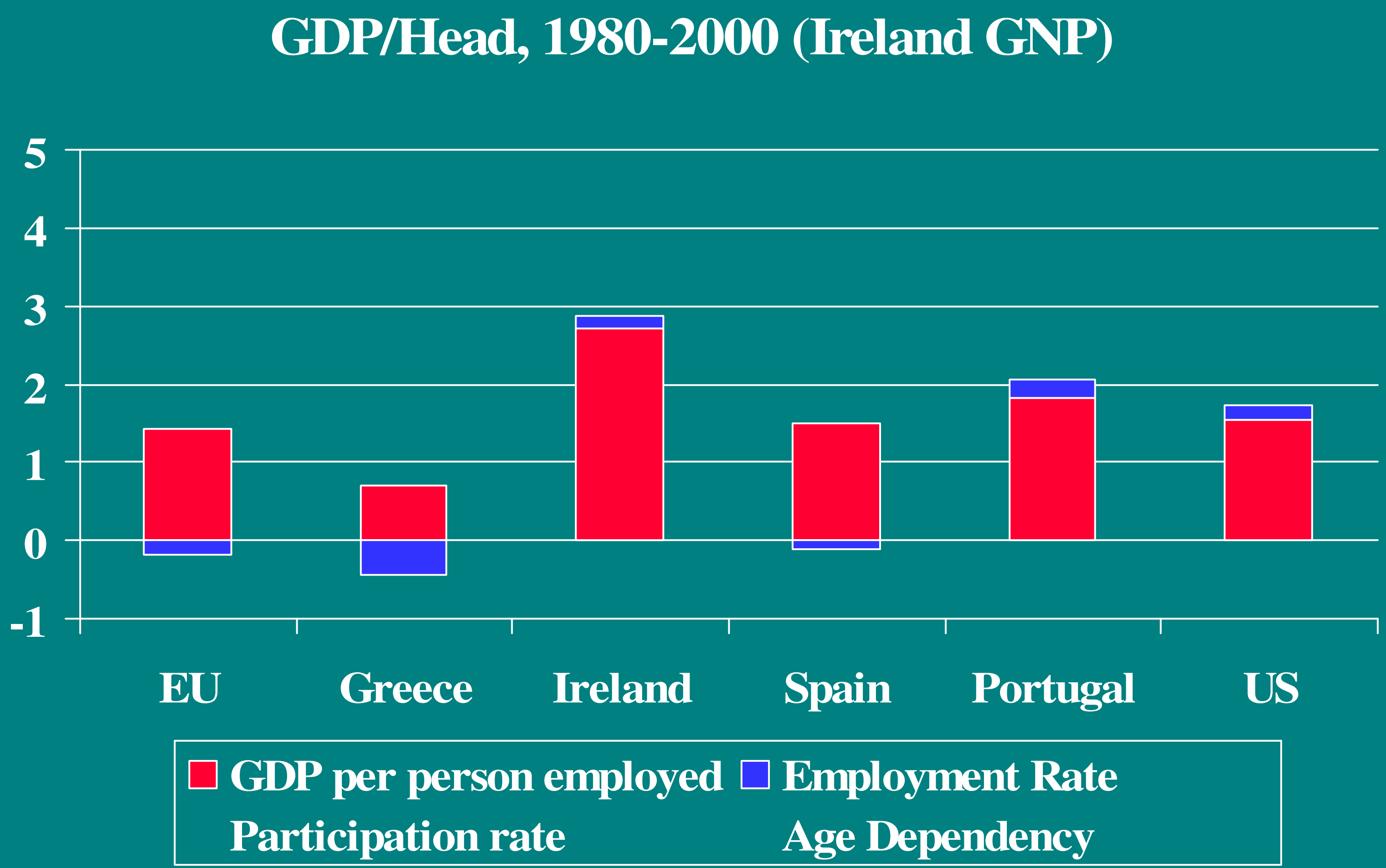
Elements in what drives growth of GDP per capita:

$$\underbrace{\frac{GDP}{Pop}}_{\text{GDP per capita}} = \underbrace{\frac{GDP}{Emp}}_{\text{Productivity}} \cdot \underbrace{\frac{Emp}{LForce}}_{\text{Employment Rate}} \cdot \underbrace{\frac{LForce}{Pop1564}}_{\text{Participation Rate}} \cdot \underbrace{\frac{Pop1564}{Pop}}_{\text{Dependency Ratio (inverse)}}$$

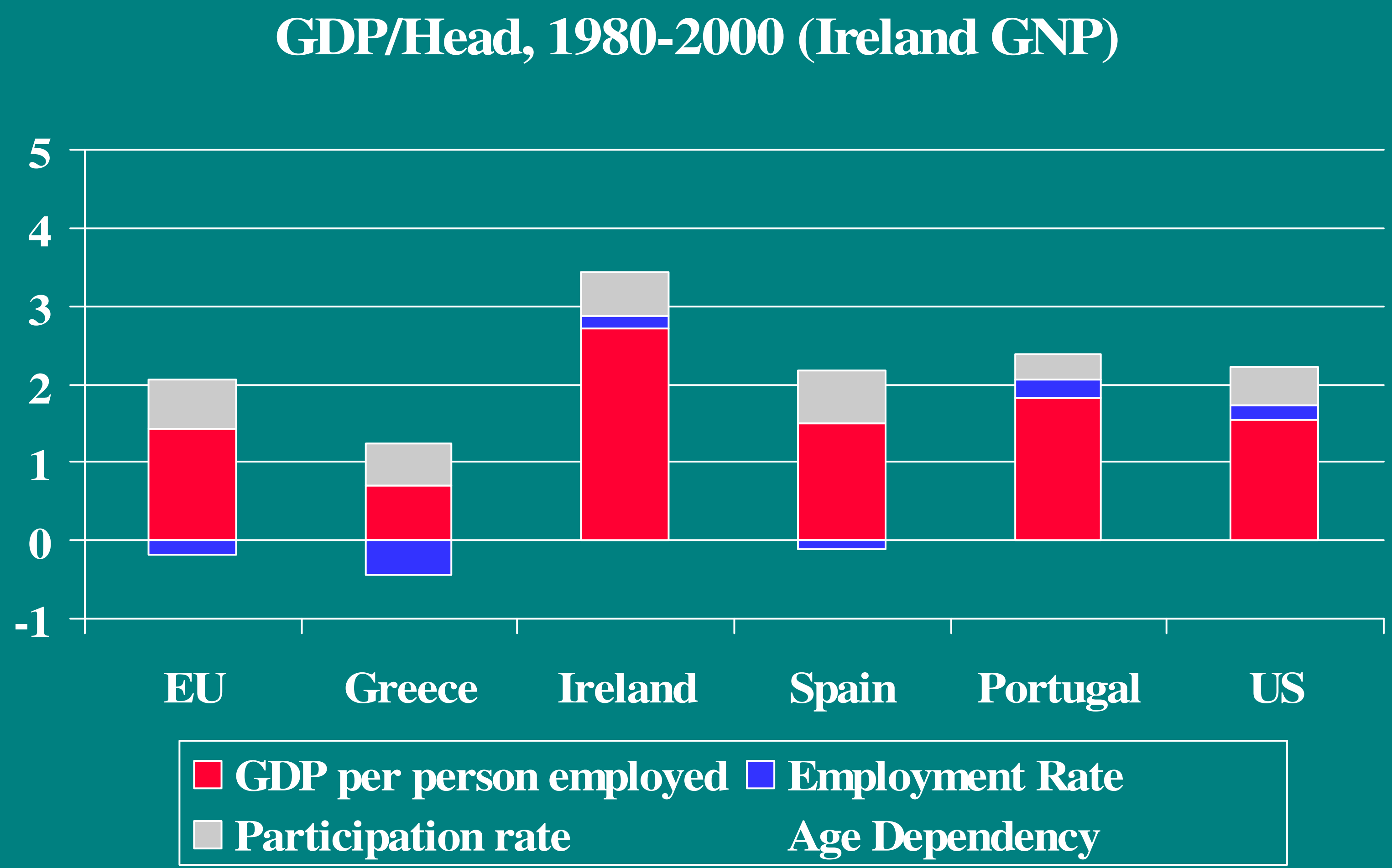
Growth Decomposition



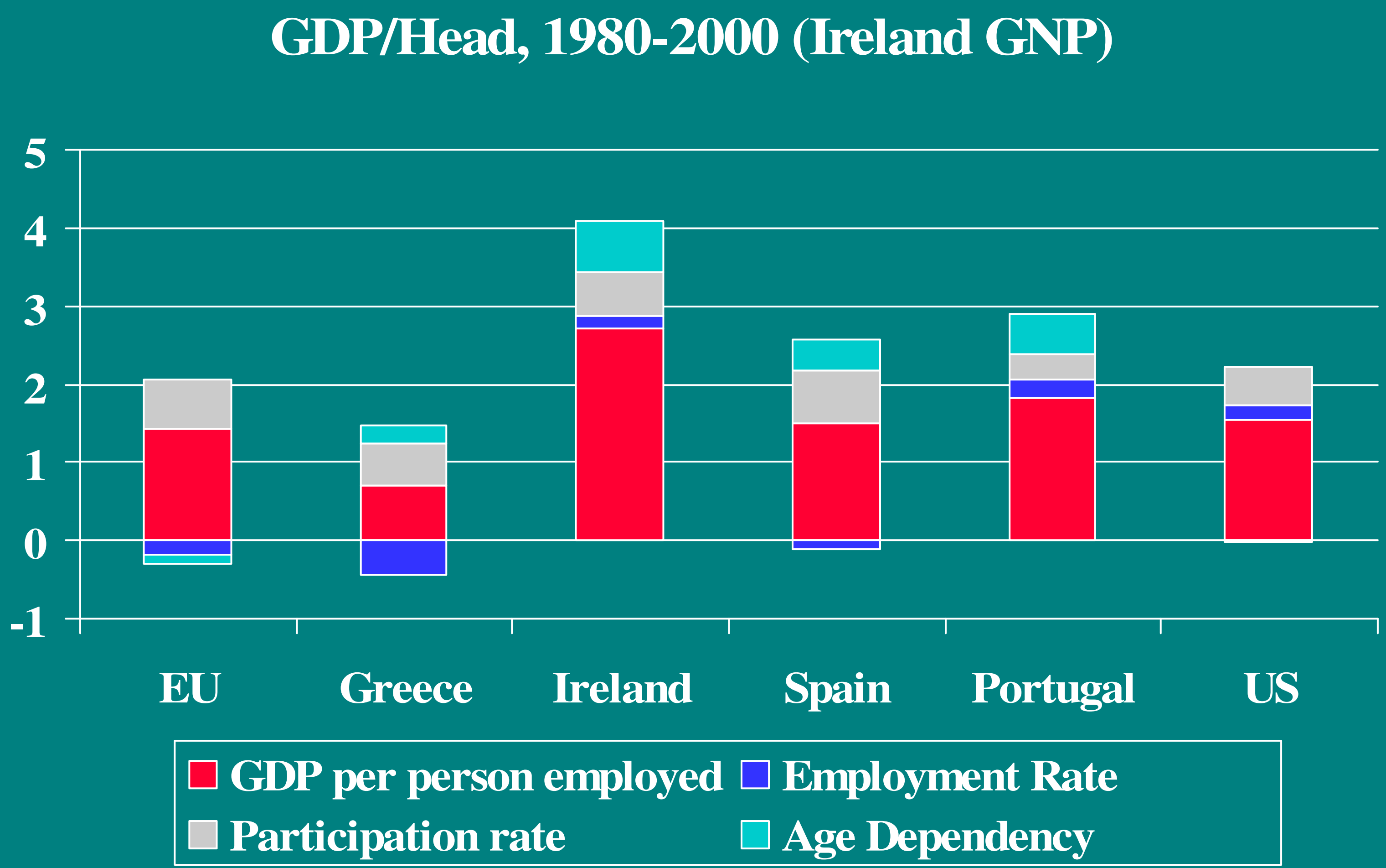
Growth Decomposition



Growth Decomposition

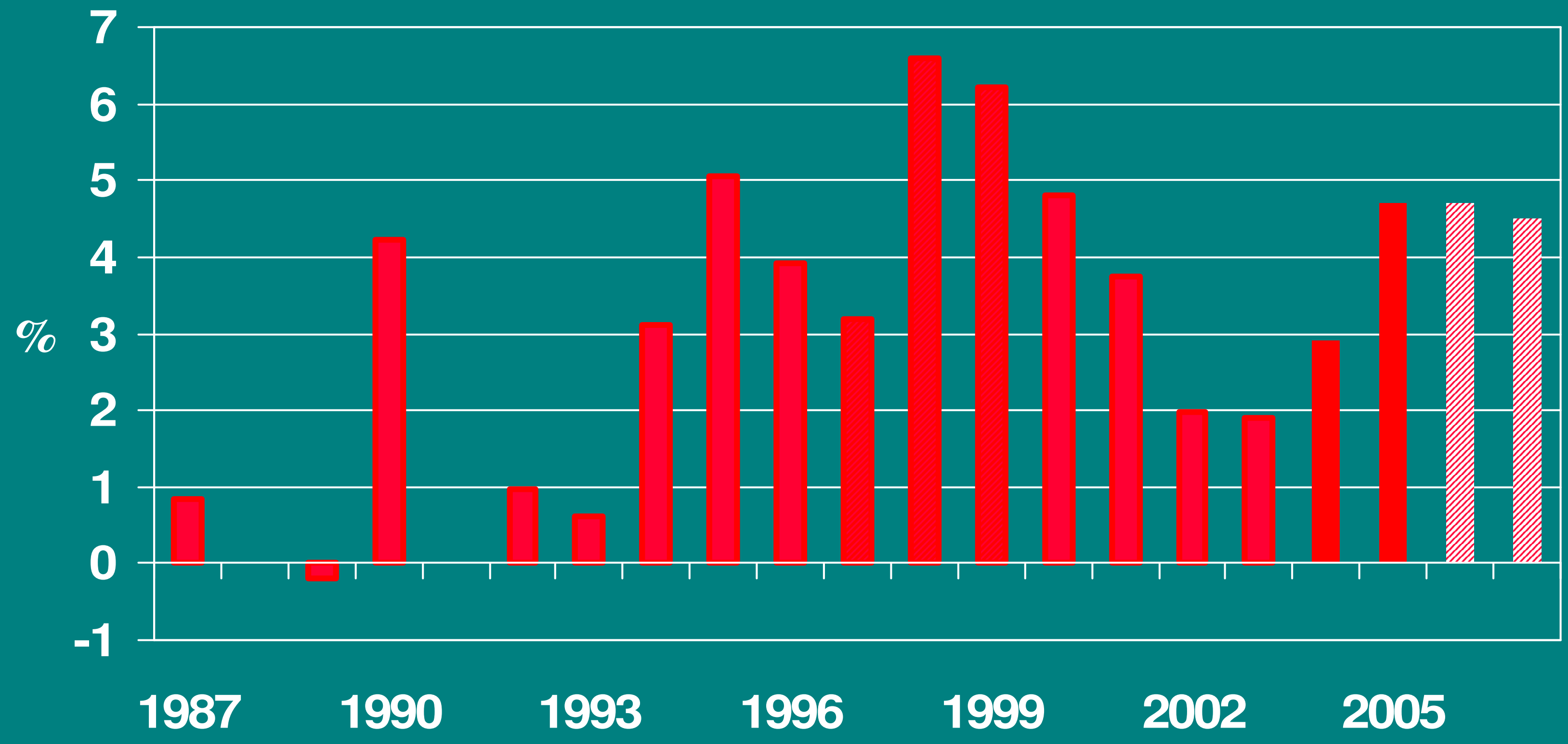


Growth Decomposition



Recent performance- Employment

Strong employment growth: Key metric



Driving Forces

- Primary Factors:
  - Openness & EU
  - Foreign Direct Investment (FDI)
  - Human capital
  - Demography and the labour market
- Secondary (but vital) Factors:
  - EU Structural Funds
  - Consensus economic strategy
  - Fiscal reform

1. Opening Up

- *1922-1960 -Protectionism*
  - *"Ourselves Alone" economic policy*
  - *Agriculture seen as "engine of growth"*
  - *Emigration*
- *1960-1980 -Belated Opening Up*
  - *New engines of growth – ind / services*
- *1980 onwards – recognition of global forces and need to generate globally-tradeable output at competitive prices*

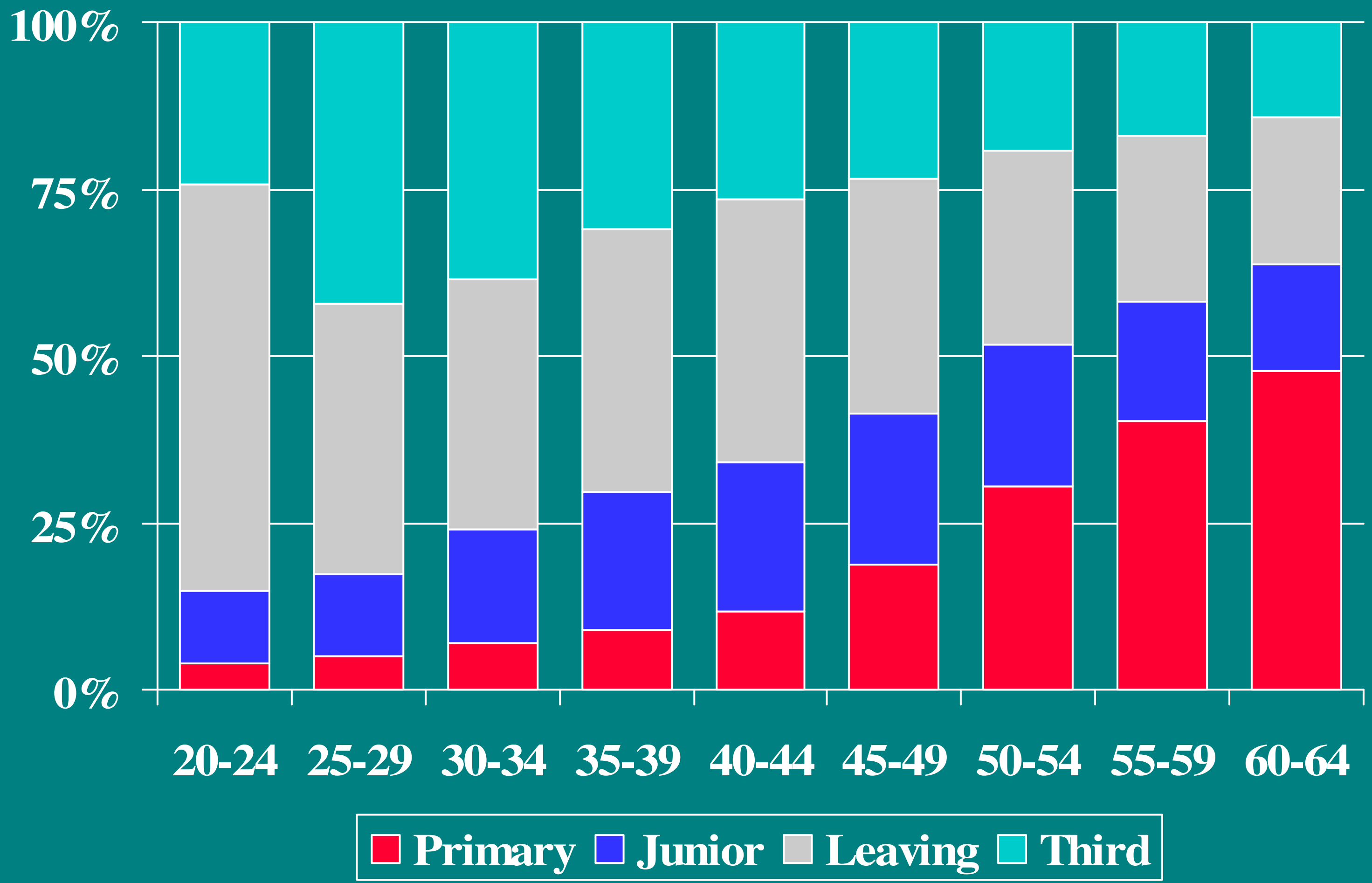
2. Promotion of FDI

- *Change of policy stance in late 1950s*
- *Consistent Policy Environment since*
  - *Removal of protection on inputs*
  - *Guaranteed low corporation tax (since 1956)*
  - *Predicable but tailored industrial supports*
  - *Transparency*
  - *Focussed and business-centred*
- *Access to larger markets – UK, EU*

3. Human Capital

- *Investment in Education*
  - *Increases productivity and employability*
- *Free Second-Level Education (1967)*
  - *Very late in European terms*
  - *Slow Increase in participation*
- *Big impact of HC in 1980s and 1990s*
- *Free Third-Level Education (1994)*
  - *Duality in labour force skills*
  - *Problem of early school leavers*

Educational Attainment, 2004



Education of Labour Force

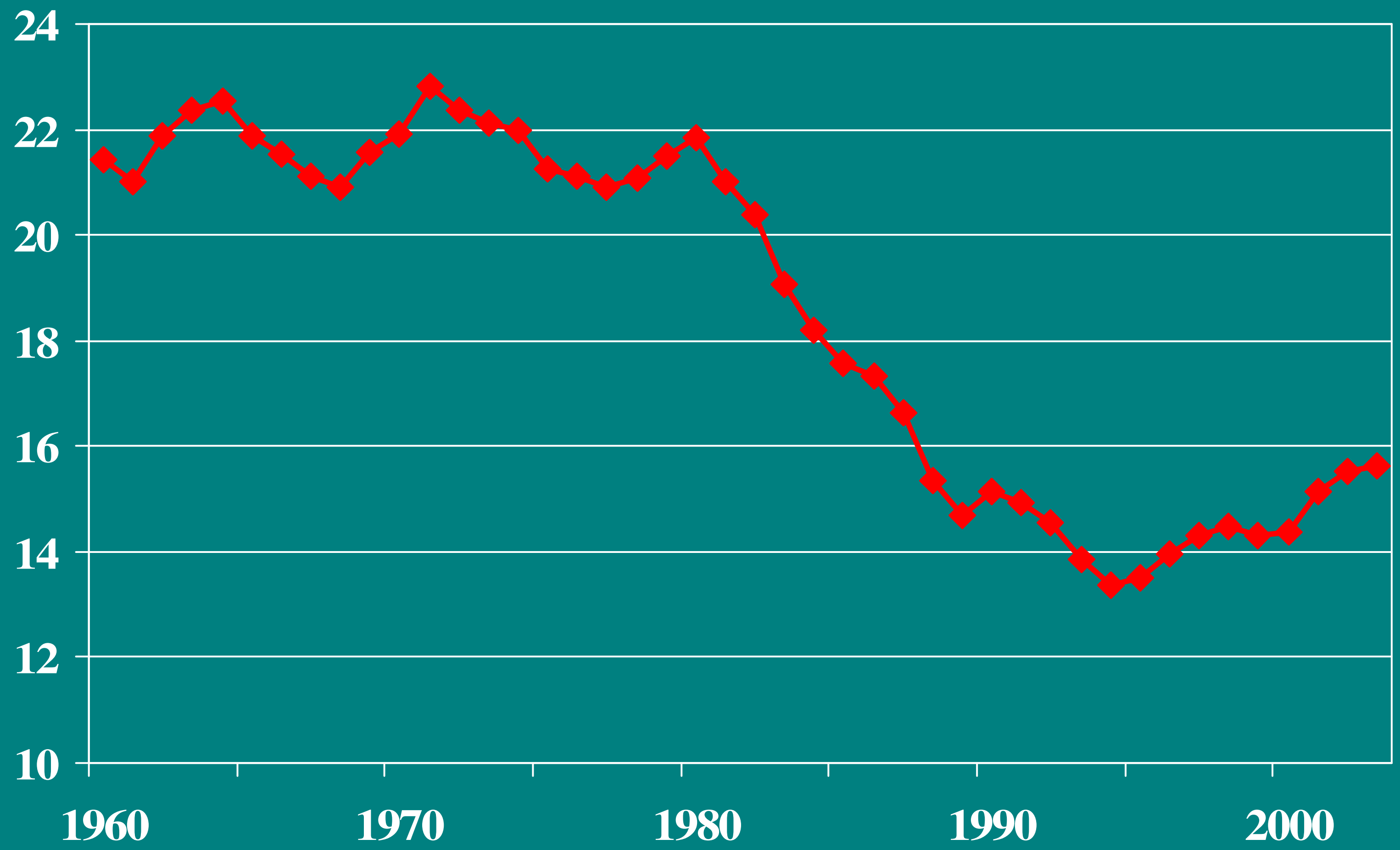
2003, (%)

	Irish	UK	Other EU	US	Other
Unskilled	32.9	26.3	3.8	4.3	12.6
Skilled	67.1	73.7	96.2	95.7	87.4

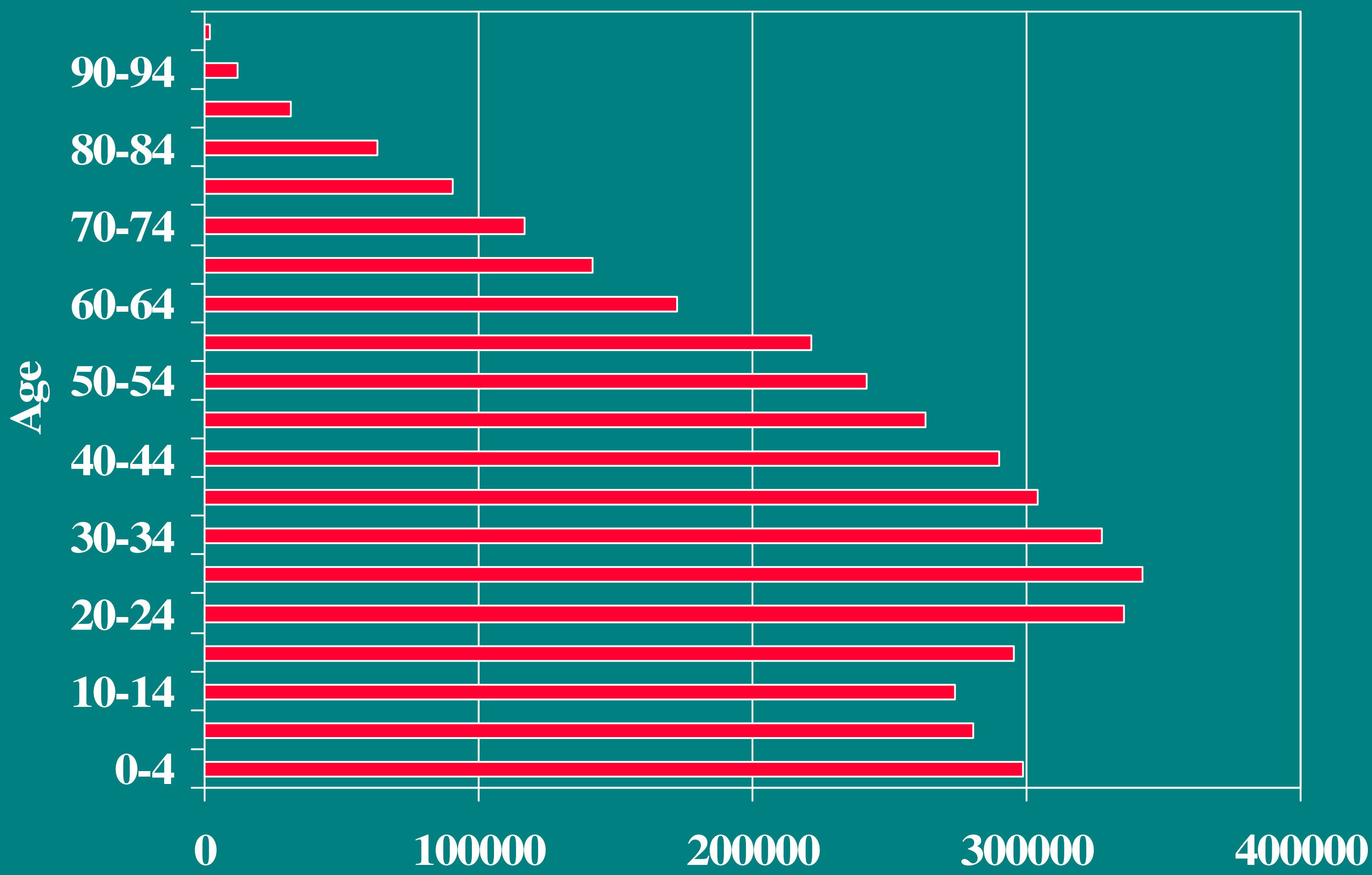
4. Demographics

- High Birth Rate until 1980
- Female Labour Force participation
  - Very low historically and into the 1980s
  - Rapid rise in 1990s
- Migration
  - Predominately skilled labour
  - Increases potential output of economy

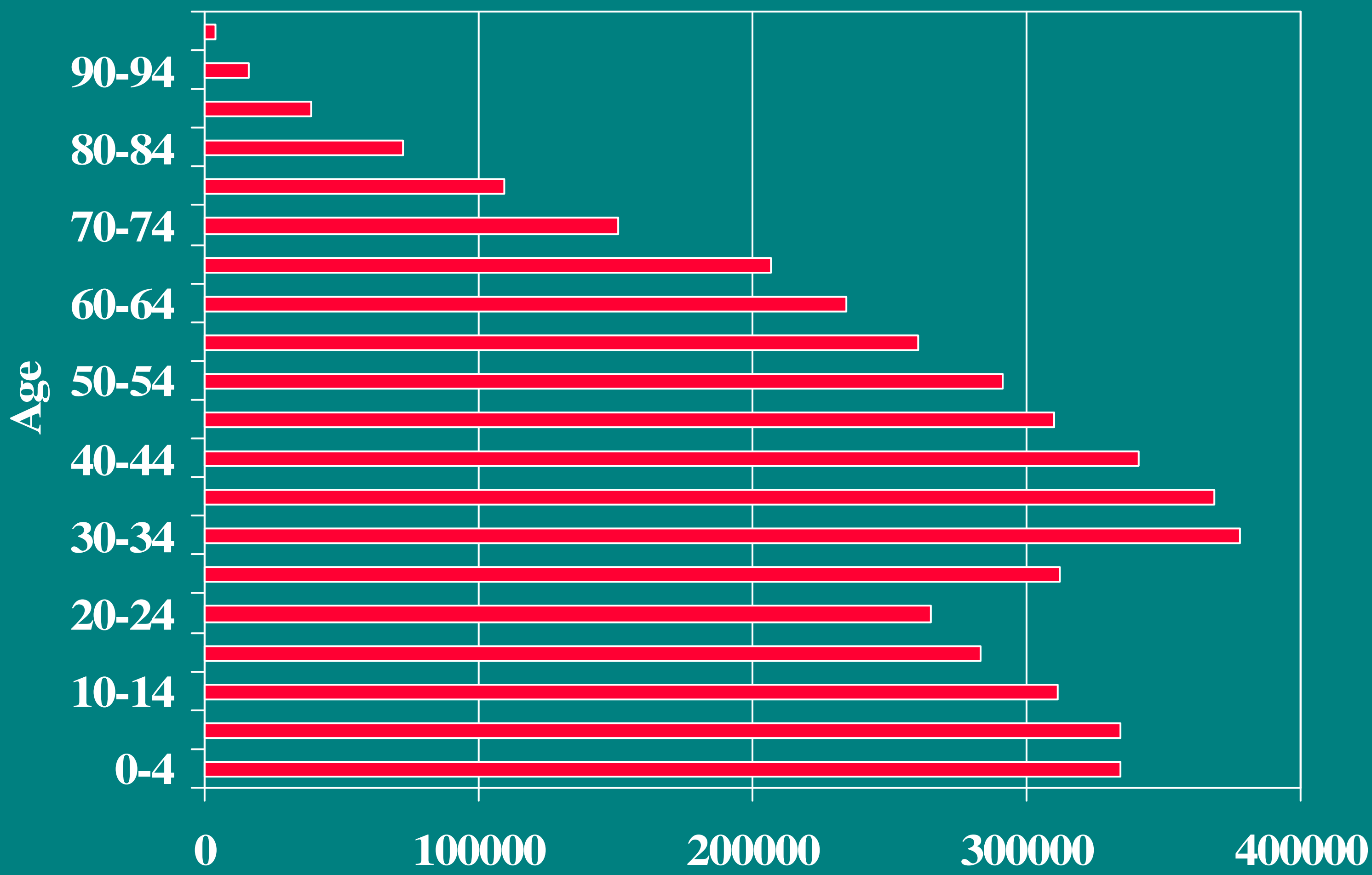
Declining Birth Rate



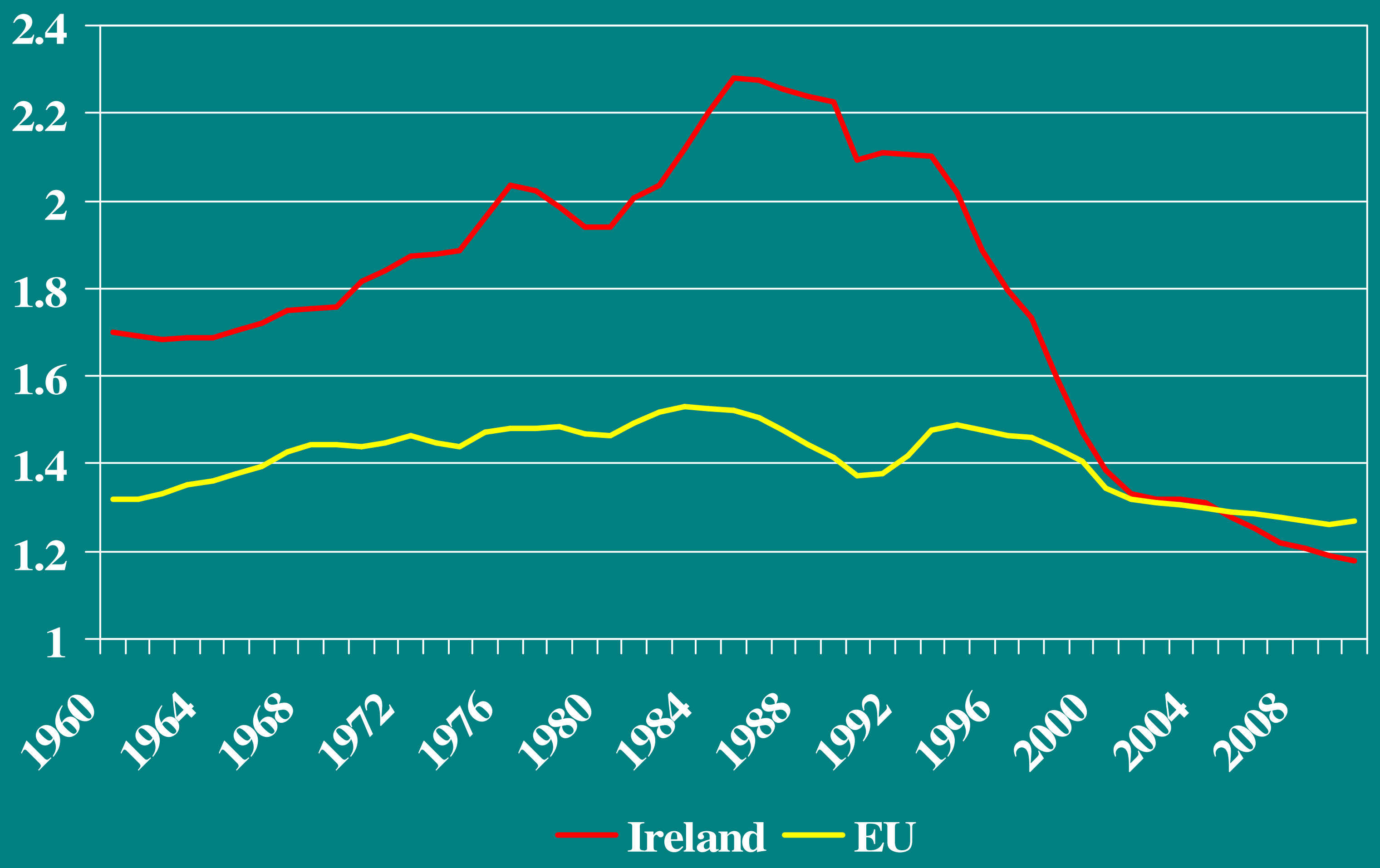
Population, 2005



Population, 2015

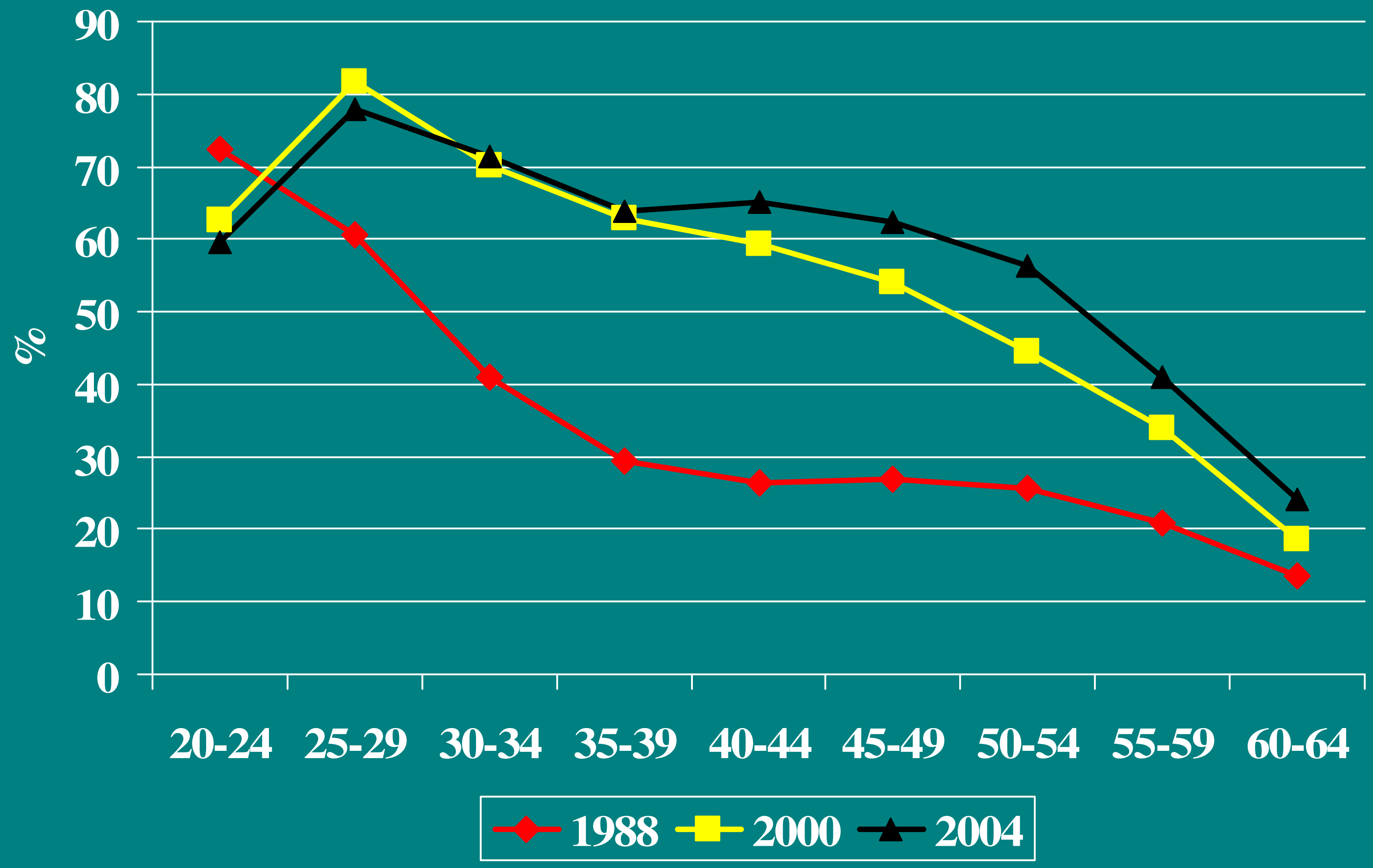


Dependency

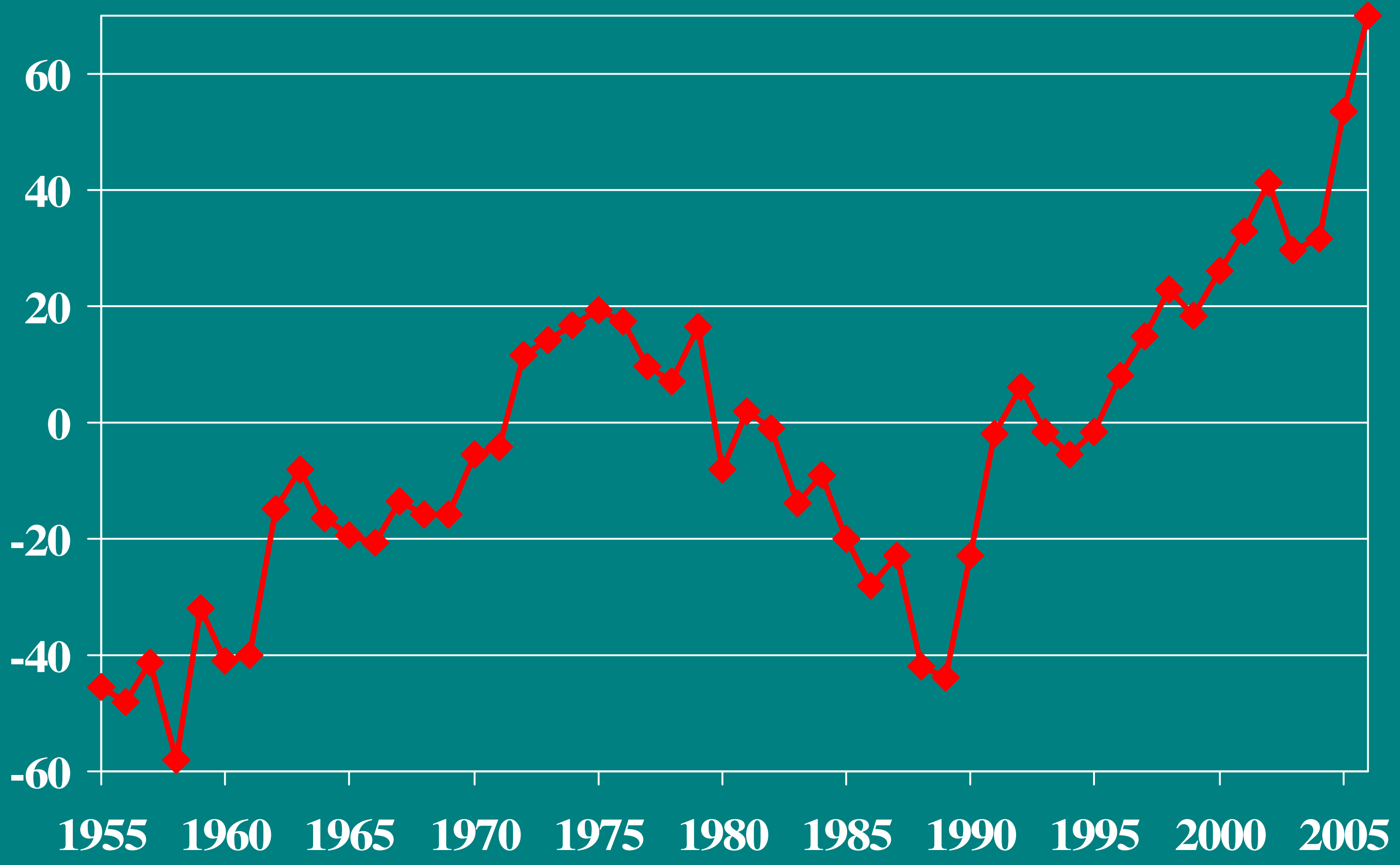


2.4
2.2
2
1.8
1.6
1.4
1.2
1
1960
1964
1968
1972
1976
1980
1984
1988
1992
1996
2000
2004
2008
Ireland
EU

Female Labour Force Participation



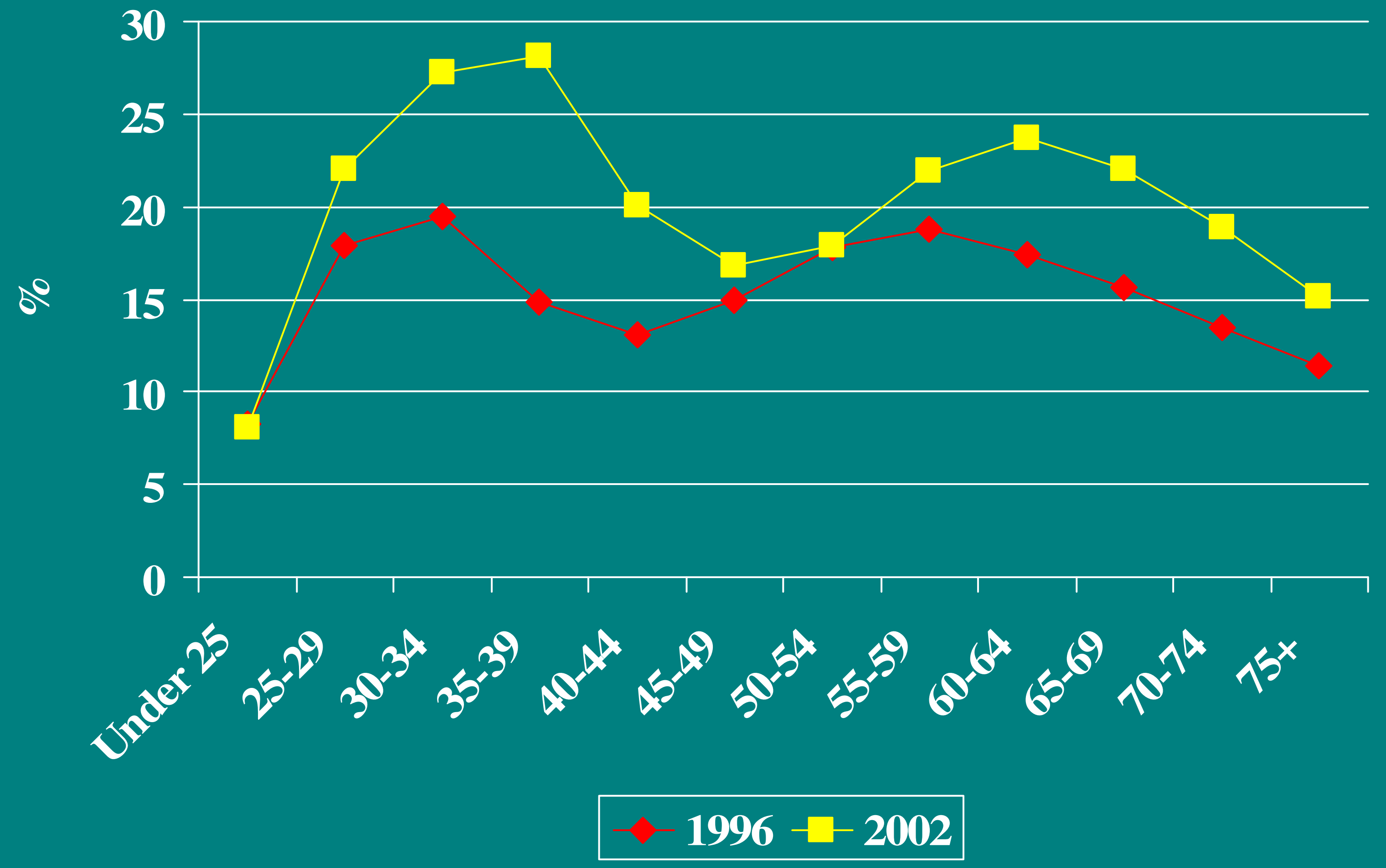
Net Migration



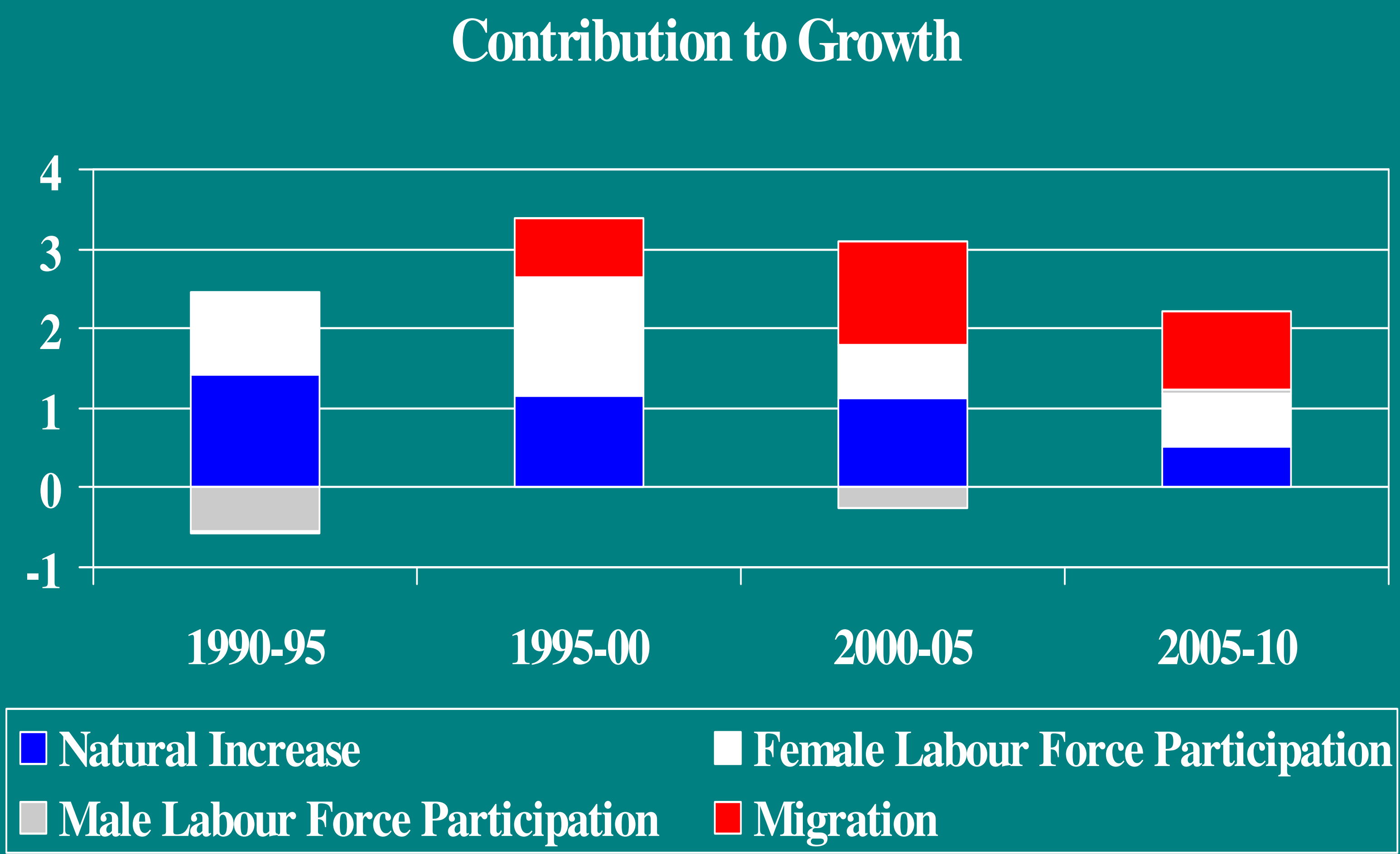
The “Homing Pigeons”

- Huge Emigration in 1950s
  - Perception of a failed economy
  - Leave, Never to Return
  - Major “Brain Drain” in 1980s
- Today: “Homing Pigeons”
  - Enhances skill set and productivity
  - Increase productive potential of economy
  - Good for FDI
  - Uneven sectoral spread – pub/priv

Population Who Have Lived Abroad



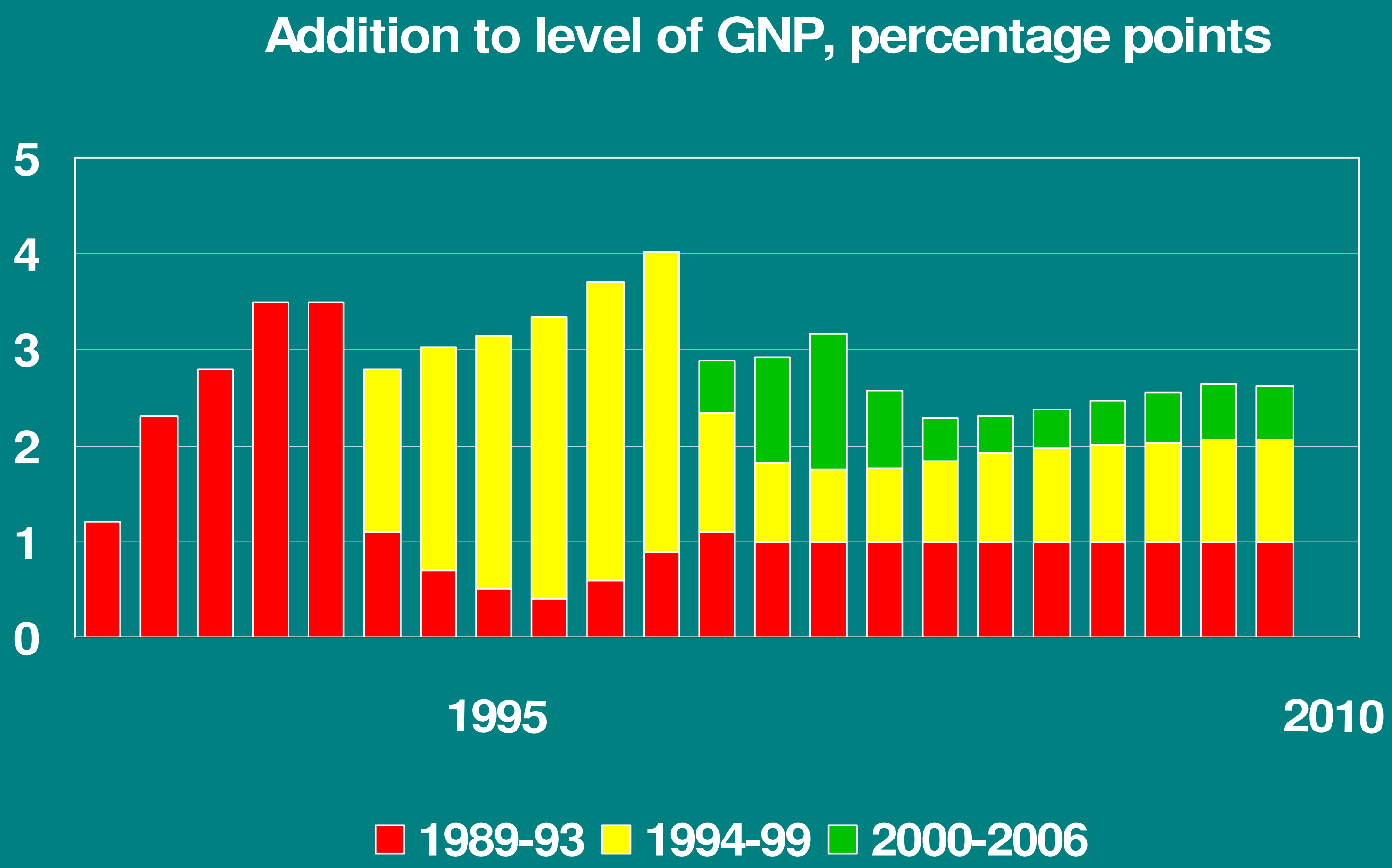
Labour Supply Growth



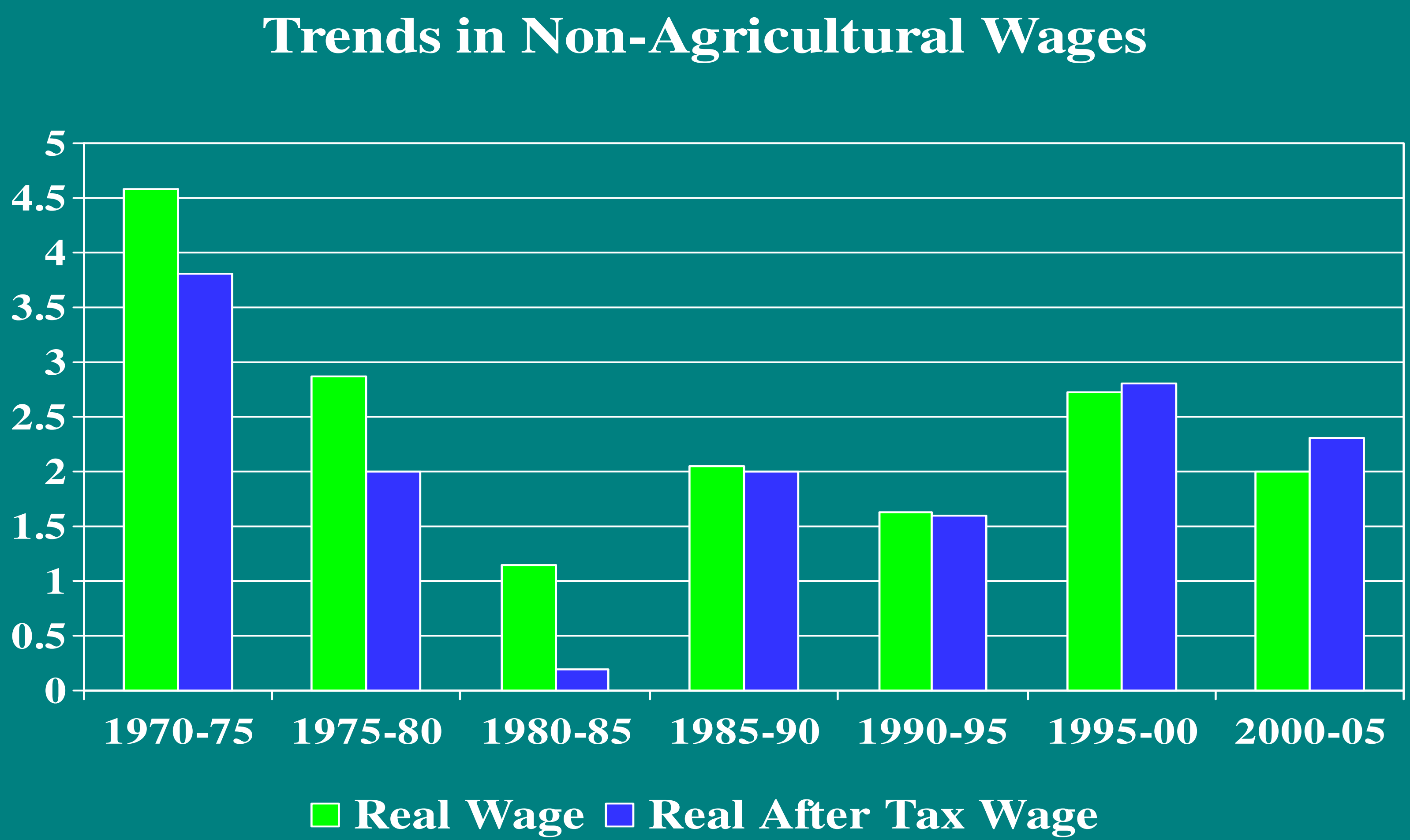
Supporting Policies

- *EU Structural Funds*
- *Partnership and policy consensus*
- *Fiscal reform*

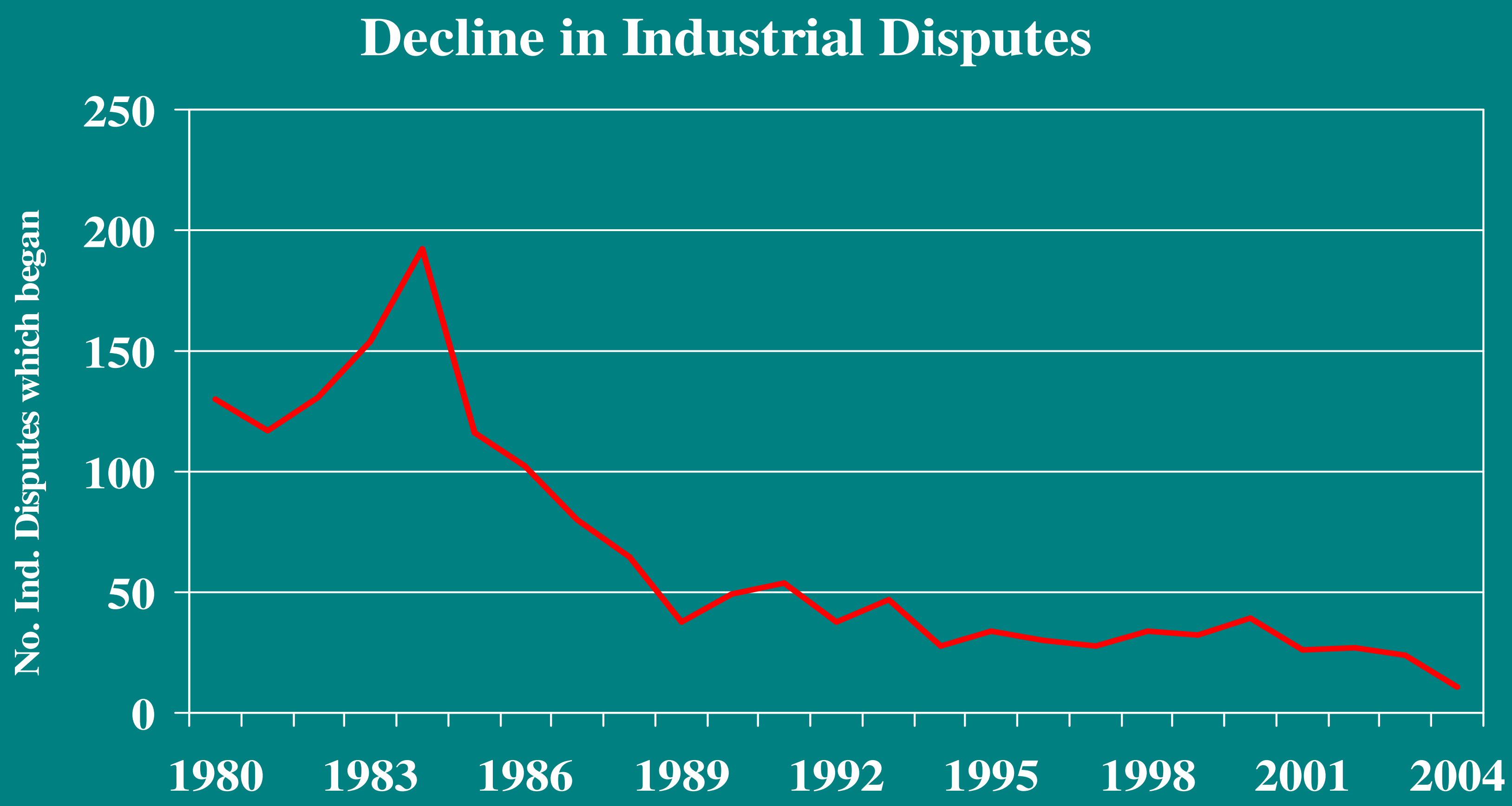
Effects of EU Structural Funds



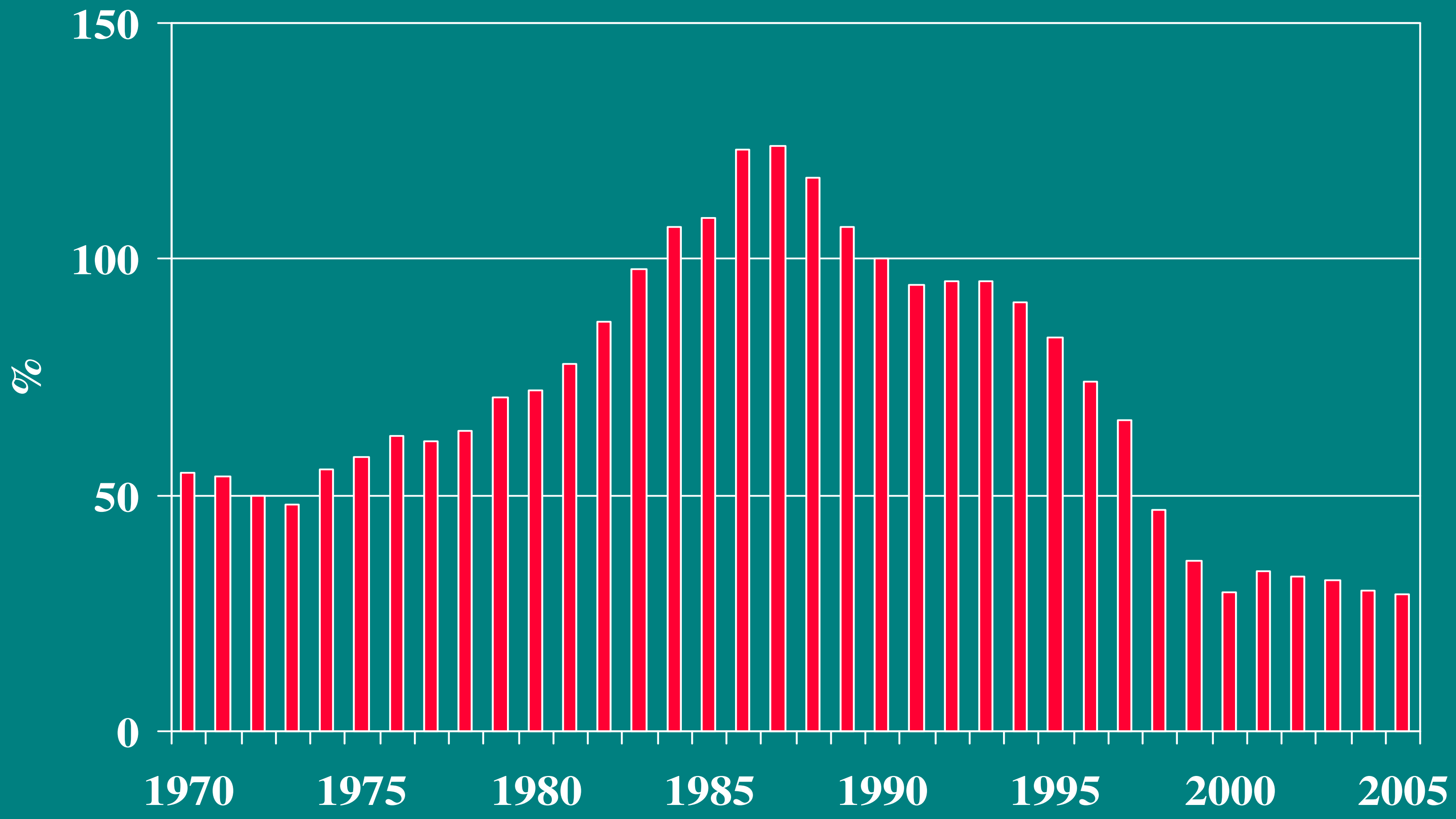
Partnership and Policy Consensus



Partnership and Policy Consensus

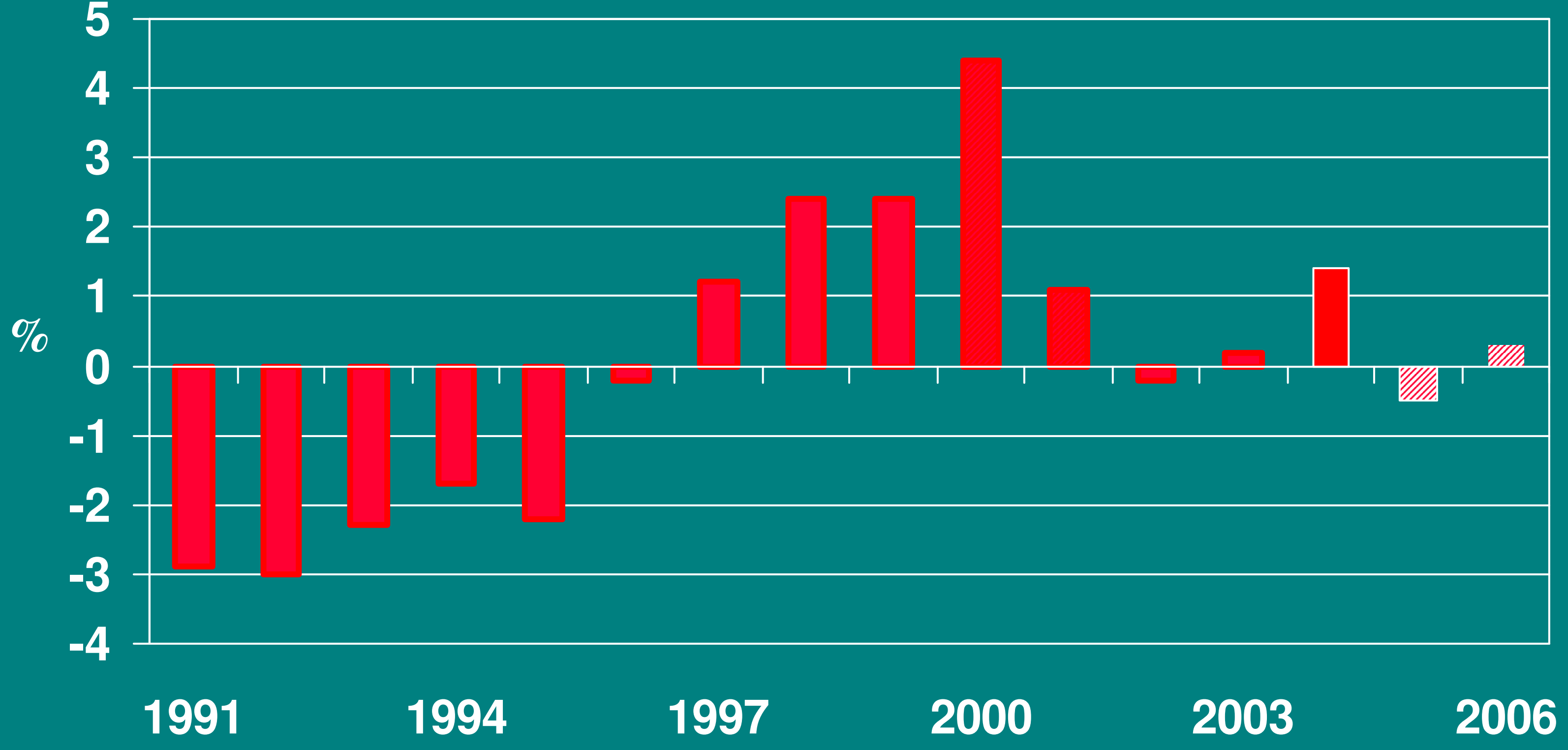


Fiscal Reform, Debt/GDP ratio



Recent performance- Public Finances

Public Finances have moved into surplus



Some of the Challenges

1. Refine our social/economic priorities
2. Remain competitive
3. Increase productive investment
   - *Private sector – international / indigenous*
   - *Public sector – physical infrastructure*
4. Handle social change - multiculturalism

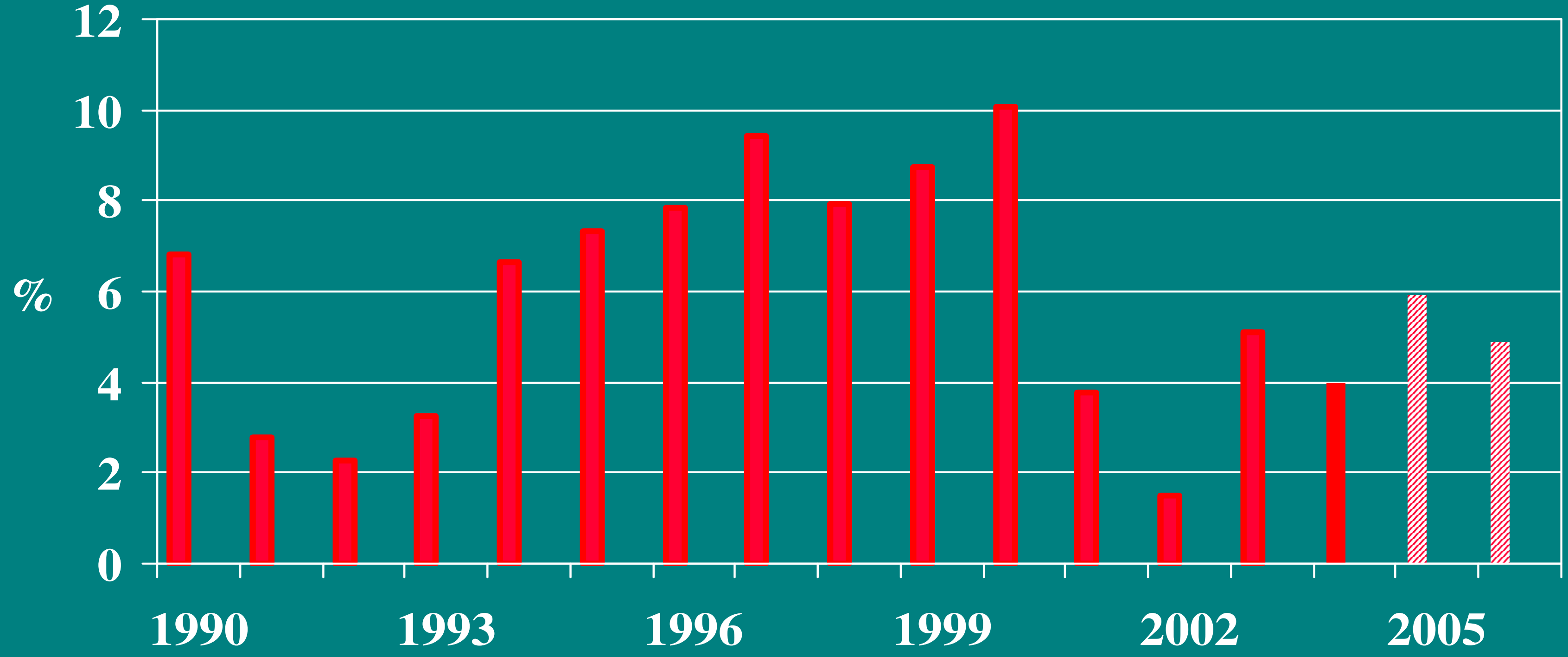
Lessons from Ireland

- Success does not happen overnight
- Recognise the stress of rapid growth
- EU: Open Up, Export led Growth
- Invest in Education and Skills
- Maintain consistent policy stances
- Develop Economic Consensus
- Be Lucky!

Additional slides

Recent Performance- GNP

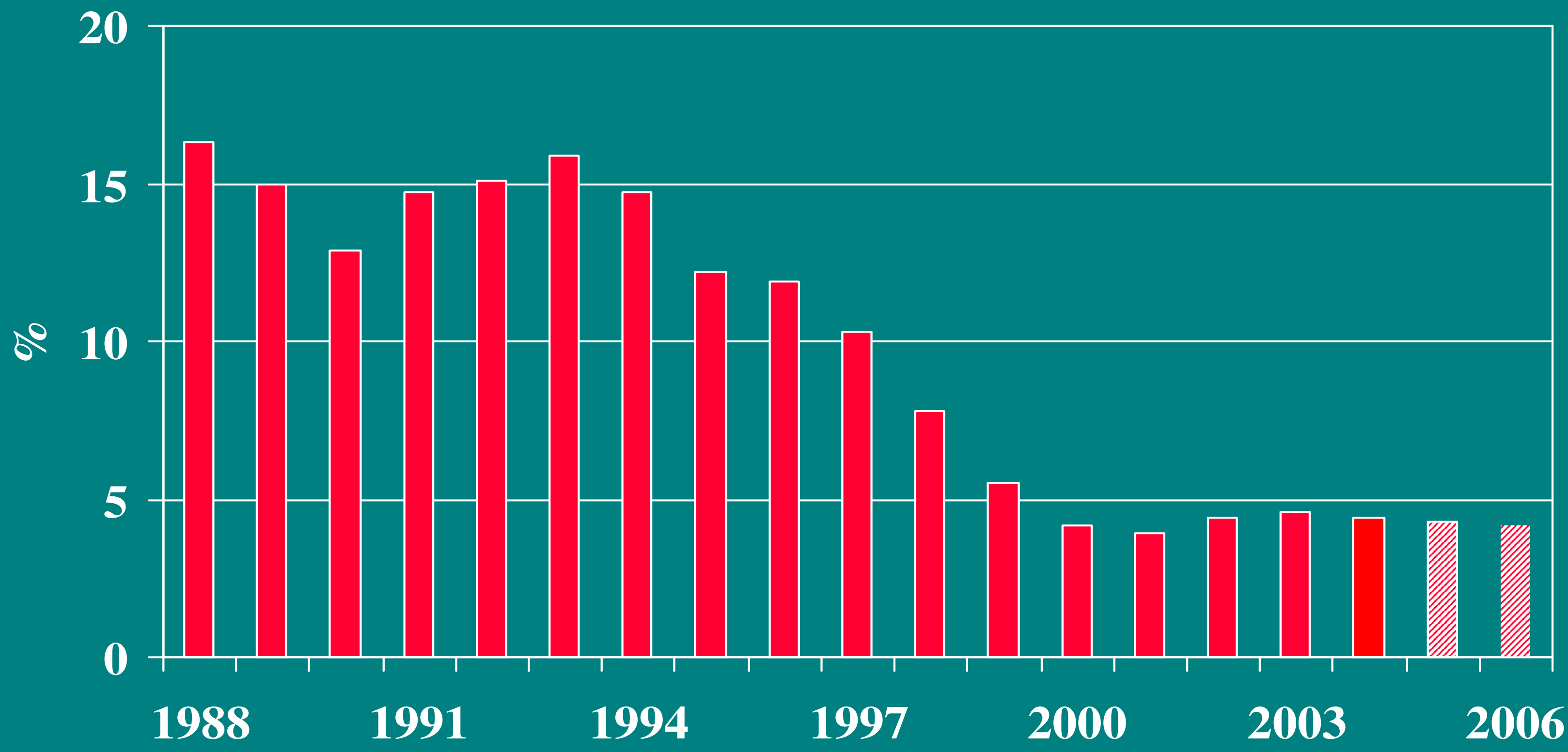
1990-2002: Economy doubled in size



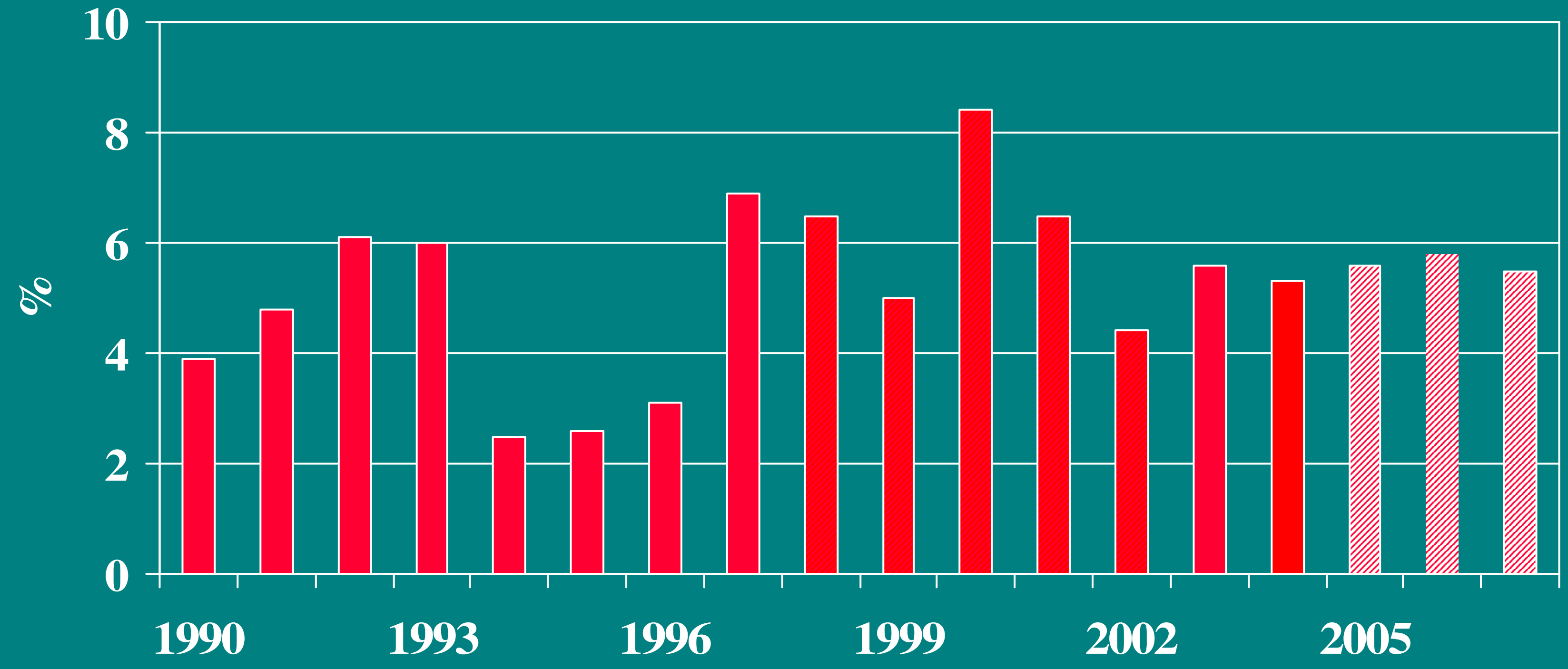
Recent performance- Employment

Recent Performance- Unemployment

Unemployment Rate Declining

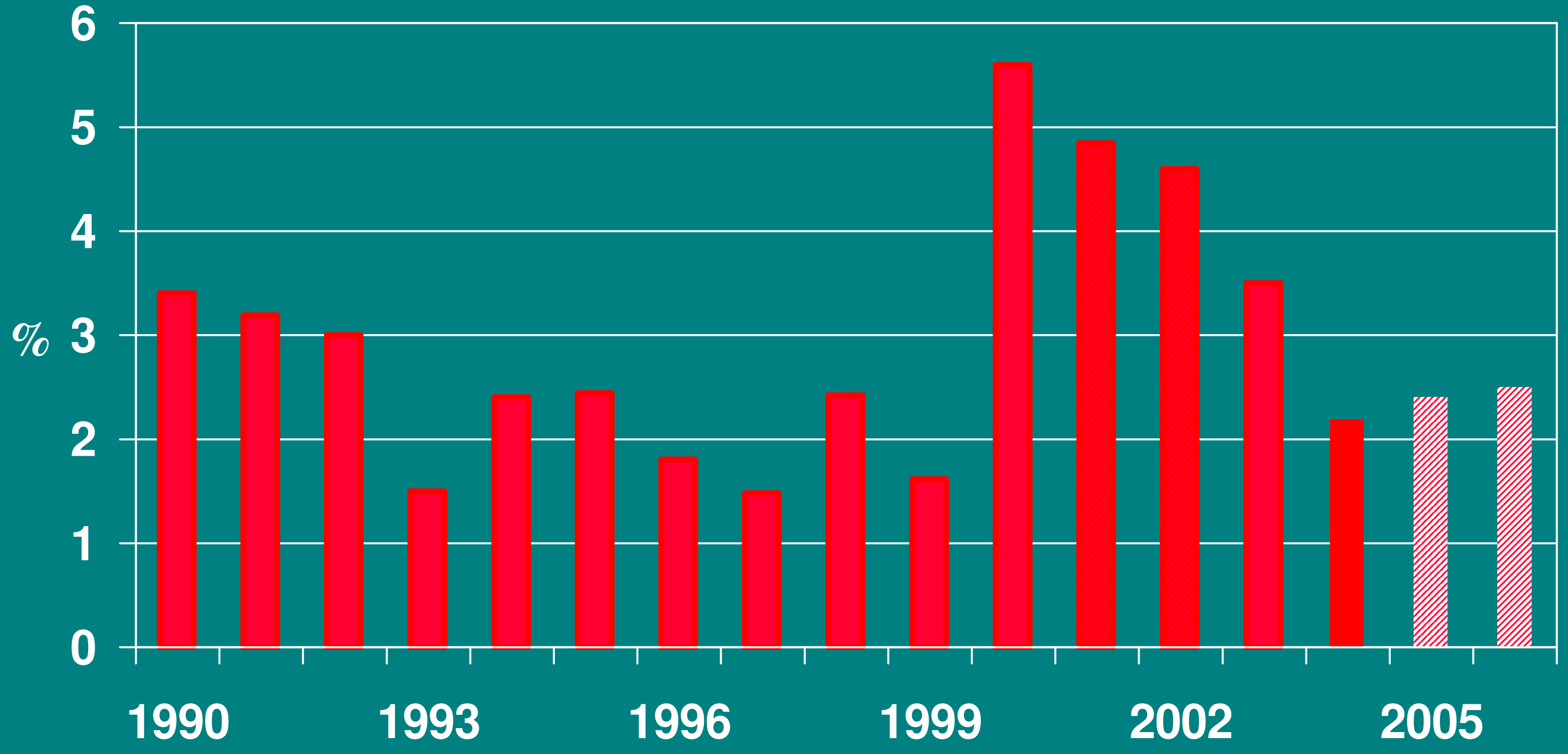


Recent performance -Earnings

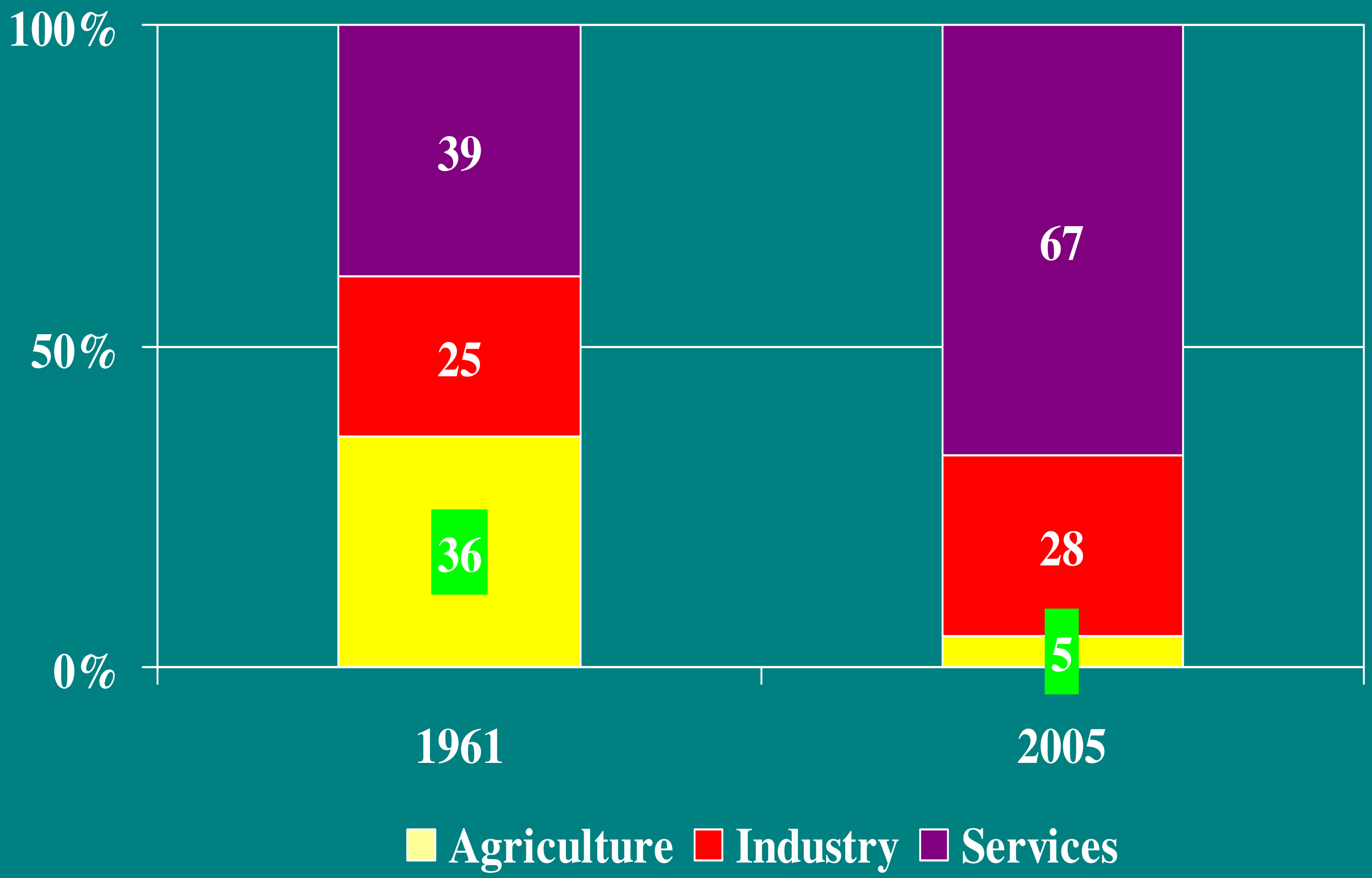


Recent performance- Inflation

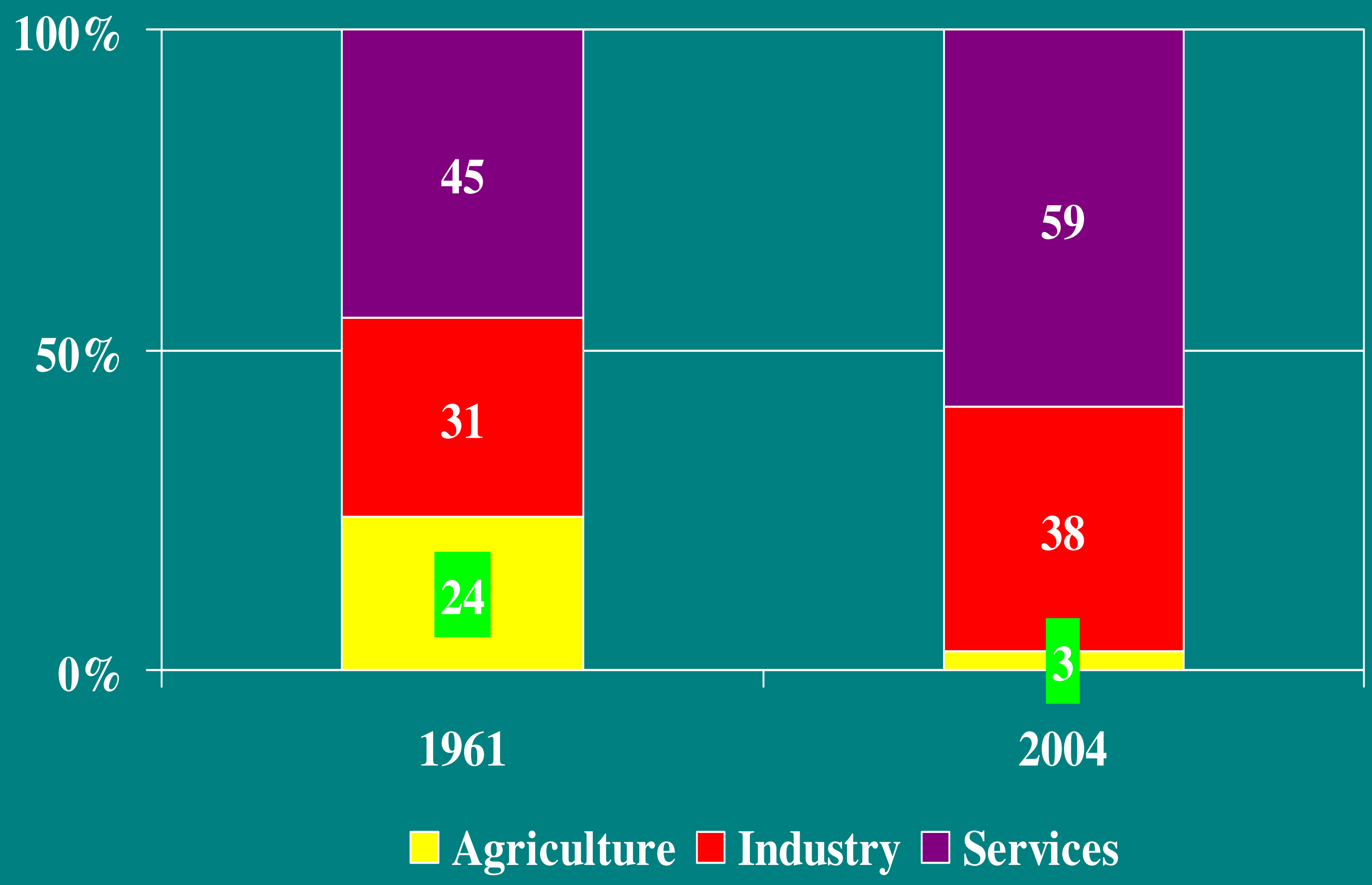
Until 2000, Inflation had remained low



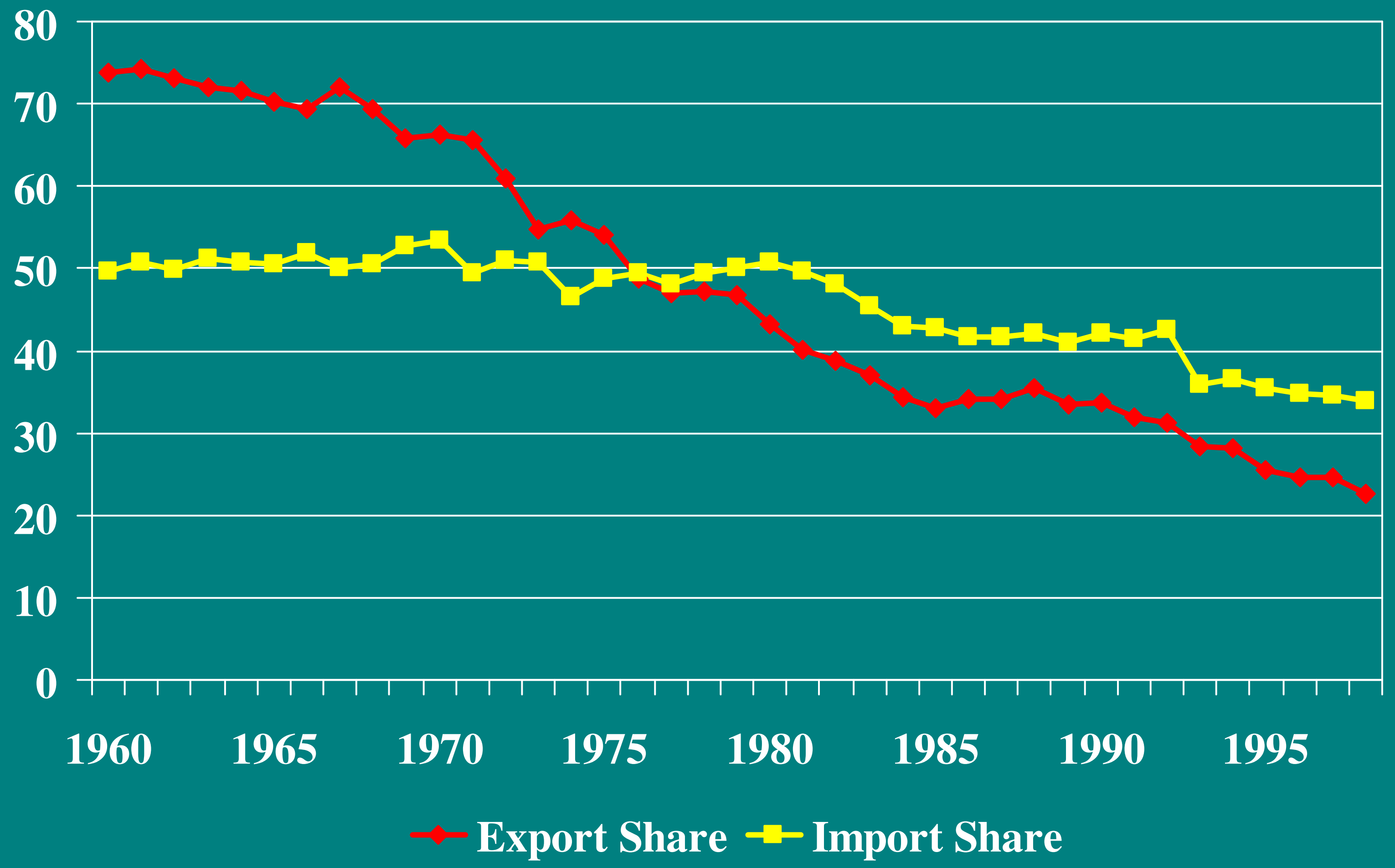
Employment Shares Over Time Post-Industrial Economy



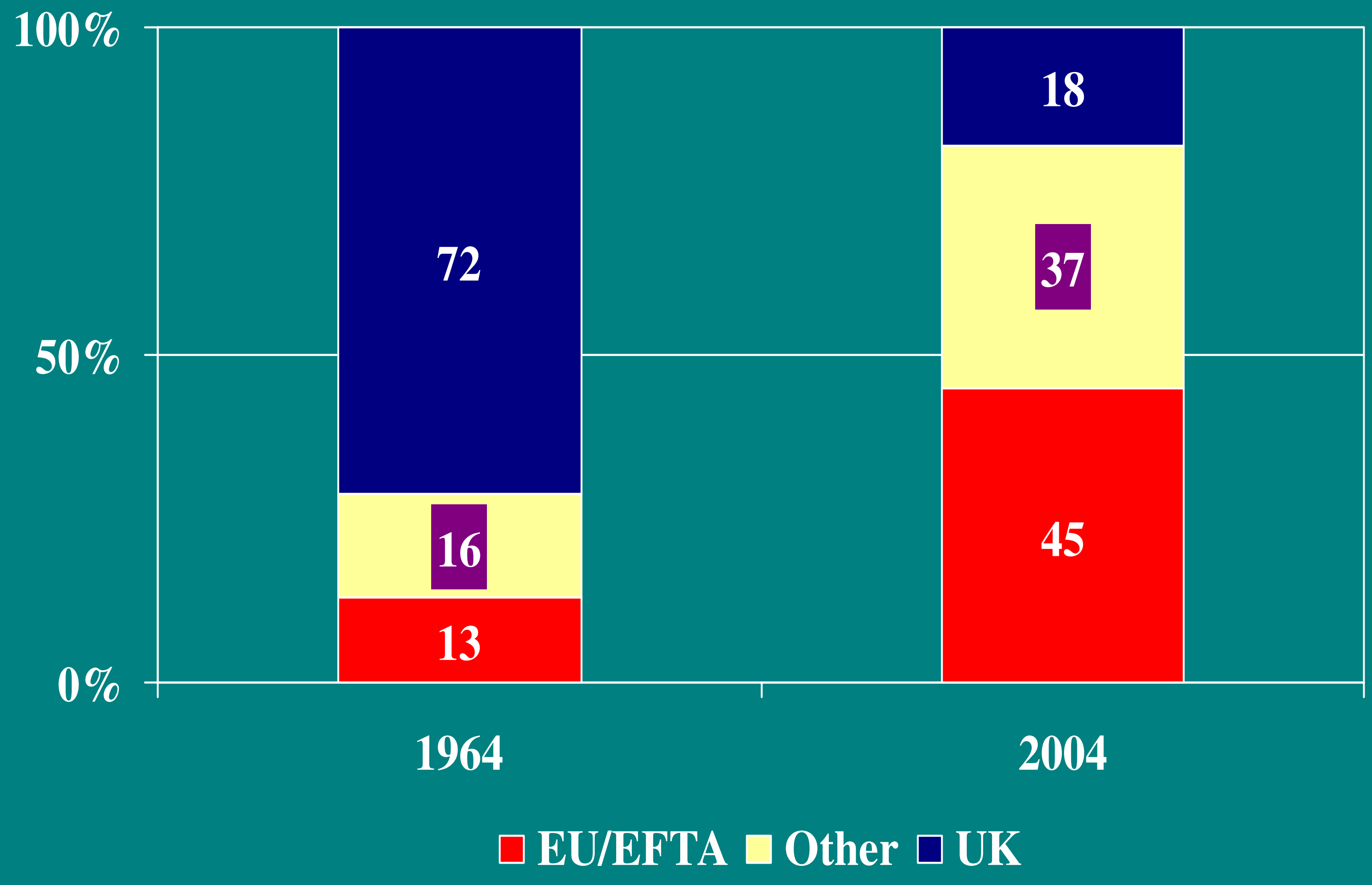
GNP Shares


100%
50%
0%
45
31
24
59
38
3
1961
2004
Agriculture
Industry
Services

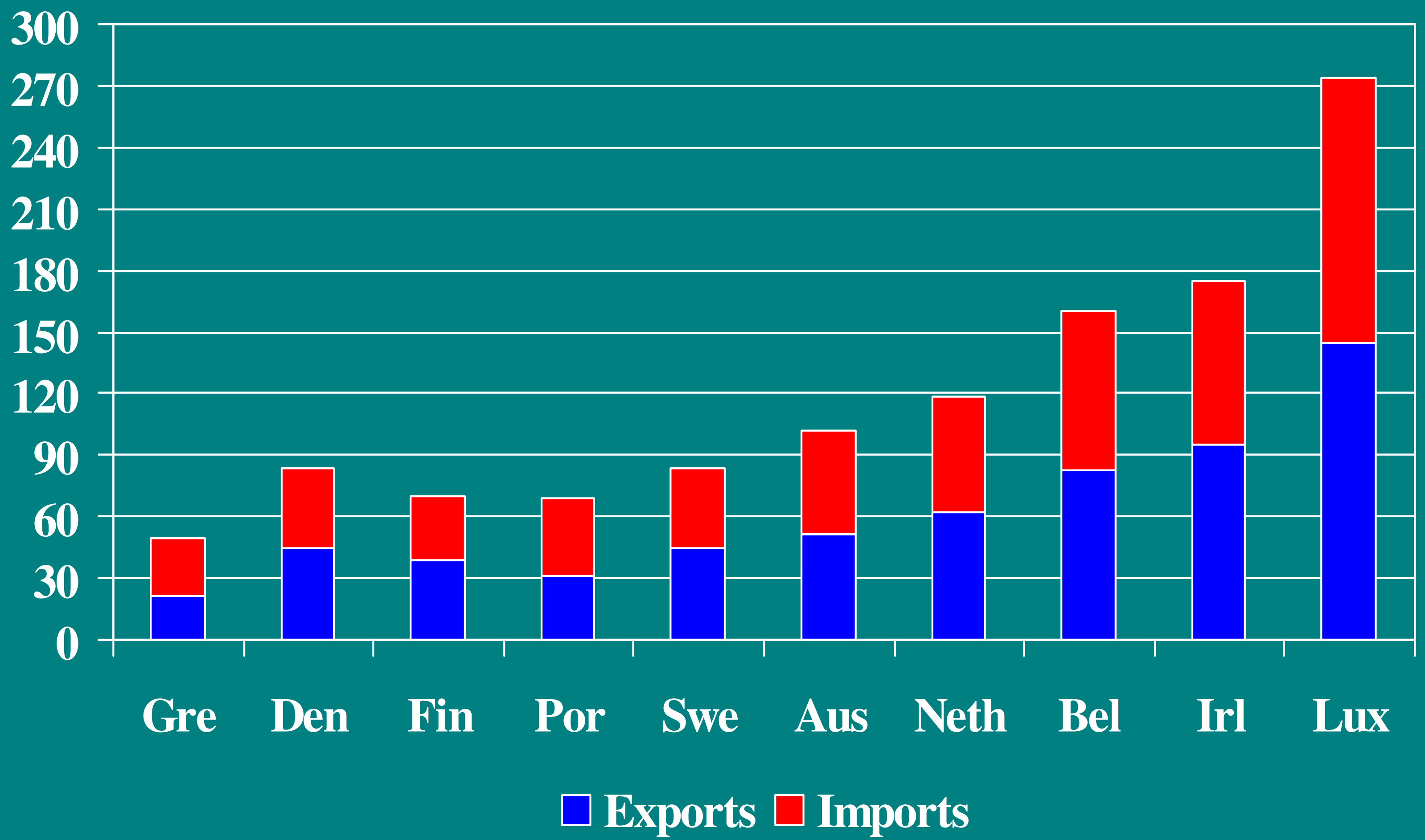
UK Share of Trade



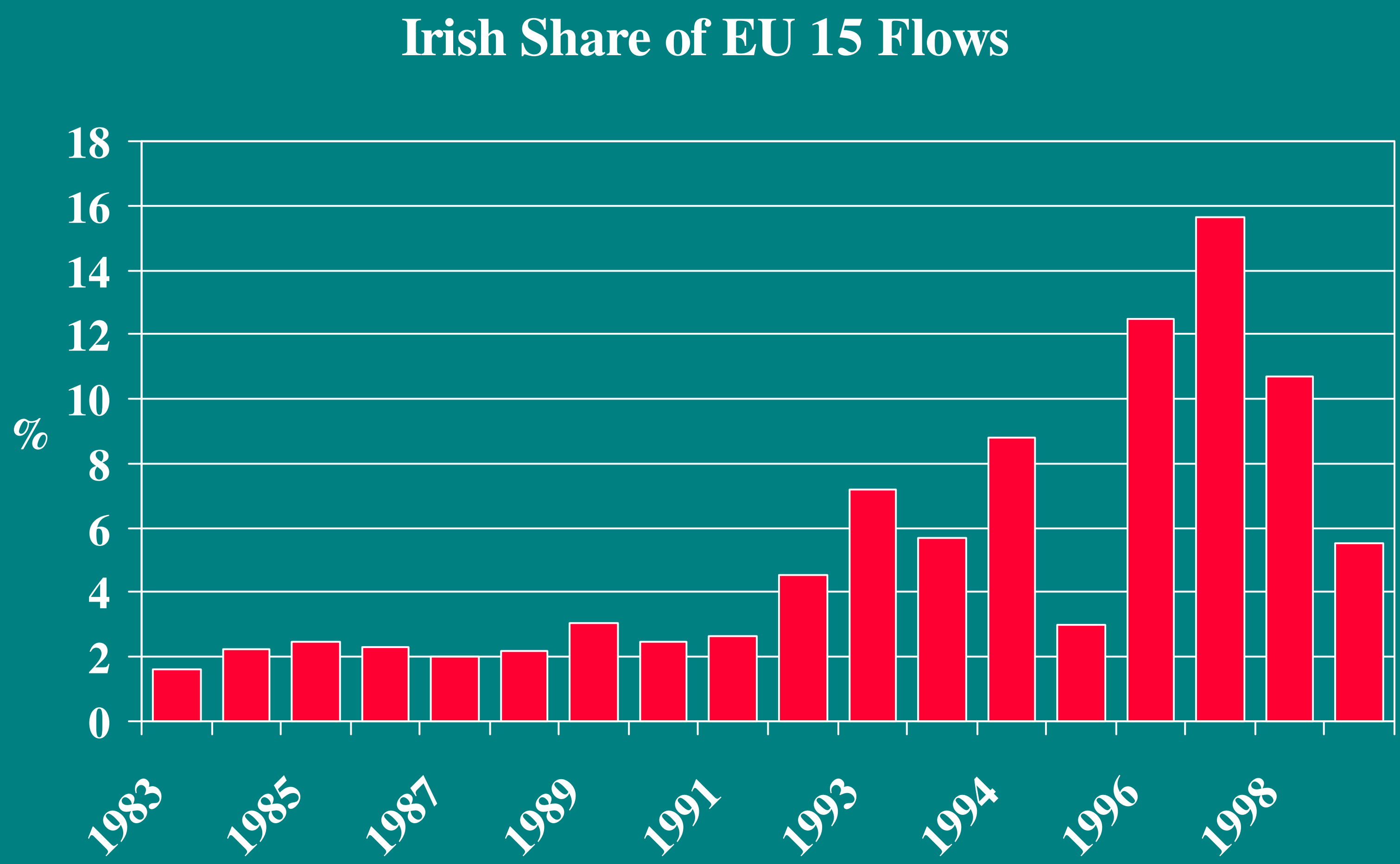
Export Destination



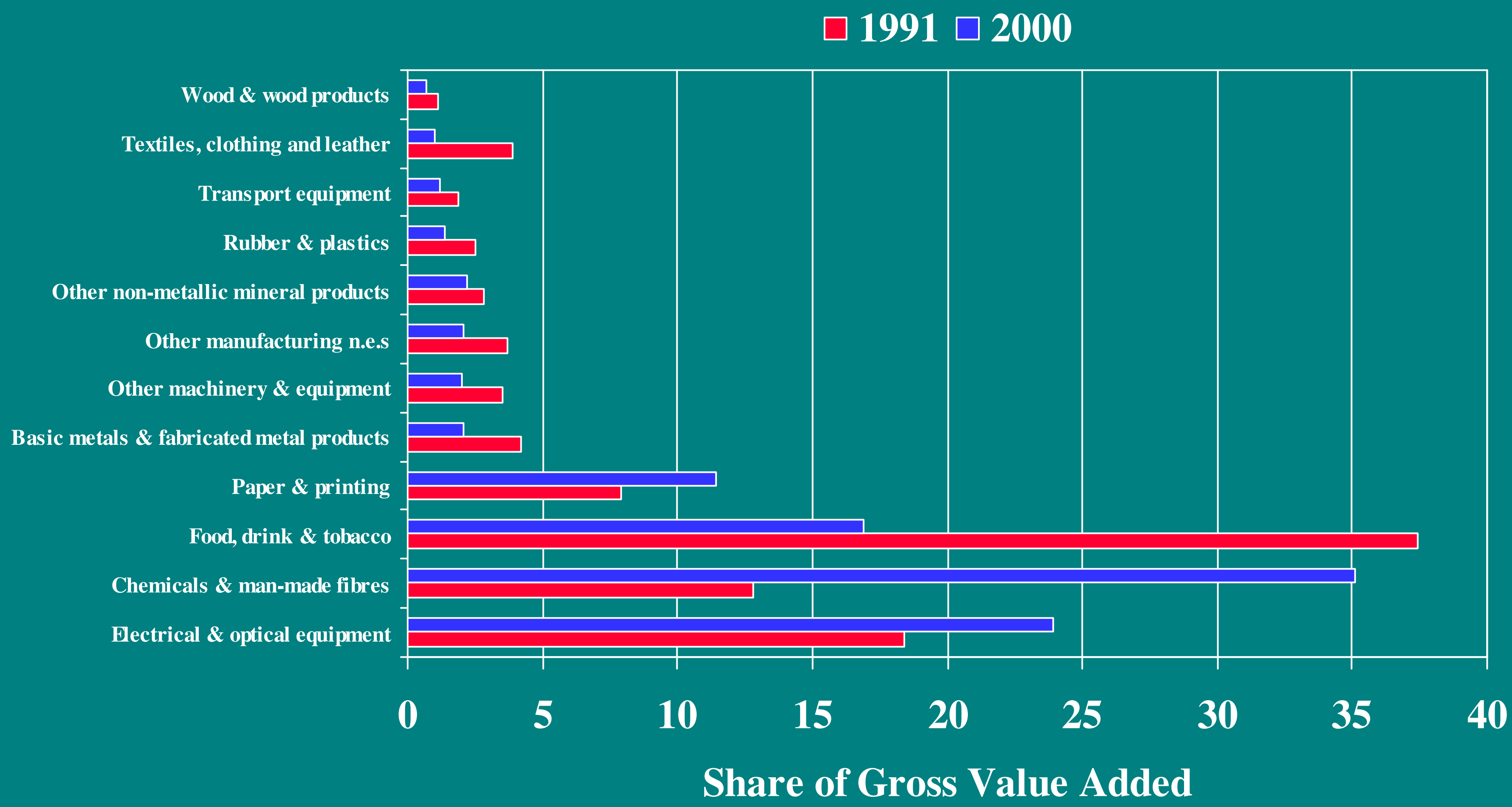
Trade as % of GDP 2002



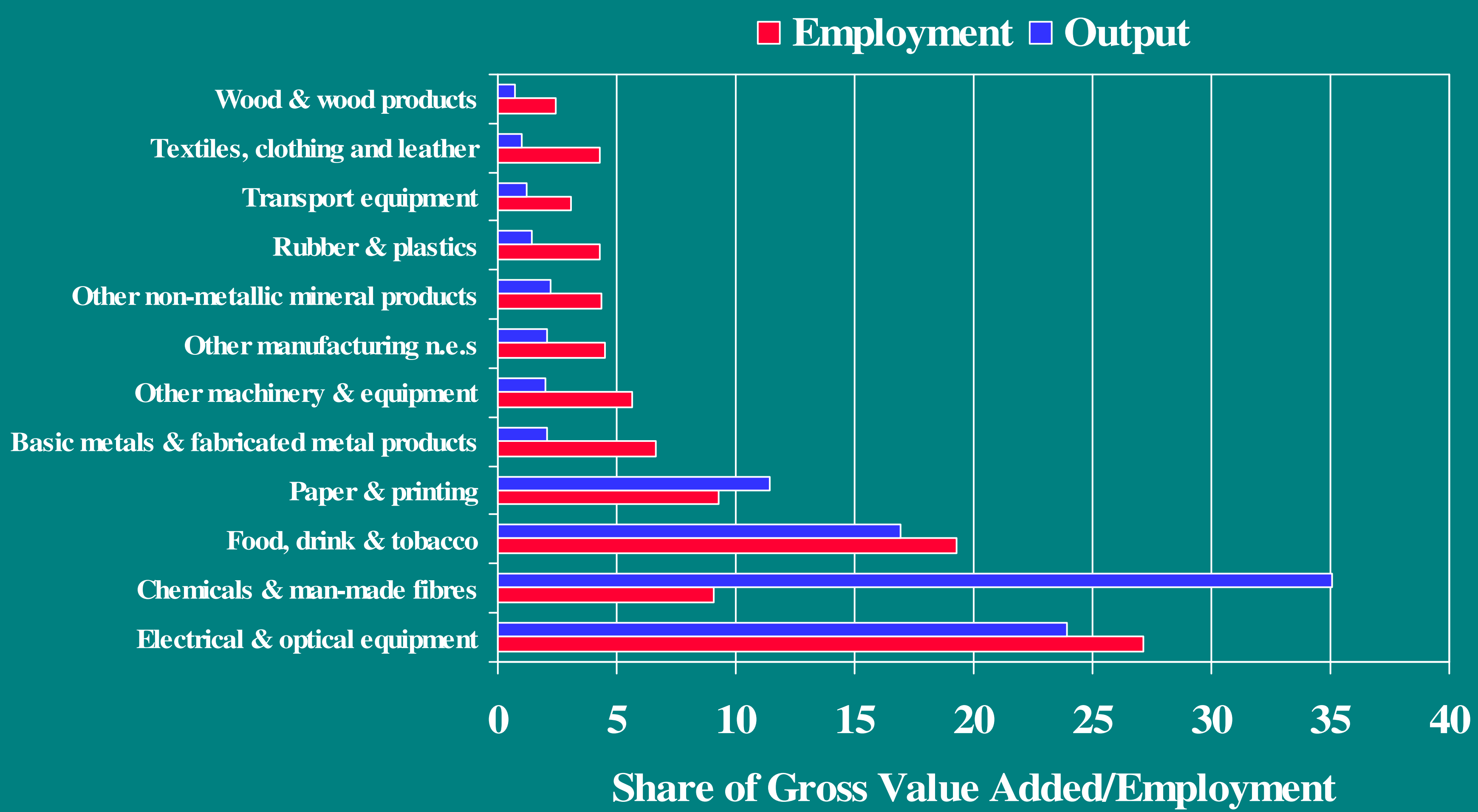
US Manufacturing FDI



Manufacturing RoI 1991 & 2000

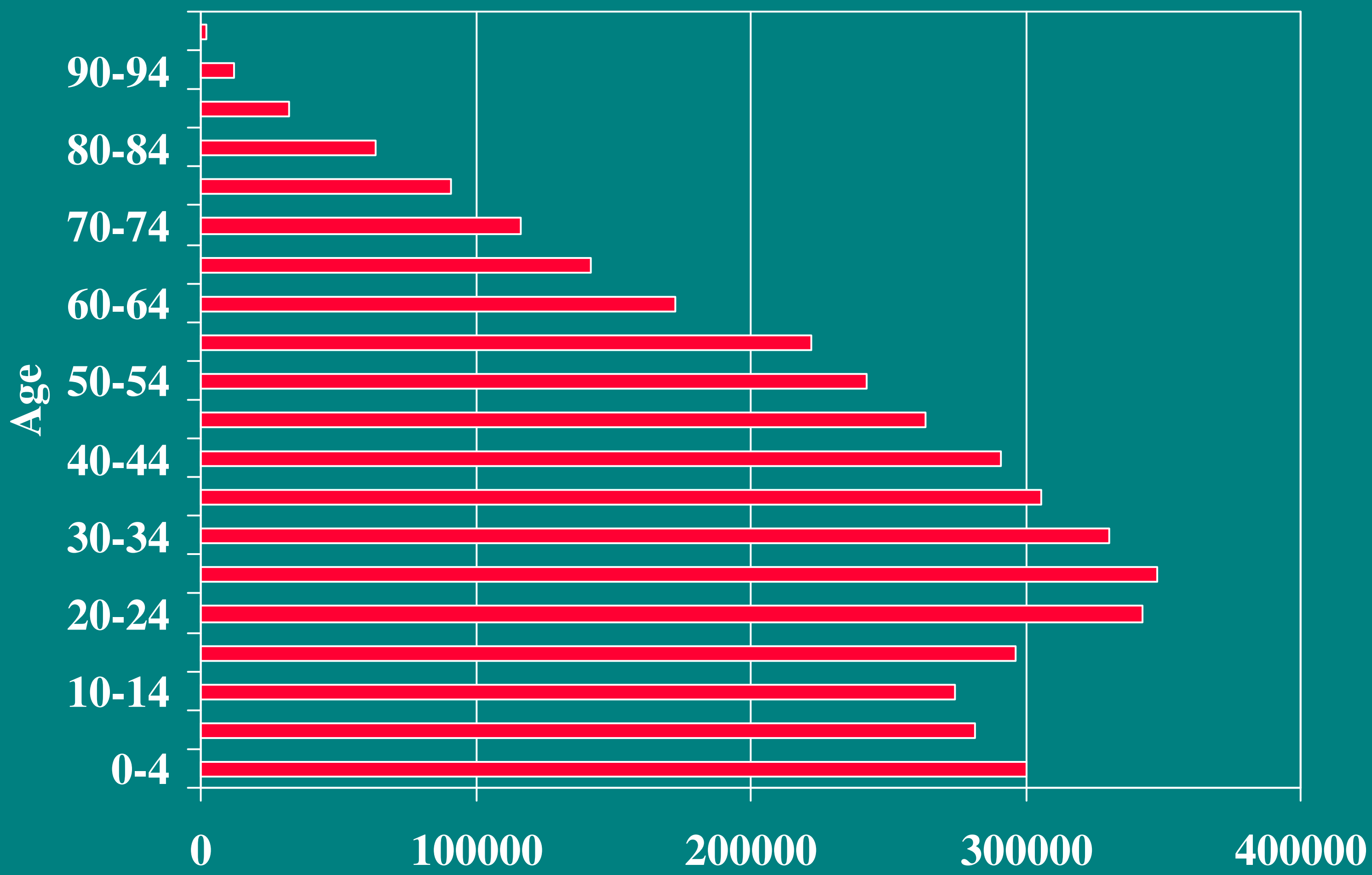


Manufacturing RoI 2000



Foreign Ownership Share by Employment, 2000

Population Structure, 2005



Female Labour Force Participation