

# The Green Tiger

By Brian Easton

The OECD report on the Irish economy, released this month, is unusually fulsome about it, describing its performance as “stunning” and “the envy of countries around the world”. The report was referring to the last three years, but it could have been referring to the last 15. The accompanying table shows an annual GDP growth rate of six percent, high employment and productivity growth, low inflation, a balance of payments surplus, and the almost halving of unemployment. The feat is all the more extraordinary because Ireland’s economic performance before 1985 was worse than New Zealand’s. Between 1978 and 1985 Irish employment actually fell, consumer inflation was marginally higher than ours and, at eight percent of GDP, the current account deficit was even larger than New Zealand’s is today.

Admittedly the Irish have had some advantages. They are the first stop from the US to the European Union, and English speaking at that, making Ireland attractive to the American business that wanted to produce and distribute in Europe. As a poor member of the EU with a largish agricultural sector, Ireland has received substantial subsidies from Brussels, probably amounting to around five percent of GDP. But even without these subsidies the current account deficit would still be smaller than New Zealand’s. Its strong growth of imports has been more than covered by stronger export growth.

At the heart of the success has been an open economy strategy. There has been little import protection (being in the EU gave no choice); the growth strategy emphasises exports: and the economy is open to foreign investment. The Irish have also maintained a firm fiscal and monetary policy, reducing government debt (without depending on privatisation).

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This may appear to be the New Zealand strategy also, but there are some important differences. A social consensus covering wages, taxation, and government spending between the social partners (including the unions) and the government has buttressed macroeconomic policy. Monetary policy does not have to be too tight, since the wage path assists the anti-inflation strategy. To help stabilise house prices, the Irish government builds more houses, rather than driving up interest rates. It ran a realistic

(and undervalued) real exchange rate.

A second major difference is that Irish microeconomic interventions actively support industry. Direct support includes grants to new business, tax breaks, and industry incentives. Indirect support includes active labour market interventions and a strong educational system. (The OECD appears to commend the introduction of free third-level education.

The third major difference is that, while New Zealand concentrated upon opening up its economy financially, including selling off New Zealand firms, the Irish focus has been on foreign direct investment building new businesses. (That New Zealand produces relatively more commerce graduates, whereas Ireland produces relatively more science and engineering degrees, reflects this.) The Irish spend more on labour market policies, and have higher social security rates, higher direct tax rates, and more on government spending. In other words, the Irish just about reverse all the rules we are told are necessary for New Zealand to improve its



**economic performance. Humiliatingly for those who promised us an economic miracle by following the policies opposite to the Irish ones, our economic performance has been dismal compared to theirs. In the last 15 years Irish GDP has grown 80 percent more than New Zealand, and Ireland now has an average level of production above the European Union per capita average.**

**The New Zealand Race Relations Commissioner discourages jokes against the Irish. Look at the table and wonder if his Dublin equivalent prohibits jokes about the New Zealand economy. The Irish can joke about New Zealand.**