

**Transcript of remarks by Dr. Garret FitzGerald,
former Prime Minister of Ireland,
to The Celtic Tiger Dinner
AIMS 10th Anniversary celebrations in New Brunswick
May 31st, 2005**

I've enjoyed so much today here and this evening, and the trouble is I have so many things I want to say arising from the discussion this evening, I'll never get to the speech. But I'll do my best to get through it. As for the documents AIMS has produced, I've already asked Brian to give me a copy of the high school study because we have that issue in Ireland. The teachers are opposed to any kind of study, and they have reason because the results would show there are fewer good schools in the poorer areas, but someone in Ireland should have a go at that.

And AIMS' health documents would be a great help. The Irish Health Service is one of the worst things we've got. We have lots of good things, but not health service. And in a couple of years time, there might be a new government. The present crowd might be thrown out — you never know — and I think ideas from here could be very useful and very welcome.



Dr. Garret FitzGerald explains some of the groundwork that helped Ireland become the Celtic Tiger.

I also was very interested in the point about subsidization because, you know, the reasons Ireland became independent were to do with politics and culture. But, actually, the most important thing, in retrospect, is we got out from under the British before they started subsidizing us. Originally, two to five percent of our GNP was sent from Britain every year. Then they started looking after it better. By the time independence came, they were really subsidizing us to a small degree through social welfare, unemployment, and pensions.

We got out before the welfare state was established. If we hadn't, the cost of leaving would have been between 10 and 15 billion in a small country. And I don't think we'd have had the courage to leave. So, in fact, by leaving, we gained the capacity to develop our economy into a prosperous state instead of simply a dependent part of the United Kingdom.

Northern Ireland, unhappily, is still in that dependent condition. It's not the only problem. You know there are other problems there, but the trouble is when they solve the other problems, they're going to be stuck with how to redevelop an economy that used to be prosperous and viable and self-supporting, because it's become so debilitated by the scale of subsidies, just as is true of East Germany. So that struck me very forcibly as, you know, a point relevant to us in our country.

I was struck by the reference to Hayek by Brian. Before I got married, my wife and I read that book with great interest and became quite taken by it. The trouble is that it's been applied in some countries without regard to the social consequences, because you have to balance the economic growth with the social provision, and it's been abused by people and has led to some bad effects.

Think of the British with their collapsed railway system that they went and denationalized. It was bad enough before, but it's been in absolute chaos since. It's going to take years to restore it. And, of course, they can't compete with the French system, which is nationalized. There are some things you don't necessarily denationalize because if it's a natural monopoly, you're better off with the state running it than the private sector running it, and running it down as happened in that case. So, there are two sides to it. But I've learned a lot while here, and I look forward to bringing some of the ideas home.

Cross-border relations seem to be quite good, I gather, here. We have had cross-border problems at home, but you haven't had many border raids or anything recently, I gather. Well, we've got over the worst of that, and now we have very close relations between north and south. There's still a bit of a problem with getting a viable government going in Northern Ireland combining the two sides, but when it was there for a short while, they worked very closely with our government. There are now half a dozen areas that are done jointly, including tourism. It's an all-Ireland project. And you've another half dozen that are done by the population. My eldest son is, in fact, part of the electricity regulating body in Northern Ireland at the moment. It shows you that we can help each other across barriers. So the cross-border thing is important.



“Ideas are crucial,” Dr. FitzGerald explained to the 250 plus audience at the AIMS Celtic Tiger Dinner in Saint John, NB.

Ideas, of course, are crucial, as has been said several times tonight, and how right it is. The only problem is that I have a granddaughter down there, and the reference to the possibility of extending the school year right through the summer, I'm sure, has her worried. So I have to talk to her about this and assure her there are no immediate plans to do this.

So much for those things, anyway. But I know my job tonight is to talk about the Celtic Tiger, and that I must now do.

The achievement by Ireland of an unparalleled growth rate of 8.4 percent — let me emphasize, not 8.5, but 8.4 percent — a year between 1993 and 2001, three times that of the rest of the European Union, has intrigued people in many lands. Through the past couple of years, I've been asked to address audiences on this subject in Hungary, the Czech

Republic, Serbia, Macedonia, Kosovo, Romania, Sri Lanka, Vietnam, Australia, South Africa, more than once in the United States, Bulgaria, and Croatia. And earlier this year, under World Bank auspices I addressed the Russian prime minister and government on the subject. So, yes, we have aroused some interest.

Ireland, of course, as you know, was a poor country for so long, usually with an output per head of half to 60 percent of that of our neighbour Britain and the rest of Europe, and with a huge rate of emigration. Right up to my generation and for ten years after my generation, no more than half of each age cohort was alive in Ireland at age 35. In the early part of the period, they died of TB or some other mortality, and the rest emigrated. And there's only one bonus in that — well, two bonuses. One, we have Irish people throughout the world who are welcoming and helpful to us, and the other is that we have only half the number of old people we would have had if they'd all stayed at home.

But while this astonishing surge in output has been the feature of our economic performance that's attracted the most attention worldwide, it's argued that an even more remarkable aspect has been the fact that, in the short space of 15 years, between 1989 and 2004, the purchasing power of per capita output in Ireland has moved from 62 percent of the average for the 15-member European Union, which we had last year, up to fractionally above the average level for that group of countries. That means, in fact, that it was 10 percent above the average for the enlarged community, which has the poorer countries of Eastern Europe in it.

No country in Europe has ever matched that rate of catch-up at any stage in history, as far as I can make out. It is phenomenal, and it needs a bit of explanation. I'll come to that towards the end. But may I give you a statistical warning? Don't believe any Irish figures telling you that Ireland is one of the richest countries in Europe. We're not. Because all these international measurements are done in GDP, gross domestic product, that includes all the profits that are made. And the profits made in Ireland by multinationals are on a huge scale. They're one-sixth of our national output and they're all exported — no good to us. So any figures you get of those kinds of comparisons, knock off one-sixth to find the truth. GNP we call it, rather than GDP. It's important you should know that. Now I only use the genuine figures, the reality.

Having said that, there's no doubt that, of course, the hugely important element in the acceleration of Irish economic growth in the nineties particularly was the attraction to Ireland during those years of a totally disproportionate share of U.S. high-tech investment going to Western Europe. At some periods, as much as 25 percent of U.S. investment in Western Europe was coming to Ireland, with one percent of the population. It's below that now — the last figure I saw was 17 percent, but it would be even lower than that now. But it was remarkable to attract such a high proportion.

And, of course, these high-tech firms with high productivity raised standards. They raised the standards of the wages. And we learn from them. Our own firms learn from doing subcontracting work for them, which raises the standards all around. I'll come to that in a few minutes.

Of course, since 2001 and the recent recession, U.S. investment abroad has diminished. But despite that development and despite the diversion to Eastern Europe of some of the kinds of products that used to come to Ireland, which has led to a reduction of one-eighth in Irish manufacturing

employment in the last four years, the Irish economy has continued to grow at twice the average rate of the European Union. Since last year, its growth is running at 5 percent, and the OECD expects this growth rate to continue right through 2006.

Now this isn't telling you all the factors responsible for this. And some of them have nothing much relevant to you, because we had an exceptional demographic situation different from yours. And I'll mention that at the end, but the fact is not all of our experience has any potential relevance. What I should really do, I think, is explain how and why we attracted so much high-tech investment from the United States to Ireland, because that is potentially relevant to you in some ways.



Now, I want to come to the two sets of reasons why we've done well. One is we did have some natural or inherited advantages from the past. First of all, the cultural loss — the disappearance over a period of three centuries of Ireland's indigenous Celtic language — was eventually balanced by the economic advantage, especially for largely U.S. investors, of becoming the only English-speaking country in Europe outside Britain itself.

“But the one thing about politics is politicians can learn from mistakes, as long as they're big enough,” words of wisdom from former Prime Minister of Ireland Dr. Garret FitzGerald during his speech to the Celtic Tiger Dinner.

Second, Ireland inherited from the 19th and early 20th century period of British rule, as indeed Canada did, an independent and incorrupt judiciary and

incorrupt and efficient public service. And although Irish politics in the '70s and '80s experienced some political corruption now being exposed and eradicated by several judicial tribunals, that phenomenon never affected foreign investors. I think it's fair to say that there's no evidence any foreign investor ever had to pay anybody anything in order to get established in Ireland.

Now, by comparison with an awful lot of the other countries in Europe, that's a great benefit, because there are real problems of corruption in many of these countries. I won't say what countries. I nearly said the name of the country a year or two ago, and after my lecture I was asked how we maintained university standards, and one of the students said, “You know why I asked that question? Because you have to pay your professor here to get your degree.” But, you know, it's a great advantage to have a system that works and is free from that kind of corruption. That's been hugely important.

Irish governments change quite frequently but the key economic policies don't change. If a good idea comes in and is implemented, the next government doesn't go back on it. There's a

consistency of policy. And, therefore, firms investing in Ireland know that our policies aren't going to change to their disadvantage. There's no danger of that, and that's very important. We're also, because of past immigration of employment, very welcoming and supportive of investment — there's no xenophobia if there are jobs around, I can assure you.

Irish social policies are closer to those of Britain than to the much more expensive social policies of continental Europe. Investors find that important, too. The downside is our social provisions are not always as good as they should be, and we should really be somewhere between where we are now and the extravagant policies of continental Europe. We've improved a bit in that area, but our costs and social costs are much lower.

But none of these natural inherent advantages could have enabled us to develop as long as the only market was the three and a half million people, or whatever it was at the time, at home. Without access to the European Union to sell our goods, there was no chance of ever becoming prosperous.

So the first thing we had to do was rethink the policy of the '30s, '40s, and the '50s, and the policy of trying to make Ireland self-sufficient, which is a lunatic idea. We're a small country of four million people. You can't possibly be self-sufficient. But industries were set up and protected against any outside competition — 100 percent tariffs, new quotas for goods coming in — and we developed a remarkable industrial sector, which achieved heights of inefficiency, poor design, and high cost rarely achieved anywhere else.

But the one thing about politics — Premier, you'll agree with me — is politicians can learn from mistakes as long as they're big enough. We're not so hot on the small ones. And the scale of mistakes was so big that our people, our politicians in the late '50s, said, "Look, it's in such a mess, the country, we're wondering if it's worthwhile being independent at all. Suppose we do the opposite to everything we're doing so far and see how that works?"

So instead of discouraging foreign investment — no one allowed to have more than 49 percent of any manufacturing firm — we encouraged foreign investment. We encouraged exports, and moved to get rid of the protective tariffs. It took us a while because, although we applied to join the EU in 1961, General de Gaulle refused Britain in '63. And they did think about letting us in mainly to annoy the British but decided it wasn't worth the trouble. So we had to wait until 1973 to get in. So we had a long period of preparation, which was important.

But by being admitted in '73, we got access to this market. So from the point of view of the Americans, particularly, and also the Japanese and others outside — Canadians, too, because we have some Canadian industries — to have a country which is English-speaking, which is free of corruption from the point of view of the investor, which has good public services and all the rest of it, with a 12 and a half percent corporate tax rate, and, I'll come to it in a moment, a good educational system — to have all that and free access to the European market, well, naturally, we became a target for industry.

But although the low corporation tax came in late in the '50s, we didn't have any manufacturing exports because we couldn't produce anything that anybody wanted to buy. So the government decided to eliminate all taxation on export profits. We've ended up with a corporation tax rate

which is much lower than the rest of Europe. In Eastern Europe, some countries such as Estonia have followed that. This is what's infuriating the French and Germans. It's bad enough the Irish having no tax but all these other people are following our lead as well, because we've told them what a good idea it is. Now there's discussion in Germany, I see in the papers, about reducing corporation tax. So we're stirring things up unintentionally.

But the local corporation tax is very important. See, we realized it's not low personal taxation that matters. Of course, all you businessmen try to sell the idea because if you have low personal tax, you're better off personally. You say it's good for business, creates competition. But that's not the important thing. Even if it's fairly high, as long as corporation tax is low, that's the important thing. We're the only country which ever realized that and implemented it. And for a period we had very high personal taxes. It didn't stop industry coming, and we've reduced personal tax since then. The more [inaudible], the more you can get these personal taxes down. So that was a key element, the corporation tax.

We also realized that if you want firms to come to your country, you had better go out and get them. So we established a body, the Industrial Development Authority, whose job was to go out and get firms to come. First of all, they would see what are the



Dr. FitzGerald answers questions from the audience following his remarks to AIMS' Celtic Tiger Dinner.

coming industries — what's the next important industry to come on the scene that would grow rapidly? And then they would send people out who were highly skilled salesmen, very well equipped, to go to these firms and turn up every month until finally the firms said, for God's sake, I'll come and look at your damn country — I can't have you coming here every month! Sheer persistence and a certain amount of Irish charm, of course, meant we got, you know, one or two pharmaceutical companies. And the word spread around: there's a good place for pharmaceutical companies. Nine of the ten largest companies in the world are now in Ireland, at locations fairly often close together in certain clusters. And the same is true of other sectors.

And so we're now key people in areas like computers. One-third of the computers in Europe are made in Ireland, a small country. In the year 2000, we were the biggest exporter of software in the world temporarily. We lost a bit of ground a year or two after that, but we're still high up in that area. And the same is true of medical equipment and pharmaceuticals.

But the next thing we did, and this was crucially important, was to attack education. We were an undereducated country because we were a poor country, and we hadn't really put enough money into education after the state was founded. But our people had a very strong motivation for education. Way back in the 1820s, there were 11 and a half thousand private schools in Ireland charging people for education. Half a million pupils were going to them, all paid for by parents in the poorest country in Europe, poorer than any country except the Turkish Empire at that time, paying their sixpence and shilling, whatever it was, per term to have an education for their children, taught under hedges, in ditches, or in barns or in some room in some cottage. So the demand for education was strong.

And, of course, as years passed and with emigrants going out as navvies and domestic servants, mothers got fed up with their children going to bad jobs and became more and more concerned. And the government — not my government, the other crowd — in the late '60s decided to expand the educational system. We have now discovered in correspondence that has just come out that the minister went to the prime minister and said we have to do this because Dr. FitzGerald is going to come out with his plan, we've heard, in a week or two and we want to trump him. I've only discovered in the last few weeks that I'm responsible for this. It was to trump my educational policy I was working on at the time. This is back in '66-'67. And they announced free private education as well as public, because [inaudible] pay the teachers in the private schools and gives some grants.

So, since then, secondary education [inaudible] five times. Higher education went up by six times. Five out of every six children complete secondary education and 55 percent of every age cohort goes on to higher education, half to universities, half to regional technical colleges. Another 15 percent stay on and mostly do post-school courses to prepare for work. And that has proved enormously important because American firms are looking for low taxes, certainly — that's important — but they also want highly educated people.

By comparison, England, you may not know it, is a very undereducated country — the drop-out rate is huge because of the class divisions. Only recently, in the last ten years or so, have they been trying to catch up. They usually have about 25 percent fewer pupils age, say, 18 in education in England than in Ireland even though we're a poor country. By comparison with England, which

now has specialized education from age 15 on, the broad-based Irish educational system and the high proportion undertaking it, that's been crucially important. And our universities have maintained a high standard, which has not happened in any British universities. And that's what pulls them in.

In fact, if you asked Americans up to a few years ago why they came to Ireland, they said it was because of the tax and education. Now they're saying it's the education and the tax. Education has now become even more important. We have the lowest drop-out rate from universities, except for New Zealand, I think, in the world, which is also very important. So that's education, and I couldn't emphasize that too much.

We also had a problem with finances. I inherited a situation where a previous government had trebled the national debt in four years and left us with a threatened borrowing rate of 21 percent of GDP, which is about ten times what it should be, excluding borrowing for state enterprises. And my government had a tough time because the budget lost by one vote. Back in nine months after that. But by the time I left office, we got things improved and the succeeding government finished the job off. By '89, we had undone the damage. It took eight years to undo the damage done. And since then, finances have been kept in good order. I would argue with the government over some of the things they've done, but overall we moved heavily into surplus in the late '90s. So the deficit now — I mean we have to borrow a little money for some of the [inaudible] side, but not all of it. We're moving back into fiscal rigour at the moment. And, of course, people want to invest in a country that is well run, with finances in good shape, that is not going to go bankrupt, which we nearly did in the early '80s. So that was important.

And the final policy decision when I was in office was on inflation. We had very high inflation when we came in — over 20 percent, and wage rates were up 23 percent a year. And so we ran that down by arguing with the unions and gradually getting it down. When we left office, the pay increases were about 5 percent and inflation about 3 percent.

When the new government came in, the unions were very unhappy because they'd been losing workers — actually, there was disemployment in that difficult period. And it happened that some very statesmen-like leaders came on the scene at that time. So the incoming government spoke to the unions and management and said, "Look, can we do a deal? Our personal taxes are still pretty high at this stage. To get us out of the crisis, let's agree that we'll talk every two or three years. We'll agree on moderate pay increases — say, two and a half percent — and we'll give you tax reductions every year, personal tax reductions."

As a result, throughout the '90s, workers' living standards rose and only half of the increase was for more pay. The other half was lower taxes. And that deal carried on three or four, five times, which meant that we had moderate pay increases, which meant, of course, that the industries located in Ireland were very happy with that.

So the combination of the six policies I've mentioned is what led to that industrial growth.

Now, you could well ask, if you stopped doing things in the '50s and '60s, why did you wait until the '90s before you actually got any really good results? Well, first of all, when the economy began

to improve in the 1960s, people stayed at home instead of emigrating. Instead of only half staying at home, 85 percent stayed at home. Divide 50 into 85 — what do you get? A 70 percent increase in the number of young people staying at home. And in those days, do you know what they did? They got married and had children. That doesn't happen now. But, as a result, the population rose very rapidly, and basically the increased output was absorbed by more and more people. It was only in the mid-1980s that that levelled off and we got less dependence instead of more. And that is when you got the real growth.

Then the financial crises of the '80s did hold things up, it has to be said. It also took time to get all these multinationals in. The first pharmaceutical company might have come in the late '60s, but to get another firm from the top ten took another 20 years or so. We got there eventually. And finally, of course, in the 1980s, conditions were not good internationally. The 1990s was a great decade and so we benefited from a worldwide situation. So that's why it was delayed a bit.

Now let me just make some concluding points on three issues. First of all, labour productivity. The average increase in labour productivity in those years, 1993 to 2001, was 4.2 percent a year, which is about two and a half times the average in Europe. Why? Because the firms that were coming in were high-productivity firms coming into a country which had not had very high productivity previously. And the spin-off from that [inaudible] industry, and we also privatized some state-owned firms. Not a big issue, but where it happened it did increase productivity. So productivity rose remarkably rapidly over that period.

The other thing was labour supply. And this is the important factor, which does not apply to you. I have to explain it, though. First of all, our birth rate peaked very late, in the 1980s. Why? Church opposition to contraception. The Catholic Church played a very constructive role in economic development, because as the birth rate peaked late, the number of young people leaving education peaked in the 1990s. Throughout the '90s, it was rising so that we had, in relation to our labour force, a 60 percent bigger outflow of education than the rest of Europe. The next factor was that women generally stayed at home — again because of Church influence. There were so many of them at home that when they decided to go to work in the '90s, there was a huge outflow — two or three times greater than the rest of Europe — of women going into employment. So those two Church factors gave us huge growth in the number of people available for work in the '90s. Then we had high unemployment after the crises in the '80s, which fell from 16 percent to two and a half, three and a half percent. Well, that's a one-eighth increase in the labour force out of unemployment.

And, finally, of the 200,000 who emigrated in the late '80s, 20 to 25 percent of them came home and, later, others came with them as well. So we now rely on immigration for about half of our additional labour supply each year. Last year, 1 percent of the population of Latvia and Lithuania left for Ireland and Britain and we got a third of them. 50,000 Poles arrived last year, also to help with our labour supply. But that doesn't continue because all those factors ended around the year 2000. And now we don't have a native labour supply. That's why we're now dependent on high immigration. A 5 percent economic growth rate implies having population rising by two percent a year, of which over half is from immigration.

So, in my view, our government should stop pushing to maximize growth. They should seek to optimize growth. We can't go on forever having a high growth rate, finding jobs for everybody in Europe. And we're now building, partly because of immigration, six times and seven times as many houses per capita as they do in England, and four and five times as many as in France and Germany. We can't house and educate the whole population of Europe. So I think this 5 percent growth is as much as we can manage. Any attempt to go beyond that is going to complicate life too much. But 5 percent isn't bad. And it'll taper off. By the end of the decade, it'll be down towards 4 percent. Eventually, we'll be like other countries, 3 percent or something like that, I suppose. But by then, our living standards will be higher, somewhat higher, than the rest of Europe. So there you are.

I'd be happy if you want me to answer questions but I'm told, at this stage, you want to do other things. But if you have any questions, I can answer them here or answer them around the place afterwards. I thank you very much indeed for listening to me for so long, and I've greatly enjoyed being here. Thank you very much.

MR. MANN

We don't want to run too late, but this is the sort of an offer that is very difficult to refuse. So, if there are two or three questions, I know the Prime Minister would be happy to answer you.

DR. FITZGERALD

But he wants questions with short replies.

MR. MANN

I want questions with short replies. Anybody? This is a very restrained...yes?

QUESTION

You mentioned that the economy now relies on a large immigration force coming into the workforce. What do you do in Ireland to attract that high immigration?

DR. FITZGERALD

Let them in! I mean that because, you see, when it was decided to enlarge the community and add ten new countries in Eastern Europe, most countries said, "Oh, God, we can't have all these people



AIMS chairman David McD. Mann (left) invites questions from the audience after Dr. FitzGerald, (right) finishes his remarks to the Celtic Tiger Dinner.

come in as immigrants,” so we postponed free entry for two years or seven years. Then Ireland and Britain and Sweden changed their minds and said, “No, no, let them come.” So we got a whole lot. The whole of Eastern Europe was coming to Ireland and Britain and a smaller number to Sweden. So the other countries not letting them in means they come to us. We didn’t have to do a lot to attract them — just decide to not put any barriers there, which the other countries have done. So, sound good enough? Mind you, [inaudible] knowledge of Polish, Latvian, and Lithuanian is limited now.

QUESTION

Dr. FitzGerald, do you think that prosperity has changed the charm of Ireland in any way?

DR. FITZGERALD

Yes. There’s no doubt if you become rich quickly, it has some negative effects. I don’t think that we’re as caring or as concerned about the community as we used to be, and there’s more individualism and more materialism. Having said that, we had a fair distance to go in catching up to the materialism of the rest of Europe, so we haven’t got there yet. So it’s still, as of today, in many ways, a better country.

And the interesting thing about the immigration is we’ve had an unexpectedly large flow from places like Zaire and Nigeria and Moldova. And that has caused problems with racism because we haven’t had any odd-looking people like that before. Governments have handled it reasonably well, but it took awhile because they had no provision for immigration. It took about four years to have enough civil servants to handle the flow. Meanwhile, they all stayed. And then when you want to tell them to go home, you know, we decided we [inaudible] to come in, they said, “Well what of our children? They’ll be in school for three years.” And, in fact, the only public protests we’ve had have been ones against deporting people. Other protest groups have grown up now under the surface, and a lot of people are saying we don’t want all these people. I’m not saying there isn’t a problem of racism, but there’s still a strong human side to it in Ireland. We’re not quite as negative as perhaps some other people are. But, certainly, it has involved changes.

But the other thing is, of course, if you get rich very quickly, the rich get richer quicker than the poor get richer. And certainly, the poor are better off than they were ten years ago. The huge explosion in wealth at the top has created much greater divisions in society. And the amount of wealth is enormous. I mean our tiny country is now the fifth-biggest investor in Britain. Irish multinationals are usually very small, but they’re there, making investments around the world. We’re now getting a big inflow of revenue starting to come from our investments abroad. And paying into property. The Irish are one of the biggest investors in property in Britain. My youngest son runs a property firm in London with seven agencies because of the amount of interest in investing there.

So, you know, that wealth has a downside, undoubtedly, and we have a lot of tax evasion which has been exposed. And there are tens of thousands of people who want to pay up now. So our budgets are doing very well. Almost everybody who evades the tax has been caught. It’s wonderful. If you pay your taxes for 50 years, like I’ve done, it’s infuriating to have these people get away with it.

And the funny thing is, seven-eighths of them are outside Dublin. It's the country people who avoid tax. We Dubliners pay up.

There you are. But, yes, there are some — there is some deterioration but it's still, in many ways, a good country to be in.

MR. MANN

Thank you very much, Dr. FitzGerald.