МИРОВАЯ ЭКОНОМИКА

УДК 339.9 (045) =111

ИРЛАНДИЯ И ЕС: ЭКОНОМИЧЕСКАЯ ИНТЕГРАЦИЯ, ЭКОНОМИЧЕСКАЯ ТРАНСФОРМАЦИЯ

ОУН О'ЛИРИ
Чрезвычайный и Полномочный Посол Республики Ирландия в Российской Федерации, Москва, Россия

АННОТАЦИЯ
Современной Ирландии, несмотря на недавние экономические трудности, удалось достичь многого. Сегодня это развитое государство — член Европейского союза, а путь к успеху пролегал через тернии экономических и политических реалий. Кроме того, членство в Европейском союзе не могло по-своему не отразиться на ситуации в стране, причем речь идет как о его пользе, так и об издержках, ведь Ирландия — небольшое государство с открытой экономикой. В статье анализируется величина потенциала Ирландии в экономическом и политическом планах на мировой арене; приведены примеры взлетов и падений ирландской экономики со ссылкой на исторические факты; приводятся варианты выхода из сложных экономических ситуаций.
Ключевые слова: современная Ирландия; Чрезвычайный и Полномочный Посол Республики Ирландия в России; экономический потенциал Ирландии; Европейский союз.

IRELAND AND THE EUROPEAN UNION: ECONOMIC INTEGRATION, ECONOMIC TRANSFORMATION

EOIN O'LEARY
Extraordinary and Plenipotentiary Ambassador of Ireland to the Russian Federation, Moscow, Russia

ABSTRACT
Despite recent economic problems, modern Ireland has achieved a lot. Today it is a developed country, a member of the European Union. But the path to success was not always a straight line. In addition, the impact of the EU membership on the situation in the country has not been all positive as Ireland is a small country with an open economy. The paper provides a general overview of Ireland's economic and political potential on the global scale; shows examples of the ups and downs of the Irish economy with reference to the historical facts; gives tips for getting out of difficult economic troughs.
Keywords: modern Ireland; Extraordinary and Plenipotentiary Ambassador of Ireland to Russia; economic potential of Ireland; European Union.

Modern Ireland, even after its recent economic troubles, is a highly developed nation. It is a member of the European Union and the euro zone and had a GDP per capita of 126% of the EU average. While Actual Individual consumption in lower than this it is still a very respectable 97% of the EU average.

This is a recent development. One economic historian has pointed out that over the 20th century to the late 1950s, not only were people leaving the country, those who stayed did not experience a significant improvement in their standard of living. Indeed, Ireland has moved from an outlier in terms of underdevelopment to the other side of the curve and my purpose here today is to attempt to explain why, with a particular focus on its engagement with the process of European integration. Ireland, like many small nations has had a difficult relationship with its larger neighbour. In fact between the arrival of the Normans in 1169 and the achievement of independence in 1922, it was in part or in whole subject to the rule of England and later Britain, and of course today the northern part of the island is still part of the United Kingdom. This relationship did not work to Ireland's advantage.

Following the great famine in the 1840s, Ireland suffered more than a century of economic and population decline. In 1841, the population of what is now the Republic of Ireland was 6.52 million. By 1901 it had fallen to 3.22 million and despite a high birth rate, by 1961, it had fallen further to 2.81 million. Between 1841 and 1961, the population of England rose from 13.65 million to 41. 15 million and that population experienced a significantly higher standard of living than that of Ireland.

This unhappy experience within the United Kingdom was a key factor in energising a new generation of Irish nationalists in the early twentieth century. Following a war of independence the southern portion of Ireland obtained its independence from Britain in 1922.

However Independence did not bring a major change in economic fortunes.

A number of factors drove this poor performance. First was the predominant dependence of the economy on agriculture with a very large number of small farms. Second was the disturbed political and economic environment including a civil war, the great depression, economic tensions with Britain, and the Second World War. Third, however, was an excessive reliance on protectionism and import substitution. Following a short dalliance with free trade, Ireland moved to an economic system focussed on building domestic industries behind high tariff walls. Unfortunately, this policy failed to produce a dynamic industrial sector and the failure to catch the European boom of the 1950s as Ireland clung to clearly outdated economic protectionism led to high emigration and poor growth. Kenneth Whitaker, the Secretary of the Department of Finance and the driving force behind the coming change in economic policy, in a note to the Government in 1957 wrote.

"It is accepted on all sides that we have come to a critical and decisive point in our economic affairs. It is only too clear that the policies we have hitherto followed have not resulted in a viable economy. It is equally clear that we face economic decay and the collapse of our political independence if we elect to shelter permanently behind a protectionist blockade. For this would mean accepting that our costs must permanently be higher than those of other countries, both in industry and large sections of agriculture. That would be a policy of despair… The effect of any policy which entailed relatively low living standards here would be to sustain and stimulate the outflow of emigrants and make it impossible to preserve the 26 Counties as an economic entity."

This stark reality, combined with a changing of the political guard, when Eamon de Valera made way for Sean Lemass as Taoiseach (Prime Minister), set the conditions for a radical change in national economic policy. This involved reducing the barriers to free trade, encouraging foreign firms to base themselves in Ireland and an expansion in State investment in support of development, particularly in the areas of Education, infrastructure and urban development. Ireland's education system was, at that time particularly underdeveloped.

There was however no great enthusiasm for a return to a fully free trade environment. Ireland's previous experience under British rule had left a sour taste in that regard. The application of free trade principles during the Great Irish Famine had left a very vivid impression on the public mind. While there are differing views amongst historians, I can testify from my own childhood that there was a near universal belief that Britain had done too little, too late to help the victims of the famine which decimated the population of the country.

Those of you who read James Joyce's Ulysses will come across a speech by the Citizen condemning the woeful effects of British rule. "Where are our missing twenty millions of Irish should be here today instead of four, our lost tribes? And our potteries and textiles, the finest in the whole world!" While Joyce has some fun at the Citizen's expense there is little doubt that many people then and now in Ireland believed that a free trade environment without a broader framework of support meant that Ireland would suffer while the larger countries, and the larger neighbour in particular, prospered. Indeed as recently as the 1980s, when discussing the idea of a single currency, a former Governor of the Irish Central Bank, Maurice Doyle, said that there was a risk Ireland could become the Appalachia of Europe.

From the beginning, therefore, as well as opening the economy, Ireland sought new political partners in its quest for development. In the first thirty years of independence, the United Kingdom had taken ninety percent of Ireland's exports. Ireland also tied its currency to Sterling making the country dependent economically on its near neighbour. Once the country decided to adopt an open trading approach, in the framework of an economic plan, Ireland also began to look for an international context in which it could pursue its development. While the European Economic Community had been agreed before the new Irish policy was adopted, it is interesting to note that Ireland did not join the European Free Trade Association (EFTA), an organisation founded by those who were inherently uncomfortable with the political aspects of European integration such as the United Kingdom and Sweden.

While Ireland had been struggling in the 1950s, a major transformation had been taking place in Western Europe. Rising from the ashes of the war, the elites in France, West Germany and Italy, encouraged by the United States through its Marshal Plan, decided that future peace and prosperity could only be guaranteed by economic integration. In 1952, the six countries of France, Italy, West Germany, Netherlands, Belgium and Luxembourg placed their coal and steel industries under the control of a supranational authority. This was a revolutionary development at the time as coal and steel were seen as the raw materials of both economic and military power.

A more ambitious plan to create a European Political and Defence Community failed in 1954 when it was rejected by the French National Assembly. However, this did not deter the "founding fathers" of European integration such as Monnet, Schuman, Adenauer, Spaak and De Gasperi. They immediately began the push for an Economic Community and this was agreed, with EURATOM, an atomic energy union, in Rome in March 1957. Britain, having been invited to the negotiations of these treaties, withdrew from them. Nobody in Ireland or Europe seriously considered Ireland as a candidate for membership.

The key elements of the EEC remain the central features of the European Union. Policy is driven by an independent Commission while decisions are taken by the Member States in the Council, often by majority voting and by the European Parliament. The European Court of Justice ensures that all of the actors play by the rules. Pure economic policies such as free trade and freedom of movement for capital and labour are flanked by common social policies to avoid social dumping, convergence policies to assist less developed regions, common agricultural and fisheries policies to ensure food security and rural development and a common trade policy to ensure that Europe speaks with one voice in world trade negotiations. Over the years a wide range of other policies have been added. The EU as it is now called has common foreign and security policies and highly developed environmental policies.

The EEC proved to be a major impetus for growth in Europe. While the UK continued to struggle to find sustainable growth, the six members of the EEC made very rapid economic progress. Nothing succeeds like success and by 1961, the United Kingdom had begun to reconsider its rejection of the EEC. Ireland, by now fully committed to its new economic policy, applied for membership on 31 July 1961. Unfortunately, however the "six" founding members of the EEC were not convinced that Ireland was economically or politically ready for membership and the then Taoiseach, Sean Lemass, had to lobby intensively in each of their capitals before we were invited to begin negotiations. In any event, Charles De Gaulle vetoed Britain's application in 1963, giving Ireland more time to prepare. Indeed Britain, Ireland and Denmark had to await the arrival of President Pompidou as president of France in 1969 before accession negotiations began in earnest.

In the 1960s, Ireland continued to grow and to invest in its own development. Its experience of the Anglo Irish Free Trade Agreement of 1965, confirmed it in its view that free trade on its own would not suffice. This agreement which did help open up the economy, was supposed to ensure free trade between the two countries, but Britain, which suffered a number of foreign exchange crises at that time, unilaterally imposed currency restrictions on Irish exporters to Britain. Unlike in the EEC, there was no supranational Commission and no Court of Justice to enforce the agreement, and the Irish Government had no choice but to accept the British measure.

Ireland joined the EEC, today's European Union, on 1 January 1973, following a national referendum, in which 83.1% voted in favour. The Norwegians rejected membership at that time, and Ireland, with Denmark and the United Kingdom turned the "six" into the "nine".

While membership of the EU transformed Ireland's foreign and economic policy, it was not an immediate success in economic terms. Following a decade and a half of strong economic and population growth up to 1973, Ireland was rocked by two oil crises, a slowing in reform and the negative results of auction politics. By 1986, the national debt was reaching unsustainable levels, unemployment was over 17% and emigration had once again reached a very high level. In 1987, a new Government adopted stringent measures to control government spending, to reform the public service and to revive the industrial capacity of the country. It was greatly helped in doing so by world economic conditions and a revival in the fortunes of the EU.

The EU itself had gone through a period of Eurosclerosis in the 1980s but with the appointment of Jacques Delors as President of the European Commission in 1985 and the strong support of Chancellor Helmut Kohl of Germany and President Francois Mitterand of France, the EU found a new sense of direction. In short order the Single European Act and the Maastricht Treaties were agreed, laying the groundwork for the "single market" and the euro. You might well ask, why the EU needed to create a "single market" in 1992 more than 30 years after such a market was, in theory at least, created in the late 1950s and early 1960s. The answer of course is that the first wave of measures concentrated mainly on the abolition of tariffs between the member states. This left a myriad of other measures which had the effect of controlling trade. The Single European Act allowed these measures to be adopted by a qualified majority of member states. This cut through years of delay and the Single Market created a new impetus for Europe. In addition to the Single Market, the European Union increased and streamlined its convergence and cohesion funding for less developed regions. This funding was focused on productive investment in physical and human infrastructure and assisted Ireland in taking advantage of the single market.

In the 1990s, the EU also began to reform its common Agricultural policy.

This policy had helped Ireland downsize the number of farms without social upheaval but had become extremely costly with the creation of milk lakes and butter mountains.

The new European frameworks combined with national policies saw Ireland grow at an unprecedented rate. From 1995 to 2000, GDP growth rate ranged between 7.8 and 11.5%; it then slowed to between 4.4 and 6.5% from 2001 to 2007. During that period, the Irish GDP per capita rose dramatically to equal, then eventually surpass, that of all but one state in Western Europe. In 1999, Ireland joined the euro zone and the Irish pound was replaced by the euro in January 2002. This enabled Ireland to borrow at historically low interest rates.

Unfortunately, however, the Celtic Tiger years came to a dramatic end. The global financial crisis revealed fundamental weaknesses in the Irish banking system. A boom in property and asset prices had been fuelled by irresponsible lending. The Irish Government was forced to nationalise the entire national banking system and to liquidate a number of banks at a very heavy cost. Over the years 2008 to 2011 unemployment trebled to over 15%, net emigration returned, the national debt rose to over 100% of GDP and GDP itself fell by over 10%. Following over two years of efforts to tackle the crisis on its own resources, on the evening of 21 November 2010, Ireland formally requested financial support from the European Union's European Financial Stability Facility (EFSF) and the International Monetary Fund (IMF). It did so with great reluctance, but had no other choice as there was a real prospect that the banks would not be able to give out money if international help was not availed of.

A €67.5 billion "bailout" was put in place by the EU, other European countries (via the European Financial Stability Facility fund and bilateral loans) and the IMF as part of an overall total €85 billion "programme".

The Irish State assigned €17.5 billion to this "bailout;" an amount that was equal to the Total Discretionary Portfolio of the National Pensions Reserve Fund. As part of the terms and conditions of the "Bailout Programme", the Irish government agreed to a range of cost cutting and revenue increasing measures aimed at bringing Ireland's public finances under control. These terms and conditions continued to be met when a change of government occurred in March 2011 after the general election. By August 2011, total funding for the six Irish banks by the ECB and the Irish Central Bank came to about €150 billion. This is an enormous figure by any standards.

Needless to say there was a very vigorous political debate about the bailout and in the 2011 general election the then Fianna Fail/Green Government lost three quarters of their parliamentary seats. To put this is context the Fianna Fail vote dropped to 17% of the national vote. In no election since 1932 had Fianna Fail received less than 39% of the vote.

There were those who advocated default and leaving the euro. However the new Government, with strong popular support committed to the bailout programme, and last December, following a number of very difficult years, Ireland left the "bail out" without recourse to contingency funding. And the economy is now recovering. The economy and asset prices are growing again. Ireland is borrowing at very low interest rates. Indeed last week, we were able to borrow at negative rates. We have staunched the bleeding from the banks. Employment is growing and unemployment is falling, albeit still over 11%.

The EU itself has learned from its mistakes. Banking regulation has been tightened up as has economic coordination amongst the member states. While the euro zone continues to suffer anaemic growth, it is hoped that it too will resume its growth path in the near future. What is clear is that without the assistance of the EU, Ireland would have had to undergo an economic adjustment which could be compared to undergoing surgery without an anaesthetic.

Even after the recent crisis, Ireland remains a prosperous country. It has the 18th highest GDP per capita in the *world*.

Independent studies rank Ireland first in the world for inward investment by quality and value, and as the best country in Western Europe in which to invest. We rank first in the world for the flexibility and adaptability of our workforce, and third in the world for the availability of skilled labour. We have a young, highly-educated workforce in the only English-speaking country within the Euro zone, with barrier-free access to 500 million consumers. Dublin is ranked as the best city in the world for human capital.

Our agri-food sector is performing particularly strongly, increasing exports by 40% since 2009 to reach a value of almost €10 billion in 2013.

Over 1000 overseas companies have chosen Ireland as their strategic base in Europe. 8 of the top 10 global ICT firms, 9 of the world's top 10 pharmaceutical firms, and all 10 of the largest online companies in the world operate from Ireland. During 2013, major investments in Ireland were announced by Deutsche Bank, Twitter, EMC, eBay, Salesforce, Novartis, Vistakon, Facebook, Zurich, Symantec, De Puy, Yahoo, Sanofi and Indeed.com.

The same factors which draw overseas firms to Ireland make our indigenous enterprises and start-ups among the most dynamic and innovative in the world. Employment in Irish exporting companies grew strongly in 2013, and Irish innovation in sectors such as information technology, medical devices and engineering is changing and enhancing people's lives around the world, every day.

CONCLUSION

I would suggest three lessons from this account.

First a small open economy like Ireland has benefited greatly from membership of the EU. In purely monetary terms Ireland received net contributions from the EU of more than 40 billion euro between 1973 and 2007 inclusive. But more important perhaps is the fact that it has enabled Ireland to access the European Market as an equal. It has allowed Ireland to bridge the development gap with Western Europe that it had experienced for centuries. It has also enabled and indeed at times compelled, Ireland to modernise its public services and private enterprise.

Second, EU membership of course is not a panacea. We have twice in our membership of the EU lost our way economically, in the 1980s and in the last six years. EU membership will not in itself save a country from poor policy choices and their consequences. But EU membership and membership of the euro has enabled Ireland to weather and recover from these storms.

Third, EU membership, is not a charitable enterprise. The fundamental driving force underpinning the EU is mutual self interest. There was no question, for instance, of the EU giving Ireland a blank cheque when its banks were on the point of collapse. The assistance was subject to tough conditions, just as our initial access to the EU entailed making difficult changes in the structure of our industry. But the key point is that the EU policies are not imposed from above but hammered out by the member states in Brussels. The EU is a collaborative body.

That can lead to much frustration. There are no easy decisions in the EU. There is no one person such a President, or indeed no one institution, such as a Parliament, which can decide on policy. Every decision has to be negotiated through a complex process. Many say indeed, that the EU is like a bumble bee. Under the laws of aerodynamics, the bumble bee should not be able to fly but it does. From the outside, the EU should not be able to work but it does. And it has had its reverses both at the European and national level. The Irish public, for instance, rejected two European Treaties at the first time of asking in a referendum.

However, it has, on the whole been an outstanding success. It has for instance been a key stabilising factor in Eastern Europe by giving the peoples of the post communist states a European perspective. While it now faces challenges such as anaemic growth and immigration, it has a proven track record of meeting challenges successfully. I have every confidence that it will continue to do so.