Bank of Greece Conference on The Crisis in the Euro-Area

Discussion of
Ireland's Economic Crisis
The Good, the Bad and the Ugly

by Karl Whelan

Discussant: Thomas Moutos (*AUEB & CESifo*)

A very well-written and informative account

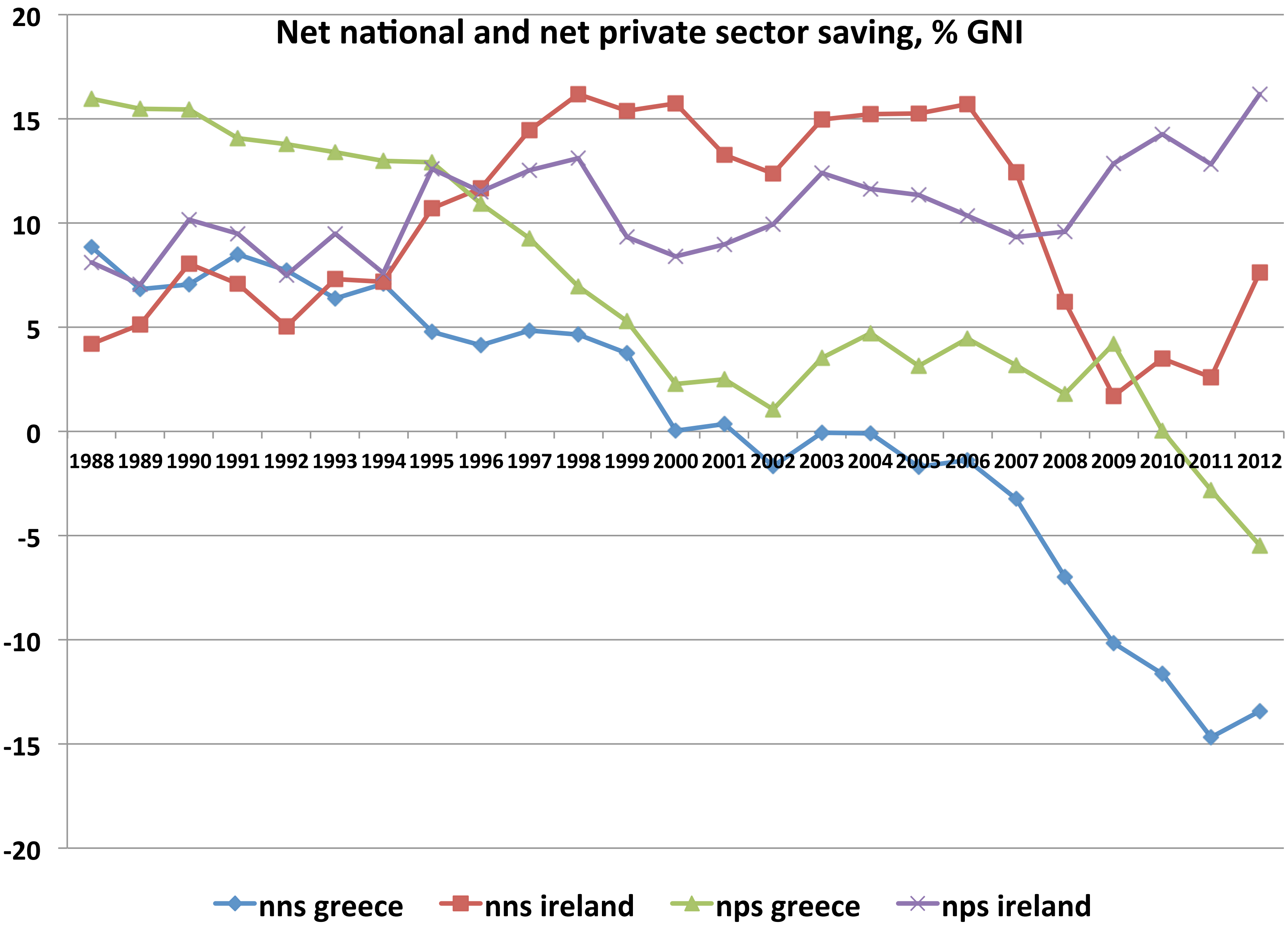
which draws along the way many useful conclusions , e.g.

- Ireland's economic performance was not built on an unsustainable credit spree
- it is not correct to blame Ireland's fiscal austerity solely on bank bailouts
- Irish policymakers may not have been able to do much about low interest rates (set by ECB) , but they had the power to place limits on mortgage lending or the exposure of individual financial institutions to property development.
- the government's early blanket guarantee of banks' liabilities played a key role in limiting options to restructure insolvent banks in a way that would have seen losses shared with private creditors
- the decision to facilitate creditor withdrawals from Irish banks that had run out of eligible collateral contributed to increasing the fiscal cost of the banking crisis , but the ECB did not want to set a precedent…a position it abandoned in the case of Cyprus…

- it brings to attention the importance of some not-often discussed factors for the Irish boom since 1987 (e.g. the rise in labour force participation); Canning (???) argued that changes in abortion legislation in the 1980s caused this, and that this effect “explains” most of the “Irish miracle” (6.3% y-o-y growth for 1987-2007)
- it suggests that by 2007, the growth-boosting factors of the previous decades were no longer available, and it claims that..
- *at the heart of (Irish) imbalances was an extraordinary housing boom*

it is hard to dispute the importance of this factor …but I must try…

- To someone with a limited knowledge of the Irish economy it is hard to understand why some notable features of Irish economic structure (e.g. low tax rates, presence of MNs, very large gross (and net) foreign debt positions) are not discussed
- Could it be that these features had run their “growth-enhancing” course…and that absent the housing boom the Irish economy would have gone through a hard-landing earlier?
- Was the Irish productivity miracle a figment of data aggregation?
- How easy is to “read” the data in the case of “re-domiciled” firms?
- Was the Irish government “prudent “(beyond relying too much on taxing the housing sector)?


Net national and net private sector saving, % GNI
20
15
10
5
0
-5
-10
-15
-20
1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
nns greece
nns ireland
nps greece
nps ireland

The Irish economy is unique in many respects

- exports of goods and services were more than 100% of GDP in 2011
- net exports of goods and services about 25% of GDP!!!
- pharma exports are about €50bn, more than 50% of total goods exports or about 30% of nominal GDP in 2011 –
- GVA of pharma sector about 11% of total
- services exports are just under 50% of total exports (mainly computer, business & financial services – Ireland is one of the top 10 services exporters in the world!)
- gross foreign debt greater than 1000% of GDP; excluding IFSC just about 300%
- NIIP -96% of GDP end of 2012; was -20% in 2007
- and a very fast rate of productivity growth …

"productivity" differentials for companies located in Ireland, 1990s

	Net output per employee (£, 000's)	
	US owned	Irish owned
chemicals	926	75
cola concentrates	845	37
computer software	628	52
pharma	182	40
computers	116	29

Can we conclude that the rise in labour productivity is not, to some extent, an artifact of the tax strategies of the MNs?

Since 2008 Ireland has attracted many re-domiciled firms, i.e. firms which hold large investments in the rest of the world but have established a legal presence in Ireland and record their (undistributed) profits there (unlike typical MNs whose profits are recorded to their foreign owners).

	2009	2010	2011	2012
	% of GNP			
Current account before adjustment	-2.8	1.4	1.4	6.1
Current account after adjustment	-4.1	-2.7	-3.2	0.6
Difference, percentage points	1.2	4.1	4.6	5.5
	Growth Rate, %			
GNP, volume, before adjustment	-8.1	0.9	-2.5	3.4
GNP, volume, after adjustment	-9.2	-1.9	-3.0	2.3
Difference, percentage points	1.1	2.9	0.5	1.1

- A country's economic structure is (or ought to be) an important determinant of its policymakers' choices
- Could it be that Ireland accepted the Troika's (mainly ECB's) ultimatum regarding the banking sector – which as the paper stresses was detrimental to most Irish citizens - in order to preserve its unique growth model (which reportedly was under attack)?