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Mary Joy Crisafulli
*Pace University*

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# Ireland:
## The Recurring Economic Miracle?

Mary Joy Crisafulli
Pforzheimer Honors College
Dr. William Offutt, Director
Senior Honors Thesis
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In the year 2000 Ireland still had "a ways to go in developing its capacity for technological innovation."[1] Ranking 32nd in that category, Ireland had room for improvement in computer power and use, ranking 38th and 39th respectively six years ago. Improvement in these areas, two big weaknesses of Ireland, pushed Ireland up from its overall rank of 25th at that time.

> *Developing those elements has been part of a determined governmental strategy. Mary Harney, Ireland's vice-premier and minister of trade and industry, co-founded the Progressive Democrats in 1985, promoting the gospel of free trade, tax cuts and new schools to further the goal of high-tech development.*[2]

These ideas met opposition until the Irish saw Harney's ideas catching on in a Europe gradually opening up to new programs for corporate investment.

We must recognize, then, that Ireland's economic explosion has not been the effect of favorable corporate taxation only, and not so by a long shot. It appears that the critically important change came in business attitude and recognition that the future lay not only with lower corporate taxes but with that which the investors and corporations would be involved: the development of high-tech software and, most importantly, the expansion of the needs for the product. Ireland quickly became a user as well as a developer, and also transferred the recognition of this need-to-use to the UK, its second largest trading partner after the USA.

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[1] Brady, Mick. "Ireland's High-Tech Jig." *E-Commerce Times*. 5 Sep 2000. <http://www.ecommercetimes.com/story/4192.html>

[2] Brady, Mick. "Ireland's High-Tech Jig." *E-Commerce Times*. 5 Sep 2000. <http://www.ecommercetimes.com/story/4192.html>

Many and varied articles have reviewed the progress of the evolving economy of the European Union. All have in common the fact that the focus lies beyond the United States. Equally the data and analysis provided in each gives cause for substantial reflection by American economists in particular and the American people in general.

How can and does the European Union, in which some member states are enjoying boom and others teetering on the brink of bust, continue an overall upward spiral in capital investment, capital gain, and individual GDP? Why is the United States, both at the governmental level and especially through American corporations, so heavily invested in the EU, especially in Ireland?

Ireland is both in the questions raised and in their answer. In the mid-Twentieth century Ireland transformed itself from an agriculturally-based economy to one driven by the Information Technology industry. The factors involved included major changes in corporate tax laws, foreign investment codes, and a double-pronged approach to investment in IT: production and sales. A major player in this transformation is the American company, Microsoft. It is one, but the largest, among the many foreign investors that now call Ireland home to both their production and management.

According to its U.S. State Department report, recent Irish governments have "actively promoted foreign direct investment (FDI), a strategy that has helped Ireland to achieve unprecedented economic growth during this 'Celtic Tiger' period." FDI has increased annually from USD 140 million annually in the mid-1980's to USD 2.7 billion per year since 1995, yielding a total stock of USD 223 billion by 2003. The principal goal of

investment promotion, the report explains, has been employment creation in technology-intensive and high-skilled industries.[3]

In recent years Irish governments have assisted established foreign companies to sustain their international competitiveness by promoting their R&D enhancement grants and marketing and sales of higher value services and goods. Ireland, with 1 % of EU population, attracted 25 % of all new U.S. investment in the EU over the last decade. In 2003 U.S. investment in Ireland was USD 9.1 billion, which is 2 1/2 times that of U.S. investment in China. There are 580 U.S. firms in Ireland, in industries as broadly varied as chemicals and computers. It is a USD Irish-based company that will produce the next generation of microchips. To maintain this phenomenal growth and economic power, Ireland will need to compete with the cheaper work forces of both India and China. To do so, Ireland's taxation policies and laws are favorable both to individuals and corporations, thus giving Ireland an advantage.

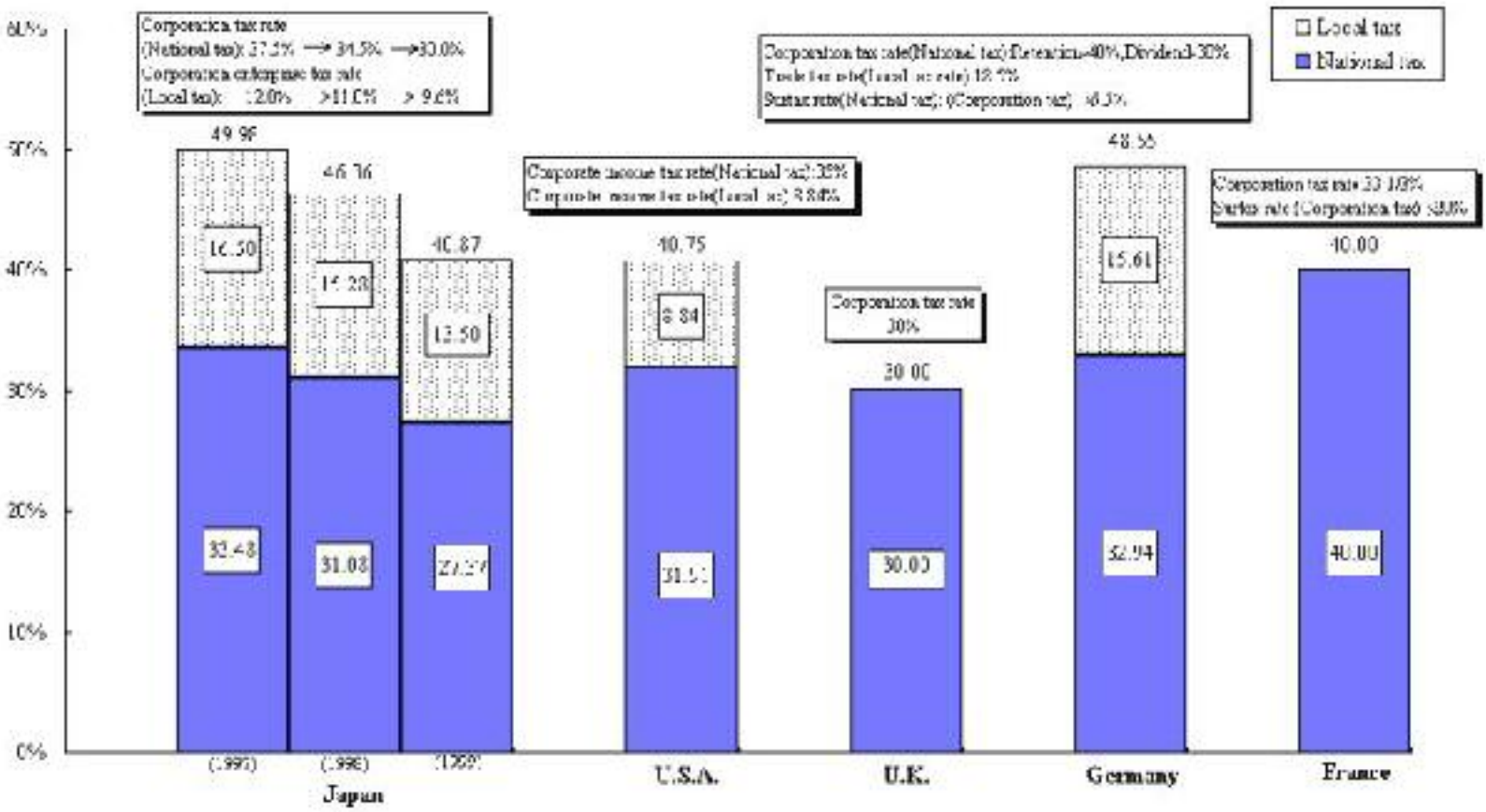
Besides the extremely favorable, if not permissive, Irish laws governing foreign ownership of land, manufacturing facilities, and currency, the legal system is favorable to corporations both in supporting the availability of financial grants, in litigation, and in no restrictions on foreign ownership or partnership, in corporate ventures. To protect these conditions the Irish government has resisted the harmonizing of its corporate tax structure into a single EU rate. Since January 1, 2003, the corporate tax has been 12.5%. Existing

[3] Ireland: 2005 Investment Climate Statement. 2005. *U.S. Department of State*. 7 Apr 2006. < http://www.state.gov/e/eb/ifd/2005/42063.htm>

firms, however, retained the old 10% rate until 2010, both rates being the lowest in the EU.[4]

When one compares the lowest EU nation corporate tax rate on this chart, that of the UK at 30%, and the next lowest as charted, that of Germany, at 32.94 %, with that of Ireland (not listed on this chart), at 12.5% as of January 1, 2003 (while pre-existing firms in Ireland will retain the old 10% rate until 2010), the lowest in the EU by 27.5 %, it is clear the tremendous advantage had by corporations, as well as those individuals employed by them, in Ireland.

**International Comparison of Effective Tax Rate of Corporate Income Taxation**




[4] Ireland: *U.S. Department of State*

The question arises, however, is this good for the EU as a whole, for the USA, and for Ireland in the long term? Several factors must be considered in analyzing this data.

First of all, in a general way, for the current time, the tremendous direct economic benefit to Ireland is indirectly a benefit to the EU. When treated as a single economic entity, the EU, through the economic wonder that is Ireland, is demonstrating the continent's resiliency and ability yet to be an economic innovator and force with which to be reckoned. In addition, considering the USA's financial investment in Ireland, the returns could hardly be better for America.

At the same time, however, Ireland's advantageous corporate tax environment precludes any such expansive or substantial investment by the USA or any other investor source in the other nations of the EU. This will eventually have a deleterious effect on the other EU nations, if their economies, already in some stagnation in Germany and Italy, should enter a crisis stage. For the USA, it means that our corporate stake-hold in Ireland can be the impetus or lever for a downward trend in the other and largest economies in the EU, a shift that, in the end, would also have negative effects on Ireland: Ireland's EU partners would become economically dependent nations; Ireland's markets, in the UK in particular, would be threatened, without recourse to auxiliary markets in its non-English-speaking neighbors.

Finally, when other "Irelands" - nations with the same or better corporate tax benefits - emerge within the EU, such as Latvia and Lithuania, and Ireland of necessity moves more

fully into its intellectual product mode from its current software product mode, Ireland will be in competition with its own original investor, the USA. Ireland will be on the receiving end of the same corporate pull-out as the USA has experienced, as corporate investment shifts to these other countries. The Irish miracle will be its own undoing. In addition, this does not consider the longer-term possibility of the economic might to be developed by China and India, and the negative effects these will have on the EU as a whole and Ireland in particular.

There are several tensions resulting from the gap between Ireland's corporate taxation rate and those of its EU partners. The 20% + margin of difference is a clear indication that each nation, especially Ireland, is legislating taxation as if it were independent of all other nations.[5] This is hardly a declaration of European unity. The tension, however, goes deeper than the symbolic. With so low a corporate tax rate, Ireland is, in fact, competing with its EU partners for the most important corporate commodity of all: investment capital. Notwithstanding the economic resilience of Europe as a whole, demonstrated by Ireland's very sudden and rapid rise to economic might in particular, this state of investment loss by Ireland's neighbors is a loss of investment by the EU as a whole. That is not good. Just as a chain is only as strong as its weakest link, we might also say that one strong link does not a strong chain make. The first rupture destroys the chain as a chain. And that is what looms for the European Union as a whole now and will be more of a threat to stability if and when the realm of capital investment moves form Ireland to a nation, such as India, beyond the EU altogether.

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[5] "International Comparison of Effective Tax Rate of Corporate Income Taxation." 11 May 2006. 15 May 2006. <http://www.mof.go.jp/english/zei/report2/zc001d02.htm>

In a panel discussion on the BBC World News Service, Saturday, May 13, 2006, aired in the USA at 5:30 am, British Lord Desai, an economist, discussed the issue of the West's ability to compete with and remain superior to nations such as China and India in economic competition. Lord Desai was optimistic that the West's intellectual capital, its ability, through very high quality and specialized technological innovation, both in concept and in reality, is a commodity needed by all the nations of the world. He believes that, notwithstanding China's current industrial advances, it will not be able, for many decades if not a century to come, to approach that Western ability: to construct its own banking, investment, and innovative technological capacities.

The warning, however, was there, among the several world economists taking part in the discussion. Whenever they said "the West", one had to know from Ireland's centrality in their calculations, the listener was to hear "the USA-heavily-invested-in-Europe-through-Ireland" as the meaning of the term. Germany's superiority in refined high quality technological equipment, such as surgical instruments, makes Germany a successful nation economically world-wide, despite its slump in industrial investment as a whole. Those discussing recognized that there are many players in the success that is Europe. Ireland is central but not alone. They also recognized that at some point Europe as a whole will be what the USA is virtually now: a consumer economy, regardless of the high quality of certain very restricted areas of research, design and production. In fifty years, they offered, China will still not be able to compete with the West (as described above) for the intellectual capital that is currently our product most in demand worldwide.

The solution to the distant challenge, then, will lie not only in Europe's continuing to producing specific, highly advanced technology (as it does now) but also in its ability (should it become a source of intellectual capital only) continually to outdistance all competition in the filed of intellectual capital.

It is from the intellectual and moral realms, then, that comes the greater threat to the West's superiority and security. That threat is not external. It is the internal threat of the failure of Western nations to achieve and surpass their current strengths in intellectual products: in literacy, in mathematics and the sciences, and in the social studies and applications of democracy and the advance of freedom for all peoples. Every time a Western authority acts restrictively in terms of gender or ethnicity it deepens the threat to Western superiority. The intellectual grounding of democracy and democratic capitalism in the West has been two sides of one coin. And that is the capital in which we must never be surpassed. It is that same capital which is as demanded as our world-wide investment.

This last point of their discussion raises considerations that are relevant to this thesis's topic but are beyond the scope of this particular paper. They are noted here to underscore the complexity of the economic issues at hand: corporate taxation is the mathematical equation facilitating Irish economic advance, sustaining the EU's economic success and the USA's investment windfall. The issues beneath these (the values system of the West as connected to our global actions militarily and diplomatically, when weighed with and against each other) determine the economic weight of our intellectual capital. The parties

to the discussion, cautiously optimistic as they were, made that point clear: the West must scrutinize all its actions economically as well a militarily and politically in order to sustain production of the only commodity in which we are the current "oil field" of the world: ideas generated by morality and the technology to realize them.

Katinka Barysch, of the Centre for European Reform, takes a very different and more complex view of the issue of corporate taxation in the EU. She cites three myths: The East Europeans have much lower corporate tax rates; Low east European taxes harm the old EU; The EU must clamp down on unfair tax competition. Each of these qualifies the issue of Ireland's low corporate tax status.

Behind the first myth, Barysch contends, is the real issue of disparity between the EU nations' tax base. In the old EU-15 nations, though their corporate taxes are higher

> *"there are various ways in which tax authorities treat say, a company's debt or the depreciation of its machinery for taxation purposes…most EU governments grant various kinds of tax relief, for example for research and development, or investment in poor areas. As a result, the real tax burden or what economists call the 'effective' tax rate is usually different from the headline tax rate…in Germany…the effective corporation tax rate is estimated to be only half of the 38 % headline rate."*[6]

There are so many tax breaks that some companies pay an effective tax of zero.

To harmonize tax rates the EU would first need to harmonize the tax base throughout the EU's members, a move long called-for by the EU commission as well as a mix of high

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[6] Barysch, Katinka. "Is Tax Competition Bad?" Centre *for European Reform Bulletin*. Aug/Sep 2004: Issue 37. <http://www.cer.org.uk/articles/37_barysch.html>

and low tax EU members. Many corporations would welcome such an outcome that would facilitate their calculations of their pan-European tax bill.

The second myth, about low taxes hurting old EU members, Barysch treats thus. The attraction to the low tax countries is more than just low taxes. It includes the countries' fast growth rates, improving business environments and low-wage, high-skilled workers. In addition, the old EU-15 are not subsidizing their own competition by funding development in the new countries through their EU support tax. These support taxes from countries such as France and Germany only help to keep the new countries taxes lower if they replace national budget spending.

Finally, concerning clamping down on unfair tax competition, Barysch reminds us that the EU only has the right to design rules for those taxes affecting the function of the single market, such as value added tax.

Besides corporate interest and advantage in investing in Ireland, the U.S. government promotes this development as a part of our peace plan for Ireland: the economic arm of quelling the political conflicts between North and South. However cogent a position that may be, this American policy supports all economic efforts at rendering Ireland the fifty-first "corporate state" of the United States.

Moving from the Irish initiative to an American initiative, Microsoft has been aggressively seeking foreign partnerships of leading Irish firms to adopt its *.NET* platform, as a base for future technology innovation. Ireland has become renowned

worldwide for "market-leading innovation."[7] For example, AOL chose Irish Valista for the development of its on-line payments program and its collaborative marketing technologies. "T-Mobile tapped Ireland's NewBay to provide their customers with the world's first mobile blog services."[8] This is a considerable achievement for Ireland to have lured such powerful American companies. It is clear that corporate America has recognized and banked on Ireland's quickly and deeply developing computer industry. Beyond all the other companies, Microsoft has invested many millions of dollars in Irish development of software and its marketing. So much so is this the case, that Microsoft has moved its software management to Ireland.

Expansion in the IT industry has lured other supportive industries to Ireland. The result is that Ireland is home to ten of the top twenty insurance companies and half of the world's largest banks: "Ireland is the leader in the financial services technology sphere."[9] It provides a wide range of innovative products: component-based banking systems; and some of the world's largest eLearning corporations. "Irish companies are effectively combining infrastructure and content to provide end-users with the Industry's most accessible and compelling eLearning experience."[10]

Of Ireland's approximately six-hundred computer companies, two-hundred-and-fifty generate significant foreign sales, "1.8 billion dollars in 2002" of which 1.2 billion was to the U.S. and Britain alone. About 85% of Ireland's overall computer/software related

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[7] ITS: Ireland's Technology Showcase: An overview of the Irish Software and Services Industry. 2005. *Enterprise Ireland*. 3 Apr 2006. <http://www.irelandstechshowcase.com/>
[8] ITS: *Enterprise Ireland*
[9] ITS: *Enterprise Ireland*
[10] ITS: *Enterprise Ireland*

manufacturing goes overseas. Reciprocally, the U.S. investment in Ireland has risen to fifty-five billion dollars, which is five times more than in China. [11] The following U.S. companies - Microsoft, IBM, Oracle, Siebel, Dell, Accenture, AOL, eBay, Nortel and Ericson - either operate out of Ireland or house their European headquarters there.

This fact implies more than what may be apparent. It mirrors what for the past century and a half has been American corporate practice within the United States. That is, corporations have sought to headquarter or to incorporate themselves in a state in which corporate taxation is minimal and corporate license to operate is most favorable. In the United States, that state has been Delaware. Begun with the development of the local family corporation of DuPont as the model, upwards of five-hundred of the wealthiest American corporations are incorporated in Delaware, and, if not headquartered there, at least maintain a mailbox in Wilmington, Delaware. One example is the American-based international insurance corporation American International Group (AIG), which holds over one-hundred-and-twenty insurance and re-insurance companies within its corporation. AIG chose Delaware almost one hundred years ago for the same reasons that Microsoft today has chosen Ireland. Today, in the atmosphere of a self-consciously global economy, American corporations have boldly and quite openly looked beyond U.S. shores for those states of "Delaware" in the world at large. Ireland is that state in the European Union.

“Foreign penetration of business is the highest in Europe. The largest percentage of companies are American, followed by British and then German. Ireland receives 50

[11] ITS: *Enterprise Ireland*

percent of U.S. foreign direct investment into the EU. This is partly as a base for export into the EU and partly as a low-cost source of product for export back to the U.S. The economy has traditionally been state led with direct government ownership, employment schemes, subsidies, and tax breaks."[12]

The result is that those companies listed above actually carry on their worldwide operations from Ireland. One key, among several, to why these top U.S. software firms are investing in Ireland is its low corporate tax status.[13] With Ireland's corporate tax leniency, they benefit from both the Irish marketing platform into the vast market of the European Union itself and equally the markets of the near Middle East and the Far East, to which the European Union has direct commercial access. In a global economy, we need to consider the world as though it were all our own native soil for investment. The lesson is not lost on similar U.S. corporations who have discovered in Ireland the "Delaware" of Europe. And not only is the corporate investment market ripe and favorable in Ireland, it is also the entrance to "mushrooming" corporate sales in the new markets within the European Union. This connection, as the data shows, enables Ireland to out-market in software exports even the formerly top marketer, Israel.[14]

Political, legal, economic, technical, cultural and social factors, reports the Kogod School of Business, have each played a role in the development of Ireland's innovative technology cluster. The result is that Ireland has become a high-tech, high-income society

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[12] Mole, John. Mind Your Manners: Managing Business Cultures in the New Global Europe. Ed 3. London: Nicholas Brealey, 2003. pg 107.

[13] Klug, Lisa Alcalay. "Startups Abroad: The Irish-Israeli Technology Tango." 14 Jun 1999. Forbes.com. 3 Apr 2006. <http://www.forbes.com/1999/06/14/feat2.html>

[14] Klug, Lisa A: "Startups Abroad."

"with more than 50% of its GDP in the service sector, and economic performance growing at a rate of 9% - 10% annually."[15] The major role played by government has been the cultivation of "a pro-business political culture that has built a regulatory, service, and fiscal environment that few countries can match.", the Kogod School of Business goes on to report.

A key to this progress was to re-conceive the role of government as the chief business partner of the Irish people. The Industrial Development Agency (IDA), formerly called the Investment Development Authority, was founded in 1949. Its role, to attract investors to Ireland as the ideal place to relocate, was now fortified with a twenty year tax incentive benefit package, combining low tax rates with the longest possible time horizon for attracting FDI. Forfas, the National Policy and Advisory Board for Enterprise, Trade, Science, Technology and Innovation, was set up. It has broad powers legally for industrial promotion and technological development. Enterprise Ireland, to whom Forfas has delegated its powers, promotes home-based industry and foreign trade. IDA (the Investment and Development Agency) Ireland promotes inward investment. Ministers are advised on industrial issues and investments, and policies and functions between Enterprise Ireland and IDA are coordinated, thus encouraging industrial and technological development. All this is aimed at attracting Foreign Direct Investment (FDI).

Among the responsibilities of Enterprise Ireland (officially the Department of Enterprise, Trade and Employment), those related to technology include the administration of

[15] "Ireland—Tech Cluster." 2005. *Kogod School of Business: American University*. 7 Apr 2006. <http://www.american.edu/academic.depts/ksb/citge/Ireland%202.htm>

national and EU support "for developing technological innovation capability and cooperation between industry and higher education. It supports Irish companies in building capability, innovating, and growing."[16] Once again, it stands out that education is linked to economic prosperity. Perhaps the difference between the Irish and the American attitudes on this is that Americans tend to view education as very personal, individual, while the Irish see education as a security and a support for the entire people.

Research, Technology and Innovation (RTI), a division of the Office of Science and Technology in the Department of Enterprise "…builds Ireland's RTI to support and strengthen industrial performance. It has increased its spending on RTI to almost $2.3 billion. The Higher Education Authority links the government's investment in RTI to its investment in education. The government's increased investment in education created a trained workforce that would become one of the country's competitive advantages."[17]

Of course the big shock for Americans is the way that education is funded in Ireland, and for the most part throughout the EU: "Ireland's government sponsors four universities and 11 Institutes of Technology with spending on education accounting for 28% of all government spending. These efforts show the government's strong commitment to prosperity in the Information Age."[18] Unlike government support in the USA, in Ireland it is more direct and visible to the institutions themselves, assuring quality development.

When Ireland determined that it needed to commit to software development and the creation of the need for software by creating its expanded use in potential consumers, it

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[16] "Ireland—Tech Cluster." 2005. *Kogod School of Business: American University*. 7 Apr 2006. <http://www.american.edu/academic.depts/ksb/citge/Ireland%202.htm>

[17] "Ireland—Tech Cluster."

[18] "Ireland—Tech Cluster."

turned to and lured the champions of the field: "Intel has chosen Ireland as a major base of its worldwide operations attracted by the number and quality of educated people; the government and the IDA's competitive financial and incentive packages; its EU membership; its cost structure, and its infrastructure of zoned industrial land, transportation, electricity, and water."[19]

Advancing the necessary objective "to provide broadband across the country", the Kogod School of Business goes on to report that the government split 50/50 with Global Crossing in a "Public Private Partnership … to supply broadband because it was not in Global Crossing's interest to take the risk of supplying broadband to Ireland alone". It was this investment in bandwidth that lured Microsoft, the software giant, to build "a major software distribution system in Ireland". Add to that Dell, whose European headquarters are in Ireland. "EMC Ireland was established in Cork in 1988, and its success has been partly based on the Irish government's positive approach toward business development. EMC enjoys a favorable tax environment, generous financial grants, low operating costs, and a productive and flexible work force", again a public educated with a direct connection to success in the market place.

A pro-business attitude is part of the complexion of Irish government. This should not be construed to mean that politicians and corporations are inside each others' pockets. Collaboration does not mean collusion. What it does entail is a transparency and networking rarely seen so early in the development of an industry giant, no less a country. Working together, the citizenry, politicians and civil servants are getting things

[19] "Ireland—Tech Cluster." 2005. *Kogod School of Business: American University*. 7 Apr 2006. <http://www.american.edu/academic.depts/ksb/citge/Ireland%202.htm>

done. There is a can-do attitude that fulfills itself regularly. Whether it is a foreign company's relocation needs, or the adjustment of local or national legal hoops through which to jump, efforts are open and clearly in support of people not just impersonal corporations. There is the unmistakable sense that everyone is in it together and committed to making it work for the common good.

The deregulation of the telecommunications market and the E-Commerce Act of July, 2000 gave validity to electronic signatures and electronic contracts, all to enhance the growth opportunities for the high-tech software industry. Now banks and corporations and a host of electronically-based human, personal and institutional services could be accessible to consumers and, most important, to service providers, thus growing the need for the industry. Added to this is the fact that there are very few if any signs of corruption, with minimal political or personal risk involved in the Irish technology cluster.

This is the point at which we must consider the very current economic situation of the world. With the USD dollar in an unfavorable relation to the Euro, which is Ireland's currency, and returns on overseas investment being squeezed for American corporations, Ireland, a nation very greatly dependent of the FDI that has funded its economic boon, may also feel the pinch, or more. Since its first establishment in Ireland in 1985, Microsoft Ireland is the largest producer of software in Ireland. Intel's Irish site is its fourth largest, and its largest outside the USA, with 3.2 billion Euros invested in the conversion of 360 Irish acres "into the most technologically advanced industrial campus in Ireland", Kogod School of Business reports, to which 2 billion Euros more were

scheduled to be added in 2004, serving a combination of more than 4000 Intel employees and contractors.

It is also to Ireland's credit that most of its economic growth was accomplished on its own free open market terms, with its own financial backing and little or no EU subsidies. And despite the current economic downturn worldwide, with Ireland's economy slowing slightly, it is far better off with its open market economy now than it would have been otherwise.

Can the Celtic Tiger transformation of Ireland of the past fifteen years endure? Once considered an economic failure because of its high unemployment, "high inflation, heavy taxation and towering public debts" Ireland has reversed each, enjoying not a superficial or momentary change, but a deep-seated change to low unemployment (so much so that planes filled with Italians from Ireland's EU partner have increased the ranks of the employed dramatically, especially in the computer industry), and low inflation, and a low tax burden matched by a miniscule public debt.[20] Once indicated by almost twenty years ago as doomed to catastrophe, Ireland has since 1988 dramatically outstripped Spain, Greece and Portugal (the three other poorest among the rich EU nations) in the increase of the annual GDP, from 80 % to 140 % of the EU 15 average (as the chart on the following page illustrates).[21]

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[20] "Survey: Ireland: The Luck of the Irish." 14 Oct 2004. *The Economist*. 21 Apr 2006. <http://www.economist.com/surveys/displaystory.cfm?story_id=3261071>

[21] "Survey: Ireland"

With the imagery of an Irish prize fighter, Ireland is described as "punching above its weight", with only four million people, just about 1 % of the EU population.[22] It is important to recognize that the past ten years of partial but definitely effective success at the peace movement with Northern Ireland has created a model for "other countries with intractable terrorist problems," who should take note.[23]

Ireland, through a 'significant punch,' lured its English-speaking partners from the U.S. and Britain into massive financial investment. That punch was the reduction of the corporate tax to zero in 1957 and the embrace of free trade with Britain and the rest of the European Community in 1973. And despite the oil crisis started in the 1970's through the 1980's, Ireland continued to attract foreign investment, to the point at which it is now: "The Irish miracle had arrived."[24] A key factor in Ireland's economic miracle is found early in the history of the economic turnaround. Ireland had a realistic appraisal of itself.

[22] "Survey: Ireland"
[23] "Survey: Ireland"
[24] "Survey: Ireland"

It was technician-poor. And no amount of corporately favorable legislation could fill empty job positions. Ireland went about with an "invitational" policy to attract the specific intellectual technical capital – the software technicians – who could steer the industry at its helm. Tallon and Kraemer identified this as the key starting point for Ireland's emergence onto the big stage of the software industry. The aim was to expand its capacity for software production and sales. At this point the major player, Microsoft takes its place center-stage.[25]

As the fastest growing economy, Ireland's success is unequaled. It exceeds 7% annually since 1993. Ireland's unemployment has fallen from 16% to 7% and inflation has been reduced to 2 % or less. In their Figure #1, cited here, it is vividly evident that Ireland's growth has dwarfed that of Asia and the world's industrial leaders as well.[26]
(See Figure 1 in the Appendix for FDI and Industry charts).

Ireland's increased software productivity is cited as the most significant among credible factors for this growth. The balance between production and sales, creating the need for IT use, are valuable models for other emerging countries.[27]

"It is unlikely that Ireland's economic success would have occurred through market forces alone."[28] Steady intervention by successive Irish governments' policy of

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[25] Kraemer, Kenneth L. and Paul P. Tallon. Information Technology and Economic Development: Ireland's Coming of Age with Lessons for Developing Countries. *Center for Research on Information Technology and Organizations*. University of California, Irvine, 1999. pg 1. <http://www.crito.uci.edu/itr/publications/pdf/ireland_coming_of_age.pdf#search='U.S.%20investments%20in%20software%20industry%20in%20Ireland>

[26] Kraemer and Tallon, pg 1.

[27] Kraemer and Tallon, pg 2.

"industrialization by invitation" has since the 1970's targeted the large computer production companies, and later the software and service sectors of the computer industry for investment in Ireland's corporately friendly climate, say Tallon and Kraemer. "Besides creating employment opportunities, overseas investment was seen as a way for Ireland to acquire industrial expertise and capabilities that indigenous firms were unable to provide."[29]

It must not be underestimated for the effect it had on the emergence of the "Celtic Tiger" (See Figure 3 in Appendix). The emergence of the software sales and service sector in the 1970's and 1980's prevented the internalized expansion from staying cooped up and opened IT to a global sales and service spiral. Figure # 4 in the Appendix illustrates how Ireland, thanks to Microsoft, is now second only to the U.S.A. in the sales and exportation of software. As recently as February, 2006, Ireland's Finance Bill has insured that the initial attraction of the most talented and highly skilled in all fields, and especially in the computer-related industries, will continue to find actual residence in Ireland and the establishment of their companies there to be personally as well as corporately beneficial. The abolition of the remittance basis no longer attracts only temporary workers, but those who benefit from a long-term commitment to working there. This helps to attract the critically essential intellectual capital to Ireland's industries.[30]

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[28] Kraemer and Tallon, pg 4.
[29] Kraemer and Tallon, pg 5.
[30] "Remittance Basis: Finance Bill 2006 Update: Ireland." 2 Feb 2006. Deloitte & Touche, Ireland. 8 Mar 2006. http://www.deloitte.com/dtt/article/0,1002,cid%3D108499%26pv%3DY,00.html

Tracy Heath[31], discussing the sudden (in 2000) move of e-commerce companies to Europe, and Ireland in particular, says that "These locations provide the key ingredients for high-tech firms to succeed. There is a presence of business partners, good educational institutions and skilled labor." We have discussed elsewhere the benefit of skilled labor – Ireland's policy and "invitational strategy" regarding the importation of intellectual capital – and its taxation policies favorable to corporations.

We need to take note of that third component, good educational institutions. Typically, Irish and even more so under these expanding economic conditions, Irish education, is not struggling with issues of native literacy (as is much of the USA…just consult the Association for Supervision and Curriculum Development on the topic), nor a deficiency in effective scientific and mathematical education, not to mention education in critical analytical thinking.

Another reason why American investors have gone to Europe, and Ireland in particular, is the availability of multilingual translation for their product. "And many European locations provide multilingual labor within a single market", Heath reports. "Also Europe's universities are providing well-educated, skilled labor" with strong universities from Edinburgh, Scotland, to Dublin, "which is certainly one that is providing lots of highly educated workers to a variety of both hardware and software developers," says Richard K. Greene, managing consultant of Ernst and Young (www.ey.com). "The

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[31] Heath, Tracy. "High-Tech Detects European Hot Spots." *Site Selection*. Jan 2000. <http://www.siteselection.com/features/2000/jan/europe/>

quality of life in many European locations is also enough to attract the kind of skilled worker needed for high-tech industries," concludes Heath.

We must draw the conclusion that however significant is the low corporate taxation in Ireland it is equally the human environment that has propelled its economic expansion. This is not only to the credit of the Irish people and their government but also a suggestion to the other EU members to enhance the quality of the human environment and its infrastructure and to communicate this better to prospective investors. The EU needs to build on such positive investor-friendly situations as these:

> *'Greene suggests… search out the secondary cities, not the capital cities, where there's a strong university presence,' he explains. He cites the Utrecht area of the Netherlands; Geneva, Switzerland; Barcelona, Spain; and the area around Milan, Italy, as prime secondary cities.*[32]

"For Motorola, Northern Italy seemed like everything but 'secondary' for its latest European expansion. The Schaumburg, Ill.-based firm will create 500 jobs in its new $100 million European R&D center in Turin, Italy," cites Heath.

We must draw a conclusion from Heath and other sources consulted above: Ireland's success has been the result of a combination of good decisions: favorable corporate taxation, but also a lively human environment for living, with the support institutions of education that make the investment of intellectual capital likely. It is noteworthy that all the considerations about Ireland's miracle have seemed to focus on measures of an economic nature. Yet one need only examine the origin of the term economy – the

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[32] Heath, Tracy. "High-Tech Detects European Hot Spots." *Site Selection*. Jan 2000. <http://www.siteselection.com/features/2000/jan/europe/>

classical Greek term *oikonomia* – to recognize and validate the true nature of Ireland's success and a model for other nations within and beyond the EU: "the condition of the house". Putting its house in order on several fronts enabled Ireland to become the new engine of Europe moving forward. But it is not a threat as such to the rest of the EU members, rather a guiding light.

It is helpful to compare the economic growth of the recent entries into the EU as compared with the economic progress of the original establishing fifteen member states. Neoclassical economic theory holds that poorer states will actually raise their economies faster than the more economically well-established states.[33] Data clearly shows that among the original member states, notwithstanding certain economic stresses, that development has not slowed.[34] Prior to their more recent admission to the EU, Estonia, Latvia, and Lithuania engaged in research attempting to ascertain what might be their realistic expectations for economic development once they were admitted. At that time, non-member states believed that the European Union was a new expression of hope on the horizon for the Western world. They believed that the EU provided the best long-term opportunity for the West to re-ground its superior economic stature. "Instead of the diminishing returns to investment stipulated by the Solow Model, knowledge spillovers will produce increasing returns to scale from capital accumulation in the new growth

[33] Varblane, Urmas and Priit Vahter. An Analysis Of The Economic Convergence Process In The Transition Countries. 2005. *Faculty of Economics and Business Administration,University of Tartu (Estonia)*. 47 pages. 7 Apr 2006. http://ideas.repec.org/p/mtk/febawb/37.html#download. Pg 40.

[34] Varblane and Vahter, pg 40.

model. In short—the economic integration of Europe continuously supports economic growth."[35]

The fact that "the growth differential between EU-15 and the accession countries [Estonia, Lithuania, and Latvia] was around 2.2 per cent,"[36] negligible as that is, attests to both the vitality of European economic integration as a force among the poorer nations, but also bears witness to the EU-15's capacity to maintain a high level of economic growth. This is largely due to the miracle of Ireland's economic development. Germany, one of the original economic giants, has suffered a slump in several aspects – the rise in unemployment, specifically – and France has suffered similarly. It is Ireland that has sustained the high growth that resulted in the narrow margin between EU-15 and accession nations. Thus, despite the troubles that beset EU-15 states, Ireland's progress is testimony to the continuing vitality of the EU economy.

"It can be said that the new accession countries face an opportunity to achieve a considerably more rapid convergence process – between 20 and 35 years – to reach the income level of the EU."[37] Parallel data and analysis strongly suggest that, despite the economic stresses involved, among the recent accession states there looms the prospect of additional "Irelands." Such a possibility poses serious considerations economically as well as politically for the U.S.A. and its future economic strength in the world. This analysis illustrates, then, a long-term underlying purpose to American industries so heavily investing in Ireland and, thereby, in the EU. This investment provides a stake-

[35] Varblane and Vahter, pg 40-41.
[36] Varblane and Vahter, pg 41.
[37] Varblane and Vahter, pg 42.

hold and a stronghold in the future of what is to be a new economic horizon throughout the Twenty-First Century. Riding the crest of this horizon is, and will likely continue to be, Microsoft, the spearhead of Ireland's software sales and service supremacy.

Economic development is a cultural being greater than the mere sum of its component participants. The recent economic difficulties in Germany, Italy, and France – three of the original member states of the EU – do not prevent the upwardly spiraling economy of later EU entrants, specifically, Ireland. Nor do these stresses interfere with or short-circuit the more rapid growth to economic parity of the most recent entrants, such as Estonia, Latvia and Lithuania. So long as there is a center of upwardly-spiraling development, such as Ireland, the overall wonder that is EU economic growth continues. American investors and computer/software developers are not being disloyal by their moving of operations and controls to sites in Ireland. They are responding to the traditional American thrust for less law, more development, and freer marketing of product and collection of profits. To American entrepreneurs there is no artificial land boundary, except the one by which those progressing can be distinguished from those languishing in their own visionless past. While not bearing the title politically, the land of whatever country enjoys healthy US investment can be seen to be the newest state in the American financial union. Empire, in its classic Roman meaning, does not require political jurisdiction, if American financial power is recognized and utilized. In this light, the boon that is Ireland's can also be seen through the lens of the profits of corporate America.

To the question whether the low corporate tax structure and the development of Information Technology have created a situation that is harmful to Europe, the answer is a qualified "yes". If all conditions among all the EU member nations were equal, then Ireland's practice would show disregard for the other members and be a conscious threat to the very notion of the European Union. Ireland's policies have not been simply economic, but rather culturally holistic. Herein lies the qualification to our answer. Some of the more economically powerful countries of the European Union have maintained high corporate taxes, their special practices regarding certain companies' particular grants, and sometimes an unfair manipulation of policy, resulting in a much lower than published corporate tax for some companies, in fact zero for a few. The result of these countries' tax behavior is to provide considerable tax benefit to selective corporations. What is even more harmful to the economic status in these countries and, therefore, the EU, is the fact that these actions do not represent any fundamental change in official policies regarding the countries' economic development. Ireland, on the other hand, through enlightened government leaders, recognized the shift in sociological and economic paradigms from the prevalence of agriculture, to the final stages of industrialization, namely the IT service related industries. This shift required a re-conceptualization of government's purpose and functions. Rather than the old industrial and monarchical model of corporations, like governments, holding power and wealth in their own right, the Irish redeveloped the notion of business as an aspect of the democratic participation of all the people. The impact of this shift meant that almost every sector of society has retooled its purpose, and its procedures. Education, while not neglecting the liberal arts with a focus on philosophy, has reconceived the entire

educational project in light of an information-based society. The equipping of the entire country for broadband reception, created for everyone the possibility of information communication immediacy. The low corporate tax structure and the low personal tax structures are merely economic supports for this societal transformation.

Ireland poses a threat not to the prosperity of the European Union but to outdated and economic class-system models of business. It provides more than a threat, a model for countries—especially like Germany, Italy, and France—to rethink and to rework their socioeconomic structures and policies. The fact that commentators on the recent developments in Ireland have noted the unusual lack of corruption among public officials regarding the economic boon should be noted by other countries in which corruption, if not condoned, is accepted and expected as part of the economic task. There is a tradition that accepts Ireland as the savior of Western tradition when, during the Middle Ages, the continent was darkened and Ireland preserved the literary heritage until the Renaissance could bestow it again upon its European heirs. In an analogous way, Ireland's process toward its economic success is a model which the nations of recent access to the European Union have already begun to follow, and which the older member would do well to emulate. As Americans, we may look simply at the facts as they present themselves.

Finally, we can draw the conclusion that there is no magic about Ireland itself, only about the Irish people who have been practical, imaginative and profit-motivated to be the instruments to facilitate the American and greater European investment in Irish industry.

When that no longer happens, a new “other” Ireland will emerge where the opportunities for corporate investment and development are ripe for plumbing. Wherever it may be, it will be the “American way.”

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