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Boom and Bloom

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Boom and Bloom

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The Boom is economic, the Bloom is culture. Although I'm far from being in any way an expert on the subject I'm a huge believer that culture does have an influence on economics.

We all quote people of whom we approve, and purely by chance I had picked out a few things using Google on Robert Crawford, and on the plane on the way over this morning I realised that one of the things I'd picked out had a great quote that I really like; it was Robert quoting Carol Craig quoting David Landes, and each approving of what the other had said. What David Landes said in *The Wealth and Poverty of Nations*, was that if we learn anything from the history of economic development it is that culture makes all the difference, and I hope that that's what I'll show through various assertions that I make here.

To start, though, just with economic growth, you're familiar with the fact that we've had a fantastic run in economic terms for twenty years since 1987; that average annual growth rate since 1987 has been 6% a year, particularly peaking in that 1994 to 2000 period at an average growth rate of 9% a year. But really from the 1970s onwards, although that first seven or eight years in the 1980s were really tough—we were a little ahead of EU generally and US but really tough—and it was that really tough period that caused the decisions to be made in Ireland that actually have been the basis for a lot of the success since then.

But it didn't all start then: in fact, it started 50 years ago because it was in 1957 that the first decisions were made in Ireland to be an open and competitive economy rather than a self-sufficient economy, which was the misguided belief of the generation who achieved independence in 1922. That decision in 1957 to open up, to go out into the world and try and get investment from the world and to be competitive in it was driven by the failure of Ireland to grow and develop after the Second World War—we missed the post-war boom in Europe. So from 1957 onwards the first decisions were made to open up, to have zero tax on export sales; from the 1960s our aim was to get into Europe—though it took until 1973 as it did with the UK. The single market





was something that Ireland was ready for and really turned to advantage—we had competed strongly with Scotland, Wales and with other countries through the 1980s but not terribly successfully, but when the single market programme in 1992 came along we actually performed really well. From 1987, because of those years of crisis through the 1980s, people were forced to think, what do we need to do here? And sufficient people, not only in government but in the employers' organisation and, also, particularly in the trade unions, came to recognise the need to change the model, to change the way we did things.

Now in some respects the trade union movement in Ireland was influenced by the experience of trade unions in the UK under Thatcher, and by the fear that unionism was going to be irrelevant. It was therefore willing to come to the table but it was also driven by the public need for Ireland to be successful. Because in certain years in the 1980s Ireland lost 1% of its population through emigration, and certainly lost whole university classes year after year, the public will in Ireland said, we will not tolerate our children having to leave Ireland out of necessity rather than out of choice.

That drove a series of decisions, and produced the process of social partnership—which on the face of it might have been about wage moderation or industrial peace—but its real impact was in producing a common vision of what Ireland could achieve, what the real issues were, and agreeing on some hard choices that might be taken in order to achieve progress—such as cutting back on certain aspects of public expenditure.

So social partnership was really important, and has been repeated over twenty years in various manifestations; sometimes the immediate justification changed—originally it was about job creation and national recovery, later became economic and social progress, at a certain point the focus was transport infrastructure, then housing, each issue dealt with in a partnership context.

Economic stability had to be achieved, because around 1987 we had a national debt which represented 120% of GNP and a very high proportion of income tax was being used purely to service debt. Indeed, 90% of income tax receipts were just servicing debt, producing increasing budget deficits and all the rest of it—that 120% of GNP is now back down under 30%, and at this stage down to around 25%.

Ireland also benefited from demographic gains. Unusually, in Ireland, 40% of the population is aged 25 or under, while in practically every other country in Europe it's 30%, so Ireland had a definite demographic advantage, one that we are sustaining—which means that although we're now providing for pensions they are a smaller proportion than for most other countries.





But a crucial element was low corporate tax; it's now 12.5% on corporate trading profits, it used to be zero tax on export sales and after joining Europe it became 10% on manufacturing and some international services, still a very powerful and attractive incentive for investment—both Irish investment and inward investment. Of course, foreign direct investment played a huge part and particularly through the 1990s, because it was really the driver of those huge growth rates through that period.

An aspect that's sometimes understated in Ireland is actually the performance of Irish managers and Irish management; managers who learnt global requirements and really high standards from those companies that came in. As a consequence, Irish management had the capabilities to meet those global needs from world leading corporations, and that provided a fantastic reference for the next investment and the next transformation that needed to happen. Certainly the export focus and global orientation that has grown up from that foreign direct investment, means that Irish management is now always thinking outwards. In the context of a large national market it may be possible to focus inside your own boundaries but with such a small national market we have to think always of a global market.

These are some of the things that contributed to Ireland's economic success over the past 20 years.

In terms of inward investment we have tended over time to develop deeper expertise in the life sciences, ICT, and in financial and international services, and that's where the inward investment came. One could add to that the food industry, construction, and music and the cultural industries as indigenous developments, and they were certainly powerful and strong and growing through the 90s. But increasingly for foreign direct investment we will continue to rely on the expertise which has built up in these areas, and which is a huge attraction in itself for further investors. We are moving progressively through that series of activities, starting in manufacturing and technical support, and we are moving to the more strategic, more significant and more high value activities, the activities that can be more deeply rooted and that by broadening the base of the existing multinational investments offer the potential to transform to higher value over time. So this is increasingly the horizontal type of activity which needn't be sectorally focused, but we will still be working on sectoral activities too.

But what wins investment, particularly in the mobile international market, is down to people, skills, expertise, and to the operating environment—the ecosystem as the Americans call it—which is really everything around the





companies. But we also see this as a competitive factor and it's where culture begins to impinge—speed, agility and flexibility as defining differences. So it's not just the physical infrastructure you have it's the mindset, the ability to constantly change, to move, to pick up the nuance quickly and to go with it—in my view that's a defining difference for Ireland, and we get it as feedback from investors.

So the three legs of the stool are people and skill, the operating conditions and (we're not hiding it) low tax, but a stool never stood on one leg and it couldn't stand purely on people and skills, nor could it stand purely on operating conditions and it can't stand purely on low tax, but put together they're very powerful and very steady as a basis for development.

As far as a people and skills are concerned, we were slow to invest strongly in education, but we did from the 1960s and we now have the highest endowment in the world of science and engineering graduates in the age group 20 to 30, which is a pretty powerful age group to have them in. Of every 1,000 people in Ireland aged 20 to 30 in 2000, 16 was the rate for science and engineering graduates compared to 8.6 in Japan, an EU average which is under seven, US is just over six, Germany where they graduate much later is under five; now China and India have many, many more science and engineering graduates, but in relative terms Ireland has the highest endowment in the world. Now, that's useful and it's powerful but it's not the only attribute of the Irish education system.

In the really dark days in the 1950s and 60s I heard the phrase, there isn't much we can give our children but we'll give them the best we can, we'll give them a good education. So in Ireland there was a general sense of the value of education and that goes right through the political system into political choices and it also means teachers are valued and that parents do pay attention to what goes on in schools.

A second important feature in education has been the broad curriculum to age 18, seven or eight subjects, a science subject, a history subject or whatever; and the third thing, when we started investing strongly in education and when we established the regional technical colleges, which have become institutes of technology around the country, they were really strongly related and connected to local business and we see it repeatedly, even today, that they are highly responsive to investor needs.

Abbott brought two diagnostic plants to Ireland in the last four or five years; they went to their two local institutes of technology and put on training courses for them with certification, precisely to Abbott's needs and for





their business needs, and those two diagnostic plants have 70% third level graduates employed in them—they're manufacturing plants but that's the kind of manufacturing we're now attracting.

So those various factors and others are hugely significant and it's not just the spending in education because in fact we're no better than the OECD average in our spend, it's the productivity and connectiveness of that education.

I mentioned the ecosystem, and the elements we identified were infrastructure scales, legislative policy, business environment, knowledge and research, and then how these communicate and connect. Then there are all the players—very often public sector players or private providers—on each of those elements, and we as an agency don't control or can't really drive every element but as an agency we aim to influence every element and to have every one of those institutions in that ecosystem understanding where we're trying to go and where we think Ireland should be trying to go.

It's not written down anywhere and this is the really interesting thing, I think, in relation to the Irish culture, the Irish ecosystem—there is actually no grand plan; you can't find it in any of the national development plans or anything else. But there is sufficient common understanding of where we're trying to go and what the elements are that matter to investors that we can actually move things through these various parts of the ecosystem, so that we are advancing. It's quite a challenge, but it actually ultimately comes down to the shared vision, the Team Ireland spirit, the belief that we're going somewhere and that it's worth everyone contributing to it.

It was summed up very nicely for me a year or two ago; Janet Napolitano the Governor of Arizona came over to Ireland, and she went back and wrote an article in the Arizona Republic and said, 'in Ireland even the taxi drivers understand the need for investment in research and development'. I said, I wouldn't have trusted a taxi driver on that issue! But it's an indication that there is a common view and that it does penetrate the public discourse and therefore it's supporting what we're trying to achieve.

So, what is this saying? Friedman's thesis is that you can do things anywhere if you've got all of those things together and in this respect the world's getting flatter; China can do it, Malaysia can do it, Singapore can do it, Puerto Rico can do it, any state can do it. Whereas Florida says things happen where you have the creative classes coming together, where there's an openness, a creativity, where there's a tolerance level—and actually they're both true.. I suspect in Ireland there's a fair bit of both, we've got the Friedman requirements and we've got the Florida requirements, and I think in a way that's summed up





when you begin to look at the history not purely from an economic statistics point of view. But when did it start happening and why did it start happening? People in Ireland recognise that the first time we went to the World Cup in Italy in 1990 was the time we really started having a party together; we had fabulous nil all draws! We drew nil all with Romania and David O'Leary scored the penalty goal that got us to lose by only one to Italy in the quarter final and we had another party, and curiously enough we've almost forgotten that we beat England in the European Championship in 1988, we had such a fabulous party in 1990!

And then the U2 thing and Riverdance which came out of Eurovision; winning Eurovision wasn't really all that big but the fact that we made Riverdance out of it was great. And the Cranberries were huge in the States although nobody knew them in Europe, and there was the Roddy Doyle thing, *The Commitments*, the recognition that even if you were poor you could be fashionable—and as a result Dublin became really fashionable, and the kids flocked in to Dublin for parties of all sorts from around Europe, and they're still flocking in, so that half of Google's 1,500 people in Dublin are actually Europeans who are in for a few years.

The economic factors that were contributing to this upsurge included Ryanair, which was smallish then but it was creating a ripple and it was helping build the tourism infrastructure. For instance, in golf tourism Scotland was way out in front and it was only in the 1990s that Ireland began to compete in golf—we built lots and lots of courses and it's taken off to such extent that we now outdo Scotland in golf visitors.

What is fascinating is the extent to which the conomic boom went along with rapid social and political change in Ireland in the 1990s. Clearly the peace movement in Northern Ireland was helpful, but when you recognise in how short a period what really was a very strong culture of church and religion was suddenly abandoned by people—and I don't think it was because there were scandals in the church, rather it was because it was not as rooted institutionally as had been believed. There are those who say—and I don't agree with it—that in some respects the loss of religious involvement also meant we got a monkey off our back; now, I think that's rather overstating it, but I think there are some really interesting questions about the speed of change in what was not much more than five years in the early 90s. Alongside the phenomenal economic growth things that were inconceivable in the 1980s in terms of divorce, of gay rights or abortion (which is still constitutionally prohibited but the courts have ruled it may be appropriate in certain circumstances).all became accepted.





In a way that change accompanies another point that I think has been valuable in Ireland, and that is the tolerance of ambiguity; I think the extent to which those changes happened reflected an underlying aspect of Irish culture which I think is quite distinctive—let's call it the 'fuzzy shared vision'. If you ask 100 people in Ireland in key positions what the vision is you'll get a different definition of it but it's reasonably aligned, and we're quite tolerant of the fact that it doesn't have to be precise and that Bertie Ahern can give one version and I'll have another and somebody else in some institutional setting will have another of a different perspective: we may all see it from our own perspectives but actually they remain very close. It is common, but it's fuzzy.

At no point has anybody written down what precisely we will have achieved by 2010, 2015 or 2020; we don't actually believe in those predictions, but we know out there it'll be better, it will have a higher standard of living, it will be more inclusive, we won't have solved all problems but we will have advanced in various fronts. The times when we tried to achieve some precision in programmes for economic expansion we realised that, actually, these things didn't work, and detailed planning doesn't work either—particularly detailed centralised planning doesn't work.

The Director General of the Swedish Council came in to me about a year ago and he said, my job is to promote the image of Sweden abroad so I would like to understand how you did it, and who did you consult? I said, well we didn't actually consult anyone, and he asked, why did you not consult anyone? I replied, well we knew it would be okay, and that was a genuine reaction; all of us together knew what we are doing for Ireland. The tourist board might be doing something else, the Department of Foreign Affairs were a little bit different: they were never coordinated but they were actually aligned. So that's certainly very strong, the tolerance of ambiguity, and some of the international surveys show we are very strong on ambiguity; it's summed up for me by the fact that we wrote it into the constitution when we defined the national territories as the whole island of Ireland, although it's only part of the island where the laws of *Oireachtas Eireann* shall run, so it's whichever you like yourself.

Hofstede and others have suggested that if you tolerate ambiguity you don't need detailed rules, if you don't tolerate ambiguity you have to have detailed rules for the organising and the running of society. We don't like detailed rules, we don't like detailed planning, we don't believe in that, and that tolerance of ambiguity I think is actually a competitive advantage because, in the world we are now in, there are huge masses of information, enormous





fluidity and flux in the way corporations organise their global affairs, and it's possible because of liberalisation of trade and new technology and the fact that you can break up the value chain and do it anywhere. All that possibility you can only live with if you tolerate ambiguity and uncertainty, so I think the world will want more tolerance of that type and I think we have strengths in it.

The other key strength, of course, is the value of relationships and connections, and the fact that we tend to work so much through knowing the person who will solve the problem rather than knowing the system or the process that will solve the problem. It's very much about personal connections—we have systems, processes and procedures and all the rest of it, but if they're not working we'll ring the person who'll solve it for us. It's all about relationships and connections, and that's clearly helped by the small size (4.2 million people) and the informal networks that that makes possible—the use of contacts rather than a central plan. We do have something called a national development plan but really it's only a framework which says there will be envelopes for various activities and those envelopes will be drawn on as need arises and as particular pieces of infrastructure are proposed for development, but it's not fixed, it's flexible and it will change. There's no close coordination; there are massive agencies in the Irish system, probably too many, but there's no coordination, and people will say, there must be coordination, but every one of us rebels against it because we know that it won't help—I've been driven mad by bureaucrats who say we must coordinate, because the truth is that's only a constraining process, whereas so long as we're aligned and we're moving together and maintain coherence—and coherence is important—then we can achieve things.

So it really does tend to come back to creativity, agility, speed and flexibility; we see these as defining competitive advantages and they're certainly in the culture, they're part of the organised programming of the mind—as Hofstede calls culture—and I think culture is really how we do things and I believe they are innate. In this context, I can't resist a reference to the Celtic mystery, because I know in Scotland you have had these issues or debates about whether one part of the projection of Scotland is consistent with another, and as I said a little earlier we don't have that problem—we're happy to handle the fact that various things can be done that aren't necessarily mutually consistent. There is a now famous image of W B Yeats, part of the Le Brocquy Heads series, and we have been using these Heads in our advertising; the caption is 'The Irish Mind' and it's really capturing all of the culture, the ecosystem, our way of approaching things and saying, that's what defines us and that is a





competitive advantage. ‘The Irish Mind’: it was Richard Kearney of UCD and Boston College who wrote it up in this way: in earliest times the Irish mind remained free in a significant measure of the linear, centralising logic of the Graeco-Roman culture—and it’s not about abandoning order for disorder, it’s a different type of order—I love that idea and I think that really is us. It can be unsettling for people, but that’s actually what we think can make a difference.

The other things, the practical things are important, and if they’re not right nothing will work, but we actually hear it in feedback from our investors: the Chairman of Intel is quoted in Tom Friedman’s book *Lexus and The Olive Tree* as saying, Ireland is easy—I’m paraphrasing—easy to deal with government, easy to come in and out, easy to get things done; it’s easy partly because there’s nothing absolutely fixed in Ireland. Intel demands things to be done their way and we do it their way, but we can add a bit, we can tweak it a bit, there doesn’t have to be an absolute about anything—and it’s a different kind of order. That different type of order really does demand a different approach; the fact that so much is fluid, is flexible, that companies can reinvent themselves in all sorts of ways, that there can be new business models and, as we know through our very rapid development, we have new expectations, new aspirations. What people wanted 20 years ago is different now and it’s not about having a job, it’s about having an intellectually challenging and satisfying job.

All of those factors certainly change how we approach the market for inward investment and it changes how the Irish economy works in ways in which I suspect haven’t really been captured yet, and certainly we believe that what we’re doing and what now needs to be achieved is very much placing a premium on flexibility and responsiveness.

That’s partly addressed by Research and Development and there’s been huge investment by the state in R&D in Ireland since 2000 through Science Foundation Ireland, whose mission is to bring world class research into Irish universities, to grow the talent that’s there, but particularly to go for excellence through international peer review. In a way, it is doing for the universities what the IDA in a previous generation did for the business sector. Practically the sole criteria for the Science Foundation is excellence, as it is for all the best research assessors around the world, and the challenge and the opportunity for Ireland is that we can connect research excellence to excellent business. That in a way is what IDA has been trying to do for the last few years, to see that there’s no deeper capability in Ireland and to tell the world about that and to understand the business needs out there in that world and to match those business needs out there with this deeper expertise and capability.





So there's an investment in R&D which we're now taking on, and which is a change in our perspective—it is a bit more intangible, nebulous and a bit more difficult, but I believe we'll actually achieve it because we'll tolerate some of the intangibles and ambiguities in it.

I'm asked regularly, what's your biggest fear? My biggest fear is that we don't move quickly enough; it's not that we'll be too costly—that's temporary or it's solvable—it's actually to be higher value, with deeper expertise, being in front of the competition rather than beating them on price—so it's speed and the pace of global change and our speed of transformation.

One of the challenges which I know is also a perennial challenge for Scotland, is regional balance; through the 1990s Dublin gained an enormous amount of investment, it was the most attractive location in an attractive country—it had one to one and a half million people, four universities, an international airport, all the business services that were deep and globally oriented. The challenge for us is to build other centres in Ireland that can go close to that; Cork has developed very well in the past five years in particular, the airport is growing, the university is deepening its expertise, and so on, but Cork is only half a million relative to Dublin at one to one and a half million, depending on how wide you throw the circle. Galway has taken off primarily because it has become a centre for the medical technology cluster, the Boston Centre, Celestica Electronics and the Irish companies that grew up around them and the university connection to them.

The challenge will be to repeat that in a total of nine regional gateways, as we call them, but some of those gateways are towns of only 50,000 people and it's hard to be a city region based on a town of 50,000. But the competition of the sort that we're now facing, high value, looking for expertise, differentiated globally, does require an urban base and a strong urban base with the depth of business services and expertise that goes with an urban base. So we have a national spatial strategy and we keep saying, the competition is not between one town or another, it's between this region competing against some of the best city regions in the world for investment.

We've had an infrastructure deficit; we're catching up but that's one of the key issues. How well we add to and deepen skills and expertise matters, costs do matter, and I have to say that because every manager in every multinational corporation or in every Irish corporation are continually screaming it, but it's not the only criteria and it can't be the basis on which we win in the future.

And we have some concerns about Europe, particularly in tax harmonisation and a common consolidated tax base. These are totally nonsensical things that





would take forever to do, but if they ever happen it will really damage the sovereignty of the member states because it will pull things to the federal level, and even in the US, which is the most completely integrated market in the world, there's tax competition between states. Such proposals are really crazy because Europe is not an island in a global economy and it's not possible to isolate it from Switzerland which really competes with the rest of Europe.

But the biggest challenge in many respects is maintaining flexibility but also sustaining the hunger, because it was the hunger which took us out of the dark days of the 1950s to the 1980s, and it's possible to conceive of a country getting fat through 20 years of success and not having a hunger. But it's the hunger that will drive continued development, continued success, success which has to be driven in the face of global competition—because if we don't do it others will.

So that is how we see the challenges. But let me finish with the Le Brocquy heads and the text we've been using:



“The Irish. Creative. Imaginative. And flexible. Agile minds with a unique capacity to initiate, and innovate, without being directed. Always thinking on their feet. Adapting and improving. Generating new knowledge and new ideas. Working together to find new ways of getting things done. Better and faster.”¹

That's a text we've been using and you Scots may say, ah it's not for real, but we believe it which is why we project it; we believe it and we think our investors also believe it, which is why we project it. It's interesting and it's much softer than the older things like, we're cheaper, we have more people, we have better education: what it says is actually we've a smarter culture and, sorry, I'm in sales pitch here, but that's what we do! It's actually the connection of culture and economics: that's how we see it.

¹ In a new marketing campaign called the “Irish Mind”, the IDA took out a full-page advert featuring le Brocquy's well-known portrait of Bono's head in the US edition of the *Wall Street Journal*. For two years or more, the adverts will also run in publications such as *Business Week*, *Time*, the *Economist*, *Forbes* and *Fortune*. (*Irish Times* 26 May 2006)

