

Book Review

RAY MACSHARRY and PADRAIC WHITE, (2001). *The Making of the Celtic Tiger: The Inside Story of Ireland's Boom Economy*. Cork: Mercier Press, Price: €25.39

Almost a dozen books have been published by now on various aspects of the Irish boom of the 1990s. These range from the popular to the academic, and include a substantial number consisting of radical critiques. The present volume however is *sui generis*, presenting itself as “the inside story of Ireland’s boom economy”.

The authors are indeed well placed to provide elements of the inside story. Ray Mac Sharry was the Finance Minister who in the late 1980s oversaw the resolution of the country’s sustained fiscal crisis. Padraic White was Managing Director of the Industrial Development Authority from 1981 to 1990, and the latter part of his reign saw a large increase in FDI inflows to Ireland as the build-up to the Single Market and the beginnings of the worldwide high-tech. boom coincided.

I have heard much more criticism than praise directed towards this book by academics, generally because of its perceived self-congratulatory tone. It is certainly true that politicians created the fiscal crisis as well as managing its eventual resolution. The book, not surprisingly, focuses on the latter. The chapters devoted to industrial policy also focus almost exclusively on recent successes in the field of multinational investment while ignoring continuing weaknesses in crucial areas, most notably in the low levels of research and development carried out by both foreign and indigenous industry in Ireland. To my mind, however, the wealth of insider detail and nuanced judgement that the book contains makes it an invaluable reference, and one that I suspect I will be citing for years to come.

The first half of the book is written primarily by Mac Sharry while White takes the lead role in the second half; my positive conclusion applies to both parts. There is a strong contrast in the writing styles of the two authors. Mac Sharry’s prose is sharp and austere, in contrast to White’s more florid style. Interestingly, White comes across in these pages as the politician and Mac Sharry the technocrat! I cannot recall Mac Sharry even mentioning which constituency he represented in Dail Eireann while White frequently alludes to his Leitrim background and to how this influenced his antagonism towards the Buchanan Report of 1968, which favoured the spatial concentration of industry. (I had thought it was widely agreed by now that the rejection of the logic of Buchanan impacted adversely on Irish economic development, and that this view was embraced within the recently published National Spatial Strategy!) White’s political nature also emerges in his somewhat cloying thumbnail sketches of the characters he encountered in his days at the IDA. No one is mentioned by name

unless they can be praised. When the occasional criticism emerges from such a confection however it makes the reader sit up and take note. I will mention several of his criticisms below.

In terms of analysis of the factors behind the boom, all the usual suspects – education, industrial strategy, the Single Market, the Structural Funds, social partnership, the resolution of the fiscal crisis – are dealt with. The book does not of course attempt an evaluation of the precise contribution of each strand. The only work that I have seen that does attempt this – the paper by de la Fuente and Vives in Alan Gray's *International Perspectives on the Irish Economy* – is forced to the conclusion that “the sources of the ‘Irish miracle’ of the last decade are not entirely clear”. The reader's main interest in the present book will rather lie in what the authors have to say about the spheres in which they had a direct involvement. I will deal with each of these in turn.

Though it is not his main focus, Mac Sharry does present an astute critique of how the fiscal crisis initially emerged, writing that “in the ill-fated 1977 Fianna Fail manifesto ... all the benefits were front-loaded, and the payback never came. Tax cuts were delivered in anticipation of pay moderation rather than in response to it” (page 49). “It was all carrot and no stick” (p. 50). He is generous in acknowledgement of the contribution of the NES 1986 strategy document in securing the agreement of the social partners as to the necessity for fiscal consolidation, and in his recognition of the importance of Alan Dukes' “Tallaght Strategy”. If there is one thing in Fergus Finlay's book *Snakes and Ladders* that would make one fearful of having his hands too close to the levels of power it is his ridiculing of this crucial move on Dukes' part.

The most interesting thing about Mac Sharry's discussion of the resolution of the fiscal crisis is his constant emphasis on the importance of the simultaneous move towards social partnership, the centrepiece of which was “the trade-off between pay moderation and tax concessions, designed to increase after-tax incomes and raise employment” (p. 114). He also recognises the benefits flowing from the earlier (1986) currency devaluation. The importance of the simultaneity of these developments was ignored by Giavazzi and Pagano in their 1990 work on “expansionary fiscal contraction”, which purported to explain what had happened in Ireland and Denmark. It is now widely recognised – most notably in the works of Alberto Alesina and his co-authors.

Mac Sharry concludes his section of the book by discussing briefly his sojourn in Brussels as EU Agriculture Commissioner, where the same hard-headed approach he brought to Finance allowed him push through much-needed reforms in the operation of the Common Agricultural Policy. He expresses some very veiled criticisms of the stance of fiscal policy over the recent boom, which conjures up in my mind an image of the current minister as a little boy in short pants standing beside the towering colossus of the former minister! The present reviewer scratches his head in wonder that expoliticians of the calibre of Mac Sharry and Spring would risk such hard-earned reputations by continuing to preside as board members over the shambling goings-on at the former state telecommunications company, Eircom.

Padraic White's section of the book concentrates on the country's FDI-driven industrialisation strategy. He takes it for granted, as many of us do, that this is a crucial element in Ireland's recent success, though it played a remarkably small role in the recent account offered by Patrick Honohan and Brendan Walsh in *Brookings Papers on Economic Activity* 2002.

IDA executives frequently fail to put on record how their operating procedures change over time. This is frustrating for interested academics. (An unpublished paper of Deirdre McHugh's of over ten-years' vintage is still passed around like *samizdat* literature!) It will prove even more frustrating for future historians. So White's account is valuable. He also tells interesting stories of how IDA muscles were flexed in areas not traditionally recognised as being within the industrial-policy remit. One such, told on page 286, recounts the hostility of the old Department of Posts and Telegraphs to IDA criticisms of the telephone system in the 1970s, and of the battle that ensued. Another, on page 284, tells of how the looming disparity between electronics graduate outflows and the IDA's demand projections was speedily resolved through an inter-agency initiative to develop one-year conversion courses to furnish science graduates with electronics qualifications. Yet another story, which foreign professionals in the field invariably find fascinating, concerns the battle to attract Intel to Ireland (page 217). At the final stage the company was paralysed by fears that engineers with the requisite experience could not be found here. The IDA commissioned interviews with over 300 Irish engineers, working mainly in the US, who had the appropriate experience, and was able to report to Intel that over 80 per cent of them expressed a willingness to return to Ireland if offered a good career opportunity with a quality company.

Particularly fascinating, and important from an analytical perspective, are the tales told on page 204 of how several larger EU countries, in the pre-Single Market era, "had suggested to potential investors that publicly funded purchases of their products might be blacklisted if the new investment was located in Ireland" (rather than in the countries making the threatening noises). This illuminates why Ireland appears to have gained more from the Single Market than did most other EU countries.

Written with the benefit of hindsight of course it is not surprising that White's chapters are able to portray the successes of the 1990s as all falling in line with IDA plans developed decades earlier. Thus, (page 207), "electronics, computer software and special emerging opportunities in biotechnology and healthcare were the foreign industries I listed as meeting the high-growth criteria" (in a paper written in 1983). Other references he makes suggest that some of these sectors had been adopted as targets as far back as the early 1970s. This indicates remarkable prescience, and stimulates me to do something I've been meaning to do for years – to go back and check the historical record on IDA targeting for myself. In any case, the foreign industries that Ireland has ended up with are precisely those that empirical economic geographers have identified as the sectors that have become more mobile (and were thus enabled to decamp from core to periphery) over the last few decades. There is no guarantee of course that Ireland would necessarily have been the peripheral country to succeed in capturing them without the diligence and energy of the IDA, though the fact that we have the lowest effective corporation tax regime in Europe suggests that the question is not capable of a simple resolution.

White portrays well the enthusiasm that still seems to energise the IDA, and explains its *modus operandi* succinctly. He also offers some interesting comments on the institutional environment in Ireland (page 314) that leads him to conclude that the odds against the IDA's foreign rivals being able to threaten IDA supremacy in the field are high.

I mentioned earlier some criticisms that White enunciates. Thus he refers on page 354 to "the creeping bureaucracy of the Irish administrative approach" and suggests

that there remain unlimited opportunities and niches to be availed of, “but only if the political and administrative will is sustained”. I must confess that this language is too coded for me. Hopefully the people to whom it is addressed will give it due consideration!

The only angry passage in the book appears on page 324, where he details how the Central Bank scotched the IDA’s attempts to move Ireland into international financial services in the late 1970s, long before the IFSC was a twinkle in anyone’s eye. “It emerged that the bank had no stomach for the projects and would not approve them...The IDA could never get a clear reason for this. The most authoritative word which came back indirectly was that the Central Bank believed the offshore financial projects ‘smacked of a banana republic’”. One cannot blame White for his anger in light of recent revelations to the Dail Public Accounts Committee of Central Bank inaction in the face of the massive illegal international capital movements taking place before its eyes in that very period.

Charles Haughey emerges well out of White’s account of the enthusiasm he mustered throughout the whole public service once the plan to develop the IFSC was accepted. Another point of interest with respect to the development of the IFSC is his recording (page 335) of the fact that “the Isle of Man, which had created a well-established niche for itself, was openly sceptical of the Irish plans. The island’s commercial-development officer claimed that ‘Dublin would be better building on its own resources, which do not particularly include financial services’”, an interesting illustration of how notions of revealed comparative advantage need not necessarily constrain a country’s subsequent development.

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