


Institutions, Policies, and the Irish Miracle

Full Length Text — Part: 6 Chapter: 7
Macro Only Text — Part: 5 Chapter: 7

To Accompany “Economics: Private and Public Choice 11th ed.”
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Ireland’s U-Turn

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Ireland: 1960-1986

- Government spending in Ireland rose from 28% of GDP in 1960 to 43% in 1974 and 54% in 1986.
- The Irish economy in the mid-1980s was characterized by a large and growing government, high taxes, price level instability, and substantial restrictions on international trade.
- By 1987, real growth had fallen sharply. Unemployment soared to more than 17% during 1985-87. People were leaving the country in search of opportunity.

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Ireland's U-Turn: 1987-2003

- A plunging credit rating and limited capacity to borrow virtually forced Ireland to reduce the size of government in the late-1980s.
- Government employment was reduced by about 10% between 1986 and 1989.
- Government spending was cut from 54% of GDP in 1986 to 42% in 1989. By 2000, it had fallen to 32% of GDP.
- Beginning in the latter part of the 1980s, both personal and corporate income tax rates were reduced.


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Ireland's U-Turn: 1987-2003

- Ireland's monetary policy was more stable. Compared to the 1970s and early 1980s, the inflation rate was lower and more stable during 1985-2003.
- As Ireland joined the EU, it became a more open economy. The increased openness contributed to the rapid growth of the Irish trade sector during the 1990s.
- In the 1990s, Ireland was one of the world's fastest-growing economies. It's growth rate stands in stark contrast with other European economies that have been growing at an annual rate of around 1.5%.

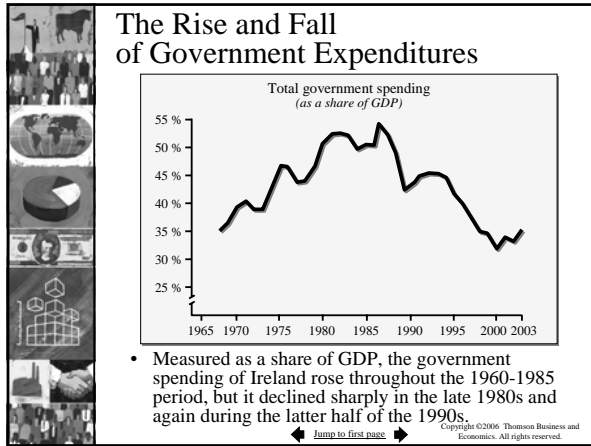
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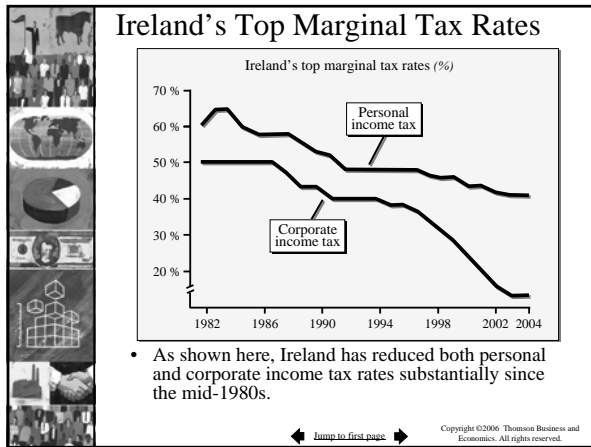


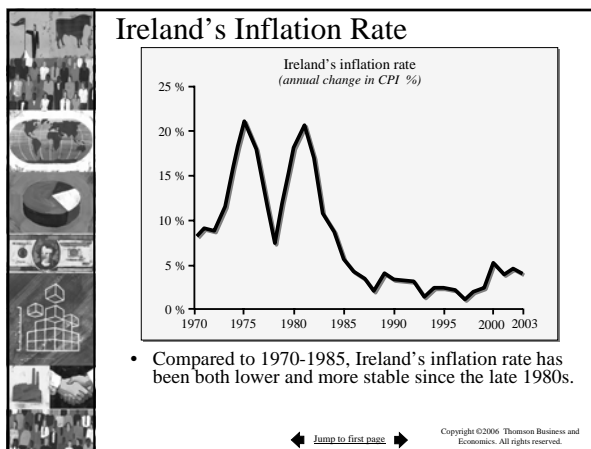
Ireland's U-Turn: 1987-2003

- The Irish experience of the last four decades highlights the importance of open and competitive markets, government spending restraint, low tax rates, and stable monetary policy.
- See the following exhibits for details of the policy changes.

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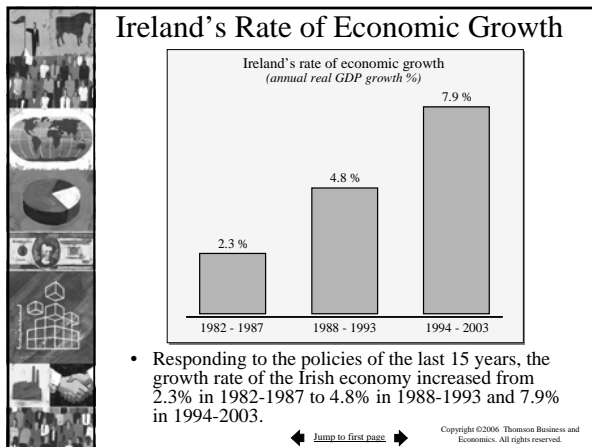
















Questions for Thought:

1. Why did the Irish economy stagnate during the 1970s and most of the 1980s, but grow rapidly during the 1990s? What can we learn from the Irish experience about the conditions necessary for economic growth?
2. If Ireland had not had a relatively sound legal system, would its policy U-turn have been as effective? Why or why not?

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Special Topic 7**

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