THE REPUBLIC OF IRELAND'S ECONOMIC BOOM:
CAN THE EMERALD ISLE SUSTAIN
ITS EXPONENTIAL GROWTH?

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1. INTRODUCTION

The other day the old landlord came by for his rent,
    I told him no money I had,
Besides twasn't fair for to ask me to pay,
    The times being so terribly bad.
He felt discontent at not getting his rent,
    And he shook his big head in a frown,
Says he, I'll take half but says I with a laugh,
    Do you want your old lobby washed down? 1

This folksong vividly captures the economic struggles that have characterized much of Ireland's history. Famine, unem-

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1 Excerpt from "Do You Want Your Old Lobby Washed Down?,” an Irish folksong. The full text of the song is available at Traditional Irish Songs, at http://users.bigpond.com/kirwilli/songs/lobby.htm (last visited Oct. 20, 2000). (Other Irish folksongs are also available as well as links to Irish folklore, jokes, and literature.) For more on Irish culture, see NATHANIEL HARRIS, HERITAGE OF IRELAND: A HISTORY OF IRELAND AND ITS PEOPLE (1998) (detailing Irish fine art, myth, folklore, literature, and academia).
ployment, and other hardships were a constant in the lives of those who dwelled in city and country alike. The poverty that Ireland experienced was so pervasive that even today, Ireland is frequently associated with dismal farming communities or unsanitary, overcrowded cities. This mental picture is justified. As recently as a decade ago, Ireland was labeled the “sick man” of Western Europe. Today, however, Ireland is amidst an economic boom; its vibrant new economy is heralded the “Celtic Tiger.”

Ireland’s economic boom begs many questions. Initially, when presented with such astounding statistics, one looks for a specific answer to such a radical economic change. However, many factors contributed to the economic metamorphosis described above. Section 2 of this Comment discusses the economic history of Ireland in order to understand the myriad factors causing the boom. Section 3 describes these factors, internal and ex-

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2 See Rob Norton, The Luck of the Irish, FORTUNE, Oct. 25, 1999, at 195 (“If all this [prosperity] doesn’t jibe with your mental picture of Ireland, you probably haven’t been there in a while.”).

3 ORG. FOR ECON. CO-OPERATION & DEV. (“OECD”), OECD ECONOMIC SURVEYS—IRELAND 1999 26 (1999) [hereinafter OECD SURVEY]; see also David Simpson, How a Scottish Parliament Would Be Good for Business, HERALD (Glasgow), Sept. 9, 1997, at 8 (describing Ireland’s fiscal successes as having been “achieved by a country which, but a short time ago, was a byword for economic backwardness”).

4 Ireland’s burgeoning economy is truly the envy of countries worldwide. For an interesting discussion between officials of Ireland and New Zealand concerning New Zealand’s “Bright Future Plan,” see Richard Pamatau & Richard Trow, Diplomats See Bright Future for Strategy, NZ INFOTECH WEEKLY (Wellington), Aug. 30, 1999, at 3. The program’s policies are intentionally modeled after those that Ireland has adopted, in the hopes that its economy will mimic the growth that Ireland has experienced. See Simpson, supra note 3, at 7 (asserting that Scotland could prosper if it undertook to copy the business policies that the Republic of Ireland has implemented).

5 It is important to note that the Republic of Ireland, the focus of this Comment, shares the same land mass but is politically distinct from the country of Northern Ireland, frequently characterized by internal strife. The Republic of Ireland is a free country that asserted its independence in 1921, while Northern Ireland remains a part of the United Kingdom. The Republic of Ireland adopted its constitution (closely modeled on that of the United States) in 1937. See INT’L TRADE ADMIN., U.S. DEPT. OF COMMERCE, IRELAND—OVERSEAS BUSINESS REPORTS 3 (1991); see also GREGORY ALLEN, THE GARDA SIÓCHÁNA: POLICING INDEPENDENT IRELAND, 1922-82 (1999); OECD SURVEY, supra note 3, at 38 (“It seems likely that Ireland was merely fortunate in undertaking much of its fiscal correction at a propitious moment with respect to world economic developments.”). For more on Northern Ireland, see MICHAEL FARRELL, NORTHERN IRELAND: THE ORANGE STATE (1976) (providing a historical overview from an anti-imperialist and socialist standpoint).
ternal, which brought Ireland to its present state. Until a recent restructuring of tax policy, Irish legislation offered the tax rate to a broad audience, a feature attractive to foreign companies. Section 4 examines the judicial expansion of the legislative boundaries of the original tax regime and the changes the new regime embodies. Section 5 discusses how the tax structure and other internal factors have caused foreign investors in several industries, specifically the high-tech industry, to become enamored with Ireland’s fiscal opportunities. The remainder of this Comment deals with other questions that the Irish boom brings to the forefront, especially the potential problems that Ireland’s racing economy faces. Section 6 identifies potential conflicts and analyzes the reality of their threat. Section 7 presents scholars’ views regarding the likelihood that these mounting problems will occur and also examines the effect that recession in neighboring countries, large investment and trading partners, or a global recession would have on Ireland.

This Comment concludes that the Irish economy will avoid a complete economic relapse but ultimately will falter. This stems from the myriad pressures that are butting heads internally and externally, most of which Ireland has little control over. The careful and extensive internal steps that the country has taken to strengthen its industry should allow it to be able to weather most financial storms. However, an inability to preserve the policies that allowed Ireland to blossom is not the largest threat. The government’s new emphasis on the global market as an integral part of its internal policies could prove to be its Achilles’ heel. Ireland’s reliance on world trade and investment would leave it virtually defenseless against a global recession.

2. IRISH ECONOMIC HISTORY

To fully understand the magnitude of Ireland’s present economic boom, it is valuable to understand the country’s history. Ireland’s past was financially dismal. Its emergence from such

dire economic straits makes the country’s present prosperity all the more noteworthy.

2.1. Beginnings

Ireland asserted its independence from England in 1921. This break was followed by a yearlong civil war that left the country in a policy drift for the next decade. In 1932, Eamon de Valera became the head of state and remained there until the 1950s. De Valera had a “profound ignorance of economics” and dreamed of Ireland as “the home . . . of a people who were satisfied with frugal comfort . . . .” These policies led Ireland into a depression from 1932 to 1938 in which industrial exports fell by one-third and farm exports by almost half. This standard of living continued through the 1950s, when Ireland’s per capita income was half that of Great Britain.

2.1.1. First Change

The first stirrings of economic change in the Irish economy began with the government’s rejection of protectionism in 1958 through a series of initiatives known collectively as the White Paper, A Programme for Economic Development. However, despite this promising start, the economy lapsed back into a recession in 1980 that worsened until 1986. During that time, the unemployment rate continued to fall, eventually leaving 17% of the Irish workforce without jobs, an annual inflation rate of over 10%, and an average deficit of over 7% of the gross domestic product (“GDP”). This steady decrease of economic stability finally ceased in 1987.

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8 See id. at 26-27.
9 See Norton, supra note 2, at 198.
10 Id. (quoting J.J. Lee).
11 See id. at 199.
12 See id.
13 See id.
14 See id. at 198-99 (explaining the 1980s recession as a result of “unsustainable expansion that relied on inflation and deficit spending” in the 1970s).
15 See OECD SURVEY, supra note 3, at 16-17.
16 Id. at 17.
2.1.2. Modern Ireland

After Ireland's declining state of economic affairs halted in 1987, the country's finances began to slowly improve.\textsuperscript{17} The present economic boom is considered to have begun in 1994.\textsuperscript{18} By 1995, Ireland was Europe's fastest growing economy.\textsuperscript{19} This growth trend has continued, as evidenced by Ireland's output growth of over 9% per year on a GDP basis from 1994 to 1998—a higher level than the European Union ("EU") average.\textsuperscript{20} By 1998, the growth had not only reached 9.5% but inflation registered less than 3% and the unemployment rate was 6.4%.\textsuperscript{21} In a marked contrast to fifty years before, when Ireland's GDP was half of Great Britain's, Ireland's GDP could soon surpass that of Great Britain.\textsuperscript{22}

3. Factors Leading to Ireland's Economic Boom\textsuperscript{23}

Ireland's economic boom stems from myriad factors, rather than from one "silver bullet."\textsuperscript{24} These factors, both external and

\textsuperscript{17} See id.

\textsuperscript{18} The OECD divides this period in two: from 1986 to 1993 and from 1994 to the present. See id. The OECD considers the first period to be the period in which "output growth resumed, but only at levels which were the norm prior to the earlier stagnation." Id. It is the later period that began the present economic boom of "peerless performance" and that is the focus of this Comment. See id.

\textsuperscript{19} Jessica J. Poyner, Comment, Investing in Ireland: The Enticement of U.S. High-Tech Industry to the Emerald Isle, 10 TRANSNAT'L LAW. 195 (1997) (discussing the effects of Ireland's industrial development, the workforce, and the taxation system).

\textsuperscript{20} See OECD SURVEY, supra note 3, at 10.


\textsuperscript{22} See Norton, supra note 2, at 196. Not only is Ireland's GDP competitive with Britain's, but the Celtic Tiger could very well prove to be stiff competition in many areas of industry that Britain has traditionally dominated. See Jo-Anne Flack, Talking Heads, MARKETING WK., July 1, 1999, at 41 ("One country that the U.K. does have to compete against quite strongly, however, is Ireland. The efforts of the Irish government, in the guise of incentives and tax breaks to lure business there, have been paying off.").

\textsuperscript{23} See generally FRANK BARRY, UNDERSTANDING IRELAND'S ECONOMIC GROWTH (1999); John Bradley et al., Interpreting the Recent Irish Growth Experience, August 1997 (background report prepared for the OECD, Economic and Social Research Institute) (on file with author).

\textsuperscript{24} OECD SURVEY, supra note 3, at 17 (describing a silver bullet as a "single, overriding policy that could be adopted elsewhere in order to emulate the
internal, include involvement in the European Union, the politics of a "knowledge economy," the creation of the Industrial Development Agency ("IDA" or the "Agency"), and a friendly tax structure. "There is a surprising degree of consensus as to the array of factors that should be included in a comprehensive list of the reasons for the . . . growth that began around 1987. It is only as to emphasis that the experts begin to disagree." Each of these factors has certainly played an integral part in Ireland's fiscal upswing and it is important to understand their role in Ireland's prosperity. However, as discussed later in this Comment, determining their individual weight in the formula for success is not nearly as important as examining their ability to weather the economic storms of the future.

3.1. External Factors Causing the Boom

The term "external factor" refers here to fortuitous circumstances outside the immediate control of the Irish government. Ireland is fortunate to have benefited from such factors, namely EU involvement. While the Irish government did take advantage of the opportunities that the European Union afforded them, much of the country's extraordinary growth resulted from additional EU funding awarded simply because Ireland is a smaller country. This good fortune is what makes the experience of Ireland's bust to boom economy so difficult for other countries to mimic.

25 Although other factors could be, and frequently are, included in this list, they will not be discussed in this Comment as the Author does not feel that they have had a significant impact on the economic growth. These factors include favorable demographics, use of the English language, and a pleasing accent. See generally OECD SURVEY, supra note 3.

26 Id. at 31.

27 See id.

28 See id.
3.1.1. Role of the European Union

The Republic of Ireland joined the European Union in 1973. The EU's initial aid to Ireland took the form of subsidies for expenses, such as regional development and social programs. However, the EU's role in Ireland's economic success has proven to be more substantive than merely providing funds. EU support has given Ireland the chance to become part of the global economy.

3.1.2. EU Structural Funds

After the move to a single market in 1988, the EU began to direct money away from the larger members to smaller ones, such as Ireland, as "structural funds." The program, officially adopted in 1989 as the Community Support Framework ("CSF"), has

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29 The Treaty of Maastricht created the European Union, which had been known as the European Communities. Treaty of the European Union and Final Act, Feb. 7, 1992, art. G(1), 1 C.M.L.R. 719. The European Union consists of the European Communities ("EC"), which is comprised of the European Coal and Steel Community, the European Atomic Energy Community, and the European Economic Community (established by the Treaty of Rome in 1951). The main parts of the European Union are as follows: the Commission, which proposes legislation and implements treaties; the Council, the key decision-making body; the European Parliament (which is directly elected); the European Court of Justice; the European Investment Bank; the European Court of Auditors; and the Economic and Social Committee. Romano Prodi, of Italy, is the President as of this writing. His term expires in 2005. See People in Power: European Union, BUS. GUIDE TO EU INITIATIVES 1998/1999, available at LEXIS, Busref Library, Eunit File; Europa, at http://www.europa.eu.int/en/comm/dg21/dg21.html (last visited Nov. 7, 2000) (providing a background of the European Union, its present status and goals, as well as access to all official treaties and documents).

30 See OECD SURVEY, supra note 3, at 37. Ireland has not merely taken advantage of the European Union's opportunities. The country has also made attempts to liberalize its trade regime since the late 1950s. It has had free trade with the United Kingdom since 1965. See OECD SURVEY, supra note 3, at 37. In fact, Ireland presently has the most open goods trade in the OECD (other than Luxembourg), with the total trade amounting to 163% of its GDP in 1998. See id. (The measure of the openness to trade is the ratio of the sum of exports and imports of goods and services to total GDP.)

31 Norton, supra note 2, at 7. Thirty-seven percent of the EU budget in 1998 was spent on the promotion of economic and social cohesion. The aim of the CSF funds is to even out the disparities among member countries. Aid is determined by the objectives for regions where there is lagging development, declining industry, long-term and youth unemployment, inadequate training of workers, and rural and fishing areas. See Agenda 2000 and Internal Reforms, BUS. GUIDE TO EU INITIATIVES 1998/1999, available at LEXIS, Busref Library, Eunit File.
made large contributions to the stability of the Irish economy.\textsuperscript{32} Since 1990, Ireland has received substantial amounts—from 2% to 4% of the GDP. Much of the money has gone toward tangible as well as intangible support.\textsuperscript{33}

The net result of CSF funds is not evident from a cursory glance. In addition to the aforementioned support, the European Union’s funds saved Ireland from a number of potential pitfalls. The program prevented the underfunding of infrastructure and higher education that may have occurred in an attempt to cut public spending. This, in turn, may have resulted in the loss of global investments.\textsuperscript{34} Furthermore, it encouraged the government to improve the quality of public investment outlays by forcing them to plan long term projects.\textsuperscript{35}

In addition, EU law permits Ireland to give more generous grant aid to corporations for area development than it permits other member countries because of Ireland’s classification as a “periphery” or “cohesion” country.\textsuperscript{36} Whereas Ireland may offer 75% of the total capital investment to a company interested in moving to Ireland, most other EU member countries may only offer 20%.\textsuperscript{37} This has not only strengthened Ireland’s economy but has encouraged foreign investors to view Ireland as a viable locale for corporate settlement.

3.1.3. EU Market Integration

In addition to structural funding from the European Union, Ireland has received benefits from the Single European Market program ("SEM").\textsuperscript{38} The SEM program was not specifically in-

\textsuperscript{32} See OECD SURVEY, supra note 3, at 37. For the Commission of the European Communities’ response to a written query from the European Parliament regarding its decision to allot such a large amount of structural funds to Ireland between 1994 and 1999, see Written Question No. 2700/96 by Karin Riis-Jorgensen to the Commission, 1997 O.J. (C 105), P. 0020 (source on file with author).

\textsuperscript{33} See Norton, supra note 2, at 214. The tangible support includes roads and other structures that underpin the economy. \textit{Id.}

\textsuperscript{34} See OECD SURVEY, supra note 3, at 37.

\textsuperscript{35} \textit{Id.}

\textsuperscript{36} \textit{Id.} at 38.

\textsuperscript{37} Poyner, supra note 19, at 197. \textit{See also} Ireland Becomes a European Beachhead, J. BUS. STRATEGY, May 1, 1996, \textit{available at} 1996 WL 10928506 [hereinafter European Beachhead].

\textsuperscript{38} See European Beachhead, supra note 37, at 38.
tended for peripheral countries; however, it has had a favorable disparate impact on smaller EU countries, such as Ireland. 39 By boosting productivity, the SEM has increased the export demand and favorably impacted the trade balance. 40

"[M]embership [in the European Union] opened up Ireland's trade with Europe and made it the perfect base for U.S. firms' European manufacturing operations. Becoming part of the European Union also cemented Ireland's self-image as a truly European nation." 41 As part of the European Union, Ireland is able to automatically avail itself of a variety of markets and trading partners, both in the United States and throughout Europe. The United States noted that its increase of trade with Ireland in the semiconductor market was due to the desire of U.S. manufacturers in that field to take advantage of a location within the European Community. 42 Now, Ireland's role as a full-fledged member of the Community has enabled it to take advantage of investment opportunities that were previously unavailable. One of the major results of this market integration, facilitated by EU membership, is Ireland's heavy dependence on U.S. trade and investment within its borders. 43

3.2. Internal Factors Affecting the Boom

Beginning in the 1960s, the government of Ireland rejected its former policy of protectionism. 44 The country began to adopt internal policies that focused on strengthening its own economy for the purpose of boosting attractiveness to foreign investors. Legis-

39 See id.
40 See id.
41 Norton, supra note 2, at 214. It has also been noted that even further EU integration would be beneficial to the Irish economy. See ARDAGH, supra note 7, at 92 (quoting Albert Reynolds that "[f]urther European integration is our best hope").
43 See infra Section 6.1.3. For example, in the semiconductor field alone, exports to Ireland increased more than ten times over the first half of 1992. Such exponential rates of growth led Irish trade to be deeply reliant on U.S. trade. See OUTLOOK, supra note 42.
44 See supra Section 2.1.1. For further background on the theory of protectionism in international foreign policies, see generally JOHANNES OVERBEEK, FREE TRADE VS. PROTECTIONISM: A SOURCE BOOK OF ESSAYS AND READINGS (1999).
lation revolved around opening Ireland's doors to new business and creating a powerful workforce in Ireland. This would clear the path for a framework of regulation that oversees successful agencies and creates important initiatives.

3.2.1. "Knowledge Economy" Helps Create a New Workforce

Historically, Ireland has had a surplus of workers but lacked a demand for their services. The reason for this "lies in the realm of public policy. Into the 1960s, Ireland's children were among Europe's most poorly educated." Finally, at the end of the decade, the Irish government made secondary education for Irish children a priority. Since that time, the Irish government has made major educational investments, including nine regional technical colleges. However, from 1922 to 1970 Ireland made no investments in the education of its children, while the rest of Europe did. When other European countries began to see the benefits of their educational investments, Ireland lagged behind. For example, the economy of Germany in the 1970s reflected their post-WWII investment in education. It is only recently that Ireland's education financing has yielded an educated population. Rather than applying to the entire Irish population, recent yields are limited only to the younger demographic of the nation. Illiteracy persists as a grave problem among many adults in Ireland.

A corollary to an educated population is the production of a skilled workforce. Typically included in a modern Irish curricu-

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45 See Norton, supra note 2, at 211.
47 See Norton, supra note 2, at 213.
48 Id.
49 See ARDAGH, supra note 7, at 208.
50 See Norton, supra note 2, at 213.
51 See id.
52 Id.
53 See id.
54 See id.
55 See OECD SURVEY, supra note 3, at 6; see also infra Section 6.2.2.
lum are courses in computer science, applications, and software; information technology; electronics; and engineering. Skills taught in these disciplines now allow students to fill the massive amount of jobs requiring highly skilled employees that have become available as a result of initiatives by the Irish government.

3.2.2. Creation of the IDA

The IDA, formerly part of the Department of Industry and Commerce, became an independent agency after a restructuring in 1969. The Agency is a demonstration of Ireland’s commitment to internal change. The IDA provides extensive assistance to foreign businesses locating their operations in Ireland by finding them a center of operations, hiring employees, providing funding and government subsidies, and aiding them with compliance with government requirements. The Agency has specifically worked to attract high-tech industry to Ireland.

The IDA coordinates a number of programs in an attempt to make Ireland more attractive to foreign, as well as domestic, investors. One such incentive is “New Industry Grants.” These grants are available to domestic and foreign investors to supplement the costs of an “industrial undertaking.” The grants are...

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56 See Anne Byrne, Lots of Jobs in Europe’s Silicon Valley, IRISH TIMES, Feb. 28, 1995, at 10.
57 See infra Section 2.2.1.
58 See Industrial Development Act, § 21(1) (1986).
59 The IDA has been invaluable in encouraging economic growth in Ireland. This is due to its extreme efficiency. See Naomi Caine, Eire: Freedom from Captives—IDA, REUTER TEXTLINE REINSURANCE, Aug. 1, 1993, available at LEXIS, Europe Library, Curnws File (praising the IDA as standing above other government run agencies because it is well-run and high profile); Paul O’Kane, Investors Won’t Be Disappointed Says IDA Chief: Republic Wins 23% of U.S. Euro Manufacturing, IRISH TIMES, May 24, 1995, at 8 (labeling the IDA one of the most successful industrial development agencies in the world).
60 See Poyner, supra note 19, at 202.
61 See infra Section 5.1. and accompanying notes.
62 The IDA offers a variety of other grants such as Management Development Grants, Technical Assistance Grants, Research and Development Grants, and Technology Acquisition Grants. However, the New Industry Grants provide the largest amounts of money and have affected the new economy the most. See Gerald A. FitzGerald & Michael G. Kilroy, Investment Activities, in DOING BUSINESS IN IRELAND § 2.03 (1999).
63 An industrial undertaking is defined by the IDA as “an undertaking ancillary to industry and a service industry.” Industrial Development Act, supra note 58, § 2(1).
available to new industrial projects and major expansions involving at least fifty jobs or a fixed asset investment of at least 800,000 pounds. The IDA has also created a subsidy program for investments of smaller monetary value under the "Small Industry Programme." Most notable about the Industry Grants are the IDA's qualification requirements. These include: creating products for sale primarily in world markets, creating products of an advanced technological nature that will maintain employment, and yielding products for the areas of the Irish market that are involved in international competition. The IDA lists "favored projects" as those that have a highly skilled worker content, long-term stability (i.e., low risk of being obsolete), good potential for spin-offs, and a high level of technology (specifically, international financial services, electronics, pharmaceuticals, and mechanical engineering).

These requirements clearly demonstrate the government's goal of availing itself of global business opportunities. Ireland has heeded its historical lessons of the dangers of protectionism and has chosen to involve itself in the world market, by pursuing the future-oriented avenue of high-technology. Using the IDA as a springboard for investment, Ireland has attempted to, and is succeeding at, strengthening its internal economy by controlling all the factors it can to lead to a stable economy.

Enterprise Ireland, the sister organization of the IDA, was formed in July 1998. Its trade and technology board has offices in thirty locations around the world. Its main mission is to work with clients to break into, and subsequently increase, their competitiveness in the world market. Enterprise Ireland's commitment to staying technologically advanced is demonstrated by the Program's grants for, and focus on, research and development with a special aim towards finding new ways to adapt technology to existing production methods. Furthermore, Enterprise com-
panies are required to develop websites and prepare marketing strategies using electronic commerce ("e-commerce"). This new arm of the IDA illustrates the government's dedication to programs that will continue to foster new wealth and prevent stagnation.

3.2.3. Friendly Tax Structure for Foreign Investors

Ireland is a very attractive place for companies to start up. "Why? Two words: tax rates." Ireland's tax rate is among the lowest in all of Europe. To understand this appeal, it is useful to compare this rate to the 34% that a company would pay in either France or Germany. The low tax rate has always attracted business as the expanded discussion below elucidates.

4. CORPORATE TAXATION IN IRELAND

While each of the aforementioned factors has had a profound influence on the change in Ireland's economic status, the corporate taxation scheme is truly unique and has had a pivotal role in this change. It is the attractive corporate tax that initially induced companies to make the move to Ireland and without it, Ireland would not be doting on its newest economic baby: high-tech industry. A closer examination of the corporate tax scheme and its influence on the modern Irish economy is therefore required.
4.1. Tax Structure in General

Ireland offers a variety of attractive tax rates. Its capital gains tax is 20%; its value added tax ("VAT") is 21%; its standard income tax is 46%. However, at 24%, it is the corporate income tax of Ireland and the 10% tax rate on companies' profits from the sale of goods manufactured in Ireland that have received the most attention. As further discussed below, a new corporate tax scheme has recently been adopted, replacing this original one. Despite this change, it is important to understand the tax environment that the original corporate tax rate created because this was the key to Ireland's present-day prosperity. Furthermore, corporations that availed themselves of the old tax policy by December 1999 can continue to use that rate until 2010.

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77 This may be an appropriate point to briefly explain the political system of Ireland. Ireland is a republic with bicameral legislative power vested in the Parliament (the Oireachtas) which consists of the Senate (the Seanad Eireann) and the lower house, the House of Representatives (the Dail Eireann). See Ireland: Review 1999, supra note 21, at 13. There is an executive power led by the Prime Minister (the Taoiseach) who is appointed by the president (Uachtaran na Eireann) on the recommendation of the lower house. See id. The president is directly elected every seven years. See id.

78 See generally SIMAR JAMES & CHRISTOPHER NOBES, THE ECONOMICS OF TAXATION (1996) (providing a good overview of the different tax structures the government of Ireland has adopted).

79 See id. Note, however, that the chargeable capital gains of companies and branches are subject to tax at a rate of 40%. See id. at 11.

80 See id. Taxes other than the corporate tax is not discussed in great detail in this Comment. For a comparison of world tax schemes, see Robert Green, Antilegalistic Approaches to Resolving Disputes Between Governments: A Comparison of the International Tax and Trade Regimes, 23 YALE J. INT'L L. 79 (1998).


84 See infra Section 4.2. To avoid confusion, this Comment will refer to the 10% corporate tax rate as the "original" scheme and to its replacement as the "new" tax regime.

85 See id.
4.2. Original 10% Corporate Tax Rate Scheme

The 10% tax regime was begun in 1980 but is now codified at Section 448 of the Taxes Consolidation Act of 1997. The Act provides that manufacturing relief (the 10% rate of corporation tax) may be claimed for a company's income for the accounting period from the sale of goods "in the course of a trade which consists of or includes the manufacture of goods." Section 443(1)(a) defines "goods" as goods manufactured within the State in the course of a trade by the company claiming the relief. A selling company may claim relief but the selling company must sell goods manufactured within Ireland by another company that is either a parent company or a sibling company.

4.2.1. Legislative Definition of Manufacture

Although it appears that this very narrow opportunity would be ill-suited to change an entire economy, mere statutory examination is misleading. The term "manufacture" is never actually defined in the legislation. Therefore, the courts were forced to render decisions that defined the word, and the result was a broad interpretation. As a result of the abundant caselaw that was created, a few years ago the legislation was refined slightly by enumerating certain activities as "manufacturing" (and conversely, designating certain processes as not falling under the rubric of manufacturing). However, it is still useful to understand the

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86 See Walsh, supra note 81.
88 See id. § 5.06; see also Kieran Corrigan et al., Taxation, in DOING BUSINESS IN IRELAND § 5.06, supra note 62, at 2.
90 Id.
91 A few of the activities that the legislature has enumerated as qualifying as manufacturing include:

(a) the manufacture in the State of goods;
(b) sales by a company of goods manufactured by a 90% related company;
(c) engineering services ... design and planning services ... in connection with chemical, civil, electrical or mechanical engineering;
(d) computer services ... grant aided or financially assisted data processing and software development and technical or consultancy services;
caselaw behind this modification because despite this addition, there was still no definition of the term manufacture, and many gray areas remained.

Courts also issued guidelines to determine whether a process was to be considered manufacturing. These guidelines include:
(a) production of a commodity different than the raw material;
(b) the process must bring about a marked change to the physical characteristics of the product, the finished product should command a higher price; (c) the setting where the process takes place; (d) the change effected on the raw materials must be as a result of the process undertaken; and (e) must give attention to the legislative intent in creating the statute. Although more helpful than the text of the legislation, the judicial guidelines were still so broad that they continued to be favorable to investors hoping for preferential treatment.

(e) the repair or maintenance of aircraft, aircraft engines or components;

(f) the remanufacture or repair of computer equipment.

Id. On the other hand, the list of excluded activities is much shorter. The activities that the legislature listed as not qualifying as manufacturing are:
(a) dividing, cutting, purifying, drying, mixing, sorting;
(b) applying methods of preservation to foodstuffs;
(c) cooking, baking or otherwise preparing food or drink;
(d) improving or altering any articles or materials without imposing on them a change in their character; and
(e) repairing, refurbishing, reconditioning, restoring or other similar processing of any articles or materials.

Id. § 443(6)(a). What is interesting about the list of approved manufacturing processes is the emphasis on the high-tech and electronics industries. See id. Furthermore, the government specifically deems manufacturing not to include repairs of an article. See id. However, the legislature denotes that computer repair is a permissible activity. See id. This merely reinforces the notion that Ireland is truly dedicated to the attraction of high-tech industry. See infra Section 5.1.

92 See Corrigan, supra note 88, at 3.
4.2.2. Caselaw Creates an Expansive Definition of Manufacture

In Cronin v. Strand Dairies Ltd., the company arguing for the tax break claimed that processing milk constituted manufacturing. In his decision, Justice Murphy noted that manufacturing has certain characteristics; this necessarily included that the goods were produced on a larger scale by a combination of man and machine. In addition, he felt that degree should be weighed when comparing the final product with the raw material. Here, the final product—pasteurized milk—served a greater value than the original milk; therefore it was commercially different and eligible for the tax break.

The definition of manufacture was broadened further in Charles McCann Ltd. v. S. O'Culachain. In that case, the company imported unripe bananas and ripened them artificially using ethylene gas. In ruling that this was a manufacturing process, Justice Murphy's test examines the product's characteristics as well as the process and "seeks to identify to what extent that process conferred on the goods the characteristics which they are found to possess."

Justice Murphy's broad test alone expanded the term, yet Justice McCarthy's approach extended it even further. He opined that because the legislation was "by tax incentives, to encourage the creation of employment...[and] [e]mployment is created by labour intensive processes and exports," it was only a matter of degree in deciding that the process could fall under the rubric of "manufacturing." This criteria set the stage for a broad interpretation: anything that creates jobs can arguably be manufacturing. This is undeniably an easy argument for any investor to make.

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93 The Irish Constitution provides that justice will be administered in courts established by law. The courts consist of Courts of First Instance and Courts of Final Appeal (Supreme Courts). The Courts of First Instance will include High Courts (with full original jurisdiction) and courts with local and limited jurisdiction (Circuit and District Courts). See Art. 34.1, Constitution of Ireland, 1937; see also Introduction to the Irish Courts, at http://www.courts.ie/Home.nsf/Content/Courts+Opening (last visited Oct. 10, 2000).
94 Unreported, High Court, Murphy, J., 18 Dec., 1985.
95 See id.
97 Id. (quoting Justice Murphy).
98 Id. (quoting Justice McCarthy).
However, another question loomed regarding the definition of manufacture: whether the term included the assembly of a number of components into a final product if the pieces were imported and not themselves manufactured by the company that carried out the assembly. In Irish Agricultural Machinery Ltd. v. S. O’Culachain, the company imported the components for agricultural machinery, purchased the other necessary materials for assembly, assembled the pieces, and sold them. Although the High Court ruled that such actions were not manufacturing, its decision was reversed by the Supreme Court of Ireland. Justice Griffin of the Supreme Court explained that “[a]ll the machines have a utility, a quality and a value entirely distinct from the component parts which comprise the whole . . . . [T]he fact that they have been ‘assembled’ rather than fabricated begs the question. It does not necessarily follow that it cannot be described as manufacture."

This line of cases created a large window of opportunity for a foreign investor who wished to receive the preferential rate. A foreign manufacturer needed to jump very few hurdles to arrive at the judicially-interpreted definition of manufacturing. Even if he did that poorly, he was able to claim that his process meshed with the legislative intent of creating employment. It is unclear whether the legislature intended for so many companies to be able to squeeze themselves under the term "manufacture." However, the caselaw that was produced through judicial interpretation of these Irish regulations certainly had a beneficial result. What is clear is that Ireland became an extremely attractive tax haven for foreign investment.

4.3. New Corporate Tax Scheme

Despite the advantageous definition that was created through this line of cases, the original corporate tax rate was set to expire in the year 2010. When the regime was originally introduced, the European Union did not view it as subject to state aid rules. Recently though, the Commission changed its mind and decided

100 See id.
102 Id.
that the tax could come under state aid rules, thus making it subject to regulation and limits based on competition policy.\textsuperscript{103} Ireland, keenly aware of the important role that the original tax rate had come to play in its success, chose to renegotiate a new scheme.\textsuperscript{104} Beginning in 2003, corporate tax across the board in Ireland will be 12.5\%.\textsuperscript{105} This is an enormous slash—cutting the old tax rate almost in half. This new rate also means that the preferential treatment given to manufacturing will be eliminated; all corporate activity will be taxed at 12.5\%. However, Ireland is not worried that this will deter new growth. In fact, Ireland is optimistic that the new scheme will further increase foreign investment for a number of reasons. First, the original tax rate will be phased out slowly. Existing manufacturing operations may continue to use the 10\% rate until 2010, leaving them adequate time to prepare for the increase.\textsuperscript{106} In addition, cautious corporations, formerly hesitant to settle in Ireland because of the impending tax expiration, will now have nothing to deter them.\textsuperscript{107} They are assured of a fixed rate and while 12.5\% is higher than before, the tax regime remains one of the lowest in the European Union.\textsuperscript{108}

5. Corporate Tax Policies Have Attracted New Industry\textsuperscript{109}

The favorable corporate tax policy of Ireland and the relative ease with which a company was able paint itself as performing a manufacturing function were the magnets that drew foreign corporations to Ireland.\textsuperscript{110} Two industries have dominated in this

\textsuperscript{103} See Walsh, supra note 81.
\textsuperscript{104} See OECD SURVEY, supra note 3, at 60.
\textsuperscript{105} See Veysey, supra note 75, at 46.
\textsuperscript{106} See Walsh, supra note 81.
\textsuperscript{107} See Veysey, supra note 75.
\textsuperscript{108} See id.
\textsuperscript{109} Omitted from discussion in this Section are the aerospace industry and the financial investment industry, which are experiencing increasing, but not as notable, successes in Ireland. See Bernard Fitzsimons, The Irish Phenomenon, OVERHAUL & MAINTENANCE, Aug. 1, 1999, available at 1999 WL 26827200 (explaining why Ireland's maintenance, repair, and overhaul industry is aligned for growth); but see infra Section 5.1.1. (discussing how Ireland has grown immensely as a center for banking via the Internet).
\textsuperscript{110} Foreign investment is a focus here because of the central role that it has come to play in Ireland's growth: it accounts for around 60\% of manufactured
movement: high-tech and pharmaceuticals. Yet, how did this occur?

Once one or more large firms decide to locate in Ireland, other competitor companies often make the same decision (a sort of "bandwagon" effect). Furthermore, once a critical mass is established, so-called "agglomeration economies" may begin to set in, and, if conditions are appropriate, "clusters" may eventually begin to form, as they seem to have done in the software industry.111

This was no accident. Rather, the attraction of these industries—selected for their potential for growth—was a result of the carefully-orchestrated policies of the Irish government.

5.1. High-tech Industry112

Ireland's efforts to create a lenient tax policy were intended to make the country attractive to foreign investors. These favorable conditions have caused foreigners to take notice. The number of large high-tech companies that have begun to settle in Ireland is an illustration of victory.113 Other visible successes are smaller companies specializing in cutting-edge e-commerce technology that are being planted on Irish soil. Through regulatory efforts, Ireland continues to encourage this and other high-tech settlement.

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111 OECD SURVEY, supra note 3, at 44.
112 See Jason L. Dietrich et al., Little Engines That Could: Computing in Small Energetic Countries, COMM. OF THE ACM, May 1, 1995, at 21 (defining high-tech as referring to the computer, electronics, and machinery industries that utilize sophisticated or advanced technology in the processes).
113 For information on "how to" build a high-tech city, see Steven Levy, The Hot New Tech Cities, NEWSWEEK, Nov. 9, 1998, at 2, which also states that "building at least one tech city is, economically speaking, a matter of national security. . . . Some nations have plenty to boast about. . . . Ireland has seen Dublin go wired." See also Scott Steele, The Invasion of Ireland, CAN. BUS., Oct. 29, 1999 (describing how a group of Canadian business students, representing software companies' interests, experienced the Irish economic boom for themselves as they did reconnaissance work abroad).
5.1.1. Companies Settled in Ireland

Ireland’s low corporate tax rates—one-third the rates of continental Europe—have resulted in Ireland attracting big name computer manufacturers, including Dell, Intel, and Microsoft.\footnote{See Levy, supra note 113, at 5.} In fact, the single largest foreign investment in Ireland’s entire history is presently in County Kildare, a few miles west of Dublin.\footnote{See Norton, supra note 2, at 5.} Intel chose that location for its $2.5 billion water-fabrication plant, which manufactures, among other things, its Pentium III chip.\footnote{See id.} The site is Intel’s largest non-U.S. facility, employing 4000 workers.\footnote{See id.} Intel’s levels of investment and employment will continue to increase as the corporation recently announced its intent to spend an additional $2 billion to expand manufacturing at the site.\footnote{See Q2 Revenue a Record $8.3 Billion, Up 23 Percent, BUS. WIRE, July 18, 2000.} This expansion will incorporate Intel’s new 0.13-micron process technology with copper metalization and is expected to begin production in 2001.\footnote{See id.}

Dell Computer has also established a base in County Limerick,\footnote{County Limerick’s total population is only about 165,000 and its workforce is about 68,000 people. It is one of the poorer regions of Ireland. See Norton, supra note 2, at 212.} where it produces all of the personal computers that it sells in Europe, Africa, and the Middle East.\footnote{See id.} Dell’s Limerick employees comprise 5\% of the entire workforce in the region, presently about five thousand people.\footnote{See id.} Dell has already built another factory across-town and is planning a third.\footnote{See id.}

Ireland has encouraged settlement by high-tech foreign corporations and growth of the industry domestically. The evidence of success: with the inclusion of 500 of its own newly sprung up corporations, Ireland now leads all of Europe in software exports.\footnote{See Ireland: High Tech Hibernia, BUS. WK., Nov. 8, 1999, at 5.} To magnify this period of economic wealth, Ireland has remained future-oriented. The country continues to craft policies...
that parallel the future of technology. 125 An illustration of such policies is the work on initiatives encouraging Ireland to become an e-commerce center. 126 Ireland is presently the country with the most pan-European call-centers. 127 In 1999, Ireland opened the National Digital Park in Dublin, the country’s first e-commerce business park; it is a hundred-acre site promoted by the IDA as a hub of communications and e-commerce industry in Europe. 128 Apparently the policies are working—Viking Office Products, a U.S. company, announced the formation in 1999 of Viking Internet Ireland, which will market supplies via the Internet around Europe. 129

Another demonstration of the country’s commitment to staying on top of Internet technology is the recent passage of legislation making digital signatures legally binding. 130 This regulation enables a digital signature to have the same contractual force as a handwritten one. 131 Such a measure should further encourage growth of the e-commerce industry.

Irish officials view e-commerce as a way to encourage the country’s other goals, such as an ongoing commitment to education. Among the initiatives are the creation of the Information Age Commission which aims to develop a “wired, knowledge based economy which will be a platform for the development of a life-long education system . . .” 132 This is a further demonstration of the thoroughness of the Irish government’s goals. Looking past the tangible profits of today toward developing a wired

125 It is pertinent to understand that the technology in Europe is approximately two years behind that of the United States (therefore explaining why the use of e-commerce is a future-oriented policy for Ireland). See Tim Phillips, Continental Drift, EUROBUS., July 1, 1995, at 60.

126 The term e-commerce refers to the commercial transactions that take place over the Internet, either business-to-business or business-to-consumer. See BILL GATES & COLLINS HEMINGWAY, BUSINESS @ THE SPEED OF THOUGHT: USING A DIGITAL NERVOUS SYSTEM 443 (1999); Barry M. Leiner et al., A Brief History of the Internet, at http://www.isoc.org/internet/history/brief.html (last visited Oct. 16, 2000) (discussing the origins of the Internet by some of its creators).


128 See id.

129 See id.

130 See id.


132 Moran, supra note 127, at 3.
economy in the immediate future, Irish citizens will benefit: not only with access to educational tools but with a technological know-how useful to the economy.

A specific target of the Irish burst in e-commerce is online banking. Such banking has the advantage of not requiring branch offices or office workers to run them. Enba, a Europe-wide Internet bank, selected Dublin as its headquarters of operations for its online banking product, first-e. However, because of the nature of online banking, these companies can settle in one country but focus on another country as their primary market. This is exactly what Enba has done. The founder and CEO, Xavier Azalbert, stated that the company's decision to locate in Dublin was driven partly by tax considerations. Essentially, first-e was set up in Ireland to take advantage of the low tax rate while operating elsewhere in the European Union; first-e's intended market is the United Kingdom, with plans to move into Germany, Italy, Spain, and France.

133 See David Fairlamb, Online Banks Invade Europe, BUS. WK., Oct. 25, 1999, at 134.

134 See Madeleine Lyons, Enba's Net Bank Takes Off in UK, IRISH TIMES, Nov. 12, 1999 (providing more information on the launching of first-e by Enba, its holding company).

135 See A Dubious Enterprise, ECONOMIST, Nov. 4, 1999 (explaining why Britain is having trouble attracting e-commerce start-ups); see also Lyons, supra note 134.

136 See Fairlamb, supra note 133, at 134. It is also worthwhile to note that first-e was able to set up in Dublin because it received its required banking license because it is a subsidiary of a French bank, Banque d'Escompte.

The positive side of such ventures is their lack of structural assets. See Carol Power, Web Banks Are Split on Need for Human Face, IRISH TIMES, Sept. 29, 2000, at 59. This is helpful because cities such as Dublin are already quite crowded and the bank will pour money into the Irish economy but will not cause a further drain on employees. See id. However, such banks are already announcing decisions to open branches to psychologically pacify the clientele. See id. It is unclear if this is a harbinger of failure or merely a method for greater efficiency. However, e-banks remain a force and their presence requires a warning: encouragement by Irish officials of these types of ventures may not be in the country's best interest. For now, it is unclear how much money the banks are actually feeding into the Irish economy if the target of their services is other countries. See id. Thus, considering this uncertain fiscal benefit and the current shortage of skilled workers (which the banks require), the industry could be draining a scarce resource, and not providing an overall benefit to the economy. See infra Section 6.2.1.
5.2. Pharmaceuticals

The pharmaceutical industry, as much a target of the IDA as the technology market, has also found a home in Ireland. In overseas plants, the industry predominantly exports bulk active pharmaceutical ingredients. Therefore, Ireland’s preferential treatment for manufacturing created a perfect match for the industry. The IDA’s Finn Gallen went so far as to proclaim pharmaceuticals “the engine of the economy.”

Employment in the drug sector has doubled from 6,000 to 12,000 in ten years. The engine was started when Pfizer selected County Cork to build a plant (where it has since built two more). That plant has now become the main exporter of sildenafil citrate, the active ingredient for Viagra (a Pfizer product). Johnson & Johnson, SmithKline Beecham, and others soon settled in the Emerald Isle. In fact, exports of organic chemicals from Ireland increased by 112% in just the first six months of the year 2000.

6. Problems that Ireland Faces due to Its Boom

Although Ireland’s economy has been increasing for the past ten years, and has demonstrated “peerless performance” in the last

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138 See id.
139 The tax rate will also increase to 12.5% for the pharmaceutical industry. However, Irish officials are not concerned that this will deter further investment. See supra Section 4.3.
140 See id.
141 See id.
143 SmithKline Beecham has a site at Carrigaline, near County Cork. The plant forms part of SmithKline Beecham’s worldwide supply of operations for API’s, dosage forms, and consumer products. See Chemicals Give a Boost to the Irish Economy, supra note 137.
144 See Norton, supra note 2, at 5.
145 See id.
146 In addition to those problems enumerated below, it has also been suggested that the internal programs that have led to Ireland’s success may eventually cause a large government deficit. See ARDAGH, supra note 7, at 72.
five, there are numerous problems that wait in the wings as potentially damaging to the vibrant new economy. Indeed, it is the very factors that created the favorable economic situation in Ireland that may be the cause of its problems. If any or all of these variables are eliminated or cause strife, it is possible that the favorable economic climate of Ireland could change for the worse due to potential issues with EU support and with EU members, labor shortages, and the inevitability of an economic cycle.

6.1. EU Struggles

Among the major factors in stabilizing Ireland and encouraging its boom were the financial supports from the European Union and its corollary of integration into the trade regimes inherent in the EU market. As Ireland moves from a poor peripheral country to a core one, many countries within the European Union are beginning to call for a change in the allotment of support. More importantly, as the European Union faces inner turmoil, Ireland may find that EU policy changes will be to its detriment and that it is at the mercy of a coalition of powerful countries.

6.1.1. Tax Harmonization

Many countries, most specifically France and Germany, are not enjoying the same economic boom as Ireland. The economies of those countries are stagnating, with excessive taxation shouldering most of the responsibility. Such countries appear to be looking to a tax unification policy as a solution to this disparity. On December 1, 1998, France and Germany issued a joint statement calling for “rapid progress toward tax harmonisation in Europe.” Rather than lower the tax rates of those nations, this would require a country such as Ireland to raise its tax rates. Whether the countries’ proposals are a result of sour grapes or whether they are an effort to strengthen the cohesiveness of the

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147 OECD SURVEY, supra note 3, at 28.


European Union is speculative. However, the result would not be beneficial to Ireland. Although many of the corporations that have already settled in Ireland appear to be well-entrenched, such a policy change would certainly stunt the growth of future investment.

6.1.2. Elimination of the National Veto

The national veto is currently a tool implemented in the European Union whereby individual countries can reject proposals they dislike in a variety of areas. One of the most pertinent applications for Ireland is the ability to use the veto on taxes. Romano Prodi, while president of the European Commission (which oversees the European Union), wants to expand the powers of the European Union over the member countries. In an attempt to do this, Prodi has suggested the elimination of the individual tax veto, to be replaced with a method that would allow the European Union to "impose taxes by a majority vote of its members." This is bad news for Britain and Ireland, both relatively low-tax countries, which, not surprisingly, have the most robust economies in Europe. The elimination of the veto is a measure strongly supported by both France and Germany, whose finance ministers have publicly stated at press conferences that the national veto of tax proposals should be eliminated. Their statements were further qualified by specifying that fixing a minimum corporate tax rate was the whole idea behind harmonization. Currently, the continental corporate tax rate average is

151 See Forbes, supra note 149.
152 See id. at 7.
153 Id.
154 See Forbes, supra note 149, at 1-2.
155 See Misrepresentation, supra note 150, at 65. Another country that would benefit from a unified tax rate is Belgium. Presently, high taxes and social costs make it 30% more expensive to employ workers in Belgium that in neighboring countries. As Belgium is the center of the European Union, this does not bode well for Ireland. The economics minister of Belgium has stated that the government intends to undertake an "ambitious and global tax reform." Neil Buckley, Costs Strike at Heart of Advantages, FIN. TIMES (London), Oct. 4, 1999, at 4 (emphasis added).
156 See Misrepresentation, supra note 150, at 65. It is notable, however, that the German finance minister, Oskar Lafontaine, resigned abruptly in March, soon after these statements were made. See Denis Staunton, After Oskar, IRISH TIMES, Mar. 19, 1999, at 52 (announcing Lafontaine's resignation and providing an Irish perspective of the situation).
around 40%, whereas Britain’s rate is 31% and Ireland’s rate is 10%. France and Germany serve to gain from this change, these countries cannot lower their tax rates because of the expensive welfare states they must maintain.

The tax issue is a volatile one because of the influence such rates wield on the economic livelihood of each country involved. In fact, one economic analyst places such emphasis on this issue that he advised Ireland and Britain that “[they] should make [it] clear that they will walk out of the EU if the veto over taxation is removed.”

A larger question on the structure of the EU voting policy remains: will the EU switch to a majority voting method? Garrett Fitzgerald, a former minister of foreign affairs of Ireland, contends that as long as decisions are kept within the EU community framework, rather than allotting power to the European Council, a move to qualified majority voting and away from unanimity decision-making is actually preferable. Although noting that this could be to Ireland’s disadvantage in areas such as the tax harmonization “where some large countries have recently shown an interest in forcing corporate tax rates up to their own excessive levels,” Fitzgerald attributes Ireland’s lack of support for majority voting simply to its “inferiority complex.” Fitzgerald, while noting that the area of tax harmonization is important to his country, does not feel that the loss of voting autonomy on that matter would have a result dangerous to Irish well-being.

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157 See Misrepresentation, supra note 150, at 65. For further discussion of the Irish corporate tax rate, see supra Section 4.

158 See generally OECD, HARMFUL TAX COMPETITION: AN EMERGING GLOBAL ISSUE (1998) (asserting that countries such as France and Germany would benefit from a cartel fixing taxes).

159 See Misrepresentation, supra note 150, at 65.

160 Countries other than Ireland that offer lower tax rates have expressed similar concerns about the negative impact such changes could make on their economies. See Luxembourg: Review 1999, EUR. REV. OF WORLD INFO., Nov. 11, 1999, available at LEXIS, News Library, Questd File.

161 Forbes, supra note 149, at 2.

162 The European Council was created in 1975. It involves the heads of government meeting several times a year rather than every few years. See Garrett Fitzgerald, EU Institutional Structures Favour the Smaller States, IRISH TIMES, Oct. 30, 1999, at 16.

163 See id.

164 Id.

165 See id.
Since it seems that the Irish may have to accept such an outcome, perhaps they should take a closer look at Fitzgerald’s logic; as of the middle of the year 2000, the members agreed to use the national veto infrequently and to increase the use of the majority voting method in order to reduce deadlock. In addition, the issue of adopting the majority voting method is on the docket for the Intergovernmental Council negotiations on the Treaty of Nice scheduled for December 2000.

Furthermore, there are two strong reasons for believing that the threat of harmonization is very real. First, France and Germany have made very public commitments to head a “pioneer group” that would reshape the European Union. This publicity is a clear demonstration of the countries’ dedication to working together; the countries intend to join forces at the Treaty of Nice negotiations in late 2000. One of the main topics of discussion at that conference will be the creation of the two-tiered European Union, which has been bitterly described as an inner core that relegates weaker countries to the periphery. This allows the outer to dominate while the inner is “compelled to continually bow to its political and economic faits accomplis.” If such a scheme is implemented, Ireland would certainly be relegated to the sidelines to suffer and abide by the decisions of the stronger countries.

Second, and more menacingly, EU caselaw presents a potentially ruinous precedent. Recently, the Court of Justice of the European Communities, in Jessica Safir, ruled that “the taxation of life assurance by Sweden was illegal because it discriminated

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166 See Ian Black, It’s a Tough Job but France Has to Do It, GUARDIAN (London), July 1, 2000, at 4.
167 See id.
168 See Peter Norman, Europe’s Double Act, FIN. TIMES (London), June 28, 2000, at 24 (quoting a speech by Jacques Chirac, the French president).
169 This newfound dedication to a French-German coalition may be no more than a façade and therefore, not a true voting block threat. One observer believes that “the marriage of France and Germany has been on the rocks for years and the present performance is designed to hide differences rather than develop a new intimacy.” Roger Boyes, Time to Make Friends on Far-Flung Shores, TIMES (London), June 21, 2000.
170 See Anthony Coughlan, Moves to European Superstate Demand Debate, IRISH TIMES, Sept. 21, 2000, at 14.
171 See id.
against firms from other European countries.”172 The same principle that the court can overrule national sovereignty in tax matters, where it clashes with other aspects of EU law, could theoretically be applied to other taxes as well.173

6.1.3. Adoption of the Euro174

Ireland adopted the euro, the international monetary unit of the European Union in January 1999.175 Many have warned that this poses special risks for Ireland because while its economy is heating up, other EC members are not experiencing the same trends. Therefore, it is possible that Ireland may be forced to follow the European Central Bank’s (“ECB”) monetary policy, even though the move may not be in its best interest.176 For example, where it may have been preferable for Ireland to increase interest rates to prevent the economy from overheating, the Irish Central Bank was forced to reduce the rates to meet the common euro standard of 3%.177

Another potential problem with the adoption of the euro by Ireland is that Ireland’s closest trading partner, the United Kingdom, is not a member.178 Ireland’s export industry would certainly suffer if the euro appreciates against sterling.179 While the possibility that the United Kingdom may decide to adopt the currency remains, the recent decision by the Danes to abstain from

173 See Misrepresentation, supra note 150, at 66.
174 See infra Appendix A for the permanent exchange rates between the euro and the currencies of the nations participating in the monetary union.
175 Ireland was among the eleven countries in the first wave to be eligible to switch. The others that adopted the unit are: Austria, Belgium, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Spain, and Portugal in January 1999 but the actual notes will not appear until 2002. (The United Kingdom declined to join.) See Kenneth Klee, Europe: 12% Off!, NEWSWEEK, June 14, 1999, at 44; see also Sickly Infant Euro Celebrates a Difficult First Birthday, Healthy Childhood Remains, IRISH TIMES, Dec. 31, 1999, at 14 (recounting the market’s reaction to the euro in its first year); Multiple Currencies Under Attack, 43 GLOBAL CURRENCY REP., at 6, Aug. 1998 (explaining how the bilateral central rates of the Exchange Rate Mechanism were used in determining the conversion rate of the euro).
177 See id.
178 See Klee, supra note 175.
membership is not encouraging. The United Kingdom will most likely be discouraged from joining a currency that lacks value as well as members. Denmark's rejection of the euro is also distressing when one examines the country's reasons: fear of domination by Germany and France, bullying of smaller countries, and a loss of national identity and culture. Ireland faces each of these threats now. Perhaps the Danish see something that the Irish do not, or did not, see upon the country's eager acceptance of the euro.

The euro's performance may also effect U.S. companies' (especially those that are small and medium-sized) decisions regarding international trade. One small business owner noted, "I think small businesses are reluctant to go into areas where they don't know what's going to happen to their money." A decrease in international involvement by U.S. and other foreign businesses would be the very opposite of what the IDA's programs have been working so hard to achieve.

At the outset of the unit's adoption, Ireland was dubbed "club Euroland's happiest member" as it enjoyed a financial boom. In addition to its initial financial gains because of the weak start, the country experienced a tourist boom due to the beneficial exchange rate. However, as the euro sags, reaching record lows in September 2000, the outlook is not as optimistic. It is unclear exactly how long Ireland's economy can continue to grow when its monetary unit has crashed below 88 U.S. cents to a new low of 0.8790 dollars against the U.S. currency.

A further cause for alarm is the potential role of the United States. The euro's weakness has strengthened the value of the dol-

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180 See Denmark and the Euro: What Now?, KOREA HERALD, Oct. 6, 2000 (examining Denmark's reasons for rejecting the offer to adopt the euro).
181 See id.
183 Klee, supra note 175, at 44 (dubbing the conglomeration of countries that adopted the unit "Euroland" because the weakening of the unit has caused a decrease in prices for consumer goods).
184 Id.
185 See Joseph Kahn, Industrial Nations to Confront the Sagging Euro and Costly Oil, N.Y. TIMES, Sept. 21, 2000, at C1.
186 See Mark Rice-Oxley, Euro Slumps to New Lows, Analysts See Little Respite, AGENCE FRANCE PRESSE, Sept. 6, 2000.
lar.\textsuperscript{187} Many believe that only U.S. intervention can rescue the euro, if the United States sells dollars and buys euros.\textsuperscript{188} Yet, U.S. intervention could jeopardize its own economy if the intervention fails and elevates the euro to the point of depressing the dollar. A weak U.S. dollar could leave the United States unable to sustain its trade deficit of $354 billion, thereby striking a blow to the Irish economy.\textsuperscript{189} The Irish dilemma is clear. If the euro is left alone, its economy may suffer. If the United States steps in, then Ireland’s biggest trading partner may face an economic downturn. It seems unlikely that Ireland can escape this situation entirely unscathed.

Contrasting the hot Irish economy with its sluggish neighbors is indicative of the European Union’s future problems and their effect on Ireland. The European Central Bank must set interest rates for the whole single-currency area.\textsuperscript{190} This is difficult to do when there are smaller economies racing ahead; the problem is exponentially complicated when the economic needs within the larger and more powerful countries differ, as the “political pressures to listen to disgruntled governments may become all the harder to ignore.”\textsuperscript{191} Therefore, the continued stagnation of economies such as Germany could affect Ireland’s well-being.

\subsection*{6.1.4 Decreased EU Economic Support}

In recent years, as discussed above, EU economic support to Ireland was of a substantial magnitude. Ireland received funds that were 4\% of the total EU budget and more than 4.5\% of EU transfers.\textsuperscript{192} As Ireland’s success brought its per capita GDP to more than 100\% of the EU average, this “impl[ies] less of a case for continued structural support.”\textsuperscript{193} Ireland is at risk for being denied the same level of funding it has been receiving, and the cuts would be through two different channels of the EU body.

The first effect on Ireland would be through the reforms of the Common Agricultural Policy (“CAP”), making the scheme

\begin{thebibliography}{99}
\bibitem{187} See id.
\bibitem{188} See id.
\bibitem{189} See id.
\bibitem{192} See OECD \textit{SURVEY}, supra note 3, at 72.
\bibitem{193} Id. at 73.
\end{thebibliography}
less monetarily generous; this decrease in funding will hit Ireland, one of the EU's largest farming sectors, disproportionately hard. This decrease in funding will hit Ireland, one of the EU's largest farming sectors, disproportionately hard.194 Second, the European Commission's agenda for 2000, while recommending that Ireland continue to receive regional assistance, pigeonholed Ireland as an "Objective I region in transition." This is a significant label. Such a designation means that the funding will decrease linearly through the next round of financial arrangements until Objective II levels are reached.195 Under the 2000 National Development Plan ("the 2000 plan"), the European Union will give 40.6 billion pounds to Ireland over the next seven years—a decrease in percent of support.196 Unlike the 1989 and 1993 plans, "the latest plan is not built around massive inflows of money from the European Union. Indeed, the declining influence of EU Structural Funds is evident." While under the 1994-1999 plan the European Union contributed almost forty pounds for every one hundred proposed in expenditure, the 2000 plan calls for only twelve pounds for every one hundred proposed.197 Furthermore, EU cohesion funds will cease completely in the year 2003, when Ireland will be deemed too wealthy to receive any assistance at all.200

194 See id. This point may also be moot as some members (most notably the United States) of the General Agreement on Trade and Tariffs have been trying to reform the distribution of money and policies surrounding the CAP. This was a bone of contention during the recent World Trade Organization talks in Seattle. If this results, the amount of money that Ireland was receiving will also probably dwindle. See Iron Cage—World Trade Organization and the Developing World, BUSINESSWORLD (Philippines), Nov. 29, 1999 (noting that the argument over the CAP among superpowers has ultimately hurt third world countries who could not compete financially); Geoffrey Lean, Focus: Bio-Piracy—A Thousand Different Groups Will Join in the World's Biggest Protest This Week. What Are They So Upset About?, INDEPENDENT (London), Nov. 28, 1999; Donald Mackay, Nothing Must Stand in the Way of Free Trade's Global March, SCOTLAND ON SUNDAY, Dec. 26, 1999 (calling the CAP "appalling" and designating the European Union as the "greater sinner" because of its "foot dragging").

195 OECD SURVEY, supra note 3, at 72.

196 See id.

197 See Kevin Rafter, EU Contribution Only 12% of Total Budget, IRISH TIMES, Nov. 16, 1999.

198 Id.; see also Main Points of Development Plan, IRISH TIMES, Nov. 16, 1999, at 8 (detailing the sectors of the Irish economy and the geographic regions that will receive structural funding as well as a comparison to the 1994-1999 funding amounts).

199 See Rafter, supra note 197, at 2.

200 See OECD SURVEY, supra note 3, at 73.
Intellectual speculation on this withdrawal of funds has ranged from apathetic to ominous. On the more pessimistic side is the statement by the Prime Minister that “Ireland has a significant infrastructural deficit, which threatens to inhibit achievement of our economic and employment potential.”

Lack of an infrastructure is damaging because it is inextricably linked with so many other issues. Investors are unwilling to build plants in areas that do not have roads to bring in labor and supplies or phone lines and other modern necessities for efficient working. Ireland’s infrastructure is so poor that it is ranked behind even the Slovak Republic and received the second worst ranking of all the members of the European Union. The Prime Minister’s concern may not be overstated: rather than pave the way for its continued growth as a truly industrialized society, decreased EU support will leave dirt roads (and a deterrent for investors) in Ireland’s future.

On the other hand, the Organization for Economic Cooperation and Development (“OECD”), traditionally an economic watchdog, has stated that “it is clear that these [structural] funds made a significant, although not decisive contribution to the impressive economic growth of the last ten years.... It seems that Ireland’s above-average growth does not depend on its continuation.” This view may be a bit too optimistic. However, since Ireland can only accept the support it is awarded by the European Union, it may be in its best interest to accept a positive outlook. There is no benefit to dwelling on negative externalities the country lacks control over.

6.2. Labor Problems

In addition to external struggles concerning its involvement with the European Union, Ireland faces internal problems as well. Ireland’s accumulation of industry has resulted in a need for workers, both skilled and unskilled. This requirement, while

201 Rafter, supra note 197, at 2.
204 OECD SURVEY, supra note 3, at 73.
bringing the unemployment rate down to a record low of 6%, could ultimately, in an ironic twist, be fatal to the economic boom. "Whether Ireland can move gently to a more sustainable level of growth, rather than lurch from boom to bust, is likely to depend largely on this expansion in the workforce being maintained."

6.2.1. Skilled Labor: Shortages and Expensive Workers

"When I left (in 1988) there were no jobs at all . . . now the graduates coming out of college have jobs lined up years ahead." This quote from an employee of Intel, while seemingly optimistic, is actually a harbinger of the problems that Ireland has begun to face. "Birth rates began dropping in the 1980s, and so too will the supply of job-seekers in the decade after 2000. Even now, jobs go unfilled. Irish construction firms are scouring Europe for workers, holding job fairs in places like Cologne, Birmingham, Stockholm, and Wales." The dip in the skilled workforce has already been acknowledged by the Irish government. FAS, the Training and Employment Authority of Ireland, recently began a campaign to attract 10,000 skilled workers to Ireland in the tele-services, electronics, software, and financial sectors.

Almost daily, there are observations that the numbers of skilled workers are dipping dramatically. Fears are that without an expansion of the skilled workforce economic growth could

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207 Norton, supra note 2, at 212.
208 Ironically, a member of the U.S. House Committee on Education and the Workforce, in an effort to encourage U.S. funding for math and science programs, enviously noted that Ireland, with its new high-tech status, was attempting to lure away U.S. employees of Irish descent. Representative Payne seemed to overlook that Irish recruiting stems from the inadequate pool of Irish workers who are educated in math and science. See Comm. Hearing, U.S. House Comm. on Educ. & the Workforce, Sept. 21, 2000, available at FDCH Political Transcripts, at 67.
209 Id. at 6.
211 See id.
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stall\textsuperscript{212} since low unemployment could increase inflation. Unemployment has already deterred some companies from starting operations on the Emerald Isle. For example, BPS Teleperformance chose to steer clear of Ireland, citing the lack of unemployment as the major reason.\textsuperscript{213}

Further complicating the employment surplus is that a worker shortage increases starting salaries as demand for labor exceeds supply.\textsuperscript{214} Wage inflation has already hit the construction industry. In that industry, there was a 6\% increase from 1997 to 1998 for industrial workers and over 12\% in construction.\textsuperscript{215} Foreign investors have been attracted to Ireland because of its low wages.\textsuperscript{216} Therefore, a shortage of skilled workers would hurt growth and efforts to attract foreign investment, because skilled workers will be scarce and expensive.

6.2.2. Unskilled Labor: Shortages and Disgruntled Workers

Yet on the other side, there continues to be an unemployment problem in certain pockets of Irish society. "Ireland is rapidly splitting into a society of haves and have-nots, with the unskilled, long-term unemployed emerging as a permanent underclass while the rest of the country moves on."\textsuperscript{217} This so-called underclass

\textsuperscript{212} See id. Efforts are even being made to coax people out of retirement. Id.

\textsuperscript{213} See Jo-Anne Flack, \textit{Talking Heads}, MARKETING WK., July 1, 1999, at 46; Dave Young, \textit{Irish Educational and Financial Enticements Draw the Multinationals}, IRISH TIMES, July 19, 1996, at 14 (discussing Hewlett Packard's concern that there may not be enough highly skilled workers to fill its needs).

\textsuperscript{214} Yvonne Healy, \textit{Many Small Companies, Very Big Business}, IRISH TIMES, Sept. 10, 1996, at 15 (explaining that the starting salaries of employees will be increased when there is a shortage of workers).


\textsuperscript{216} Ireland's wages are lower than those of the United Kingdom, Germany, and France. See Poyner, supra note 19, at 206. Although the Irish workforce is unionized, and it has much control over the increasing wage rate, many foreign companies in Ireland offer better rates. See id. Therefore the workers forgo unionization in this growing sector, where the increase of rates is at the greatest risk. See id.

\textsuperscript{217} James R. Kraus & Carol Power, \textit{Ireland Becomes Financial Services Haven}, AM. BANKER, Aug. 14, 1997, at 8. However, sharply divided classes may not be a new phenomenon. Contra BRIAN CLEEVE, \textit{A VIEW OF THE IRISH 50} (1983) (observing that there is a "hierarchy of the rich— the commercially rich"
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is further compounded by the influx of immigrants (targeting EU nationals, Irish expatriates from the United States, and British citizens) to Ireland, brought to fill the increasing numbers of jobs. The problem that follows is that tourists, eager to purchase Irish memorabilia and experience Irish culture, will no longer be attracted to a country that offers neither. While a valid concern, the threat that foreign cultures will displace Irish culture seems a bit inflated, especially in the face of other mounting pressures.

6.3. Economic Trends

On the Irish economic explosion, one commentator has remarked that "to talk about the country in the wooden language of business cycles—expansion, recession, price levels, inflationary pressures— is to miss the point." However, one simply cannot altogether ignore the economic cycles that have persisted in society and continue to pervade markets. "[T]here's nervousness all over Ireland about whether all of this will last. Ireland has had glimpses of prosperity before—evanescent expansions in both the 1960s and 1970s—only to see them flicker out." Furthermore, Ireland is not the first country to leave behind days of poverty for prosperity, and it is clearly possible it will succumb to pressures, as other countries have before it.

6.3.1. Overheated Economy

It is fathomable that many of the policies that Ireland has selected to follow could bring its economy into overdrive and cause it to overheat. In just months, what were stirrings of inflation are now tremors. Inflation was running at 4.3% annually in the

226 See supra Section 6.2.1.; see also Burke, supra note 210.
227 Norton, supra note 2, at 196.
228 Id. at 214.
229 See HARRIS, supra note 1, at 154 ("These are difficulties experienced by all modern societies and Ireland, like the rest, will have to solve them or else learn to live with them."). Harris also notes, however, that Ireland is different from other countries because of its long history of protectionism. See id.
230 Annual price inflation, having peaked at 3.2% in August 1998, was 1.4% in July 1999. See Paul Krugman, Economic Growth in Ireland: Sources, Potential and Inflation, BULLETIN: CENT. BANK OF IR. (1999). Many have claimed the explanation to the Irish inflation increase over the past few months is the rise in world oil prices and the decrease in the value of the euro, causing an increase in the cost of exports. See John Murray Brown, Inflation Is Darkening Cloud:
beginning of 2000. However, inflation was at 5.4% in June and rose to nearly 7% in November 2000. This is the highest inflation rate of any EU member. It now seems possible that these inflationary tremors could become quakes.

Presently causing the most concern is the property market's increase in prices. Prices in certain areas of Ireland have tripled in the past ten years and prices are expected to rise between 20% and 30% this year alone. Rents in the fashionable areas of Dublin are now comparable to those of flats in trendy areas of London. "[T]he big danger is that an excessive rise in asset markets, especially housing, will produce something more disruptive." These increases in property prices are related to the falling interest rates.

The present immigration to the Republic further complicates the housing problem. People returning home with savings from abroad are looking to purchase property. In Dublin, for example, there is little land for development, and housing is scarce. Ironically, immigration is necessary because a labor shortage will lead to economic distress, but immigrants squeezing into the housing market could create another problem. Unable to purchase property, people will begin to emigrate, which in large numbers could cause a recession. The resulting recession would cause, in turn, negative equity and repayment difficulties for those who financed housing relying on the economic boom.

Ireland, FIN. TIMES (London), Sept. 22, 2000, at 5. For an overview of the impact of the increase in global oil prices, see Joseph Kahn, Industrial Nations to Confront the Sagging Euro and Costly Oil, N.Y. TIMES, Sept. 21, 2000, at C1.


See Lavery, supra note 221.

See id.

Policy suggestions are already being made to curb the potential effects of such overheating. See Inflation Rate Fuelled by Lack of Competition, IRISH TIMES, Sept. 23, 2000, at 20 [hereinafter Inflation Rate] (suggesting greater competition and fiscal measures to combat inflation).

See McHugh & Smith, supra note 205, at 2.


See id.

See supra Section 5.3.2. and accompanying notes.
7. WILL IRELAND REMAIN ECONOMICALLY STABLE?

There are a multitude of problems that have the potential to destroy the delicate balance of factors that have delivered prosperity to Ireland. However, the real question is whether these factors will actually have any bearing on the economy and how likely they are to occur. Will Ireland’s economy overheat and then fizzle on its own? Will a recession cause a domino effect forcing investors to leave? Will internal strife be fatal?

7.1. Diversity of Viewpoints

There are a variety of schools of thought on the boom of Ireland. One group believes that the boom is only temporary. Anthony Sweeney, a business consultant, argues that the whole thing is a bubble that is about to burst. He predicts a recession of one-to-two years on the high side and on the low side, extremely severe: “Suffice it to say, it would be bloody.”

Business officials have expressed trepidation as well. Maurice O’Connell, the Central Bank of Ireland’s governor, repeatedly warned financial institutions that they must halt their lending, which grew 31% from January to May 1999. The bank went so far as to draw up a letter with a doomsday scenario for the economy and asked the banks to test whether they would survive such a cataclysmic situation. An official study by an economic think tank shares this cautious view: a report from the World Economic Forum ranks Ireland fifth in growth competitiveness but twenty-second for ability to sustain growth.

Most, however, view the upcoming years with a cautious optimism. They expect that the unprecedented growth of today will not necessarily continue tomorrow, but they are also not expecting a full-fledged crash. “The worry is whether the Irish can

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241 Allied Irish Bank and Bank of Ireland control roughly 70% of the Irish banking market. See Kraus & Power, supra note 217, at 8. London-based Natwest PLC controls about 10% though its Irish banking unit, Ulster Bank, and the rest is split among smaller institutions. See id.
242 See McHugh & Smith, supra note 205.
243 See id.
244 See Suiter, supra note 202 (stating that the ability to sustain growth also dropped from nineteenth place the year before).
preserve the policies that enabled the economy to blossom.\textsuperscript{245} As has been discussed, sustaining the external factors that allowed Ireland to grow seem beyond its control, while the country appears to be maintaining its internal ones. Part of the question then, is how large a role the external policies (that cannot be sustained) played in Ireland's success. To take this approach, however, is to focus on the wrong factors because the policies that enabled Ireland to leave behind its days of poverty for prosperity do not have to be the same policies that will enable it to sustain its growth.\textsuperscript{246}

7.2. Neighboring Countries: Undue Influence?

It would be foolish to overlook the present state of Ireland's neighboring countries, as their economic well-being is clearly influential. Ireland can attribute 75\% of its jobs indirectly to foreign investment.\textsuperscript{247} Thus, the prosperity of neighboring countries is important to ensure continued investment in Ireland, as well as the purchase of Irish goods.

As previously mentioned, the markets of both France and Germany have been weakened dramatically, which spurred much of their vigor in pursuing tax harmonization.\textsuperscript{248} In the first quarter of 1999, Germany's GDP grew at an estimated year-to-year rate of 0.4\% and last year's total growth in GDP was estimated to have been only 1\%.\textsuperscript{249} This effect on Germany's economy stems from the economic collapses in Asia and the former Soviet Union and the large German export trade to those areas. France, on the other hand, while continuing to suffer from a somewhat weaker market, is beginning to make a strong recovery.\textsuperscript{250} Neither of these countries will probably experience a large change in their economy; therefore, neither will immediately have a great impact on Ireland.

\textsuperscript{245} Norton, \textit{supra} note 2, at 216.
\textsuperscript{246} For policies that have been suggested to keep the Irish economy afloat, see \textit{Inflation Rate}, \textit{supra} note 235.
\textsuperscript{248} See \textit{supra} Section 6.1.3.
\textsuperscript{249} See \textit{Growing Apart}, \textit{supra} note 191.
\textsuperscript{250} See \textit{id}. 
The U.K. has been plagued by an economy of continual "boom and bust" since the Second World War. Presently, the United Kingdom is at a happy medium. U.K. growth in productivity lags far behind the United States. U.S. productivity rose 5% in the past year compared with 2.1% in the United Kingdom. However, the U.K. economy overall is steadily growing and experiencing low inflation. This too, seems to make little difference in Ireland's present situation.

Pushing aside the present-day United Kingdom, many economists cannot resist a neighborly comparison between the Irish experience today and the U.K. boom in the late 1980s. That affluence preceded a sharp economic downturn in the early 1990s caused by inflation in property and debt. These same pressures are clearly exerting themselves on Ireland today. However, there are marked differences between the countries. Ireland, unlike the United Kingdom, has attempted to combat internal pressures by investment in its own economy. Thus, if Ireland falls prey to recession, it will probably not do so for the same reasons as the United Kingdom did ten years ago.

7.3. U.S. Recession Would Mean Disaster for Ireland and the World

If the economic situations of Ireland's neighbors do not cause an abundance of alarm, what other variables could be dangerous to the Irish economy? What many scholars have ignored is the potential for an external factor like worldwide economic disaster to affect the Irish boom. Padraig Rushe, of the Bank of Ireland, gave a tongue-in-cheek response to a comment about the future of the Irish boom: "The only issue that could hijack us now is if

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252 See United Kingdom, BARCLAYS BANK INT'L FIN. OUTLOOK, Oct. 4, 2000, at 8.
254 See UK Economic Cycles, HOARE GOVETT SPECIAL REP., May 1993, at 3.
255 See Gardiner, supra note 253.

https://scholarship.law.upenn.edu/jil/vol21/iss4/3
may be partially attributable to the only recent emergence of an educated workforce. Just three years ago, only 850,000 pounds were allotted for adult literacy efforts; the budget now calls for almost eight million pounds to be spent on adult education. While this increase in funding is promising, it is still too early to see any effect in that demographic. Much of the adult population has not economically benefited from today’s knowledge economy and others remain unemployed due to illiteracy. These issues have come to a head, as demonstrated in recent wildcat strikes.

Finally, the intertwining nature of the labor shortage with the housing shortage worsens the problem. Although the recent increase in the cost of housing is a national problem, it has had a disparate impact on unskilled workers. They receive less pay and are less able to afford housing. Therefore, Ireland has become involved in a Catch-22 situation: potential workers are deterred from returning to Ireland because they cannot afford the high housing costs, thus exacerbating the labor shortages.

6.2.3. Cultural Disintegration

A controversial position has also been taken that globalization and the integration of foreign culture into modern Irish society is degrading Irish culture. What was once uniquely Irish is being replaced by other countries’ products and ideas. This problem

but that this exists in every country).

218 See Seamus Brénnan, Ahern Think Tank Aims to Ensure That Prosperity Is Here to Stay, SUNDAY MIRROR, Sept. 24, 2000, at 6 (discussing Irish efforts to control the prosperous economy).

219 See id.

220 A 1997 OECD literacy report placed Ireland as the country with the second worst functional literacy level in developed countries. (Only Poland ranked below Ireland.) See Larsson, supra note 215.

221 See, e.g., Brian Lavery, Irish Unions, Pay Lagging, Stage Protests: Pressure from Those Left Out by Boom, N.Y. TIMES, Nov. 26, 2000. Recent strikes have been staged in the airline, rail, and healthcare industries. See id.

222 See infra Section 6.3.1.

223 See McNicholas & Smith, supra note 205; see also infra Section 6.3.1.

224 See HARRIS, supra note 1, at 155 (“Paradoxically, tourism is both part of the problem and a major industry every government is keen to encourage, using ‘Irishness’ as the bait to bring in business.”).

225 See Fintan O’Toole, Who Are We?, IRISH TIMES, Dec. 28, 1999, at 50 (“What, in any case, can be distinctive about a society that is plugged so deeply into the global economy and saturated with the goods and chattels, the dreams and nightmares of the wealthy West?”).
there was a major global recession." There was a major global recession. His response was made in partial jest but it warrants a more serious examination.

Ireland has been called the most globalized society in the world. Irish industry produces the inventions of foreign corporations and the heavy Internet presence has created a societal interest in clothing, music, sports, and entertainment from all over the world. "For 150 years, the Irish had gone as economic migrants to the world economy. Now, the world economy had come to Ireland. Abroad had become home." Ireland is certainly not the first country to experience an economic upswing but its movement from fierce isolation to cultural integration makes its situation unique.

Worldwide recession was briefly addressed in May 1999, in response to O'Connell's warnings of economic slowdown. In a briefing in the Irish Times, an editor wrote, "[t]he question is whether the indigenous sector will be as successful in exporting, if its key markets and or clients experience the slowdown anticipated in the U.S." This statement makes it clear that due to its international presence, the prosperity of the United States is often associated with the success of the world economy. Economic downturn in the United States is likely to have a worldwide domino effect. For Ireland, the relationship between their wealth and that of the United States is even more acute because of their fiscal dependency on trade. For example, in 1995, the start of the Irish boom, Ireland secured 23% of all U.S. manufacturing in Europe (even though Ireland was at the time only 1% of Europe's population). Even more astounding is that since 1980, 40% of all new U.S. inward investment in European electronics has been in Ireland. Clearly then, Ireland has come to depend quite

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256 See Kraus & Power, supra note 217, at 8.
257 See O'Toole, supra note 142, at 15.
258 See id.
259 Id.
260 See supra Section 7.1.
262 See Robert J. Samuelson, The Crash of '99?, NEWSWEEK, Oct. 12, 1998, at 26 (noting that in an already sagging world economy, the United States is the "last great domino propping up the world economy. If it falls, woe to us all.").
264 See Poyner, supra note 19, at 198.
265 See O'Toole, supra note 142, at 15.
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heavily on the continuing investments of the United States.\(^{266}\) One question remains: if the United States goes into the recession that has been predicted for over a year now, will Ireland's economy be able to survive?\(^{267}\)

Perhaps the more important question concerns the likelihood of a U.S. economic downturn. The U.S. economy has been cruising along at high economic speed for a few years with relatively few bumps. The recurring sentiment is that a recession is a possibility but one that will probably not materialize.\(^{268}\) Even the recent oil crisis did not seem to scare observers, although the U.S. recessions of 1973 and 1990 both occurred after oil shocks.\(^{269}\)

Ultimately, Ireland must ignore all of these economic variables out of its control. Instead, it must have faith that the internal investments in technology will temper the rough times that may lie ahead. With the IDA and its programs firmly in place, and the new corporate tax scheme negotiated for 2003, industry in Ireland is the cornerstone to its economic well being.\(^{270}\)

8. CONCLUSION

Ireland's economy today is a stark contrast from the desolation it suffered just a decade ago. Ireland is now in the middle of an economic boom—the product of favorable internal and external factors and policies that utilized its own resources to create favorable economic conditions.

Ireland's present financial state results from its involvement in the European Union and the structural funds it consequently received. These funds enabled Ireland to create the infrastructure

\(^{266}\) See generally Ireland: Review 2000, supra note 190, at 3 ("The American boom has therefore had a profound effect on Ireland's economic fortunes.").

\(^{267}\) See Our Hopes for 2000, L.A. TIMES, Jan. 2, 2000, at 4 (noting how "pessimists have been consistently wrong in predicting a downturn, but there are more and more of them").

\(^{268}\) On the other hand, one commentator noted that recession is not a real threat because predictions are necessarily more dire than their outcomes. See Anatole Kaletsky, When Forecasts Work in Reverse, STATESMAN (India), Oct. 10, 2000; see also Lawrence Kudlow, King Dollar vs. the Sour Notes, WASH. TIMES, Oct. 3, 2000, at A17.


\(^{270}\) See Paul Majendie, "Silicon Valley" Fails to Take Root in the Emerald Isle, REUTER BUS. REP., Mar. 10, 1993, at 10 (asserting that the presence of high-tech industries in a country will bring self-sustaining growth to that country).
necessary for growth. In addition, Ireland’s EU membership firmly entrenched it as a trading partner with all of Europe, providing a secure market.

Ireland’s boom has also been caused by its internal changes and policies. By focusing on education and training, it created a skilled workforce able to fill the job opportunities that have emerged from foreign investors. In addition, Ireland lured its foreign investors with government programs and tax schemes, which make Ireland an appealing center of operations, most notably for high-tech industries.

Unfortunately, Ireland may not be able to sustain such a high level of growth. Conflicting internal and external forces endanger its fiscal stability. Specifically, many of the factors that helped create Ireland’s new economy are in jeopardy. The EU involvement that helped Ireland attain its present state now threatens to change some of the factors that are instrumental to sustained growth, such as the corporate tax policy.

Ireland is involved in a delicate balancing act. It needs international investment to retain prosperity; however, this market dependence will result in stagnation if there is an economic downturn globally. Although the Irish economy can survive financial tremors, a worldwide, or even just United States, recession would have dire consequences.

An eloquent Irishman once noted: “People are always blaming their circumstances for what they are. I don’t believe in circumstances. The people who get on in this world are the people who get up and look for the circumstances they want, and if they can’t find them, make them.” Although obviously appropriate advice for Ireland today, George Bernard Shaw could not have intended for his advice to be followed by the poverty-stricken country in his time. However, the Republic of Ireland should heed his advice: the country’s best chance to weather any future financial storm is to ignore the favorable externalities that may disappear and to continue to focus on those factors that it can control.

APPENDIX A

EURO FIXED EXCHANGE RATES

The following table is the permanent exchange rates between the euro and the currencies of nations participating in the monetary union:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>VALUE OF ONE EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria (schillings)</td>
<td>13.7603</td>
</tr>
<tr>
<td>Belgium (francs)</td>
<td>40.3399</td>
</tr>
<tr>
<td>Finland (markka)</td>
<td>5.94573</td>
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<tr>
<td>France (francs)</td>
<td>6.55957</td>
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<tr>
<td>Germany (marks)</td>
<td>1.95583</td>
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<td>Ireland (pounds)</td>
<td>0.787564</td>
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<tr>
<td>Italy (lire)</td>
<td>1936.27</td>
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<tr>
<td>Luxembourg (francs)</td>
<td>40.3399</td>
</tr>
<tr>
<td>Netherlands (guilders)</td>
<td>2.20371</td>
</tr>
<tr>
<td>Portugal (escudos)</td>
<td>200.482</td>
</tr>
<tr>
<td>Spain (pesetas)</td>
<td>166.386</td>
</tr>
</tbody>
</table>

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