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The End of the Rainbow

By [THOMAS L. FRIEDMAN](#)

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Here's something you probably didn't know: Ireland today is the richest country in the European Union after Luxembourg.

Yes, the country that for hundreds of years was best known for emigration, tragic poets, famines, civil wars and leprechauns today has a per capita G.D.P. higher than that of Germany, France and Britain. How Ireland went from the sick man of Europe to the rich man in less than a generation is an amazing story. It tells you a lot about Europe today: all the innovation is happening on the periphery by those countries embracing globalization in their own ways - Ireland, Britain, Scandinavia and Eastern Europe - while those following the French-German social model are suffering high unemployment and low growth.

Ireland's turnaround began in the late 1960's when the government made secondary education free, enabling a lot more working-class kids to get a high school or technical degree. As a result, when Ireland joined the E.U. in 1973, it was able to draw on a much more educated work force.

By the mid-1980's, though, Ireland had reaped the initial benefits of E.U. membership - subsidies to build better infrastructure and a big market to sell into. But it still did not have enough competitive products to sell, because of years of protectionism and fiscal mismanagement. The country was going broke, and most college grads were emigrating.

"We went on a borrowing, spending and taxing spree, and that nearly drove us under," said Deputy Prime Minister Mary Harney. "It was because we nearly went under that we got the courage to change."

And change Ireland did. In a quite unusual development, the government, the main trade unions, farmers and industrialists came together and agreed on a program of fiscal austerity, slashing corporate taxes to 12.5 percent, far below the rest of Europe, moderating wages and prices, and aggressively courting foreign investment. In 1996, Ireland made college education basically free, creating an even more educated work force.

The results have been phenomenal. Today, 9 out of 10 of the world's top pharmaceutical companies have operations here, as do 16 of the top 20 medical device companies and 7 out of the top 10 software designers. Last year, Ireland got more foreign direct investment from America than from China. And overall government tax receipts are way up.

"We set up in Ireland in 1990," Michael Dell, founder of Dell Computer, explained to me via e-mail. "What attracted us? [A] well-educated work force - and good universities close by. [Also,] Ireland has an industrial and tax policy which is consistently very supportive of businesses, independent of which political party is in power. I believe this is because there are enough people who remember the very bad times to de-politicize economic development. [Ireland also has] very good transportation and logistics and a good location - easy to move products to major markets in Europe quickly."

Finally, added Mr. Dell, "they're competitive, want to succeed, hungry and know how to win. ... Our factory is in Limerick, but we also have several thousand sales and technical people outside of Dublin. The talent in Ireland has proven to be a wonderful resource for us. ... Fun fact: We are Ireland's largest exporter."

Intel opened its first chip factory in Ireland in 1993. James Jarrett, an Intel vice president, said Intel was attracted by Ireland's large pool of young educated men and women, low corporate taxes and other incentives that saved Intel roughly a billion dollars over 10 years. National health care didn't hurt, either. "We have 4,700 employees there now in four factories, and we are even doing some high-end chip designing in Shannon with Irish engineers," he said.

In 1990, Ireland's total work force was 1.1 million. This year it will hit two million, with no unemployment and 200,000 foreign workers (including 50,000 Chinese). Others are taking notes. Prime Minister Bertie Ahern said: "I've met the premier of China five times in the last two years."

Ireland's advice is very simple: Make high school and college education free; make your corporate taxes low, simple and transparent; actively seek out global companies; open your economy to competition; speak English; keep your fiscal house in order; and build a consensus around the whole package with labor and management - then hang in there, because there will be bumps in the road - and you, too, can become one of the richest countries in Europe.

"It wasn't a miracle, we didn't find gold," said Mary Harney. "It was the right domestic policies and embracing globalization."