# EU Membership and its Impact on Ireland

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*In the days of The Celtic Tiger cliché, there are many who see little benefit in their lives and others who would not credit the EU for our impressive decade. Stephen Butterly rebuts those viewpoints. He highlights the direct and indirect import of structural funding and CAP. Of great importance also is the Single European Market and foreign investment. Nonetheless, with the changing position of Ireland in Europe, he concludes that we might not always be as enthusiastic about the EU.*

## Introduction

It seems that the myth is true. I have long heard that the Irish are their own worst critics, and I now believe this to be so. The prompt that has led me to this conclusion are the almost daily complaints I hear from many quarters regarding the 'so-called' Celtic Tiger. Some people bemoan the unfortunate phraseology attached to Ireland's recent economic growth, whereas others question its very existence. For a nation so economically crippled merely a few years ago, such complaints are the antithesis of the celebratory mood one would expect to prevail.

Whilst accepting that the fruits of our startling economic progress during the 1990s have been less than equally distributed, one cannot deny the success in aggregate terms. As such, throughout the course of this essay, I intend to show the reader just how significant a factor I believe our membership of the EU to have been in contributing to Ireland's startling economic performance of the 1990s. To begin with, however, I would like to introduce some statistics to showcase this growth, followed by a brief commentary on some of the domestic factors supporting such growth, before the essay switches focus to matters beyond the borders of this small island.

## Statistical Analysis - Growth in the 90's

Below is a brief summary of the data necessary to highlight Ireland's phenomenal recent growth:

**TABLE 1.** NATIONAL FINANCES; Values in IR£ @1999 Prices

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000[e] |
|---|---|---|---|---|---|---|---|
| GDP Value | 46,503m | 52,579m | 57,944m | 66,992m | 76,923m | 87,677m | 103,170 m |
| GNP Value | 41,785m | 46,631m | 51,408m | 58,952m | 67,541m | 75,001m | 87,390m |
| GDP per capita | 12,968 | 14,601 | 15,980 | 18,298 | 20,762 | 23,411 | - |
| GNP per Capita | 11,652 | 12,949 | 14,178 | 16,103 | 18,230 | 20,026 | - |

Source: Central Statistics Office Archives; www.cso.ie

**Table 2:** LABOUR STATISTICS (1996 - 2000); Values in '000s

| Indicator | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Total Labour Force | 1508 | 1539 | 1621.1 | 1688.1 | 1815.6 |
| Total in Employment | 1329 | 1380 | 1494.5 | 1591.1 | 1737.9 |
| Total Unemployed | 179 | 159 | 126.6 | 96.9 | 77.7 |
| Unemployment Average | 11.5% | 9.8% | 7.4% | 5.5% | 4.1% |

Source: Central Statistics Office Archives; www.cso.ie

Startling as the growth rates may be, for many commentators the true value of the Celtic Tiger is expressed in the impact on employment - Ireland has finally managed to purge itself of the curse of 'jobless growth'.

## Factors Contributing to Growth:

One cannot isolate any one factor as being the primary cause of our economic miracle. Each one is vital, but not sufficient, in isolation and as such I must emphasise the importance of their interrelation. The following list is brief, but I believe it to be sufficient in reminding the reader at all times to remain aware of factors other than those emanating from Brussels when examining the topic at hand.

- Commitment to fiscal rectitude by the Irish Government.

- Large supply of young and educated workers.
- Corporate tax concessions and grant aid designed to attract FDI.
- Government/Trade Union/Employer agreements (Social Partnership).
- Emergence of knowledge-based industries, thereby negating many of the transport costs imposed on peripheral regions by traditional resource-based industries.
- Generally low and stable interest/inflation rates - conducive to investment.

**EU Contribution to Economic Growth**

Although 1973 marked the beginning of Ireland's European odyssey, many years of integrative stagnation followed, with factors outside of European control, such as the oil crises of the 1970s, distracting attention away from the European integration programme towards matters of more immediate economic concern. It was not until the Single European Act of 1986, which committed the member states to the notion of creating a market without internal frontiers, and also to the concept of reducing regional disparity, that the drive towards unity was inspired with a new impetus. As a small open economy on the fringes of Europe, such commitments would prove ideal for Ireland.

The single market commitment awakened fears that the underdeveloped economies of Ireland, Greece, Portugal and Spain would not be able to compete with the core countries in the new market structure. Regional aid was thus proposed to allow these countries to develop their competitive abilities and to compensate for any potential losses (Matthews, 1994). However, far from suffering in the new trade scenario, Ireland benefited greatly, and thus one must view our somewhat disproportionate receipt of EU funding as extremely fortunate. In stating this, however, it is not my attention to belittle the impact of the funding, as shall shortly become apparent. I now propose to analyse the EU impact under three headings:

(i) Structural Funding & CAP
(ii) Single Market opportunities
(iii) Foreign Direct Investment

**Structural Funding & CAP:**

Opinions vary widely as to whether or not Structural Funding (SF), in its various guises, had any real impact on the Irish economy during the nineties, and indeed studies on the *direct impacts* seem to be consistent in proclaiming SF to have contributed a very low amount to economic growth. Examples of such studies show

the Delors I package of 1988-1993 as contributing a mere 2.7% to GNP by the year 2000 (O'Donnell, 2000) whilst the ESRI predict the combined effects of Delors I&II as contributing only 2% to long run growth (Honohan, 1997).

However, I feel that to quantify only the direct impacts is to miss the point and purpose of the funding, for when viewed as the *catalysts* they were designed to be, it is clear that the transfers have been of great importance. To begin, some details regarding the nature of Structural Funding.

- The Irish Community Support Framework (CSF), a joint enterprise between the EU Commission, the Irish Government and National bodies, is financed by four EU transfer funds - the ERDF[1] (45%), the ESF[2] (35%), the EAGGF [3](19%) and the FIFG[4] (1%)

- In conjunction with the European Cohesion Fund, EU transfers have been substantial; between '89 and '93 (Delors I), transfers of 4.2bn ecu co-financed CSF of 9.2bn ecu, whilst between '94 and '99 (Delors II), transfers of 8.5bn Euros co-financed CSF of 10.6bn Euros. (www.csfinfo.com)

## 1. Factors Contributing to the success of Structural Funding:

To begin with, I would like to mention three factors which I believe ensured the success of SF. Firstly, the transfers began at a time when the Fianna Fail Government, supported by the Fine Gael opposition under Alan Dukes, was implementing a new and extremely rigid fiscal policy. Thus, they were able to take control of Exchequer finances and simultaneously pursue and complete much needed development programmes. As Honohan states "Without the support of the structural funds, congestion in the public infrastructure and constraints in 3rd level education would have delayed recovery for years" (Honohan, 1997). Secondly, there was logic in the manner in which the funds were only applied to problems they felt they could solve, such as strengthening infrastructure, as opposed to addressing

[1] ERDF = European Regional Development Fund

[2] ESF = European Social Fund

[3] EAGGF = European Agriculture and Guarantee Fund

[4] FIFG = Financial Instrument for Fisheries Guidance

'thankless' areas e.g. inefficient, sheltered private industries (Honohan, 1997). Thirdly, by embracing the concept of subsidiarity and implementing the Delors I&II packages in conjunction with National Development Plans, it ensured the SFs reached the appropriate destination in their pursuit of *measured goals.*

## 2. Positive Outcomes of Structural Funding:

Economic commentators believe the long run effects of SF in introducing new frameworks and methods for managing development plans far outweigh the short run economic gains (Central Bank Bulletin, 2000). Indeed, it is in the somewhat 'unquantifiable' long run in which the greatest gains lie. Short run demand side gains continue to provide a boost to our economy, for example a building industry operating at full capacity to provide infrastructural development, but the long run result of SF has been manifested in Ireland's ever increasing supply side ability, which Frank Barry believes to be central to our recent, and future, economic progress (1999).

SF has helped Ireland to embrace the opportunities that industrial changes have brought. Through the implementation of programmes to tackle Human Resource, Marketing and R&D deficiencies, our economy has become adept at providing for new technical and knowledge based industries. The immediate effect is a boost to productivity and employment, but one must also consider the spillover effects in terms of our industrial education. Through "learning by doing", Irish workers can now use technical employment, much of which is in multinational firms, to incubate their knowledge which is eminently transferable to personal enterprise (O'Donnell, 2000).

The Common Agricultural Policy is an area of economic policy which can also readily be classified under social and political policy, and it is this overtly 'human' element of it that renders cold economic analysis difficult for policy makers to subscribe to. Arising from a period of time where the food crises of World War II were still prominent in the memories of Europeans, CAP set about achieving laudable aims, such as ensuring the availability of food supplies and guaranteeing a fair standard of living for the agricultural community. The original intention was to devote approximately 66% of CAP resources to the price and markets guarantee policies, with the remaining 33% being targeted at socio-structural and rural development policies. However, history has shown this ratio to have been closer to 95% in reality.

Traditionally, a large proportion of the Irish labour force has been involved in agriculture, and as such, a large proportion have benefited from the CAP in various ways. In absolute terms, the transfer from CAP have been enormous - in the mid 1990s annual transfers were in the region of £1.5bn, with transfers in 1997 estimated at approximately 4% of GNP (Matthews, 2000). However, it is at this point where one must differentiate between the receipt of large transfers from CAP and the contribution to economic growth. Ireland has benefited in terms of guaranteed prices and markets, rural redevelopment and a small multiplier effect in terms of food processing, but if one focuses solely on the question posed in this essay, the inevitable answer is that CAP has had a negligible impact on growth in the 1990s. O'Donnell supports such a view in stating that EU transfers would have had a far greater economic impact if targeted solely at productive sectors rather than supporting the inefficiencies so evident in the agricultural sector (O' Donnell, 2000). As Matthews states, the operating costs of CAP in terms of administration, storage of over-production and general 'leakages' are so high that the costs of the CAP now outweigh the benefits to the agricultural community. Further to this, the burden on the Irish taxpayer in supporting CAP has recently been described as equivalent to a 20% VAT on food (Matthews, 2000).

The EU has been fully aware of these problems for some time, and efforts at reform, such as those instigated by McSharry in the early 1990s, are set to continue. For Ireland, as EU funding is set to decrease rapidly in the coming years, one could not expect CAP funding to be redirected to more 'productive' sectors of the economy, even though such an approach may seem logical. Matthews argues that a more open agricultural system, with market price support replaced solely by direct income support, would result in the restructuring of capital and labour in rural areas towards progressive, buoyancy industries that would further fuel Ireland's economic progress (Matthews, 2000). Convincing agricultural communities of the benefits of such an approach, however, would be a momentous task, and as mentioned earlier the prevailing socio-political agenda may be too entrenched to expect any great change.

## The Single European Market

A detailed analysis of the mechanics and aims of the Single Market Programme is beyond the scope of this essay, but suffice to say that the central tenets involved the creation of a trading bloc or an area 'without internal frontiers', to quote a much used phrase. Following from this was the even deeper commitment encapsulated in the Maastricht Treaty of a Europe striving for economic and

monetary union. I intend to show that the Single Market ideal, far from marginalising our economy as feared by many at inception (Matthews, 1994), has afforded Ireland the perfect vehicle for economic growth, and I shall address this issue under three broad headings.

**Enhanced Trading Opportunities:**

For a small, open economy such as ours the opportunity to engage in boundary free trade with a market of over 300million consumers was certainly one to be embraced, as it would allow ambitious enterprises to break free of the limited demand levels of this small island. Sweeney remarks that the Single Market participants represented, for Ireland, a wealthy group of potential clients who demanded the high value goods we were becoming increasingly adept at providing (Sweeney, 1998). The export figures below certainly support such an hypothesis.

**Table 3:** Trade Statistics: Values in IR£m

| Year | Imports | Exports | Balance |
|---|---|---|---|
| 1991 | 12,851 | 15,019 | 2,168 |
| 1993 | 14,885 | 19,830 | 4,945 |
| 1995 | 20,619 | 27,825 | 7,206 |
| 1997 | 25,882 | 35,336 | 9,454 |
| 1999 | 34,412 | 52,227 | 17,814 |

Source: Central Statistics Office Archives; www.cso.ie

An issue often addressed in tandem with this is the opportunity presented to Ireland to move away from its traditional trading reliance on the U.K. As one of the lower-growth economies of the EU, it was the UK's geographical location and traditional linkages with Ireland, rather than its overtly profitable business opportunities, that had fostered this trade dependence. The Single Market Programme can thus be said to have laid the foundations for Ireland's economic autonomy, with the Maastricht Treaty representing the solidification of the aspirational leap away from the U.K. towards new and more fruitful opportunities. As is evident from Table 4, trade with the U.K. remains very significant, but the impact of EU trade on our trade balance is a telling statistic.

Table 4: Principal Trading Partners - 1999; Values in IR£m

| Country | Imports | Exports | Trade Balance |
|---|---|---|---|
| United Kingdom | 11,310 | 11,378 | +68 |
| Other EU Countries | 7,570 | 22,392 | +14,821 |
| USA | 5,729 | 8,096 | +2,340 |
| Rest of World | 9,803 | 10,388 | +585 |

Source: Central Statistics Office Archives; www.cso.ie

A powerful trading bloc also instantly lent Ireland a fuller degree of weight on world trading markets. Enhanced by the EU's open trade policy, Ireland enjoyed unprecedented levels of extra-EU trade during the 1990s. For example, statistics generated by the Irish Business Bureau indicate a 37% rise in exports to and a 26% rise in imports from extra-EU countries in 1997 (www.ibb.be). One should also contemplate the future trading benefits of EU membership that should occur upon accession of the Central and East European Countries.

**Market Deregulation**

Inherent in the concept of a Single Market is the process of deregulation, where international barriers are broken and national market protection is shattered. During the 1990s, for the first time in its history Ireland found itself in the position of being able to adjust to and benefit from such deregulation. The immediate effect of such competition became apparent through increased levels of productivity and efficiency, a prime example being the lowering of utility costs for domestic and, increasingly importantly, for multinational enterprises. Service sectors, such as air transport and telecommunications, are now operating with a new found level of competitive ability in this era of increased foreign competition.

An area worthy of particular mention for Ireland is that of financial market deregulation. A strikingly apparent boost to the Irish economy of the 1990s was the resulting development of the IFSC. Despite employing a relatively small number of people, the IFSC rejuvenated what was previously a stagnant sector of our economy. Profit levels are quite extraordinary from this new financial oasis, resulting in significant tax contributions to an already bulging exchequer surplus. A less

obvious, but nonetheless significant, impact of fluid capital flows throughout the EU, can be seen in the balance it brings to an economy such as Ireland's, where consumer spending patterns can be harmonised across times of growth and recession, as capital moves to fill voids and relieve potentially ruinous surpluses (O'Donnell, 2000).

**Economic & Monetary Union:**

The impetus behind the drive to EMU lay in the widely held belief that, in the long-run, a single market can not survive without the existence of a common currency and a unified approach to economic management. The Maastricht Treaty encapsulated the framework through which EMU would be achieved, and it was relatively easy for the authorities to gain support for the programme by citing expected gains in areas such as price transparency, decreased administration costs and enhanced trading abilities on world markets.

Currently, the Euro currency is experiencing a somewhat turbulent infancy, and many of the expected benefits have yet to come to fruition. As such I will instead focus briefly on the impact EMU has had on Irish fiscal rectitude.

The Maastricht Treaty laid down the criteria to be met in order to qualify for accession to the EMU programme. Briefly, these were:

- Inflation rates no more than 1.5% higher than the average of the three best performing countries
- Annual Public Sector Borrowing Requirement of less than 3% of GDP
- Reduction of National Debt to 60% of GDP
- Restrictions on currency devaluations
- Long term interest rates within 2% of the average of the three best performing countries

Although somewhat arbitrary in nature, the true value of the targets lay in a *common approach.* Debate continues in Ireland as to whether or not these criteria influenced our fiscal behaviour. The statistics show that we made great efforts towards meeting these criteria, but many believe that the drive behind such action came from within the country, as alluded to earlier in the section on Structural Funding, and would have been achieved without EU influence (Foundation for Fiscal Studies, 1995). Others believe the 'preparation for and transition to EMU provided the sheet anchor of the new macroeconomic approach' (NESC, 1997; 69).

My belief is that the true answer lies in a compromise approach, where domestic realisation of our fiscal problems became *focused* by the Maastricht criteria. By committing ourselves to a programme where we had no alternative, immediate fiscal discipline was imposed which continues to serve Ireland well in providing a stable base on which the economy can prosper, with generally low and predictable inflation rates circulating confidence throughout the economy and the reduction in national debt liberating Government finances to focus on more productive matters.

**Foreign Direct Investment:**

Multinational activity in Ireland is considerable, and has been one of the defining features of our economic landscape in recent times. Indeed, a comparison of the GDP versus GNP figures presented in Table 1 quantifies the enormity of the profit repatriation flows that such companies create.

However, whether or not the increases in FDI in Ireland in recent times are attributable to the EU is a subject of considerable debate. Indeed, the EU Commission itself states that an analysis of the degree of success of the Single Market Programme differs greatly depending on whether one concludes the programme itself, or other factors, to have been primarily responsible for increased FDI (EU Commission, 1997). In the case of Ireland, a combination of factors attracted FDI, but my belief is that EU involvement was paramount. This position is supported by the US Chamber of Commerce in a study analysing FDI in Europe from the USA (Barry, 1999).

Why am I so resolute in this stance? Firstly, EU market integration created the scenario whereby a multinational company could serve the EU market efficiently from any base (Thomsen et al, 1993), thereby affording the low-cost Ireland the opportunity to market itself as a 'gateway to Europe'. Secondly, the aforementioned market deregulation lowered costs, increased efficiency and reduced 'obligations' throughout the EU, thus further increasing Ireland's attractiveness to foreign investors. Thirdly, the impact that Structural Funding had on our ability to deliver on the supply-side requirements of these highly productive multinationals cannot be underestimated. A final aspect warranting attention - and one that may be difficult to reconcile with the criticism currently emanating from the EU regarding Ireland's fiscal policy - is the lenience the EU has shown with respect to our low levels of corporate taxation designed to attract FDI. The rationale behind this is a grudging recognition of the questionability of enforcing uniform taxation schedules on countries of differing developmental levels.

Citing the impact of FDI in terms of employment creation and increased output is, of course the essence of any standard analysis, but I feel these elements to be so well publicised as to be somewhat trite in a commentary of such limited length. Two often overlooked benefits may prove of more interest to the reader. The first of these centres on the impact that FDI has on export led growth. By increasing our export volume so significantly, the Irish Government has thus resided over a positive balance of payments even in light of the huge increases in domestic consumer demand, and subsequent imports (O'Donnell, 2000). Such export led growth is ideal for a country so dependent on trade. Secondly, multinational companies have served Ireland well in terms of acting as incubators for would be entrepreneurs, and many of our successful indigenous companies can trace their origins back to knowledge gained from these multinationals. Any process that can strengthen the roots of business in Ireland must be welcomed, for we do live under constant wariness of the threat of the withdrawal of multinational investment.

## The Future

As a new millennium dawns, so too does a new era for Ireland in the EU. No longer can our relationship with the EU be characterised with adjectives such as 'peripheral' and 'marginal', for our economic record is now rapidly converging with the EU average. What is called for is a new approach to integration, one that adapts to our new circumstances and those around us in order to create truly symbiotic relationship. Membership of the EU has clearly served us well, but the future as a wealthy member state will differ greatly from our experiences of recent times. Opportunity and challenge abound in equal measure, with the EMU programme, currently the most topical of these, generating consternation regarding the strength of the Euro currency and the continuing absence of the UK from the programme.

In light of the current displeasure in Ireland regarding stinging EU criticism of our fiscal policy, and with the day fast approaching of this nation becoming net financial contributors to the European Union, one must wonder whether an analysis ten years from now would yield such an unashamedly pro-European stance as the one I have presented in this essay.

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