

chasing the tartan tiger:

lessons from a
Celtic cousin?

By Wendy Alexander MSP

Edited by Margaret Vaughan



THE SMITH INSTITUTE

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Preface

Wilf Stevenson

The Smith Institute is an independent think tank which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the Institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

As part of that agenda, the Institute is developing a series of pamphlets and seminars on the issues affecting future prosperity in Scotland. What mechanisms need to be in place to allow Scotland's world-class businesses to thrive? How can the transfer of skills and knowledge be encouraged and facilitated between Scotland's higher education institutions and its business community. What elements are necessary to maximise the growth and success of new companies in Scotland?

The Smith Institute is pleased to publish a pamphlet within this agenda of issues, edited by Margaret Vaughan, and written by Wendy Alexander MSP. In this proactive and insightful piece, Wendy discusses the lessons that Scotland can learn from the successes and failures of the continuing Irish "economic miracle".

We hope that those who read the essays and participate in the seminar series that they prefigure will be stimulated to add their voice to the debate, in the hope that policy-makers and those interested in the future of Scotland's society and economy can be both better informed about this topic and encouraged to focus on possible solutions.

The Smith Institute gratefully acknowledges the support of Scottish Power plc towards these publications, and the associated seminar series.

Foreword

Scots have always enjoyed debating the fortunes of the nation. Yet too often in recent decades that debate has tended to be introspective, rarely reaching beyond our own shores. So, as home rule beds in, it is right to recover the capacity to look firth of Scotland. The physical, cultural and often familial closeness of Ireland has long made the Republic of interest to many Scots, and the Celtic Tiger's economic success has intensified that interest.

Better understanding the Irish experience may help Scotland crystallise her choices. The Celtic Tiger was essentially the story of Ireland's economic *take-off*, which has recently slowed significantly. In Scotland creating a Tartan Tiger will be different: Scotland's economic challenge is more a *turnaround*. The lessons for Scotland are more subtle than simple.

The political and economic histories of Scotland and Ireland differ markedly. Scotland, in the eighteenth and nineteenth centuries, enjoyed the highest levels of literacy on earth and was poised to become the world's most rapidly industrialising nation; Ireland meanwhile was relegated to the role of economic satellite, foregoing the first wave of industrialisation and retaining a rural character until relatively recent times. Politically, Scotland prospered as the good child of the Empire, whilst Ireland, politically combative, championed home rule and revelled in being the Empire's bad child. Ireland endured both a war of independence and a civil war, and only recently, after a long period of economic stagnation, did she grow more self-confident and economically successful. Scotland, by contrast, arguably suffered a loss of self-confidence during the last century and more recently became preoccupied by her constitutional choices.

We in Scotland should take note. Irish self-confidence has come more from a new mindset than from the map that enshrined a new constitutional settlement. Some will continue to argue that renewed Scottish self-confidence demands the sort of sovereignty Ireland acquired at the start of the last century. I believe that self-confidence and success are available to Scotland within the framework of the UK as long as we live up to the shared sovereignty and mutual interdependence that should be the mark of this century.

Despite divergent histories, fascinating patterns do emerge. Following Ireland's independence, it was over four decades before economic success emerged, and only after the Irish ceased to be preoccupied by her relationship with her nearest neighbour, the United Kingdom.

Like other commentators before me, I see the recent rise in Irish self-confidence as linked to a retreat from the traditional “victim mentality” and moving beyond a preoccupation with relations with the UK.

Highlighting such changes in the Irish psyche opens up the debate around the Scottish psyche and the changes in both style and substance from which she might benefit in the future. Just as thirty years ago it was not possible to envisage the current Irish Zeitgeist, we today cannot envisage the contours of a new Scottish psyche. But we can understand the nature of our challenge and thereby take the first steps. This pamphlet is dedicated to that purpose.

I freely acknowledge the risks inherent in any compare and contrast exercise. Convictions about Irish politics, nationhood and economics are often as strongly held as beliefs about Scotland's politics, identity and performance. Scotland and the Irish Republic are places divided by their political and economic histories, their religious traditions, and much of their culture. I know much more of one country than of the other – but this matters little if the purpose is to stimulate debate amongst those who know and care for both nations.

Finally, my purpose is not to suggest that Ireland is the only place from which Scotland can learn: far from it. But looking to our Celtic cousins may, if we allow, illuminate much of value for the new Scottish story.

Executive Summary

Given the scale of Irish success in the past decade it is not surprising that many commentators have sought an Irish magic bullet: none exists. The Irish did what was right for their time and circumstances and Scotland must do the same. To “do an Ireland” will mean “doing a Scotland”.

Ireland had the least impressive economic performance in Western Europe until the last decade of the twentieth century. Not until four decades after independence was a significant improvement in living standards achieved, and an improved performance in the 1960s and 1970s did not close the gap in living standards with the European average, and fiscal mismanagement in the early 1980s led to further stagnation. In the mid-1980s, mired in debt, and haunted by further emigration and economic underperformance, the Irish determined not to go on as before, and a national effort finally emerged to engineer recovery and growth.

Ireland in the 1990s was catching up with a take-off that had long since happened in other northern European nations. The Celtic Tiger phenomenon was essentially a long delayed *take-off*. Scotland, with an earlier record of economic success, should be more of a *turnaround story*.

In Ireland it was the politics of change that made the economics of change possible. A critical element was a change in her psyche; a new spirit, which became more and more positive as the “victim culture” receded. Understanding this change is more important than any one policy. The whole concept of Irish society has been torn apart and rebuilt in fifteen years. Ireland's rising self-confidence pre-dated but has been intimately linked to her improved economic performance. It is hard to be a victim when you are richer than the mother country.

This pamphlet aims to encourage discussion on how to “do a Scotland”, which means understanding:

- Where we are;
- What we need to do;
- How to do it.

Where we are

Scotland is experiencing her own statecraft phase. In the last four years we have moved from administering Scotland to governing her and many now aspire to move on from governance to growth: creating a Tartan Tiger.

It took more than four decades for Ireland to emerge from her own much more traumatic nation-building phase, and two decades more to start to converge economically with her northern European neighbours. Throughout Ireland's statecraft phase economic objectives were subordinated to political ones. So constitutional change per se is no guarantor of economic success. Scotland, now in her own statecraft phase, faces similar risks: politics keeps getting in the way of growth.

Achieving growth is more about changing Scotland's mindset than about redrawing her map in an attempt to redefine our relationship with the rest of the UK. Scotland need not endure a long nation-building phase. She can create a Tartan Tiger – a turnaround story – much faster than the decades it took for the Celtic Tiger to emerge. However, changing a national psyche is not easily achieved. A prerequisite is tackling Scotland's typically low levels of self-confidence.

What do we need to do?

Scotland needs a long-term road map for change. Three critical Irish lessons emerge:

- Self-belief matters;
- Economic goals temporarily take precedence;
- Place consensus-building on the economy above domestic division.

Self-belief matters

Ireland went from the self-pity satirised as "MOPE – most oppressed people on earth" syndrome to promoting the hibernisation of all cultures; across the world it became "cool" to be Irish. And in the process the old, familiar Ireland died, only to be replaced by flux and uncertainty.

Scotland needs to develop greater self-belief, harnessing her own Celtic melancholy and transcending both Scots "wha hae" and "I kent his faither" attitudes. Scottish self-esteem is there to be recovered and the foundations have been laid. As in Ireland, the quality, status and relevance of education will be fundamental to raising self-confidence.

Economic goals temporarily take precedence

The search for constitutional solutions to economic challenges will be in vain. Political sovereignty does not guarantee economic sovereignty, and economic sovereignty does not guarantee prosperity, particularly when the character of the age is ever-growing interdependence.

"Doing a Scotland", starting in 2005, will be fundamentally different from "doing an Ireland" in 1985. It means a *high road* rather than a *low road* economic strategy. There are no simple policy parachutes. The Irish had low corporation tax for inward investors since the late 1950s, and effective corporation tax rates for inward investors increased in the 1980s. The take-off came after 1987 with the commitment to balance the budget, fiscal retrenchment and to the new social partnership. Ireland sent a signal of intent that carried credibility with investors.

Ireland began on the *low road*, where she competed on cost and price, and progressively migrated to a *high road* strategy based on higher value activities, skills and capabilities. Scotland has no option but to pursue a high road strategy.

Ten economic messages emerge for Scotland:

1. Pursue a strategy that is right for Scotland today and that must mean a *high road* strategy;
2. Placing constitutional change before economic change is unlikely to set the performance of the economy centre stage;
3. The *low road* has moved east and we cannot tax-cut our way to prosperity;
4. A new direction takes time with firm foundations sometimes laid decades in advance;
5. We must win round all sides of industry and make the political system more responsive to economic imperatives;
6. Credibility with international investors demands fiscal credibility in the short and medium term;
7. It is necessary to devise the right incentive structure for a *high road* strategy;
8. The need for policy continuity;
9. And the need to harness the diaspora to support the new strategy;
10. It is not necessary to fix everything to achieve better growth.

The Celtic Tiger had considerable social costs. In 2000, Ireland provided the lowest share of social welfare as a percentage of GDP of any EU member state.

Place consensus-building on the economy above domestic division

In Ireland the economic consensus was born of past failures. Political parties and social partners signed up for a partnership process that built a shared understanding of the issues, constrained political decision-making, elevated the economic agenda and has held together, just, despite the strains of attempting to resolve even tougher supply-side challenges. But there is little point in partnership if it becomes a vehicle for rent seeking, special pleading or the defence of past practices. The challenge now is to find a form of partnership that can meet the challenges of both supply-side reform and public sector modernisation.

Ireland has finally “parked her border question” and ceased to be preoccupied by her relationship with the UK. Scotland needs to do the same. If our economic debate is a mere proxy for our constitutional debate, no consensus can be built. The more energy Scotland consumes in domestic constitutional disputes, the less is left for achieving a new growth trajectory.

How to do it

With hindsight one sees the importance of a new Irish story reflecting the new Irish psyche. Scotland can do likewise by consigning her inferiority complex to history and crafting a new Scottish story which draws upon her immensely useable past, a cultural and historical legacy of scholarship and invention which stands comparison with any on earth. Already, 30 years of both constitutional constipation and painful economic transition are receding. Scotland is a natural home for knowledge-based businesses.

But how “Scotland sees Scotland” is one of our biggest handicaps. The world is more positive than we are about ourselves, and living up to our international image should be a key challenge that preoccupies this generation. We need to be willing to embrace the future and not remain in the past. Ireland has become a nation comfortable with change and Scotland must do the same. Could the intractable for and against independence divide be superseded by those for and against future success?

Above all, Scotland has choices: not the old choices framed in the old ways, but new choices framed in new ways. Scots may have anticipated the political change represented by home rule, but we are only starting to explore the emotional, cultural and economic consequences – it is those challenges that should exercise our minds and excite our spirit.

Introduction

Scots seeking inspiration for the New Scotland often look across the Irish Sea. How might Scotland achieve such levels of economic growth and national self-esteem? What can the Celtic Tiger tell us about becoming a Tartan Tiger?¹

The Irish experience is complex and the lessons more subtle than superficial. There are no simple off-the-shelf “policy parachutes” that can deliver a Tartan Tiger. Economic success stories can rarely be replicated in a straightforward way. So for Scotland to “do an Ireland” requires that she “does a Scotland”. This pamphlet is a contribution to thinking through those challenges.

To learn from Ireland we must become as fascinated by the Irish psyche as by Irish policy. Ireland did not change because it had a new policy; it changed because it had a new sense of self, including a new self-confidence and a new consensus around what it would take to grow. This underpinned the new story the Irish nation told the world and herself about what she had to offer. This is the good news for Scots. The bad news is that it took time.

The Origins of the Celtic Tiger

The Celtic Tiger was long in the making. It emerged after decades devoted to nation-building and after years of indifferent economic performance. The two were intimately linked. It took decades following independence for economic objectives to cease to be subordinate to political objectives.

It is not possible in a short space to recall all post-independence Irish history, but a few highlights can set the scene. For at least three decades after partition, the demands of nation-building and of statecraft dominated Irish politics. The fledgling Irish state confronted tides of parochialism, the persistence of old grievances and open constitutional sores. But if the newly independent Ireland was a relative economic failure, the political achievements of independence were more substantial: the securing of the state; the embedding of democratic government including the successful transfer of political power from the civil war victors to their political enemies within a decade. This is not to downplay the persistence of old hierarchies, social intolerance or corruption, but to acknowledge that the state was both democratic and secure.

¹ The parentage of the term Celtic Tiger is disputed, but it seems likely it was first used in a US Analyst's report. The author was doubtless drawing on its use in economic analysis, often with respect to Asian economies. Some use the term tiger to refer to the speed of growth, others in the academic literature to denote the pathway chosen, typically export orientated industrialisation, and others for the role of the state in the development process of an industrialising nation. Here the term Celtic and Tartan tiger are both used in a colloquial sense to provide a metaphor for Scotland's choices.

The challenge of nation-building facing Ireland eighty years ago, with a legacy of partition and civil war behind her, is not comparable to the challenges facing Scotland today. Nevertheless the empathetic Scot might see parallels with contemporary Scotland. Both have faced the challenges of the early home rule years when, in the face of external scepticism and internal dissent, securing the new institutions of governance takes precedence. For Ireland it is now a memory, for Scotland a living reality. Scotland is living, sometimes toiling, through a statecraft phase, discovering that statecraft is exhausting, exhilarating and exasperating in equal measure – but also an essential foundation.

At the start of the Scottish Parliament's second term we need to hold on to this big picture. The Parliament has unquestionably brought government closer to the people of Scotland, facilitated Scottish solutions to Scottish problems and aligned Scottish spending much more closely with the wishes of the Scottish people. All this is part of our statecraft phase – the playing out of the transition from the administration of Scotland to her better governance. Ahead can lie a further transition from governance to growth, but it requires that the statecraft phase first runs its course. In this modernising governance period, Scotland is establishing a stability, transparency and openness hitherto unknown. Interestingly, few Irish commentators would hold up their nation as a model of transparency, probity and open governance, even today. In contemporary Ireland, old demons still stalk the land: Scotland is unlikely to be any different. A future Tartan Tiger will retain many elements redolent of today's Scotland.

The newly independent Ireland was a political success more than an economic success. Admittedly, international economic conditions were not propitious in those decades, but in the new nation political considerations drove economic policymaking. In those early decades Ireland's autarkic economic policies made political, if not economic, sense. It was only after more than thirty years, in the 1950s, in response to economic stagnation and mass emigration, that economic policy ceased to be subordinated to political considerations. Sean Lemass embarked on a new externally orientated economic policy. The dividends were slow but steady, and success followed in the 1960s, only to stall again in the 1970s and more seriously in the early 1980s.

By the mid-1980s, mired in debt and haunted by further emigration and economic underperformance, a national effort finally emerged to engineer recovery and growth. There was a new national consensus around the importance of economic performance. This consensus recognised that economic objectives should, for a while, take precedence over political ones. The character and timing of the take-off are explored in Chapter 2,

along with the myths that have grown up since. For example, the "low corporation tax" for inward investors, which is often seen as causal, had in fact been around for decades. Unarguably a set of favourable external influences came into play and certainly contributed to Ireland finally taking off, but social partners also made sacrifices to support the new direction. Strongly unionised workers accepted curbs on their bargaining power and public spending was cut, although benefit levels were preserved. Such sacrifices heralded a decade of hitherto unparalleled prosperity, which slowed significantly only with the recent worldwide slowdown.

Ireland's single-mindedness about growth was largely the product of desperation and economic failure. It is difficult with the benefit of hindsight, to recall the depths of despair felt in Ireland in the mid-1980s about her economic performance. That widespread frustration about economic performance was critical to creating the consensus for change. A significant part of the population recognised that sending a clear signal of intent was essential. Ireland had to demonstrate economic self-discipline: that she was serious about the economy and that fiscal stability would be a future financial feature. The social partnership accord in 1987 did this.

So, for anyone reviewing eighty years of Irish independence, the interesting questions include why her economic take-off was delayed for sixty years. Did political independence slow economic advance in the twentieth century as policies tended to be shaped more by political than by economic considerations? Why in the late 1980s did things change – was there something more than a sense of crisis?

It is in answering these questions that some implications for Scotland emerge. If growth really does need to come first, then political agendas should not be allowed to masquerade as economic ones in today's Scotland. For example, deliberately confusing how Scotland grows with a politically inspired agenda for national sovereignty is not likely to deliver either. Can a consensus for growth be achieved without the profound economic crisis of confidence or the prolonged period of failure that Ireland experienced? As Ireland shows, it will take time, commitment and a shared purpose that is currently elusive. The key may lie in trying to understand the process of change.

Finally, what of Ireland's consensus-building efforts on the economy? Not only was there a strategy for growth, but it commanded widespread allegiance. Achieving that consensus was not quick, but the product of decades of experience. One prerequisite was for Ireland metaphorically to "park her border question", put disputatious domestic

disputes behind her and so move on both from the constitutional conflicts of the past and from introspective statecraft and past practices, cementing a coalition of forces that looked to the future rather than the past. A virtuous circle was established where change, modernisation and a focus on the future cumulatively reinforced each other, and each success begat more confidence and support for further change.

A New Psyche

In understanding what happened in Ireland I argue here that something more intangible played a crucial role in the country's success: her changing psyche. Take-off in Ireland not merely came about as a result of policy change, or indeed policy continuity, but was profoundly shaped by an emergent new national psyche. I use the word psyche to denote a worldview, an outlook, an attitude, or a mindset.

Appreciating the distinction between psyche and policy is vital to identifying the richness of Ireland's lessons for Scotland. A narrow view of Irish success, one that understands it simply in terms of adopting "the right policies", misses the point. Ireland's policies may have been right for the times, but crucially the pursuit of those policies was made possible by an emergent new sense of self-awareness.

This mindset was at first the preserve of a few, but it grew as success materialised and had various dimensions. One was a rise in self-confidence, which was felt across a wide range of cultural, economic, sporting, political and economic fields. Here I concentrate on the economic dimensions, but this wider transformation made possible new priorities and new approaches whose success reinforced the commitment to change. Fundamental was the national consensus built around those new objectives.

The later chapters will explore three key lessons:

- Self-belief matters;
- Economic goals temporarily take precedence;
- National consensus comes before domestic division.

But before discussing the details – how did the change in psyche contribute to the pace and extent of change? Ireland's new psyche emerged slowly with some significant champions: the young; parents who did not wish to see their children have to leave as earlier generations had done; the more entrepreneurial elements of the business community; thoughtful trade unionists who watched the miners strike in 1986, and

resolved that there must be a better way. All were in the vanguard of change.

So, by 1987, many Irish people determined not to go on as before. A new spirit was emerging, impatient with lack of economic progress, hungry for change, frustrated with the best and the brightest leaving, and increasingly European in its outlook and attitudes. Together these forces were the seedbeds for change, symbolised by the social partnership process, which agreed priorities including the need for fiscal restraint. The politicians did not lead, but responded to these new perspectives about the nation's future. To understand what happened from 1987 onwards is to understand that it was the demand for a new start, in other words the politics of change, that made the economics of change possible.

So beyond the more superficial lessons from the Irish experience lies a more profound one about mindset. Ireland was a country ready for take-off in the mid-1980s. It is this factor that helps explain the cumulative, self-reinforcing aspect of recent Irish economic success.

Not all commentators on the Irish scene would attribute such significance to these underlying forces of internationalisation, modernisation and secularisation. Fintan O'Toole is one commentator who has sought to recognise how these forces shaped the Zeitgeist. His writings describe the wholesale reinvention of what it meant to be Irish in the late twentieth century. O'Toole wrote:

You can no longer use British and Irish as ciphers for a range of unspoken attitudes and activities. In effect Britishness and Irishness became political identities only. As the Republic became urbanised, secularised and industrialised, its people were leading the kind of lives that had once been identified with Britishness.²

He went on to write in the *Irish Times*, in the closing days of the last century, that "many of us will be glad to see the back of holy Ireland, martyred Ireland and peasant Ireland. Most of us have wanted nothing so much as to be normal, prosperous Europeans. But what, now that we have arrived, is left to us? What, if anything, is distinctively ours?" He continued: "Yes, Ireland has changed beyond recognition. Yes, it has become more complex and slippery. But it was never all that easy to recognise or all that simple in the first place."³

² O'Toole, F. *The Ex-Isle of Erin* p13
³ O'Toole, F. *The Irish Times*, 28 Dec. 99

What emerges is the scale and extent of change – a reinvention of the meaning of being Irish. Others concur on the extent of the change but are less optimistic about the outcome. One Irishman told me recently:

As for psyche, what we have gone through is cathartic. Child abuse/divorce/abortion referenda/the erosion of the Church's role in society/wealth/success/political scandals/tribunals. The whole concept of Irish society has been torn apart and been rebuilt ... We do not know what we are now: suicide levels in young males are high, binge drinking, public order violence, deep distrust of the political system, contempt for politicians, racial problems, no leaders of stature. We are a society in flux.

And these changes have been controversial. As O'Toole has admitted, the near-defeat of the referendum on divorce in 1995 was a reminder that large parts of the population experienced the change not as liberation, but as loss.

However, overall the momentum for change, fuelled by economic progress, has proved irresistible. What emerges is a picture of a nation that has been willing to leave things behind and, in so doing, has changed dramatically. Liam Kennedy mocked the Irish seeing themselves as “MOPE – the most oppressed people ever”. As O'Toole wryly pointed out, it is “difficult to wallow in post-colonial self-pity, when the ex-colony is wealthier than the mother country”. He characterises this as a shift from a post-colonial to a post-national Ireland.⁴

Is Scotland ready for, indeed in need of, such change? How can we live at ease with our nearest neighbour? What might a post-national Scotland look like? The implicit answer from the Irish experience is to look more to your mindset than your map. Knee-jerk, blame-shifting, “woe is me” responses are time-wasting, energy-sapping and damaging to Scotland's sense of self-worth.

Kennedy hammers home the importance of mindset rather than map in his observation that “of the 150 or so officially designated regions of the European Community today, it would be difficult to think of many regions which do not have some experience of colonialism in some sense or other”.⁵ The issue is what you do with that knowledge: the choice is either to elevate victimhood or to transcend it. Nationalist narratives, historically in Ireland and currently in Scotland, are over-reliant essentially on victimhood. In the last fifteen years, Ireland has moved from a post-colonial mindset to a post-national,

⁴ quoted in Kirby, P et al *Reinventing Ireland* (2002) p90

⁵ quoted in Kirby, P et al *Reinventing Ireland* (2002) p91

self-confident global one. How might Scotland take such a journey?

This is not a story of final victories but of changing meanings. Chapter 2 notes how the social costs of Ireland's economic choices are too lightly brushed aside: many may be wealthier but many are also relatively poorer. Many characterise the Celtic Tiger as an economic success but a social failure. The former Taoiseach Garrett Fitzgerald puts it bluntly in his recent book:

Most striking of all, however, is the fact that in the year 2000 Ireland not only spent on social transfers a one third lower share of its GNS than the Continental EU, but also one sixth less than the share spent in the neighbouring UK. The total amount of Irish current public spending had in fact been reduced almost to the US level ... The current spending level in Ireland in 2002 remains extraordinarily low by European standards ... It is clear that during the late 1980s and 1990s not merely were the national finances put in order but there also took place a very marked swing to the right in the broad policy stance of the Irish government ... The influence of American economic liberalism became much stronger during this later period, and pulled Ireland markedly away from the Continental European model of social provision.⁶

But if the Celtic Tiger has had its price in rising suicides, drug abuse and alcoholism, what is unarguable is the profound change in the Irish outlook.

Sceptics should note that changing the national psyche is not a prerequisite for policy effectiveness, but policy alone will not deliver a far-reaching Scottish turnaround. If Scotland wants a turnaround comparable to Ireland's take-off, she needs to think about the magnitude of her choices in similar terms, not in terms of a policy quick-fix.

But identifying lessons is always easier than acting on them. Creating a new spirit is even tougher. Engaging with where we are and how we got here is a prerequisite for change. My aim is a sympathetic account that may help enhance Scottish self-confidence, one that acknowledges the need to pass first through our own statecraft phase. As we move forward, our self-belief will grow. Far-reaching change in the Scottish psyche can cement the coalition and momentum needed for sustained success.

⁶ Fitzgerald, G *Reflections on the Irish State* (2002) p29-30

even today, makes for a very different debate on health spending than in Scotland, where many of us regard it still as the crowning political achievement of post-war politics. So what social justice means in a Scotland firmly focused on both the future and growth should be one of the great themes of our domestic debate in years to come. The recent parliamentary elections suggest many Scots currently fear that their most dearly held values may be threatened by a commitment to growth.

Psyche, as described above, is a concept that I freely admit to be frustratingly intangible to politicians and economists alike. Sceptics of the concept will be reassured to discover that it is not necessary to accept it to find lessons for Scotland. The only prerequisite for what follows is an open acceptance that what was right for Ireland in 1985 is unlikely to be right for Scotland in 2005 – we have to find our own way.

The objective here is to use the Irish example to illuminate how, within our evolving governance framework, Scotland might lay the foundations for a step-change in her economic performance. It seeks to understand the lessons from Ireland, to frame the issues, and to provide a direction for Scotland. Chapter 1 discusses the role of rising self-confidence in Ireland. Chapter 2 examines the economics of Ireland's take-off and explores what "doing a Scotland" might involve. The third chapter looks at how a consensus was built and sustained around the new strategy. The final chapter draws together the implications for the New Scotland.

Chapter 1

Self-belief matters

The main weakness of the Irish character is "an undue disposition to be sorry for ourselves"

Sean Lemass, Irish Taoiseach (1960)

Despite Ireland and Scotland's very different histories, the past matters deeply in both nations. When thinking about the recent changes in the Irish psyche, the interesting issue for Scotland is how she can develop a more optimistic view of the future.

As already noted, in the early decades post-independence Ireland was properly pre-occupied with coming to terms with nationhood. But "from the late eighties, the Irish Republic rode a wave of wealth, fashionability and the hibernisation of popular culture".¹ Crucial to this process has been the growth of a national self-confidence, which in part predates the economic recovery, but has subsequently reinforced it in a powerful virtuous circle of growth and self-belief.

The rise in self-confidence in Ireland was incremental and its roots somewhat opaque. As Roy Foster observed, the period which saw the final abandonment of the introverted, autarkic national view inherited from early Sinn Fein is disputed.² Certainly with hindsight it is clear that national self-confidence was rising at a time when the Irish economy was still seen as less than successful.

So one of the most interesting aspects of the Irish experience is how self-confidence grew and spread to new arenas of Irish life. Historically the Irish had a highly developed sense of self-confidence, particularly around her religious and, more recently, her literary traditions. Irish citizens knew they came from an Isle of "Saints and Scholars". They set the pace for self-determination and nationalist struggles at the start of the twentieth-century, simultaneously throwing off the yoke of imperial rule and moulding a self-image around standing up for the underdog. But too often these noble sentiments took on the corrosive taint of victimhood. These antecedents of self-determination co-existing alongside victimhood reverberated through Ireland's twentieth-century quest for greater self-confidence.

As Irish self-confidence began to grow, so emerged a new generation of Irish leaders who made an impact on the world stage: Bob Geldof on famine relief, Mary Robinson on human rights and feminism, Bono on international debt, and even, arguably, Roy Keane in his determination to play to win.³ Each was seen as a leader on the side of the underdog, transcending the earlier victim culture, but not forgetting where they came from and whose side they were on.

¹ Foster, R *The Irish Story* (2001) p xiii

² Foster, R (ibid) p xiii

³ West, P "The New Ireland kicks ass", *New Statesman*, (17 June 2002)

So if Ireland had an economic take-off partly fuelled by rising self-confidence, can a Scottish turnaround also be fired by self-confidence? In the early 1990s David McCrone wrote in *Understanding Scotland* that there is a "powerful sense of Scotland being 'over', as belonging to the past: the essential Scotland consigned to history". Little more than a decade on and even the habitual pessimists are unlikely to share this harsh verdict. But arguably, Scotland is struggling with something the Irish did not face, a draining of self-confidence – Scotland's opportunity is to resurrect in order to recreate. As McCrone acknowledged, the Irish story has a fair wind – Europe, growth, more secularisation and the Northern Ireland peace process.

Scotland has a strong historical legacy on which she might build. Ireland never had the legacy of invention or scientific scholarship or wealth creation that typified the Scots. Ireland had no Carnegie, no Graham Bell or Black: instead she had famous saints, literary scholars like Yeats and Joyce and political heroes like Parnell and Connelly. But if Scotland has fewer political heroes and perhaps also literary scholars, she has certainly excelled at providing "healers, teachers and inventors" to the world. The relative wealth and success of the Scottish diaspora, comparable in scale to the migration from Ireland, created knowledge of Scotland across the globe and a reputation for skill and hard work.⁴ So what might this legacy of "healers, teachers and inventors" to the world mean for Scotland today? What might we wish to rediscover as part of the turnaround? This is something to which I shall return in the final chapter.

Many contributors believe the seeds of Ireland's recent self-confidence were planted decades before and fuelled her future economic success many years beforehand. In the real world many factors contribute to strengthening personal and national self-confidence, but in the case of Ireland three key developments stand out: a belief in the value of education, a strengthening of diversity and social tolerance from an admittedly low base, and the importance of the European Union. All were important elements in reorientating Ireland towards the future and outwards to a world beyond her own shores.

From the 1960s, there was rising investment in education and, as importantly, a widespread reverence for education. Although the secondary leaving age was not raised until the late 1960s in Ireland, education increasingly acquired a status in Irish society that it had perhaps lost elsewhere. Ironically, the social status of education in Irish society became comparable to that which had historically pertained in Scottish.

⁴ Tom Devine in *The Scottish Nation 1700-2000* notes that Scotland along with Ireland exported more people per head than any other European nation since the eighteenth century

I recall in the late 1970s, studying in Canada, that my fellow Irish students were not simply better educated than me, but also more culturally committed to the liberating potential of education. Anecdotal personal experience is always a slender evidential base, but certainly my Irish contemporaries possessed a reverence for education unknown to me at my Scottish comprehensive. Garrett Fitzgerald's recent book provides a more solid evidential base. He argues that;

In the second half of the sixties there was a very rapid expansion of the secondary education to eliminate the fees previously charged ... the state drew successfully on the high educational motivation of most Irish parents, who were no longer prepared to tolerate seeing their children emigrate without adequate educational preparation for decent jobs abroad ... Within a generation this policy, supplemented by a major expansion of third level education has transformed Ireland from the most under-educated country in Northern Europe into one of the better educated ... The benefits accrued in the form of an increase in population as now, instead of half being lost to emigration, only 15% of the age cohort left ... [Today] the average standard reached by Irish students is at, or slightly above, the European average ... And in terms of educational productivity – output in qualitative and quantitative terms related to inputs of resources – Ireland seems to have been performing about 50% better than the rest of the EU. This poses a question: what accounts for this high educational productivity? Clearly there are non-quantitative factors at work here, which must involve either the teachers, or the students, or both.⁵

The former Taoiseach goes on to answer his own question: traditionally both teacher status and morale have been high, with good standards achieved despite higher pupil-teacher ratios. Irish students are, he believes, on average better motivated than in other EU nations, the rural tradition being a contributory factor.

One other interesting aspect of Irish educational productivity is their focus on responding to industry's needs at the third level, notably in establishing a series of regional technology colleges in the 1970s, providing the right courses and supporting dedicated university industry research centres. To this day Ireland cannot match Scotland's record on university entrance rates, but is superior to all other OECD nations in the number of school leavers going on to become science graduates.⁶

⁵ Fitzgerald, G *Reflections on the Irish State* (2003) p129-30

⁶ National Competitiveness Council (Ireland) *National Competitiveness Report* (2002) p15

If Catholic teachers provided inspiration to generations of students in return for limited material reward, there was also a loosening of the bonds of Church and state under way. The dynamic was not simply one of declining influence, but the waning of authoritarian Catholicism in favour of a more socially and theologically liberal outlook. Faith remained important to many, but so equally was tolerance, which allowed a new, more pluralist Irish society to emerge.

By the early 1990s the return of a young, self-confident diaspora reinforced the new ease at home. Ireland was a country moving towards a more pluralistic, open and accepting society. It is a nation moving away from an earlier more sectarian base towards norms in close proximity to those dominant in Europe as a whole.⁷ Politically and socially Ireland is still more conservative, less cosmopolitan than its European neighbours.⁸ Where she stands in relation to Scotland is an interesting question. What is significant is how Ireland has distanced herself from historic roots more rapidly than almost any other long-established democracy.

Success on the European stage helped nurture the New Ireland. By the 1980s, membership of the European Union, far beyond any financial assistance obtained (and it was considerable), reinforced horizons beyond the Irish Sea. Ireland had a new international stage on which she could shine. Not only did the politicians and civil servants have to rise to the challenges of playing on a European stage. The whole experience served finally to put the country's relationship with the UK in perspective. It is interesting to note that the Republic entered a new phase of co-operation with Britain, symbolised by the Anglo-Irish Agreement in 1985, before the economic turnaround. Both governments showed a determination to tackle the Northern Ireland issue. This more open, conciliatory relationship built on mutual trust would have seemed near impossible a few years before and sent important signals to the international community about the politicians' seriousness of intent.⁹

None of this is to imply the absence of difficulties in contemporary Ireland: the rejection of the Nice treaty in the first referendum, tensions about refugees, and the scale of corruption and state collusion are but three topical examples. What is unarguable is that rising self-confidence and growth have had a symbiotic relationship in Ireland. As one Irishman familiar with Scotland told me recently:

⁷ Crotty, W "The Celtic Tiger: Economic Modernisation and its Social and Political Ramifications" in Crotty, W and Schmitt, D *Ireland and the Politics of Change* (1998) p11

⁸ Crotty, W (ibid) p9

⁹ Crotty, W "Democratisation of Political Development in Ireland" in Crotty, W and Schmitt, D (ibid) p2

*Ireland is now a hugely self-confident place. I am not sure when the turning point came or what brought it about. Was it Glasgow-born Ray Houghton's goal against England in Euro 1988, Riverdance, U2 or simply the impact of economic advancement itself? What came first, the economic growth or the national self-confidence?*¹⁰

This perspective captures the multi-dimensional character of the growth in self-confidence. Another Irishman commenting on the particular impact of rising economic self-confidence notes its profound spillover effects:

*Until the 1990s we all believed unquestioningly in things like the Protestant work ethic, which meant that the North would always be the economic powerhouse while we remained a rural, priest-ridden backwater. Northerners believed in it, as did we ... our success has astounded them and damaged their self-confidence. The balance of economic power has shifted irreversibly, and with it the nature of our relationship.*¹¹

A Scot cannot help ponder here parallels with our relationship with England. As the Irish have found, change the confidence of a people, change the economic dynamic, and you tap into a virtuous circle.

However, it took a long time for Ireland to gain perspective about her relationship with the rest of the UK. Writing in the first decade after Irish independence Yeats struck a prescient note, suggesting that if national freedom meant anything, it was the ability to cease being vain and to become proud instead:

*When a nation is immature it is exceedingly vain and does not believe in itself, and so long as it does not believe in itself it wants other people to think well of it in order that it might get a little reflected confidence. With success comes pride, and with pride comes indifference as to whether people are shown in a good or bad light on the stage. As a nation comes to intellectual maturity, it realises that the only thing that does it any credit is its intellect.*¹²

So success was finally achieved when Ireland became confident, self-possessed and unthreatened by her nearest neighbour.

¹⁰ Personal interview
¹¹ Personal interview
¹² Quoted in Foster (ibid) p35

Scottish lessons?

So what, if any, are the lessons for Scotland? Is Yeats's analogy apt for Scotland: do we suffer a surfeit of vanity and insufficient pride? If so, does the turnaround require economic success? How can the self-confidence of the past be recovered?

The Scots, like the Irish, have intermittently succumbed to MOPE – the “most oppressed people ever” view of their lot. But it is a narrative that takes us nowhere fast. We need the courage to examine our own experience. Nationalist narratives in particular contend that Scotland always suffered under the yoke of the Union, the supposed golden age of Braveheart, Wallace and Bruce eclipsed since 1603 by one long slithering descent. It is a historical account built on myth not experience. As Devine and others have shown, 1707 could have been the prelude for “the development of underdevelopment” as it was in Ireland; instead it was the catalyst for a new age of progress and prosperity.

Scotland's self-esteem is something to be recovered. It should perhaps be more about *self-belief* than *self-confidence*. Not the synthetic self-confidence of misplaced vanity of which Yeats warned, but deep-rooted self-belief that starts from a conviction that we can do better for ourselves and for our children.

A turnaround has a different character to a take-off. Scotland has a past to draw on – as “teachers, healers and inventors” – but also to live up to. Scotland's experience of ebbing self-confidence is not unique in these times. Britain as a whole suffered an ebbing self-confidence in the twentieth century associated with the loss of Empire and relative economic under-performance. The attraction of Margaret Thatcher to many, particularly in the Southeast of England, was her determination to put the “great”, as she saw it, back in Britain. She failed, but the ambition struck a chord with many.

So if regaining self-belief is tough, has Scotland made a start? I believe Scottish self-confidence is moving in the right direction. As in Ireland, the dividends may take time. Yet anyone who has lived in Scotland in the last half-century is likely to recognise with hindsight that the 1970s and early 1980s were the nadir. Oil flowing in from the North Sea did not change the prevailing sense of anxiety in Scottish society that things were not going Scotland's way. As the movement for the Parliament gathered strength, it tapped into an anti-Thatcherite vein of social justice in Scottish society.

By the 1980s, the establishment of the Scottish Parliament became seen as an essential prerequisite to the renewal of Scottish society. Four years into our new Parliament and,

despite so much negative public discourse, we are well into our statecraft phase. The electorate is ready to move on: witness the results of the recent parliamentary elections. Since Winnie Ewing's victory in the 1967 Hamilton by-election the implicit question in every electoral contest in Scotland is who decides how we are governed. The politics of identity have either overshadowed or threatened to overshadow the choices about the essential character of Scottish life and society. Scotland in some ways embarked on a near-forty-year-long "walk in the park" about the issue of sovereignty. In the most recent parliamentary elections, all that changed, the electorate demonstrating a determination to "park the border question" and move on from preoccupations with governance. This readiness to move on is demonstrated in the response to the SNP who put the identity issue at the heart of its appeal yet secured only one in four and one in five votes respectively in the first and second ballots.

The reason that the sovereignty question has receded in Scotland is because it has been overtaken by the emergence of shared sovereignty between the various layers of government, each with its own areas of responsibility. Which jurisdiction leads in which area will change over time, but the essentially shared character of sovereignty will be an enduring feature of twenty-first-century governance. Scotland's "parking of her own border question" could come about only once responsibility over domestic affairs was returned to Scotland.

It was probably inevitable that the new Scottish Parliament could not live up to all of the high hopes invested in it. Self-confidence has ebbed again, it seems. Here perspective is vital. Disappointment in politics is a contemporary and common phenomenon across the developed world. It is especially acute in nations where the return of democracy led to the highest hopes. Look at the nations of Eastern Europe today. Contemporary "doom and gloom" accounts in conventional politics are not a uniquely Scottish phenomenon. In the sweep of history, what matters in Scotland is not perhaps whether we could move forward faster, but an unequivocal acknowledgement that we are indeed moving forward. Legislative competence has been restored, new structures of governance have replaced old administrative mechanisms, and many are debating how to take the next step and move on from governance to growth.

The Irish example can inspire our efforts. For decades the Irish detected little economic pay-off from their improving self-confidence in other walks of life. It is difficult today to recall just how pessimistic the Irish were about their economic fortunes in the early 1980s. By the mid-1980s in Ireland corruption and tax evasion were in danger of

becoming routinised because of the fear of losing the nation's few significant wealth creators to overseas.

Scotland today still exhibits intermittent bouts of severe pessimism. For example the commonplace claims of continuous relative decline of the Scottish economy over the last forty years, claims which are patently untrue – in fact Scotland is the only part of the UK to change substantially its relative ranking over the last forty years, having gone from 85% of the UK average in terms of GDP per head to over 100% in the mid-1990s. But the perception of failure is pervasive, in part because in Ireland the pattern of structural shift was from agriculture to manufacturing and services, whilst Scotland has been in transition from manufacturing to services. The first can be easier. Here again one runs up against the contrast of take-off and turnaround. But whilst the sectoral shifts may be different in each nation, the challenge of first fixing one's psyche is common. Too few Scots today expect this to be a place of economic success – go out into Sauchiehall St or Princes St or any main street and people will laugh at you – "Scotland, economic success, aye right!" – is the likely response. And yet, if we do not turn that perception of failure around, success will be that much harder to achieve.

If Scotland is to "*do an Ireland*" we need to recognise how far we have come in the last fifteen years. The foundations: cultural, political and economic have already been laid. This is best illustrated by Paddy Logue and Tom Devine's recent book, *Being Scottish*.¹³ It reveals the way in which, in the 1960s, 1970s and early 1980s, Scotland was increasingly gripped by depression, anxiety and low self-confidence. Three examples from a youth worker, a priest and an academic illustrate:

I did most of my growing up in the 1970s when we had real heroes. Archie Gemmill, Alan Rough, Ally McLeod ... In case you haven't guessed yet, I am a boy, oh, and Scottish. A species of an era forever scarred by learning to be Scottish the hard way. The promise of greatness, the hope, the expectation, the belief, then the despair, the misery, a brief flicker of hope once more, then crushing disappointment. Choosing misery over joy. Obscurity over legend, infamy over exhalation, grasping gut-wrenching defeat from the gaping jaws of a long-cherished dream of victory. Scotland the brave, my arse. This is us. This is who we are. This is our choice ... In the words of Ewan McGregor, Mark Renton (or was it Irvine Welsh?): "It's shite being Scottish."¹⁴

¹³ Devine, T and Logue P, *Being Scottish* (2002) p298

¹⁴ Owen Campbell, quoted in *Being Scottish* (ibid) p50

And from the priest: “Scotland, a land which is ... capable of great things (and forever falling on its face).”¹⁵

And in our universities too few of our academics celebrate the traditions in which they stand.

*For thirty years I have been proud to be a member of universities in those cities where in the last five centuries great things were done by academics like Thomas Reid, Alexander Bain, and George Thomson. Who? They are people whose contributions have put them in the global hall of fame for all time coming. Reid invented Scottish common sense philosophy. Bain was a founding father of psychology. And Thomson got the Nobel Prize for showing that electrons could behave like waves as well as particles. That we don't celebrate them properly as famous Scots is scandalous. Self-deprecation is our forte. We work hard on it to fuel our lack of self-confidence. The Americans and the French have many outstanding intellectual and scientific achievements to their credit. So do we. But unlike them we keep quiet.*¹⁶

In her recent book *The Scots Crisis of Confidence*, Dr Carol Craig forensically dissects the origins of Scotland's fatalism, our tradition of self-criticism and negativity, the persistence of the Scottish cringe, the disparaging of both those who stay and those who go, and the national sin of getting above yourself. She meticulously details the price of the national quest for perfection, demonstrating that we are neither a nation of schizophrenics nor “the chosen people”. We are much more ordinary than that.¹⁷ I share her conclusion that greater self-acceptance is one of the fundamental keys to rediscovering our self-belief.

But for at least fifteen years change has been in the air – encouraging signs, nurtured by the campaign for the Parliament and reinforced by its arrival. For example Owen Campbell, the author of the first of the quotes above and who now works in my own constituency with young people from some of our most hard-pressed communities, detects the change. Because whilst describing the sense of despair so pervasive in the 1970s and 1980s, he now also senses a new optimism:

¹⁵ John H Fitzimmons, quoted in *Being Scottish* (ibid) p74

¹⁶ Hugh Pennington, quoted in *Being Scottish* (ibid) p216

¹⁷ Craig, C *The Scots Crisis of Confidence* (2003)

*We have a cultural and historical legacy that stands comparison with any nation on earth. At the start of this new century, it is time to grow up, move out and find a place of our own. We must stop defining ourselves as what we are not and start looking more closely at who we are or who we want to be. In short, it is time to take responsibility.*¹⁸

And he is not alone: *Being Scottish* contains many such diverse testaments that nonetheless recognise the importance of a stronger self-belief. For example, from a banker:

*The country is a bit like a teenager – anything can be wrong with it today but there is infinite hope and promise for tomorrow. It's as if there is a great prize and people are desperate to reach it. However, if there is a collective desire for Scotland to thrive and become more important, there is not always a collective belief that this can happen or agreement on how to get there.*¹⁹

Or the editor:

*If I had to sum it up, I would say the burden was that England's greatest years are behind it whilst Scotland's might just be ahead.*²⁰

As Harvie notes in the same volume, borrowing Seamus Heaney's phrase, it is “the music of things happening” that makes Scotland today so continuously absorbing. Logue and Devine also detect “an excitement about the future, an expectancy that a new explosion of Scottish achievement, excellence and performance is just around the corner”.²¹ Some will see this reflected in the colourful fringe in the new Parliament, but I think it was more accurately glimpsed by Donald Dewar in the mood he sought to capture at the opening of the first Parliament when he talked about the whole home rule project being about more than our Parliament and our laws:

*This is about who we are, how we carry ourselves ... The past is part of us – part of every one of us – and we respect it, but today there is a new voice in the land, the voice of a democratic Parliament – a voice to shape Scotland, a voice of the future.*²²

¹⁸ Owen Campbell, quoted in *Being Scottish* (ibid) p51

¹⁹ Susan Rice, quoted in *Being Scottish* (ibid) p225

²⁰ Harry Reid, quoted in *Being Scottish* (ibid) p223

²¹ Devine, T and Logue P, *Being Scottish* (ibid) p298

²² Dewar, D Scottish Parliament, 1 July 1999

Because Scotland is already well into her statecraft phase, we can now choose to be preoccupied by how we grow: to become as interested in exhibiting a spirit of enterprise as we are about cultivating a spirit of solidarity.

The foundations of future Scottish self-belief will differ from those in Ireland, although some dimensions like education are likely to be common. Historically Scotland's reverence for education is a given, but does that characterise Scotland today? It may be difficult ever again to match the era when Scotland had a worldwide reputation not only for literacy levels, but for meritocracy and relevance in the classroom. Be that as it may, it is near impossible to conceive of a Scottish turnaround that does not have educational leadership at its heart.

So the debate should rage about what constitutes educational leadership in the twenty-first century. Already, important foundations have been laid in Scotland through raising the status of the teaching profession, investing in new infrastructure and expanding enterprise education. But have we yet started to deliver the best classroom experience, and one that realises the potential of each child, rather than an educational experience where the classroom "praise to blame" ratio more frequently chastises than rewards children? Or have we adequately addressed the role of higher education in the future? If we are to restore Scottish higher education to an internationally renowned jewel in the crown, what are the implications for access, research and teaching? Have Scots more generally been excited by the vision of being a home to world-class institutions? Do staff act as stewards of world-class assets? These are challenges for our national life that go far beyond disdaining the recent UK higher education funding settlement.

In Ireland growing social tolerance and the EU were also vital. The right strategy for an Irish take-off may have been European engagement, but it is likely to be an insufficient one for a Scottish turnaround. As the Irish became good Europeans, perhaps the Scots need to become good global citizens. Scotland has a history as an innovative and trading nation that fits us well for such ambitions. But today Scotland's willingness to look beyond her own shores, attract back returnees and exude social tolerance is mixed. Interest in the diaspora, the number of Scottish young people actively committed to building non-parochial careers from Scotland, the establishment of GobaScot, initiatives to attract talented migrants, and the renewed interest in attracting overseas students by our universities, are all encouraging signs. But they co-exist alongside our record on sectarianism and racism, the conduct of the debate around Section 28, the Chokar case and the lower overall levels of diversity in Scottish society – we have yet to measure up. The Parliament is

bringing a new scrutiny to many of the hitherto unacknowledged and unsavoury aspects of Scottish society. The Executive's drives to attract more overseas students and skilled migrants are important steps forward which will require powerful and sustained support if we are to look back and see them as the turning points they should be.

To summarise, we have seen the emergence of a new generation of Irish leaders who symbolised a transition from being "world victims" to "leaders on the side of the underdog", a spirit of change which had antecedents in many walks of life preceding recent economic success. By the mid-1980s she was a nation that felt left behind and, in retrospect, was already in transition and ready for economic take-off. Prolonged stagnation had taught her not to fear change. And so Ireland changed more profoundly in the 1980s and 1990s than in the preceding half-century.

Scotland faces different policy challenges to Ireland, but shares the need for greater self-belief. Success will require leaving behind our own dependency culture, whether of the variety that blames the UK for everything or one that relies on it for everything. That dependency culture also pervades sections of Scottish industry. Do our tourism and higher education leaders operate as comfortably on a world stage as do their counterparts in the financial and energy sectors? Not every sector of the Irish economy is a success story: much indigenous industry remains relatively uncompetitive, though there have been substantial spillover effects from the internationally owned sector in areas such as software. However, the changing nature of global foreign direct investment means that any Tartan Tiger will require strong domestic business leadership. These are some of the issues surrounding the economic lessons for Scotland.

Chapter 2

Economic goals temporarily take precedence

It is difficult to avoid the impression that Irish economic performance has been the least impressive in Western Europe, perhaps in all Europe, in the twentieth century.

Lee (1989)

In January 1988 the Economist captioned (Ireland) as the “poorest of the rich” and the NESC commissioned a study into the reasons for Ireland’s “persistent failure to mobilise its productive resources” ... But by the middle of the 1990s the situation changed dramatically ... and the Economist highlighted “Europe’s shining light”. However, after seven exceptional years, the euphoria is giving way to mounting anxieties ...

Welsh (2000)

Securing the basis of future growth (means) safeguarding cost competitiveness, moving up the value chain, securing sound public finances, ensuring value for money in public services and making growth environmentally sustainable.

OECD Economic Survey of Ireland (2003)

The economic aspects of the Celtic Tiger phenomenon are well documented and a pamphlet such as this cannot offer a full review. Whilst there are inevitable differences of emphasis amongst mainstream commentators there is also a high level of consensus on the fundamental causes of the Celtic Tiger phenomenon. One of the most authoritative sources is the OECD 1999 Irish Country Survey and Appendix 1 summarises its findings.

Was it catch-up: a delayed take-off?

In post-independence Ireland, as noted already, political objectives superseded economic ones. It was not that early Irish politicians were uninterested in the economy, but simply that other priorities took precedence. Politics dictated the need for distance – political and economic – from the UK. So the quest for economic independence from the UK led to a protectionist policy based on import substitution. In retrospect it is clear that such political imperatives determining economic policy were a major mistake. After four decades of relative underperformance Ireland learned that aiming for economic self-sufficiency was the road to nowhere.¹ Likewise continuing large-scale agricultural subsidies reflected the political weight of the sector rather than its likely contribution to future economic success.

It is an admirable aspect of contemporary Ireland's self-confidence that recent commentators are increasingly frank about the mistakes of the past. "Ireland endured an 'economic war' with her most important trading partner in the 1930s, a traumatic and largely self-induced economic and social haemorrhage in the 1950s and another severe recession in the 1980s" before becoming the Celtic Tiger in the 1990s.²

Irish economic historians suggest that, instead of asking "why did the Irish economy suddenly begin to catch up in the late 1980s?" the real question is "why did Ireland lag behind for so long?". The answer is that bad economic policies – the continuation of protectionist trade policies into the late 1950s and irresponsible fiscal experimentation in the late 1970s – all delayed Ireland's entry into the European convergence club.³ As recently as Ireland's accession to the EU in 1972, one in four of the working population was still employed in agriculture, and in 1986 Irish standards of living were only two-thirds of the EU average.⁴

1 Clinch, P, Convery, F and Walsh, B *After the Celtic Tiger* (2002) p12

2 Clinch, P, Convery, F and Walsh, B (ibid) p13

3 Clinch, P, Convery, F and Walsh, B (ibid) p28

4 Clinch, P, Convery, F and Walsh, B (ibid) p25

Despite fairly rapid population increases, real GNP had stagnated in the six years ending 1986, and employment fell steadily through the period, leaving in its wake an unemployment rate of around 17%, the second highest in the OECD, despite well below-average labour force participation and sizeable outward migration. The public finances were in a critical condition, with the general government deficit at nearly 12% of GNP, most of which was judged to be not amenable to cyclical improvement. As a result government debt was en route to nearly 30% of GNP, again second worst among member countries.⁵

Ireland may have been a country ready for take-off, but in 1987 all the talk was of crisis and underperformance. By the mid-1980s Ireland was labelled the "sick man" of Western Europe. Yet within a dozen years, that dismal performance had been transformed, and in 1999, for the first time ever, Irish living standards surpassed the European average.⁶

Scale of Irish success

It is worth simply recording the dimensions of the Celtic Tiger's success. Between 1993 and 2001 the annual real growth rate of the Irish economy has been more than double the average recorded over the previous three decades. Put another way the Irish economy was nearly 2.5 times larger in 2000 than in 1980. The net effect is that whilst in 1983 Ireland had 60% of average EU GDP per head, today it has surpassed the average.

It is worth noting that the statistics on growth exaggerate its extent. GDP exceeds GNP considerably, as a significant portion of GDP is attributable to transnational corporations that repatriate profits and through transfer pricing thus exaggerating the amount of value added Irish branches achieve to take advantage of low tax rates. Because it is a low-tax jurisdiction, corporations have an interest in making their profits appear in Ireland; this is achieved through under-pricing inputs and overvaluing the exports from Irish subsidiaries, as both boost measured GDP.⁷ Writing in 1988 Crotty and Schmitt valued the extent to which GDP has been overstated at 12% of GDP. More recent estimates by O'Hearn in 2000 suggest the GDP, GNP gap is 20%, hence overstating by a fifth how much material wealth is created for the Irish people by their own activities.⁸

5 OECD *Ireland Country Review* (1999) p10

6 Clinch, P, Convery, F and Walsh, B (ibid) p25-27

7 In 1995 US companies operating in Ireland posted a remarkable 23% post-tax rate of return on capital, which is surely due in significant measure to transfer pricing. The extent of transfer pricing is almost impossible to measure when goods flow from one part of a company to another (Crotty, W and Schmitt, D *Ireland and the Politics of Change* (1998) p29). O'Hearn, D (2000) notes that the most compelling evidence that Ireland is used as a tax haven is the US Dept of Commerce's Survey of Current Business, showing US transnational companies maintained profit rates of about 25% in Ireland during the 1990s, five times greater than the 5% profit rates that they receive elsewhere in the world.

8 O'Hearn, D 2000 (ibid) p179

So although the use of GDP is a limited measure of the “true” performance of the Irish economy there is no doubt that throughout the 1990s Ireland significantly outperformed all other EU countries. And despite the technical statistical concerns, it is still the case that Ireland has undergone a remarkable take-off. Over half a million have joined the work-force, unemployment has plummeted, exports quadrupled and fiscal strength restored.⁹

The performance of the labour market lies at the roots of the success story. “The rapid growth of employment has been the really exceptional feature of Ireland’s recent boom. The factors that accounted for the highly elastic labour supply therefore lie at the heart of the Irish economic miracle:

- The large initial pool of unemployment – unemployment fell from 16% in 1993 to less than 4% by the end of 2000;
- The working-age population grew very rapidly as the baby boomers of the 1960s and 1970s came on the market;
- Once under way, the openness of the labour market led to a sizeable net inflow of population;
- Women’s labour force participation accelerated rapidly.

The rate of the growth of employment in Ireland during the 1990s was exceptional by European standards – the percentage increase in employment since 1993 to 2000 was 2.7 times better than that of the next best performing economy, the Netherlands, and four to five times better than those of Sweden, Norway, Denmark and Belgium.”¹⁰

The numbers at work have risen by 45% since 1988. The remarkable performance of the labour market was crucial to Irish success. Increases in productivity accounted for less than 40% of the total growth of output; population growth for 20% and the remaining 40% was due to the rise in the employment rate.¹¹

9 Boyle, M *From Celtic Pauper to Celtic Tiger* (2002) p5

10 Clinch, P, Convery, F and Walsh, B (ibid) p46-47

11 Clinch, P, Convery, F and Walsh, B (ibid) p25

And its Causes

The commentators confirm how much the Celtic Tiger phenomenon was the product of a number of interacting factors, some external, others domestic.¹²

Among the key external factors were:

- Advantageous exchange rates against sterling and the US dollar;
- The sustained US boom;
- The impact of new IT technologies on productivity;
- Low energy prices and reductions in the cost of access to Ireland;
- Significant additional EU transfers for infrastructure and training.

The important domestic factors included:

- A favourable environment for FDI, including low corporation tax rates, and enlightened promotion of Ireland as an industrial location;
- An elastic supply of good quality labour (assisted by increased investment in education from the 1960s and relatively inexpensive labour);
- Flexible labour market practices and industrial peace;
- A stable macroeconomic environment, including strong public finances and price stability.¹³

Ireland in the 1990s was catching up with a take-off that had long since happened in other northern European nations. The OECD was sober in its assessment. Increased labour input was a key component. This resulted from favourable demographics, higher labour force participation and a decline in the stock of jobless and agricultural workers, as well as a continuing upgrading of the nation’s resources of human capital. Also important were domestic policies, particularly fiscal consolidation, as was, EU membership, including the increased openness and the market access this brought, and the associated receipts of structural funds. Incomes policy allowed the achievement of a substantial degree of social consensus. But possibly the most important causal influence has come from the success

12 As mentioned above, the weight given to different factors in contributing to Irish success varies between commentators. A compendium of papers by distinguished economists commissioned by Gray (1997) included Krugman’s view of the importance of technological changes in transport and communications and the regional character of the Irish labour market. Also included were Sach’s orthodox view with emphasis on the role of FDI and Vickers’s emphasis on the role of privatising state monopolies and ensuring adequate competition. The relative importance of each factor is not the central purpose here, but does illustrate the breadth and depth of academic comment on the Celtic Tiger phenomenon.

13 Clinch, P, Convery, F and Walsh, B (ibid) p29-31

of the strategy of attracting inflows of foreign direct investment, especially from the United States. These flows have generated substantial direct economic stimulus and significant spin-offs to domestic suppliers and potential entrepreneurs.¹⁴

Domestic commentators were often blunter about the importance of external factors. "Much of what has given us our boom – significant transfers from EU, a soft exchange rate relative to our main trading partners, the sustained US economic boom, the impact of IT on our productivity and low energy prices – is outside our control."¹⁵ Former Irish Taoiseach Garrett Fitzgerald stresses how this favourable external environment coincided with uniquely favourable demographics:

The period of extremely rapid economic growth, which has seen our national output rise by well over two-thirds within a seven-year period, is coming to an end. Nothing quite like it will be seen again in Ireland. This extraordinary burst of growth was due to a set of circumstances that no European economy has ever before experienced. It came about because of a chance coincidence of demand and supply factors, on the one hand an unprecedented level of demand for labour in Ireland, and on the other hand a unique combination of demographic factors that served to expand the supply of that labour dramatically.¹⁶

But however clear the commentators have been about the uniqueness of the Celtic Tiger, both the catch-up dimension and the favourable external factors, the sheer scale of Ireland's success in the 1990s was bound to generate widespread international interest. Had the Irish discovered some new magic policy mix? In 1999 the OECD's search for lessons learned concluded:

Unfortunately, it would seem that there has been no "silver bullet" – no single, overriding policy that could be adopted elsewhere in order to emulate the Irish experience. Rather, the breaks in trend, first around 1987, when the deterioration ceased and performance improved, and then around 1994, when the boom began, are attributable to the confluence of a series of favourable changes in the environment and other exogenous factors (some of which were specific to Ireland and are unlikely to be replicated elsewhere), as well as prudent planning and a range of policy shifts that laid the foundations for the pickup in growth. Most of the items that have contributed to the improvements are well

¹⁴ OECD *Ireland Country Review* (1999) p61

¹⁵ Clinch, P, Convery, F and Walsh, B (ibid) p39

¹⁶ Fitzgerald, G *Irish Times*, (24 March 2001)

known to other policy makers, but other countries' situations may not be so propitious as to allow such a strong response, even to fully appropriate incentives and institutional arrangements.¹⁷

To sum up so far, the economic story is one of successful, if long delayed, take-off fuelled by a unique combination of external factors, highly favourable demographics and significant improvements in the domestic climate. For the sake of completeness it is worth noting that whilst there is a relatively high level of consensus on the causes of the boom, as described in Appendix 1, a radical critique has emerged which highlights the dependency of the Celtic boom on FDI investment. This literature does not dispute the existence of the boom but reinforces its dependency on FDI investment and draws comparisons with developing nations in Asia. This critique, often associated with Denis O'Hearn although subsequently picked up by many others, points out that Ireland, with only 1% of the EU population, captured 20% of US investment in Europe, and in the second half of the 1990s FDIs accounted for 85% of economic growth.¹⁸ The extent of the resulting imbalance in the Irish economy is widely debated domestically. The contrasting role of FDI in Ireland and Scotland is discussed later.

Ireland's recent performance

Before examining the lessons of the boom that began in the late 1980s it is worth noting what has happened since then. As Ireland moved into the new millennium many of the earlier favourable influences were losing their momentum. EU aid tapered off, the euro exchange rate stabilised, Irish interest rates had converged on the eurozone average, the US economy was slowing down, the age structure of the population was stabilising and the partnership approach to wage bargaining was becoming less appropriate to a fully employed economy.¹⁹

In 2002, growth was estimated to have fallen to a still very respectable 4.5% of GDP, but GNP to just 1.8%.²⁰ It was of course inevitable that a plateauing of growth would follow a catch-up phase.

¹⁷ OECD (ibid) p10

¹⁸ Boyle, M (ibid) p1

¹⁹ Clinch, P, Convery, F and Walsh, B (ibid) p180

²⁰ Irish Department of Finance, *Monthly Economic Bulletin*, March 2003. As already noted GNP in Ireland has consistently grown less quickly than GDP, since an increasing proportion of production within the country accrues to foreigners, mainly in the form of profits going to foreign investors and as interest on the foreign debt.

In 1999, the Irish government, anticipating the new international climate including the slowdown of the US economy, eurozone membership, arrival of the accession countries and rising domestic constraints of infrastructure and cost, signalled a new strategy in the National Development Plan 2000-2006, pledging to build a knowledge-based economy. As Professor Green wrote:

By 2000, over 40% of Ireland's trade with the rest of the world was in research intensive products and services ... but these products embodied research and technology generated not in Ireland but abroad ... Ireland was running a huge technology deficit ... She was a "technology-taker" not a "technology-maker" ... This problem has now been compounded by a shift in the distribution of foreign investment in Europe towards the new accession states, particularly Hungary and the Czech Republic. Their success is based on a deliberate strategy of emulating the "Irish model" of low corporate tax rates, investment incentives and a flexible high-quality workforce.

*Clearly for Ireland to recapture and sustain competitive advantage in this context, a new model would have to be devised ... The primary emphasis of any new model must be the development of world-class capabilities in research and innovation, enabling clusters of both Irish companies and local subsidiaries of multinationals to compete more effectively in the high value-added, knowledge intensive sectors of the global economy. A promising start was made in the National Development Plan with its commitment to research funding of €2.5 billion. The plan recognised that "there is a strong link between investment in the research and innovation base of the economy and sustained economic growth. Most of the funding was earmarked for the ambitious new Programme for Research in Third-Level Institutions, Science Foundation Ireland and R&D measures operated by Enterprise Ireland."*²¹

Two years later, in 2001, the National Competitiveness Council went further: "the drivers of competitiveness that have brought success in the past are not all the same as those that will bring success in the future ... we [must] move to higher value-added, knowledge-based activities. But for this to happen, skills, research capabilities and the ability to adapt and use technology in enterprise must be developed."²²

And the following year, in November 2002, the Chairman of the National Competitiveness Council summed up the new strategy thus: "enhancing productivity must become the

²¹ Green, R writing in *Irish Times*, (16 December 2002) p14

²² National Competitiveness Council *The Competitiveness Challenge* (November 2001) p2

guiding light for policy-makers: skill levels, investment and innovation and moving towards the creation of a knowledge economy ... will maximise the growth potential of the economy."²³ And to match these words the *Annual Competitiveness Report* identifies eleven areas for action. In a Scottish context seven of these areas for action are essentially devolved, three are shared responsibilities and only one a fully reserved area.²⁴ Clearly the new Irish strategy has the supply side firmly centre stage.

All of Ireland's powerful organs of economic governance share the analysis that future growth will come from a long-term focus on the supply side. According to the Economic and Social Research Institute (ESRI) what should not change is fiscal policy: they recommend a neutral stance for the next few years, including in tax rates and tax bands indexed so that average tax rates are unchanged. The most important factor in expanding Ireland's overall economic capability will be the full implementation of the necessary infrastructure investment, a welcome for new immigrants and increasing labour market flexibility.²⁵

But if the National Development Plan 2000-2006 reflected the intentions of the Irish government at the millennium, the extent of the global downturn has since forced something of a retrenchment. Professor Green, commenting on the most recent Budget in December 2002 noted that "to achieve a deficit of 0.7% of GDP not only will capital spending be cut in nominal terms by 1.5%, but indirect taxes on a range of goods and services will be increased, pushing up the rate of inflation to the highest in the eurozone ... In real terms, capital spending will fall by more like 7% ... the position is more serious for strategic research and education infrastructure ... [implying] a nominal cut of 24% in capital spending across the third-level sector as a whole, translating into a real cut of around a third."²⁶

So Ireland faces some tough spending choices, choices that also echo in Scotland. Ireland's capacity to sustain her recent success now lies at the core of contemporary Irish economic debates. But whether an optimist or a pessimist, virtually all Irish commentators today acknowledge that she has yet to meet the challenge of establishing significant domestic centres of world-class applied technology research and the industry-university links which have made Massachusetts and Silicon Valley famous. Getting Irish ideas to emerge from

²³ Burgess, W in *Annual Competitiveness Report*, Preface, (November 2002)

²⁴ National Competitiveness Council *Annual Competitiveness Report* (November 2002). The 11 competitiveness indicators are: Labour Costs; Costs and Prices; Economic Policy, Government and Regulation; Education and Skills; Information Society; Transport Infrastructure; Environment and Energy; Social Capital; Investment and Capital; R&D and Innovation; and Productivity p2.

²⁵ ESRI, *The Medium Term Review 2001-6* (2001) p140

²⁶ Green, R *Irish Times* (16 December 2002) p14

her labs and then move into her businesses will be at least as tough in Ireland as in Scotland, and in this area, historically at least, Scotland has a head start.

And its Implications?

So what can Scotland learn from the Irish take-off strategy for her own turnaround strategy twenty years later?

The Celtic Tiger phenomenon may have reflected a benign confluence of external and domestic factors – but that it happened when it did, and with the intensity that it did, reflected important earlier decisions. Not least the sustained investment in education, first in secondary and then in tertiary. Crucially this educational investment was reinforced by the late baby boom, which saw newly educated workers replace older, less educated ones in a significant boost to productivity in the 1980s. The importance of the right kind of sustained educational investment should preoccupy Scottish policymakers today. For example, how do we get higher returns on educational investment than our competitors in the future?

Secondly, why did Ireland succeed in overtaking Scotland as a home for US inward investment? Earlier, in the 1960s and 1970s Scotland and Ireland competed as locations of choice for US foreign direct investment (FDI). Ireland became a serious competitor in the late 1980s/early 1990s by neutralising several earlier negatives. Like Scotland, Ireland had always had the English language and cultural ties on her side, but she now started to meet several other “qualifying conditions” for international investors. New products and distribution methods reduced Ireland’s historic locational disadvantages, investors witnessed policy continuity and had diminishing concerns over Northern Ireland and, from 1987, they valued a commitment to fiscal stability. These changes now got Ireland on to investors’ shortlists. Her “differentiator” was then the quality, availability and price of her labour and the tax environment for foreign investors.

The Irish were certainly more strategic than Scotland. Ray McSharry and Padraic White suggest that the Irish Development Agency (IDA) began to move towards attracting more high-value activities from the early 1980s. Allowing for some elements of 20:20 hindsight, nevertheless the Irish were already making some of the moves heralded by the Smart Successful Scotland strategy almost twenty years previously. For example, the Irish set up software institutes and PATs, broadly analogous to Scotland’s planned Intermediate Technology Institutes, as early as the mid-1980s. Likewise the role of higher education in supporting inward investors was addressed much earlier with the University of Limerick

geared to the needs of inward investors from the mid-1980s. From the early 1980s white papers talked of the need for higher education to match the needs of the labour market – and with over 150 specialist technician courses created, the supply of qualified technicians and engineers rose steeply over the next decade.²⁷ Finally, the choice of sectoral priorities was strategic – not simply hardware, but also software, pharmaceuticals and later tradeable services, notably finance. Granted in the late 1980s it would have been difficult to predict the leading roles that Intel, Microsoft, Dell and Pfizer would come to play in their respective markets. But good luck was in part a consequence of good planning and strategic relationships built up with US companies that had been targeted over many years.

By the early 1990s this strategy was delivering more for Ireland than contemporary Scottish inward investment strategies. Scotland in this period fell behind on links to higher education, on policy continuity through the balkanising of the Scottish Development Agency (SDA) into Scottish Enterprise, and because of political ambivalence not only about the role of targeting sectors but also about the costs of a high-value, high-skill and high-wage positioning for Scotland. Meanwhile Ireland’s historic relative locational and infrastructure disadvantages eroded and she forged ahead with an offer to build around lower costs, cheaper labour and better tax competitiveness.

Today foreign-owned companies continue to play a dominating role in the Irish economy. According to O’Hearn, FDI was responsible for 45% of growth in the first half of the 1990s rising to 85% in the latter half of the decade. As a proportion of GDP, they accounted for only 14% in 1990 rising to over 50% by the end of the decade. By 2000 foreign-owned companies also accounted for half of total manufacturing output and more than three-quarters of industrial exports, and contributed the lion’s share of corporate tax receipts.²⁸

Much of this investment was initially low skill, in line with Ireland’s initial capabilities and hence associated with relatively low levels of R&D in the Irish subsidiaries, mirroring the complaints heard in Scotland. However, in Ireland, the trend has been much more towards research-intensive activity as exemplified by MIT’s Media Lab, Microsoft’s e-commerce hub, IBM’s R&D campus, and AOL’s research lab. There has also been a steady flow of Irish companies on to the NASDAQ, with established Irish companies becoming more significant players in international markets.²⁹

27 O’Hearn, D (ibid) p83

28 O’Hearn, D (ibid) p89

29 Walsh, B *World Economics*, Vol 1, No 4 (2000) p119

These issues surrounding the contribution of FDI raise the broader issue of the role of industrial policy in the Irish success story. This is one of the more contested areas amongst expert commentators. As in Scotland the existence of industrial policy has been criticised as wasteful, or at least peripheral. However, as Walsh argues:

*It is implausible to argue that major clusters of pharmaceutical, electronics, medical instrumentation and financial services firms now operating in Ireland would have located there had a rigorously laissez-faire policy been pursued.*³⁰

For Scotland two interesting issues emerge, both of which have been under-researched. Firstly, the extent to which large-scale FDI can have a differential impact depending on the nation's starting point. Overall flows of FDI to Scotland and Ireland were not perhaps as different as sometimes thought, but these flows had a much more profound impact on absolute growth rates in Ireland because she had a much lower starting point.

Secondly, a comparable lack of research evidence exists with respect to the differential "quality" of FDI between Ireland and Scotland. Much of the commentary on the Celtic Tiger is fairly uncritical about the alleged automatic agglomeration, or spillover effects, of attracting Intel, from which a vast array of suppliers and complementary technologies supposedly flowed. A comparable clustering effect is meant to have taken place on a smaller scale in pharmaceuticals. Certainly the Irish were more successful at upgrading overseas investment and at creating a network of industry associations, linked with universities and technology centres, to provide an infrastructure that attracted higher value activities and stimulated domestic spin-offs.

For Scots this raises troublesome questions about why the presence of semi-conductor or 'chip' fabrication plants in Scotland did not lead to comparable agglomeration effects. Such detail may be tangential to the bigger narrative about possible Irish lessons and their applicability to Scotland, but there is an important gap in the lack of comparative studies about why the Irish benefited from these agglomeration effects (ultimately, for example, helping to grow a strong domestic software sector) and Scotland did not.

It is in answering these empirical questions that further light will be thrown on the wisdom of the policy choices of the Tory years: the inherent ideological hostility to a high road strategy that inevitably involved high skill, high wages and co-operation in the work-place

³⁰ Walsh, B (ibid) p131

was played out against a backdrop of the break-up of the SDA with the subordination of its national mission to a local focus on LECs that was hostile to targeting and maintained a distance from the higher education sector.

Less controversial than the role of industrial policy is the role of tax policy – its contribution was significant. However, the fact that "the effective corporate tax rate increased in the 1980s makes it difficult to invoke taxation as an explanation of the timing of the increased flow of foreign investment, even though its importance to the longer term attractiveness of the country as a location cannot be disputed".³¹

So low tax rates were an important element in attracting FDI to Ireland, but *not* a silver bullet. A zero tax rate on all manufactured exports was introduced in 1958 in Ireland – and for manufacturing inward investment the trend in tax rates has been up since then. With Ireland clearly the "poor man" of Europe on entry, lagging more than a third behind the EU average GDP per head, she was permitted to preserve her zero rate. In the late 1970s, in response to a Brussels-inspired review of industrial support, the Irish took pre-emptive action by committing themselves to a 10% tax rate on profits from the sale of manufacturing exports, to forestall any further hike that Brussels might try and compel. This rate was subsequently extended in 1987 from manufacturing to investors in the International Financial Services Centre in Dublin. In 2003, it rose again for inward investors to 12.5% but the domestic corporation tax rate was progressively reduced from 50% and harmonised at this 12.5% rate for trading income and 25% for non-trading income.³² So at the time of the take-off in the late 1980s, Irish corporation tax rates for foreign manufacturers were at higher levels than they had been in the 1970s in Ireland, although crucially the lowest then available within an EU member state.

Today Ireland is no longer the "poor man" of Europe; changing conditions are increasingly eroding Irish tax competitiveness.

Pressures for tax harmonisation across EU countries has drawn attention to Ireland's low tax rate as a possible distortion of the common market ... The Irish advantage on the corporation tax front is being eroded and this trend will continue ... [it] is vulnerable to the growing concerns about unfair tax competition and the pressure towards more harmonised EU tax rates. In Ireland the era of falling taxes came to an end in 2001.

³¹ Walsh, B (ibid) p128

³² OECD (ibid) (1999)

*To the extent that falling taxes spurred economic growth it is reasonable to conclude that this source of stimulus is now gone.*³³

As Kirby even more provocatively notes, Ireland has created “a tax climate which attracts industry from other EU countries, adding to their unemployment, attacking their social market model by attacking its taxation base, from which we ironically expect to draw benefit by way of structural funds”.³⁴

Sweeney offers an interesting perspective:

*Policy-makers in Ireland ... seem oblivious to the negative attitudes in other countries to [the corporate tax rate]. The EU is not happy with it. Germany is not happy with it. Ireland's other partner states in Europe are not happy with it. The US government has long been unhappy with it. They have tolerated it because Ireland is small. The two other reasons for their indulgence are that it was due to expire in 2010 and Ireland was relatively poor. Both of the subsidiary reasons have gone. Ireland now finds it difficult to prove that it is poor. Other countries are strongly of the opinion that it should no longer be allowed to do unneighbourly things, such as being a tax haven for the world's richest companies in the heart of the Single Market. The concept of a tax haven, which bids down company taxes within Europe, is also against the principle of the Single Market.*³⁵

And he offers the following assessment about the future:

*If Ireland is still dependent on the 10% tax regime as one of its key artificial attractions to foreign investment by 2010, then it will have failed to diversify and develop ... Ireland is well on the road to sustainable development which is not dependent on single factors like a low tax on profits. Therefore, if this tax is to be raised to levels acceptable to trading partners, particularly our partners in the EU, it is unlikely to lead to recession. Some plants, at the end of their productive life, may pull out, but they were going to do so anyway. The low tax rate is an artificial aid, which has served Ireland well and will do so for some more years. By then other, less artificial, attractions to foreign investors should be well developed.*³⁶

33 Clinch, P, Convery, F and Walsh, B (ibid) p38

34 Kirby, P (ibid) quoting Wrynn (1998) p141

35 Sweeney, P *Ireland's Economic Miracle Explained* (1998) p89

36 Sweeney, P (ibid) p90

Many in Scotland who advocate “doing an Ireland” crudely characterise it as simply cutting corporate taxation. It could be argued that this ignores the fact that Irish corporation tax rates for manufacturing inward investors have actually risen since the late 1950s. However, more relevant is how feasible and effective such a strategy might be for Scotland today and why other EU members have not adopted it.

The vital issue is whether offering the lowest EU tax rates would be either plausible or effective for Scotland today. Setting aside the obvious differences, of the presence of other new, less prosperous member states, different demographics and the changing role of inward investment, there is a more fundamental difference between Ireland in 1985 and Scotland in 2005. Ireland's catch-up was initially a *low road* economic development strategy, based on competition around comparative costs including low wages, comparatively lax environmental standards and low tax aimed at attracting high levels of mobile FDI. Today, as we have seen, Ireland is pursuing a *high road* strategy.

Scotland also initially pursued an essentially *low road* strategy towards FDI and also met with considerable success, particularly before the Irish emerged as strong competitors. Scotland's comparative performance amongst OECD nations also rose decisively from twenty-fifth out of twenty-nine in the period 1980-2000 to eleventh out of thirty-one from 1990-95,³⁷ based on a similar *low road* strategy. But Scotland has been much slower than Ireland to migrate to a *high road* strategy, based on high levels of investment in infrastructure, training, education and technology, and attracting firms that put a premium on favourable environmental conditions.³⁸

In short, from the late 1980s Ireland offered all the low road advantages of Scotland and more. Ireland increasingly anticipated future competition and migrated earlier to a *high road* strategy very similar to the one that Scotland is now attempting to pursue. The wisdom of Irish policy-making has been the recognition that the basis of her competitive success is changing as her cost base rises and the European Union expands.

A *high road* strategy has common elements wherever it is pursued: investment in R&D; higher education; infrastructure; telecommunications and human capital. These are the areas now dominating Irish policy-making. Irish commentators and, perhaps as importantly, Irish politicians today believe the key to the sustainability of high growth

37 Fraser of Allander Institute Quarterly, September 2002

38 Keating, M *Culture, Institutions and Development in Eight European Regions* (September 2002) p15

levels is to maintain high levels of investment in education, transport and housing despite the difficulties in terms of consumption forgone in a recessionary climate. There is a commitment to supporting innovation and quality through investment in tertiary education, science and technology support and telecommunications advances.³⁹ The parallels with the Smart Successful Scotland agenda are clear. Crucially the Irish believe they are pursuing a national strategy rather than an economic development one. How hearts and minds are won over to a national consensus is something to which I return later.

Contrast Ireland's future strategy with Scotland's domestic divisions over economic strategy. Those who accept the need for change and that the demand for "real jobs" is too often a metaphor for "old jobs" are then too often confronted with the knowing cynicism amongst others who profess an interest in economic matters that the Scottish Parliament can make little difference anyway! Yet as already noted, Ireland is now focused on the supply side, which are largely matters under the control of the Scottish Parliament, including education and skills, transport infrastructure, social capital, the information society and labour costs.⁴⁰

Ten Scottish Lessons?

So to possible lessons for Scotland since she manifestly lacks the catch-up opportunities of a newly industrialising nation; the demographic dividend of a higher birth-rate; a low labour market participation rate; European-sanctioned tax dispensations or impressive levels of European subsidy. Consequently the lessons derive more from the political economy of change. Below I suggest ten economic lessons that reflect Scotland's different circumstances but build upon clues in the Irish approach.

First economic lesson: Pursue a strategy that is right for Scotland today and that must mean a *high road* strategy.

Ireland had a take-off; Scotland needs an accelerated turnaround. As the OECD stressed, the Celtic Tiger phenomenon cannot simply be exported to other nations at different stages of development, in a different European and world-trading context. Indeed, common sense suggests that if everyone could by imitation "do an Ireland" other small European nations or jurisdictions like Denmark, the Netherlands, Catalonia, Bavaria or

³⁹ Clinch, P, Convery, F and Walsh, B (ibid) p14

⁴⁰ National Competitiveness Council *Annual Competitiveness Report*, (November 2002) p3

Portugal would have followed suit by now with comparable results. Ireland could uniquely exploit its *low road* positioning and use it as a platform from which to migrate to a high road, since by then the *low road* strategy had moved east, both in Europe and globally for ever.

So Scotland's challenge is to devise a *high road* strategy as right for Scotland today as Ireland's *low road* strategy was for her a generation ago. Future long-term sustained success for both Ireland and Scotland can come only from a *high road* strategy attracting the sort of investment, both domestic and foreign, that is suited to their prevailing competitive environments.

Second economic lesson: Placing constitutional change before economic change is unlikely to set the performance of the economy centre stage.

As in Ireland after independence, Scotland's danger is that political ambitions get in the way of economic ones. For example, Scotland's principal opposition party daily urges Scots to focus on political independence as the only way to secure an economic toolkit. The implication is that acquiring ever more economic sovereignty is the optimal strategy for Scotland. They continue to argue this despite the overwhelming evidence that, in today's global economy, political sovereignty does not deliver economic sovereignty, and economic sovereignty does not guarantee prosperity. Today most sovereign states are moving in the opposite direction, increasingly pooling their sovereignty collectively rather than augmenting it – in an attempt to manage best their global exposure.

The risk is that Scottish debates about economic strategy become driven by political rather than economic imperatives. This echoes what happened in Ireland's post-independence decades. Then, greater economic sovereignty in the form of protectionism and import substitution was hailed as the key to Irish economic success: ultimately it was a blind alley. In contemporary Scotland we must avoid our own version of this trap: the claim that better performance can come only about as a consequence of political sovereignty. We need to acknowledge that the means to address economic under-performance may now lie in our own hands. This is unpalatable to all those who want to blame our economic shortcomings on our political status.

The nationalists' analysis always locates the cause of Scotland's economic under-performance in her constitutional status. Locating economic culpability in her constitutional status has the ancillary benefit of keeping constitutional controversies alive amongst

those concerned about economic performance. But the ultimate objective is always to ensure that constitutional controversies dominate the political agenda.

Understanding the distinction between an economic strategy and a political one is vital if Scotland is to make progress. Hence, a strategy primarily about economic performance will consider greater fiscal federalism or fiscal autonomy within a political framework of shared obligations arising from shared sovereignty. By contrast a policy primarily about constitutional status will assert, as the SNP does, that the only answer is full fiscal freedom that can only come with political sovereignty. In the latter case the endgame is always ultimately about advancing political sovereignty over economic performance. One of the most pernicious consequences of such an elevation of political over economic objectives is the fatal blow it deals to any attempts to build a national consensus around a new high road economic strategy.

Third economic lesson: The *low road* has moved east and we cannot tax-cut our way to prosperity.

The value of a competitive tax regime in Ireland and for low road strategies in general has already been discussed. Scotland is a prosperous region in the new Europe. Hence the EU could be expected to take a different view of any plans for significant tax undercutting whatever Scotland's constitutional status, not least because Ireland, even though it was at the time the poorest member state, was forced to raise the tax rate for foreign investors. As a turnaround rather than a take-off Scotland could also face a precipitate drop in current revenues from her existing base of corporate players, which would have to be paid for. Finally, today there is much greater momentum for greater fiscal co-ordination brought about by monetary union.

However, all these considerations are really secondary. The fundamental issue for those interested in stimulating Scottish growth is whether corporation tax cuts will be the silver bullet for Scotland tomorrow. A vital clue is that Irish-style corporate tax rates are not on the agenda of other member states with a high road positioning.

In general in most other states, fiscal considerations, including who collects, levies and sets taxes, are matters of much less significance in the domestic debate about economic performance than they sometimes appear in Scotland today. These matters are not typically seen as the key to future competitiveness by other European nations. They see knowledge, not cost, as the vital future basis of economic success. Hence Scotland's

European competitors have typically sought overall tax competitiveness, but avoided significant competitive tax undercutting. Its prominence in Scotland is strongly influenced by political considerations. For nationalist politicians they can promote a political objective, sovereignty under the guise of a catch-all economic solution.

Scotland has a choice – financial change within the UK or new financial arrangements outside the UK. The SNP deals only in the latter, which is ultimately about sovereignty. The former option is generally driven by economic considerations. Any such reform within the UK will, of necessity, have to tackle the complex trade-offs between incentive effects and the resource-sharing mechanisms that bind a state together and constrain the extent to which one part of a state can competitively undercut another part.

Yet today Scotland's principal opposition party is determined to define economic objectives through a political prism. Hence our debate about growth risks being driven by political considerations, not the economic considerations paramount amongst our neighbours. In this regard Scotland certainly needs to be tax-competitive. However, it is worth noting that we are already in the lowest quartile in the EU for mainstream corporation tax and have the lowest level in the world – that is, zero – for our smallest companies.

With the entry of the accession countries there is no Scottish tax break or cut in wages that alone can attract activity to Scotland, now that companies can find lower-cost locations in Eastern Europe and Asia. This will not change. The accession countries now have, and will in the future have, a superior *low road* positioning to Scotland due to lower costs across the board. The harsh truth is that they could continue to out-compete us without incurring reduced revenues. So we must beware the *cul de sac* and ponder why no other long-standing EU member has followed the Irish on corporation tax.

Fourth economic lesson: A new direction takes time with firm foundations sometimes laid decades in advance.

Ireland's catch-up came after six decades, four when the economy was subordinated to political considerations, followed by at least two decades of laying foundations: the new export-orientated, FDI-friendly strategy; the investment in education; infrastructure investment on the back of EU subsidy; and favourable changes in technology and the global competitive climate. Ireland's impatience in those decades for its long-delayed take-off and early successes was as real as Scotland's today for a new economic momentum.

But policy continuity in key areas – corporation tax from 1958, educational investment from 1966, and public finances and social partnership from 1987 – became increasingly important. As Garrett Fitzgerald observed:

During the quarter-century between 1973 and 1997 there were no fewer than ten changes of government and ten changes of government leadership (which are not quite the same thing), but despite this political roller coaster, our political system pursued key economic policies with striking consistency. Few countries have changed their government so often over this period, but I cannot think of any other country in Europe that has such a remarkably consistent record in the economic policy area.⁴¹

Those who seek to turn the Scottish economy into a political football should take note.

Fifth economic lesson: Win round all sides of industry and make the political system more responsive to economic imperatives.

Of immediate interest to Scotland is how the Irish built support for fiscal stability in the late 1980s in the face of widespread frustration at her relative economic failure. Irish society accepted the need to *do it differently* and the politicians were widely believed to have failed the Irish economy.

The new approach was a response to failure. The soaring of the national debt to 125% of GNP, eating up the equivalent of all income tax revenues in interest payments for a number of years, helped bring a new realism to political debate around the importance of fiscal stability.⁴² Crucially many trade unionists accepted the case for change. Business leaders agreed to come to a table where they were now not only heard but also heeded. As Sweeney put it:

There was widespread recognition in all sectors, political parties and lobbies, thanks to hard experience, that “tax and spend” policies did not work. While the left traditionally wants to spend more ... it and all other groups were chastened by the extent of the failure of the Fianna Fail government’s 1977 election programme. It eliminated most taxes on property (rates on domestic dwellings) and care tax and engaged in a large spending programme. Cutting taxes and increasing spending at the same time led to a

41 Fitzgerald, G (2002) (ibid) p215

42 Sweeney, P (ibid) p82

major and prolonged fiscal crisis. The lesson was that higher public spending and tax cuts do not lead to growth – they cost a fortune in taxes later and can be regressive.⁴³

All increases were essentially denied and demands from local political groups were resisted. In the following year the fiscal effort was supported by a tax amnesty, backed by credible threats, hence yielding higher than expected results. Thereafter economic growth made prudent management easier.⁴⁴

The new social partnership became a forum for national consensus-building, with initial compromise all round in circumstances of crisis. Thereafter, as the process was seen to deliver economic success, both politicians and social partners had the wisdom to listen to the economic experts and then seek to win their section of Irish society to the agreed objectives. Critically, the social partners proved willing to subordinate their perceived sectional interests to national ones.

Obviously the willingness to make sacrifices diminished as the sense of crisis receded, and more recently, as growth has declined, distributional questions have once again come to the fore. However, in its early stages the social partnership attracted international interest and a climate conducive to further inward investment. Moreover, the tone of the partnership process, putting economic ambitions explicitly to the fore, meant the Irish political system itself became steadily more growth-orientated and responsive to the needs of the economy, which in turn helped a political consensus on economic policy to emerge.

Politicians of all parties progressively signed up to the process and were increasingly prepared to trammel their power. In time it came to be accepted that new governments would seek only to shift direction rather than abandon general principles agreed through the previous partnership round.

Sixth economic lesson: Credibility with international investors demands fiscal credibility in the short and medium term.

The significance of the social partnership agreement signed in 1987 was the signal it sent, particularly to international capital, that Ireland was at last serious about fiscal stability and was willing to take some tough decisions. In the late 1980s out went fiscal laxity and

43 Sweeney, P (ibid) p82-3

44 McCarthy, F D *Social Policy and Macroeconomics: The Irish Experience* (2001) p14

in came fiscal probity. The process required the partners to back any claim for more resources with the responsibility of saying how it should be paid for – self-deception was no longer an option.

Walsh conveys a stark message:

*The Irish experience suggests that fiscal adjustment based on the “shock therapy” of spending cuts was more successful than the gradualist approach of relying on tax increases in the mid-1980s. This met with limited success due to emigration, tax evasion and capital flight. In Ireland the switch from tax increases to expenditure cuts dramatically increased investor confidence.*⁴⁵

Ireland's commitment to fiscal stability succeeded in securing international investor confidence. International capital saw that Ireland was finally serious about securing sound finances and hence the prevailing tax regime would be sustainable, generating new confidence about the medium term.

So for Scotland there are lessons about credibility in the short and the long term. As a result of Labour's UK fiscal management Scotland already benefits from fiscal stability, and that hard-won investor confidence must be preserved. Greater fiscal responsibility does not per se bring fiscal credibility, as the Irish know to their cost. Hence greater fiscal federalism, particularly if aggregate tax yields were more volatile, would potentially generate investor concern and certainly initial uncertainty. Beyond federalism lies secession. It is currently advocated without stated fiscal rules, no social partnership plans, no estimates of the additional costs of statehood and a putative budget highly dependent on the vagaries of the oil price. Fiscal and market instability would be the inevitable consequence. As Ireland found in the early 1980s, without credibility about future fiscal stability, any nominal tax stance will inevitably attract only investor scepticism about its long-term durability.

Seventh economic lesson: It is necessary to devise the right incentive structure for a *high road* strategy.

So for Scotland, just as for our European partners when they looked at the Irish experience, there is no silver bullet. Delivering a smart, successful Scotland will doubtless require

⁴⁵ Walsh, B (ibid) p122

further policy developments, but ones driven by an economic rationale that can command a domestic consensus, not ones designed as battering rams for full sovereignty.

What the Irish tax regime really teaches Scotland is the desirability of getting the business tax regime and financial incentives aligned with the future growth strategy. If that strategy, like Smart Successful Scotland, is a high road strategy around growing new global companies from a domestic technology base and about encouraging global companies to view Scotland as a location for innovation, the incentive structure must be right for that strategy. The introduction of tax credits for R&D, a zero corporate tax rate for start-ups, new incentives for corporate venturing, capital gains reform and the polluter pays principle with respect to environmental costs are all aligned with that new strategy.

Eighth economic lesson: The need for policy continuity.

Scotland today has begun to benefit both from sustained fiscal stability and increasingly from the alignment of incentives with a new high road growth strategy based on science and skills. How long it will take for these steps to pay full dividends is a matter of conjecture. What is certain is that, in the case of Scotland, these policies have not typically been in place for anything like the time that Irish strategies were before they started paying real dividends.

By pursuing such a strategy Scotland will be taking responsibility for her own economic performance, rather than abdicating responsibility by blaming others. Just as the Irish got behind their growth strategy in the 1980s, Scots of all persuasions and all parties need to do the same, a matter to which I will return when discussing the importance of building a national consensus.

The debate about how Scotland will need to “do it differently” from Ireland is itself part of the process of building a new national consensus. The debate, as in Ireland, must be beyond the Parliament. Scottish politicians, businessmen, trade unionists and society at large need to start thinking much more systematically about our future.

With one of the slowest population growth rates in Europe, Scotland will not benefit from a large influx of young entrants into the labour market as Ireland did, but Scotland has other advantages. Scotland now sends more of her young people to university than almost any other nation on earth, and many of our university departments are real jewels of learning.

And what might be the role of the social partners? Corporatism certainly has deep roots in Scottish society. But too often Scottish corporatism has been seen as a means for the state to bail out lame ducks, a recipe for dependency rather than a means of nurturing the new.

In these often pessimistic times in Scotland where there is an all-too-familiar tendency to dismiss our failures as being “all someone or somewhere else’s fault” we need to be comfortable about taking responsibility for ourselves. We must leave behind the excuses that protest that “if we just had this power or that, it would all be so different”. Irish politicians live with the reality of mutual economic interdependence. Yet “not up to me guv” or “my hands are tied” attitudes, all too prevalent in contemporary Scotland, just serve to showcase our lack of self-belief.

The turning of the corner by the Irish economy in the late 1980s and take-off in the early 1990s did not mean that political divisions disappeared, simply that a broad policy consensus stretching beyond the politicians emerged on the economic strategy, combined with a favourable external environment which was skilfully exploited.

Ninth economic lesson: Harness the diaspora to support the new strategy.

After years of high levels of net emigration, this pattern was reversed in the 1990s through net immigration, principally by returnees, or the children of an earlier generation of emigrants. Net immigration to Ireland was providing a greater contribution to population increase than were natural sources (the estimated 1998 figures are 22,800 versus 21,400). A scissors phenomenon developed in which gross immigration has risen and gross emigration has shrunk, both trends attributable to the strength of the local labour market. Migration balances with all major destination/origin countries became in favour of Ireland.⁴⁶ About half the immigrants have been returning Irish emigrants and the majority of the rest were EU citizens, often spouses or partners of Irish men and women.⁴⁷

Often young Irish people now choose to spend only a few years overseas acquiring valuable international experience before returning home. Critically, whilst an average of one in ten Irish adults has emigrated and returned, many more professional workers have done so, bringing back skills and experience. Of those aged over 40 with third-level education, a very high 39% have emigrated and returned.⁴⁸ Such international experience

⁴⁶ Sweeney, P (ibid) p112

⁴⁷ Duffy, D et al *Medium Term Review:2001-2007* (2001) p132

⁴⁸ Sweeney, P (ibid) p104

represents a huge competitive advantage for a small nation. Although such statistics include many working in the UK, their experience has brought an increasingly international outlook to domestic life.

The improving economic climate was a critical factor in encouraging Irish emigrants to consider returning. Often it was informal: the diaspora simply knew “something was happening” and they wanted to know more. The Irish driven abroad as a result of lack of opportunity at home had perhaps a stronger lingering desire to return. Hence when, at the end of a Christmas or Easter vacation at home, they were invited at the airport to “Give Ireland a Second Chance”, many took up the offer. A key future challenge for Scotland is how to motivate the Scottish diaspora, not necessarily to return, but to rethink the contribution they can make to the future success of Scotland whatever their geographical location.

Tenth economic lesson: It is not necessary to fix everything to achieve better growth.

Finally, a fair account of the Irish experience means acknowledging that, despite the successes, there have also been continuing failures. Many of these relative failures are inherent in the structural characteristics of the Irish economy, such as historically low levels of entrepreneurship. Again we in Scotland should draw comfort that we will not overcome all our weaknesses overnight, and crucially it will not be necessary to succeed on every dimension to bring about an improved performance.

As already noted, one such area in Ireland is the social dimension and overall wealth distribution. If Scotland is looking for lessons in European solidarity, Ireland is definitely not the best comparator. The catch-up in social protections failed to keep pace with economic progress. As President Mary McAleese commented:

*This is a fast-moving society. If you are stuck and going nowhere, those who are moving disappear from view very rapidly. A society where the stuck and the moving lose sight of each other is not a healthy place.*⁴⁹

In truth the social partnership process “ultimately amounted to a national strategy of wage moderation and there has been a sharp drop in labour’s share of value added since

⁴⁹ President McAleese, 2000: quoted in Kirby, P *The Celtic Tiger in Distress* (2002) p164

1987, which has enabled a dramatic recovery in profitability".⁵⁰ The social partnership agreement did ensure that welfare would not have to bear the brunt of fiscal retrenchment in the early years. In fact, welfare spending has shown a modest absolute increase, but not as a share of the economy, or relative to other European partners.

In a recent perceptive article, Julia O'Connor has demonstrated that social protection in Ireland at 16% of GDP in 1998 was the lowest in the EU, where average social protection was 28%. Even if one uses Irish GNP rather than GDP to adjust for the impact of FDI, Ireland is still only at 18% social protection, well below the EU average effort. As mentioned above, the maintenance of the value of social protection payments was one of the commitments entered into by the government in the social partnership process. Yet despite this, and real increases in the value of social protection payments, overall welfare effort decreased in Ireland after 1987. In contrast, welfare effort increased or was maintained in most other EU countries. The result is that Irish social protection expenditure has converged towards that of the US and was considerably below the EU average by the end of the 1990s.⁵¹

In conclusion, the Celtic Tiger's story is one of catch-up by a nation that has long lagged behind its near neighbours and, from the late 1980s redressed, her earlier underperformance through a unique combination of circumstances. High labour supply and mobility, along with an economy where large-scale FDI could make a quick and significant impact on overall performance, along with wise policy decisions reinforcing long-standing policy advantages and redressing previous mistakes, all played their part. But if the Irish story is one of entry to the European convergence club – there is, as Walsh points out, nothing automatic about convergence or staying at the top. The steady moves to a high road strategy are built on a desire to maintain a strong growth trajectory through attracting and growing clusters of "high tech" industries. Scotland confronts similar opportunities.

What also emerges is the willingness of all actors to put the economy first after many years of relative failure, and the now widespread consensus around what that economic strategy should be. Houghton best captures this:

Ireland has learned the hard way, through trial and error, that the scope for economic policy is highly restricted in a small open economy such as Ireland. As a result, political

⁵⁰ OECD (ibid) p48

⁵¹ O'Connor, J *Welfare State Development in the Context of European Integration and Economic Convergence* (2001) p16-18

*debate in economic issues focuses on a narrow range of issues. It is accepted that Ireland should join the euro, which rules out independent monetary policy and constrains fiscal policy. The close link with the British labour market limits the scope for wages to diverge. The consequence is that economic debate centres on the microeconomic issues, the more mundane details of how to improve the educational system, changing the incentives to look for a job, training the unskilled, continuing to attract foreign investment, encouraging local entrepreneurs. There is not a lot of disagreement about what should be tried, but rather certain pragmatism in looking for solutions which work. One result is that it is difficult to distinguish between the main political parties on the basis of differences in economic policy.*⁵²

So for Scotland a vital challenge is how to build the sort of consensus that characterised Irish policy towards growth from the 1980s.

⁵² Houghton, J in Crotty, W and Schmitt, D (ibid) p49

Chapter 3

National consensus before domestic division

The Irish evidence suggests that rather than being a pre-condition of partnership, consensus and a shared understanding are more likely to be an outcome of partnership.

The Future of Social Partnership in Ireland
National Competitiveness Council by Rory O'Donnell (2001)

A vital part of the New Ireland story was the recognition that a national consensus, at least around core economic strategies, had to be built if this small nation was going to compete successfully. Disputatious domestic debates were all very well but the rest of the world just moved on.

As already noted it is difficult with hindsight to recall the extent of the frustration at the economic malaise in the mid-1980s. Although growing in national and cultural self-confidence too many young people still felt obliged to leave to find economic success. This migration pattern was much more pervasive for young Irish graduates than it has been for young Scottish ones. Again, Scotland's growing pains are not as unique as they sometimes seem from this side of the Irish Sea.

"Stop the world we want to get on" was a flavour of how a new generation of young Irish people felt in the early 1980s. Now they also wanted attractive economic opportunities at home. It is something we in Scotland need to ponder in the years ahead. How badly do we care about getting the economy on to a new trajectory for growth? The more we divide domestically the less energy we have to compete and win globally. In such circumstances the only people cheering will be our competitors.

In the face of economic policy failures and voter anger, Fianna Fail developed a more consensus-building approach to Ireland's economic challenges. The electorate compelled Fianna Fail to become more willing to co-operate with other parties and social forces in the cause of change. Interestingly there was also a fragmentation of the previous three-party system that had long dominated Irish politics. In 1987 a cross-party consensus emerged about the need to stave off national bankruptcy. This was encapsulated in the Tallaght Strategy, an agreement through which Fine Gael agreed not to force a general election on economic matters as long as the government maintained its policy of fiscal rectitude.¹

But the overall role of politicians in Ireland's transformation is also interesting. Crucially the New Ireland did not emerge through the leadership of one individual or group of politicians. Few of us in Scotland today remember the dominating figures of the 1970s or early 1980s in Irish politics, or at least not in glowing terms! Former Taoiseach Jack Lynch's passing in 2001, many years after he had left office, brought forth weary judgements on his successors, not dissimilar to those that followed Donald Dewar's death. Garrett

¹ O'Brien, *J The Modern Prince: Charles J Haughey and the Quest for Power* (2002) p164

Fitzgerald may have been respected but Charles Haughey, now comprehensively discredited, was the dominating character at least at the dawn of the Celtic Tiger. His demise may have heralded a new era of openness, but no one would claim these years as Irish politics finest hour. But critically it did not seem to matter – more fundamental forces were at work. And whilst the political revelations became more and more unpalatable, the Celtic Tiger phenomenon continued apace.²

The Zeitgeist and the new psyche demanded and delivered change: change that proved systemic, pervasive and durable. The slow building of a national understanding that new priorities had to come to the fore and sacrifices might have to be made in the national interest, the creation of a consensus, was assisted by the return of significant numbers of Irish people who had spent a significant part of their working lives overseas. They had little interest in, or appetite for, old divisions or old ways of doing things.

The Irish – people and politicians across the spectrum – came to an understanding that if in a small country you let constitutions, statecraft or borders become the dominating issues, you may have a great domestic debate, but you get left behind competitively.

In the coming years, Scotland needs to manage a similar transition, ceasing to allow her politics to be dominated by bickering about borders, attributing blame and belittling our self-confidence. Only then can we get clarity around our national ambitions and ultimately a new Scottish story.

Scottish lessons?

So how might we achieve a national consensus about economic objectives. There are implications for political parties, for processes and for institutions.

Firstly, the lessons for Scottish parties. The SNP will have to consider its preoccupation with the border and the wisdom of a political strategy that requires winning over the two-thirds of Scots who have consistently rejected independence. Even if, in its wildest dreams, the SNP was to one day win the largest number of seats in the Parliament and then a parliamentary vote for a referendum, it is difficult to imagine any scenario which would not involve Scottish political life being dominated by borders, referendums and real or imagined grievances for years to come.

² Charles Haughey's most recent biographer, J O'Brien, notes "the evidence adduced by subsequent tribunals, under the auspices of senior judges, has denuded the Irish political establishment. The sordid reality of graft cutting across both major political parties is a far cry from the idealism associated with a civil war waged over an ideological debate. The dichotomy between freedom and the freedom to achieve it has been replaced with a perception of common venality". (ibid) p13

If voters were to have any clarity about the scheme they were being asked to endorse, then the character of the settlement, at least in general terms, would have to be outlined in advance. And where would any referendum result leave Scottish politics going forward? In the case of the rejection of independence would those defeated accept the result or simply resolve to bring the issue back repeatedly to the electorate in the effort to secure a different result? Is this Quebec scenario really more attractive than the Catalan one? In Catalonia, strengthening autonomy within the Spanish state has become the broadly shared agenda rather than a divisive one of secession. If, conversely, an independence referendum was won, how might Scotland avoid years, or even decades, where politics would be dominated by why Scots never had the opportunity to vote on the chosen scheme, whose side one was on in the referendum and whether the right decision was made?

But if these are the challenges for the SNP as it ponders whether now to follow the electorate and “park the border question” in favour of reform within the UK, the Irish experience also poses challenges for Labour. How can a genuinely national consensus be built? Which new allies need to be won? How can vital sections of civil society, notably the business community, be mobilised? How can the Scottish public be convinced that growth may be the best route to realise their ambitions for better public services?

And even for the minor parties there are challenges. Can the Liberal Democrats match their longstanding commitment to higher education with a better understanding of its potential economic significance? The recent coalition negotiations were not optimistic in this regard – with a reluctance to strike out beyond PR. Can the Conservatives explicitly recognise the importance of the Parliament as a champion of national advance, instead of berating it as a costly embarrassment?

A dominating issue for all concerned with Scotland's future should be that the more pervasive our domestic constitutional division, the more economic success is likely to elude us. The danger is that the dominating issue of Scottish politics over the coming decades continues to be our constitutional choices not “what will it take for Scotland to win in the global economy?”. We will choose, consciously or not, between “it's the economy stupid” and “it's the split stupid”. The good news is that the electorate seems less interested in the split than for decades, but the bad news is that voters are not very excited by our economic choices either.

So what happens next? Irish history teaches us that transitions take time: first to establish the institutions of the state, then to build a consensus on economic matters and

finally to see that consensus reflected in economic performance. So we can either view the first four years of the Parliament as fulfilling the requirement for essential nation-building within the UK – Scotland's statecraft phase – or see it as a precursor to a further round of introspective constitutional contemplation.

In Scotland following the 1979 referendum, we had twenty years of constitutional contemplation, or more accurately constitutional constipation, whilst the three major options of the status quo, devolution and independence were debated, some would argue endlessly. This Parliament can be a turning point: a time when Scotland either maintains the momentum from administration to better governance and on to growth or we slip back into a blame culture that opens the way for a new round of constitutional arguments.

This is not the occasion to debate the merits of the case for independence, simply to observe that if you continue to argue that Scotland's constitution is the primary issue facing the nation, it follows that constitutional issues will take centre stage, certainly at the price of any new consensus. It is this reality that has led others like the Catalan nationalists to opt for consensus over division. The SNP has the opportunity to move on, and should take it. Because if Scotland acquiesces in our economic debate, becoming a mere proxy for constitutional debate, we risk the fate that blighted the Irish economy in the post-independence decades, with political considerations dominating economic ones. Times have changed, and in today's global environment of multiple and increasingly shared sovereignty, there seems little appetite for sole sovereignty. Pursuing that agenda and the consequent uncertainty and introspection it would induce cannot help build a national consensus that puts the economy first.

Other parties need also to consider the merits of consensus-building and how it might be achieved. For example, considering those reforms within the UK that could help strengthen Scotland's commitment to growth and lessen any tendencies to a dependency mentality, such as migration policies or financial arrangements.

Building such a future consensus poses challenges to more than just Scotland's parties and politicians; it also poses challenges to our current processes and institutions. The central new process was the social partnership one. The first Programme for National Recovery (1987-90) removed much of the rancour from the macro debate and resulted in stable labour relations. The deficit was “tackled” over a three-year period. The process commanded the clear support of all major political parties and was sustained by the

commitment of the partners. All key questions were subject to consultation between the partners, and a Central Review Committee monitored the programme. The process drew on independent analysis produced by the National Economic and Social Council (NESC), an advisory body that analyses policy issues and seeks consensus.

So far there have been five agreements, each setting out the shared perspective of the social partners on the parameters for a new programme and each preceded by a NESC strategy report. Over time the partnership has been widened to include the representatives of voluntary and community organisations.³

According to O'Donnell, what emerged from the process was less a bargaining solution between the partners than "a shared understanding of the problems facing the Irish economy and society and the main lines of policy required to address them". The process facilitated a realistic discussion of change in a political system that tended to clientelism; it nurtured a more forward-looking trade union movement; and business came to realise that it could no longer count on direct and indirect protection.⁴ Whether the whole process was a victory for left or right is difficult to gauge. Within the unions, it is the left, which led the moves to participation.⁵ Yet it is unarguable that in the period of the first two agreements, from 1987 to 1996, the rate of return and capital almost doubled from 8.6% to 15.4%. Incomes policy lies at the heart of explaining income shift from labour to capital. The resulting environment of wage moderation and high profitability was a key factor in both Ireland's attraction of inward investment and the success of indigenous companies.⁶

These years also saw a substantial decline in "cute hoor" or clever obstructionism, which was prevalent particularly in the public services. Likewise the culture of dependency by business on state aid declined. And finally the fall of some powerful people who appeared to be beyond the reach of the law helped change attitudes. The culture of "meeting before the meeting", the "wink and nudge", the "word in your ear", seniority and the replication of the mediocre were typically no longer tolerated. The Irish began to see that in their own work and lives they could equal the best.⁷ All these factors contributed to and exemplified the change in psyche.

3 McCarthy, F D (ibid) p14-16

4 O'Donnell, R quoted in McCarthy, D (ibid) p iii

5 Sweeney (ibid) p95

6 O'Donnell, R *The Future of Social Partnership in Ireland* (2001) p ix

7 Sweeney (ibid) p110

What distinguished Ireland's successful policy choices in the late 1980s from the unsuccessful policy choices made in the earlier periods was the realism about Ireland's future choices and contemporary position. The whole partnership process was framed by a real engagement with the changed international trading context. Participants recognised that Ireland was simultaneously a nation state and a region within the European Union, with some unique features, notably its more open labour market.⁸ The partners faced up to her level of integration into the global economy and the opportunities that presented.

The implications of that consensus-building process look revolutionary from today's Scotland. As O'Donnell has pointed out, by taking macro policy outside of day-to-day party politics through the partnership process, management, trade union and government energies were free for a discussion of real issues that impact on competitiveness and social cohesion – corporate strategy, technical change, training, working practices, the commercialisation of state-owned enterprises, taxation, local regeneration and active labour market policy. There was constructive engagement with supply-side problems and it forced all to engage in a realistic discussion of change. This approach was particularly liberating in a country whose political system tended to clientelism and whose enterprises had grown used to direct and indirect protection and whose trade union movement had developed in the British adversarial tradition.⁹

The outcomes are also tangible: for example, through the NESC 1999 review document, Ireland's trade unions signed up to further reductions in income tax and the introduction of a more widespread PPP programme, including acknowledging the potential private sector efficiency gains as the principal benefit of such schemes. In the same document Ireland's employers signed up to user charges, which would more adequately reflect the cost of providing environmental services, and to a substantial increase in the provision of social housing. So the dialogue that developed around the partnership programme means that no partner is allowed to retreat into the comfortable terrain of endless special pleading irrespective of the interests of the wider economy.¹⁰

But the process is not without its limitations. It has not greatly increased the ability of the Irish system to achieve change in the public sector or to deal with entrenched interests, which are protected by public regulation. Indeed some see partnership as decreasing the

8 O'Connor, J (ibid) p6

9 O'Donnell, R (ibid) p8

10 NESC (1999) *Opportunities, Challenges and Capacities for Choice: Overview, Conclusions and Recommendations* p31-33

capacity to achieve change because the need for consensus can be turned into veto. This is worrying looking forward, since radical change in public services and the regulation and organisation of work are now the central substantive task to be achieved by partnership or by some other means.¹¹

Scotland needs to think through the implications for her own situation. Firstly there is little point in partnership if it becomes a vehicle for rent seeking, special pleading or the defence of past practices. Secondly, in Ireland, consensus was built first around some tough decisions, so do key interest groups accept the need for change – and if not, do you still go ahead with the process even if it means signing up for more of the same initially? Are Scottish politicians or civil servants ready to involve key parties in substantive decision-making?¹² What sort of independent institutions of economic governance such as the National Competitiveness Council, NESI, ESRI might be required to support such a process? Their input has been crucial in settling the parameters for politicians and trammelling the scope for irresponsible or unresponsive policy-making. What issues might Scotland tackle first – wage bargaining or the tougher supply-side agenda that the Irish only attempted later and are still struggling with?

Consensus-building not only poses challenges to political parties and demands new processes; it also requires institutional change. In Ireland institutional change affected not only the economic policy-making machinery, but also political parties and the civil service. On political parties the story is mixed and what emerges is their relative marginality in the transformation of Ireland. When Fianna Fail, the natural party of government for many decades, could not form a government on its own in the 1980s, it moved to share power, contributing to the development of a new political pluralism. In Scotland this pluralism has been partly achieved by a Parliament elected by PR and plans for PR in local government.

More generally the party system in Ireland is built on issues that divided the nation at its founding – the pro (Fine Gael) and anti (Fianna Fail) treaty positions of the 1920s still provide the basis for party divisions today. Both Fianna Fail and Fine Gael have demonstrated impressive survival skills; less impressive has been their ability to organise the politics of a newly evolving social order, defining the major issues confronting the nation and providing leadership needed to address these. Rather, the principal parties have tended to compete on the basis of personalism and traditional loyalties. Flexibility,

¹¹ O'Donnell, R (ibid) p12
¹² Sweeney, P (ibid) p110

pragmatism, parochialism and patronage have characterised the politics of the parties.¹³

Writing in 1998 Crotty noted that “whether this represents a suitable response to more recent domestic and international challenges is an open question”. In the subsequent five years little has changed and the question remains open. Reflecting on the system's personalism, patronage and historical associations, he concludes that “it is a curious situation and represents an apparent disconnection for a nation that burst on the international scene as the embodiment of a future-orientated, carefully managed model for the coming of age of cross-national economic and political interdependence”.

For Scots who care about the nation's future these observations should put some of the current angst about the Parliament in perspective.

What does this mean? Well certainly dissatisfaction with parties' politics or politicians did not arrest the Celtic Tiger – which implies the impetus and direction for economy policy had wider and deeper roots. It was certainly not the exclusive responsibility of politicians, as some contemporary Scottish comment seems to imply. Scape-goating our politicians is of course just another unhelpful facet of a dependency culture.

Other institutions were also challenged, including the civil service and local government and processes were put in place increasing the emphasis on planning, evaluation and monitoring of outcomes.¹⁴ So reforms in parties, processes and institutions were all vital elements in building a national consensus. But the picture is far from static. There has been a live debate about not only the effectiveness of the social partnership process, but its appropriateness in an open economy without a separate monetary policy and near full employment. Shrewd Irish commentators note how her economic future is with export-led growth and yet, as growth slows, the social partners are increasingly tempted to rent seek and encourage the running up of public debt. Exactly these challenges would confront any Scottish attempt at social partnership, especially one that does not emerge from crisis.

To think through the implications for Scotland means engaging with current Irish dilemmas rather than the past successes of partnership, since they are now focused on the same issues that Scotland would face. O'Donnell again poses the dilemma most succinctly. In the Irish partnership process the challenge is now to address the key

¹³ Crotty in Crotty, W and Schmitt, D (ibid) p4-6
¹⁴ O'Connor, J (ibid) p6

supply-side constraints on Irish growth such as the availability of childcare and lifelong learning. This change in the content of the partnership document has also involved a parallel change in the method of partnership. The attempt to address the growing list of supply-side issues has led to an expanding array of working groups, task forces, frameworks and forums involving representatives of the various social partnerships, and new institutional arrangements have been created to involve actors on the ground in areas such as long-term unemployment, rural regeneration and business development. Most participants feel that the success rate of the process in addressing supply-side issues is lower than its success rate in macroeconomic issues. The participants know how to do high-level bargaining but are unsure how to do multilevel problem-solving.¹⁵

All this has brought the Irish social partnership process to a crossroads. The question is whether the partnership can survive and how it can contribute to the resolution of the supply-side challenges facing Irish public policy. Even the wage bargaining component is under scrutiny, driven by the move to fulfil the new existence of labour shortages in many areas of the economy. The desire for new, more flexible systems of public sector wage determination and the likely limits to a strategy based on exchanging pay restraint for tax reductions. The emerging view is that centralised bargaining may not be optimal and that a more local approach may be desirable. The other challenge for the process is the one of regional development within Ireland. Here it has proved impossible to reach a real consensus due to the clientelist political system where loyalty to constituency overwhelms loyalty to party. Scotland is likely to face similar challenges if it attempts a partnership route to address the distribution of growth.

There are now both optimists and pessimists about the future. The pessimists want to abandon or curtail social partnership. The optimists want to continue to search for success in multilevel problem-solving. The optimists are actively looking for new organisational arrangements that can combine local innovation with transparency and accountability. Just as public finance stability was an imperative in 1987, so radical change in the public sector and organisational performance in the private sector are the policy imperatives today.

So Scotland has a dilemma; once again no off-the-shelf policy parachute exists. On the one hand the Irish evidence from the early days suggests that rather than being a *pre-condition* of partnership, *consensus* and a shared understanding are more likely to be an

¹⁵ O'Donnell, R (ibid) p9

outcome of partnership. On the other hand there are risks of setting up a partnership process that has to tackle really tough issues if there is no hearts and minds commitment by those round the table to a new strategy. We have no legacy of successful partnership to bind the participants together, and with fiscal stability already enshrined, our immediate challenges are on the more complex supply side. Scottish circumstances may call out for a wider agenda and yet, as the Irish are now discovering, it is here that it is most difficult to reach and sustain a consensus.

Ireland at least knows strategically what it wants to achieve going forward. Scotland probably has still to catch up, but thereafter we would be likely to find ourselves alongside Ireland in trying to make it happen. The challenge for these times is finding new forms of partnership that can meet the challenge of supply-side economic reform and public sector modernisation.

Scotland needs to assess how it might build a credible process involving all the social partners and the sort of historic compromises this might imply. A fundamental insight from Ireland is that the cross-party consensus in advance gave the partnership process a fair wind. From that process emerged a wider consensus on strategies for growth which has provided policy continuity and bound in key actors. Since 1987 no serious alternative growth strategies have been proposed and all social partners have accepted the political significance of growth, including the progressive shift from a low road strategy to a high road one. The appropriate partnership mechanisms to achieve such a consensus in Scotland may for the moment remain opaque, but they are no less important for it.

Chapter 4

A new Scottish story

The Irishness which was invented in the early years of last century wasn't the work of God or nature, it was a political project ... One of the reasons we are losing a clear sense of Irishness ... is because we have stopped telling these comforting lies about ourselves ... What matters for the future is whether, as a society, we have the creativity and the compassion to invent a notion of Irishness that doesn't depend for its distinctiveness on painting out the bits that don't fit the picture. That, in the broadest sense, is a political project – one no less epic in its scale, though hopefully more humane in its methods, than the one with which the 20th century began.

Fintan O'Toole, *Irish Times*

28 December 1999

This essay has discussed three principal Irish lessons for Scotland if it wants to create the environment for the emergence of a Tartan Tiger:

- Self-belief matters;
- Economic goals should temporarily take precedence;
- National consensus should come before domestic division.

As I argued in the introduction, these lessons suggest Scotland needs a new psyche more than she might need any particular policy. There is no shortcut to self-belief and, without it, a Scottish turnaround is unlikely to get off the ground. Secondly, the economic strategy must be right for Scotland in 2005 not Ireland in 1985. Thirdly, if whether consciously or unconsciously we subordinate our economic ambitions to either constitutional ones or other priorities, we stymie our ability to realise those ambitions.

Scotland is moving forward: politically, economically, socially and culturally. Politically the arrival of the Parliament represented a decisive break with the past. Economically the long-run trends are as important as the short-term pressures. Political gamesmanship with the last quarter's growth figures cannot disguise a forty-year trend of catch-up with the rest of the UK. Legitimate concerns about long-term population trends and future dependency ratios are misunderstood when they are characterised as problems of net emigration, rather than as substantially a consequence of our declining birth rate. Fewer Scots are leaving, including fewer educated youngsters, but we are also having fewer children and still dying young. Scotland's short-term challenges include the speed and agility with which she can embrace a high road strategy, which should have been adopted many years ago when Ireland made similar moves. But whether it is long-run trends or short-term pressures, our domestic debate needs to be characterised by honesty with ourselves, a determination to tell the story like it is, not as we might wish it to be to suit our political perspective.

Looking at the sweep of Irish history one is driven to the affirmative conclusion that Scotland's statecraft phase is upon us. So having achieved our own Parliament it is within our gift to hasten the next phase. Scotland can either move on from governance and our constitutional options to growth, or remain mired in the governance options.

If we move decisively on to the growth agenda new voices in civil society, particularly the business community, will emerge, as will trade unionists who want to look to the long term and educationalists who understand the scale of the contribution they have made

in the past and might make again in the future. As politicians we need to convince the electorate of the case for change that can reposition Scotland in the global economy.

Historically Ireland has shared our Celtic melancholy, a "victim culture" and a lack of national self-confidence. But Ireland does provide an example of change that may have had deep roots, but also quickly became cumulative and sustained in the 1990s. Scotland can emulate the Irish in consigning her old inferiority complex to history. Part of developing that new, more self-confident Scottish psyche will be starting to craft a new Scottish story.

As already discussed, a hundred years ago Irish patriots developed a vision of Ireland as the Isle of Saints and Scholars. That self-image was of the Irish being both victims and world leaders all at once. The Irish today are fewer victims and more leaders. Self-confidence is cumulative.

Ireland's new, more self-confident psyche helped her to craft a new Irish story. External influences such as the peace process in Northern Ireland were certainly favourable, but Ireland was also helping make her own good luck. As Logue and Devine have noted:

Peace would not have become a possibility in Ireland if a sea change in the ways identity is understood, re-evaluated, re-aligned, made inclusive, given a new sense of direction had not taken place. Catholic Ireland and Protestant Ulster are dead and gone and the pallbearers were Ireland's involvement in the European Union, the Celtic Tiger economy, the Good Friday Agreement and the crisis in religion ... Psychologically it transformed a small introspective, backward-looking peripheral country overshadowed by Britain into a consummate modern society that looks to Europe and beyond for fresh conquests.¹

Rising self-confidence and economic growth have had a symbiotic relationship in Ireland. The self-confidence produced by the Celtic Tiger phenomenon has resulted in what has been termed as the hibernisation of cultures – all over the world it is cool to be Irish. And this "coolness" about Ireland has in turn fed the return of the diaspora, in a virtuous feedback loop that has generated confidence, vigour, excitement and energy in contemporary Irish society which we can only envy.

¹ Devine, T and Logue, D (ibid) p x

What is beyond doubt is that Ireland's history and culture have been selectively harnessed to the cause of economic success. Past resentments have become a sign of determination; past hardships explain recent willingness to make a concrete sign of a workforce willing to work hard. This is a society collectively turning its victim culture to the service of success. Historians will of course rightly dispute the fidelity of any national story derived from such national myth-making, but it has just enough veracity to have inspired action, international interest and fuelled economic success.

Scotland also needs its own future story, not one of saints and scholars, but perhaps one of a nation that nurtured the "healers, teachers and innovators" of an earlier age. These antecedents are part of what Scotland has brought to the world. So Scotland's history is every bit as useable, arguably more so, than Ireland's was for her. The Scottish Enlightenment in the eighteenth-century systematised and celebrated the power of knowledge and in turn nurtured Scotland's nineteenth-century economic success and tradition of invention right up to today. Many will be familiar with the list from television to penicillin to medical imaging to Dolly the sheep and optoelectronics which together attest to vital intellectual assets that could be harnessed to fuel economic success in the twenty-first century.

As an Irish commentator familiar with Scotland put it to me recently:

Scotland could have tapped into areas of historic greatness – like medicine – to win pharmaceutical companies that are now so vital to the Irish economy. Scotland's history of inventiveness is under-exploited, with too much emphasis placed on cannon-fodder working-class industries. There seems to be a celebration of grimy, dark moodiness, rather than a forward-looking, optimistic opportunism.

The only way that a new Scottish story can emerge is if we are ready to have this dialogue with ourselves. As McCrone points out, Scotland, like any nation, is a set of meanings, and much depends on whose meaning wins out. Our political parties might consider which meanings of Scotland they champion. The parties committed to the UK must be willing to recognise the useability of Scottish history, notably the historic place of education, the contribution of the Enlightenment, the spirit of invention and so on.

The SNP struggles to recognise the achievements of Scotland in the last three hundred years as part of the Union, mistakenly instinctively relying more on a pre-history – Bannockburn, Wallace, the Declaration of Arbroath – that was uncontaminated by the

alleged yoke of Union. They certainly shy away from acknowledging that the Scots were equal partners with the English in the Empire. As Devine has pointed out, the Empire was never English, always British, and the Scottish middle classes in the nineteenth-century did not feel oppressed in the Union as they had liberty, economic prosperity and cultural integrity – the very thing that European nationalists longed for.²

The SNP may be on stronger ground when it recognises the dangers of dependency (which ironically Mrs Thatcher did more than anyone else to enforce on families) although less strong on the various ways in which it might be diminished. Transcending dependency means long-term constitutional and financial arrangements that diminish pork-barrel politics and parochialism, without making the most vulnerable bear the burden of future adjustments. All parties need to recognise that destroying a dependency mindset means deprecating a blame culture and ceasing to characterise our fortunes as someone else's fault. All this is part of the mix of meanings that is Scotland's past, and in a new mix can shape our future.

But if Scotland has a different history from Ireland, she also shares common characteristics. Go anywhere in the world and say you come from Scotland and you are likely to be welcomed as the Irish are. Albeit if you are Scottish you are more likely to be expected to be a teacher, an engineer or a doctor. So our medical, engineering, scientific, educational and even commercial traditions along with today's contemporary brand awareness of Scottish culture are there to be harnessed.

In these exciting early years of home rule we need to find time to think about the future Scottish story. For decades past we have felt little such responsibility. But with the power to decide comes the chance to think more deeply about who we are today and who we want to be. A new Scottish story honouring the past whilst embracing the future.

Already, twenty years of both constitutional constipation and painful economic transition are receding. Scotland is a natural home for knowledge-based businesses, a place of technological advancement, and the future beckons. Realising the value of our intellectual assets will require a new sense of purpose across Scottish society.

Donald Dewar started reinventing that Scottish story on the opening day of the Scottish Parliament when he said:

² Devine, T (ibid) p289

In this quiet moment of history, we might hear some echoes from the past. The past is part of us – part of every one of us – and we respect it, but today there is a new voice in the land – the voice of a democratic Parliament – a voice to shape Scotland, a voice for the future ... [we] just might be capable now of creating that “new political culture” which would be a light to Europe, and to the United Kingdom, the threat of a good example.³

I hope the “threat of a good example” in Scotland extends well beyond our political culture. I think clues to some of the ways forward are found in the early international survey work carried out by Scotland the Brand. They found, perhaps unsurprisingly, that how *Scotland sees Scotland* is our biggest handicap. The world is already more positive. People who have never encountered the Scots feel they know (and admire) us: as straight, open, ethical, honest, educated, competent, also warm, welcoming, friendly, and even confident and spirited. Do such paragons exist in contemporary Scotland? Are the imaginings part of the myth that has been drawn down by others from our historical roles? Yet, living up to this international image should be the agenda that preoccupies this generation, determined not simply to be the living product of the admirable past, but to use that admiration and affection to embrace more wholeheartedly the modern world and become associated with a vibrant culture, advanced technology and a global outlook.⁴

The bridge between our past and the future will be our people. Of course it may seem ironic in contemporary Scotland that the world sees us as a country that “believes in itself”, when at home we are sometimes so unsure. But we have remarkable assets on which a turnaround can be built. Already we are recognised as retaining the best from the past – that is, a good quality of life with our landscape and heritage intact. Many internationally already compare the environment of Scotland with Ireland, New Zealand and Switzerland. What needs to change is the perception that we are now inward-looking and not actively engaged with the outside world.⁵

In the last four years many have sought to contribute to that emerging new story. Entrepreneurs such as Tom Hunter seek to rescue the legacy of Andrew Carnegie to inspire a new generation. He argues that “Being Scottish is something you can never give up, no matter where you are on the planet ... we will stubbornly go on creating positive indelible marks on the history of the world.”⁶ Most Scots accept the first proposition and doubt the second.

³ Dewar, D in a speech to the Scottish Parliament (30 June 1999)

⁴ Project Galore, *Scotland the Brand* (1999)

⁵ Project Galore, *Scotland the Brand* (1999)

⁶ Hunter, T, quoted in Devine, TM and Logue, P, *Being Scottish* (2002) p160

We need to convince more Scots that growing our self-confidence can help grow our economy as happened in Ireland. Currently Scottish politics serves to confuse people as to whether the key to turning Scotland around is our governance or our growth. I believe it is growth. But many, many Scots still need to be convinced that going for growth does not threaten the values that they hold most dear. What Billy Kay called “our human kindness in adversity, our rampant egalitarianism, our wild, dark humour ... and our passionately shared desire for sense and worth ower aw the earth tae bear the gree, an aw that”⁷ is not viscerally threatened by change and can prosper in a new climate. We need to believe those dreams and values will permeate the New Scotland as much as the old – the invitation is not to give up, but to move on.

⁷ kay, B, quoted in Devine, TM and Logue, P, *Being Scottish* (2002) p111

Conclusion

The mirror our Celtic cousins hold up should fascinate Scots. Like post-independence Ireland early last century, post-home rule Scotland today has her own ground-clearing to do. In Ireland it took sixty years finally to transcend the politics of partition and to craft a new psyche. In Scotland our task is to truncate the statecraft phase down to a decade or less. Four years into the experiment we have already moved beyond the administration of Scotland on to governing ourselves, and growth can follow.

But achieving a turnaround is as much about how we see ourselves as about policy. Scotland may have turned the corner from the darkest days of decline and dependency but still tends to default to overestimating problems and underestimating ourselves. The state is likely to be less significant and the business community relatively more important in a turnaround scenario than a take-off. Scotland's business community has not been immune from our culture of failure and battered sensibilities in recent decades, sometimes thirled to limited ambitions. That must change if the low road of the recent past is to become the high road of the future. But here also there are encouraging signs: corporate leaders such as the Wood Group, RBS and Scottish Power compete globally, and have much to teach their homeland about operating in a global environment.

This is a mindset issue, not the consequence of our political or geographic map.

Pursuing opportunities and refusing past bitterness is the way forward. Scotland needs consciously to exploit the virtues of being a small but clever nation, to retain the essence of her values yet surprise the world with what Scotland offers today. It means believing that a new momentum will not threaten our best values. Scotland may have known the pain of restructuring, of decline and decay, but we have much to offer: assets others envy.

Building a consensus around economic policy objectives will more easily emerge if it is part of a wider debate about the need for a new Scottish story. That new story will take time and foundations must be laid. But in the Irish experience it is remarkable to see how much as changed in the last fifteen years, almost as if a dam has burst. Irish society is already more affluent and more committed to its presence in the global economy than seemed possible or desirable, given its rural, agricultural and protectionist past.¹ Ireland has become a nation comfortable with change – arguably changing faster than any

¹ Crotty, W and Schmitt, D (ibid) p112

other long-established democracy. Economic success has certainly fuelled change. What changed was the Irish psyche or mindset. Such change, when it comes, can be rapid.

On foundations for Scotland's future, I suggest three. Firstly understanding our competitive advantage and our economic strategy for the future. This will mean a much better quality discussion about our choices; one that leaves familiar prejudices at the door. Perhaps the only non-negotiable might be the need for deeper European and global engagement. Quite simply Scotland cannot become a Tartan Tiger of this century, nor achieve a new psyche or craft a compelling new Scottish story, unless she also acts and behaves as one of the most global small nations on earth, looking outwards with confidence.

The second foundation is consciously to strengthen our self-belief. No one benefits from Scotland's gripping lack of self-esteem and what a release it would be to leave behind the false duality of "wha's like us" on one side and "I kent his faither" putdowns on the other. Thirdly, we need to consider possible signals of intent. It may be harder in the absence of crisis to agree upon strong strategic signals – but only pessimists believe that the *only* way to succeed is to fail first.

What might be the obstacles to laying such foundations? Two come to mind. Firstly, worrying more about our map than our mindset and allowing constitutional agendas to swamp economic ones. Secondly, an inability to look forward and accept the desirability of radical change.

One arena that would benefit from a better-quality public discourse is our economic choices. If these debates ceased to be a proxy for constitutional agendas we might make more progress. For example, unionists could acknowledge that tax cutting worked well for Ireland in the late 1980s when it was coupled with other landmark policies and a particular type of external environment. But can the nationalists also agree that significant undercutting in a search for offering a low-cost European location is unlikely to succeed in attracting the sort of high road FDI we need in the future? Hence if it is not fundamental to our competitive strategy, and other small advanced nations in Europe seem to take this view, why focus our energies on falling out over what may be essentially a distributional question about the scale of revenues and who benefits from them, rather than a key growth driver. If others really believe low corporation tax to be a key growth driver in the changed circumstances it is surely incumbent upon them to explain how such a policy might be implemented both domestically and internationally. If we are not to chase rainbows we need honestly to ask whether it is likely that the EU will regard

Scotland as “poor” in the future, as it did Ireland when special dispensation on tax was extended.

So if tax cutting was not a new magic bullet for either Ireland, or Scotland, what about the general case for more financial powers? A convincing case can be made for matching constitutional federalism with more flexible fiscal arrangements: this is different from strategies designed to deliver exit from the UK. This latter route would risk dragging us back to the statecraft phase where economic considerations would be obscured by political ones. So there is a need for dialogue that avoids the language of blame, grievance and looks forward.

So we have the chance to rally Scots to a *high road* message and this may mean deploying what the SNP call their own but the rest of us regard as proper national pride. We must be pro-success if Scotland is to be a “happening place”. We have for centuries been a disputatious lot and are divided against ourselves today in myriad ways. Is this insurmountable? I believe not.

As I move to a conclusion, I wish to draw for the first time on an analogy, not from the Republic of Ireland, but from Northern Ireland and inspired by a Northern Irish woman living in Scotland. She said: “I watched a prosperous industrialised north of Ireland tear itself asunder while the backward agrarian south buried its differences – voluntarily abandoning its claim on the north – and forged ahead, determined to relish the future rather than rot in the past.” She recalled how for many decades the Northern Irish question had been understood in terms of nationalism and unionism with a seemingly intractable 40:60 split between the two communities. Yet by redefining the issue as those pro-peace and those pro-violence it was possible for the vast majority of people in both communities to move on and the division be reformed to 90:10. The continuing difficulties in Northern Ireland do not distract from the power of the symbolism.

As we ponder the depths of our domestic situation, it is exciting to imagine a Scotland, though now divided 65:35 against and for independence, in future characterised perhaps by 85% for success and 15% against it. That margin may not yet be obtainable but it is a worthwhile ambition. It means classrooms where the praise-to-blame ratio for each child is three to one, public services where entrepreneurial souls are not seen as encumbrances, and where Scots who have made their way here or beyond our shores are lauded and valued in Scotland.

This pamphlet asserts that Scotland has choices now and in the future; not necessarily the old choices, framed in old ways, but new choices framed in new ways. The challenges remain, but how we approach them is in our own hands. We may have anticipated the political change home rule would bring, but are only starting to explore the emotional, cultural and economic consequences – it is those challenges that should exercise our minds and excite our spirit.

Appendix 1: Extracts from OECD Economic Survey – Ireland 1999

Today Ireland is a world leader in a number of aspects of economic performance. For a number of years its economy has been termed the “Celtic Tiger”, even though, following the financial crisis in Asia, which began in 1997, its outcomes have clearly surpassed those of such etymological rivals in the 1990s. Output has been growing fairly steadily at near-double-digit rates for some five years; the unemployment rate has fallen around 9 percentage points in that period; the external accounts are in a healthy surplus; and, with the public finances the envy of most of its EU partners, government debt has halved in relation to GNP. The worry has shifted from how to make fuller use of under-utilised resources to one of how to manage congestion and shortages.

This is a far cry from the Ireland of the first half of the 1980s. At that point, output was stagnant; the unemployment rate was surging to the record-high level of 17%, despite heavy emigration; real investment was sliding by a cumulative 25%; the current balance was on average in deficit to the tune of over 7% of GDP; annual inflation was typically over 10% per year; and, despite valiant attempts at fiscal consolidation, the public finances were still in a critical condition, with deficits averaging over 12% of GDP and indebtedness soaring to a peak of 118% of GDP in 1987, the second highest in the OECD.

Reasons for the take-off

The reasons for this successful take-off are multiple. Ireland's appeal has been based on the quality, price and availability of its labour, the welcoming attitude to foreign investors, the use of the English language and exploitation of “first-mover advantages”: once one producer in a sector establishes production facilities in Ireland, it is generally easier to attract its competitors. But there is no question that the robust and prolonged expansion of the US economy – the source of most of the direct investment inflows – and the attractive policy and institutional setting in Ireland have been the major driving forces. A generally conducive and transparent regulatory framework, an open trade regime and competitive labour costs have generated this outcome. A long-standing favourable tax regime applied to tradable goods sectors, financial incentives and substantial industrial support targeted at a small number of key dynamic sectors with spin-off potential, may also have been important in convincing major multinational corporations to choose Ireland as a production location in order to serve at least the EU market.

While the role of fiscal consolidation in the 1980s has been much overplayed in some quarters – with talk of an “expansionary fiscal contraction” – successful fiscal adjustment focused on spending reductions did manage to alleviate earlier concerns for the longer-term sustainability of the low-tax environment. Also, social attitudes coalesced around a consensus view that greater self-reliance was required, that restructuring was inevitable and that competitiveness had to be safeguarded by moderate wage claims negotiated in a centralised setting through the so-called “partnership” approach. The succession of national wage agreements was crucial in preventing both social discord resulting from needed changes in work practices and excessive wage increases from setting in motion a severe squeeze on traditional, labour-intensive industries.

Causes of Ireland's success

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 two-part acceleration in the growth that began around 1987. It is only as to the emphasis that the experts begin to disagree.

The order in which each factor will be listed is from those which are least under the control of the Irish authorities to those where their influence has been most telling.

- Increased labour supply
 - *Unusually favourable demographics*
 - *A tradition of emigration*
 - *Freed-up labour from shrinking agriculture;*
- Improved education skills;
- EU structural funds;
- Increased openness and EU market integration;
- The domestic policy environment
 - *The part played by fiscal policy*
 - *A change in attitudes and institutions: the role of incomes policy*
 - *The important effect of industrial policy*
 - *Successful attraction of foreign investors*
 - *Favourable linkages and spin-offs.*

Lessons for others

The OECD concluded that there has been no silver bullet.

Unfortunately, it would seem that there has been no “silver bullet” – no single, overriding policy that could be adopted elsewhere in order to emulate Irish experience. Rather, the breaks in trend, first around 1987, when the deterioration ceased and performance improved, and then around 1994, when the boom began, are attributable to the confluence of a series of favourable changes in the environment and other exogenous factors (some of which were specific to Ireland and are unlikely to be replicated elsewhere), as well as prudent planning and a range of policy shifts that lay the foundations for the pick-up in growth. Most of the items that have contributed to the improvements are well known to other policy-makers, but other countries’ situations may not be so propitious as to allow such a strong response, even to fully appropriate incentives and institutional arrangements.

Summation

Thus, the improvement in economic performance that began around 1987 and shifted to an even higher gear in 1994 is attributable to a variety of factors. Increased labour input has been a key component. This has resulted from favourable demographic and migration developments, higher labour force participation and a draw down of the stock of jobless and agricultural workers, as well as a continuing upgrading of the nation’s resources of human capital. Also considered and found to have played important supporting roles have been EU membership, including the increased openness and market access this has brought and the associated receipts of structural funds. Domestic policies have also been supportive. Fiscal consolidation may not have been as powerful as some have claimed, but has been helpful nonetheless. Similarly, incomes policy has allowed the achievement of a substantial degree of social consensus. But possibly the most important casual influence has come from the success of the strategy of attracting inflows of foreign direct investment, especially from the United States. These flows have generated substantial direct economic stimulus and significant spin-offs to domestic suppliers and potential entrepreneurs.

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