GOING FOR GOLD

More Than Just Lucky Shamrocks: The Re-Invention of Ireland and Lessons for Western Canada

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GOING FOR GOLD

The Western Canadian Economy
in the International Arena

Canada West
FOUNDATION

GOING FOR GOLD

Western Canada's economic prosperity is not only good for the West, but for Canada as a whole. But the West cannot rest on its laurels. Like the athletes training for the forthcoming Winter Olympics in Vancouver, western Canada needs to be at the top of its game if it is to continue to compete successfully in the international economic arena, especially as its competitors step up their games. If we are not successful, our standard of living will fall.

The GOING FOR GOLD Project is examining how best to position western Canada in the global economy through a series of research papers, consultations and a seminal economic conference in Vancouver in the fall of 2009.

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Canada

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This paper was prepared by Todd Hirsch. The paper is part of the Canada West Foundation's GOING FOR GOLD Project Research Paper Series. Each paper examines a key issue related to improving western Canada's ability to compete and win in the global economy over the long-term.

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Leading the Way: The GOING FOR GOLD Project Research Paper Series

The primary goal of the Canada West Foundation's GOING FOR GOLD Project is to ensure that Canadians make the right public policy decisions for improving the ability of the country and its regions to compete in the upper echelon of the global economy. The ultimate goal, however, is to ensure that Canada experiences the long-term economic prosperity that underpins a high quality of life and an inclusive and caring society in which all citizens can participate and thrive.

The GOING FOR GOLD Project's *Research Paper Series* helps achieve these goals by providing thoughtful and timely information combined with practical options for improving public policy's role in fostering Canada's economic competiveness. The diversity of topics covered by the series is intentional and highlights the many facets of public policy that will need to be working in concert if western Canada—and by extension Canada—are to succeed in the global economy in the decades ahead.

We cannot rest on our laurels and we cannot be reactive. We must take proactive steps today to ensure a prosperous tomorrow. The countries that fumble the public policy ball will fall behind in the global economy and see the opportunities available to their citizens shrink. Much of what must be done is beyond the scope of public policy; it is just one factor, but it is a critical factor. Bad economic policy will hamstring us just as good public policy will propel us forward.

It is important to note that winning in the global economy does not mean that other regions and other countries must lose. Even though only one competitor can rank first, healthy competition can bring out the best in all countries. There is much that Canadians can achieve by working with international partners. This, in turn, will improve economic outcomes both at home and abroad. There is also much that Canada can learn from the experiences of other jurisdictions and this is a key element of the research papers.

There is much to discuss and there is much to be done. Ask any Olympic athlete if their training is ever complete and they will say that they are always training, preparing, and searching for the competitive edge. The same is true of public policy aimed at improving our economic competitiveness—it will always be a work in progress.

The authors of the papers were given the freedom to explore key topics as they saw fit. As a result, the series does not provide a complete set of policy recommendations or a master plan for global economic dominance. Nor does it represent the "top 10" things that must be done to make western Canada more competitive. Rather, it provides a set of useful *examples* of what can and should be done combined with provocative recommendations across a broad range of relevant policy files.

As the global economy reels from bad decisions and bad public policy, it is more important than ever for research institutes like the Canada West Foundation to step back from the ups and downs of the day-to-day and provide policy suggestions aimed at the underlying structures of our economy and its long-term success.

The papers are part of a larger consultation process that will culminate in a seminal conference on economic competiveness in the fall of 2009 in Vancouver. The conference will bring international experience as well as western Canadian knowledge to bear on the question of competitiveness.

For more information about the GOING FOR GOLD Project, please do not hesitate to contact me at roach@cwf.ca.

Robert Roach

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Director of Research

Executive Summary

If one country in the developed world has proven that it is possible to re-invent its economy, it is Ireland. Within the span of twenty years, it has lifted itself out of the poorest backwater of the EU to among the region's wealthiest members, earning the nickname "the Celtic Tiger." Today it stands among the leaders in the fiercely competitive global economy.

Ireland's turnaround was a result of a number of coincident factors. Some of these factors were craftily designed public policy measures, while others were external forces. Indeed, some of the factors were purely luck—being in the right place at the right time.

Comparing Ireland to western Canada, there are far more differences than similarities. Very little about the structure or industrial base of the two jurisdictions is similar, either before or after the Irish transformation. On the surface, it would seem that western Canada has little to learn from Ireland's experience.

Certainly western Canada should not simply attempt to replicate what Ireland did. Nonetheless, there are several themes and principles that can be noticed within the Irish experience, and it is within these themes that western Canada has much to learn:

- Tax cuts alone were not responsible for Ireland's turnaround—it was a complex interaction of several concurrent factors.
- A strictly laissez-faire approach is not necessarily the best.
- A strong emphasis on education is essential. In the long-run, creativity and innovation matter more than resource endowment.
- Managing an economic downturn, and the expectations surrounding years of strong growth, require fiscal prudence during good economic times.

Following from these themes and principles, there are several key public policy recommendations that could help western Canada achieve a much higher and more competitive status in the global economy.

- Pick winners: The idea of governments "picking winners" has fallen terribly out of fashion, and for good reason. In the 1970s, picking winners involved governments artificially subsidizing, and even owning, businesses that were thought to represent the waves of the future. A better approach is to identify growing sectors within the global economy that complement western Canada's key strengths and create the right business conditions for them to flourish.
- Establish a Western Canadian Investment Commission: dedicate funds and efforts to attract foreign direct investment.
- Focus on education: place a much greater emphasis on the importance of a highly educated, creative and innovative work force.
- Accentuate western Canada's attributes: emphasize the unique features of the region that would be desirable to foreign investment, such as the promotion of the region as a safe and stable political environment.

Abstract

On the surface, Ireland and western Canada seem to have little in common and it appears that there are very few transferable lessons from one to the other about how to "re-invent" an economy. Despite the considerable differences, there are indeed ways that western Canada can learn from the Irish experience. This paper explores the turnaround in Ireland's economy that took place between the late 1980s to the present, and reviews some of the main reasons why this economic renaissance happened. Most of the reasons are well established in the broad body of literature on the topic, so the intention here is to provide a brief summary of these factors. As well, there are implied or indirect factors in the Irish Miracle that are uniquely identified in this paper—factors that are less policy-driven or quantifiable, and some simply the pleasant results that followed from the intentional policies. Attention then turns to western Canada: the contrasts and comparisons with Ireland, the factors driving its own remarkable economic growth, and the lessons that can be learned from Ireland in the "re-invention" of its economy. The final section of the paper offers some policy recommendations through which western Canada might be able to position itself more competitively on the global economic stage.

1. Introduction

A quotation often attributed to Henry Ford is instructive: "If we had asked people what they wanted, they would have said faster horses."

In 2008, a similar question could be posed for western Canada's economy: What does western Canada need in order to prosper on the world stage, and how can we raise our standard of living for the future?

To this question, there are a lot of voices in Canada simply calling for faster horses: lower taxes, more social programs, etc.

In order to achieve greatness and prosperity in the long-run, western Canada's economy needs a whole new economic DNA, a massive transformation of thinking, creativity and innovation. It needs to do for its economy what Henry Ford's automobile did for transportation.

Ireland, a country mired in near-permanent recession and economic decline in the 1970s, managed to pull off this kind of transformation in a twenty-year journey that started in the mid-1980s. It completely re-wrote its economic DNA. Today, despite a sharp global contraction that is gripping Ireland, the EU, and the global economy, Ireland remains one of the shining examples of a thriving, export-oriented nation competing to win in the fiercely competitive global economy.

While Ireland is a country vastly different from western Canada, there are themes and principles that can be learned from the Irish economic re-invention. It has shown that, with the right policy measures, a complete re-invention of an economy is possible.

2. The Celtic Miracle: Why and How?

There is a tremendous body of literature—both economic and political—surrounding Ireland's turnaround. One of the most common themes in this literature has been that none of the growth can be pinned down to one single factor. As one writer in *Fortune* magazine put it:

> There is no consensus about the ingredients of Ireland's success. The more fanciful view is that it was the product of a shift in the nation's zeitgeist brought about by the visit of Pope John Paul II in 1979, or even the boost in national self-confidence engendered by the success of homegrown rock bands like U2. The more prosaic argument is that, after decades of performing below its long-term potential, Ireland has simply enjoyed a telescoped process of catch-up - "belated convergence," as economists call it (Redman 2006).

The broad themes that are generally accepted to have contributed to the making of the Celtic Tiger are outlined below.

2.1 Fiscal Discipline and Competitive Taxes

Similar to many western industrialized countries throughout the 1970s (including Canada), the Irish government had slid into a period of perpetual deficit financing of program spending. By 1985, Ireland's annual budget deficit as a portion of its total gross domestic product burgeoned to nearly 11%. Under the coalition government of the Fine Gael and the Labour Party, Ireland's total national debt hit £22 billion in 1987 (which, at the exchange rate of the time, was approximately $C60 billion).

In most ways of measuring it, the beginning of Ireland's re-invention and economic turnaround can be traced back to the year 1987. In that year, the Fine Gael-Labour coalition government finally fell, and was replaced that year by the Fianna Fail party.

Ray Mac Sharry was the Finance Minister of the new Fianna Fail government, and in his words, regaining the control of government spending was an important first step for Ireland:

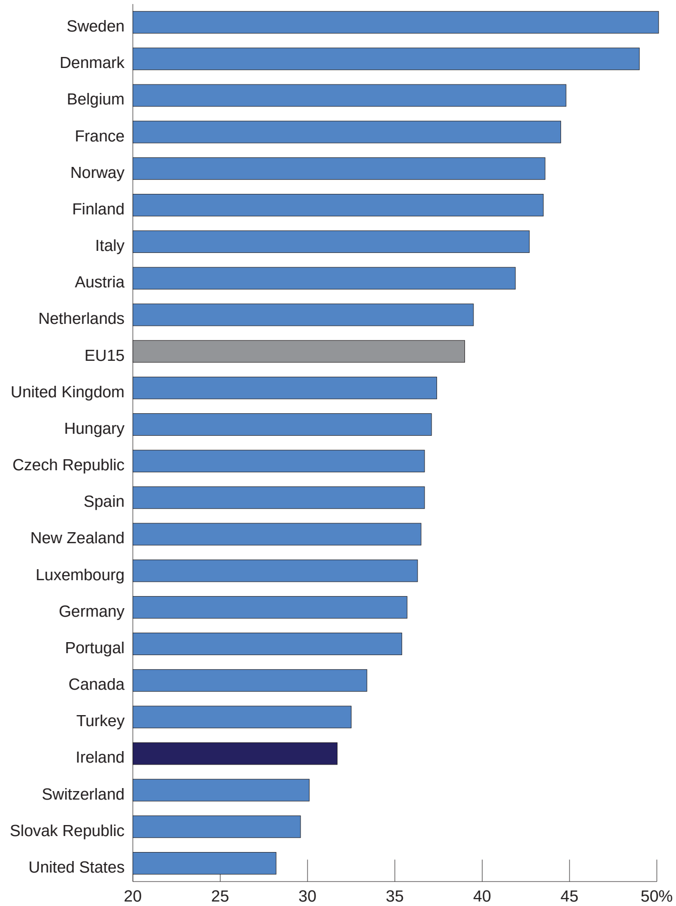
> The radical and painful correction in the national finances that got under way in 1987 paved the way for the benign economic conditions of high growth and low inflation that followed. And from these, the Celtic Tiger phenomenon was to emerge in the mid-nineties (Mac Sharry 2001: 47).

The Fine Gael party, the new opposition party in 1987, was supportive of the new government's focus on bringing spending in check. That support was critical, at least politically, in making possible the fiscal restructuring that was necessary.

Government spending was cut and taxes and borrowing were reduced as well. But unlike other countries (such as the US and the UK in the 1980s), tax cuts and massive reductions in public spending had an important buy-in from a key player: organized labour. A new "Social Partnership" was grafted into the Fianna Fail government's program of fiscal restructuring (The Economist 2004). A dialogue with labour unions, trade unions, and other parties heavily affected by spending cuts helped the transition to balanced budgets. Unions accepted wage restraint in exchange for more policy influence and cuts to personal income taxes.

Over the preceding years, trade disputes had become a regular feature of the Irish economy. They reached a peak of 220 major

Figure 1: Total Taxes as a Percentage of GDP, 2006



Source: OECD

strikes or disruptions in 1974, and another peak was hit with 192 in 1984. But by the late 1990s, the number of disputes had fallen to fewer than 40 per year (Mac Sharry 2001: 338).

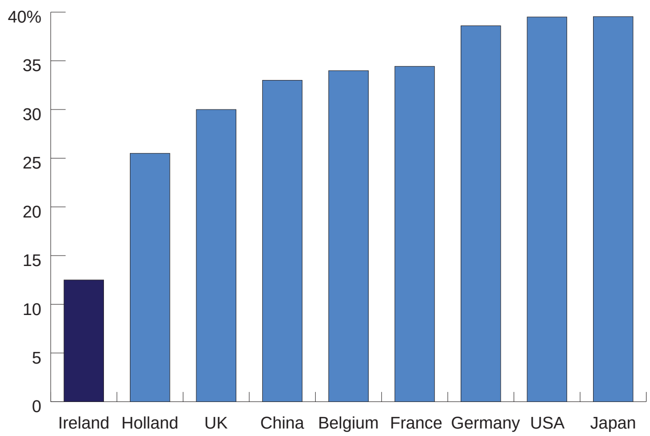
Corporate taxes were slashed in Ireland to rates between 10% in the early 1990s and the current rate of 12.5%—well below rates in competing EU nations such as the UK, France and Germany. According to some, these low corporate income tax rates have been the cornerstone of economic growth. In an editorial in *The Independent*, a leading Dublin newspaper, the judgment is unequivocal:

> …very clear benefits accrued from access to the single market; particularly for foreign multinational companies who were keen to locate here… [but] of course, few of those multinationals would have invested in Ireland without the incentive of a low corporate-tax regime. And they would never have stayed here, if the corporate tax advantage was

> subject to review, change, and ongoing uncertainty (The Independent 2008).

Clearly, a low level of taxation, which was made possible first by bringing overall government spending under control, gave Ireland a significant competitive advantage. But as we will see, this has by no means been the only contributing factor.

Figure 2: Corporate Income Tax, 2007



Source: IDA, Deloitte & Touch, 2007

2.2 Association with the European Union

The formation of the European Economic Community (EEC) in the early 1970s, and much later, the formation of a currency union under the European Union, contributed greatly to Ireland's economic boom.

Free trade with the EU under the European single market gave Ireland an advantage in attracting foreign direct investment from outside the EU. Many companies used Ireland as a launching pad from which to access the larger EU market (more on this later).

As well, the adoption of the euro in 1999 meant that Ireland assumed the prevailing EU interest rates, which were well below prevailing rates in the 1980s and 1990s, and likely below the rates that would have prevailed had Ireland continued with its own central bank and Irish sterling currency.

Key Monetary Developments in Ireland

- 1973: Irish access to European markets for industry and agriculture led to a steady reduction in the proportion of Irish trade with the British market.
- 1979: Ireland decides to break the link with the sterling and join the European Monetary System (EMS), while the UK remained outside.
- 1999: Ireland joined the single euro currency. While the UK chose to remain outside the euro, Ireland never hesitated to embrace European economic and monetary integration.

But joining the EU also provided the benefits of cash subsidies for which Ireland—as a poor country in the Union—qualified. EU subsidies to Ireland have a long history, starting back in 1973 as part of the EEC. But with the Maastricht Treaty in 1992, the EU subsidies were greatly enhanced. The transfers helped Ireland to catch up with the rest of Europe in terms of its infrastructure that had suffered in the 1980s as a result of the government's fiscal belt-tightening.

While they were doubtless helpful and welcomed, it remains questionable how much of a difference the subsidies made to Ireland's economy. The transfers never exceeded 5% of the country's GDP, which is a far smaller portion than what Germany transferred to East Germany at the time of unification. Authoritative studies suggest that the EU subsidies have contributed around 0.5% a year to growth in Ireland during the 1990s (The Economist 2004). That amount is helpful, yet the contribution is modest in the context of total annual growth of between 6% and 7%.

As well, some studies have suggested that the cash transfers from the EU were in fact harmful to the Irish economy (Powell 2003).

Aside from the subsidies, access to the EU market, and lower interest rates, Ireland's intentional decisions to make stronger connections with Europe had other less tangible benefits:

> …above all, joining the EEC, as it then was, allowed Ireland to step out of the shadow of British influence and

to play a distinct role on a larger world stage. In giving up a form of national sovereignty that was always more apparent than real, Ireland gained far more than she lost from the new experience of shared sovereignty. Ireland's accession marked an important turning point in [Ireland's] national affairs. This was the first in a series of steps that saw the country move away from the exclusive economic dependence on Britain that had marked the first half-century since Independence (Mac Sharry 2001: 149).

2.3 Education

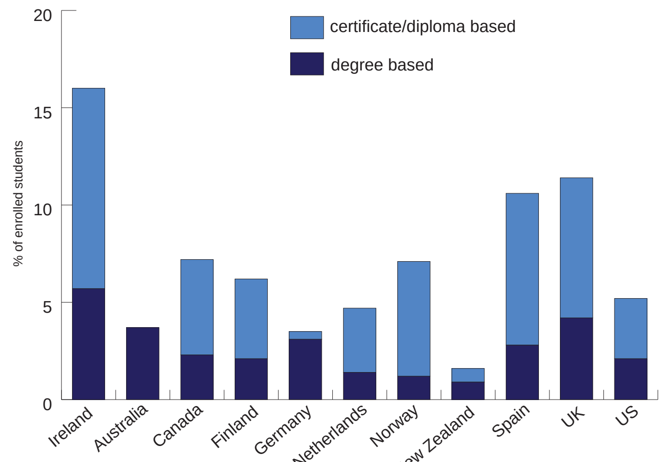
Over the past 40 years, the Irish government has made investment in human capital a priority. Starting with free secondary (high school) education and higher-level technical training in Regional Technical Colleges in 1986, the country has significantly boosted participation rates and helped the country meet the demands of its rapidly growing economy.

Between 1965/66 and 1980/81, the number of students enrolled in both secondary and post-secondary education doubled. The number enrolled in university continued to rise in the following 20 years (to 2000–2001), adding to a more than sixfold increase in 35 years (Dorgan 2006).

In many ways, the quality of the learning and its relevance to the business community has been just as significant as the number of students enrolled. The greatest increases in higher-level education were in technical and vocational subjects, largely in Regional Technical Colleges (which later became Institutes of Technology), and in science, engineering, and business studies in universities. During the 1980s, when Ireland was still suffering high out-migration, there was much concern that Ireland was simply educating its young people for the benefit of other countries. But as internal policies improved, the rewards for Ireland became clear when many migrants returned with relevant expertise in the ensuing years.

The "binary" or dual system of higher education—with universities fulfilling a primarily academic degree-based education, and polytechnical colleges providing technical and vocational certificates and diplomas—has served the Irish economic and business needs very well. Enrollment in information technology related courses in Ireland well exceeded that in most other competitive OECD countries by the late 1990s.

Figure 3: Post-Secondary Students Taking IT Courses



Source: OECD, 1999 Data

Since the late 1990s, with the transformation in Ireland's relative competitiveness, a new emphasis has been placed on science and research expertise. A national Technology Foresight exercise identified information and communications technology and biotechnology as key technologies of the future. Based on this, the government established Science Foundation Ireland (SFI), modeled on the National Science Foundation (NSF) in the US, to attract world-class research in these areas to Ireland.

2.4 Foreign Direct Investment: the IDA

Another significant factor in helping lift Ireland's economy was the tremendous surge in foreign direct investment (FDI), particularly from the United States. Foreign direct investment, however, did not happen on its own, nor can low tax rates be given all of the credit. The success of FDI attraction has been due largely to the enormous efforts of Ireland's Industrial Development Authority (IDA).

FDI captures those investments in which foreign-owned companies pour capital, research, and human expertise into a region with the intention of gaining competitive access to the region. In Ireland's case, it was primarily seen as a launching pad from which to access the large and growing EU market.

High tech companies such as Polaroid and Digital Equipment had identified the benefits of Ireland as a place for FDI as far back as the 1960s. But FDI really started to take off when Ireland dropped its corporate income tax rate to 10% (after complaints from the EU, it was raised to 12.5%):

> … for overseas industry locating [in Ireland], Ireland being within Europe held out even more attractions. Foreign firms were first attracted to the Republic by the low tax regime. Increasingly, after EEC membership, the multinationals were eager to use the country as a manufacturing base and a platform for their exports to Europe. Later, the scale of American investment, particularly in the high-tech sector of industry—electronics and pharmaceuticals—offered the most dramatic illustrations of this trend (Mac Sharry 2001: 151).

Almost 1,000 overseas companies have chosen to invest in Ireland as their European base and are involved in a wide range of activities in sectors as diverse as engineering, information communications technologies, pharmaceuticals, medical technologies, financial companies, and international services (IDA 2008).

Major global IT players such as Intel, Yahoo, Adobe, Microsoft, HP, Apple, Google, Amazon, and Palm have made significant foreign direct investments in Ireland. And in many of these cases, it has been the intentional efforts of the IDA that have made these investments a reality. (The effective strategy and approach of the IDA are explored in more detail in section 6.2.)

Foreign direct investment, then, was initially attracted by low taxes, access to the EU, and the efforts of the IDA. But on top of all of these were two particularly lucky factors that were totally outside the realm of public policy: language and time zones. These proved to be especially attractive to FDI.

> … to reinforce a cliché, the Irish were lucky. Just as the EU was starting to gain some economic traction, Ireland was the only English-language country fully in the EU. This made it incredibly attractive as a springboard from which American software and pharmaceutical companies could access European markets. Ireland was also lucky because it was in the right time zone: at the end of their working day, the Irish branch plant workers would hand off projects to their American colleagues who were just pouring themselves their first cup of coffee (Hirsch 2008).

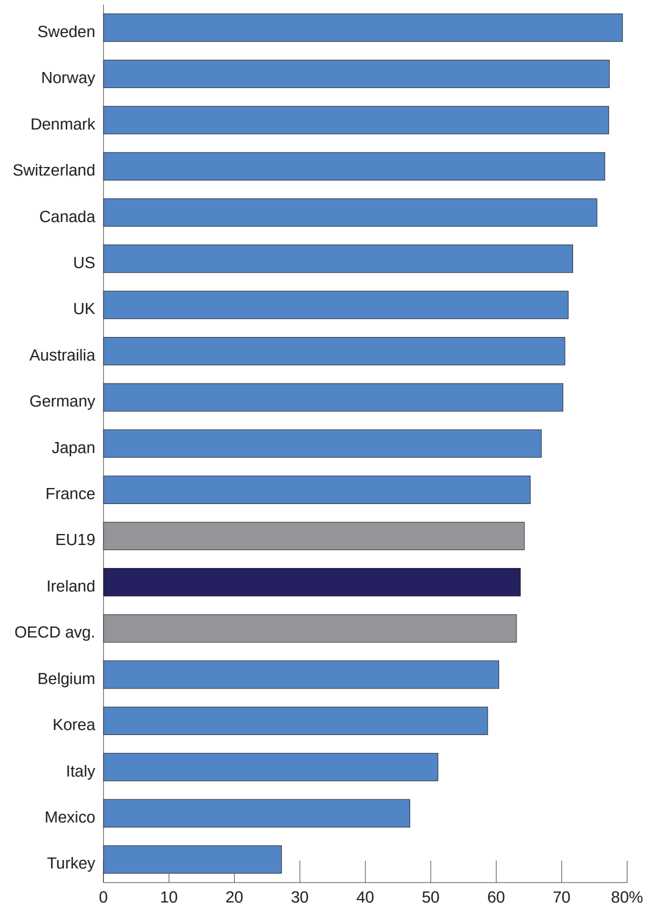
2.5 Demographics and Labour Force Dynamics

Yet another factor that led to Ireland's economic dynamism is the country's demographics. Ireland's baby boom lasted longer than it did in the rest of Europe, perhaps because of its stronger ties to the Roman Catholic Church in the post-WWII period. As well, there were fewer senior citizens in the country because of the very heavy out-migration from Ireland during the 1950s and 1960s. As a result of these two demographic forces, Ireland's population has been relatively younger than other competing European nations.

The younger-than-average ages can be seen clearly in the population pyramids for Ireland compared with Canada and the OECD average (see Appendix A).

As well, female participation in the Irish labour force was low by industrialized standards prior to the 1980s. But since then, women have taken up the call to work outside the home, and

Figure 4: Female Participation Rates, 2007



Source: OECD

today female participation rates are slightly higher than average among OECD countries (although they remain well below rates in Canada).

3. Less Common Explanations for Ireland's Turnaround

Aside from the well-researched factors that created the Celtic Tiger outlined in section 2, there are some other conditions that have, to some degree, contributed to Ireland's ascension on the global economic stage.

Students of economics will be able to identify what have traditionally been called the "three factors of production" that mankind uses to create wealth and improve living standards: land, labour and capital.

But there is a fourth factor of production, which unlike the others is unlimited in possibilities: *entrepreneurialism*. It is this fourth factor that encompasses innovation, creativity, and marketing expertise—all factors that have been enormously helpful in Ireland's economic growth.

Tapping into Irish entrepreneurialism is exemplified by (but not limited to) the following:

3.1 The International Financial Services Centre (IFSC)

In conjunction with the efforts to increase foreign direct investment in Ireland, efforts were made to establish Ireland (and Dublin in particular) as a major financial sector. This was viewed as key in attracting international companies and entrepreneurs to the country.

The International Financial Services Centre (IFSC), which was established in central Dublin in the early 1990s, stemmed from a vision of Irish billionaire Dermot Desmond and one of his associates. The two approached Charles Haughey, then the leader of the official opposition in the Irish Parliament, who bought into the vision of Dublin as a financial centre. Mr. Haughhey made the IFSC one of the cornerstones of his economic platform when he came back into power. *The Finance Act, 1987* (Section 30) allowed for the designation of such an area.

The IFSC incorporates world-class office accommodation, educational institutions, executive housing, restaurants and shopping facilities. It has expanded beyond its original site and has become a vital part of the wider Irish economy.

The IFSC is now home to many of the world's premier financial institutions, along with leading law firms, accounting firms, and tax specialists who support them. At its heart is the National College of Ireland, which provides continuing education to the financial professionals who work there. This has boosted the number of high value jobs and has helped accrue a wealth of financial services expertise among the Irish labour force.

3.2 Merging Creativity and Technology: DKIT

Similar in scope and vision to the IFSC—yet fostering a much different quality in Ireland's human capital—is the Dundalk Institute of Technology (DKIT), located about 100 km north of Dublin. Established in 1971, about the time when Ireland started investing heavily in post-secondary education, the DKIT today has a student population of about 3,000 full-time and over 1,000 part-time students pursuing certificate, diploma, degree and post-graduate programs in engineering, science, nursing studies, computing, hospitality studies, business and humanities (Irish Scientist Yearbook 2003).

One of the most impressive and visionary projects at the institute is the Creative/Digital Media Initiative, the goal of which is to create a knowledge-based cluster of businesses in Ireland in a sector that has the potential to offer a distinct competitive advantage.

With DKIT at the centre of the alliance, contributors include the Dundalk Chamber of Commerce, Enterprise Ireland, IDA, the Louth County Enterprise Board, and the private sector. The objective is to foster creative media-based enterprises in northeast Ireland, focusing on those industries which emerge from the interaction between technology and the arts, such as film, video, multimedia, computer games and animation, and music technology.

While “creative industries” are now recognized as a key sector in the global knowledge-based economy, they are plagued at the same time by being poorly understood. This is where the Dundalk Institute of Technology plays a role. A research project at DKIT (funded under the government’s Technological Sector Research Support Programme) seeks to identify the nature of Ireland’s creative industries, and to determine ways to support and meet its unique needs. One of the main objectives of the initiative: *to identify the major challenges faced by entrepreneurs and businesses in this sector, including barriers to entry, barriers to commercialization, and other mechanisms (e.g., financial) that may impede the development of creative media SMEs.* (Irish Scientist Yearbook 2003). These are problems that companies in western Canada commonly encounter.

Ultimately, the DKIT’s research into the creative industries will support the Irish economy by fostering entrepreneurship, innovation and sustainable new businesses—and put Ireland even more at the front and centre of a burgeoning segment of the global economy.

3.3 Ireland’s Creative Minds

The primary emphasis of IDA Ireland isn’t on taxes, the availability of industrial space, or subsidies. It is on people and the creative capacity that exists within the minds of Irish workers, and using that quality to attract foreign investment.

Sean Dorgan, the Chief Executive Officer of IDA Ireland sums it up in a comment on the IDA website:

> The Irish mind has always been recognised as creative, imaginative, agile and flexible, having an almost unique capacity to initiate, and innovate without being directed. Ireland’s wealth of young talent is set to create a vibrant research community and a great new wave of Irish innovation with unprecedented levels of investment by the State in science and technology (IDA Ireland 2008).

As well, IDA Ireland initiated a major “Irish Mind” advertising campaign, which was launched in 2006 using images of the likes of poet William Butler Yeats, rock musician Bono and writer Oscar Wilde. In the ads, the IDA emphasizes creativity:

> The Irish Mind. An abundant supply of that rare commodity you’ll need to bring your business to peak performance. The Irish. Creative. Imaginative. And flexible. Agile minds with a unique capacity to initiate and innovate without being directed. Always thinking on their feet. Adapting and improving. Generating new knowledge and new ideas. Working together to find new ways of getting things done. Better and faster.
>
> This flexible attitude pervades the ecosystem. Nowhere else will you find such close, frequently informal, links between enterprise, education and research facilities and a pro-business government. Connected by a dynamic information infrastructure. In Ireland, everything works together (IDA Ireland 2008).

The message: what matters is the brain power of the country’s citizens—creative, imaginative, agile and flexible.

However, there are skeptics. Not everyone is convinced that just because the IDA *says* the Irish are creative that it is necessarily true (Hennigan 2008b). And even if the claim that the Irish are creative is accepted, some have questioned if this necessarily translates into an innovative, dynamic economic environment.

3.4 Growing Indigenous Business: Enterprise Ireland

Other than the better-known IDA, the goal of which is to attract foreign direct investment, the Irish government has also established Enterprise Ireland. The purpose of this government agency is to aid in the development and promotion of the indigenous business sector. As the Enterprise Ireland website states:

> Our mission is to accelerate the development of world-class Irish companies to achieve strong positions in global markets resulting in increased national and regional prosperity.

Our aim is to facilitate collaborative links between enterprise and the research community that lead to the practical application of research in business, yielding benefits to both groups (Enterprise Ireland 2008).

A major success for Enterprise Ireland has been the growth of the indigenous biotech sector in Ireland. This is due in part to the groundwork laid during the past 10 years by various organizations and agencies in Ireland, and to the considerable increase in investments in Irish biotech research and development.

In February 2002, Enterprise Ireland published its *Building Biotech Businesses* strategy. The strategy is now fully operational and is contributing significantly to the development of Ireland's entrepreneurial-led biotechnology industry. The strategy has a number of key elements, including applied research funding, commercialization and technology transfer, international networks, bio-incubation, venture capital, and fast-track company growth.

In order for Enterprise Ireland to be well placed to commercialize the results of Irish biotech research, it has located staff as close as possible to where the research happens. This is where a strong link with the universities and post-secondary institutes is critical. A number of biotech commercialization specialists and biotech project officers are assigned to Dublin City University; Trinity College, Dublin; University College Cork; University College Dublin; National University of Ireland in Galway; University of Limerick; and Royal College of Surgeons in Ireland.

3.5 Peace, Order and Good Government

For many businesses looking to make investment decisions abroad, there is no single factor more important than political stability and security.

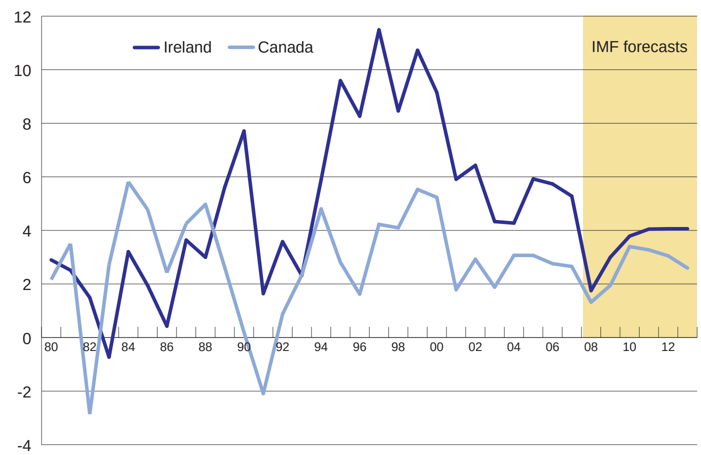
Though rarely mentioned, the peace process in Northern Ireland and the Good Friday Agreement of 1998 did much to improve Ireland's image in the rest of the world. The added security and stability that was brought about through the agreement also transformed the political environment by enabling the Irish government to shift focus from security to economic development.

4. Current Conditions in Ireland

Despite the remarkable growth that has lifted the Irish economy and standard of living over the past twenty years, the country finds that it is not completely immune to global economic forces that might pull its growth in the opposite direction. In the summer of 2008, Ireland's economy has slowed to a growth rate estimated at 2.4% (annualized rate), according to the most recent forecasts of the Economist Intelligence Unit. The country's jobless rate rose to a nine-year high of 5.7% in June 2008.

A strong euro vis-à-vis the US dollar, a tight credit market situation stemming from problems in the US and Europe, and a softening export market to the US is bringing Ireland's growth rate closer to rates in other western economies, including Canada's (see Figure 5).

Figure 5: Real GDP Growth, Ireland and Canada



Source: IMF World Economic and Financial Surveys, April 2008

After the heated pace of development and run-up in real estate prices over the past decade, there is now an apparent pause taking place. The Irish economy contracted for the first time in more than a decade in the first quarter of 2008, largely as a result of problems in the housing and construction sectors, a tightening of global credit conditions related to problems in the US financial sector, and slower exports to major markets such as the US and EU.

In a recent Bloomberg.com article, Alan Ahearne (a lecturer at Ireland's National University and a former economist at the US Federal Reserve) was quoted as saying "after years of inappropriately low interest rates, Ireland is now feeling the hangover" (Bloomberg 2008).

Worse still for Ireland, in the summer of 2008 the European Central Bank raised interest rates to 4.25% in an attempt to stem inflationary pressures that have been building within the EU over the past year. The interest rate increase is particularly bad news for Ireland's housing market; housing starts have already dropped around 60% from where they were last year. The slowdown prompted Dublin-based realtor Lisney to lower salaries by 10% for its 170 workers. The Irish unit of CB Richard Ellis plans to cut around a tenth of its workforce (Bloomberg 2008).

As Rodney Thom states in his essay on Irish monetary and fiscal policy, Ireland's enormous growth spurt is giving rise to new challenges, many of which resonate with eerie familiarity in western Canada in 2008:

> Ireland does not have a growth problem, an employment problem, or a competitiveness problem. If anything the problem is that growth is currently above the rate which is sustainable in the longer run and that the economy is over competitive, resulting in labour shortages and inflationary pressures. Put another way, Ireland is now faced with a stabilization problem that requires that the economy converge to the sustainable growth path in a smooth and orderly manner (Munley 2002: 102).

The challenge for Ireland's policy-makers and political leaders going into the next decade is to navigate the transition from a high-growth economy to a moderate- to slow-growth economy without damaging public confidence in the economic system that has been built. It is, essentially, a task of managing expectations among a public that has long grown accustomed to rapid growth.

5. Ireland and Western Canada: Comparisons and Contrasts

In many ways, the differences between Ireland and western Canada are stark, and it could be tempting to dismiss any transfer of economic lessons from one to the other as inappropriate. Indeed differences exist, but those differences should not completely negate the lessons that can be learned from the Irish experience. Some similarities also exist.

Contrasts with Western Canada

5.1 The Starting Point

The most obvious difference in comparing the two jurisdictions could well be the economic profile of Ireland circa 1985—the symbolic point at which Ireland had "bottomed out" and started its transformation—and western Canada in 2008.

Ireland was poor, mostly agricultural, highly taxed, and without much of a natural resource base of any kind. It imported almost all of its energy requirements. It suffered a steady outflow of people, particularly young people, and unemployment rates ran in the double digits.

Western Canada, in contrast, is currently enjoying one of the strongest runs of economic expansion in its just-over-100 year history. Unemployment rates run between 3.3% in Alberta to 4.5% in British Columbia. The economy is being lifted by very strong commodity prices, especially crude oil, natural gas, grains and oilseeds, base metals, potash and uranium. With the exception of forest products, all of western Canada's significant natural resource industries are currently enjoying very robust growth.

Also, government deficits and debt are well under control in western Canada, in complete contrast to Ireland in the mid-1980s. Alberta completely eliminated its provincial debt in 2005, and is running enormous fiscal surpluses. In its most recent fiscal update, Alberta's provincial government is estimating its surplus for 2008-09 at $8.5 billion (Government of Alberta 2008). Saskatchewan, Manitoba and BC are all running surpluses as well (albeit much smaller), and their debt-to-GDP levels are much lower than they were a decade ago. As well, the federal government has consistently run surpluses over the past decade, and its total federal debt-to-GDP ratio is the lowest in the G8.

5.2 Lack of Cultural Identity

Something that western Canadians (and Canadians in general) lack that Ireland possesses is a clear cultural identity. For the most part, the Irish people share a common religion, common institutions, and a strong attachment to their own sense of nationhood.

Western Canada, on the other hand, is made up of vastly different pockets of cultural identity. While they do hold strongly to national images and values, they are less likely to hold the same ethnic and cultural backgrounds, many still preferring to be "hyphenated" Canadians.

The extent to which this lack of cultural or societal identity acts as an economic impediment is debatable. But as will be discussed later, the cohesiveness of Ireland's cultural identity could have been a distinct advantage in "selling" Ireland to the global economy. Strong marketing campaigns to foreign investors have played significant roles in Ireland's transformations. Those campaigns were arguably made easier with Ireland's more identifiable culture and characteristics.

5.3 Geography

Another obvious contrast between the two is the geographic size of each. Ireland is a relatively small island nation of 70,283 square kilometers (excluding Northern Ireland). The four western provinces combined measure 2,712,729 square kilometers, approximately thirty-nine times the size of Ireland.

The difference is significant in the cost of developing modern transportation infrastructure. Obviously the expense of paving highways, developing rail facilities, and building ports is going to be much greater for western Canada than it was (and still is) for Ireland. This is important because Ireland's investment in infrastructure is given some credit for the country's economic success.

5.4 Systems of Government

While both Ireland and western Canada are liberal democracies with party-system electoral institutions, it could be argued that Ireland's situation is somewhat easier because of the existence of only one central government, complemented by smaller regional or municipal counsels with much different responsibilities.

Western Canada, on the other hand, is influenced tremendously by both federal and provincial orders of governments. The list of responsibilities in which federal and provincial jurisdictions overlap includes corporate and personal income taxation, transportation, the environment, social policy, immigration, and industrial development.

On top of this, western Canada's municipal governments are playing increasingly large roles in some of these areas, particularly economic development and transportation infrastructure.

Multiple orders of governments are not a disadvantage *per se*, but practical experience has proven that competing political interests and various policies that at times run counter to others can act as an impediment. At best, the coordination and cooperation of two or three levels of government is challenging; at worst, it can lead to policy stalemate, blurred lines of accountability, overlap and duplication, and general inefficiency.

Comparisons with Western Canada

5.5 Access to Large Trading Partners

One economic characteristic that both jurisdictions share is relatively free access to trade with a much larger market. In the case of Ireland, it is the EU; in the case of western Canada, it is the US. These enormous economic markets have provided a launching pad for companies in both Ireland and western Canada to grow, increasing their economies of scale far beyond what limited access in their own region would have allowed.

There is a clear limit to this comparison, however. Ireland is an obvious launching pad for American FDI because of the common language, something that American companies lack with the rest of Europe.

One could suggest that western Canada offers some advantages with trade access to the "other" enormous world market: China.

The case is somewhat legitimate in terms of geography. The west coast seaports at Vancouver and Prince Rupert offer considerable time advantages for North American shippers to and from China. But the true advantages end there. With the exception of some limited pockets of Mandarin-speaking entrepreneurs in western Canada, there is no shared language advantage. Time zone advantages are non-existent with the Far East, something that Ireland possesses with the rest of the EU.

5.6 Well-Educated Work Force

The education factor was a key force behind Ireland's economic ascent, and will also be key if western Canada is to follow suit and become a much more potent global economic player.

As outlined in section 2, it was Ireland's heavy investment in the education of their young people starting in the 1960s that led to its knowledge economy blossoming.

By international standards, Canadians are very literate and enjoy high levels of education. Ireland's achievements in education are somewhat lower but remain well within or above the OECD average (see Figure 6).

6. Lessons for Western Canada

Despite the differences between Ireland and western Canada outweighing the similarities, there are lessons that western Canada can take from the Irish experience.

6.1 Tax Cuts Alone Were Not Responsible

Many observers of the Irish miracle are quick to conclude that the main reason for Ireland's success was the reduction of corporate and personal income taxes. The argument is made most stridently by politicians, think-tanks, and leaders in the business community who single-mindedly promote free market policies as a silver bullet to deliver higher growth, higher wages, and higher standards of living for everyone.

Low taxes indeed played a role in Ireland's transformation, but they were far from the only factor. They may well have even been the first factor that gave the country's economy some growth momentum. But arguably, tax cuts themselves were likely far less important than other policies and investments made by the government. It is too simplistic and even dangerous to conclude that western Canada can achieve Irish-like outcomes by cutting taxes the same way.

Figure 6: Educational Performance, Canada, Ireland and Comparisons, 2004

	Student performance on the combined reading, scientific and mathematical literacy scales, mean score, 2003			% educational attainment of adult population and current graduation rates			% unemployment at tertiary attainment	
	Reading	Maths	Science	Upper secondary or higher	Upper secondary graduation rate	Tertiary attainment	Women	Men
Canada	527.9	532.5	518.7	84.3	n/a	22.2	4.8	4.6
Ireland	515.5	502.8	505.4	62.8	92.4	17.3	1.9	2.1
United States	495.2	482.9	491.3	87.9	75.4	29.7	2.9	3
Norway	499.7	495.2	484.2	88.3	99.9	29.5	2.1	2.8
Japan	498.1	534.1	547.6	84.0	91.4	21.5	3.2	2.9
Australia	525.4	524.3	525.1	64.1	n/a	21.9	2.9	2.7
OECD average	494.2	500	499.6	67.5	81.1	17.9	4.4	3.7

Source: *OECD in Figures,* 2007

It is clear that while low taxes were important—even *critical*—to Ireland's economic success, they alone were not responsible. Companies may have been initially attracted by low taxes, but they still needed a good reason for re-locating or investing in Ireland. Those reasons included the geographic and free trade access to the EU market.

Lesson #1: *Cutting taxes to levels that are competitive with other jurisdictions is helpful, particularly in the early stages of attracting FDI and becoming globally competitive. But tax cuts alone were not responsible for Ireland's turnaround—it was a complex interaction of several concurrent factors.*

6.2 The Irish Miracle Was No "Laissez-faire" Event

One of the mantras of many market-oriented economists is that the best policy for a government to take is to simply get out of the way of business. While the legitimacy of that statement may be the subject of some debate, the experience of Ireland shows that a simple hands-off approach may not be the most effective.

Part of what drove the Irish turnaround was the intentional identification of an economic sector with a bright future in the global marketplace. The IDA targeted software and hardware developers, pharmaceutical companies, and other high-tech medical research firms.

The strategy employed by the IDA is summarized by Padriac White, the Managing Director of the IDA from 1981-1990:

> The IDA approach to targeting sectors of industry was set out in Ray McLoughlin's "closed loop" model in the 1970s, and its logic continues to this day. As an industrial-development strategy, it is easy to state and hard to execute: first, identify the sectors and sub-sectors that are growing and would provide a good fit for Ireland; second, find the best companies in those sectors; and third, persuade them to come here (Mac Sharry 2001: 272).

In other words, through the auspices of the IDA, the Irish government picked its targets and shot for them. This was not a laissez-faire approach to economic development.

As Michel Peillon writes in an essay entitled "Culture and State in Ireland's New Economy:"

> In the new economy of Ireland, the state remains as proactive as ever. It sees its role as ensuring the best opportunities for Irish business on the world market, and in a sense has become the public face of Irish enterprise. … In its efforts to create distinctive and thriving economic sectors, it nurtures enterprise (Kirby 2002: 51).

In western Canada's case, this approach could be a hard sell to the electorate. It comes fairly close to describing the strategy of "picking winners" employed by Alberta's provincial government in the 1970s as a way of diversifying the economy. With some exceptions, those strategies ended badly. Memories still sting with the embarrassment of failed projects and tax-funded boondoggles.

Most of western Canada's provincial governments—both from the left or right of the political spectrum—have mostly settled into the belief that governments should not be in the business of being in business, and that the best way to grow an economy is for the government to be as absent as possible.

This position has its roots in the 1980s with the broader movements of Thatcher and Reagan, and followed in Canada at the federal level by the Mulroney government, particularly as it privatized many of the country's federal Crown corporations over the late 1980s. As stated in federal budget papers in 1985, the position of the government was clear:

> Selling corporate interests will have a number of benefits. It will reduce the size of government in the economy… and make room for private sector initiatives; it will improve market efficiency and the allocation of resources; it will improve firm efficiency through market discipline and by reducing political and bureaucratic impediments (Government of Canada 1985).

With the possible exception of Saskatchewan—which still holds quite closely to the notion of provincially-owned Crown corporations as being essential to a well-functioning economy—western Canadian provincial governments have largely bought into the belief that *direct* government involvement in shaping the economy is at best unnecessary, and at worst harmful. The more favourable model, led by what has been called the Alberta Advantage in that province, has generally been to provide a healthy business environment (i.e., low taxes, lighter regulatory framework) and allow businesses to do what they do best: maximize profits.

The Irish IDA strategy would require a healthy buy-in from the electorate in western Canada, especially if it was given a substantial budget of tax dollars and an aggressive mandate to actually *direct* economic development. Achieving that buy-in could be a significant challenge.

However, it is noteworthy that the IDA strategies did not include outright government ownership of any specific company or industry. While it provided tax subsidies to attract industries, and it did identify and target "winners," it stopped short of government ownership. That is an important distinction.

Lesson #2: *Market-based economic principles are invaluable in spurring entrepreneurialism and generating wealth. But a complete laissez-faire approach is not always the best. A well-executed economic strategy of "picking winners" can, in fact, work quite effectively.*

6.3 Education is Vital

The IDA strategy did not stop at simply picking winners. The quotation from Padraic White (above) regarding the three-step approach of the IDA is followed immediately by a critical addendum:

> However, one must also develop the human skills and support facilities to meet their operating requirements. And that means investment in education—human capital—as well as physical infrastructure, like telecommunications and roads (Mac Sharry 2001: 272).

It may have been sage foresight on the part of Irish policy-makers, or it may simply have been pressure from the electorate and students at the time, but the decision in the 1960s to invest heavily in secondary and post-secondary education paid off tremendously for Ireland.

A good deal of the success in attracting the high-tech software, pharmaceutical, and medical research firms to Ireland was the fact that there were smart, educated, and literate Irish people to fill the jobs. Without the skills and appropriate workforce, the targeted firms would never have come.

Also, the emphasis on education has not been limited to universities in Ireland. The primary and secondary educational systems received enormous attention, and investments were also made in the polytechnic-style institutions like the Dundalk Institute of Technology.

Western Canada's system of primary, secondary, and post-secondary education is already very well developed and—by international standards—performs reasonably well. However, in the fiercely competitive global environment, where countries like China are graduating (literally) millions of scientists and engineers, "reasonably well" is not nearly good enough.

Suggestions for improvements to the education system will be offered in the final section of this paper.

Lesson #3: *The benefits of investment in education cannot be over-emphasized. The Irish succeeded at becoming a global powerhouse because they were smart, well-trained, and very literate. Investments need to be made at all levels, primary to post-secondary, and within all types of post-secondary institutions.*

6.4 Managing Expectations During Economic Slowdowns

All economies will eventually reach a point at which growth starts to slow. Western Canada has experienced this several times, particularly in the mid-1980s; and in 2008, Ireland's economy will post one of the slowest growth rates it has seen in several years.

The lesson to be learned for both jurisdictions is that slowdowns *are inevitable*. Managing slowdowns is important, be it through looser fiscal policy (i.e., cutting taxes where possible), or through strong re-adjustment mechanisms such as employment insurance, job retraining, assistance for those facing homelessness, etc.

Part of the management of citizens' expectations is being sure that tax cuts and support systems during the good times are not unnecessarily generous. Social welfare, income support mechanisms, and other programs such as Employment Insurance are already automatic stabilizers in the economy—that is, they tend to increase government spending automatically during an economic downturn without any change in government policy.

But there is good reason to keep some "gun powder dry in the keg" for when it is really needed.

For example, during a strong economic boom, it may be possible (and politically advantageous) to cut personal or business income taxes to very low levels, or to undertake new public spending. The Prosperity Bonus in Alberta that saw every Albertan receive $400 from the provincial surplus in 2006 is a good example.

But such fiscal stimulus during periods of strong economic growth make further cuts to taxes more difficult when the economy starts to slow. If anything, to maintain a balanced budget position, taxes may even have to be *raised* during the slowdown—exactly the wrong medicine for a weakening economy. The same principle would apply to establishing overly generous social support systems during good economic times.

Governments would be wise to leave themselves some fiscal room to maneuver during an economic slowdown.

Lesson #4: *Governments should be extremely cautious in managing fiscal policy. Government spending, particularly on discretionary items such as infrastructure or tax reductions should be avoided during periods of very strong economic growth, and "saved" for periods of weak growth to offset the slower private sector spending.*

7. Ideas for the Re-invention of Western Canada's Economy

A logical question that could be raised at this point is: *"Does western Canada's economy really need to be re-invented?"*

It is a fair question. Western Canada's unemployment rate is currently well below that of Ireland's or the OECD average (see Appendix C). It is, by almost any measure, materially wealthier, healthier, and arguably the envy of most other developed countries, particularly as the global economy slows in 2008. Western Canada appears to be an island of relative economic optimism.

The old cliché "*if it ain't broke, don't fix it*" seems to apply.

However, that perspective is short-term thinking. While western Canada's economy is currently being lifted on the wings of very strong natural resource prices, this situation may not last forever. History warns us that, in fact, it will not.

For years, the term "economic diversification" has been used liberally in studies, reports and task forces across the West. It tends to gain greater attention during economic downturns brought on by faltering commodity prices. But the term "diversifying" is in some respects too limiting. It implies simply adding more companies and industries to the mix in hopes that they don't all suffer a recession at the same time.

A more lofty goal would be *economic re-invention*. Ireland didn't just build a few more factories and add some services to its potato-growing economy. It purposefully undertook a two-decade long project to re-invent its economy into something totally different.

So the question becomes: ***Learning from Ireland's experience, what can western Canada do to re-invent its economy and become more globally competitive?*** The question applies not only to government, but also to the private sector, academia, and to the general public.

Recommendation #1:
Pick Winners

The idea of governments "picking winners" has fallen terribly out of fashion, and for good reason. In the 1970s, economic diversification was pursued by governments artificially subsidizing, and even owning, businesses that were thought to represent the waves of the future. This is particularly true in Alberta. This is the wrong approach to picking winners.

Ireland demonstrates the correct approach in that it identified growing sectors of the global economy, targeted FDI specifically in this sector, and did whatever it could to create the right business conditions in which it could flourish. It picked winners.

What Ireland did not do was engage in outright ownership of the companies.

The winning sectors for Ireland—high-tech software, pharmaceuticals, electronics—are not going to be the same winning sectors for western Canada.

However, there are three sectors that do complement western Canada's traditional strong suits, yet offer tremendous growth opportunities in the global economy: alternative energy, ag-biotech, and advances in healthcare research. All three of these—energy, food, and healthcare—are very likely to experience increased global demand over the next few decades.

In some of these areas, western Canada has already achieved some very impressive gains. But so far, we have not come close to establishing ourselves as *the global leader* in any of these areas. That possibility exists, but it will take a concentrated, cooperative effort on the part of all four provincial governments to get us there.

Recommendation #2:
Establish the Western Canada Investment Commission (WCIC)

One of the main reasons for Ireland's turnaround is the massive increase in foreign direct investment that it experienced. While there are certain drawbacks to increased foreign investment, it is generally accepted that in order for a small, open economy to increase its global competitiveness, more foreign investment is a distinct advantage.

The four western provinces should engage in a joint promotional board, the job of which would be to attract foreign direct investment in the three targeted sectors identified above. Ireland's IDA shows that this can be done successfully if it is well funded, focused and given a very clear mandate.

Arguably, all four western provinces already have some sort of agency that does exactly this, along with a federal government agency that overlaps. The problem is in the smallness of their scope and the lack of coordination of their efforts. None of these existing agencies are terribly well-known, nor are they well-funded (by international standards). And promoting the investment opportunities in a single western province is difficult given their individually small sizes. Even Ireland, whose population is close to that of British Columbia, struggles with size. IDA Ireland helped overcome the constraint of small size.

The joint development board should have three defining characteristics:

- It should be very well-funded. Canadian athletes competing on the world stage do not do so on their own. We don't give Olympic swimmers an inflatable pool for training and expect them to compete with the world's best. There is a strong link between funding and global competitiveness, and enabling western Canada to competitively attract global investment is no different.

- It must operate at arms length from government (but reporting back through proper governance procedures). There must be no opportunity for any government to promote its own political agenda; even the appearance of corruption or interference will fan the flames of public cynicism.

- It mush have the single mandate to promote western Canadian investment opportunities and attract foreign direct investment. Other worthy goals—such as job creation and community/social development—must be left to other groups. Requiring the WCIC to do too many things would simply water down its efforts and likely secure its failure.

Without question, there will be strong opposition to this idea, particularly by the federal government, which could see it as a serious encroachment on federal government responsibility. Many will dismiss it as simply more government money being spent (or wasted) on economic diversification schemes that never work. The idea of all four governments dedicating even more money to more diversification schemes will doubtless be very unpalatable to some.

Nonetheless, Ireland proved that it *can* work if it is done correctly. Past failures in western Canada should not poison the proposition. The point is to learn from past mistakes, learn from other successes (like Ireland's), and do it properly.

Creating the proper environment in which businesses can thrive—such as maintaining competitive tax rates and streamlining regulatory burdens—is obviously an important step. But establishing the right environment alone will not work if foreign investors do not know about it. "Build-it-and-they-will-come" will not work. It is like throwing a great party: great food and stellar entertainment will help, but the party will flop if you don't invite the right people.

Recommendation #3:
Heighten the Emphasis on Education

This recommendation follows so obviously from Ireland's experiences that it almost doesn't need to be emphasized as a stand-alone recommendation. (The question could almost be posed: *"Other than fostering the most creative and literate workforce in the world, what **else** can western Canada do to become globally competitive?")*

The advantages of a highly educated workforce are so well-documented and accepted that very little elaboration is required here. Ireland's emphasis on education in the 1960s—a full generation before there was much obvious payback—was probably the single most important factor leading to its re-invention in the 1980s. Corporate tax cuts pale in comparison.

Specifically, provinces and the federal government should re-assess funding levels for post-secondary education institutes. Universities are critical, yet they should not overshadow the growing importance of the polytechnics.

Aside from higher and more predictable funding, there are bolder steps that could be considered.

The existing universities across the West could consider establishing themselves as a joint, multi-campus university system (similar to the University of California system). This would offer greater scope and efficiencies, and would provide existing campuses the opportunity to establish higher levels of specialization and competency in certain areas of research. The benefits of a large, coordinated research platform, rather than seven or eight stand-alone institutions doing their own thing, could be significant. (Former UBC President Martha Piper suggested something similar for Alberta—see Piper 2007.)

Another bold area of educational reform is in a greater consideration for arts immersion. Teaching the "hard" linear sciences—math, engineering, physics, biology—in isolation comes at the risk of lost creativity. As Ireland is demonstrating through the DKIT (see section 3.2), creative and intuitional competencies are what solves problems and stirs innovative ideas. Blending the relational "right brain" attributes with the more linear "left brain" attributes in our education system will foster a generation of not just scientists or engineers, but workers who can creatively solve problems (Pink 2006).

There is a growing body of research around arts immersion, which is the teaching of the basic curriculum (including sciences and math) through the arts. It is an area worthy of consideration and research by governments, academic institutions and the general public.

Recommendation #4:
Emphasize Western Canada's Non-Quantifiable Advantages

Too often, western Canada is known only for its natural resource endowments, particularly energy and agriculture. And low taxes are too often thought of as the only important factor in economic development.

Other than deposits of hydrocarbons, there are many other "natural" benefits within western Canada that are often overlooked. These non-quantifiable attributes are in many cases just as important to businesses looking for investment opportunities.

For example, like Ireland, western Canada sits on the doorstep of one of the world's largest economies. And like Ireland and the EU, we have a free trade agreement with the US (albeit an imperfect arrangement and lacking a common currency). We share the same culture, language, and many of the same time zones. This is often not played up to full advantage.

Also, western Canada does offer some advantages to accessing the burgeoning Asian economies. While we lack a similar language, culture, or time zone (things that gave Ireland an advantage with Americans accessing the EU), western Canada does offer some of its own advantages. The ports of Vancouver and Prince Rupert are noticeably closer to Japan and China than other North American ports. And some centres in western Canada, particularly Vancouver and Calgary, are starting to establish sizable ethnic business communities fluent in the language and cultural practices of the Far East.

Perhaps most importantly of all, western Canada offers safety and stability. Usually when we think of safe cities or communities, we think of rates of local crime. These are falling in western Canada, and they may be an important consideration of potential workers seeking to relocate. But local crime is probably not as important to an international investor as is the threat of political instability, military coups, or terrorism. The world is rapidly running low on jurisdictions with a record of stability like that in western Canada. It should be a major trump card in attracting investment.

8. Conclusion

Many countries have demonstrated the benefits of a strong competitive position in the global economy. Rising incomes, higher standards of living, and better employment opportunities come to those that can compete. And of the globally competitive countries, few have experienced the kind of economic turnaround over the past two decades as has Ireland.

Western Canada is currently enjoying one of the strongest economies in the developed world. Strong resource prices are the primary factor, but resource prices rise and fall. While no one can guess with certainty the direction resource prices will take in the coming years, it is a poor bet that western Canada will continue its current growth rates forever.

On the surface, Ireland and western Canada are very different, and it would be tempting to dismiss the notion that western Canada has anything to learn about economic transformation from the Irish. But upon closer examination, what Ireland did to pull itself out of economic malaise and into one of the strongest global economies in the world can be boiled down to themes and principles—and it is from these themes and principles that valuable lessons can be learned.

Economic transformation requires more than just luck. It requires some serious attention to how public policy is shaped, to which sectors of the economy it is applied, and to how a country or region presents itself as a globally competitive player.

Western Canada would be wise to learn from other regions such as Ireland. Not only is the re-invention of an economy possible, it may also be necessary to avoid a long, downward economic spiral in the future. ■

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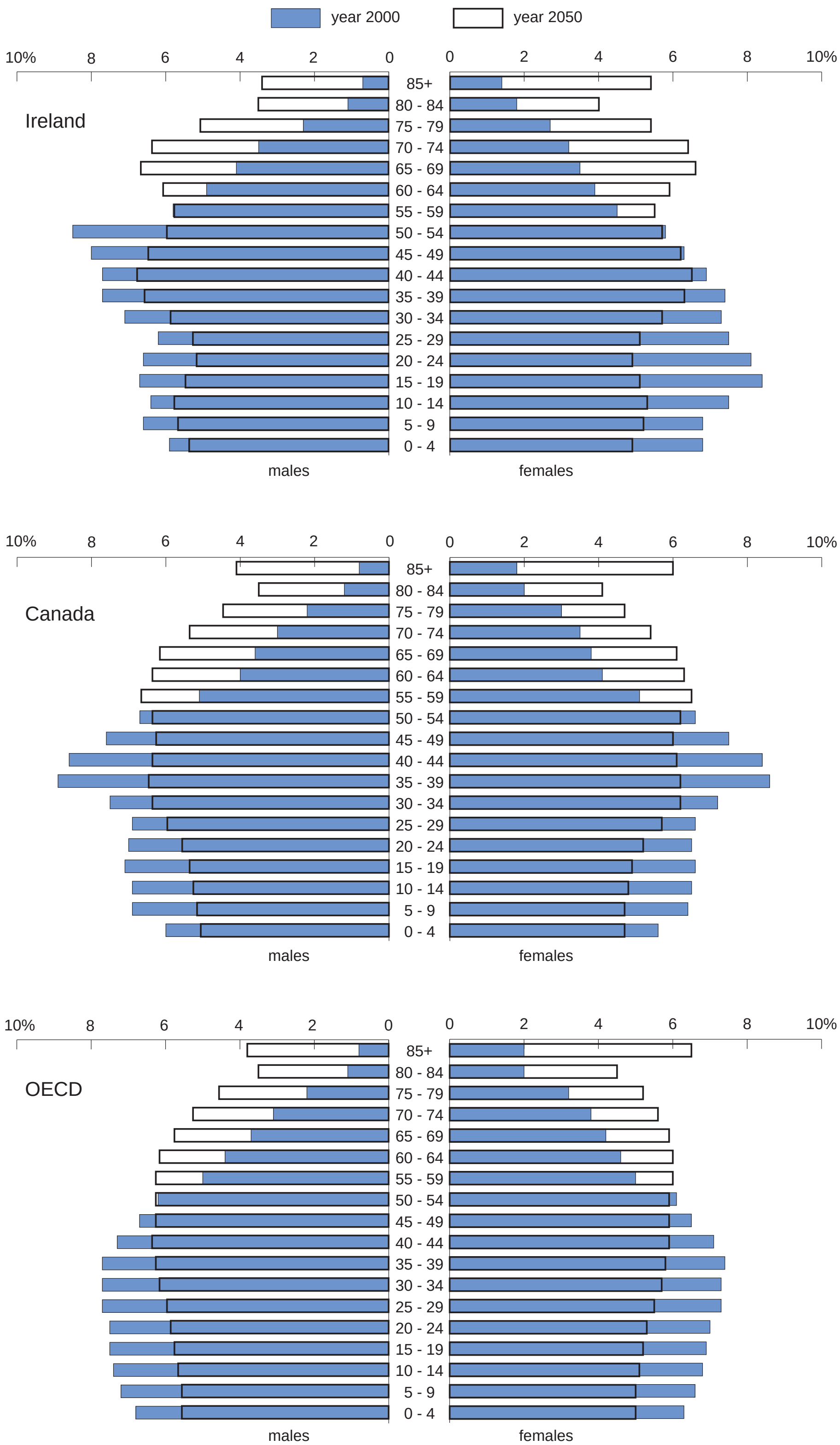
Appendix A: Population Pyramids, Ireland, Canada, and OECD



Source: OECD http://www.oecd.org/statisticsdata/0,3381,en_2649_37419_1_119656_1_2_37419,00.html

Appendix B: General Comparisons of Ireland and Canada

IRELAND

Background:
After a bitter struggle, the *Anglo-Irish Treaty* was signed in 1921. It conferred independent dominion status in the British Commonwealth on 26 counties of Ireland, while the other six remained within the UK. The establishment of the Irish Free State was followed by a brief civil war, which ended in 1923. The present constitution came into force in 1937, followed by the declaration of the republic in 1949. Ireland joined the European Economic Community (EEC, now the EU) in 1973 and was one of the founding members of European economic and monetary union in 1999.

Taxation:
The standard rate of corporation tax was reduced from 20% to 16% in the 2002 budget and cut to 12.5% in 2003. The two bands for personal income tax are 20% and 41%. Value-added tax rates are 13.5% and 21%.

Foreign trade:
In 2007, merchandise exports amounted to US$115.6 billion and imports were US$84.2 billion. Exports are dominated by foreign-owned firms in the technology and chemicals industry. Despite the large trade surplus, the current account registered a deficit of US$12.7 billion, or 5% of GDP in 2007, reflecting the large deficit on the income account

CANADA

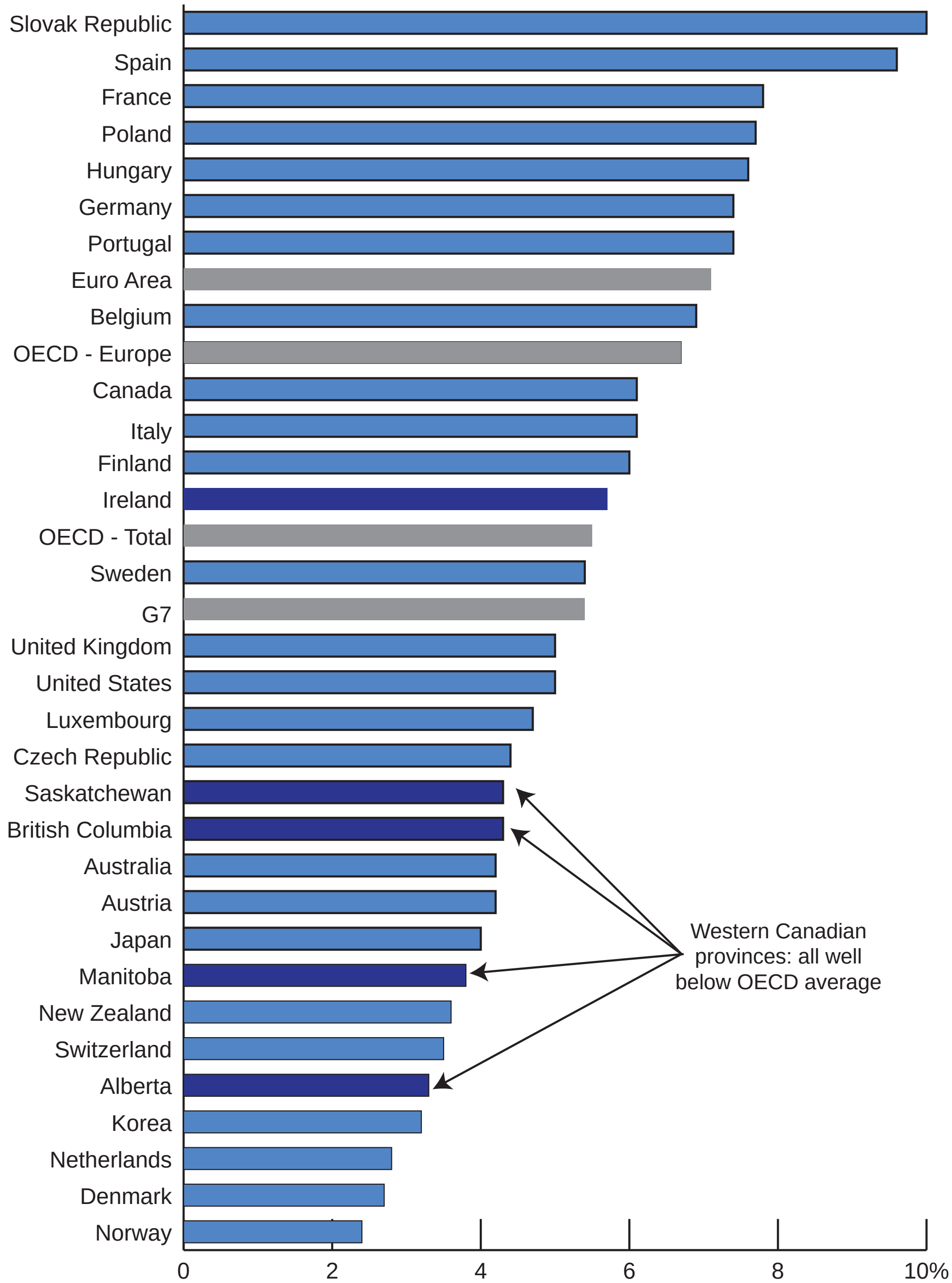
Background:
The Canadian economy is the 13th largest in the world (measured in US dollars at market exchange rates). It is highly integrated with the US economy, which absorbed 76% of its merchandize exports and was the source of 65% of its merchandise imports in 2007. Most Canadians live in a narrow strip (160 km wide) north of the US border, making them sensitive to the threat of US economic and cultural domination. Almost 70% of Canadians are monoglot English-speakers; about 15% speak only French, but these form a majority in Quebec, Canada's second-largest and second most populous province. This makes Canada a potentially fragile country, although support for sovereignty is currently on the wane in Quebec.

Taxation:
The federal corporate income tax rate is 21%. The federal corporate surtax of 4% was eliminated for all businesses in 2008. Provincial governments charge corporate tax at rates between 10% and 16%. The provinces also levy sales taxes on capital goods and a handful implement capital taxes. Canada has the highest marginal effective tax rate on capital in the developed world, according to the OECD.

Foreign trade:
On a balance-of-payments basis, merchandise exports rose by 2.1% to C$465 billion (US$433 billion) in 2007 as exports, particularly of automotive products, were hit by strength of the currency. Merchandise imports rose by 2.8% to C$416 billion in 2007, and the merchandise trade surplus fell by C$1.7 billion, to C$49.7 billion.

Source: *The Economist*, country profile factsheet http://www.economist.com/countries/Canada/profile.cfm?folder=Profile-FactSheet

Appendix C: Comparative Unemployment Rates, April 2008



Source: OECD StatExtracts: Standardised Unemployment Rates (SURs)
http://stats.oecd.org/wbos/Index.aspx?QueryName=251&QueryType=View&Lang=en

Appendix D: Comparative Corporate Income Tax Rates And Marginal Effective Tax Rates on Capital, 2007

		Effective Tax Rates on Capital			
	Statutory corporate income tax rate	Manufacturing	Services	Total 2007	Total 2006
China	25.0	48.5	46.8	47.1	49.0
US	38.5	34.7	40.1	37.8	37.8
Brazil	34.0	37.6	36.6	36.6	36.6
Germany	37.0	36.9	35.3	35.7	35.7
Russia	22.0	38.0	34.9	35.7	35.7
France	34.4	33.0	31.7	31.9	31.9
all 80 countries (weighted)	34.9	31.3	32.4	31.7	32.1
Korea	27.5	32.8	31.0	31.5	31.5
OECD	**36.3**	**30.9**	**32.3**	**31.5**	**31.8**
Japan	41.9	35.2	30.4	31.3	31.3
Canada	**34.2**	**23.1**	**36.4**	**30.9**	**36.6**
India	34.0	28.8	30.1	29.8	29.5
UK	30.0	24.4	29.8	28.8	28.8
New Zealand	33.0	29.9	28.2	28.5	28.5
Spain	32.5	29.5	27.4	27.7	30.0
Australia	30.0	27.7	26.6	26.7	26.7
Norway	28.0	25.8	23.2	23.5	23.5
Italy	37.3	21.8	23.4	23.1	23.1
Finland	26.0	22.4	22.9	22.8	22.8
Turkey	20.0	22.7	20.2	20.8	20.8
OECD	27.6	21.5	20.8	20.8	21.3
Luxembourg	29.6	24.1	20.3	20.6	20.6
all 80 countries (simple avg.)	26.8	19.9	20.8	20.6	21.0
Austria	25.0	21.6	19.5	19.9	19.9
Iceland	18.0	19.5	17.6	17.9	17.9
Sweden	28.0	19.3	17.5	17.8	17.8
Jordan	25.0	11.6	19.7	17.6	17.6
Switzerland	21.3	16.6	16.8	16.7	16.7
Portugal	26.5	14.8	16.1	15.9	16.6
Netherlands	25.5	18.2	15.0	15.5	18.5
South Africa	29.0	15.5	15.4	15.4	15.4
Poland	19.0	14.4	15.0	14.9	14.9
Chile	17.0	14.4	13.8	14.0	14.1
Greece	25.0	18.0	13.2	13.8	16.2
Denmark	25.0	16.5	12.7	13.4	15.4
Mexico	28.0	17.1	12.1	13.1	13.7
Hungary	16.0	12.9	12.0	12.2	12.2
Slovak Republic	19.0	13.3	11.7	12.0	12.0
Ireland	**12.5**	**12.7**	**11.7**	**12.0**	**12.0**
Egypt	20.0	10.6	12.4	11.9	11.9
Czech Republic	24.0	13.2	10.4	11.2	11.2
Romania	16.0	10.7	9.4	9.8	9.8
Singapore	18.0	6.4	11.6	9.3	10.6
Croatia	22.0	10.7	8.5	9.2	9.2
Ukraine	25.0	14.4	6.0	8.2	8.2
Hong Kong	17.5	3.6	6.2	5.6	5.6

Source: CD Howe Institute, “2007 Tax Competitiveness Report: A Call for Comprehensive Tax Reform” September 2007

About the Canada West Foundation

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

Canada West Foundation is a registered Canadian charitable organization incorporated under federal charter (#11882 8698 RR 0001).

In 1970, the One Prairie Province Conference was held in Lethbridge, Alberta. Sponsored by the University of Lethbridge and the Lethbridge Herald, the conference received considerable attention from concerned citizens and community leaders. The consensus at the time was that research on the West (including BC and the Canadian North) should be expanded by a new organization. To fill this need, the Canada West Foundation was created under letters patent on December 31, 1970. Since that time, the Canada West Foundation has established itself as one of Canada's premier research institutes. Non-partisan, accessible research and active citizen engagement are hallmarks of the Foundation's past, present and future endeavours. These efforts are rooted in the belief that a strong West makes for a strong Canada.

More information can be found at www.cwf.ca.

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