

Institutional Capacity and Economic Development: A view from Ireland

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The Basics

- Desired Goal: a government that will adopt and implement policies that are in the national interest
 - REQUIRES
- Transparency and accountability
- Sources of innovative policy ideas
- Political skill (necessary to have growth-enhancing policies adopted)
- Meritocratic public-sector bureaucracy (for effective implementation)

Transparency and accountability

- Interlocking system of parliamentary, judicial, press and civil-society scrutiny of government
- Independent auditor: Office of the Comptroller and Auditor General
- Parliamentary public accounts committee

Sources of innovative policy ideas

- capable politicians
- international organisations
- occasional changes in government
- meritocratic public-sector bureaucracy
- organisational and institutional learning
- private sector

Political skill required to have growth-enhancing policies adopted

– Why?

- Fiscal bias of the electorate
- Economist and former Irish prime minister, Garrett FitzGerald (2000):
 - “Democratic national governments tend to be subject to such strong pressure from vested interests within their own territories that many of their decisions operate against the interests of society as a whole.”

Efficient public-sector bureaucracy

- meritocratic recruitment, based on a combination of education and examination
- predictable, rewarding long-term careers

Institutional capacity:
Ireland and the Balkans
compared

Governance indicators lie between -2.5 and 2.5, with higher scores corresponding to better outcomes

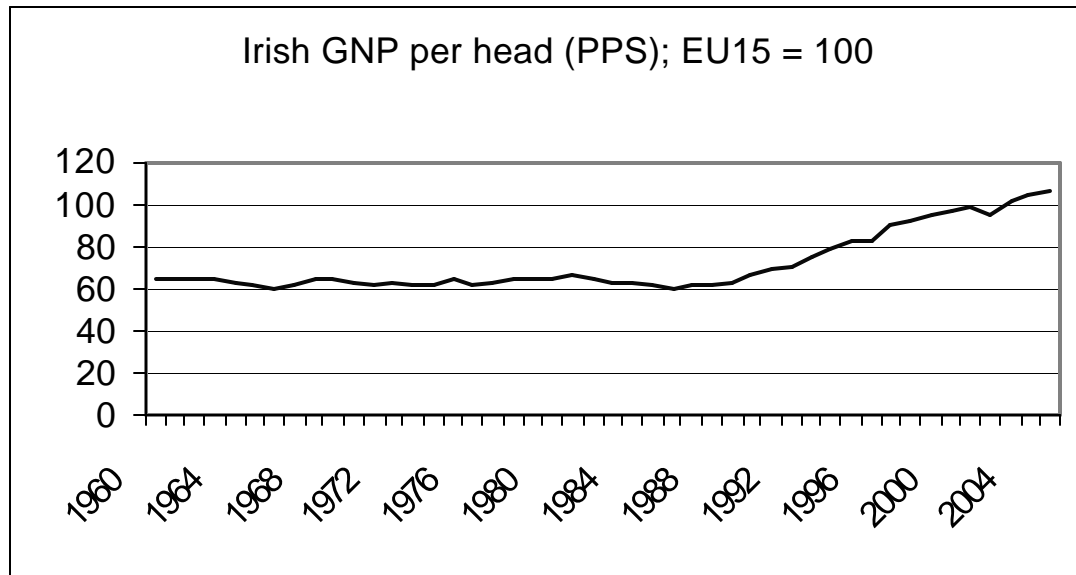
	Account-ability of Government	Political Stability and Absence of Violence	Quality of Public-Service Bureaucracy	Regulatory Quality	Confidence in Legal System	Control of Corruption
Ireland	1.40	1.08	1.63	1.56	1.63	1.70
Romania	0.36	0.03	-0.03	0.17	-0.29	-0.23
Bulgaria	0.59	0.16	0.23	0.63	-0.19	-0.05
Serbia and Montenegro	0.12	-0.91	-0.31	-0.53	-0.81	-0.55
Bosnia-Her	-0.11	-0.78	-0.53	-0.53	-0.74	-0.32
Macedonia	0.03	-1.04	-0.28	-0.2	-0.38	-0.5
Albania	0.08	-0.68	-0.49	-0.27	-0.84	-0.76

Ease of Doing Business: rankings out of 175 countries

Singapore	1
Ireland	10
Romania	49
Bulgaria	54
Serbia	68
Montenegro	70
Macedonia	92
Bosnia-Her	95
Albania	120

- Based on 10 indicators, such as:
 - *Starting a business:*
Procedures, time, cost and paid-in minimum capital to open a new business
 - *Registering property:*
Procedures, time and cost to register commercial real estate

Irish Economic Development over the decades



- 1950s: Western Europe grew at almost 6 percent per annum while protectionist Ireland grew at less than 2 percent
- 1960-1973: Labour-market distortions and a poor industrial relations system
 - Irish unemployment 3 to 4 percentage points higher than EU15
 - Excessive wage growth
 - Substantial strike activity
 - Low investment rate
- 1973-1987: continued labour-market disequilibrium, compounded by fiscal crisis

However:

- Rapid response to critical OECD report on the education system in 1965
- Ireland stumbled on the low corporation-tax strategy in 1956; strong FDI inflows (particularly after EU entry in 1973); growing power of the Industrial Development Agency (IDA)

Current growth phase dates from 1987

- Long-term effect of increased educational throughput
- FDI, the Single European Market and the global high-tech boom
- Resolution of fiscal crisis
- Social partnership and competitiveness
- EU Regional Aid

Institutional capacity in Ireland: Education

- Policy learning through external influence (OECD report of 1965)
- Importance of civil service as originator of policy proposals
- Exploratory use of the small EU regional aid flows of the 1970s
- Input of the IDA

Institutional capacity: FDI

- Policy learning through occasional changes of government
- FDI and institutional co-evolution in Ireland
- The IDA's "transnational strategic network"
- The foreign-dominated export sectors have been rigorously insulated from corruption

Institutional capacity and resolution of the fiscal crisis

- Social partners in 1986 agreed that public-spending cuts were required, providing government with “political cover”
- Leader of the Opposition decided not to criticise the new macro strategy
- Maastricht criteria and Growth and Stability Pact now offer political cover

Institutional capacity: social partnership

- poorest macroeconomic outcomes are associated with industrial relations system in which “organised interests are strong enough to cause major disruptions but not sufficiently encompassing to bear a significant fraction of the societal costs associated with pressing their own claims”

social partnership (contd.)

- Provides a forum for the advance involvement of private-sector stakeholders in the decision-making process. (Recent French debacle unimaginable in Ireland)

Institutional capacity: EU regional aid

- Ireland spent high share on human capital development
 - successful experience with much lower pre-1989 aid flows
 - central rather than regional control facilitated spending on HC rather than physical infrastructure
- Requirement for agreement with Brussels keeps domestic interest-group pressures at bay
- Brussels-type monitoring and evaluation now pervasive throughout the public service