Short-term pain should not blind us to bright future

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Business services boom will provide wealth to deliver public services the Irish people deserve

THE ESRI Medium-Term Review, published on Wednesday, was timely. Given all the bad news of recent times, it was good to be reminded that there is a future beyond 2009, and that while the Celtic Tiger, with its 8.6 per cent growth rate, is now well behind us, there may still be good times ahead.

Of course, as the Economic and Social Research Institute makes clear, there can be no certainty about the future, and the world economic crisis could be more long-lasting than the institute is allowing for. Nevertheless it is clear that we have a good chance of further economic growth in the next 15-20 years.

Organisation for Economic Co-operation and Development data show that our GNP per head is already 10 per cent above the western European EU average, and is exceeded only by Luxembourg, Austria, the Netherlands and Denmark.

The ESRI now suggests that, although economic growth will decline gradually in the years ahead, it is likely to continue to outpace that of our European partners, So, even if, as now seems likely, during the next two years we lose some ground temporarily in relation to the rest of the EU, nevertheless by the year 2025 Ireland could expect to exceed by some 20 per cent the average per capita output level of western Europe – and we might by that year attain a per capita output level 10 per cent higher than that of any other EU state.

For a country which only 20 years ago had an output level 40 per cent below the EU average to have a good prospect of becoming within a few years the most prosperous of all EU countries is really quite extraordinary.

How has this come about? The principal reason is that, while for several decades we were an exceptionally successful maker and exporter of high-tech goods, in the current decade a rapidly increasing proportion of our well-educated workforce is producing high-value business services for export.

The Irish media and public have been slow to realise the extraordinary significance of this revolution. Although more than three years ago in this column I drew attention to the fact that by 2004 one-third of all our external receipts were coming from such service exports, manufacturing activity has since continued to dominate our business news.

The fact is that in the five years since 2002 receipts from merchandise exports have fallen – but those from business services have more than trebled, rising from 19 per cent to almost 50 per cent of all exports.

It has to be said that we have notably failed to secure the benefits that might have been expected to accrue from the fact that we are now one of the most prosperous of European states. Our chaotic health service and our grossly understaffed education system, together with the many serious inadequacies of our social services, reflect very badly upon a political system that has massively maldistributed the huge resources we have created.

Irish GNP: 1995-2025

Period	Annual GNP growth	5-year GNP	Population 000s	Annual GNP per head
1990-1994		€318bn	3569	17,840
Increase 1995-99	8.60%	+€135bn		
1995-95		€453bn	3742	24,720
Increase 2000-04	4.40%	+€188bn		
2000-04		€642bn	3918	32,600
Increase 2005-09	4.20%	+€153bn		
2005-09		€795bn	4316	36,900
Increase 2010-14	3.80%	+€143bn		
2010-14		€938bn	4611	40,680
Increase 2015-19	3.50%	+€182bn		
2015-19		€1120bn	4879	45,900
Increase 2020-24	3.10%	+€194bn		
2020-24		€1314bn	5137	51,180

The harsh truth is we have allowed far too much of our new wealth to be creamed off by a few influential people, at the expense of the public services our people are entitled to.

It is important that the public should become more aware of the scale of the resources already available to us – and of the likelihood that these will be increased substantially in the decades ahead. There is a danger that the fact that our underlying economic growth rate has started to slow down may lead to our medium-term expectations being set too low. As a result we might fail to insist that in future our additional wealth be deployed to the advantage of our whole society.

Our national output today is 2½ times greater than 15 years ago. There is, however, little public, or media, understanding that when an only gradually declining economic growth rate is applied to such an ever-rising volume of national output, it will yield a larger, not a smaller, increase in available resources.

That is why I have prepared the table above, based on the ESRI projections but translated into today's money terms so that the figures for different periods are all comparable.

This table demonstrates very clearly that, even with our growth rate slowing down, the volume of additional resources created between 2015 and 2025 is likely to return to the very high level of the heady days of the Celtic Tiger – viz increases of about €185-190 billion in each five-year period.