

Special report:  
**Companies and the state**

## Ireland The kindness of strangers

### Special incentives to lure foreign direct investment can prove worthwhile

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THE IRISH ECONOMY has had a dreadful time since the 2007-08 banking crisis. Output from peak to trough fell by 21% in nominal terms and unemployment rose from 5% to 15%. As house prices plummeted by 47%, the banks collapsed and had to be rescued, which pushed the debt-to-GDP ratio to 123%. The country was forced to enter an EU bail-out programme from which it has only just emerged.

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But throughout the crisis the Irish government refused to shift on one issue: the 12.5% tax rate on corporate profits that has helped the country become a big draw for American companies. The Irish Development Agency (IDA) reckons that America accounts for 70% of Ireland's foreign direct investment. Overall FDI fell from 23.9% of Irish GDP in 2009 to 10.5% in 2011 but rebounded to 19.4% in 2012. In 2009-12, despite its problems, Ireland was still among the world's ten biggest recipients of FDI as a proportion of GDP. The very predictability of Ireland's regime adds to its appeal; companies have no reason to fear that taxes will suddenly shoot up.

Without the presence of those foreign companies the Irish recession would have been even worse. The IDA calculates that between them they employ 270,000 people, pay out €17 billion a year in wages, generate exports worth €122 billion and contribute €2.8 billion in corporation tax. Moreover, the people who work for these companies are paying income tax, buying goods in local shops, making regular mortgage payments and are drawing no unemployment benefit. Despite the low tax rate on corporate profits, the government gets the equivalent of 2.6% of GDP from that source, the same as the EU average.

Barry O'Leary of the IDA points out that many of the businesses that have settled in Ireland are technology companies that have yet to make a profit and thus do not benefit from the low rate of corporation tax. Rob Skinner of PayPal, an online-payments company, says the group was one of the first technology companies to arrive, back in 2003. It started with 25 people. It has since been taken over by eBay, which has also moved to Ireland, and the combined group now employs 2,000 there.

It was not just the tax rate that attracted PayPal. Mr Skinner says the Dublin office provides a base for the group's operations throughout Europe, the Middle East and Africa. "Ireland has people who speak many languages, allowing us to deal with customers across Europe," he explains.

The Gilt Groupe, an online fashion retailer, established an operation in Ireland in 2011. Michelle Peluso, its chief executive, describes Ireland as "a really exciting market. It doesn't matter if you have low costs and a good office if you don't have the right talent. The quality score of staff in Ireland is high and there is real talent in maths and science." Being in a different time zone from the country's American headquarters allows work to continue around the clock; the company's American team can arrive at work in the morning and find that the Irish staff have dealt with yesterday's problem overnight.

The IDA has focused on attracting businesses from five sectors, says Mr O'Leary: technology (led by companies such as IBM and HP); pharmaceuticals (including Novartis and Abbott Laboratories); financial services (many asset-management groups use Dublin as a base for their European mutual funds); digital media (Google and PayPal); and food (where the country is able to build on its experience in the dairy industry).

Dublin, Cork and Galway get 65-70% of Ireland's FDI, but the IDA has been trying to persuade companies to go farther afield. The Gilt Groupe, for example, agreed to set up in Limerick with IDA support. Although EU rules prevent countries from subsidising particular industries, they do allow incentives to be offered to companies to move to particular locations—provided they are poor enough to qualify for regional aid.

Ireland's low tax rates have prompted some carping from other EU countries, but it is not easy to see what else the country could have done. As a small, open economy at the EU's periphery, it has to work hard to attract multinational companies, whereas a big country like America will get them anyway. The main competition there is among individual states.

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