



Globalisation, prosperity and fairness: Lessons from Ireland

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Globalisation, prosperity and fairness: Lessons from Ireland

Intro [00:00:12] Welcome to OECD podcast, where policy meets people.

Rory Clarke [00:00:19] Promoting economic and social progress throughout the world has been the aim of the OECD since it opened in 1961. One member country that has embodied this goal since the outset is Ireland. Its strong economic performances, the quality of life, and its appeal to global investors are just some illustrations of this. So as we prepare to build a post-pandemic world, what lessons can we draw from Ireland? Is globalisation a problem or the solution? In March, to help mark the organisation's 60th anniversary and also to mark another global celebration, St. Patrick's Day; OECD Secretary-General, Angel Gurría, and Ireland's Finance Minister, Paschal Donohue, sat down with Harvard economist Megan Greene to discuss such questions. I'm Rory Clarke, and this OECD podcast presents the highlights of their online conversation, which was introduced by Ambassador Dermot Nolan, Ireland's permanent representative to the OECD.

Dermot Nolan [00:01:18] COVID situation means that we still cannot mark St. Patrick's Day with a physical gathering, so we conceived this virtual event. Since we celebrate both the 60th anniversary of the OECD this year and the 60th anniversary of Ireland's membership of the OECD, we decided on the following team for today's conversation between Ireland's Minister of Finance and the Secretary-General of the OECD. Partners for trade, prosperity, fairness and sustainability, Ireland and the OECD. We hope to share some insights into how Ireland has worked with the OECD to develop our nation, to promote prosperity in a sustainable and outward looking manner in an integrated world. We are very fortunate today to have the Minister for Finance, Paschal Donohue.

Paschal Donohue [00:02:01] I want to thank you all very much for your presence here this afternoon. I'm so pleased to have the opportunity to speak with you all this. It's a bit of an anniversary for Ireland with our relationship with the OECD. It marks the 60th year of the relationship that we've had with our tremendous organisation. It's an organisation that I hope we have contributed a bit to during our time there because we have gained so much from us. And in this event here today, I just want to say a few words about a theme that has been vital to the economic and political development of Ireland and an issue which the OECD has long championed and championed the strengthening of us and the reform of us, which of course, is the concept of globalisation. The current phase of globalisation that we're in, that had its origin in the periods of the 1990s, is one in which it has such an influence on the development of my country and the development of our world. We've seen more and freer international trade opened up new markets, not just for very big companies, but for small and medium sized enterprises across the world. All of this has delivered more choice, and it has delivered more employment, and it has delivered the ability for rising living standards across the world. In addition to this, the movement of people, the movement of capital has allowed resources, has allowed expertise to flow and to be present in such a way as to also enhance productivity and by doing this, grow living standards. And in emerging economies in particular, this has been a really very important development that in turn, has allowed the more rapid growth of productivity and in turn, very important changes in living standards. But of course, this is a process, and even at its more mature point, also continues to benefit advanced economies. And in this regard, the whole concept of comparative advantage is as relevant now as it was during the time of Ricardo, because greater specialisation, the development of expertise and clusters within countries, within parts of countries, in turn allows economic and income growth. And this has been a concept that has been really important to the economic development of Ireland. If you look at our export performance, our export performance from our country and indeed from clusters within our country is now something that is really important to the Irish economy, particularly at a time of COVID. And if I look at the Ireland that I grew up in, though that sentence makes me sound a lot older than I actually am, in the space of a few years, and indeed, in a few decades,

we've seen such change within Ireland that is driven by our engagement with globalisation, all of which has been enriched by the expertise and insights of the OECD. But if I made the case for that now, I think the case is only realistic and credible if we acknowledge the great challenges that that model faces as well. Even in the pre-pandemic era, an era which is really only such a short time ago, the challenges, the frustrations, the difficulties with globalisation were apparent to all of us. We have to acknowledge that the benefits of trade were not always dispersed in such a way that felt fair to enough, that the costs tend to be concentrated and felt by groups within particular parts of economies. This led to a level of discontent, to a level of dissatisfaction that we must be so aware of now as we seek to develop and build a more inclusive and better future. Of course, in acknowledging those challenges, I also want to make the case to this audience, to the importance of political choices, to the importance of policy interventions and decisions that were made then, that are made now, that we need to make again in the future. And at a time in which stimulus measures and measures that have been implemented through welfare policies and through tax codes have made such a difference to shielding many from the effect of the pandemic. We need to make the case for those measures and how they are enabled by sensible policy decisions when used to fuel our energy for what we will do differently in the future. So I want to make the case for how we engage with each other globally. I want to make the case for globalisation and for global contact and for multilateralism. And I hope the case and the strength of that case is deepened by also acknowledging the aid as a model delivered benefits that for too many were not felt to be enough. We need to acknowledge to us and acknowledge that the OECD have such a valuable role to play in that future. For sharing insights, for sharing demands, for sharing views and for sharing practical advice regarding how we can go better. So thank you, Megan.

Megan Greene [00:08:08] Great. Thanks a lot. I'll turn it over to the Secretary-General Gurría now.

Angel Gurría [00:08:12] Now I'm delighted to join you to celebrate St. Patrick's Day a day to, I quote, "begin transforming winter's dreams into summer's magic." And after such a difficult year, we could use some summer magic, a recovery and the beginning of a new era. Not too long ago, we were worried about the legacies of the global financial crisis. But today, even in the midst of a global pandemic, the tone has changed completely. Ireland performed remarkably well in 2020. Economic growth at three point four percent was the best recorded in the OECD. Ireland kept faith with a model that served it so well, an outward oriented competitive economy integrated into the global economy. The Irish government reacted forcefully to the pandemic and limited the impact of the crisis on households and individuals, of the people. Wage subsidies, pandemic unemployment payments and temporary cuts in VAT shielded the most vulnerable households. Such people centred measures are essential in maintaining trust and maintaining support for open markets and for international competition. For many countries, 2020 was all about the downsides of globalisation, which the minister alluded to. COVID-19 exposed our fragility and it spread throughout the world. This is the single most global crisis that we have had. It has spared no one, no country. In 2021, globalisation is still a necessary part of life. It's inevitable. In any case, you can't stop it. You can't fight it. It's going to happen. The question is, how do we harness it? And how do we give it some desirable orientation? Therefore, we must remake the world and recreate new global systems to protect it. Only the force of multilateralism can make that happen. Globalisation is faster, deeper, cheaper and tighter than ever before. This creates enormous opportunities, but it doesn't happen spontaneously. It doesn't happen because it has to happen, it doesn't follow like the dawn follows the night or the night follows the day. We make it happen and we can make it happen. And Ireland, again, is a very good example. Some of the world's most innovative and productive firms are attracted, have been attracted to Ireland. They have settled in Ireland. Multinational enterprises. Extremely strong export growth of medical technology. Pharmaceuticals, ICTs that drove the economy in 2020 in the middle of the pandemic. It has been a

privilege to work with Ireland and to see such an encouraging example for the whole of the world. Thank you.

Megan Greene [00:12:21] Thank you. It's easy to forget, given that we've all been locked down for so long that this crisis, this coronavirus crisis really started off as a supply shock. I remember no one could buy a wedding dress in the US a year ago, and that's what we thought would be the extent of this crisis at the time. But it was a supply shock. And so. I wanted to throw this one to you, how do you think that Ireland and Europe generally will balance embracing globalisation, but also making sure that supply chains aren't vulnerable, and particularly in light of the current debate around restrictions to export of vaccines?

Paschal Donohue [00:13:03] Well, I believe we will get the balance right because we are very much aware, Megan, that decisions that are made in terms of the flowing of supply chains have the potential to cause difficulties across a variety of vaccines. And it is really, really important that we don't make decisions that are in any way counterproductive. At the same time, there is a need to ensure that agreements that are in place and expectations that have been created are met. And the efforts that may develop to look at how supply chains can be really localised. We do need to make sure that this isn't at the expense of undermining global trade flows that ultimately do have the ability to continue to benefit many. And within the European Union, again, this is a balance that we're very much aware of. It's why the concept of strategic autonomy is now referred to as the need for open strategic autonomy. That we do need to for security and because of commitments that we have to our citizens have certainties over some aspects of some supply chains. But we need to get the balance right then between delivering that priority and economies continuing to function in a way that can be normal and for the benefit of most things.

Megan Greene [00:14:37] Can I ask Secretary-General Gurría to respond to that and to discuss how you see OECD members trying to strike this balance between withdrawing supply chains and maintaining global ones?

Angel Gurría [00:14:51] If you assume globalisation is not going to stop, that globalisation is going to continue, whoever tries to either skip it or avoid it or block it will do so at her or his own peril because you can't. The question of supply chains of the interruption of supply chains has been so damaging. Remember, our trade tensions did not start with the pandemic. They started in 2018. We were recovering. We were not doing so bad, you know, it looked good. And suddenly it started with the trade tensions and with the steel and aluminium and everything else. And then the retaliation, the retaliation to the retaliation. It just kind of built up and up and up. And suddenly we had a world in which trade had stopped and investment had stopped because of the uncertainty that was created by the uncertain trade rules. You need a rule-based world, a rule-based economy. Well, that if anything has now become, well, worse. Certainly in the initial stages, because everybody ran to their own corner to say, OK, you know, I'll get my masks, my God, I mean the world fighting about masks, who was going to keep their mask and who was going to export the masks. It was incredible. We were really unprepared. You talked about the vaccination and the vaccines, nationalism that that seemed to prevail. The global value chains is something that is going to continue to exist. The global value chains is what made it possible for trade to be a very big engine of growth and of investment and investment is tomorrow's growth. So the fact that they stopped, the fact that they were blocked, the fact that they were put tariffs on them, et cetera, were mistakes that we are now hopefully correcting.

Megan Greene [00:17:17] You pointed out that the tide of globalisation was receding before this virus actually hit. One argument for why it was receding is that globalisation was driving inequality. When I'm asked this question, I often use Ireland as an example for an answer, because Ireland, of course, is this small, open economy highly integrated into the global system. And yet, according to some figures, inequality has actually fallen in Ireland over the past 30 years, unlike most of the rest of the developed world. Paschal, I want to ask you first whether you buy this argument that globalisation is a driver of inequality or whether you think it's actually just a convenient scapegoat.

Paschal Donohue [00:18:02] Well, I think what we're looking at the performance of globalisation and its perceived ebbing, I think we need to be careful that we don't form that view by benchmarking as against a model of peak globalisation. I think we had a period before the great financial crisis in which we had exceptionally large movements of capital and investment. And in many ways, it formed a very high point of a particular form of globalisation. And as we look at where we are now and where we were in the pre-pandemic era, I think it's important we're not benchmarking ourselves against a period that we may see now in retrospect to have been excessively strong. The development of technology, that had such a big effect on living standards and forms of work. But of course, some of these technologies, and indeed many of them are themselves, are a by-product of how globalisation works. If you look at where we are from and an income growth point of view, and in particular, if you look at the impact of taxation policies and our welfare policies, they combined with the effect of education in Ireland across the latter half of the last century, have had a very positive effect on both social mobility and income inequality in Ireland. However, while we have made progress in those areas here in Ireland, it isn't to the satisfaction of enough people in Ireland as well. Irish people want us to do more, they want it to be better. And while we have made very strong progress from an income point of view in reducing inequality and having more sustainable income growth, it is also the case that some of the issues that relate to assets, such as, for example, housing, such as in relation to pension availability, we continue to have challenges there.

Megan Greene [00:20:21] The Secretary General, Gurría, I wanted to ask you how you would suggest we best compensate the losers from globalisation, but also in addition to addressing inclusivity, how do we address fairness in society as well, since I know the OECD has been doing a lot of work on that?

Angel Gurría [00:20:40] You don't start by saying I will globalise. I will have a policy of globalisation. My policy is a globalised policy. No, no, you don't do that because it doesn't happen like that. Globalisation is the inevitable consequence, as the minister suggested, of a combination of very fast developing technology and the revolution of communication, not only of technology but of communication. And if you put the two things together, you get globalisation. It's out there, it's happening, and either you get on with it and you get on board or it's going to leave you behind and you are the one who is going to suffer. And the inequalities are about flawed policies, about bad policies that we did not consider. And in the face of globalisation, we didn't get smart about housing, education, health, jobs, opportunities, skills, skills, skills. You know, skills are what can keep people away from the job market or it can get them back into the job market after the pandemic. What instruments do we have? Well, we have Social Security, we have education policy, we have taxes. What you're trying to do is not just to reduce the inequalities, but you're also trying to do that by increasing the quality of life and also by defining the quality of life and prosperity, not just by GDP itself. Look at the pandemic. The impact has been very unequal. Minorities have been hardest hit. The women are suffering the brunt. So it's about it's about policies, policies, policies. Remember our OECD motto, better policies for better lives.

Megan Greene [00:23:08] There's a question from the audience on digital taxation, actually, and I'm curious to hear from both Minister and the Secretary-General on what the perspectives are for prospects for a digital tax from Dublin, Brussels and also from Paris. So I'll start with you, Minister.

Paschal Donohue [00:23:29] I believe the OECD is the appropriate and the most effective forum in the world in which this issue can be safely resolved, and I believe the model for taxing the digital economy is going to change. I believe the OECD will make progress, since I believe that we'll have some consequences for Ireland. We will have to manage those consequences because there is a long term project in relation to stable taxation and a greater legitimacy and fairness regarding how big digital companies are taxed. That is really, really important.

Megan Greene [00:24:17] Yes. Secretary-General, what do you view the prospects of a digital tax?

Angel Gurría [00:24:22] Well, first of all, it's not the OECD countries, by the way, Megan, as Pascal knows very well, is 139 countries, and counting, that are involved in this exercise. The idea is that by July, with a six months delay from the original end of 2020, we will have a deal on digital taxation with the characteristics that the minister said, a worldwide deal where everybody is sharing the same criteria. And that is much better than having trade tensions and eventually trade wars, which we know are very costly at exactly the wrong time while we're trying to generate a recovery for the world economy.

Megan Greene [00:25:13] Thank you so much. Listen, we're out of time. But given this is St. Patrick's Day, I wanted to invite our speakers to close the event to mark St. Patrick's Day in Irish. So, Paschal, I'll turn it to you first. You're on mute again.

Paschal Donohue [00:25:31] It's ironic during a presentation of which I've made the case for globalisation and for the good use of technology, I can't manage to mute function well enough, Megan, so apologies for that. So I just want to wish a "beannachtaí a fheile Phadraig" which is kind of good wishes on Saint Patrick's Day to everybody tuning in. We, and I, really hope we'll be able to celebrate it in more familiar ways and next year on in the year after dusk. And I just wish good health to everybody who's watching us.

Megan Greene [00:26:04] Thank you! Angel?

Angel Gurría [00:26:06] Minister Donohue, dear Paschal; and Ambassador, Megan, "a chairde". And I'm going to say a few words in Spanish because "El Batallón de San Patricio" (St. Patrick's Battalion) was a group of Irish men who actually got on the Mexican side in the fights that we had against some invaders. And there are many streets that are called "El Batallón de San Patricio", there's a statue, there's all the plays, and so "muchas gracias para ti también". Thank you.

Outro [00:26:53] To listen to other OECD podcast, find us on iTunes, Spotify, Google Podcasts and soundcloud.com/oeed.