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# THE WALL STREET JOURNAL

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THURSDAY, JULY 14, 2011

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## Let the Celtic Tiger Roar Again

By DAVID C. MCCOURT

Last Saturday, as police used tear gas to disperse protesters in Athens, European Union finance ministers agreed to throw a €12 billion lifeline to Greece after the country's lawmakers adopted a new, tougher austerity plan to cut government spending, increase privatization, and significantly raise taxes. Euro-zone leaders plan to hold a summit this Friday that more than likely won't serve up lasting solutions but may cost taxpayers still more money.

Regardless of what one thinks of the Greeks' new austerity plan, it would be a mistake to apply this same formula to other EU countries, such as Ireland, that are in a fiscal hole. Ireland, like Greece, faces an extraordinary amount of public debt that will require cost-cutting, growth initiatives and restructuring to resolve. But other than loads of debt, there are few similarities between the two countries.

Ireland's fundamental problem is a balance-sheet issue. What's needed is a plan to recapitalize its banks and cut their debt burden. Such a plan would require the European Central Bank—the Irish banks' largest single creditor—to work with the Irish government, maybe even accepting a debt-for-equity swap. In other words, the EU needs to bet on Ireland's future by becoming a shareholder.

Exchanging debt for equity is controversial and would attract many opponents—but it is how the U.S. solved the savings and loans crisis of the late 1980s. Without the bold moves the U.S. made in pioneering equity partnerships, the S&L issue might never have been resolved. Private companies took on the burden of S&L debt, grew the underlying companies and sold the assets for a profit that was shared with the government. The solution was based on the fundamental premise that you don't make a bad balance sheet stronger with more debt, you make it stronger with less debt.

The same solution would do more than improve the solvency of Ireland's banking sector. It would give Ireland the chance to revive its long and proven history of vibrant capitalism and entrepreneurship—and help to reinvigorate its economy.

Foreign creditors might not be happy if they're forced to accept shares in Irish banks, but any other solution would turn the country into a large debt-servicing agency for a generation, reducing the Irish political class to little more than debt collectors for foreign creditors. This is neither financially nor politically tenable.

The Greek situation, by contrast, is rooted in long-term fiscal mismanagement, a rapidly aging population, and a business environment that has never shown much enthusiasm for either entrepreneurial activity, capitalism, or tax collection—the polar opposite of Ireland. And it's important to remember that Ireland's sovereign debt is equivalent to 96% of its gross domestic product. Significant, yes, but nowhere close to Greece's debt, which is more than 140% of GDP.

Even with its sovereign-debt problems, Ireland remains one of the wealthiest countries in the EU. Its 2011 GDP per capita is forecast to be \$39,000, (\$3,000 above the euro-zone average of \$36,000), while Greece's is forecast to be just \$28,000.

Not surprisingly, the Irish middle classes have reacted to the economic downturn by saving and paying down debt. Private savings rates have jumped to 14% of disposable income in 2010 from 1.6% in 2007. But these savings are not being recycled into the economy. Meanwhile, the collapse in taxes and the overshoot in public spending has resulted in a huge budget deficit. Austerity measures would likely lead to even more savings, contracting demand further.

What's needed in Ireland is not EU-imposed austerity but a continuation of pro-growth policies. Perhaps the single most important distinction between Greece and Ireland is the market-oriented, entrepreneurial and trading culture that has long characterized Ireland. It is precisely these characteristics that the European Central Bank is threatening by demanding, for example, that the country raises its relatively low corporate tax rate. Europe's banking and sovereign-debt crisis was not caused by Ireland's low corporate taxes, nor will it be solved by raising them.

Ireland's pro-growth policies have long attracted foreign investment and trade. Corporate America, for example, has invested more in Ireland than in China, India, Russia and Brazil combined.

Earlier this year, the World Bank ranked Ireland ninth out of 183 economies in terms of the ease of doing business. In comparison, Greece is ranked 109th. Ireland needs to stick to this model if it is to return to the growth patterns of the past. Here again, the comparisons are instructive: In 2010, exports from Ireland accounted for 103% of GDP, compared to just 21% of GDP in Greece.

Today Ireland is operating under the cloud of bank debt and the threat of default that will ultimately force capital flight and keep private savings under the mattresses. Yet it has the essential economic and cultural ingredients to revive the competitiveness that made it the Celtic Tiger. The question is whether the European Union is prepared to recognize the fundamental differences among its member states and become an equity holder—not a debt collector—in the future. Creditors who were once prepared to lend to the Irish banks must now be prepared to own them.

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