A Comparison of the Polish Economic Model to the Irish Economic Model

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Abstract

The Irish economy experienced significant growth during from 1990 to 2007. The "Celtic Tiger" became the model for the expanded European Union with their economic growth fueled by globalization. The "Taming of the Celtic Tiger" was the result of the global economic crises that resulted from a flat growth rate from 2007 - 2010 in the Gross Domestic Product (GDP) of the United States. The Polish economy experienced rapid economic growth from 1990 to 2010. This paper will analyze the changes of the GDP of the Irish economy and the Polish economy. The Polish economy is still considered a developing economy whereas the Irish economy peaked in 2007. The "Taming of the Celtic Tiger" may have been caused by the reliance of the economic growth on the global economy and in particular the economy of the United States. The time period from 1990 to the 2015 estimates will be used for this trend analysis.

Key Words: globalization, Irish Economy, Polish economy, Economic Freedom

Introduction

The Gross Domestic Product (GDP) of the United States rose every year from 1990 until 2009. This rise in America's GDP also helped to propel global rises in GDPs and stimulate growth across various markets within individual countries. The housing market could not sustain this boom and prices began to fall in mid-2006. As prices declined at an accelerating rate, the boom in home construction collapsed and in late 2008, America's economy stagnated under this housing and subprime market failure (Buchanan, 2009; Shiller, 2008).

Unfortunately, this crisis caused financial failures in Germany, France, and most notably Northern Rock Building Society in the UK (Shiller, 2008). Not reported as much, was what the boom and bust of the US housing market did to the housing market of the Republic of Ireland. The Polish housing market also declined during this time period but this decline may have been caused by the oversupply of housing in the post 1990's transformation of the Polish economy to a market based theory (Tradingeconomics,com, 2010).

The Taming of the Celtic Tiger and the change to Market-Based Principles in the Polish Economy

The economy of Ireland was booming in the 1990's because of an influx of resources from the European Union (EU) starting in 1993 and it continued through 2004 when the EU expanded to 25 countries. The growth of the Irish economy was assisted by the growth of the global economy. The Irish economy generated an increase in Gross Domestic Product (GDP), an increase in real estate values, high employment, and an increase in immigration. The United States economy was also growing during this period along with many of the globalized economies throughout the world.

The Polish economy shifted from a socialistic to a market economy in the early 1990's. This change began an increase in the Gross Domestic Product of Poland of 1.1 times. Poland's economic growth did not stagnate from 2007 -2010 as did the Unites States economy and did not decline by the 10% experienced by the Irish economy.

This section of the paper will compare the changes in GDP, in real estate values, unemployment rates, and immigration of Ireland to Poland (Barrett, Kearney, & Goggin, 2009; Duffy, 2009, p3; Ruhs, 2009).

Gross Domestic Product

The Gross Domestic Product in Ireland showed an increase of 6% in 2007 before a drop of 3% in 2008 followed by a 7.9% expected drop in 2009 and a further expected decrease of 2.3% in 2010 (Barrett, Kearney, & Goggin, 2009). Ireland's real GDP outpaced both the United States and the European Union from 1970 to 2004 (Dorgan, 2006). This was a period of time when the idea of globalization was the economic model that fueled the Celtic Tiger.

This economic growth continued into 2007 as the GDP rose 6% but then the Irish economy showed a decrease in 2008 and expects a further decrease in 2009 and 2010. The Economic and Social Research Institute (ESRI) says the "contraction in the economy is expected to continue through this year and into next, with a very modest rate of growth now expected to emerge in mid-2010. By the end of 2010 GNP per head is expected to be lower than its value in 2002" (Finfacts Team, 2009a, page 1). The result of the globalization policies tied to the United States economy helped cause a collapse of the Irish economy that may have exceeded that of the United States. This economic crisis is also evident in the Irish housing market.

The Polish economy shifted to a market-based economy in the early 1990's growing at approximately 5% per year (Global, 2011).The Eastern European countries (with the change to market-based economics) became emerging markets similar to the Irish economy before the "Celtic Tiger". The influence of the United States economy along with global principles allowed the Polish economy to continue even though a worldwide recession was evident in the mature economies of Europe.

Housing

The Irish housing market experienced a remarkable increase in value from the first quarter of 1995 to the peak value in 2007 when the United States housing market also started a decline. "At their peak, average new house prices were 327 per cent higher than quarter 1, 1995, while the average price of an existing dwelling was 451 per cent higher" (Duffy, 2009, page 3). This remarkable increase in value caused the Irish housing market to create a "bubble" that resulted in recessionary pressures in the Irish economy. "The dramatic fall off has been caused by the decline in all sectors of the construction industry including residential, commercial, public sector and civil engineering" (Finfacts Team, 2009c, page 1).

The United States housing market has not demonstrated as volatile a change as the Irish housing market. This may be caused because the housing market in the United States had less growth than the Irish market during the same period (first quarter of 1995 compared to the first quarter of 2007) (Census.com, n.d.). The average price of a home in January of 1996 in the United States was $155,300 as compared to $329,400 in the first quarter of 2007 (Census.com, n.d.). Irish housing markets show a greater decrease than the United States housing market. The average value of a home in 1996 in Ireland was 75,000euros as compared to 311,078euros in 2007 (Global, 2008). The dependence on the globalized marketplace places Ireland at risk from economic turndowns caused by policies of countries that influence this global economy. The Irish housing market was down 23% from the first quarter of 2007 to the second quarter of 2009 (Finfacts Team, 2009b). The decline in the United States housing market over this same period was 16% (Dorgan, 2006). The reliance on globalization resulted in a dramatic increase in housing cost in Ireland. The resulting housing crises caused in part by United States economic and lending practices caused a decrease in housing cost and possibly recessionary pressures. The Irish economy would have been considered an emerging economy showing economic growth from 1970 though the expansion of the European Union in 2004 to 25 countries. The Irish housing market may now be considered in a mature stage that may be greatly influenced by the global economy.

The Polish housing economics had a different dynamic caused by "the massive economic transformation during the 1990's that led to a decline from an average of 130,000 dwellings in the early 1990's to an average of 75,000 dwellings from 1994 -1999" (Global, 2011, page 1).

This change in market structure created a delayed demand for housing fueled by rapid economic growth. "This economic growth created a surge of more than 150% in the average price of newly-launched housing units during the time period 2001 to 2008" (Global, 2011, page 1). Other factors created volatility of the Polish housing market including the inclusion of Poland in the European Union in 2004. "No less than 60% of outstanding housing loans in Poland are denominated in foreign currency, mainly the euro and Swiss francs" (Global, 2011, page 1).

The housing market in Poland is not tied with the United States housing market and the global economy because of several overriding factors such as the foreign investment, the change to a market-based economy and the ability of the Polish economy to grow even while a global recession was evident especially in mature European economies including Ireland.

Immigration and Employment

The Irish migration pattern could be classified in five phases caused by several events including "net emigration prior to the 1990's, increased immigration from 1990 to the early 2000's caused by the rapid economic expansion including assistance from the European Union (EU) economic policies, increased immigration from 2001-2004 from non EU countries, 2004-2007 increased immigration from the 10 new members of the EU, and reduced immigration from 2007-2009" (Ruhs, 2009, page 1). The "Celtic Tiger" was assisted by the number of Irish nationals who were well educated in the Irish school system but left the country before the 1990's.

The higher education system of Ireland always had a strong influence on the Irish economy-even when the Irish economy was struggling. The result then was that although the Irish were well educated, many went abroad to work in more developed countries. Several sources stated that "our biggest export was people" when referring to the graduates of the universities in the Republic of Ireland (Gallagher, Niese, & Liechty, 2006). These returning Irish citizens provided the well-trained workforce necessary for the economic boom in the country. The immigrants from non-EU countries were able to provide services for jobs not requiring the educational background of the returning Irish.

The Irish workforce continued to expand 2004-2007 as a result of the globalized economy in the country. These workers traveled from the 10 countries of the expanded European Union. Many of these workers were well trained and were able to step into the jobs necessary for as the still continuing economic growth. Many of the 10 countries had a well trained workforce but did not have positions to utilize their skills. This is similar to the Irish before the 1990's. In addition, immigrants for the expanded EU countries were able to fill the jobs not requiring the higher levels of training. The Irish economy was able to add these immigrants seamlessly to the workforce of the still expanding Irish economy.

The years 2007-2009 were a period of reduced immigration to the Republic of Ireland. The Irish economy experienced a maturation stage at this point but employment was still stable and immigration was slowing. The Republic of Ireland has reversed back to a state of net emigration because of the economic recession. This recession has hit the non Irish workers at a higher rate than the Irish Nationals. "The immigrants from the EU-10 are generally a highly educated group (meaning they have a postsecondary degree) but not all immigrants are employed in occupations that fully reflect these high education levels. Immigrants have also been shown to earn less than their Irish counterparts. EU-10 migrants tend to have the lowest occupational attainment. The recession has hit non-Irish nationals harder: their unemployment was 14.7 percent in the first quarter of 2009 compared to 9.4 percent for Irish nationals" (Ruhs, 2009, page 1).

"Ireland's Gross Domestic Product (GDP) fell by 12% by 2010. Unemployment increased by 17% by the end of the 2009" (McDonald, 2009, page 1). "The number of emigrants from Ireland increased by over 40% from 45,300 to 65,100, while the number of immigrants continued to decline over the same period, from 83,800 to 57,300" (Finfacts Team, 2009d, page 1). The "Celtic Tiger" has been tamed by the global economic recession. The Irish economy may have been hit harder because of the rapid expansion of the last 25 years and because the Irish economy relied on globalization to a higher degree than other developed economies.

Immigration and Unemployment in Poland

The migration pattern in Poland for more than a century was that of one of the largest sending areas in Central and Eastern Europe (Iglicka, 4/11/2011). The pattern in Poland was similar to that of Ireland from 1989 until the "Celtic Tiger" transformed Ireland into a net immigration country.

It has been said at one point that the most important export of Poland and Ireland were the people. This was exacerbated in 2004 when Poland was admitted to the European Union. The annual emigration was anywhere from almost 2 to 1 to over 4 to 1 in 2006 (Iglicka, 4/11/2011). This pattern was changed in 2009 when the worldwide economic slowdown produced a pattern of a relatively equal amount of immigration and emigration. The mature countries of Europe (now including Ireland) were no longer in need of the Eastern European workforce and many of the citizens returned home because many of these European countries favored their citizens for the remaining jobs.

The unemployment rate in Poland has been high since 2003 and before ranging from a low of 9.8% and a high of 20% (CIA World Factbook, 4/11/2011). The Polish economy and the unemployment rate is not as highly correlated with the mature economies in Europe. The patterns are lagging because of the dependence on the Polish labor force when economic prosperity exists in the "Euro Zone" but consistent in the country of Poland because the Polish economy is still an emerging economy. The growth pattern in Poland has been consistent because the internal sales sustain the economy when the global economy stalls.

Conclusion

The subprime mortgage market collapse illustrates a potential problem when economic decisions are not based on the free enterprise system. The government subsidies to allow housing purchases created an inflated value within the housing market. This may be a factor in a globalized recession that has spread throughout the global markets through the current period (fourth quarter of 2009).

This paper illustrates that economic development may be hit harder when their economic prosperity is based on global economic policies. The housing market in Ireland grew at a faster rate than the housing markets in the United States and other more established economies. Ireland may be classified as a mature economy based on their economic position moving into the next decade (2010). The "Celtic Tiger" was once considered a model of economic growth for countries in the expanded European Union. The recent events from 2007 to the current period may provide these countries with ideas of economic policies that will take advantage of their emerging nation position but in addition will provide caution of the depending on global economics for a high percentage of their Gross Domestic Product.

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