Comparing Ireland and Nevada?

The comparison is not obvious.

- **Ireland**
  - 4.5m. people
  - 27k. square miles
  - 14.6% unemployment
  - $40k. GDP Per Capita
  - 0.7% growth
  - low income inequality

- **Nevada**
  - 2.7m. people
  - 110k. square miles
  - 9.8% unemployment
  - $47k. GDP Per Capita
  - 1.2% growth
  - high income inequality
The Economy of the Silver State

• Gaming monopoly from 1930s to 1980s, funding “One Sound State” with low taxes, little need for educated workforce.
• In 1990s, California’s housing bubble spilled over the border, along with capital from elsewhere: Nevada began unsustainable construction boom, largest share in the nation.
• Housing bubble peaked in 2006, then collapsed; people stopped buying new houses, and the sector tied to construction and home sales collapsed.

From April 2006 to January 2012, home prices fell by 62% in Las Vegas, compared to 34% nationwide.

Prices now rising for 10 straight months, an increase of 11%.
Inflation-adjusted housing prices were stable in Nevada from 1975-2003, then skyrocketed.

Since 2006 peak, Nevada home prices fell by 60%.
(US=26%, CA= 46%)

Adjusting for inflation and population, Nevada’s personal income fell by 15.5%.
(US= - 8.2%)
What then for Nevada?

- Housing prices declined more in Nevada than in any other state, foreclosure and underwater mortgages rates highest.
- Construction collapse: unemployment rate became highest.
- Nevada was responsible for much more than our fair share of the financial crisis. National recession led to decline in gaming and leisure spending. Balance Sheet Recession (Depression).
- Falling tax revenues forced state and local governments to impose austerity, though federal assistance helped offset cuts.

Nevada’s employment was the fastest-growing in the nation.

California has more or less tracked the nation for 25 years.
Nevada’s unemployment rate peaked at 14% in late 2010 – a year behind the nation.

Recovery in Nevada?

- Over last year, Nevada has added 15 thousand jobs, majority in leisure & hospitality and retail. (*For comparison, from 2000-2005 we added 100 thousand jobs per year.*)
- Employment kept falling in construction and government.
- Recession ended a year after the rest of the nation, but personal income and GSP has been flat since 2010.
Nevada has one of the very smallest state general funds.
Nevada spends the least on public education.

After declining by 14% in FY2009 and 4% in FY2010, gaming win rose 3% in FY2011 and 1% more in FY2012. CY2012/2011 = +1.5%.
Mostly Las Vegas.
More competitive market, nationally and worldwide.
In Northern Nevada, however, the loss of the gambling monopoly has led to a 50% decline over the last decade.

After declining by 10% in FY2010, taxable sales rose by 6% in FY2011 and 8% more in FY2012.

By calendar year, sales in 2012 brought in 6% more than 2011.
Mark Twain: "History doesn't repeat itself, but it does rhyme."

- Ireland is to the EU as Nevada is to the US.
- Both have had to reinvent themselves.
- Both experienced much bigger housing bubbles and much deeper recessions.
- Both recoveries were slowed by public austerity.

**Comparing Population**

- 12 (or more) Decades of Decline
- 2-3 Decades of Decline

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Background: Irish Misery

- Starting in 1600s, Penal Laws oppressed Irish Catholics, many of whom were enslaved to Protestant lords and settlers.
- Famine in 1740s killed half a million, led to emigration.
- By 1820, per-capita income in Ireland was half of British level.
- Potato Blight (1845-49) led to famine, starvation and emigration. Population declined from 8 to 4 million.
  - A third went to the new world, a third went to the next world, and a third remained behind.

Background: The Irish Republic

- After a long history of conflict, most of Ireland became a Free State in 1922, and a Republic in 1937.
- Under Éamon de Valera’s Fianna Fáil, conservative Church-dominated economic and social policies, relatively isolated from world economy.
- Slow growth through 1950s, foreign exchange shortages.
- Irish GDP per capita only a quarter of U.S. level in 1950.
- Population declined to 2.8 million in 1960 due to emigration.
Initial Economic Reforms in Ireland

- Educational reforms in 1960s: large investment in education, free secondary, university education.
- Outward orientation and reduced protectionism; joined the European Community in 1970s, devalued the Punt.
- A hard first decade: high budget deficits, inflation in late 1970s to early 1980s. Government debt reached 130% of GDP.

Ireland’s New Policies

- Political agreements (social partnership) between business, labor unions, farmers, and government.
- Increased personal taxes led to government budget surpluses. Public debt dropped below 30% of GDP.
- Reduced corporate tax rates, active promotion of foreign direct investment, public investment in infrastructure, and more money for improving education.
- Integrating into Europe, eventually adopting the Euro.
The Celtic Tiger

- Foreign direct investment from the US and EU grew fast, helped by reduced violence in Northern Ireland in 1990s, low corporate income tax rate, and increasingly-educated and cheap labor force.
- EU helped subsidize infrastructure investment.
- Irish exports to US and EU grew dramatically.
- Rapid shift in 1990s from agriculture to manufacturing chemicals, pharmaceuticals and engineering products.

Growth started in 1960s, took off in 1990s!
Financial Deregulation

- Bank deregulation led to more consumer credit, more borrowing, less savings. Personal savings ratio fell from 19% of GDP in 1970s to 14% in 1980s, 10% in 1990s.
- Central Bank of Ireland reduced oversight of Irish banks.
- Irish banks borrowed internationally on short-term market at low ECB rates to finance long-term investments.
- Property prices rose dramatically, and housing stock (including vacation homes) rose (42% of population).
- About 25% of GDP was in the construction sector.

The Bubble Expands

- Private funds flowed from core EU countries.
- Real estate bubbles formed in Spain and Ireland. Housing prices quadrupled, even adjusting for inflation.
- Rising Euro began to price out exports for some countries which traded more outside the EU.
- Ireland had price inflation higher than rest of Euro zone: real prices became overvalued, and Ireland lost its advantage of low wages relative to productivity.
Pop!

- Housing prices peaked in 2006, then fell.
- Construction withered, unemployment rose.
- Banks became insolvent, needed a bailout to stay open.

Depression!

- Ireland was the first EU economy to go into the Great Recession.
- Government deficit rose from drop in tax revenues, financial bailout.
- Loan from EU/IMF for 100b Euros helped with bailout.
- Austerity led to large government spending cuts.
- Unemployment up from 4% to 14%.
The Euro is not an Optimal Currency

- A common currency reduces both transactions costs and risk for trade and investment.
- A common currency requires integrated product and capital markets, labor mobility, similar types of economic shocks, and similar fiscal characteristics, or a willingness to make international fiscal transfers.
- All countries must share the same monetary policy.
- Economists argued that the EU – unlike the US – was not an optimal currency area, that it could not survive an asymmetric shock.
GDP Growth in both Ireland and Nevada is NOT keeping up with population and inflation. From 2007-2012, Real Per-Capita GDP has declined by 14% in both Ireland and Nevada.

But unemployment in Ireland remains above 14%, while it is finally coming down in Nevada.

Lessons for the Silver State

• Housing bubbles and construction booms are dangerous, duh; and can cause financial crisis and balance sheet recession (depression).
• Significant public investment in education is the key to reinvention, but it takes a decade or two to start paying off.
• Low corporate tax rates may help attract outside investment, but tax revenues need to be adequate to fund education, public investment in infrastructure, and social services.
• It helps to be part of a larger economy that helps in bad times.
• If possible, the time for austerity is in the boom, not the bust.