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HOW CAN IRELAND MOVE TOWARDS FULL EMPLOYMENT?

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I would agree with the argument already made by others that full employment should remain our basic objective, and I want to move on to consider ways and means of attaining that objective. So I will speak mainly about the issue of job creation, first in public services and second in the manufacturing sector-.

The public sector is of critical importance for a number of reasons. For one thing, the number of people employed in the public sector constitutes a large proportion of total employment. Taking a broad definition of the public sector to include the civil service, local authorities, health and education services, gardai and defence forces, and the whole range of semi-State bodies and commercial State enterprises almost 30 per cent of the people at work in this country are employed by the public sector. Obviously, therefore, trends in public sector employment have a strong immediate influence on the overall employment situation.

More significant, however, is the record of the public sector in contributing to employment growth in the past. For the most part, employment in this country since the foundation of the State has not grown, but rather it has declined in some periods or remained roughly stable in others. Since this was not sufficient to provide for the potential natural increase in population, we have therefore had a long record of emigration, or relatively high unemployment by European standards or, quite frequently, both together. The one major exception to this pattern was during the 1970s when there was substantial growth in employment, and it is significant that this growth depended heavily on expansion in the public sector.

Between 1971 and 1983, the total number of people at work increased by 92,000. During the same period public service employment grew by 83,000 - almost the same as the overall increase. Of course, *some* areas of private sector employment grew as well, while there was an offsetting decline in other private sector areas. But it remains true to say that the only period of sustained and substantial employment growth seen in this country to date was one in which the public sector made the major contribution to expansion. There has never been a period of significant employment growth depending mainly on the private sector. Given this background, the public sector must be taken seriously as a key area for job creation.

Employment in Public Services

Most public sector employment is in services, rather than industry or agriculture. There is clearly a demand for expansion of public services, in the sense that there is continuous public pressure for better services, requiring more employment, in areas such as health, education, public transport, the gardai, and so on. So there is no actual shortage of worthwhile work to be done in public services, but the basic problem is where is the money to come from to pay people for doing this work. It is characteristic of many public services that they are not self-financing but depend at least partly, if not totally, on financial support from the Exchequer.

The question of how many worthwhile jobs can be created in public services is therefore as much a political question as a narrowly technical, economic question. It depends largely on the question how, and from whom, could additional taxes be raised to pay for employing more people. (And even if the money is borrowed, debts are ultimately paid out of taxation.) The present government's answer has been that taxation cannot be increased, and indeed that it has not been possible even to maintain levels of public service employment.

While it would be widely agreed that income tax for those in the PAYE sector is already very high, there are other sources of taxation which could realistically be tapped, given different political priorities. Taxes on profits and property are unusually low, accounting for just 7 per cent of total taxation by the mid-1980s, compared with 21 per cent in 1970, or compared with 24 per cent in the UK in 1983 and 17 per cent in the USA. Farmers, too, might be expected to pay at least £100 million more in taxes under an equitable tax system. And there is probably still scope for increasing tax yields with a more efficient approach to tackling evasion and delays in paying taxes. The tax amnesty last year showed clearly that a great deal of tax was slipping through the net.

The issue of job creation in public services is thus closely linked to the whole question of taxation. More people could be employed with progressive reforms in the tax system which would make greater demands on those who are best able to pay. Beyond this, additional increases in public service employment might be financed by making further demands on the ordinary taxpaying employee. But clearly there would be considerable resistance to this, and not without good cause.

Jobs in Industry

The problem of financing large-scale public service expansion would, of course, be eased considerably if we had a higher rate of growth outside public services. With more people employed at higher rates of pay in other sectors, tax revenues would be greater without higher rates of tax. It is particularly important in this regard to consider industrial development policy, both because more jobs could be created directly in industry and because a stronger industrial sector would indirectly facilitate relatively painless growth of public services.

The background to the current situation in industry is that industrial employment was growing in the 1960s and 1970s. But it then declined continuously from 1980 to 1987, and manufacturing employment fell by 45,000 in that time. This was the greatest and longest-sustained fall in industrial employment in the history of the State.

Against this background, there has been a growing feeling that the old industrial policies no longer work as they used to, and there have been reviews of policy by the NESC and the government. As a result, there now seems to be a fairly widespread consensus that policies must focus more on developing native Irish industries, because we are already making major efforts to attract multinational companies but it is clear that they alone will not create enough jobs.

I would argue that in order to achieve significant development of native Irish industry, or "indigenous" industry as it is called, more "active", government policies will be needed, focusing on promoting selected target industries. The generally prevailing approach of industrial development policy over the past few decades has been fairly "passive" in nature, in other words, offering tax concessions and grants as incentives for industrial investment in general and then waiting for private firms to come forward with investment proposals. But I think that what is needed is for the State to take the further step of selecting target industries for development, and then to become more active in taking the initiative to a greater degree, so as to ensure that substantial indigenous investment goes into the target industries

The Need for Active and Selective Policies

The general argument for this approach is that Ireland is a relatively newly industrialising country with relatively small and weak private indigenous firms. They have to compete with strong established companies in more advanced economies, many of which have already developed a large scale of production, specialised skills and strong technological and marketing capabilities. Newly-industrialising countries, such as Ireland, with relatively small and weak private firms, are at an inherent disadvantage in trying to break into many industries in competition with strong established firms in more advanced economies.

The result of these problems is that native Irish industry remains largely confined to the relatively small-scale industries and is mostly excluded from the modern large-scale sectors which make up much of the world's industry. In the European Community, for example, about half of industrial employment is in Metals, Vehicles, Electronics and other Engineering industries, and about 60 per cent of this employment is in large firms with over 500 workers. But there is only one Irish private firm with over five hundred workers in these industries.

So there is this major gap in our economic development which Irish private firms seem unable to fill.

It is not really surprising that this should be so, in fact. A study of a great many large companies in advanced economies has found that when they set up a new subsidiary or business unit, it typically makes losses during its first five years or more, while it is getting off the ground, and it only becomes viable after that. The large parent company absorbs the initial losses in such cases, but few Irish private firms or entrepreneurs have the resources required to undertake major new investments in large projects which have to be subsidised for years. This means that in relying mainly on private initiative, we are effectively accepting that we are permanently excluded from a great many industries, which almost inevitably means a shortage of jobs.

We can perhaps learn something from a few exceptional examples of late-developing countries which have developed many internationally competitive native-owned firms in the modern large-scale industries. These are, principally, Japan (a less-developed country only 30 years ago), as well as South Korea and Taiwan, which followed fairly similar industrial development strategies.

The strategy of Japan in the 1950s and 1960s was summed up as follows by a Japanese policy maker: (a) select target industries carefully, (b) prevent ruinous competition at the infancy stage and (c) nurse them to competitive stature and then expose them to outside competition. Thus, this involved protection, as well as conscious selection of target industries which could eventually be developed to a competitive stature; it also involved channelling of substantial capital resources into the target industries, efforts to match the scale of established foreign competitors by restricting the number of firms allowed to enter an industry so that a few could grow strong, and focused research and development and technology acquisition programmes in order to match competitors' technology. The element of selectivity and focusing of resources in all of this differs from straightforward protection alone. And this strategy is also different from the more free market approach with only generalised incentives which has largely prevailed in Ireland.

The general idea behind this strategy is that, taken individually, native firms are initially too weak to develop many of the advanced large-scale industries in competition with stronger firms in the highly developed countries. So the nation's resources have to be disproportionately focused, or concentrated, on developing a selected group of industries in a given period, and when they reach a competitive and viable stature the focus of state policy can then shift to a new set of target industries. This requires organisation by the state (after close consultation with companies), which means selective intervention in the economy.

Obviously there is much in the politics, culture and society of Japan - or South Korea and Taiwan - that differs greatly from Ireland; so their approach - political, social and economic - cannot be faithfully replicated here and indeed few would even want to do so. The scope for using outright protection in Ireland is also far more limited by the small size of our economy and our dependence on European Community markets. But there is an essential core to their strategy - involving *selective* and *focused* action, either guided or implemented by the state - which could be applied in some adapted form. This is not a matter of claiming that the state is necessarily more competent than individual entrepreneurs or companies; but rather I would argue that there is a need to pool and focus our limited resources to invest in substantial new projects and sustain them through their early years, in a way which only the state can realistically organise. Indeed the need for this is all the greater to the extent that protection is ruled out.

In our political culture, which is considerably influenced by British and American attitudes, strong state intervention in the economy tends to be associated with socialism, but in fact it is not necessarily so. Japan, South Korea and Taiwan are by no means socialist countries. In reality, there is simply a strong pragmatic and non-ideological case for active and selective state intervention in a relatively weak and late-developing economy. There are, of course, major differences between the politics of Left and Right. But the politics of this matter should really revolve mainly around the issues of who controls the state and enterprises and who benefits most from growth achieved by government policies, rather than around the issue of state intervention itself.

If we are arguing for the State to become more actively involved in selecting target industries for development, however, it is essential to recognise the need for making selections with great care. To be realistic and credible, it should be recognised, as a starting point, that native Irish industry is still rather weak and underdeveloped and that it would be very difficult, if not impossible, for us to develop some types of industry successfully in competition with strong established firms elsewhere. We need to avoid committing resources to such industries where we would meet very tough competition and concentrate on others where there is most chance of success.

Selecting Target Industries

In considering which industries would make promising targets for development by Irish indigenous companies, there are a number of different factors which need to be taken into account. One could begin by examining the structure and nature of the different industries internationally, in order to see what are the important characteristics required for success, and what difficulties they may present for new entrants or small firms. Then one could identify the greatest existing strengths of Irish indigenous industry - in terms of relatively strong and successful companies, technological or marketing capabilities, specialised managerial experience or labour skills. Ideally, then, we would aim to match and apply our greatest existing strengths to exploiting relatively promising openings in the international scene.

In examining the nature of industries internationally to find such promising openings, there are a number of different criteria which should be applied in selecting target industries. First, we would want to rule out the very large-scale activities which are dominated by giant firms. Second, the most capital-intensive industries should be regarded as unattractive, even if the top companies are not very large, since it would be desirable to maximise the employment created by a given investment. Third, we would need to avoid industries in which the low wages of developing countries could give them a decisive advantage; and this means favouring industries in which our competitive strength could be based, for example, on specialised skills or technologies, product differentiation or strong marketing focused in particular areas, rather than on low wages.

Fourth it would be preferable to develop industries enjoying strong growth in demand. And fifth, it would often be important not just to think in terms of individual industries in isolation, but to select groups of industries which use similar or related skills and technologies, or which may be purchasers of each other's products. In this way, one would aim to create a basis for self-sustaining growth by generating a "critical mass" of similar or related technical and labour skills from which more new products or enterprises could evolve.

Engineering Sectors with Potential

It is, of course, difficult to find many industries which score very well on all these criteria at the same time, but some would clearly be much more suitable than others, as targets for development by Irish indigenous firms. For example, within the broad group of Metals and Engineering industries, certain industries do not look very promising. Cars, steel, ships, tractors, aircraft, computers, aluminium and motorcycles, for example, would largely be ruled out, except for small specialised niches within these industries. On the other hand, the major engineering product groups which look most suitable for substantial indigenous development are mechanical engineering (meaning productive machinery and process plants), and instrument engineering. More specifically, suitable products in these sectors include agricultural machinery (except tractors and combine harvesters), process plants, (for example, for the food industry), mechanical handling equipment, precision toolmaking, medical instruments and equipment, and measuring and checking instruments. Outside mechanical and instrument engineering, other relatively suitable types of engineering products include bicycles, special-purpose vehicles, the smaller household electrical appliances, boats, precision castings and forgings, and specialised applications or systems in electronics. This reference to engineering industries is just by way of example, of course, and there would also be other industries outside Metals & Engineering which offer just as good or even better opportunities.

In this connection, it is worth mentioning that the Programme for National Recovery, published in 1987, did in fact select a number of target industries. Some of these were in the Metals & Engineering area - namely, toolmaking, automotive components, electronics and mechanical engineering - with a reference to the potential for development of mechanical engineering in a number of State enterprises. Other industries targeted in the Programme were DIY products, craft products, clothing, and beef, pigmeat and sheepmeat processing. In general, these look to me like reasonably realistic selections, as far as they go.

Selecting target industries, however, is only the first step, and the follow-through on policy implementation is crucial.

Policy Implementation

As regards policy implementation, if the State is to play a really active role in developing substantial projects in selected target industries, this could be done in a number of different ways. As the Telesis Report to the NESC suggested, a state development agency or agencies could identify suitable target industries and then assemble and give financial backing to a consortium of companies which between them have the necessary managerial resources and skills required for a particular project. Or it might be more suitable to give special backing for a selected project to a single large enterprise, whether private or state-owned; or to undertake direct State investment through the National Development Corporation; or to back joint ventures between foreign-owned and indigenous companies. The choice between these different methods depends a good deal on where one can find relatively strong existing firms, or the necessary managerial competence and experience, or the necessary labour skills for the industry concerned.

To undertake a detailed assessment of the options and to push ahead with the implementation of this approach, there is a need for some sort of expert group or task force to consider each sector which seems to hold some promise. These task forces would need to include people with a variety of experience in areas such as business management and corporate strategy, technology development and acquisition, and marketing. Each task force could be largely made up of staff from a number of different State agencies, together with participation by relevant business people or trade unionists if possible. An essential point, however, is that those involved would have to be able to commit a substantial amount of time. An important step for each task force would be to identify the more successful Irish companies and to ask them what possibilities they see for major expansions or diversifications; they should be asked to consider projects which may be beyond their capabilities with their present resources, but could become viable propositions given sufficient focused support to help them through the early stages, until a fully competitive stature is attained.

Based on these consultations, together with its own assessment of opportunities apparent in the international economy, each task force could then decide on a number of target activities for development. The next step would be to enlist a company or companies to undertake some major investment projects in each area, leaving the final detailed selection of products, processes and markets to the enterprises concerned. It would also be necessary to arrange a suitable financial package, involving enough state backing to get each project off the ground, and enough commitment by the enterprises involved to ensure that they have a responsible and determined approach.

Recent Policy Developments

Before concluding, I want to mention some failly recent developments in industrial policy which actually do incorporate at least some elements of the more active and selective approach I have outlined.

1) National Linkage Programme. This involves teams drawn from different development agencies, with a range of expertise; they select and assist small indigenous sub-supply companies to build- up their sales to multinational companies.

   So this programme is *selective* in style, and apparently quite successful, but it does not involve very active and direct State investment, and is not greatly ambitious since it is limited to small companies.

2) Company Development Programme. Again this involves inter-agency teams working with selected *larger* companies. It encourages and assists them to prepare and implement long-run strategic development plans.

   Again this is selective in style, but does not involve much active and direct State investment, and thus depends on encouraging and persuading companies to expand.

3) National Development Corporation, or NADCORP. This was established as a vehicle for direct state investment in promising projects. Its legal powers and functions are very much in the spirit of the strategy which I have outlined, but in practice it has tended to invest in rather small scale projects as a joint-venture partner, and it has had a limited impact so far.

4) The Programme for National Recovery (1987) identified a limited number of promising target industries and said there would be sector by sector development strategies for these selected industries. For example, such a strategy for part of the toolmaking industry, drawn up by an inter-agency team, is due to be published shortly. And an outline strategy for the indigenous electronics industry was recently published, and an inter-agency team is to work with companies on implementing this strategy.

All of these relatively recent policy developments could be regarded as moves towards a more selective approach to developing indigenous industry, but there is still plenty of scope to develop this approach further. What we have not seen yet is a very substantial move towards a more "active" role for state agencies and enterprises in taking the initiative in investing directly in industry.