

# THE ORGANISATIONAL ARRANGEMENTS FOR THE FORMULATION AND IMPLEMENTATION OF INDUSTRIAL POLICY IN IRELAND

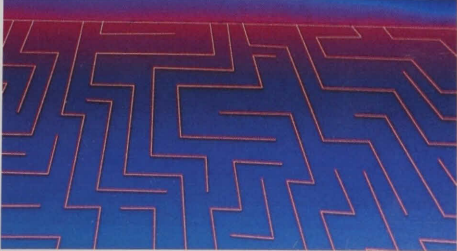
A Report by  
THE ECONOMIC AND SOCIAL RESEARCH INSTITUTE  
to the  
INDUSTRIAL POLICY REVIEW GROUP

Houses of the Oireachtas

DATE RECEIVED  
13 FEB 1992  
ON ORDER PAPER

A TIME FOR CHANGE:

INDUSTRIAL POLICY FOR THE 1990s



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## PREFACE

On 27 June 1991 the Minister for Industry and Commerce, Mr. Desmond O'Malley, T.D., established the Industrial Policy Review Group to independently review industrial policy and with the following terms of reference:

“To review and make recommendations on industrial policy in Ireland and on public policy generally as it affects industrial development. The Review should address particularly the internationally trading indigenous industrial sector and, where possible, identify policies and measures to be adopted which would form the basis for the development of this sector over the medium to long term, with a view to increasing employment and wealth creation. For this purpose, industry includes internationally traded services.”

The Group sought the advice of a number of consultants to assist in its independent assessment of certain key aspects of Industrial Policy. This Report on “The Organisational Arrangements for the Formulation and Implementation of Industrial Policy in Ireland” has been prepared by Mr. Peter Gaffey of the Economic and Social Research Institute.

John Kelly  
Secretary to the Group

January 1992







THE ORGANISATIONAL ARRANGEMENTS FOR THE FORMULATION AND  
IMPLEMENTATION OF INDUSTRIAL POLICY IN IRELAND

PAPER PREPARED FOR THE INDUSTRIAL POLICY REVIEW GROUP

by

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November, 1991

DUBLIN:  
PUBLISHED BY THE STATIONERY OFFICE.

To be purchased through any Bookseller, or directly from the  
GOVERNMENT PUBLICATIONS SALE OFFICE,  
SUN ALLIANCE HOUSE, MOLESWORTH STREET, DUBLIN 2.

£4.26



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**SUMMARY****The Current Position****Industrial Policy**

The Review Group have been specifically asked by their terms of reference to review and make recommendations on industrial policy in Ireland and on public policy generally as it affects industrial development. For the purposes of this study, industrial policy is taken as embracing in particular the traditional industrial functions of the Department of Industry and Commerce together with functions in relation to training and education for industry as operated under the Departments of Labour and Education and a range of the functions of the Department of Finance. The activities of other Departments are considered mainly in the context of co-ordinating any of their activities which affect industry in a wider industrial policy.

Industrial policy has changed over the years since the ending of the regime of industrial protection. To day it is aimed primarily at developing indigenous industry, while continuing to attract overseas firms, through an array of measures including grants, tax concessions, and assistance in such areas as development, training, marketing and scientific and technological applications. While progress has been made, it has been in no way adequate to meet the requirement of providing levels of employment which are satisfactory by EC and OECD standards.

### Public Institutions for Industrial Development

The Departmental areas with their main agencies which have direct concern with industrial development are -

- The Department of Industry and Commerce with its agencies - The IDA, SFADCo, An Bord Tráchtála and Eolas,
- The Department of Labour, FAS and the Education area,
- Roinn na Gaeltachta and Udarás na Gaeltachta,
- Department of Agriculture and associated Agencies,
- Department of Foreign Affairs, and
- Department of Finance.

Because of time constraints, the smaller agencies associated with the above groups were not looked at. Also not examined were the other Departmental areas whose activities bear on industrial development but are regarded as incidental to the main functions of the Departments. Arrangements are suggested in the recommendations to ensure that policy changes in those areas which affect industry are appraised in the context of wider industrial policy.

The Department of Industry and Commerce is formally responsible for industrial policy through its Industrial Policy Division whose activities are mainly directed at the attraction of overseas industry and the promotion of indigenous industry through the executive arm, the IDA. Also within the Department is the Trade Division to which An Bord Tráchtála reports, the Office of Science and Technology to which Eolas reports and the Commerce Division responsible

for the regulation of insurance and commercial affairs.

The IDA is the largest of the executive arms of the Department, responsible for the attraction of foreign industry and the promotion of indigenous industry through the array of grants, tax concessions and assistance available under various legislative provisions. Similar but somewhat limited functions are discharged in the Shannon Region by SFADCo while Udarás na Gaeltachta has the industrial promotion function in the Gaeltacht areas.

The other two aspects of the Department's industrial brief are the trade promotion and marketing function carried out by An Bord Tráchtála and the promotion of science and technology and the provision of assistance to industry by Eolas.

Responsibility for training and formation for industry is shared between FAS, the training and placement authority under the Department of Labour, and the various second and third level institutions under the Department of Education. The assignment to the Department of Agriculture of responsibility for food policy has resulted in a situation where the marketing function for food products is divided between An Bord Tráchtála and several other bodies reporting to the Department of Agriculture. The Department of Foreign Affairs has what would appear to be a minor role in

co-ordinating the activities of various agencies abroad.

The Department of Finance exercises a major influence on industrial policy in several ways. It influences, through macroeconomic policy, the environment in which industry must operate: it has been involved in the promotion of the International Financial Services Centre: it controls the levels of public expenditure including expenditure on industrial promotion and it determines taxation policy which has become a major instrument in the attraction of industry.

#### The Finances of Industrial Policy

An attempt is made in Appendix III to estimate the expenditure on industrial development in 1991. Direct expenditure comes to over £450m of which some £62m is provided through fees and miscellaneous receipts of the agencies: £90m is provided by the European Social Fund and £307m is paid out by the Exchequer which, however, recovers £85 million from the European Regional Development Fund leaving net Exchequer spending at about £220m.

Attempts to estimate the cost of the various tax incentives to industry are highly speculative since it must be expected that much of the overseas industry in particular would not locate here without the tax concessions. The true figure lies somewhere between the Revenue Commissioners' unadjusted gross figure of about £1,200m and the figure of about £300m



calculated in the Review of Industrial Performance, 1990. Even accepting the lower estimate, the total cost of industrial promotion is in the region of £750m.

#### Arrangements for Co-ordination

Major policy proposals on industry may originate from a variety of sources and are prepared by the Department of Industry and Commerce and submitted for Government decision through the normal Cabinet procedures under which interested Departments and the Department of Finance get an opportunity to discuss any controversial issues. Proposals from other Departments which have implications for industry are similarly cleared in advance of Government consideration by the Departments of Industry and Commerce and Finance. The Department of Finance also exercises a co-ordinating function over all expenditure through the budgetary process but this is mainly directed at trimming expenditure to meet resources rather than at co-ordinating industrial policy. Operational issues, which arise mainly at agency level, are dealt with through committees and cross membership of Boards.

#### Consideration of the Problems and Recommendations for Change Effectiveness

Unemployment remains stubbornly high at unacceptable levels. Public policy has been increasingly directed towards a solution with a growing consensus that a main hope must be

placed in industrial development. Macroeconomic policy has been directed at providing a climate in which industry can flourish: various, often EC-supported, measures have been directed at social schemes to reduce the numbers of unemployed and expenditures conservatively estimated at some £750m are being incurred on industrial development. The results cannot be accepted as adequate and a primary necessity is to tackle the intractable question of measuring the effectiveness of this expenditure.

#### The Organisational Problems

The main organisational problems seen are:-

- (a) The Department of Industry and Commerce is seen as playing too passive a role in the formulation of industrial policy and not to have the best structure for the co-ordination of industrial policy. There is a lack of practical industry-related skills at management level. In addition, the grouping of functions relating to industry has been affected by reallocations between Ministers over the years; it is questionable why the functions relating to energy and mineral resources have been assigned to a separate Department of Energy.
- (b) As regards the agencies of the Department of Industry and Commerce, the main problem is to ascertain whether the direction of policy and its execution provides the best value for the large expenditures involved. As noted above, there is a lack of an independent means of

measuring effectiveness as a preliminary to policy change. Apart from the question of effectiveness, there is overlap between the IDA and SFADCo/Udarás na Gaeltachta and between An Bord Tráchtála and CBF, the NDC and BIM.

- (c) there are problems in the area of training and education, assigned to FAS and the educational institutions under the Department of Education, which require detailed examination led by a body independent of both. First, the amalgamation of the training and placement functions in FAS can be questioned. Second, the arrangements for the combination of social schemes and industry-related training in FAS and the split of the industry-related training between FAS and the educational institutions should be susceptible to rationalisation. Finally, the key to industrial development may lie in a change in the emphasis placed by the educational system on academic excellence rather than on entrepreneurial skills.
- (d) There is good reason to believe that much of the expenditure on grants and tax incentives is essential as long as there is international competition in the attraction of overseas industry but that some savings should be possible from eliminating unproductive incentives and charging for services producing an economic return to the beneficiaries. However, until some measures of effectiveness are developed and applied,

we have little more than subjective opinions on the relative merits of the various incentives and assistance being provided from public funds.

(e) If unemployment is the greatest problem facing Government and if the development of industry offers the best prospect of solving the problem, all the efforts of Government must be concentrated on the production and operation of an industrial policy embracing the relevant activities of all Departments. The co-ordination of all policies affecting industry, should be a central function of Government. Since the abolition of the Department of Economic Planning and Development there is no central body with this function and the lack should be remedied. Furthermore, without such a central unit of Government, it is doubtful if any proposals for change in industrial policy which cross Departmental boundaries will be fully implemented.

(f) In view of the Government's commitment to regional and local government and of the strong body of opinion that development and enterprise would be better fostered by regional institutions, some regard must be had to the possibility of regional development institutions. However, the proponents of regionalisation have not developed their views on regional structures but the recommended organisational arrangements which follow

could be adapted to accommodate such structures when they emerge.

### **Recommendations**

(The list of recommendations which concludes this paper includes some detailed refinements omitted here)

1. An Office of Planning and Development to be created, reporting to a Minister of State at the Department of the Taoiseach. Initially, the purpose of this Office would be to ensure that all aspects of public policy affecting industrial development were considered together in the light of the priority to be attached to industrial development in overall public policy. In addition to co-ordinating industrial policy, the Office would be responsible for ensuring the implementation of such changes as were decided on as a result of the Industrial Policy Review and for establishing and applying measures of effectiveness to the organisations charged with the delivery of industrial policy.

2. A major study to be undertaken under the direction of the Office of Planning and Development on the present arrangements for training and education for industry with particular attention to the division of functions between FAS and the educational institutions and to the development of a new cultural attitude and practical measures in the

educational institutions towards promoting careers in industry. In regard to the careers aspect, the measures to be developed should include the provision of facilities to enable suitable candidates to live and study abroad and incentives to women students for careers in industry.

### 3. Department of Industry and Commerce and Related Bodies

(a) Serious consideration to be given to the return of the functions of the Department of Energy to the Department of Industry and Commerce.

(b) The primary responsibility of the Secretary of the Department of Industry and Commerce to be industrial policy and development. To this end, the Finance and Consultancy functions of the Assistant Secretary for Planning to be delegated to Principal level and the Assistant Secretary to operate as a planning staff support to the Secretary. If the energy functions are incorporated in the Department, a Deputy Secretary to be appointed to relieve the Secretary in respect of those functions of the Department not directly related to industrial development.

(c) Industry-related professional skill to be introduced at higher management level. At least one of the officers at Assistant Secretary level should be appointed from candidates with substantial practical experience of



industry or, as would also apply to the Office of Planning and Development, the necessary skills could be brought in by exchange with industry or by fixed term contract.

(d) Work on the development of the industrial database and on the development of measures of effectiveness to be expedited.

(e) The possibility of closer co-ordination and rationalisation between the IDA and Udarás na Gaeltachta and SFADCo to be examined.

(f) The marketing functions of An Bord Tráchtála, Coras Beostoic agus Feola, the National Dairy Council and Bord Iascaigh Mhara to be rationalised.

(g) The function of advising the Department of Finance on expenditure on Science and Technology to be assigned to a new National Science Council separated from Eolas.

#### 4. Finance and Taxation

(a) Efforts to continue to have the benefiting firms pay for those services provided by the promotional bodies which result in economic returns.

(b) Tax incentives for industrial development to be

reviewed to eliminate the possibility of their use in tax avoidance schemes or to convey benefits not related to their main purpose.

### Conclusion

The annual cost of these proposals would be likely to be in the region of £500,000 with no immediate saving. In the medium term, however, more than compensatory savings would result from the rationalisation and elimination of duplication secured in the agencies and from the identification and elimination of wasteful schemes and incentives.

Of the various recommendations made, the first, for the establishment of the Office of Planning and Development with the initial brief of looking after industrial development is seen as by far the most critical. At present there is no effective co-ordination of the activities of Departments in relation to a coherent industrial policy.

There are two consequences which concern us here. First, without some body at the centre to secure co-ordination, things will continue to drift. Second, unless there is a central body to promote the overall view, any recommendations made by the Industrial Policy Review Group which go outside the area of functional responsibility of the Minister for Industry and Commerce may not be applied.



The other most important aspect of institutional change is to recognise that the State and its institutions cannot secure industrial development; they can only facilitate its happening. If the structure of public institutions is corrected the next most important step will be to promote a spirit of industrial enterprise among the participants in the educational system and this is why it is so necessary to look closely at the aims and operations of our educational and training activities with a view to encouraging the emergence of those on whom development will depend.



**INTRODUCTION**

This paper has been produced for the Industrial Policy Review Group in response to a request of 1 October, 1991 from the Group for a paper/study

which deals with the organisational issues involved in the formulation and implementation of industrial policies (widely defined). In particular the Group are concerned that the formulation and implementation of policies which bear directly on industrial development are undertaken in an integrated and self re-inforcing manner.

As the request specified that the paper would be required within 4 to 5 weeks (it has, in fact, taken 6 weeks to produce), it has, of necessity to be selective because of this limited time available. No in-depth review of the structures and the operations involved could be undertaken; the principal institutions were looked at briefly. In particular, no attempt could be made at solving that most intractable of problems - the measurement of the effectiveness of public service activities although, as mentioned below, some of the bodies like the Industrial Development Authority and An Bord Tráchtála, have devised and are operating certain measures.

Following the principle that organisation structure should follow the functions to be discharged, an attempt is made to identify the main lines of current industrial policy from formal and informal statements of policy and objectives which add up to the industrial policy pursued by the public service organisations which have been created with the

general aim of promoting Irish industrial development. The principal organisations involved are briefly described and an attempt is made to quantify the cost of their operations directed at industrial development. (It might be noted that, while some bodies in the Industry and Commerce area exist specifically to further industrial development, there are few areas of Government which do not affect that development to some extent; the cost figures are, therefore arbitrary to a large degree.)

Problems in the institutional arrangements for the development of current policy are then considered and suggestions are made as to how these arrangements might be improved. While it was not possible to anticipate the final recommendations of the Review Group on the future shape of industrial policy, it should be possible to make any necessary amendments if significant changes with organisational consequences are proposed.

PART ITHE CURRENT POSITIONI INDUSTRIAL POLICY

To begin with, the Review Group are specifically asked by their terms of reference

To review and make recommendations on industrial policy in Ireland and on public policy generally as it affects industrial development.

The implication is that there is a specific area of public policy that can be classified as industrial and that there are other areas which have an influence on industrial development. A simple approach to this classification would be to consider industrial policy as the sum of those policies, affecting industry at the level of the firm, exercised under the Minister for Industry and Commerce and his Department with its associated Agencies. The other policies affecting industry would range from macroeconomic policy as developed by the Department of Finance through the whole range of policies affecting the intellectual and physical environment within which industry operates - education, training, social welfare, communications, transport, and environmental protection. Indeed, the list might be extended to embrace almost all areas of Government including such basic functions as internal and external security.

The division is, however, artificial - a consequence of the allocation of the functions of Government between Ministers, a process which is not always founded on organisational logic. If we had been approaching the problem in the immediate post-war period, we would have found the Department of Industry and Commerce responsible for the functions now assigned to the Department of Labour (as they existed at that time), for the unemployment problems now assigned to the Department of Social Welfare as well as for many of the functions now assigned to the Departments of Transport and Energy. To avoid getting involved in a fruitless consideration of the allocation of the functions of Government, a somewhat arbitrary decision has been taken here to regard industrial policy as concerned institutionally with the traditional industrial functions of the Department of Industry and Commerce together with the functions of the Departments of Labour and Education, particularly in regard to training for industry, and of the Department of Finance in regard to the development of international financial services, tax incentives for industry, the control of public expenditure and aspects of macroeconomic policy. The impinging functions of Departments generally are not considered in detail but they do arise in relation to co-ordination of industrial policy. As the study progressed, the influence of education policy on industrial development assumed increasing importance.

The development of industrial policy from the 1950s to the 1980s - a period covering the transition from the pre-war protectionist regime - is perhaps best covered in Chapter 5 of the Telesis Report. Basically, the new policy was to increase industrial activity and employment through grants and tax incentives to new industry, mainly designed to attract overseas firms to set up in Ireland; in addition, indigenous industry was to be assisted in the difficult situation resulting from free trade through various measures including grants and publicly provided advisory services. Following the Telesis Report and policy changes since 1984, the thrust has altered by a reduction in the level of grant assistance and 'increased emphasis on indigenous industry (without disregarding the benefit of overseas projects) especially through greater investment in Science and Technology, marketing and other non-capital programmes'

In short, current industrial policy is aimed at developing a strong internationally competitive industrial and international services sector in Ireland which will make the maximum contribution to employment growth and higher living standards by encouraging overseas firms to locate in Ireland and, recognising the risks inherent in this policy, to promote the development of indigenous industry. (For a full statement of industrial policy, as set out in the Review of Industrial Performance, 1990, see Appendix I.)



Although Telesis recommended that 'better means are necessary to measure the progress of Ireland's industrial policy', movement towards this end has been uneven. As pointed out in the Review of Industrial Performance, 1990, a database is being established in the Department of Industry and Commerce to transfer information from five industrial promotional agencies - IDA, SFADCo, Udarás na Gaeltachta, CTT and Eolas to the Department's computer file. It is understood that the project is operational as regards the IDA but it would appear that a considerable amount of work remains to be done on the establishment of criteria to measure effectiveness and on a framework for analysis. Measures developed by the IDA in relation to IDA-backed sustainable first-time jobs show an increase in annual numbers between 1984 and 1990 from 8,749 to 13,744 and a decrease in cost per job from £17,463 in 1984 (with a peak of £20,986 in 1987) to £14,271 in 1990. Similarly, An Bord Tráchtála is making satisfactory progress towards its objective of doubling exports (outside the areas of the multinational companies and beef intervention) by the mid 1990s.

Generally, however, the judgement on the success of industrial policy must be that, while there are indications of improved performance in recent years, this improvement is in no way adequate to meet the requirement of providing levels of employment which are reasonable by the standards



of the majority of our EC and OECD partners. Although manufacturing employment has risen by some 11,000 to 201,000 in the past three years, it must be noted that the overall figure represents a drop of some 30,000 since 1980, almost entirely due to the fall in employment in the indigenous firms. The hopeful aspect is that manufacturing employment in the indigenous sector, after a steady decline to 1987, has risen by some 4,000 in the past three years and that nearly 60 per cent of new employment in IDA-backed companies in the period was in Irish owned industry. But, in the light of the national requirement for new jobs, these figures indicate the magnitude of the task to be faced in the development of new indigenous industry.

## II PUBLIC INSTITUTIONS FOR INDUSTRIAL DEVELOPMENT

Appendix II gives some relevant facts on the principal bodies concerned with the formulation and implementation of industrial policy. The bodies covered are:

1. The Department of Industry and Commerce and its related bodies.

- (a) The Department of Industry and Commerce
- (b) The Industrial Development Authority
- (c) The Shannon Free Airport Development Company
- (d) An Bord Tráchtála
- (e) Eolas

2. The Department of Labour, FAS and the Education Area.

3. Roinn na Gaeltachta and Udarás na Gaeltachta.

4. Department of Agriculture and associated Agencies.

5. Department of Foreign Affairs.

## 6. Department of Finance.

Because of the limited time and resources available, some of the smaller bodies in the Industry and Commerce area have not been examined - NADCORP which is to be merged with the IDA: the Irish Productivity Centre: and the National Microelectronic Research Centre. However important their work, these bodies are unlikely to exercise the main influence on the future course of industrial development.

The activities of other Departments and Agencies which also have an influence on industrial development and industrial costs are also excluded from this study. The Industrial Credit Company plays a part in the financing of industry. The Department of the Environment affects costs through its roads policy and environmental protection requirements; the Departments of Transport, the Marine and Communications affect the cost of transport and communications; the Department of Energy not only deals with the cost of energy, it is also responsible for natural mineral resources which might be the basis of various industrial processes; the Department of Social Welfare through the imposition of employers' social welfare insurance contributions affects payroll charges. Indeed, it might be argued that there are few Departments of State which do not affect industry in some way.

The distinction drawn here, however is that the effects of these activities on industry are incidental to the wider concerns of the Departments concerned and it would be unrealistic to treat their policies as part of industrial policy. This is not to say that the Department responsible for industrial policy should not be in a position to have its views given the fullest consideration in some effective forum on all proposals from other Departments which affect industry. Rather than have a detailed study at this stage of the whole range of Government functions in the light of the needs of industrial policy, organisational improvements will be suggested in the arrangements for the co-ordination and formulation of policies affecting industrial development.

To return to the bodies which are central to this study, the present organisational arrangements for the formulation and operation of industrial policy are the result of a variety of approaches over the years by individual Ministers and their advisers who, in turn, have been influenced by the advice of various committees and enquiries. Furthermore, as is often forgotten, the arrangements have been influenced by the political considerations of each new Taoiseach in the allocation of functions between Ministers on the formation of Governments.

**The Department of Industry And Commerce and its Agencies**

As noted in Appendix II, where the current organisation of the Department is shown, the remit of the Department of Industry and Commerce on its establishment under the Ministers and Secretaries Act, 1924 was much wider in its range of functions affecting industry although, in the less interventionist spirit of the age, these functions were exercised in no great depth. Having regard to the extent of the State involvement in industrial affairs to day, it would hardly be practical to envisage a return to a position where the Department of Industry and Commerce encompassed, in addition to its present functions, all the functions of the Departments of Labour and Energy and Transport not to mention the unemployment functions of the Department of Social Welfare. Some redistribution of functions might, however, be considered.

Under the present arrangements, the central responsibility for industrial policy lies with the Minister for Industry and Commerce and his Department. In effect, the mandate covers the attraction of overseas firms to set up operations in Ireland through the provision of grants and tax concessions: the encouragement of indigenous industry through grants, tax concessions and advisory services: the development of science and technology as a support to industry: and the promotion of the products of Irish industry on foreign markets. In addition, through the Exports Credit Guarantee scheme the Department incurs

potentially very large liabilities on behalf of exporters. In relation to the trade function, responsibility for the food industry is assigned to the Minister for Agriculture and Food and the institutional arrangements for the marketing of food are split between the domains of the Departments of Industry and Commerce and Agriculture and Food.

Although it is not involved in the promotion of industrial development, the activities of the Commerce Division of the Department covering competition, insurance and mergers and acquisitions, directly influence the structure and activities of commercial firms.

Implementation of policy is the responsibility of the associated Agencies of the Department. On the promotion of industry, the main body involved is the Industrial Development Authority responsible for the attraction of overseas industry and the promotion and assistance of indigenous industry. Also within the Department's area is the Shannon Free Airport Development Company which, in the Mid-West region, exercises some of the functions exercised elsewhere by the IDA. (Similarly, in the Gaeltacht areas, Udarás na Gaeltachta, reporting to Roinn na Gaeltachta, exercises IDA-type functions.) Such allocations of functions are not dictated by functional logic related to industry but derive from the primacy accorded at political

level to the development of the Shannon area and the promotion of the Irish language and the Gaeltacht areas.

The second component of industrial policy is the promotion of science and technology in the service of Irish industry and the implementing agency here is Eolas which carries out various programmes of assistance to industry, manages the expenditure of the Science and Technology provision in the Industry and Commerce Vote on behalf of the Department, provides assistance to indigenous industry, certifies and registers international standards and does the work on the science and technology budget previously done by the National Board for Science and Technology.

The implementation of the third aspect of the Department's industrial policy is assigned to An Bord Tráchtála which promotes the products of Irish industry on home and overseas markets through the provision of a variety of aids, services and incentives for exporters. With the assignment of responsibility for the food industry to the Minister for Agriculture and Food, there is a split of responsibility between An Bord Tráchtála and Coras Beostoic agus Feola, the meat marketing board. While CBF has responsibility for the marketing of 'red meat', it is difficult to see any functional logic in the division of activities in the marketing of processed meat products between it and An Bord Tráchtála. Similarly, in the food sector, Bord Iascaigh



Mhara reporting to the Department of the Marine is responsible for the marketing of fish.

#### **The Department of Labour, FAS and the Education Sector**

While the activities of the Department of Labour affect industry in the fields of industrial relations and conditions of employment these aspects might best be dealt with under the co-ordination arrangements suggested in the recommendations made later. The primary focus here is on the arrangements for training for industry. It is difficult to identify with any certainty the proportion of the total expenditure on training and education which is purely for industry - from one viewpoint, all expenditure on producing an educated workforce, particularly in relation to vocational and technological education, should have some payoff in increased industrial jobs. To isolate the element which can be assigned with some confidence to the needs of industry, one approach could be to consider the relevant activities which are supported from the Industry and Services Operational Programme of the EC Structural Fund under the Community Support Framework, the expenditure on which is co-ordinated by the Department of Labour.

Under the Department of Labour, FAS - The Training and Employment Authority - is a major recipient of Structural Fund moneys. However, FAS is not purely an industrial training authority - it also operates an employment and

placement service; it has a major social function operating various schemes to assist the disadvantaged like the long term unemployed and early school leavers - so that only about 20 per cent of its total expenditure can be attributed to specifically directed industrial training. This 20 per cent, however amounts to the substantial figure of about £40m. A judgment on whether the training is satisfactory or not is outside the scope of this study although suggestions have been made that FAS courses are too short and O'Farrell and Hitchens (1989)<sup>1</sup> have raised some doubts about the quality of the apprenticeship arrangements.

The largest recipient of ESF funding under the Industry and Services Operational Programme is the education area. Including the State's contribution, it is estimated that some £90m will be spent in 1991 on programmes in the RTCs, the DIT, the Colleges of Technology and Universities on certificate, diploma and degree courses related to industry. These courses range from technician to post graduate level, from apprenticeship to advanced technical skills, and cover a wide range of disciplines from science and engineering to marketing, advertising and accounting.

#### **Other Line Departments**

As mentioned in connection with the Department of Industry and Commerce, Udarás na Gaeltachta under Roinn na Gaeltachta carries out the industrial promotion function in the



Gaeltacht areas. This allocation of functions is dictated by the lead role assigned to the development of the language and the preservation of the Gaeltacht areas.

The responsibility of the Department of Agriculture for the food industry involves the assignment of responsibility for meat marketing to CBF and the incidental confusion with An Bord Tráchtála about the marketing of meat products.

Generally, there seems to be no major problems with the Department Foreign Affairs and, at this stage, the idea of incorporating the function of promoting trade and industry abroad into the diplomatic representation would appear to involve an undesirable dilution of skills. Some savings might be possible by providing a common physical location for consular, trade, and industry functions where they exist in separate accommodation abroad.

It is difficult to see the logic in the Department of Energy's combining the functions of energy and of mineral resources. Having regard to the connection between manufacturing industry, power and the extractive industries, a strong case could be made for the return of the functions of the Department of Energy to the Department of Industry and Commerce.

For the other line Departments, it is clear that many of

their activities affect the development and operation of industry. However, the effect on industry is subordinate to the main purposes of these Departments and, having regard to the powers and responsibilities of the individual Ministers, the resolution of any problems arising must be found in improved arrangements for co-ordination.

### **The Department of Finance**

As described in Appendix II, the Department of Finance plays several important roles in the process of industrial development. First, through various policies and activities, it develops and operates macroeconomic policy, a major aim of which is the provision of a stable economic environment for business. In the Financial Services Centre, it has undertaken a major exercise in job creation in financial services. By the control of public expenditure, it aims to preserve order in the public finances and, incidentally, determines the shape of Government activity to the extent that it succeeds in imposing its own priorities on such expenditure. Finally, in regard to taxation, it must endeavour to reconcile economic and social aims in providing a favourable climate for enterprise while ensuring social equity. On top of this, it has been forced to provide a variety of tax incentives to promote and encourage industrial development. There must be some doubt, as implied in the Report of the Commission on Taxation, whether the taxation system can bear the load of such major

competing demands.

### III THE FINANCES OF INDUSTRIAL POLICY

#### **Direct Expenditure**

The Review of Industrial Performance, 1990 gave a breakdown of public expenditure on industry in an 'industry budget' which gave a cost for 1989 of £254m for services in the Industry and Commerce area and £316m when the associated costs of other Departments and Agencies were included.

An attempt is made in Appendix III, to update these figures for 1991. The main source is the Estimates for the Public Services, 1991; while these Estimates have been revised downwards in the light of the cuts made during the year, the final outturn is unlikely to be significantly different from the original figures.

These figures show a total of almost £300m for the Industry and Commerce area and almost £460m for all services. The Industry and Commerce figure has increased by about one sixth over 1989; the much larger increase in the figure for the total public service is a result of the inclusion in the present calculation of an estimated figure of £90m for the education sector in 1991. It will be argued later that expenditure in the education sector may, in the long run, be the most significant item in the total budget for industry.

It will be noted that of the total expenditure of £459m a figure of some £90m is contributed from the European Social Fund and some £62m is provided from the 'own resources' of the bodies concerned (fees for services, rents, sales of property, etc.). Of the balance of £307m, paid from the Exchequer, a figure of £85m will be contributed by the European Regional Development Fund so that the net charge to the Exchequer is estimated at £222m.

It has been the policy of the Department of Finance over the years to endeavour to have services paid for by the beneficiaries whenever possible; the results of this policy are reflected in the receipts from fees included in the 'own resources' figure.

#### **The Cost of Tax Incentives**

In Appendix II, the Minister for Finance is quoted in reply to a Parliamentary Question as giving figures prepared by the Revenue Commissioners showing the cost to the Exchequer of the various tax incentives to industry in the tax year 1988-89 as £1,212.6m. As the Minister acknowledged, this figure takes no account of the fact that, without the incentives, many of the enterprises enjoying the reliefs would not have set up here. It may be taken that the figure is largely illusory and an attempt was made in the 1990 Review of Industrial Performance to calculate the real cost. On the basis of the assumptions made, the cost was put at

£298m for a year. No later figures are available but there have been major changes in the pattern of the reliefs: principally, the ending of export sales relief and the application of the 10 per cent manufacturing tax rate to all manufacturing firms.

The Department of Finance would incline to put the figure at a higher level but, even if the conservative figure is accepted, the gross cost of industrial policy measures amounts to over £750m a year. As far as overseas firms are concerned, there is some evidence that the incentives are at 'the market rate' for countries seeking industrial investment. It is probable that, in the light of the present fiscal position, some restrictions will be applied to some of the tax reliefs which have been used as means of tax avoidance unrelated to industrial development but such measures would have negligible, if any, organisational consequences.

#### IV ARRANGEMENTS FOR CO-ORDINATION

Two matters arise: how is policy developed among the agencies concerned and what are the arrangements to ensure that the bodies charged with the implementation of policy do so in a co-ordinated way?

First, policy proposals may originate in a variety of ways - from commissioned research, from committees or advisory

bodies, from the suggestions of influential concerned parties or from political or administrative sources. We are not concerned here with relatively minor changes in day to day policies but, when these proposals are clearly substantial amendments or extensions of industrial policy often involving legislation, the responsibility for their development and submission to the Government lies with the Minister for Industry and Commerce and his Department.

On the internal process, the proposals would be prepared for formal decision in the Industrial Policy Division after consultation with the agency concerned (the proposals might even originate in the agency). After any necessary consultations and clearance with the other Divisions of the Department, the proposals in the form of a draft Memorandum for the Government would be sent for comments to any other Department concerned and, in every case to the Department of Finance. Differences of opinion between Departments would be generally cleared through correspondence or discussion; where more intractable differences arose, the issue would be put to the Government for resolution when the Memorandum reached the Cabinet.

When major proposals requiring Government agreement and which affect industry arise in other Departments a similar procedure is followed; the Department of Industry and Commerce gets an opportunity to have its views considered



before the matter goes to Government. Again the Department of Finance sees all proposals in advance to consider their financial implications.

When policy is settled either by Government decision or, if necessary, by legislation, its implementation is a matter for the implementing agencies. Over the years it has become settled practice that once a mandate is given to a state sponsored body to implement a given line of policy, that body is allowed to operate with considerable freedom; the Minister or the Department may indicate their wishes on particular issues but, except where decisions are reserved to the Minister or the Government (e.g. major IDA Grants), the matter is for decision by the Board. The Minister and the Department may nominate an officer of the Department to be a board member; in the case of the IDA, further co-ordination is sought by having both the Department of Industry and Commerce and the Department of Agriculture represented on the Authority. Although steps are being taken to monitor the operations of the Industry and Commerce Agencies through a new computerised data base, there do not appear to be any sophisticated formal procedures for measuring the effectiveness of the enormous expenditures involved.

Finally, at inter-agency level, the usual means of co-ordination of related activities appears to be the device



of cross representation on boards and committees but no formal arrangements exist for inter-agency co-operation.

NOTES

1.O'Farrell, P.N. and Hitchens, D., Small Firm Competitiveness and Performance, Gill & Macmillan, Dublin, 1989.

Houses of the Oireachtas

**PART II****CONSIDERATION OF THE PROBLEMS AND RECOMMENDATIONS FOR CHANGE  
I EFFECTIVENESS**

A few facts are clear. We have an unemployment rate far above that for most of our EC and OECD partners: a figure of some 250,000 registered unemployed remains unresponsive to all attempts at remedy. With a decline in agricultural employment and a downturn in the economies of the traditional destinations to which those who could not find employment at home emigrated, there is an increasing consensus that the main hope of a permanent solution to the crisis lies in increasing employment in industry and traded services.

Public policy has been directed to the solving of the problem in a number of ways. First, macroeconomic policy generally has been focused on providing an environment in which enterprise can flourish although there has been room for disagreement on the precise steps to be taken and public policy has often been subject to other imperatives which have caused deviation from the strict line. For example, the incurring of expenditure to encourage young people to stay longer in the educational system seems to have been directed more at reducing the numbers registered as unemployed than at providing education directed at specific employment targets.

Second, various measures have been taken with the assistance of funds under the EC Community Support Framework. As described in the first part of this paper, considerable EC funds have been assigned to the development of industry and the provision of industry-relevant training and education but still more EC funding with matching Exchequer finance has been allocated to measures which have primary social objectives and contribute to keeping down the numbers of registered unemployed.

Third, are the measures, directly to promote the development of industry in Ireland. Some £750m annually is being devoted to the attraction of overseas industry, the promotion of indigenous industry, the marketing of Irish products and the industry-related training of the workforce. The question arises as to how effective are the activities being undertaken: do they provide good value for the enormous expenditures incurred?

As already mentioned, the IDA and An Bord Tráchtála have devised measures of effectiveness - the cost of sustainable jobs created and the achievement of targeted increases in exports, respectively. Such attempts are praiseworthy but, to the extent that the jobs crisis remains unsolved, they merely highlight the need either to provide better measures and criteria, to review and alter the policies being applied and/or to organise differently the institutions involved.

On the measurement of effectiveness of public expenditure, the history of public administration is littered with the remains of initiatives to measure the extent to which public activities achieve desired results. Any set-backs in the past with initiatives like Programme Budgeting, Management by Objectives and attempts to introduce systems of accountable management should not divert attention from the need to continue the quest for answers to the problem of how to judge whether public programmes are achieving their aims and objectives. It would be beyond the scope of this study to devise adequate measures; that is a formidable administrative task. At this stage, we might note that the systematic review of the content and operation of industrial policy in the broad context of overall public policy is at present nobody's responsibility. The Department of Finance does take the overall view in the context of public expenditure but something more is needed - a detailed and quantified examination of inputs and of outputs measured in more than financial terms. Proposed machinery to build and operate this process is suggested in the final recommendations.

Of the other two alternatives, the question of reviewing and altering industrial policy is outside the ambit of this study; the other alternative - the reorganisation of the institutions involved occupies the remainder of this paper.

## II THE ORGANISATIONAL PROBLEMS

It is taken at this stage that the aim of industrial policy is to encourage Irish industrial development by

(a) persuading foreign firms to locate in Ireland and

(b) promoting the development of indigenous industry,

and that the means to be employed are tax incentives, grants, the provision of a trained and educated workforce and the provision to Irish entrepreneurs of personal, structural, marketing and technological assistance. The existing institutions are considered in this context.

### The Industry and Commerce Group - The Department

The Department of Industry and Commerce is at the centre of industrial policy and its implementation. In theory, policy is made by the Industrial Policy Division of the Department and implemented by the agencies. In practice, the Department seems to play too passive a role in policy development, reacting to initiatives from the agencies and advisory bodies. Furthermore the activities of the other divisions of the Department appear to be driven by their immediate responsibilities rather than responding to concern with industrial development. It is understood that arrangements are contemplated to involve the whole of top management in industrial policy but, if the primary focus of the Department is to be on industry and its needs, a change in management style may be required in which the Secretary

devotes the greatest part of his time to industrial development.

A second issue which arises is the availability of the appropriate skills at top management level. In the 1970s, a joint team from the Department and the Department of the Public Service agreed a report on the reorganisation of the Department on the basis of the separation of responsibility for policy and execution under which responsibility for policy development would be firmly assigned to the Departmental area. The proposal was unacceptable to the then Minister whose objections, as quoted in the Report of the Public Service Advisory Council for the year ended 31 October, 1976, included the following remarks:

The immediate needs, in his [the Minister's] view, are specialised skills. Nevertheless, despite his misgivings, he had no objection to the preparation of proposals for the restructuring of his Department 'provided the composition of the Aireacht [the central civil service area] was determined by a Civil Service Commission Selection Board of persons who had a clear understanding of the particular and distinctive qualifications needed as advisors on policy-making in his Department.'

It appears that no formal assessment has since been made of the skills available at top management level in the Department where the staff have been selected by the Top Level Appointments Committee, a body composed of civil servants whose expertise, as far as is known, is not in the kind of skills need in the field of industry.

While still on the subject of the central Departmental



arrangements in the Industry and Commerce area, consideration might also be given to the position of the Department of Energy the functions of which were originally with the Department of Industry and Commerce. The various redistributions of functions through which the functions of energy and mineral resources came to rest in the Department of Energy are largely bound up with political considerations related to Cabinet-building and to the transient oil crises of the 1970s. The time may well have come to consider whether the separation of responsibility for industry from that for energy and natural resources, which might provide an industrial base, is any longer warranted.

#### The Industry and Commerce Group - the Agencies

The main question which arises in connection with the Agencies charged with the implementation of industrial policy is whether, in the light of the large expenditures which they incur, they are achieving the best possible results. Jobs created and market share obtained are only some of the measures which could be applied. The problem with an approach based on too narrow a set of criteria is that, unless the whole array of institutions engaged in aspects of the activity is looked at, a body's apparent success in meeting its targets may be the result of the activities of some other body concerned with some other aspect of development. On a purely hypothetical basis, while the IDA, for example, can justifiably point to its



recent successes with indigenous industry, it would be difficult for it without independent assessment to refute, say, Eolas or FAS if those bodies were to claim the success as a result of their efforts. Any revised organisational arrangements must provide for some means of independent evaluation of effectiveness.

Related to the subject of effectiveness is the problem faced by the Department of Finance in fixing priorities and making choices between expenditures in scientific and technical areas. As far as could be ascertained, neither the Department of Finance nor the Department of Industry and Commerce has the technical resources at central levels to judge the relative values or relevance to industry of the programmes in the science and technology area; there was a feeling that some projects had little relevance or payoff for Ireland but there was no capacity to back up what was essentially an instinctive approach.

In this connection, it may be that the decision taken some years ago to merge the National Board for Science and Technology with the Institute for Industrial Research and Standards in Eolas was mistaken. The original NBST in its previous existence as the National Science Council was created primarily to provide the Department of Finance with a prioritised list of the components of a national science budget and it would be in the best interests of science,

development and the national finances if such independent expertise were again available to the final arbiters of budgetary choice.

For the rest, pending the institution of suitable arrangements to assess effectiveness, only some minor rearrangement of functions among the implementing agencies might be considered. While there is obvious overlap of functions between the IDA and SFADCo, Udarás na Gaeltachta, and the County Development team structure under the Department of Finance, it is felt that political and social considerations outweigh any attempt at rationalisation. In the light of the Government's announced intention of moving towards a more regional type of administration, the arrangements between the IDA and these bodies might form the basis of some new experimental structures as mentioned in the recommendations below.

Finally there is the question of the marketing and promotion of food products. For market promotion and support for all other products, the position which will arise on the introduction of the common European market has been anticipated by the merger of the agencies responsible for the overseas and home markets in An Bord Tráchtála. In the case of food products, responsibility, as noted earlier, is split between An Bord Tráchtála and the bodies linked to the Department of Agriculture - Coras Beostoic agus Feola, and

the National Dairy Council together with Bord Iascaigh Mhara reporting to the Department of the Marine. It is difficult to justify the duplication of resources devoted to the separate marketing organisations especially on overseas markets. Rationalisation is a necessity; in the final analysis, the only substantive question is whether food products should be marketed with the assistance of an agency covering all food products or of an expanded Bord Tráchtála.

International comparisons can justify either approach but with the limits on our public resources, there is a strong case for having a single marketing institution for all products; furthermore, there is much to be said for organising our trade functions by reference to markets rather than by reference to production. In fact, the main argument against this approach is that, particularly in the case of CBF, there is a substantial financial contribution from the trade which it might be difficult to obtain for a multi-product marketing organisation. If, however, as urged by the Department of Finance, there is a movement towards having an increasing proportion of the cost of all marketing services paid for by exporters, this argument is greatly weakened.

Education and Training - The Departments of Labour and FAS and the Department of Education

The Department of Labour has pointed out that in 1991, under the EC Community Support Framework, over £400m will be spent on training in Ireland with approximately £250m coming from the European Commission. Much of this expenditure has a social purpose, the education and training of disadvantaged groups, but a substantial part of the gross expenditure goes on an Industry and Services Programme. Again, within this programme, there is some social expenditure but the greater part of the expenditure is intended to meet the needs of industry. Some is spent by the IDA, SFADCo, Udarás na Gaeltachta and the IMI but the significant expenditure is by the educational institutions and FAS. It is difficult to say with certainty how much of this is industry-related but the assumption is made on what evidence is available that, of its total expenditure of about £200m, FAS spends about £40m on industrial training and the Department of Education, mainly through the third level institutions, spends about £90m.

While no evaluation of the effectiveness of FAS's contribution to industry was attempted, certain propositions can be put forward. First, the logic of amalgamating the training body ANCO with the placement body, the National Manpower Service, can be questioned. The superficial advantage of putting training and placement services together may well have been offset by a consequent reduction in the concentration on placement and, to some extent, on

training.

Second, the mix of social- and industry-driven training functions in one agency can be questioned. Standards for industry may be diluted by the need to engage in more basic training activities. Two recent studies from the ESRI cast doubts on the present direction of policy. The first by Breen (1991)<sup>1</sup> concludes that educational levels are the primary factor in success for job seekers. It considers the temporary employment schemes and training in all FAS non-apprenticeship courses of less than six months. It casts doubts on the effectiveness of these schemes and suggests that, while the schemes have a role to play, more attention should be paid to the prevention of the problem of early school leavers by earlier intervention in the educational system. The second study by Hannan and Shortall (1991)<sup>2</sup> confirms the need for earlier intervention in the educational system.

Apart from traditional education, the main providers of formal industrial training, supported from the Community Support Framework, are to be found in the educational system under the VECs and through the various third level institutions mentioned earlier. Whether the activities of the educational institutions and FAS should be further rationalised or better co-ordinated is a longer term issue that must be faced up to by the central policy area proposed

in the recommendations which follow. Having regard to the complicated structures which have been built up and are in operation, hasty organisational change in this area would carry the danger of uncovenanted-for effects on such matters as the Community Support Framework. Important though the training issue is, it is not, in the conclusion of this study, the main problem to be faced. The problem lies not so much in providing people for the jobs as in providing jobs for the people.

The fact is that a growing number of jobseekers cannot find employment. Efforts to provide jobs in non traded services with the hope of stimulating the economy have been tried and found wanting; the provision of jobs by the attraction of overseas industry has its risks and limits. The provision of jobs by indigenous industry seems then to be the main hope but, with a few notable exceptions, such industry has failed to grow again from the ruins of the old protected industrial sector. This failure is almost unique among the developed countries and has been attributed to various causes including the quality of the public administration and of Government.

Government and the public service, however, can only act to encourage or impede enterprise. The provision of incentives and the removal of impediments will provide the conditions in which enterprise can flourish but industrial initiative



must come from individuals. Some recent analysts have blamed the lack of developmental initiatives on the centralisation of administration which, it is argued, stifles initiative at the level of the individual but it is more likely that the fault lies in the outlook and values imparted through the educational system.

At second level, education in technical subjects is regarded as inferior to the academic; the status, rewards and prestige attaching to professions like the law and medicine mean that many of the brightest of our young people are attracted to these areas and second level education is geared towards success in the competition for entry to them. The cachet attached to university qualifications over those of purely technical institutions produces a bias against the skills of value to industry.

While the whole issue is deserving of detailed study, it is postulated here that the primary need is to produce people with the dedication, skills and knowledge to succeed in the development of industry. There is some encouraging evidence that choices among those leaving second level education are now tending towards the acquisition of skills in technology commerce and management. This of itself may not be enough to foster the growth of native enterprise. We suffer from our peripheral position in Europe not only by the increased costs that this position imposes but also by our removal



from the mainstream of European and world-wide culture and style. To appreciate what the wider market wants, technical and commercial skills are not enough; those who are to lead any industrial revival in the future must be cosmopolitan in their appreciation of the lifestyles, needs and consumption patterns outside Ireland. In some way, it is necessary that the entrepreneurs of the future be immersed, during their formation and development, in life in the larger market area outside Ireland just as students of language must get some immersion in the lifestyle of the speakers of that language. And, above all, since a large part of consumption patterns is decided by women, the encouragement of women to participate in the management of industry is essential.

All in all, a complete reappraisal of our education and training systems with a view to stressing the primacy of industry in our economy must be undertaken before any significant improvement can be expected or afforded in other areas. Again, instant solutions are not possible; the review must be ongoing and conducted with the assistance of educationalists and trainers but under the direction of a unit of administration at the centre of Government which has the influence to make things happen.

#### Finance and Taxation

The question of the effectiveness of the large expenditures

on industrial development has been discussed above; the matter of what savings or additional expenditure might be made in the grants or supports to industry will depend, in the short term, on what policy changes are now recommended and implemented, on the extent to which the policy of charging for services by the promotional bodies is extended, and, in the longer term, on the reviews of the effectiveness to be made by the central unit proposed in the recommendations made in this paper.

Similarly, the cost of the tax incentives will depend on action on a study of the taxation aspects of industrial policy. As regards personal taxation, opinions will differ largely on ideological grounds on the effects on enterprise of changes in the tax rates but, if it is accepted that the problem is to encourage the best of those entering gainful occupations to move towards industry, the grant of concessions to benefit all, including the high earners in less productive occupations, will be of little help in encouraging participation in industry.

It is not clear what exactly is to follow from the 'pro jobs tax reform' envisaged in the recently published revised Programme for Government. To the extent that the tax reform programme will involve a 'systematic curtailment of the vast range of exemptions, shelters, allowances and concessionary tax rates', it is assumed that some of the tax concessions

for industry which have been used in tax avoidance schemes will now be curtailed - Section 84 and BES exemptions for example. If, however, the tax reform programme is to be 'carried out on the basis of no net cost to the Exchequer', the receipts will have already been hypothecated to pay for tax reductions elsewhere and will not be available for other measures to develop industry.

#### Overall Policy Co-ordination

The emerging conclusion of this paper is that, if our employment problems are to be solved, the development of indigenous industry offers the one best hope and that this development has two main requirements. First, there must be a concentration on policies for, and affecting, industrial growth through the co-ordination and prioritisation of all relevant policy initiatives at the centre of Government. Other policies, no matter how worthy, must take a lower place since, if industry and traded services do not produce the increased resources, we can enjoy only a lower level of public services.

And, as regards the implementation of any of the accepted recommendations of the Industrial Policy Review Group, previous experience has shown that the nature of Cabinet Government, with the establishment of firmly demarcated lines of functional responsibility between Ministers, is such that organisational change with effect across the

public service must be directed from the centre.

The second requirement is that, somehow, attitudes must be changed so that the education system encourages its participants to move towards industry. Again this change must be promoted from the centre of Government.

At present, no one unit of the administration puts it all together for industrial policy. The Department of Industry and Commerce, as already discussed, develops policy in its own area and has the opportunity to see and argue on any proposals affecting industry originating from other Departments. The nearest approach to central co-ordination lies in the procedures through which the Department of Finance sees all Memoranda for the Government from other Ministers and co-ordinates the Estimates for the Public Services. These procedures, however, are exercised with the aim of trimming expenditures rather than of the development of overall policy on industry and employment.

The Department of Finance has inherited the economic planning functions designed for the short-lived Department of Economic Planning and Development by the Ministers and Secretaries (Amendment) Act, 1977:-

It shall be the function of the Department of Economic Planning and Development -

- (a) to promote and co-ordinate economic and social planning for the development of the economy both generally and as respects different sections thereof

and different regions of the country,

- (b) to identify the policies it considers necessary for general economic and social development and to report thereon to the Government,
- (c) to identify in consultation with Departments of State and to review and appraise the plans and activities of such Departments giving effect to the policies for general economic and social development adopted by the Government,
- (d) to make proposals to the Government for the co-ordination of the plans and activities referred to in paragraph (c) of this subsection and for their integration with national economic and social plans and
- (e) to review the implementation of such national economic and social plans as may be approved of by the Government from time to time and to report thereon to the Government.

These functions were envisaged as operating within a system of national planning which never became fully operative; their very range reflected ambitions which, in practice, outran the capacity of the Department of Economic Planning and Development and involved it in constant demarcation disputes with the Department of Finance. Since their transfer to that Department they are not exercised as originally proposed. Yet, they reflect a preoccupation with planning paralleling that which has been so successfully operated in France by the Commissariat Général du Plan reporting to the Prime Minister.

Perhaps the concept of the Department of Economic Planning and Development with the collection of functions assigned it was too complicated for our system; perhaps the attempt to

integrate social and regional plans with economic planning was premature but, if it is accepted that the development of a viable indigenous industrial base is a primary aim of public policy, an office at the centre of Government to oversee the actions of all units of Government bearing on industrial development is essential.

Experience of both the old Development Division of the Department of Finance and of the fate in that Department of the planning functions taken over from the Department of Economic Planning and Development has shown that the function of planning for development tends to be subordinated to the more pressing concerns of the Department of Finance. Neither did the concept of a separate planning Department, which was seen as a rival by the Department of Finance, work out in practice. The only remaining location for the new Office is under a Minister of State at the Department of the Taoiseach.

It is often argued that a further spur towards the creation of a spirit of enterprise would follow from a policy of devolution of administration to regional and local levels but the proponents of this view have not fully worked out their thesis but rely on the proposition that the greater success attending economic development in the smaller OECD countries like Denmark and Austria results from the greater devolution of the powers of Government in those countries.



In the recommendations which follow, it is considered that any attempt to build regional structures into the new structures at this stage, might overload the system but, nevertheless, these arrangements are such as to be capable of accommodating a regional dimension if public policy should move in that direction.

### III RECOMMENDATIONS

In the light of the foregoing considerations, the following recommendations are made for change in the organisation of the public services for industrial development.

1. **An Office of Planning and Development to be created, reporting to a Minister of State at the Department of the Taoiseach.** Initially, the purpose of this Office would be confined to industrial affairs, not to usurp the functions of the Minister for Industry and Commerce but to ensure that all aspects of public policy affecting industrial development were considered together in the light of the priority to be attached to industrial development in overall public policy. A first task for the Office would be to secure the application of such changes as were decided on as a result of the Industrial Policy Review. In addition to co-ordinating the proposals from Departments affecting industry, the Office would establish and apply measures of effectiveness to the organisations charged with the delivery of industrial policy. The staffing of the Office need not



be large but would need to be of people with the relevant skills. The higher staff should be chosen, by a board of persons with the necessary knowledge and experience of industry, from candidates with substantial practical experience in planning for development, either inside or outside the public service. Alternatively, such skills could be brought in by exchange with industry or by fixed term contracts. Much of the work on effectiveness could be done by commissioned studies. It is essential that, in its early years, the Office should be singlemindedly devoted to the purpose of industrial development; once it became clear that its efforts were succeeding, its mandate could be extended to general economic development.

2. A major study to be undertaken under the direction of the Office of Planning and Development on the present arrangements for training and education for industry with particular attention to the division of functions between FAS and the educational institutions and to the development of a new cultural attitude and practical measures in the educational institutions towards promoting careers in industry. In regard to the careers aspect, the measures to be developed should include the provision of facilities to enable suitable candidates to live and study abroad and incentives for women students to make careers in industry.

3. Department of Industry and Commerce and Related Bodies

(a) Serious consideration to be given to the return of the functions of the Department of Energy to the Department of Industry and Commerce.

(b) The primary responsibility of the Secretary of the Department of Industry and Commerce to be industrial policy and development. To this end, the Finance and Consultancy functions of the Assistant Secretary for Planning to be delegated to Principal level and the Assistant Secretary to operate as a planning staff support to the Secretary. If the energy functions are incorporated in the Department, a Deputy Secretary to be appointed to relieve the Secretary in respect of those functions of the Department not immediately related to industrial development.

(c) Industry-related professional skill to be introduced at higher management level. At least one of the officers at Assistant Secretary level should be appointed from candidates with substantial practical experience of industry or, as suggested for the Office of Planning and Development, the necessary skills could be brought in by exchange with industry or by fixed term contract.

(d) Work on the development of the industrial database and on the development of measures of effectiveness to be expedited. This work should be developed in conjunction

with the new Office of Planning and Development.

(e) The possibility of closer co-ordination and rationalisation between the IDA and Udarás na Gaeltachta and SFADCo to be examined. The arrangements for the split of the industrial promotion function are anomalous but have obvious political aspects: the national aim of restoring the Irish language and the future of the Shannon airport and region have been accorded precedence. Some rationalisation seems desirable but it might be considered by the Office of Planning and Development in conjunction with the Government's announced plans for regional devolution.

(f) The marketing functions of An Bord Tráchtála, Coras Beostoic agus Feola, the National Dairy Council and Bord Iascaigh Mhara to be rationalised. As interDepartmental interests are involved and as the question of financing from the industries concerned arises, the issue would need more detailed consideration by the Office of Planning and Development.

(g) The function of advising the Department of Finance on expenditure on Science and Technology to be assigned to a new National Science Council separated from Eolas.

#### 4. Finance and Taxation

The measures to meet the financial constraints inherent in the recently agreed revised Programme for Government will probably encompass the following recommendations.

(a) Efforts to continue to have the benefiting firms pay for those services provided by the promotional bodies which result in economic returns.

(b) Tax incentives for industrial development to be reviewed to eliminate the possibility of their use in tax avoidance schemes or to convey benefits not related to their main purpose. While tax incentives are an inescapable feature of the internationally competitive packages to attract overseas industry, they are, of their nature, much blunter instruments of development than direct grants. In particular, those schemes such as Section 84 reliefs and the Business Expansion Scheme have been susceptible to use for other purposes. Similarly, the contemplated across-the-board reduction of personal tax rates on higher incomes may only serve to make careers in certain professions even more attractive in comparison with those in industry.

### CONCLUSION

To begin with, there is the question of the cost or savings likely from the changes proposed. In the short term, there would have to be some expenditure on the new Office of

Planning and Development and on the studies and investigations it would undertake. The annual cost would be likely to be in the region of £500,000 with no immediate saving. In the medium term, however, more than compensatory savings would result from the rationalisation and elimination of duplication secured in the agencies and from the identification and elimination of wasteful schemes and incentives.

Of the various recommendations made, the first, for the establishment of the Office of Planning and Development with the initial brief of looking after industrial development is seen as by far the most critical. Although the Department of Industry and Commerce is responsible for the direct encouragement of industry, the activities of almost all other Departments affect industrial development. At present there is no effective co-ordination of these activities under a coherent industrial policy; each Department is primarily concerned with the successful discharge of its own functions without taking on what it may see as the constraints of an overall industrial policy.

There are two consequences which concern us here. First, without some body at the centre to secure co-ordination, things will continue to drift. Second, unless there is a central body to promote the overall view, many recommendations made by the Industrial Policy Review Group

which go outside the area of functional responsibility of the Minister for Industry and Commerce will fall at the hurdle of Departmental rivalries.

The other most important aspect of institutional change is to recognise that the State and its institutions cannot secure industrial development; they can only facilitate its happening. If the structure of public institutions is corrected, the next most important step will be to promote a spirit of industrial enterprise among the participants in the educational system and this is why it is so necessary to look closely at the aims and operations of our educational and training activities with a view to encouraging the emergence of those on whom development will depend.

Subject to the assumptions made about the need for central co-ordination and the development of an enterprise oriented outlook through the educational system, the organisational changes proposed are directed at improving the development and delivery of current policies. Any fundamental change in these policies which may be recommended by the Industrial Review Group could require changes in these proposals.

#### NOTES

1 Breen, R. Education, Employment and Training in the Youth Labour Market, General Research Paper 152, ESRI, 1991.

2 Hannan, D.F. and Shortall, S. The Quality of their Education, General Research Paper 153, ESRI, 1991.

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APPENDIX I  
ROLE AND OBJECTIVES OF INDUSTRIAL POLICY

(as given in the Review of Industrial Performance, 1990)

1.3 Industrial policy constitutes the specific incentives and programmes, infrastructural supports and wider macroeconomic measures taken by the State which are aimed at maximising the employment and economic benefits of industrial development. The thrust of Government policy towards industrial development is:

- to create an economic environment conducive to a high level of industrial activity based on the production and successful marketing of Irish goods and services;
- to put in place the necessary physical and educational infrastructural supports to facilitate rapid industrial growth;
- to provide specific incentives to stimulate industrial activity where the need for such incentives can be clearly demonstrated in terms of generating growth and providing value for public money; and
- to encourage the commercial State sector to seek out areas of productive activity which offer significant opportunities for growth of output and employment.

1.4 ....

1.5 The primary objective of industrial policy is to promote the development of a strong internationally competitive industrial and international services sector in Ireland which will make the maximum contribution to employment growth and higher living standards in Ireland. As part of this objective a target was set under the Programme for National Recovery of creating 20,000 jobs on average per year in the industrial sector. Complementary policy objectives which arise in support of the primary objective include:

- the creation of a strong internationally competitive industrial base in Ireland comprising both Irish and foreign owned companies;
- greater integration of industrial activity with other sectors of the economy in order to increase the Irish value added share of industrial output;
- the development of our natural resources as a foundation for increased industrial development; and
- the achievement of a satisfactory regional balance in economic development.

1.6 Industrial enterprises (whether in public or private ownership) which can competitively export or displace imports have been, and will continue to be, the most important engine of Irish economic growth. This has been clearly acknowledge by independent bodies such as the NESCH and the ESRI. Sustained industrial output growth has a positive impact on employment, both directly by creating additional demand for labour in industry and, indirectly, by creating demand for inputs of materials and components and services. Investment is the basis of industrial output growth and associated direct job creation depends on the extent to which new industrial investment is expansionary (capital widening) as opposed to capital deepening. Even where investment is expansionary the increased capital intensity of industry means that the amount of investment necessary to create a job is continually rising.

1.7 Total direct employment in manufacturing is of the order of 224,000 and the sector is directly responsible for

an estimated further 165,000 jobs in services, subcontracting and construction. This is equivalent to one out of every three jobs in the Irish economy.

1.8 NESC in its recently published Strategy for the Nineties (NESC No 89) set out the case for an active industrial development policy. The Council has drawn on its analysis of Ireland's industrial performance and prospects in the European Community and on a study of the pattern of developmental and regional policy internationally to highlight certain conclusions about the direction of industrial policy. The first conclusion is that continued emphasis should be placed on indigenous enterprise and resources rather than reliance on the attraction of mobile investment projects from abroad. The second conclusion is that developmental policy should aim to increase the innovation potential of the economy. The Department of Industry and Commerce agrees with the thrust of these conclusions as set out in later sections of this Review. In particular, the increased emphasis on indigenous industry (without disregarding the benefits of overseas projects), especially through greater investment in Science and Technology, Marketing and other non-capital programmes will be evident from the analysis of recent years. This orientation will be reinforced over coming years with the support of EC Structural Funds provided for under the Programme for Industrial Development 1989-1993.

APPENDIX IINOTES ON THE INSTITUTIONS FOR INDUSTRIAL DEVELOPMENT

The principal public bodies involved in the promotion of industry are:

1. The Department of Industry and Commerce and its Associated Agencies

(a) The Department of Industry and Commerce

It is of interest in connection with this study to recall the functions originally assigned to the Department of Industry and Commerce under the Ministers and Secretaries Act, 1924:

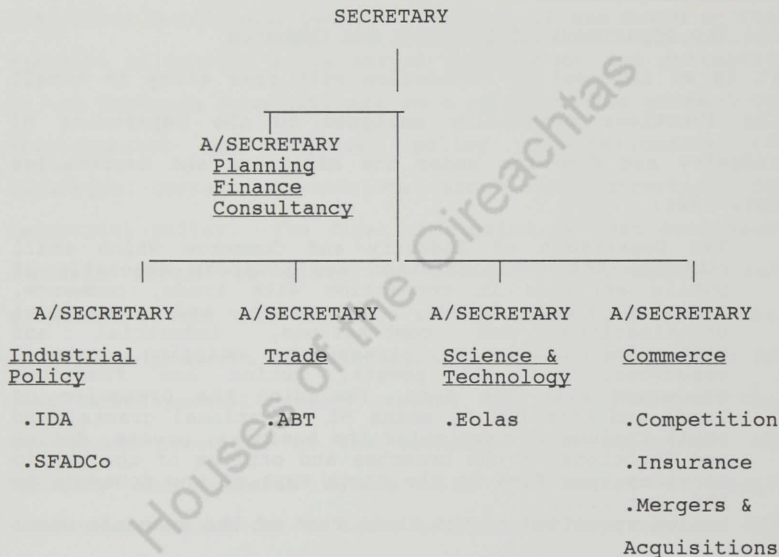
The Department of Industry and Commerce which shall comprise the administration and business generally of public services in connection with trade, commerce, industry, and labour, industrial and commercial organisations and combinations, industrial and commercial statistics, transport, shipping, natural resources, and all powers, duties and functions connected with the same, including the promotion of trade and commerce by means of educational grants, and shall include in particular the business, powers, duties and functions of the branches and offices of the public services specified in the Sixth Part of the Schedule to this Act .....

The bodies specified in the Sixth Part of the Schedule were:

The Ministry of Transport (excluding the Roads Department)  
 The Board of Trade  
 Registrar of Companies  
 Registrar of Business Names  
 Registration of Shipping  
 Minister for Labour  
 Electricity Commissioners  
 Chief and other Inspectors of Factories

Over the years, partly because of the growth in the scale of Government business and partly for political considerations in the distribution of the functions of Government between

Ministers, the Department has lost to other Departments the functions concerning labour, employment and unemployment, transport, natural resources and energy, and statistics. The current range of functions are shown on a simplified organisation chart which ignores the Ministerial level:



In theory, industrial policy should, after any necessary consultation with the agencies concerned, be formulated for Ministerial consideration in the Industrial Policy Division and, when approved, transmitted to the agencies for implementation. In practice, there are difficulties. First, if industrial policy is the sum of a number of policies affecting industry, the other three line divisions

of the Department have their contribution to make. Trade Division is responsible for the vital area of marketing while the Science and Technology Division must make an increasingly important contribution to industrial progress. Aspects of the responsibilities of the Commerce Division relating to insurance and the operation of companies are also relevant. The actual cost of the industry related Export Credit Guarantee Scheme is not large but always provides a potentially large liability. In theory, the Secretary, through his staff support - the Assistant Secretary for Planning, should co-ordinate the industrial policy of the Department. It is understood that steps are being taken to have the co-ordination and formulation of industrial policy made the responsibility of the Management Advisory Committee, the top management team from Assistant Secretary level up. But a second problem arises in relation to industrial policy - how to co-ordinate those policies of other Departments which can be seen as part of a grand industrial policy but which may be seen by the Departments as ancillary to their main functions.

The problem which arises on the allocation of the industry-related functions of Government is illustrated by the following extract from the Review of Industrial Performance, 1991:

in the case of the food industry responsibility for policy formulation was shifted in 1987 from the Department of Industry and Commerce to the Department of Agriculture and Food: the execution of that policy was



retained by the IDA and other relevant State Agencies.

(b) The Industrial Development Authority

The Industrial Development Authority is the main agency charged with the development of industry in Ireland. In its current form as a state-sponsored body, it was established in 1970 under the Industrial Development Act, 1969, with the merger of the old Industrial Development Authority (created in 1949 as an agency within the Department of Industry and Commerce) and An Foras Tionscail, the industrial grant making body. Its present role and statutory basis derive from the 1984 White Paper on Industrial Development and the Industrial Development Act, 1986.

Under the Authority and the Executive Board, there is a Managing Director and three Executive Directors - for Overseas Industry, Irish Industry and for Organisation Services. The Board deals with individual grant applications but projects for over £2.5m have to be approved by the Authority and the Minister. The framework for policy is laid down by the governing Act; the Authority passes the budget, monitors performance and reviews policy. Final responsibility for policy lies with the Minister but the Authority plays a major role in its development.

Apart from the £15m for SFADCo in the Mid-West, the 1991 Estimates for the Public Services show a budget of £151m of which some £6m is to come from the European Social Fund. Of



the other £145m, £133m comes from the Exchequer and some £37.5m of this sum will be recouped from the European Regional Development Fund.

As regards operations, the objectives as seen by the IDA can be divided into two areas:

(i) Overseas Industry - To provide jobs: to promote the purchase by overseas companies of Irish materials through the National Linkage Programme: to increase the corporate tax take from overseas Companies (from £150m to £250m). The objectives are pursued through the provision of incentives (grants and tax breaks) and the stress on the availability of an educated workforce.

(ii) Indigenous Industry - While, in the longer retrospect, this area appears to have been less successful, indigenous industry is coming back from a long decline dating from the abolition of protection. To qualify for IDA help, companies now must be likely to be competitive on the overseas market. The IDA will -

(i) work in areas with the capacity to compete and will assist individuals through management development, product development, etc. and

(ii) offer assistance in market segments, e.g. pigmeat, to meet the market through amalgamations.

The Enterprise Development Programme offers experienced managers, professionals and academics, who are first time entrepreneurs establishing their own business, comprehensive

consulting and partnership arrangements together with attractive financial inducements. (In 1990, 20 new and existing companies were assisted under this programme.)

As regards relationships with other agencies, Udarás na Gaeltachta has the IDA-type functions in the Gaeltacht; in the Mid-West region, the industrial promotion function for the promotion of overseas and medium/large indigenous industry was moved from the IDA to SFADCo in 1988 and back to the IDA (with the exception of industry in the Shannon Free Zone) in 1990. Eolas provides technical assistance on advanced technology and product and process development. There is an IDA product development committee on which Eolas is represented and Eolas is represented on the regional Small Industries Boards; generally, the IDA is to look at commercial feasibility and Eolas at the technical aspects. FAS, as well as being the general provider of training is also involved in the joint IDA/FAS Training Grant Committee. (In the light of the extensive support from the European Social Fund, there does appear to be a need for greater co-ordination and co-operation on training in the education sector.) There are also related areas with An Bord Tráchtála where co-ordination seems to be effected by joint membership of boards.

(c) The Shannon Free Airport Development Company

The Shannon Free Airport Development Company (SFADCo) which

reports to the Department of Industry and Commerce is also involved in industrial promotion. The position of the Company is several respects anomalous or, at least, not in the normal pattern of Government bodies. Reporting, like the IDA, to the Department of Industry and Commerce, it has some of the industrial promotion functions for a region and all of the these functions for part of a region. (The movement of these functions has been referred to in connection with the IDA.) It is also, for practical purposes, the most developed example of a regional development agency in Ireland; it developed Shannon Industrial Estate and Shannon new town.

This position is more than anything else a matter of historical accident. SFADCo was established originally to identify and develop ways of ensuring the growth of Shannon Airport when it was threatened by technical advances in aviation and its future would appear to be closely linked to the future of the Airport. It does provide, however, perhaps the best example we have of a regional approach to development. Total expenditure as shown in the Estimates for the Public Services, 1991, is £26m.

(d) An Bord Tráchtála

An Bord Tráchtála was formed in 1991 by the amalgamation of Coras Tráchtála and the Irish Goods Council thus combining in one organisation the trade promotion functions for the

overseas and Irish markets respectively. As shown by the Estimates for the Public Services, 1991, the total expenditure for the year is £39.5m but the Exchequer component of this figure (£33.7m) has been reduced to £32m following the amalgamation of the two bodies. Some £24.5m of the expenditure is eligible for support from the EC Structural Funds.

Out of total exports of £13 billion, An Bord Tráchtála is not primarily involved with the overseas firms nor with such food items as intervention beef. Its objective is to double the remaining £2.5 - £3 billion by the mid 1990s. The focus is on the 1,200 companies involved in this area but some services are sold to the overseas firms. Within the Industry and Commerce area, the main relationship is with the IDA. Cross representation on boards and committees is the main co-ordinating mechanism.

The main problem area is in relation to the food industry. Coras Beostoic agus Feola, reporting to the Department of Agriculture, handles marketing for beef, pigmeat and sheepmeat. In regard to processed meat products, there does not appear to be any logic in the allocation between An Bord Tráchtála and CBF - traditional factors determine who is to be responsible. Similarly Bord Iascaigh Mhara, reporting to the Department of the Marine, deals with fish exports. For food generally, the organisation of the marketing function

seems to be production rather than market led; the financing of CBF from levies on the producers is advanced as the main obstacle to a rationalised combined approach.

(e)Eolas

Eolas was established in 1987 through the merger of the Institute for Industrial Research and Standards and the National Board for Science and Technology. Broadly, its objectives are seen as to upgrade technology in industry, to increase efficiency and to develop new products and processes. In addition, Eolas manages the Science and Technology Subhead in the Vote For Industry and Commerce, covering such areas as higher education/industry linkages, Programmes in Advanced Technology carried out by contract staff in universities, etc. and Technology Audits. In standards, the main and increasing work is the certification and registration of international standards for Irish firms under ISO 9000 which will be essential after 1992. Generally, Eolas provides a wide range of scientific and technical services to industry, is the main source of advice to the Government on science and technology and manages the Science and Technology budget for the Office of Science and Technology. On the functions previously carried out by the National Board of Science and Technology, the science and technology budget is now put together in arrear and is in effect an account of expenditure incurred.

Mainly as a result of the support from the EC Structural Funds, total Exchequer expenditure on Eolas increased from £10m in 1988 to almost £14m for 1991 and on the Science and Technology Vote from £3m to £25m in the same period. (Support from the Structural Funds in 1991 is put at £4.9m for Eolas and £14.8m for Science and Technology)

## 2. The Department of Labour, FAS and the Education Area

The Department of Labour has three main areas of operation, all of which impinge in some way on industrial development. First, on the Industrial Relations side, involving the associated bodies, the Labour Court and the Labour Relations Commission, pay levels, determined in the context of and perhaps in extension of the terms of broader national agreements, are a major factor in industrial costs. Second, on the Conditions of Employment side, the policy on EC directives such as on Working Time and Pregnant Workers involve a balance between social factors and industrial costs. It is, however, mainly with the Manpower Side which co-ordinates the distribution of European Social Fund moneys particularly in relation to Education and Training for industry that this study is concerned.

Under the Department of Labour, FAS, the Training and Employment Authority, was formed by the amalgamation of An Comhairle Oiliúna, the Youth Employment Agency and the Placement Service of the Department of Labour. Its functions



are, therefore much wider than the provision of industrial training.

Under the Community Support Framework of the EC, over £400m will be spent on training in Ireland in 1991 of which almost £250m will come from the European Social Fund. A small part of this money is assigned to tourism and agricultural and rural development but the great bulk is for training for social purposes and for industry and is spent by FAS and by the Department of Education through the VECs, and the third level institutions (RTCs, Universities, etc.). Looking at the Estimates for FAS and the third level institutions, there is overlapping between the purely social schemes (for such groups as the long term unemployed and other disadvantaged groups like the early school leavers) and training for industry but an approximate breakdown shows the extent of the funds allocated for the latter. Most of this expenditure is supported from the operational programme for industry to which the EC will contribute over £100m in 1991.

On the somewhat arbitrary basis that about 20 per cent of the expenditure of FAS is on purely industrial training, the figure for 1991 is approximately £40m of which about £22m will be paid from the EC Social Fund; in regard to expenditure by the educational institutions, a reasonable estimate would be that about £60m out of a total State expenditure of £90m on training for industry is paid from



the Social Fund.

### 3. Roinn na Gaeltachta and Udarás na Gaeltachta

Under the Ministers and Secretaries (Amendment Act, 1956), the function of Roinn na Gaeltachta is to promote the cultural, social and economic welfare of the Gaeltacht and to encourage the preservation of the use of Irish as a vernacular language.

Under the Department, Udarás na Gaeltachta has as its objective to encourage the preservation and extension of the Irish Language and to establish and encourage job creating industries and services in the Gaeltacht regions for which it is the industrial development institution. Although not covering a single distinct geographical region, Udarás has some of the features of an institution of regional Government. It has a board of thirteen members of whom seven are elected by the people of the Gaeltacht areas and six are nominated by the Minister for the Gaeltacht.

The total expenditure of the Udarás as shown in the Estimates for the Public Services, 1991, is £28m.

### 4. Department of Agriculture and associated Agencies.

The Department of Agriculture is responsible for the agricultural industry. As regards industrial projects in the food area, the Department is represented by an

Assistant Secretary at Authority and Board level in the IDA. When new projects are submitted to the Board they are cleared by the Agriculture representative with the relevant commodity Divisions in the Department and no major problems are seen.

On the marketing side, Bord Bainne deals with the marketing and selling of dairy products and has been required to move to the private sector under EC rules. On other products, Bord Glas is a development agency setting standards for horticultural products and does not engage in marketing. CBF, the Irish Livestock and Meat Board does the market promotion for beef, sheepmeat and pigmeat - there is no discernible principle for the division of responsibility for the marketing of meat products with An Bord Tráchtála. CBF is financed in 1991 by a grant of £1.5m from the Agriculture Vote, a levy of £5.7m from the industry (including a voluntary contribution from the factories to match an increase in the Department's grant) and £0.75m from the EC. The National Dairy Council also promotes dairy products on the home market, financed by contributions from the Dublin and Cork District Milk Boards and the EC.

#### 5. Department of Foreign Affairs

The Public Services Organisation Review Group, had recommended in 1969 that Coras Tráchtála together with the (then) foreign trade function of the Department of Finance

should move to the Department of Foreign Affairs: that CTT staff abroad should work in close liaison with the embassies with limited movement of staff between CTT and the foreign service: and that all public service activities abroad should be co-ordinated by the Ambassadors abroad. Apart from some instances of co-ordinating meetings under the Ambassadors in some countries, and the according of diplomatic status to CTT staff in some centrally planned countries - Russia and China, these recommendations were not implemented. Diplomatic staff abroad have a general responsibility to promote Ireland but there seem to be no formal arrangements for co-ordination with such agencies as An Bord Tráchtála.

#### 6. Department of Finance

The Department of Finance is involved in industrial promotion in several ways:

##### (a) Macroeconomic Policy

In relation to industrial development, the aim of macroeconomic policy is to maintain and enhance the preconditions for sustainable output growth. The Department's priorities are seen as the restoration of stability to the public finances, to ensure a low inflation rate in regard both to prices and wages, to maintain an appropriate level of external reserves and the maintenance of the lowest possible level of interest rates consistent with exchange rate commitments.

(b) The Development of International Financial Services

The International Financial Services Centre was established in 1987 to share in the world-wide expansion of activity in the financial services sector with a view to generating an increase in employment and economic activity in Ireland. The main incentives offered are a 10 per cent rate of corporation tax up to the year 2005 and rates relief. The development is overseen by the IFSC Committee which is chaired by the Secretary of the Department of the Taoiseach and draws its membership from relevant public and private institutions. The marketing of the IFSC is done by the IDA.

The target was the creation of some 7,500 jobs in the financial services and in construction and spin-off. To date about 180 projects with 2,800 jobs have been committed of which about one third have been realised. The project is regarded as being cost positive having regard to the tax take on the firms which would not otherwise have established here but it is perhaps too soon to make a definitive judgement on its success.

(c) The Control of Public Expenditure

To the extent that it is successful in controlling and keeping public expenditure in check, the Department contributes to the aim of keeping down taxation and/or reducing the public borrowing requirement. As regards the

promotion of industry, the activity may present some difficult choices. If widespread expenditure cuts are to be enforced, it will be difficult to propose cuts in social expenditure if aids to industry are not also to be cut; if increased Exchequer funding is a complementary condition of EC assistance under the CSF, the Department will be subject to competing objectives and, if pay moderation is desirable throughout the economy, the Department must resist the temptation to buy too dearly industrial peace with the public service staff as it has been argued it did under the Programme for Economic and Social Progress.

Of necessity, developmental considerations will take second place to the budgetary and fiscal requirements in the Department's control of expenditure. To an extent, the shape of the total programme for industrial development is shaped by the expenditure control function.

#### (d) Taxation

In reply to a Parliamentary Question on 5 March, 1991 the Minister for Finance gave figures prepared by the Revenue Commissioners showing that the estimated cost to the Exchequer of the various tax incentives to industry in the tax year 1988-89 was £1215.6m. As the Minister pointed out, the estimates were in some cases tentative and, in any event would have to be regarded as notional since, without the reliefs, many of the enterprises involved would not have set

up here. Taking such factors into account, the Department of Industry and Commerce estimated in the 1990 Review of Industrial Progress that the real cost for an 'average year' was £298m. The assumptions made in the calculations are subjective and the Department of Finance would argue that the cost is considerably higher. What is accepted is that, without some very costly tax concessions, a large part of overseas industry would not locate here.

The Minister for Finance has, however many other considerations to take into account in the determination of taxation policy. The maintenance of equity in taxation, the safeguarding of the national finances, the control of the national debt will always take priority for his Department. While the encouragement of industrial development must be an objective of Government the Department of Finance has to balance the measures to be taken towards this end against other vital concerns.

(e) The County Development Teams and the Western Development Fund

While expenditure is negligible (at just over £1m) in the context of State aid to industrial development, the County Development Teams scheme and the Western Development Fund represent a strange function to find in the Department of Finance. A case could be made for the merger of this project into some more relevant area like the IDA but,

because of its symbolic importance and the political repercussions, it is not proposed to deal with it in this study.

Houses of the Oireachtas



**APPENDIX III****ESTIMATED EXPENDITURE ON INDUSTRY, 1991 (€000)**

<u>Body</u>	<u>Exchequer (a)</u>	<u>Other (b)</u>	<u>ESF (c)</u>	<u>Total</u>
<u>Industry &amp; Commerce Area</u>				
IDA	133,350(d)	27,060	6,000	166,410
SFADCo	15,430(d)	9,860	850	26,140
CTT	31,636	5,056		36,692
IGC	2,065	784		2,849
NADCORP	2,100	2,975		5,075
IPC	625	1,500	40	2,165
NMRC	832	3,900		4,732
Eolas	13,900	7,270		21,170
S & T	25,232			25,232
ICC	3,750			3,750
E Cr Ins	2,854	-2,100		754
I&C(say)	3,500			3,500
<hr/>				
Total	235,274	56,305	6,890	298,469
<u>Other Bodies</u>				
FAS(say)	18,000		22,000	40,000
Udarás	21,450	5,318	1,370	28,138
C/Devel.	1,122			1,122
Educ'n(e)	30,000,		60,000	90,000
Depts(say)	1,000			1,000
<hr/>				
Total	306,846	61,623	90,260	458,729

**NOTES:**

Source: Estimates for the Public Services, 1991.

(a) The Exchequer figure includes non-voted capital as well as voted current and capital provisions. A total of £85.1m is to be recovered from the European Regional Development Fund in respect of expenditure on:

	£million
IDA	37.5
SFADCo	5.2
ABT	18.0
Eolas	4.9
S & T	14.8
Gaeltacht	<u>4.7</u>
Total	85.1

(b) Mainly 'own resources' - fees for services, rents, receipts from sales of property, etc.

(c) Payments from the European Social Fund are additional to payments from the Exchequer.

(d) £15m of the IDA figure is in respect of contributions to SFADCo for capital grants in the Mid-West region.

(e) Estimate based on those elements of the ESF supported projects which are directed at industry.













