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THE CULLITON REPORT: A CRITICAL RESPONSE

by

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POLICY PAPER NUMBER PP92/2

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"Irish industry must seek to become more competitive, through cost reduction, quality improvements and improved product technology in existing firms and segments, and move progressively into higher productivity industries and segments."

IPRG Report, page 23.

In the immediate aftermath of the Budget there was considerable media comment on the restructuring of the tax system which was its centrepiece. Much of the comment focused on the degree to which the changes involved reflected a move towards the kind of tax system which the Commission on Taxation called for in its first report a decade ago. There was however, another blueprint for tax reform recently published to which many aspects of the budget gave effect. This was the recent report of the IPRG.

If the budget is seen as partially implementing, and to a large degree accepting, the philosophy of the IPRG, it may be useful to examine the IPRG Report in terms of the likely impact of its full implementation on the social targets of industrial growth and higher employment, and that is what this paper attempts to do.

This quotation above from the January, 1992, report of the Industrial Policy Review Group provides a useful starting point for a consideration of industrial policy, economic growth and employment in Ireland over the next decade. It encapsulates the "supply side" philosophy of the IPRG which underlies the several broad brush and detailed recommendations it makes for policy reform. These recommendations are based on the view that there are a series of obstacles to economic growth in Ireland the removal of which are necessary and, the authors imply, should be sufficient to ensure a shift to a more rapid growth path for the
consistent improvement in the position since about 1985.

So, not only is it hard to substantiate a view that input costs (as suggested by wages per employee, deflated by the exchange rate) have imparted a continuing downward pressure on competitiveness, and through it on output and employment in the tradable sector, but it appears that whatever was happening to the cost environment for industry, it affected foreign and domestic firms quite differently.

That in turn suggests that it may be a bit naive to expect that measures designed to improve competitiveness are going to be sufficient to restore the rapid growth in the demand for labour which is the indirect but over-riding goal of policy.

Why Are Foreign Firms Different?

Let us start by examining the decision of a representative foreign based firm to locate production of a marketed good or service in Ireland. The output of the firm is either an input into further production at another stage of the production process, usually outside Ireland, or it is a final commodity for direct sale. The key feature of this decision that we have to focus on is that in general the characteristics of the product and its pricing are determined by the time the investment takes place. The market for the product is already known, since it is either an input into the firm’s own production elsewhere, or it is selling into a market for intermediate or final goods where the parent firm is already substantially present. At the very least, the product can piggy-back on the investment in marketing and research and development of the parent firm, which are firm-
level public goods.

In such a firm the classical function of the entrepreneur is almost non-existent, at least as far as the firm's external environment is concerned. Management's function is basically organisation of production, cost control, personnel management and quality control. In a sense, within the broader economic organisation of which the Irish operation is a part, the Irish subsidiary can plausibly be modelled as a price taker for its output.

The supply of capital to the firm will be a function of the cost efficiency of production in Ireland as opposed to other possible locations. Grants, tax breaks, etc., affect the original investment decision of the firm through their impact on its expected costs of production overall. Even if the output of the firm in Ireland contains an element of R & D, the decision to produce the output in Ireland is essentially a location, not an investment, decision: the firm has already decided to undertake the activity, and for cost or other reasons locates it here.

That is not the kind of world in which a new domestic firm or an established firm wishing to expand production abroad has to operate. This point should hardly need labouring, but the Irish firm faces the classical market penetration problems which do not face foreign firm subsidiaries in Ireland. They have imperfect knowledge of demand conditions in the markets they wish to enter; they face decisions (and implementation costs associated with them) concerning product characteristics, quality

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10 There may be room for such behaviour within the organisation as management personnel seek to affect firm decisions for the purpose of advancing their own agendas; this behaviour, however, will not be directly related to maximizing the net worth of the firm.
control, production capacity, pricing, distribution systems, all of which decisions have to be undertaken more or less simultaneously, under considerable uncertainty and involve non-trivial costs.

The relevant model of the firm to draw on here is that of an imperfectly competitive firm making investment and pricing decisions simultaneously under circumstances of considerable uncertainty. It is obvious that the successful firm will have had access to the services of a good "entrepreneur". What is less obvious, but can be demonstrated, is that this kind of environment and the relation between investment in acquisition of knowledge and market penetration leads to scale economies in production and sales. It is simply easier and more profitable for larger firms to undertake and reap the benefit of investment in production or marketing expertise or technology.\footnote{This is a simplification, I hope not an oversimplification, of the conclusions of some of the ongoing literature on growth, market structure and investment in technology. See, for example Romer, P.M., "Endogenous Technological Change", Journal of Political Economy, vol. 98, no. 5, part 2, 1990, pp. s71-s102}

\textbf{Where Does the IPRG Fit into this Picture?}

I classified the recommendations of the IPRG as being concerned with cost reductions or with strategic development. Of the latter nearly half were, while correct, so obvious as to need little comment, or (on education) at least questionable and in my view quite wrong. When these are eliminated, we are left with those proposals listed at I (a) and III (c) and (e)
The remainder of the proposals of the IPRG were primarily aimed at removing distortions so as to improve the supply side environment for industry broadly defined, but with manufacturing obviously uppermost in their minds. The point of the foregoing discussion is that changing the supply side is a sufficient condition to secure a change in the rate of growth of output and eventually employment if and only if we assume that a price-taking model of the representative firm is realistic.

For the Irish firm as I have described it, there is no doubt that cost conditions are of vital importance, but this is by way of providing the necessary but not the sufficient conditions for expansion in output, sales and employment.

To what extent has the Budget actually moved towards the kind of regime envisaged by the IPRG? The first demand the IPRG made was for a reduction of the ratio of taxation to GDP (page 38 of the report). In fact, the budget marginally increased the tax/GDP ratio, although, it has to be said by less than a half of one percentage point. Furthermore, given that some forms of taxation have a low GDP yield elasticity, if the economy grows by more than the 2.5% the Government is banking on, the ratio will fall from its planned level.

The second demand was for the reduction and eventual elimination of distortionary tax rates and reliefs. The lower personal tax rates are obviously a move in the right direction here. On the face of it, there appeared to be a small move towards base broadening in the form of the final elimination of life assurance premium relief and the announcement of a new benefits in kind tax. The life assurance relief, however, was nugatory, and, at least as announced less than coherently in the
Minister’s speech, the benefits in kind tax is likely to prove inoperable. This should not be regarded as a serious problem, since if there existed full imputation and low personal tax liability at the margin the incentive for taking benefits in kind rather than cash income would disappear.

At the corporate level changes were announced in the tax treatment of depreciation. Straight line reducing balance over 7 years is to replace the previous system asset specific rates. The old system was designed to treat assets with different prospective economic lives differently. As such it came closer to tax neutrality in principle, although it may have had unintended distortionary effects. The new system is a rigid fiscal straightjacket, and, while being simple, is hard to understand in economics terms. The economic logic of depreciation is that the reduction in value of the asset over the relevant period is the correct basis for depreciation. That is, there should be free depreciation. In the 10% CPT sector the difference between an ideal and the proposed system has little impact. This will not be the case in the 40% sector. The new system is likely to introduce as much distortion as it removes.

The famous tax wedge has been reduced for a great number of employees by the 27% and 48% tax rates as well as by the extension of the basic rate band by over 20%. The reduction in percentage terms is less for lower paid workers than for higher ones because of the impact of PRSI at almost 20% of earnings up to £19,000 per employee and 12.2% up to £20,300.

The budget can, therefore be said to have gone a small way in the direction suggested by the IPRG, but the major distorting reliefs on the income tax side were left untouched.
The IPRG (page 40) contained one recommendation on taxation which needs some comment and helps bring us back to the strategic changes they suggested. It was said that the 10% rate should not be continued beyond 2010 because of unintended distortions. The distortions listed were:

- substitution of capital for labour;
- transfer pricing rather than location of cost centres dominating in investment in Ireland;
- avoidance schemes.

The first and third are correct. I have doubts about the second. Going back to the analysis of domestic as opposed to foreign investment in Ireland, we can see that unless Ireland has a comparative advantage in R&D or other market support functions, the typical multinational firm will have little reason to locate it in Ireland whatever the tax regime. The activity will be located where its true cost to the enterprise is minimised and transfer pricing will be used to generate tax-free profits arising directly or indirectly from the activity. Replacing a tax on profits here of 10% by one of 40% will not make it less costly to undertake R&D in Ireland. If at the margin local profitability is linked to the scale of operations here, then the 10% rate is an inducement to increase local employment. As far as the foreign sector is concerned, it may be difficult to quantify the impact of the 10% rate, but there is no doubt about its effect qualitatively in that the capital involved is imported and labour is a gross complement to capital in production.

The IPRG reached the following conclusions:

"It (the 10% CPT rate) has clearly not acted as a spur to the development of the indigenous sector to anything like the same extent as for the foreign sector."
"No indication should be given of any continuation of the 10%...rate beyond 2010..."  

It seems to me that much of the justification for this depends on an assumption that we are not as interested in foreign investment as we are in expanding domestic industry. This laudable sentiment can form the basis of policy only to the extent to which we believe that such substitution is really feasible.

The IPRG and Domestic Development: Pipedreams?

The IPRG has a clear preference for suiting the policy environment to the needs of domestic industry. We have already seen that the bulk of its recommendations on the supply side are more consistent with a model of an economy composed of price-taker firms, which is a valid way to look at foreign subsidiaries operating here. These will facilitate domestic expansion, but the analysis of the domestic firm as a non-price-taker in a market facing scale economies arising from the importance of production technology acquisition and market expertise suggests that these measures will be far from sufficient to achieve the IPRG's goals.

Some of the recommendations (described here as "strategic") are designed to be of specific help to domestic firms in the environment as described in this paper. The three listed above concerned (i) making sure the tax structure did not channel entrepreneurial ability into "rent-seeking" or arbitrage, but into net wealth creation; (ii) changing the financing of training

12 loc. cit. page 40
to ensure that funds were not wasted paying firms to train labour when the firms already faced good incentives to do so any way; 
(iii) Government assistance should place a strong emphasis on the acquisition of technology relevant to product quality and competitiveness.

In addition in the area of institutional reform, the IPRG recommended the fusing of "developmental" support functions at present spread over a variety of agencies into a single agency charged with implementing policy on technological, quality control and marketing aspects of industrial policy.

These are in general unexceptionable proposals for policy. The only question is whether they will be a major force in overcoming the problems facing Irish domestic firms as outlined in this paper. Here I would like to express a little pessimism. It seems to me that a more fruitful line of approach is to accept the difficulties facing Irish firms as being a reflection of changing comparative advantage. We noted that we could analyze the relatively successful foreign sector as owing its growth to its emulation of the small, open economy firm; its performance depends on narrowly defined supply side factors. These are within the policy effectiveness range of Government in Ireland. It would be advantageous if Irish domestic industry could be enabled to respond as well to these factors and not to have to rely on high cost risky acquisition of market information in order to expand abroad.

The logic of that seems to me to encourage domestic firms to try to replicate the demand conditions facing foreign subsidiaries. This is most obviously done by establishing direct links with firms which can perform the same function for the
economy as a whole, with increased employment as a spinoff from that growth.

The report is to be commended in that it starts from a recognition that the demand for labour (the inverse of the supply of remunerative employment) is a derived demand, and that it is only by achieving a higher rate of economic growth while not shifting relative prices against labour that we can hope to see the level of employment increase. The logic of this is that it is meaningless to treat employment as a direct policy target. Growth in employment is something which may, even probably will, come about as a result of growth in demand for and supply of Irish net output. The linkage between output growth and growth in employment is dependent on changes in technology, relative prices of factor supplies and the characteristics of the available labour supply.

The task for policy makers, then, is to do what can be done to ensure that:

(i) the demand for Irish net output expands;

(ii) that this demand is translated into demand for and supply of labour.

The first thing policy makers need is a good explanation of what explains the variation in growth rates in western economies, a convincing model of the growth process. The IPRG Report does not contain an explicit treatment of what its authors think is the model which best explains the growth process. It is possible, however, to derive the implicit model from statements contained in the report.

On the demand side, and quite reasonably, the balance of payments constraint requires that the long run independent
variable is the time path of world demand, or, approximately, the trade-weighted average growth rate in our export markets. On the supply side, the level of output is seen as dependent on input costs (including such things as the tax wedge, external transport costs and domestic infrastructural costs as well as labour, capital, energy and all the more obvious costs) and the sectoral composition of productive capacity. The IPRG model departs from this familiar, simple model of growth in a small, open economy by making the supply of "enterprise" to industry an explicit determinant of economic growth. Enterprise is seen as being sensitive to the incentive system in the broadest sense. The time path for labour utilisation is seen as being determined by the output growth rate, the rate of growth of labour productivity (implying that technical change is labour saving), hourly labour costs and output-specific skilled labour supplies.

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2 ibid, page 23: "Irish industry must seek to become more competitive, through cost reduction, quality improvements and improved product technology in existing firms and segments (sic), and move progressively into higher productivity industries and segments".

3 ibid, page 22: "...too little effort...is going into directly productive activities that are product-oriented and market driven. ...[E]nergy [has] been distracted from...serving the market and achieving high productivity into maximising the grant or tax benefit...[i.e] rent-seeking".

4 Ibid: Page 31: "Increasing productivity has meant that employment in manufacturing has not experienced the same growth as output..."; page 22: "Hidden skill deficiencies at the
In a model of this type, where demand conditions are clearly outside the control of domestic policy makers, the entire focus of industrial policy has to be on the supply side. The central argument in this paper is that the policy implications of this model are of only limited usefulness in the Irish context. In particular, it will be argued that they are unlikely to solve the problems of the so-called indigenous sector.

"Competitiveness is the Key to Growth": How and Why.

It is obvious that if the output of an industry can be treated as homogeneous, then in a small, open economy even relatively large firms (and a fortiori smaller firms) are in fact "price takers". That is to say, the firm can be modelled as being able to sell as much as it would want to sell at going "world" prices for the product or products it produces. In effect, it is treated as if it were the firm in the basic micro-economic model of perfect competition.

The output of an industry is rarely if ever homogeneous, and that of one firm is an imperfect substitute for that of its rivals at home and abroad. This analytical inconvenience can be dealt with by treating outputs as "bundles of characteristics", with any given firm's output being defined in terms of the quantities of various possible characteristics which the firm chooses to include in a unit of output. By assuming that any firm can produce any particular characteristic bundle, the analytical properties and tractability of the perfect competition model can

intermediate production level are holding back industrial productivit...".
be in large measure conserved, and the firm can continue to be treated as a price taker, with no (or at best insignificant) market power.

Lest there be any misunderstanding here, let it be clear that the economic concept of "market power" is not the same as the popular concept of a monopolistic ability to distort competition. It means more generally that the amount of its product(s) a firm can sell will depend on other factors as well as production costs: it can choose a set of characteristics (price, quality, reliability, etc.) for its product(s) and by varying these alter that amount it will sell and affect its market share. In microeconomic terms it faces a downward sloping demand curve for its output, and by its own strategic decisions can shift that demand curve to the right (as opposed to passively accepting a rightward or leftward shift as overall market demand conditions change).

Treating Irish firms as price takers in world markets logically implies that the level of output is determined by Irish production costs. The key factor in explaining the time path of employment is described as "competitiveness" which, allowing for infrastructural and access cost problems, is seen as closely reflecting unit wage costs in foreign exchange terms. These in turn are dependent on the behaviour of nominal wage costs (including such things as the tax wedge), the exchange rate, and

labour productivity.

From a policy viewpoint this approach suggests that the proper concern of policy makers is ensuring that Irish competitiveness is not eroded and wherever possible improved. This can be done through initiatives to improve the production environment (for example, by improving the transport or communications infrastructure), to moderate the growth of wage costs, and to improve the quality of inputs, especially labour inputs. Given our commitment to the EMS, the exchange rate is taken to be outside the scope of policy.\(^6\)

Policy Response: the IPRG Approach

For the most part, but not entirely, the policy recommendations of the IPRG are based on this model of development in which the crucial factor for policy is to ensure that firm competitiveness is not endangered by the economic environment. The report classifies policy changes under five headings:

* reform of taxation;
* infrastructural improvements;

\(^6\) Recent controversy in the UK over the appropriateness of the present central value for Sterling in the EMS must put the question of the Irish exchange rate in the EMS back on the agenda, since a decision to hold our rate against the Mark or to follow sterling would have to be made were the British to devalue after the next election. There are those who feel that since a devaluation appeared to work in 1986 it should be considered seriously in today's circumstances. Personally, I doubt that it would do very much in the long run, other than increase uncertainty about our exchange rate policy. It has to be said, however, that if a change in the rate were felt to be desirable, that option will not be open to us for long.
* education, enterprise and technology;
* strategy for industrial promotion;
* institutional reforms.

I Taxation:

The report asserts that

"A thorough reform of the tax system is a priority area for decisive action."\(^7\)

The declared objects of this reform are

(a) to channel effort away from "sterile" activity like tax avoidance towards "productive" activity which increases net wealth rather than redistributes it;

(b) to reduce tax rates by means of an extension of the tax base, partly because of the need to do this to meet the goal set in (a) and partially because high marginal income tax and PRSI rates on earned income have a disincentive effect which raises the supply price of labour and, therefore, production costs;

(c) to eliminate the incentives in the corporate tax system to the substitution of capital for labour and to transfer pricing rather than added value creation;

(d) to eliminate tax-based distortions which favour such things as construction at the expense of production of tradable goods and services.

II Infrastructural Improvements

The report gives fourteen main recommendations. These can be collected under five general headings for change:

\(^7\) loc. cit., page 37.
(a) improvements in the internal and access transport infrastructure;

(b) the realisation of a competitive rather than subsidy-distorted cost structure for inputs produced by the public sector (energy and communications being the most important);

(c) the encouragement of a growth-sustaining but sensitive set of policies on the environment;

(d) improvements in the regulatory and planning regime for business decisions;

(e) improved evaluation and use of EC Structural Fund finance.

III Education, Training and Technology

The ten main recommendations can be distilled into five broad proposals:

(a) there should be a reorganisation of school educational priorities placing less emphasis on the liberal arts and professional preparation and more on technical and industry specific training; the system should impart usable and marketable skills to students;

(b) increased and improved training is needed for those already at work to meet existing identifiable skill deficiencies;

(c) public financing should not be given to skill acquisition where the firm concerned captures the benefits;

(d) FAS should undergo a major overhaul in terms of the functions it undertakes;

(e) Greater emphasis should be put on technology acquisition.
III Industrial Promotion

The starting point for the IPRG is that while a case for grants as an incentive to attract "internationally mobile industry" to Ireland may have some merits, its continued extension to "domestic" industry is not justified once the tax system is reformed along the lines the IPRG suggests. Even worse, the report maintains that

"...most industrial expansion involves a grant results...in an unhealthy dependency mentality on the part of many industrialists."^8

The IPRG goes further and recommends curtailment of grants even for foreign investment projects. Its main recommendations for direct industrial policy are:

(a) further reduction in grant aid to overseas investment per se;
(b) equity to replace grants for domestic investment projects;
(c) remaining grant aid to be focused on encouraging strategic sectoral development.

^ The final set of recommendations concerned institutional changes concerning institutions such as FAS, the Department of Industry and the like. They are for the most part unexceptional, anodyne "motherhood and apple-pie" type suggestions, and in any case do not appear to be relevant to the question addressed in this paper.

If all the above recommendations are examined they can be classified under one of the following headings: cost reduction

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^ ibid., page 71.
and strategic development. Recommendations primarily concerned
with cost reductions for new or existing firms include: I (b),
II (a) (b) (c) (d) (e), III (b) (d). The other category covers
I (a) (c) (d), III (a) (c) (e).

Of the latter, I (c) and (d) refer to the elimination of
subsidies favouring usage of capital in a labour surplus economy
and investment in the construction sector rather than the
tradable goods sector. These distortions are clearly idiotic in
an economy dependent for growth in output and employment on
producing marketable exports. III (a) reflects the questionable
assertion that industrialists and Government in general know
better than parents, educators and children how the education
system should be organised so as to maximise the long term income
and employment prospects of the children concerned, with, one
might add, an olympian disdain for what some might consider to
be the more important goals of education.

This leaves three general proposals which could be said to
be of a strategic nature while not being either trivially obvious
or questionable.

This is the basis for my assertion that the main thrust of
the policy recommendations of the IPRG is consistent with what
I have described as its implicit price-taker model of Irish
economic activity. If this model is appropriate, then policy
should be dominated by the need to eliminate counterproductive
distortions and to ensure that the cost of a unit of net output
in Ireland does not rise relative to that in our export markets.
In such a world, "strategic" or "developmental" policy
initiatives are of marginal significance.
"But is the model appropriate?"

The first way in which we could answer this question is by looking at what has been happening to employment and output in the economy, particularly in the manufacturing sector, and having seen what has been happening, whether we can plausibly opt for a competitiveness explanation of what we see.

The first thing to note is that, as is pointed out by the IPRG Report in a diagram on page 30, manufacturing employment has remained static or fallen for most of the last 20 years. We need to be careful in interpreting the trend for employment, since if nothing else changed but firms shifted to buying in rather than providing certain services "in house" this would show up as a decline in manufacturing employment. The recorded decline in overall manufacturing employment, therefore, has to be treated with some caution as should be measures of productivity and competitiveness derived from estimates of output per man-hour employed.9

The second feature is the change in the ownership composition of industry. In the early 1970s foreign firms accounted for about 30% of employment in manufacturing industry in Ireland. It is well known that the foreign proportion has greatly increased in importance in the intervening 20 years. It now accounts for more than 40% of employment. We should note, however, that although this increased percentage is of a smaller total, the absolute magnitude of foreign sector employment rose.

9 Not only is measure suspect if firms are altering their pattern of direct provision of inputs in favour of purchasing, but productivity measures by definition show what the position is in surviving firms: those that did not make the grade are not included, i.e., those which proved "uncompetitive".
from about 60,000 to over 80,000. To give an idea of what this means, consider that if indigenous employment had grown at the same rate, total manufacturing employment would have been about 280,000 today (as opposed to just under 200,000). Even a very modest spillover effect of this in the labour market would imply a total employment level at least 100,000 higher than it is today.

Instead, of course, indigenous manufacturing employment fell over the period from about 160,000 to about 130,000. Why? The simple, even trivial, answer is that the indigenous sector proved to be less competitive in some sense. Unfortunately, that begs the question as to how "competitiveness" affected the indigenous sector differently from the foreign sector.

This is where the simple, price taker model of growth in the small, open economy begins to lose credibility. Even if we allow for the slow demise of the so-called "traditional" sector of the Irish economy founded in a protectionist regime and of doubtful suitability for Ireland in terms of comparative advantage, the uncomfortable fact is that even as between 1981 and 1990 the domestic manufacturing sector contracted while the foreign one expanded. Whatever small differences there may have been in the tax regimes or grants available as far as the two sectors were concerned 20 or more years ago, it is more or less the case that foreign firms have faced no better conditions than their Irish counterparts over the last decade.

If what drove expansion in output was input costs, transport and infrastructural costs, tax incentives and investment grants on the supply side and demand conditions in world markets on the demand side, the domestic sector of the economy should have fared
TABLE 1
Competitiveness Indicators

% deviation from Ireland

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<th>Year</th>
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Source: European Economy, EC Commission, 1991
as well as the overseas firms. Appeal to scale economies and the like is not persuasive: if cost advantages are to be had from such factors, they are as available to Irish firms as to foreign firms.

When we look at what happened to competitiveness during the last decade, the first thing that strikes one is that there is not a clear trend which would explain the fall in manufacturing employment while output increased, thus producing some wildly misleading values for underlying productivity growth. There are disputes about how one should measure relative competitiveness movements, and no absolutely faultless way of doing so. What I have done in this paper is to use nominal employee compensation growth in Ireland, the US, the UK and the EC of Twelve and then to adjust this by the change in the trade weighted exchange rate. If, for example, this measure of wages rose by 10% in a year in Ireland, and the Irish pound exchange rate fell by 2%, while in Britain wages rose by 10% but the exchange rate rose by 1%, then Irish "competitiveness" would be said to have improved by 3% relative to Britain's.

The values for this measure of competitiveness change are given in the accompanying table and graph. These make it obvious that, at least by this measure, there was no consistent loss of competitiveness with our main trading partners over the last decade. In the first half of the decade, our position improved most years in comparison with the US and deteriorated in most years in the second half. This reflects for the most part the big swings in the value of the dollar against the EC currencies. As regards the UK and the EC as a whole, after a bad few years at the beginning of the 1980s, there has been a more or less
domestic sector that their foreign parents perform for the overseas subsidiary sector firms. This is an argument for some form of forward vertical integration abroad, at least of a temporary nature. This does not necessarily involve mergers or shared ownership, although the Irish Distillers merger may well be the shape of things to come for a successful "domestic" sector.

To believe that policy measures of the type described in the IPRG Report alone will make possible an expansion of the existing domestic sector to parallel that of the foreign sector seems to me to be optimistic beyond the bounds of common sense.