Ireland's industrial trajectory and policy: is the crisis a 'critical juncture'?

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Is the crisis a catalyst ('critical juncture') in terms of IP?

Crisis has led to recovery industrial strategies in several countries (France) and in the EU *in toto* (see EC, 2010)

IP rediscovered, back in fashion

With crisis, move away from market failure to systemic failure (with emphasis on linkages)

Linkages – inter connection (part of the *zeitgeist* – network firm in spatially confined areas – clusters)

For Ireland in particular, crisis has revealed the fragility of national development policy choice, in particular an over reliance on:

- some industries/sectors (banking, finance, construction and services) over manufacturing

- some ownership forms (foreign/domestic)

Direct impact of the crisis for Ireland

Table 1: Selected macroeconomic Indicators (Annual % change and %, respectively; Ireland)

	2006	**`2007**	**2008**	**2009**	**2010**	**2011**
(1) Real GDP (annual per cent change)	5.3	5.6	-3.5	-7.5	-0.2	2.2
(2) Current account (per cent of GDP)	-3.5	-5.3	-5.2	-3.0	-2.7	-1.1
(3) CPI (annual per cent change)	2.7	2.9	3.1	-1.7	-1.6	-0.5
(4) General government debt (% of GDP)	24.7	25.0	44.4	65.6	94.2	98.6
(5) Unemployment rate	4.4	4.5	6.4	11.8	13.6	14.5 (#)

(#) Figure for Sept. 2011 y-o-y.

Direct impact of the crisis for Ireland

At the beginning of the crisis, job losses mostly (1/3) in construction (represented 11.4% of total labour in 2008); ¼ of job losses in manufacturing and about 20% in retail and wholesale trade.

Manufacturing job losses explained by withdrawal of MNC plants (mostly US owned – their derived impact on chain of sub-suppliers and on services)

Comparative perspective, manufacturing firms in **Sweden** showed more resilience to the crisis than Irish firms

$\Rightarrow$ a strong indigenous manufacturing base is a necessary condition for sustainable economic growth.

inadequate productive structure', shaped by non-optimal IP choices

Synopsis of manufacturing sector (CSO, 2011)

Manufacturing sector dwarfed by services (health and financial services)

Manufacturing represents 11% of the total labour force less than financial services (construction: nearly 5%; Services: 65.7 %)

Foreign/ domestic dichotomy (CSO 2010 data):

- employment in traditional sectors (TC, Food, paper products) more likely to be in domestic firms
- foreign firms dominate high-tech sector (Chem: 80% of firms are foreign); machinery and equipment more evenly distributed between foreign and domestic
- foreign firms are more export oriented, enjoy lower labour costs, higher productivity rates

By contrast, in Sweden, more balanced productive fabric (stemming from balanced IP choices)

IP and innovation policy (pre crisis)

1. Economic Development Plan (1958)

- EPTR (replaced in 1978 by a 10% corporate tax rate)
- Industrialisation-by-invitation strategy
- Catching-up phase (MNEs from mature sectors; poorly embedded)

2. From early 1970s to early 1990s

Selective IP (targeted industries: electronics; chemicals)

3. 1990s to 2007/2008: high growth rates (Asian 'tiger' style)

- Importance of DELL Computer Corporation
- Supply chain management (MNEs more embedded); call centres
- Development of a software domestic industry (spillovers)
- Some improvement in terms of innovative input and output

IP and innovation policy (cont')

BUT this technological progress is *insufficient*:

- R&D/GDP = 1.8% in 2009 (was 1.2% in 1999) (OECD indicators)
- Researchers per thousand employment = 7.6 in 2009 (above EU27 average of 6.7)
- Patent applications: 10 times less than for Sweden (in 2006)

Hewitt-Dundas and Roper (2008)find a steady but *moderate* increase in the proportion of innovation active plants in Ireland over the 1990s

Findings confirmed by the 2010 Innovation Union Scoreboard, which notes a decline for SMEs introducing product or process innovations

Lack of *continuity*

Innovation performance - Ireland (findings by Hewitt-Dundas and Roper, 2008)

Table 1: Innovation Activity and Innovation Success, Ireland, Northern Ireland and All Island, 1991-2005

	1991-1993	1994-1996	1997-1999	2000-2002	2003-2005
Ireland					
Product Innovators (% of plants)	62.8	65.9	65.3	56.7	67.9
Process Innovators (% of Plants)	n/a	57.7	65.8	53.9	51.0
Sales from New Products (% sales)	30.2	21.9	27.7	24.3	22.6
Sales from New and Improved Products (% sales)	46.4	40.3	40.4	40.3	34.2
Northern Ireland					
Product Innovators (% of plants)	51.9	56.5	58.5	53.8	59.3
Process Innovators (% of Plants)	n/a	46.0	57.5	50.1	53.0
Sales from New Products (% sales)	27.2	22.7	21.3	25.8	24.1
Sales from New and Improved Products (% sales)	48.7	37.5	39.2	38.6	36.8
All Island					
Product Innovators (% of plants)	59.2	62.9	63.3	55.8	64.7
Process Innovators (% of Plants)	n/a	53.9	63.4	52.7	51.8
Sales from New Products (% sales)	29.3	22.2	25.9	24.7	23.1
Sales from New and Improved Products (% sales)	47.1	39.4	40.1	39.8	35.1

Notes and *Sources:* Observations are weighted to give representative sources. All data from the IIP.

Summary on Ireland's innovation performance (pre-crisis)

Ireland is a 'follower' (2010 Innovation Union Scoreboard)

The analysis rests on 25 research and innovation-related performance indicators. The group of 'followers' comprises also: the UK, Belgium, Austria, Luxembourg, France, Cyprus, Slovenia and Estonia

Relative strengths: human resources, open and attractive research systems

Relative weaknesses: linkages, entrepreneurship, intellectual assets, financial support

But: domestic (manufacturing) industry relatively neglected (emphasis on KI services)

Responses to the crisis – an IP perspective

Reactions: very limited initiatives:

- enterprise stabilisation fund (K)
- back to work allowance (L)

- Renewed emphasis on attracting US investment (more than ever – 'quick fix solution')
- Latest policy documents 'Towards 2016' (2006) and *Building Ireland's Smart Economy* (2008) reiterate the importance of innovation in line with the Lisbon Agenda….

Conflict between IP and other macroeconomic policies (banking crisis)

- For example, the 'Smart Economy' document calls for more investment in public sector research (unachievable)

Responses to the crisis – an IP perspective

March 2011: Science Foundation Ireland 'announced' the allocation of €24m supporting 5 new strategic research clusters (existing commitments)

August 2011: another €15 million provided over 4 years for 79 research projects as part of SFI 2011 (existing commitments)

NB: Picking the winner strategy (ring-fencing of certain areas; more than before)

Drops in the ocean – a lot of uncertainty (very difficult climate for young scientists)

Hewitt-Dundas and Roper (2008) note a disproportionate impact of the economic recession on innovation in Ireland compared to Northern Ireland

Heavy (disproportionate) reliance on inward I will continue for some time

Footloose MNEs; less flexible

Current expenditure prioritised over K expenditure

References

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