Dependency and the Experience of Industry in the Republic of Ireland

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This article accepts the dependency school's emphasis on the importance of analysing characteristics of the international capitalist system when seeking to understand the causes of underdevelopment [see Palma 1978] rather than focusing mainly on conditions within a peripheral economy in isolation. Starting with some consideration of certain features of the world capitalist system we can suggest the sort of general limitations one would expect to find on late industrial development in any peripheral economy trading freely with developed industrial countries. We can then go on to examine the experience of industry in the Republic of Ireland in the light of these expectations.

Developed Capitalism and Peripheral Industry

As Bienefeld and Innes [1976] argue. established industries based in the developed economies have great competitive advantages over the relative newcomers in the periphery: these advantages. they say. derive from long-accumulated resources of capital. proprietary technology. large established markets. managerial skills and political influence. To these factors may be added the advantages inherent in an established industrial economy which derive from the external economies of large industrial centres. All these factors combine to give established producers based in industrialised economies competitive advantages in most sectors of industry over newcomers in peripheral economies.

These competitive advantages are very important in practice because of the world economy's history of recurring depressions and persistent underemployment of productive resources in the periphery. which means that available markets tend to be relatively limited when measured against supplies of productive resources, and that competition for these markets is intense. In these conditions. the large established industries based in the developed economies are able to dominate international markets in most sectors. at the expense of newcomers in the periphery. so that most industrial production remains concentrated in the developed countries. The peripheral economies generally find it very difficult to gain international markets for most industrial products, apart from a very limited range of sectors.

The argument above does not completely rule out the possibility of private indigenous industrial development in peripheral economies trading freely with core industrial countries. but it does suggest that such development will necessarily be very limited. But in certain industries where the factors giving rise to established industry competitive advantage are not of great importance. real opportunities exist for indigenous enterprises in the periphery to compete effectively in international markets. Also. perhaps more commonly. in cases where these factors give established producers only quite small advantages which can be offset by transport costs or the advantages of proximity. indigenous enterprises in the periphery may be able to compete effectively in the domestic market.

These considerations suggest that the type of indigenous exporting industries one could expect to find in a late-industrialising peripheral economy would be industries using relatively simple or standardised mature technology which can be readily purchased. and having one or more of the following characteristics: labour intensity. local craft intensity. a low modern industrial skill content. or low value added to local primary resources. In addition. in most cases. a fairly small scale and limited fixed assets would be expected. Indigenous industries oriented to the unprotected home market could also include other products with a low value/bulk ratio. such as building materials. and sectors where close regular contact with the local market is important. such as printing. packaging and building. It is important. however. in considering these opportunities for indigenous industry in the periphery. to note that they are quite limited. There is no necessary reason why the scope for industrialisation in sectors such as these should be sufficient for all available resources of either capital or labour to find employment within a late-industrialising peripheral economy under a free trade.

Under a protectionist policy. the scope for indigenous industrialisation in the periphery widens to include other sectors which do not have a genuine competitive advantage; the first to benefit would be those most similar in character to the peripheral industries (outlined above). and it would commonly include the final stages of production or assembly of previously imported goods for the local market in order to avoid the tariff barriers. Some of the 'infant industries' established behind protective barriers could prove viable after a return to free trade. but the gap between the developed industrial economies and the periphery in the twentieth century seems to be such that relatively few protected 'infant industries' or 'infant economies' prove capable of significantly expanding manufactured exports—an indication that a true competitive advantage has developed. The failure to develop exports combined with rising imports of industrial inputs is a major cause of the balance of payments difficulties which generally afflict protected peripheral economies.

In some countries, however (Japan is the main example), where the state has taken up a very active and direct role in stimulating technological innovation, skill training and the co-ordination of the long term development of specialised integrated industrial structures, 'late' development of some genuinely competitive industrial sectors of importance has appeared possible.

In looking at the experience of industry in the Republic of Ireland we are considering one case study of a formerly protected peripheral economy in the light of the suggested limitations on indigenous peripheral industry outlined above. Ireland is a significant case because in many ways conditions are particularly favourable for private industrial development compared with most peripheral economies. These conditions include a high degree of conservative political stability, a good education system, a developed infrastructure and financial services, free access to major markets (including a position inside the EEC tariff wall in recent years), and a society which has shown active entrepreneurial ability in the protected industrial growth of the 1930s to the 1950s as well as in non-manufacturing sectors. Thus many of the internal weaknesses often suggested as general causes of industrial underdevelopment seem particularly implausible in the Irish context.

The Historical Background

Until the early nineteenth century Ireland could reasonably have been described as an industrial economy by the standards of most European countries with the major exception of Britain, the pioneer of the industrial revolution. As late as the census of 1841, for example, 700,000 people—almost one quarter of those gainfully occupied—reported that they were occupied in textile manufacturing [Cullen 1968]. But during the nineteenth century industrial employment declined rapidly, except in the north-eastern region around Belfast, offering diminishing prospects of employment to the masses being squeezed out of agriculture. Consequently, emigration rose to proportions unparelled in any other country, reducing the labour force of the area which is today the Republic of Ireland from 3mn in 1841 to just 1.4mn in 1922 when the Irish Free State was established; by then only about 100,000 workers (7 per cent of the labour force) were employed in industry.

The most convincing explanation of the industrial decline of most of Ireland is the argument that Britain's early lead in industrial transformation, combined with the growing importance of economies of scale, external economies in large industrial centres and specialised proprietary technology, gave British industries cumulative competitive advantages in free trade within the United Kingdom of Great Britain and Ireland. These advantages were almost impossible for most Irish industries to resist once the process of Britain's earlier transformation had begun [see Cullen 1976, O'Malley 1979].

The independent Irish state introduced strong measures to protect industry from outside competition and this resulted in the doubling of industrial employment between the early 1930s and the early 1950s, although the total labour force continued to decline (to 1.2mn in 1950 and 1.1mn in 1971). The protectionist policy, however, failed to boost exports adequately so that a series of balance of payments crises occurred in the 1950s, resulting in strong deflationary action by the government and prolonged recession with the highest rates of emigration for 80 years. (The figures for net emigration in the 1950s regularly exceeded 70 per cent of the number of those reaching the age of 15). The perceived failure of protectionism in the 1950s provided the cue for a change of policy desired by the country's dominant agricultural exporting class. The new policy was to seek participation in the wider free trade arrangements then emerging in western Europe with its high food prices; a complementary policy, for industry, was to encourage export-oriented investment by foreign firms in order to supplement the employment and foreign exchange earnings which could be provided by Ireland's existing industries in free trade conditions.

Industry since the 1950s

1958 was the year when Ireland's new outward-looking policies were given formal expression, in a book by the then Secretary of the Department of Finance [Whitaker 1958] and in the first *Programme for Economic Expansion* [1958]. Restrictions on foreign direct investment were mostly removed, full tax remission on profits arising from industrial exports was introduced and the intention to seek participation in European free trade arrangements was announced. Grants of up to 50 per cent (or more in designated undeveloped regions) on fixed assets in new industrial investment or in major expansions of existing industries were also introduced, and Ireland already had free access to the United Kingdom market for most manufactured goods.

The most striking development in industry in Ireland since 1958 has been the rapid inflow of new export-oriented industries under foreign ownership, most of them subsidiaries of TNCs. These new foreign industries now employ about 50,000 workers, or about one quarter of the manufacturing labour force and, with most of their output exported (88 per cent in 1973), they have made a very substantial contribution to raising exports and easing the balance of payments constraint.

While new foreign industries have thus made a substantial impact on growth, employment and exports, their low backward and forward linkages, their use of proprietary technology imported from parent companies, and their low demand for highly skilled technical and scientific workers all combine to minimise their secondary impact on the country's prospects for developing a less dependent form of industrial structure capable of self-sustaining growth. The inflow of new foreign investment has been insufficient to generate conditions even approaching full employment; clearly a greater contribution from Irish industry is required, and new foreign industries appear to have done little to stimulate such a development. Ireland's heavy reliance on continuing inflows of foreign industrial investment also leaves the country open to growing political dependence on foreign enterprises and governments [see Stanton 1979 on this]. But, more important for the consideration of Ireland as a case study relevant to development prospects in other peripheral economies, the most obvious reason why the policy of encouraging foreign export-oriented investment cannot be regarded as a major option for most countries is that, world-wide, it simply does not occur on a large enough scale. Apart from Ireland, a small number of (mainly small) countries, such as Taiwan, South Korea, Hong Kong, Singapore and Puerto Rico, as well as Mexico and Brazil, have received the bulk of export-oriented foreign investment; most peripheral economies cannot expect investment of this type to make any great impact on their economies [see Nayyar 1978]. Since rather exceptional circumstances—such as access to large markets, especially the EEC since 1973—have been responsible for the extent of new foreign direct investment in Ireland, the rest of this paper will concentrate on other industries, whose experience provides a truer indication of the general effects of outward-looking policies in late-developing peripheral economies and of the potential for industrialisation with such policies.

Before the protective trade barriers began to be removed in the mid-1960s there were clear indications that Irish industry was ill-prepared for free trade in open international markets. For example, despite the Republic's small market (a population of under 3mn) and its virtual free access to the far larger British market, only 19 per cent of industrial output was exported in 1960 [McAleese 1978]. One observer has suggested that most firms were probably only marginal exporters, ie exporting 10-20 per cent of output at marginal cost. Furthermore, although 'manufacturing proper' (ie goods such as textiles, clothing, furniture, paper, chemicals, metals and engineering) made up 17 per cent of GDP in 1958, while 'limited processing' manufactures (mainly food processing and leather) accounted for only 5 per cent of GDP, 'limited processing' manufactures made up almost two thirds of manufactured exports [Farley 1973]; this indicates that the export potential—or, in other words, the competitive ability—of most of industry, apart from limited processing of local primary resources, was very weak.

The government appointed Committee on Industrial Organisation found that most manufacturing concerns in the early 1960s were producing very largely for the protected domestic market and consequently were small in scale and had a considerable variety of products with short production runs and high unit costs. Mainly because of the small scale and the assembly type nature of many of the operations, the technology in use was rarely developed by the firms themselves and was rarely the most advanced. Also, compared with other European countries, expenditure on industrial research and development was very low [see Cooper and Whelan 1973].

The fact that many industries were not prepared to face free trade in the early 1960s was officially recognised, but it was expected, in line with much 'orthodox' academic thinking on economic development, that the pressures of competition would improve efficiency and promote more specialised, larger scale, technically advanced production for larger markets. It was anticipated therefore, that after some restructuring, although some industries might suffer, many would face improved prospects for growth under free trade. Adaptation Councils were instituted for each of 24 industrial sectors to prepare for free trade by promoting cooperation in purchasing materials, marketing, choosing areas of specialisation, eliminating uncompetitive product lines and organising amalgamations of small firms. Adaptation Grants of up to 25 per cent of restructuring costs were made available, along with other forms of assistance, and by 1968 it was reported that such grants had been approved for firms accounting for at least 75 per cent of manufacturing output and employment.

Thus the move to free trade was well prepared and apparently supported by respectable theory. Tariff cuts were implemented very gradually over the 10 years 1965-75 in the case of British goods, and the 5 years 1973-78 in the case of products from the EEC; the move was not sudden. And yet the signs to date are that most of Irish industry not only failed to benefit from free trade. but has actually suffered noticeably. Between 1965 and 1971 the rate of redundancies in existing industry rose from 700 to 5.000 pa. and in the four years 1973-76 it is estimated that about 50.000 jobs (about one quarter of the manufacturing labour force) were permanently lost. Employment in the older. formerly protected industries has shown a net decline since 1960. although their output has grown somewhat as the domestic market has grown: significantly. too. the proportion of output exported by these industries did not increase. but rather declined slightly. between 1960 and 1973 [McAleese 1978].

Thus. up to 1973 at least—and probably up to the present. the benefits of free trade suggested by the architects of the outward-looking policies have not materialised in the older. formerly protected industries. Instead. many of them closed down. while most have so far proved viable only after considerable defensive investment which was associated with losses of employment and a shrinking share of a growing home market. It was in fact officially observed during the 1960s that investment in adaptation for free trade was mostly not of the type desired: it was going mainly to increasing productive efficiency in existing activities rather than to basic restructuring involving larger scale more specialised activities with an export orientation [see NIEC 1968]. There was a strong tendency to attribute this failure mainly to poor entrepreneurship. but such an explanation seems rather weak compared with a more plausible alternative view.

As suggested earlier. the longer established industries of the developed industrial economies have great competitive advantages over small. technologically weak industries in peripheral economies. such as those developed in the Republic of Ireland up to the 1960s. Since it is the aim of the private entrepreneur to seek out opportunities for profitable investment. it is scarcely an indication of incompetence or excessive caution if he shrinks from trying to build up large specialised export-oriented industries in such circumstances. Once the intensity of competition from developed industrial economies is fully appreciated. the Irish entrepreneurs' decision to engage in purely defensive investment to protect their existing enterprises. and probably also to invest more in non-manufacturing sectors. seems unsurprising. For. in a highly competitive environment. control of large established markets seems a necessity for motivating large investments in research. development and production of advanced specialised industrial products—if the motive is private profit within a reasonable time span. On the other hand. ownership of specialised technology and large productive facilities is necessary to control large markets. Consequently. the small. technologically weak newcomer with small market shares faces great difficulty in breaking into international markets in most sectors. Such a view of the wide and persistent gap between the industrial potential of established industrial economies and aspiring late developers seems consistent with the experience of Irish industry: the view that favourable local conditions in a peripheral economy. combined with market forces. can lead to continuing development until the less developed country evolves into a developed one does not seem so.

Some suggestions were made above concerning the nature of the limited range of industries which could prove viable for indigenous private enterprise in a peripheral economy trading freely with developed industrial countries. A brief examination of the activities of Irish companies in 1979 reveals no major examples which conflict with these suggestions. Banking and finance is mostly controlled by Irish companies. and outside that sector there are 66 publicly quoted companies on the stock exchange. of which 57 had majority holdings of equity owned within the state [*Irish Times*. 1. 2 January 1979]. If we include one large company now registered in another country but originally based in Ireland. the main activities of the largest majority Irish-owned stock exchange companies (largest in terms of sales) are as follows. The four largest companies. each employing over 5.000 workers. are mainly engaged in print and packaging. building materials. brewing and glass. The remainder of the largest 20. most of which employ between 1.000 and 2.000 workers. are mainly engaged in: food. drink and tobacco (4): building (2): wholesale and/or retail distribution (4): carpets: paper: leather: newspapers: knitwear; distribution and soft drinks. Besides the publicly quoted limited companies. there are a number of large agricultural cooperative societies engaged in food processing: the total sales of the 30 largest coops are. in fact. greater than those of the 30 largest publicly-quoted industrial and trading companies—an illustration of the importance and scale of food processing compared with other Irish industry.

To focus particularly on new (ie post-1950s) Irish industries. food processing is the dominant activity among enterprises employing over 50 workers. while the smaller ones have a more diverse range of activities including some branches of engineering and electronics. However. these small industries appear to be generally confined to relatively labour intensive activities using simple technology.

The activities of Irish companies are noticeably lacking in the major high technology. capital intensive. large scale industries which would dominate the list of the largest companies in developed industrial economies.

including the smaller developed countries such as Sweden or Belgium. Thus, apart from some small-scale activities in certain minor sub-sectors, there are almost no large Irish private companies operating independently of major foreign participation in the extractive industries, nor in metals, engineering, vehicles, armaments, chemicals or electronics. Irish companies have, however, proved capable of dominating those sectors in which it was suggested that indigenous private enterprise in peripheral economies does not face serious disadvantages in competition with established producers in developed countries. The fact that Irish enterprises have been successful in these sectors, and only these sectors, suggests that there are indeed real difficulties impeding entry by newcomers into competition with established industrial economies in most major manufacturing sectors. These difficulties arise from the competitive advantages enjoyed by the established producers *because* they have an established position, rather than from any very obvious inadequacies of Irish enterprises which private capitalists can reasonably be expected to attempt to overcome.

It appears that Irish private industry is mainly confined at present to a limited range of products with little potential for diversification. The potential for its expansion is limited by demand, particularly in the home market, rather than by the availability of capital for investment in increased capacity. This is supported by a lack of any evidence, despite the efforts of some studies, of a causal link between increases in industrial profits and subsequent growth of industrial investment and output. Growth of output has, however, been related to growth of home demand. Furthermore, there appears to be a growing tendency, which has been little studied, for large Irish industrial companies to invest their profits in non-industrial sectors and in acquisitions of foreign companies rather than in expansion and diversification of their manufacturing activities in Ireland. Again, this would suggest that the potential for indigenous Irish industrial diversification and expansion is limited.

Conclusion

It seems likely, in view of the many different social formations in different countries, that the dependency approach to understanding peripheral societies will remain a broad approach rather than a formal theory. This paper, however, has suggested that a similar set of constraints may serve to limit the possibilities of indigenous private industrial development in all late-developing peripheral economies which trade freely with developed industrial countries, and that, in view of the competitive advantages of established industrial producers, indigenous industries would tend to be limited to sectors using simple, or standardised mature technology, and having characteristics such as labour intensity, local craft intensity, low value added to local primary resources, low value/bulk ratio and clear advantages arising from close regular contact with the local market. In the Republic of Ireland, sectors such as these are quite well developed mainly by indigenous enterprises which do not seem capable of much further diversification despite the availability of capital and labour and free access to large markets.

The long experience of the decline of Irish industry under free trade during the century before the 1930s—apparently because of growing competition from British industries which were gaining increasing advantages arising from developing economies of scale, external economies, specialised skills and technology and proximity to the major growing markets—supports the general view that conditions have developed over a long period of time which give the earliest established industrial economies substantial competitive advantages over the relatively small and weak industries of peripheral economies aspiring to late development.

The main strategic options for late industrialisation now seems to focus either on some form of sustained protection or on very substantial activity by the state in the interests of the long term development of specialised technology, skills and productive facilities which could eventually result in wider areas of genuine competitive advantage under free trade. The protectionist option depends heavily on a country's ability to overcome the balance of payments constraint in the face of rising imports of industrial inputs such as materials, capital equipment and technology, which cannot possibly be produced domestically for long. For most countries, apart from those with particularly valuable natural resources, this means that exports of industrial products must be expanded eventually: here again, co-ordinated intervention by the state to attain long term development goals seems essential. The viability of either of these options therefore ultimately depends on which social classes control or influence state power, and to what purpose.

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note: the more general dependency references are not given here but in the bibliography at the end of this *Bulletin.*

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