

HOW LONG CAN WE SURVIVE ON BORROWED MONEY ?

Address by Mr Liam Connellan, Director General, Confederation of Irish Industry to Students at Galway University on 12 December 1975

The most crucial problem facing the country is to provide adequate productive employment for a growing labour force during a period of structural change. These requirements are 37,000 net jobs per annum over the next decade, approximately, 20,000 of which must be supplied by the manufacturing sector.

Two general approaches have been suggested - one of which suggests the stimulation of the demand in Ireland, and the other which places the emphasis on export led growth.

The competitive position of Irish industry has deteriorated rapidly in recent years. CTT has stated that the level of unsuccessful quotations for export orders is running at three times its normal rate. A survey of its members conducted by the Confederation indicates that price is perceived by industrialists to be a far greater obstacle to obtaining export orders than in Britain. The level of industrial confidence is at its lowest since last March. Production is stagnating, and employment continues to fall. Each Friday

brings a higher total of unemployed. Some people purport to show that Ireland's export performance in the last year has been less bad than other countries by quoting the rise in value of exports, but discounting the effects of varying inflation rates, and the devaluation of sterling. The important factor is the variation in the value of exports and here the change of trend has been much more rapid than in other countries. Furthermore, competition on the home market will be intensified by the 50% cut in tariffs against EEC countries, other than Britain on 1st January 1976.

Nor is there any possibility for development by possibility for development by stimulating demand on the home market. If this was achieved by increased pay, it would stimulate imports, have a detrimental effect on the balance of payments, and further reduce the competitiveness of industry on home and export markets. On the other hand, it is very doubtful if the Government could or should further increase a public sector borrowing requirement which is already by far the highest in Europe. This does not rule out the possibility of restructuring public expenditure so that more resources can be devoted to productive investment and less to current consumption.

Recovery must, therefore, come from export led growth. Even if the economy could be got back on to a 6% growth path, this could only be brought about as a result of exports growing about four times faster than home market consumption. It is estimated that every percentage point by which pay is restrained, creates close to 2,000 jobs, and vice versa.

Restraint must be exercised in an equitable fashion. The impact of the recession in 1975 was spread most inequitably. For example, public sector pay grew more than twice as fast as that of manufacturing employees; the money incomes of pensioners showed no growth, that of industrial firms declined by about a quarter; and finally, the worst sufferers were people who were out of work for a prolonged period so that their pay related benefits had run out.

It has also been suggested that direct state investment in industry might provide a panacea. State companies are subject to exactly the same market and competitive pressures. Government borrowing is stretched to the limit. It does not have spare funds. It can make the greatest impact by creating the environment which, will stimulate industrial investment. Its aim should be to ensure that this investment

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takes place with the minimum commitment of state resources. It will then obtain the greatest benefit in relation to costs.

At present, industry requires an annual additional investment of £400 million in order to provide the additional 20,000 new jobs required in manufacturing. This figure does not take into account the cost of replacing redundancies, or of maintaining existing employment by the purchase of more modern equipment. These funds must come from the net income of industry from increased borrowings and from new external investment.

The main objective now must be to improve competitiveness, thereby ensuring that jobs are retained and the decline in the net income of firms halted. Given this condition, industry will have the confidence to participate in the truly massive export effort required to expand output and employment.