Speech by Liam Connellan, Director General, Confederation of Irish Industry, at the Fianna Fail National Youth Conference at Leisureland, Salthill, Galway, on Saturday, 7th November 1987 at 2.30p.m.

IRELAND - PUBLIC OR PRIVATE

After many years of running a balance of payments deficit, there are clear signs this year that Ireland's external payments on current account are moving towards balance for the first time since the 1960s. The nation is close to paying its way in the world once more, but has to use a surplus on trade and goods and services in order to service a massive accumulated foreign debt. This debt can only be repaid by earning additional surpluses.

The fundamental imbalance now is that between the market sector of the economy producing goods and services in quantities which reflect the demands of consumers and for which people have freedom of choice, and the non market sector which must be paid for through taxation or borrowing. Charts 1 & 2 show the proportion of people engaged in the market and non market sectors respectively in 1972 and 1985, and the relative changes.

Over the last decade public consumption has grown much faster than either private consumption, or investment. (Charts 3 & 4) Public consumption has crowded out private market activity through higher taxation and higher interest rates. I welcome the decision to reduce the volume of current public consumption and thereby increase the funds available for personal consumption, and investment.

Despite the inhibiting influence of spiralling public expenditure, manufacturing industry has grown at a rate twice as fast as the European average. This expansion occurred despite the pressures caused by the elimination of tariff barriers following our entry to the European Community, and was helped by significant inward investment from abroad.

Many Irish firms have become world leaders in their particular business sectors. For example, Jefferson Smurfit, Waterford Crystal, and GPA, are each world leaders in their industrial segments. Many others are among the largest in Europe. Five Irish-owned companies are now ranked in the top 500 in Europe, demonstrating that Irish-owned firms are capable of matching the best.

In addition, there are now 900 overseas manufacturing companies operating in this country.

Ireland which has only 1% of Europe's population accounts for 10% of US manufacturing investment in Europe and 9% of cumulative Japanese manufacturing investment in Europe.

Ireland, together with Belgium and the Netherlands, exports a higher proportion of output than other EEC countries. 75% of the output of Irish industry is now exported, and so far this year exports have been growing in volume by a strong 16%.

The strong growth in manufacturing output, even allowing for the legitimate repatriation of profits, in recent decades has not been reflected in a significant increase in employment throughout the economy because we are starting from a very small base, because of declining employment in agriculture, and because a significant proportion of export earnings had to be diverted to funding our foreign debt rather than increasing economic activity at home.

However, our industrial base is stronger than it has ever been and its potential for growth is great. Expansion must continue to be export led. Before Ireland joined the EEC Britain was our dominant trading partner, accounting for two-thirds of Irish exports, and Continental Europe accounted for only 10%. The situation has altered dramatically. This year Irish exports to

Continental EEC countries account for 40% of our total exports while exports to the United Kingdom account for 44%.

This diversification process will continue as Irish industry becomes a more specialised supplier to a large single European market. 80% of the total purchasing power of the European Community is in Continental Europe and this demonstrates that there is still considerable scope to expand our exports to countries such as Germany, France, and the Benelux states.

We will have to work extremely hard to do so and develop our capacity to communicate with consumers on the Continent in their own language. While considerable progress has been made in the teaching of French in our second level schools, 61% of students who sat for this year's Leaving Certificate studied French, while only 4% studied German - the same proportion as in 1973. Yet Germany is our second largest export customer after Britain and has a buying power 20% higher than France.

Industry is making considerable efforts to increase the number of its young executives who have a knowledge of Continental languages and culture. Each month, member firms of the Confederation are currently recruiting seven young graduates to send for a one-year training programme to Continental Europe in order to develop their marketing capacity.

As technology has changed and firms have sub-contracted some essential service activities the productivity of manufacturing firms has increased sharply. Most industries must now expand at a rate close to 10% in order to maintain employment. However, a faster rate of growth in industrial output creates a demand for many more service jobs in the economy in areas such as transport, finance, maintenance, catering, education and the retail sector. It is also worth noting that the business sector is now the main employer of third level graduates. Last year when there was a slight fall in total manufacturing employment, industry's recruitment of new graduates increased by 13%.

The export of goods is still the predominant revenue earner in the Irish economy. However, almost 20% of total export earnings are now accounted for by income from the export of services such as transport, financial services, tourism, and investment income from abroad. This proportion is likely to grow significantly in the coming years. Many countries have a higher proportion of export earnings from the services sector. The development of the financial services sector at the Custom House Docks will provide a significant boost to the exports of the financial sector. Success in increasing tourism earnings, and in carrying out work in overseas countries are also most important sources of revenue.

There has also been considerable marketing dynamism demonstrated in the Semi-State sector. Many of these companies have been particularly active in developing a demand for specialised services abroad. Aer Lingus has many valuable contracts for the servicing and maintenance of aircraft; it has also developed considerable expertise in exporting computer software, in hotel management and hospital management overseas and in providing professional manpower broad. The Electricity Supply Board has valuable consultancy and training contracts in some 18 countries. A subsidiary of the National Development Corporation has a significant hospital management contract in Saudi Arabia.

I would prefer to see organisations judged on their ability to compete profitably in the market place than to adopt a doctrinaire approach on the issue of ownership, although I would certainly welcome maximum possible individual and employee shareholding in private and public enterprises.

There have been many successes over the last decade which clearly demonstrate that Irish firms and individuals can match the best anywhere. The challenge is to build on our strengths and work to eliminate our weaknesses. The conditions for enterprise require that individuals and firms are rewarded for success and penalised for non-performance. I believe that the disciplines of the market place are the best way to ensure that this will be so. This ensures that everyone of us will strive to seek out new opportunities and to respond quickly to change.

The role of the State should be primarily one of creating an environment which is conducive to enterprise while protecting the rights of the citizens, and looking after the weak. It is also a role to be a provider of last resort of essential services, and products.

There is considerable experience available from countries at various stages of development over the last quarter century that a high State involvement in the economy is accompanied by a low rate of economic growth and that a low State involvement in the economy results in a much higher rate of growth. For example, OECD countries where public spending was less than 25% of national output had a growth rate ten times faster than that of countries where public spending was more than half of national output. It is no accident that the Irish economy has mirrored this experience in recent years where State involvement has been well in excess of 50% of national output and there has been no growth in the economy.

I, therefore, welcome the current trend towards lower public expenditure. This means that more resources are being allocated towards the market sectors which have to perform more efficiently in order to survive. It means that taxes will be lower than they would otherwise have been; that borrowing, which is only deferred taxation, can be got under control; it means that the fruits of export growth will not be dissipated in servicing ever escalating debt. Above all, it means that Irish people will be greater opportunities to create viable jobs in our own economy.

The process of reducing public expenditure can be accelerated by inviting private participation in many of the State commercial companies. This would have a number of beneficial effects. It means that the equity capital thus provided will be subject to risk; that shareholders will demand performance; that companies which are successful will have little difficulty in raising additional capital on the stock exchange leading to more jobs without being subject to the overall constraint of the national finances. While such companies will acquire greater freedom of action, they will also be subject to greater risk in the event of non-performance.

Private participation does not incur any risk that Irish-owned State companies would fall outside Irish control. Many countries have used the concept of a "golden share" to limit the maximum shareholding which can be held by a single shareholder, or group of shareholders acting together.

The proceeds of a sale of minority shareholding could be used to repay some Government debt and reduce the burden of debt interest payment on taxpayers. The focus should be on the pragmatism of developing enterprise rather than adherence to a doctrinaire approach.

Conclusion

The market sectors of the economy have performed well over the last decade in very unfavourable international conditions. The emphasis must now be on the consistent creation of conditions which will encourage faster growth of enterprise. We must concentrate on marketing in the large and prosperous markets of Continental Europe. We must continually improve efficiency, and remove cost disadvantages where they exist.

In conclusion Irish industry has come a long way. The contribution of industry to the economy in Ireland is now in line with most other European countries. Our industrial base is stronger. The small scale of our economy, which accounts for less than 1% of European output, also represents a major opportunity. If we can double our share from less than 1% of Europe's output to 2% we will not create any turmoil in the European market place. However, the impact on our living standards and employment prospects would be enormous. Such a target is achievable within a decade by all sectors of the community working together to respond to the changing needs of the market place; by encouraging enterprise and risk taking; by restoring the correct balance between the market and non market sectors; by developing our export thrust towards Continental Europe; and by concentrating on private initiative under the surveillance and encouragement of the Government acting on behalf of the people.

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