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Ireland in Europe - Progress to Date

Paper presented by

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When Ireland joined the European Community in 1973 we had a population of just over 3 million people, and a GDP per employee which was not much more than half the Community average. Today as we gear up to meet the challenge of 1992 I would like to review the progress made since then and to establish how we stand now in relation to the rest of the Community.

Since 1973 there have been wide fluctuations in our economic performance. The first half of the intervening sixteen year period was one of intermittent fast growth stimulated in part by increased Government borrowing but punctuated by two major oil crises. The second half of the period comprised attempts to cope with escalating public debt and the eventual implementation of a firm programme to reduce Exchequer borrowing. However, despite all the mistakes and mishaps since 1973 it is worth noting that the Irish economy has made significant progress within the European Community.

We have increased our share of European economic output by 20% to about 0.7% of the total. The map shows the areas of high medium and low economic growth throughout the European Community since 1973. Countries on the rim such as Ireland, Spain, Britain and Italy had the fastest growth rates. The central areas experienced low to medium growth.

On the population front, our population has increased from less than 3.1 million to more than 3.5 million. Ireland's share of the population of the European Community increased by 10% to 1.1% of the Community total. Since 1973 our population increased faster than in any other member state. Again the fastest growth was on the periphery, while the population of most member states stagnated and that of Germany declined.

Our fast economic growth was not reflected in equivalent increases in living standards due to the sharp increase in our population during the 1970s and the drain of resources required to meet an escalating foreign debt. Nor did it translate into a rapid increase in employment. The increase in employment in the Irish economy at 1% was the middle range of achievement by Community member states and similar to the performance of Britain, France, and the Netherlands, better than that achieved by Belgium, the Netherlands, the Federal Republic of Germany and Spain but worse than that achieved by Italy, Portugal and Denmark.

Since our higher economic output had to be spread over a larger population, this resulted in a more modest improvement in the relationship between Irish and European GDP per capita which increased from 56% in 1973 to 61% last year.

It is, therefore, clear that although we had to cope with the abolition of tariff barriers and two major oil shocks, substantial progress was made in overall economic growth, and population increase. Our employment performance was similar to the European average, and our living standards per capita improved slightly compared with the rest of Europe. There are no indications from this performance that Ireland is likely to become the North Dakota of Western Europe.

In contrast with these achievements Ireland has the second highest unemployment rate in the European Community and it is clear that a much more rapid rate of employment expansion is necessary. On a comparable basis, Ireland's unemployment rate in December 1988 at 17.3% compared with a European average of 10%, and was exceeded only by Spain at 20%. Unemployment in four European countries, Britain, Germany, Denmark, Luxembourg and Portugal was below 8%. Unemployment among under 25s in Ireland at 24% was close to the European average, was much lower than in Spain 41%, Italy 35%, and Greece 28%.

The employment situation in Ireland is now better than it has been for many years. If the Government's forecast of 13,000 net new jobs for the whole economy is achieved, which I believe to be possible, then 1989 will record the seventh fastest rate of employment growth in the economy over the last forty years. This year's projected expansion in employment should be more sustainable than the other six years of greater increase, all of which occurred during the 1970s and almost all of which was stimulated by increased Government borrowing. Higher employment in 1989 is likely to be due to sustained export growth and also to a resurgence of demand on the home market as consumer confidence grows, interest rates remain low, and construction activity increases.

There is another reason for optimism on the jobs front. Employment in the European Community is now growing at its fastest rate for thirty years and as in the past, Ireland can expect to participate in this expansion. Ireland has held its share of European employment since 1973. There are prospects that this share can be increased in response to the faster growth in population and the recent resurgence in economic activity.

The employment performance of the European Community has been improving since 1982. In 1982 employment fell by one million, in 1983 employment fell by 0.5 million, in 1984 employment was stable, in 1985 employment expanded by 0.5 million, in 1986 by 0.7 million, in 1987 by 1.2 million, in 1988 by 1.8 million. Ireland mirrored this gradually improving employment experience although with a considerable lag due to the need to bring public finances under control. The percentage increase in Irish employment in 1987 matched that of the EC two years earlier. It is likely that we shall match average European performance this year.

There are many other indications that the employment situation is beginning to improve. The unemployment level has been falling steadily since July 1987. While emigration is a significant factor, it was also prevalent in the preceding years. This slide shows the close relationship in recent years between higher employment and lower unemployment despite emigration, increases in the labour force, and changing rates of participation. Evidence of improvement can also be seen in a sharp increase in the number of executive vacancies advertised in our national newspapers which on past experience is likely to be reflected in a sharp increase in the demand for newly qualified graduates. In the period from 1983 to 1987 advertised executive vacancies increased by an average of 4% per annum and the recruitment in Ireland of newly qualified third level award holders increased at a similar rate of 2% per annum. However, in 1988 advertised executive vacancies jumped by 30% and it is likely that this will result in a sharp increase in the employment of newly qualified graduates this year. Anecdotal evidence suggests that the demand for young people with technical and business qualifications is increasing sharply.

Some commentators have suggested that the historic link between higher economic growth and employment no longer holds. This assertion is not borne out by the facts. Whether one considers Ireland, the European Community or Japan, economic growth of between 2% and 3% is necessary to maintain employment and the total number of jobs increases proportionately when economic growth exceeds that figure. It follows that the only way to create more sustainable jobs is to increase economic output by producing more goods and services. The key contribution of industry is to increase output as a result of which jobs will be supported directly or indirectly. Without higher output more jobs cannot be created on a sustainable basis.

The medium-term outlook for economic growth and employment is much more favourable. The Cecchini Report forecasts that with concerted action by European Governments the European economy could grow 7% faster than it otherwise would grow in the five years after 1992, and that European employment would increase by five million more jobs over the same period. This implies that employment in Europe would expand by one million jobs a year more than at present as a result of the opening up of the Internal Market. This could mean an increase in European employment of over two million per annum in the early 90s. Should Ireland succeed in holding its 1% share of European employment, this would mean an annual increase in net employment exceeding 20,000 per annum after 1992 compared to a Government forecast 13,000 net new jobs this year.

INDUSTRIAL STRUCTURE

In 1973, 25% of the Irish workforce were employed in agriculture and less than half in the services sector. Today the proportion engaged in agriculture has declined to 15%, those in industry to 28%, while the services contribution has increased to 57%. Industry in Ireland accounts for about the same proportion of economic output as in the rest of the Community.

During recent decades it has been the primary aim of Government policy to promote the expansion of industry so as to offset the structural decline in agriculture and to create the basis for higher employment directly in industry and also in the services sector. Since 1960 manufacturing output has expanded on average by 5% per annum. In 1987 and 1988 the growth of manufacturing industry increased to more than twice this rate. The primary influence on the more rapid growth of manufacturing industry in Ireland compared with the European Community generally has been the inflow of foreign investment.

New technology industries such as electronics, electrical, and pharmaceutical have expanded by an average of 15% per annum since 1973; agricultural-based industries have expanded by 3% per annum and the traditional sectors have had a fall in output of 2% per annum. In 1988 the performance of the traditional sectors has been turned around and they achieved a growth in output of about 3%. Resulting from these differential growth rates, new technology industries now account for about half of total manufacturing output; the food, drink and tobacco sector for about a quarter and the traditional sectors for one quarter.

Despite the strong growth of foreign-owned industries, five Irish-owned public companies are among the top 500 quoted companies in Europe and some Irish-owned companies such as Jefferson Smurfit (paper packaging), Waterford Glass (handmade led crystal glass), and Guinness Peat Aviation (aircraft leasing) are world leaders in their particular sectors. In recent years Irish food firms in the meat, dairy products, and alcoholic drinks sectors have expanded rapidly and many are already among the leaders in Europe.

EXPORTS

Since 1973 exports have become a much more important feature of the Irish economy. At the time of entry exports accounted for 38% of GDP but now that ratio has increased to 64% and within the European Community Ireland's performance is surpassed only by Belgium and Luxembourg.

Almost 80% of Irish industrial output is sold within the European Community, including the Irish market; and almost 50% in Britain and Ireland. It is worth noting that British industry sells a much higher proportion of its output in these islands.

Let us now examine more closely the share of our exports taken by different EC countries. From the point of view of annual purchases of Irish products per capita, the European market can be divided into four bands

(a) The island of Ireland which purchases about £700 per capita, of Irish manufactured products. Sales in Northern Ireland are about one-third lower than in the Republic.

(b) An inner band comprising Britain and the Benelux countries whose inhabitants purchase £50 to £65 of Irish products per capita.

(c) A middle band comprising France, Germany, Switzerland, Denmark and Scandinavia which purchase between £20 and £35 per capita of Irish products in 1988, and

(d) An outer band comprising the peripheral countries of Portugal, Spain, Italy, Greece, Austria and Finland who purchased between £5 and £10 per capita of Irish products last year.

In 1973 the home market in the Republic accounted for 40% of the sales of Irish manufacturers, today that has dropped to 20%. As time progresses the relative importance of the home market will decline and Irish sales throughout the European Community are likely to reflect more closely the proportion of European economic wealth in the different member states.

The diversification of our export trade has not been reflected in an equally sharp diversification of import sources. There have been modest changes as Britain's share of Irish imports declined from 48% to 42%.

Irish industry is strongly in favour of the completion of the Internal Market by 1992. Studies conducted as part of the Cecchini Report indicated that most Irish firms believed that the opportunities offered by the completion of the Internal Market exceed the risks. They forecast that the sales volumes will be higher, and costs lower as a result of the elimination of barriers.

COSTS AND INCOMES

The cost of living in Ireland is almost exactly in line with the EC average. Thus, in 1986 there was less than 2% difference between Ireland's GDP per capita and the EC average in money terms, and in terms of purchasing power. A survey of living costs conducted by the Union Bank of Switzerland in 1985 showed that living costs, including goods, services and rent, in Dublin to be about 20% lower than in Paris and London, 8% lower than in Brussels, but considerably higher than in Lisbon. In compiling this chart 75% of living costs have been allocated to the purchase of goods and services and 25% to the cost of housing.

Hourly earnings of employees in manufacturing industry in Ireland in 1987 were only slightly below the average in the European Community. They were significantly higher than in Spain, Greece and Portugal, and about the same as in Britain, France, and Italy.

The main missing factor in assessing comparative living standards is the wide discrepancy in the dependency ratio of employees between Ireland and most other European countries. For every person in paid employment in Ireland there are 2.3 others in the population. While for every employee in the European Community as a whole there are 1.6 other inhabitants. We therefore have 43% more dependents per employee. While gross incomes per employee in Ireland are about the average European level they must be spread over a much larger population so that the average purchasing power per capita is only two-thirds the average European level. But this high dependency ratio is also a major opportunity at a time when the population in the Community is static, and is falling in some member states.

GOVERNMENT FINANCES

During the 70s Ireland had an annual Exchequer borrowing requirement of 10% of GNP while the budget deficit of the European Community as a whole was about 4%. By 1988 Ireland's Exchequer borrowing requirement had been reduced to just over 3% of GNP, slightly below the Community average which was still 4%.

In the early years of Community membership Ireland had a current account balance of payments deficit of 8% of GDP, while the whole Community trade was in balance. By 1988, the Irish position had improved to a surplus of 3% of GNP compared with a Community surplus of less than 1%.

INVESTMENT

I now want to turn to the prospects for investment. In recent years investment declined because there was over capacity of office blocks, factory buildings, and machinery. At the trough of the recession in 1982, the capacity utilisation of machinery in our factories had fallen to 55% and interest rates had jumped to 16%. The consequential decline in private investment was exacerbated by a fall in the Public Capital Programme as governments sought to curtail borrowing. Between 1982 and 1986 investment in equipment by Irish industry showed no increase. However, industrial output has now recovered and much of the spare capacity has been used up with the result that volume of investment in the Irish economy is now expected to increase by about 7% this year compared with a 5% increase in the rest of Europe. This year too, investment in construction is likely to expand for the first time since 1980. The slide shows that the ratio of investment to national output in Ireland has, on average, remained in line with the EC even during this decade, and is now likely to exceed it.

Like trade, investment is also a two-way flow. In recent decades overseas investment in Ireland has increased so that there are now almost 900 foreign manufacturing companies operating here with a total investment well over £10 billion. Forty-nine per cent of these are from other member states of the European Community and 38% from the United States. Over the last five years the share of overseas investment from other EC member states has increased significantly. There has also been substantial investment by British property, and service companies in the Republic. But Irish firms are also investing abroad to gain market share. In 1988 Irish public companies invested almost £1 billion in the United States and EC countries. This year the emphasis is likely to switch to other EC countries. Furthermore, many Irish private and public organisations are now providing technical, medical, financial and business services in the Middle and Far East, Africa and throughout the European Community. Developments in information technology enable much work of this nature to be carried out from an Irish base. The International Financial Service Centre is an excellent example.

PERIPHERALITY SHOULD NOT BE OVEREMPHASISED

When examining Ireland's position within the European Community I believe too much emphasis is placed on our peripheral location. It is worth remembering that 130 million people live within 700 miles or a two-day delivery period by surface transport from our east coast ports. Ireland is closer to the densely populated areas of the Community than Portugal, Central and Southern Italy, Southern Spain and Greece. Furthermore, we are located at the western gateway to the Community, and speak the major international language of commerce which is a marked advantage for American and Japanese investors. Our industrial priorities must therefore be to reduce the time and cost of transporting goods over that 700 mile stretch of land and water.

We must also look at our major cities in a European context. There are about 20 cities in the European Community which are larger than Dublin. Our capital city must match the facilities available in other major European cities if it is to attract more business in competition with them. We should examine carefully the commercial infrastructural facilities available in comparable cities throughout the Community and not only try to emulate them but to surpass them. This does not imply that such projects have to be publicly funded. There is ample private capital available for projects likely to yield a favourable return on investment. The development of the International Financial Services Centre at the Custom House Docks is breathing new life into our capital. However, this should only be the beginning. There is scope for many other projects of similar scale with the next few years focusing on facilities such as science parks, major industrial investments, leisure complexes, hotels, roads, third level educational facilities, and shopping centres.

CONCLUSION

Ireland has held its own in the European Community since 1973 despite major difficulties in adaptation from being a protected to being an open economy. We have many advantages in the Europe of 1989. We have a growing youthful population when the population of many parts of the Community is stagnant or falling. We have a good educational system. We are the western gateway to Europe and have 130 million people within two hour's journey by air or two days by surface transport. We speak the international language of commerce. And we have ample space for development. We now have a strong currency, low interest rates, investment is increasing and much of the spare capacity which had existed has been used up. There is an urgent need for more investment and there is a direct link between investment, output, and employment. We must plan now for expansion to lift the economy to a new platform for development.