TOWARDS THE YEAR 2000

An Industry View

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INTRODUCTION

During Oliver Goldsmith's short life (he died at 46 years of age) he displayed a great love of his country, his people and his locality. There were four crop failures and famines in Ireland during Goldsmith's lifetime. These were in 1728, 1740, 1744 and 1756. At the same time Ireland was becoming industrialised and there was a rapid growth of industries such as linen, cotton, glassworks, metal factories, paper, brewing and flour mills. Exports grew rapidly between 1710 and 1790, and the population of the island doubled during the century from 2.5 million to almost 5 million, and became more urbanised.

Goldsmith exhibited the Irish characteristic of wanderlust and wrote his great poem "The Traveller" to mark his wanderings through Holland, France, Switzerland and Italy, in the 1750s, supporting himself by playing the German flute. During this period he contrasted life in these countries with that in his native land. Today I would like to look again at Ireland in a European context but this time at the integration of modern Ireland into the New Europe.

I believe that Ireland is now going through one of its most profound change periods in modern history, and that it can substantially increase its output and employment over the next decade as we approach the year 2000.

The new Europe will be the largest and wealthiest trading bloc in the world. It already comprises 360 million people within the European Community; has another 30 million people in the EFTA countries which form part of a Common Free Trade Area; and a further 120 million in the Eastern European seven . When one includes the Soviet Union with its 290 million people, then the common "European House" espoused by President Gorbachev could eventually comprise a population of almost 800 million people. Over the last twelve months the population of the European Community itself has expanded by almost 20 million with the integration of the former Eastern Germany. It seems reasonable to expect that within five years most, if not all, of the EFTA countries accounting for a further 30 million, will have joined.

Let me begin by looking at our experience within the European Community over the last decade. Ireland has been one of the fastest growing economies. It is worth noting that the fast growing economies have been on the periphery while those showing the slowest growth include Belgium and the Netherlands, who are in the central core. Germany, France and Britain have shown average growth rates.

Thus over the last decade economic forces have not acted in a centripetal manner pulling economic activity to the centre, but in a centrifugal manner dispersing it to the periphery although the development gap between member states remains wide.

This pattern is underlined by the progress made in reducing the gap in GDP per employee between Ireland and the EC average. Ireland has shown a substantial improvement while Denmark has shown a deterioration. Employment comprises everyone employed in industry, services and agriculture. Thus while output per employee in Irish industry often exceeds the European average, our average performance is depressed by the significant amount of low productivity agricultural employment which is surviving on subsistence incomes. Nevertheless, substantial progress has been made, and a continuation of this trend would bring Ireland fully up to the EC average in GDP per employee by the end of this decade. Indeed, it seems possible that we could surpass British output per employee by 1995.

However, these figures relate only to the number of people in employment. Ireland continues to have one of the highest dependency ratios in Europe comprising a relatively small proportion of women in paid employment, a large number of young people in education, and a high percentage of unemployed. As a result, Irish output per capita is well below the EC average, but has improved substantially from 64% of the Community average in 1985 to an expected 70% this year. Today about one-sixth of the EC population have lower incomes per capita than the Irish but on current trends this should increase to about one-quarter by the end of the decade.

The large number of young people in our population is a strength on which to build. This map shows the projected age structure of the European population by the year 2000. The youngest age structure will be in Ireland, Portugal, Southern Spain, Northern France and Southern Italy. Young people are generally better educated, more dynamic, more open to new ideas, more innovative than older people. By educating our young people we can ensure that they will not be unemployed in the new Europe. Some 150 years ago Thomas Davis coined the slogan from different circumstances "Educate that you may be free". Today we can adapt that slogan with particular reference to opening up opportunities for personal freedom and employment. For example, the likelihood of a university graduate being unemployed is very low, while the likelihood of a young person who leaves school without Inter Cert being unemployed is very high. The proportion of young Irish people in full-time education and training still lags well behind the proportions in countries such as Germany, the Netherlands and Denmark. Yet the cost of maintaining a young person in second level education is well below the cost of paying unemployment benefit.

But we must not only educate to higher levels, we must educate for the requirements of the new Europe. This implies recognition that our everyday language, English, while still the main international language of commerce, is spoken as such by less than 20% of the people within the European Community. Only 6% of our Leaving Certificate students study German, which is now the most widely used everyday language in the European Community.

TRADE

Over the last decade Irish exports to mainland Europe have expanded sharply. Ireland has become a specialized supplier of goods to the total European market. Almost ninety per cent of all the goods we produce are sold in Europe. A quarter are sold on this island, a further quarter in Britain and 40% on mainland Europe. Since more than 80% of the total purchasing power of the European Community is on the Continent, it is inevitable that the proportion of Irish output sold there will increase. But this will not be passive development. It will happen because we in Irish industry make use of the opportunities of open access to larger and more rapidly expanding markets. The recent addition of Eastern Germany increases the opportunities for our computer, pharmaceutical, machinery, and food manufacturers to expand their sales on the German market. The further integration of economies such as Hungary, Czechoslovakia and Poland will have a similar impact.

The completion of the Single Market in the European Community will also result in a single market on this island for the first time in living memory. The opportunity for increasing trade between the Republic and Northern Ireland is very substantial. Manufacturers in the Republic sell only a quarter as much in Northern Ireland as they do in the Republic when on the basis of the relative populations they should be able to see half as much. The comparisons for Northern manufacturers are even more dramatic. Northern Ireland manufacturers sell only a third as much in the Republic as they do in Northern Ireland although the population of the Republic is twice as great. If similar penetration of market could be achieved by each part of the island in the other part, this would result in increased business for Irish manufacturers, North and South, of £3 billion and at least 75,000 additional jobs on the island. A comparison with Denmark underlines the potential.

In the welter of political wrangling, we have lost sight of the practical economic opportunities. During recent months a joint Council meeting of the Confederation of British Industry, Northern Ireland, and CII, set as one of its tasks the promotion of two-way trade for mutual benefit. More trade, substituting for imports, will result in greater output and employment. There is another aspect of the New Europe. Larger manufacturers on this island will be almost all specialized producers for the large European market. The thousands of small and medium-sized enterprises in Northern Ireland and the Republic, must provide a supportive infrastructure in components and services for their larger counterparts.

TOURISM

Tourism is also following the path charted by merchandise exports a decade earlier. Last year for the first time more tourists visited Ireland from Continental Europe than from the United States. I believe that the proportion of our tourist revenue coming from Continental Europe will continue to grow sharply over the next decade. Tourism is another part of the process of integrating the Irish economy with the Continent. The increased flow of tourists challenges us to develop skills of effective communication with our visitors in their own languages, and to give them a better appreciation of our tradition and culture.

INVESTMENT

A similar trend is evident in relation to investment both into and out of Ireland. Investment abroad is frequently necessary in order to obtain market share and in order to support exports of products and services from this country. An increasing proportion of this investment is made on Continental Europe although the US and Britain still take the lion's share.

Inward investment shows a different pattern. For many countries such as the United States and Japan, Ireland is a gateway to the European Community. Last year most of the inward investment came from these countries who set up manufacturing or service companies; or acquired companies in Ireland in order to supply the European market. Investment has become internationally mobile in the same way as trade in goods and services. While firms from abroad will seek competitive advantages in investing in this country for the manufacture of specialized goods and services, many Irish firms find it necessary to expand abroad.

The main concern must be to ensure that there is a sufficient net inflow of investment to maintain an average industrial growth rate of 10% per annum over the next decade compared with about 7% during the 1980s. Irish industrial policy must be focussed towards this end.

INDUSTRIAL STRUCTURE

There has been substantial change in the structure of Irish industry over the last decade. This has come about primarily because of the nature of inward investment, and the process of adjustment to high-value lowvolume and knowledge-intensive industries where transport costs are low and educational requirement is high. These industries have been the main contributors to the more rapid growth of industrial and economic output in Ireland than in the rest of Europe. The high proportion of manufacturing output in the new technology sector which has shown a long-term growth trend of about 15% per annum augurs well for the continued rapid expansion of Irish industrial output.

The food industry has gone through major changes over the last decade and will continue to do so as "real" food prices in Europe fall. It must be our aim to ensure that Ireland can make the most of the advantage of producing meat, milk and fish products in a clean environment. Production must be to expanded as rapidly as possible in those areas of the food industry where we have an inherent competitive advantage. The large seasonal swings in the production of meat and milk must be levelled off so that our customers can be guaranteed a year round supply. The thrust of policy must be to improve competitiveness in all aspects of food production so that the food industry can increase its share of a European food market which may show only modest growth.

EMPLOYMENT, EDUCATION AND TRAINING

Over the last four years employment in the Irish economy has growth as rapidly as in the rest of Europe. Today there are more people employed in the business sectors of the economy outside agriculture than at any time in our history. Business employment is subject to competitive forces. It must be dynamic and adaptive or it will be forced to contract. The relative youth of the Irish population is a major advantage in ensuring that this continuing process of adaptation will continue.

But we must beat the problem of high unemployment. I have already pointed to the correlation between lack of education and unemployment. As a first step I believe that substantial progress can be made in reducing unemployment by achieving higher rates of participation in relevant second-level education, and in training programmes for certified qualifications.

Ireland is out of step with more advanced European economies in having a very high level of unemployment, and a lower level of overall participation in education and training for qualifications for young people in their late teens. By increasing the level of participation in education and training it is possible to substantially reduce the number of people who are unemployed. I believe that this can be achieved at little or no additional cost to the State.

In countries such as the Federal Republic of Germany, Denmark and The Netherlands, almost all young people are educated or trained for a qualification for at least three years after compulsory schooling. This includes those who stay in education to the end of second level and subsequently study for certificates, diplomas or degrees and those who participate in training courses within industry, similar to apprenticeships, and qualify in one of up to 400 vocational skills having achieved appropriate standards. It is worth noting that 95% of young people in the Federal Republic of Germany achieve either an educational or training qualification standard. In other words, almost everyone is qualified. This confers substantial advantages on German industry since it ensures that the quality of its employees is at a very high level from day one.

Let's compare this with the position in Ireland. Almost 90% of young people remain in school until they are sixteen but this drops off to less than 30% at nineteen years of age. To raise the participation rate in education or training for qualifications close to 100% for all young Irish people up to at least nineteen years of age would require the provision of about 100,000 full time education or training places.

The provision of higher levels of qualification for more young people would reduce significantly the risk that they would be unemployed. For example, a young person with the Leaving Certificate has only a 6% likelihood of being unemployed while a young person who leaves school before Group Cert or Inter Cert has a 30% chance of being unemployed a year later. This relationship between qualifications and employment prospects is becoming widely recognised in most member states of the European Community and initiatives have recently been announced in countries such as Britain and France to increase the proportion of young people who obtain educational and vocational qualifications.

Each country must decide on the mix of education and training qualifications in relation to its own needs. Ireland already has a very high participation rate in post-primary education up to the Leaving Certificate but a very low participation rate in training for job-related qualifications. I believe that there is scope to substantially increase participation rates in both areas since qualifications for many of the jobs in highest demand in the economy such as computer skills, marketing and sales, secretarial qualifications, engineering, finance and accounting, hotel and catering, can be obtained either through educational or training establishments.

I estimate that the result of educating or training 100,000 additional young people for qualifications, thus bringing participation rates at the 16-19 age group close to 100%, would bring about a reduction of the number of people on the unemployment register of at least 40,000 due to less competition for the jobs available. I believe that the savings on unemployment payments would be sufficient to pay for any costs incurred by the state.

With regard to vocational training, it is vitally important that discussions on the provision of training for qualifications should not focus on levies or compulsion but rather on working out a partnership between industry and the state which would provide a solution acceptable to both. In the area of education it should be possible to increase participation rates in education without net cost to the state. On current trends the number of pupils at all levels in the education sector is expected to decline by 140,000 over this decade due to the fall in the birth rate in recent years. This will make space available for additional students through redeployment of resources between the different levels of education.

In the three year period to 1990 employment in the market sectors of the economy increased by a average of 20,000 per annum. I believe that given the improved structure of industry, the widespread diversification of our export markets, and favourable international trading conditions, it should be possible to achieve an annual increase in employment of 20,000 or a total of 100,000 over the next five years, which is much higher than has been achieved in the past. This will be at least 40,000 more than the projected growth of the labour force and will result in an equivalent fall in unemployment. In addition, the achievement in Ireland of the best Continental participation rates in education and training would result in an increase in employment opportunities for unemployed people of at least 40,000. It is possible that the unemployment level could, therefore, fall by a total of at least 80,000 over the five year period, and by adopting similar measures in the succeeding period the level of unemployment could fall below 100,000 within a decade.

The design of the income tax and social welfare systems must also be altered to ensure that no one ever loses money because he or she takes a job or is awarded an increase in salary. I estimate that because of loss of benefits, about 5% of the labour force would suffer an income reduction if they were in employment. I am not suggesting that social welfare payments should be reduced and I recognise that changes made by the Minister for Finance in the recent Budget went some way to redressing this anomaly but there is still a considerable distance to go.

These and the other changes which I have suggested can ensure that with favourable international trading conditions Irish unemployment can fall by about 20,000 a year and be no higher than in the rest of Europe by the end of the decade.

The next decade holds out an exciting prospect. By ensuring that all young Irish people are educated or trained for qualifications in all the main aspects of business such as computers, marketing, engineering, finance, and in modern Continental languages, the basic capacity of the Irish economy to grow more rapidly will be greatly enhanced. Over the last 20 years the Irish economy has increased its share of the European market by 20% and employment growth has been broadly in line with the rest of Europe for the first time since the Second World War. Over the next decade education and training for qualifications to meet the needs of Ireland in the New Europe can help to accelerate our economic growth rate and bring the Irish rate of unemployment down to, if not below, the level in the rest of Europe. It is a target which can be achieved.

Changes in the Job Market :

We must recognise too the changes which are taking place in the job market. For example, demand for computer staff as measured from job advertisements, in the second half of last year increased by 61% compared with a year earlier. There are now more advertisements for computer staff than there are for people having with legal qualifications or craft skills. The computer services industry is seriously concerned about a potential short-fall in the number of computer staff available. On the other hand, the demand for office staff has fallen by 23%. We are seeing a technological upgrading of qualifications. It is vital that our education and training systems are responsive to these changes.

Graduate Migration :

It is worth noting the substantial change which has recently taken place in the destination of young Irish graduates seeking work experience abroad. At least half of this migration is voluntary. I welcome the decisions of so many of our young people to gain experience of working on Continental Europe in preparation for their return to Ireland to contribute to the development of this economy. Between 1987 and 1989 the proportion of young Irish graduate migrants entering employment in Continental Europe increased from 11% to 15%. I would like to see this percentage increased to reflect the importance of the Continent in our trade.

TREND TOWARDS INTEGRATION

Let us now bring together the various trends towards the integration of the Irish economy with that of the Continental mainland.

The <u>exports</u> of goods have led the way and mainland Europe now accounts for almost half total exports. Even this proportion is likely to increase to about 60% by the end of the decade.

About 30% of our imports are sourced on the Continent. This proportion will increase as Irish purchasing managers gain greater familiarity with the range of products available, the business culture and languages of producers in these countries.

Inward investment comes next with mainland Europe accounting for 28% of all investment projects whether greenfield investments or acquisitions from abroad in 1990.

This was followed by tourism receipts from mainland Europe which accounted for 25% of total tourism revenue last year.

Economic integration is further enhanced through the investment by Irish companies on the Continent which now accounts for 19% of Irish outward investment.

Finally, about 15% of our new graduates migrating are now going to Continental Europe annually for training and work experience.

We should not be satisfied until the Continental mainland accounts for at least 50% of activity under each of these headings. They are all inter-related and success in one area stimulates activity in others.

TRANSPORT INFRASTRUCTURE

It is estimated that transport accounts for 9% of the cost of Irish goods delivered to our customers in the heart of Europe compared with about 5% for firms located in the European mainland. We must overcome the transport disadvantage by having the most efficient and cost effective system possible. We must not be daunted by the task. At present we can reach more than 200 million people, including destinations as far away as Berlin, Munich and Milan, within two day's delivery by truck assuming that there are no delays en route. The Confederation estimates that if the necessary investment in infrastructure were undertaken including faster ships and improved port facilities, computerised processing of documents, combined with more favourable EC policies, it would be possible to improve overall transit times by about 20%. This will give access to markets in Austria, Switzerland and Poland within two days. More importantly, it would mean that Irish industrialists could service the main Continental cities much faster. Thus making Irish goods more competitive.

As industrialists we are interested in the efficiency of the direct routes to Britain whether on the Northern Corridor, the Central Corridor or the Southern Corridor; the quality of the road and rail system across Britain and the quality of port facilities for direct shipment to the Continent. Let the modes of transport compete to provide an ever more efficient service to Irish industry.

It is essential that the European Commission should take the same interest in encouraging the provision of shipping and aircraft from an island member state such as Ireland as it does in the construction of roads, tunnels and bridges on mainland Europe. All aspects of the Irish transport network whether road, rail, shipping, and air, should be completely integrated with that of the rest of the Community, and be of similar quality. Much work remains to be done in this area.

ECONOMIC DEVELOPMENT & REGIONAL POLICY

The Irish economy has succeeded in narrowing the development gap with the rest of Europe over the last decade but there is still a considerable distance to go. The primary responsibility lies with ourselves. The Government must continue to implement sound economic policies which are administered efficiently, and to create the conditions for a competitive business environment.

The provision of funds from within the Irish economy, inward investment from abroad, and EC transfers will each play a very important role in improving the productive capacity of the economy. It is likely that developments in Eastern Germany will demonstrate over the next decade that the gap in productive capacity with the rest of the Federal Republic can be closed over a short period.

However, the Single European Act requires that all actions of the Community must take into account the requirements of economic and social cohesion. This means that the rate of expansion of less developed regions such as Ireland is influenced by much broader Community affairs than the provision of Structural Funds. For example:

a) The Community must get away from a situation where highly developed member states are spending more per capita on industrial incentives than the less developed regions spend or can afford. This is merely bidding up the whole incentive process across the European Community and reducing investment opportunities in the less developed regions.

b) Most of the money which the Community is spending on research and development programmes is concentrated in the more highly developed member states. In other words, Community research and development policy is biased against the needs of the less developed regions. The requirements of the Single European Act state that the emphasis should be the other way around.

c) The Commission has developed a paper on trans-European networks in order to accelerate integration and to remove congestion in areas such as transport, telecommunications and energy. Unfortunately, the report concentrates on the removal of bottlenecks in the highly developed regions and ignores the development of more efficient systems in the less developed regions which would both assist the development of these regions and reduce congestion in the central areas.

CONCLUSION

Ireland has integrated its economy substantially with the economy of the European Community over the last decade. The process is likely to become both broader and deeper over the next decade. The central role of the German economy in the EC regions that we apply greater efforts to increasing the economic personal and cultural links with the Federal Republic. Our economy has been one of the fastest growing in Europe over the last ten years. It is *not* beyond our potential to make it *the* fastest growing economy in the new Europe. We have a modern industrial structure biased towards fast growing industries; we have well diversified trade. We have a youthful, innovative and dynamic workforce. We have a good education system. We have got rid of all the trappings of protectionism. Our outlook is international. We have adapted to the disciplines of the European Monetary System and can also adapt to those of the Single Market and Economic and Monetary Union. We account for only 1% of total European output. The small scale of our economy offers the opportunity to adapt our production to the faster growing niche markets. I believe that the New Europe offers enormous possibilities for expansion. Let us take on the task with confidence and vision.