Address by Liam Connellan, Director General, Confederation of Irish Industry, at Beech Hill College, Monaghan, Thursday, 15th February 1990 at 8.00p.m.

"IRELAND AND 1992"

Ireland - World Rankings

Although Ireland is one of the smaller member states of the European Community, it is high up in world rankings for a number of business indicators (slide). According to the World Competitiveness Report 1989, published by the World Economic Forum in Geneva, Ireland is ranked 9th in business confidence and 16th in industrial competitiveness among the OECD countries. These indicators represent a mix of qualitative assessments by the business people in each of the countries surveyed and objective quantitative criteria. Ireland is ranked 16th in income per employee. As a result of our high dependency ratio, reflecting an historically high birth rate, our GDP per capita is ranked somewhat lower at 24th among more than 150 countries surveyed by the World Bank.

Structure of Workforce

In 1973 25% of the Irish workforce were employed in agriculture and less than half in the services sector (slide). Today, the proportion engaged in agriculture has declined to 15%, those in industry to 28%, while the services contribution has increased to 58%. Industry in Ireland accounts for about the same proportion of economic output as in the rest of the Community.

Ireland's Progress in the European Community

When Ireland joined the European Community in 1973 it 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 the country gears up to meet the challenge of 1992, it is appropriate to review the progress made since then and to establish how Ireland stands in relation to the rest of the Community.

Since 1973, there have been wide fluctuations in its 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 by successive Governments to cope with escalating public debt and the eventual implementation in 1987 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. The country has increased its share of European economic output by 20% to about 0.7% of the total. The slide shows the areas of high (blue), medium (brown) and low (red) economic growth throughout the European Community since 1973. Countries on the rim such as Ireland, Britain, Spain and Italy had the fastest growth rates. The central areas experienced low to medium growth.

Population and Employment

The next slide compares Ireland and the European Community, over the period 1970 to 1990 in terms of population, employment and workforce. Ireland's population is forecast to have increased by 15% against an EC average of 8%. Our workforce is expected to have increased by 16% - more than the Community average of 14%. Ireland's employment levels (+ 5% over the period) are equal to those of the Community average. On the other hand, our unemployment during the period 1970 to 1990 is expected to have increased by 10% against a Community figure of 8%.

Productivity and Employment

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 (slide). 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.

Employment Changes in Ireland and the EC in Recent Years

Since Ireland joined the European Community in 1973, the total level of employment has increased at a rate broadly in line with the European average (slide). In the earlier part of the period, employment in Ireland grew much more rapidly than the European average due in large measure to increased public spending, financed by borrowing. In the early eighties, this trend was reversed as successive Governments sought to rectify the public finances. Since 1986, the employment performance of the Irish economy has once again come into line with the changes in the rest of Europe.

European employment in 1988 expanded by 2 million, its largest increase for many decades. If the Cecchini Report predictions of EC post 1992 employment are fulfilled, assuming that the Governments of member states adopt co-ordinated growth policies, then employment in the European economy could increase by 2% per annum post 1992. This performance would be similar to that achieved by the United States in recent years. Since Ireland is now broadly matching the European rate of employment increase, the prospects of a higher rate of job creation post 1992 are favourable. The Government is forecasting a net increase in Irish employment of 13,000 this year which, if achieved, would be the seventh highest rate of employment increase over the last forty years. The slight fall in total employment in Ireland in year to April 1989 was due to a "once-off" fall of 20,000 in the public sector - market sector employment actually rose at its fastest rate for a decade.

The Changing Structure of Manufacturing Industry

Irish output growth was 3 times that of EC since 1980.

The next slide shows how the output of a number of industrial sectors has changed since 1973. The new technology sector grew by an average of 15% per annum between 1973 and 1987 and accelerated to 21% growth during 1988. The food, drink and tobacco sector had a steady growth rate of 3% per annum between 1973 and 1987 but increased by 5% during 1988. By contrast, the traditional sector declined in output by 2% per annum averaged between 1973 and 1987 but recovered by 5% during 1988.

The balance between new technology, traditional industries and food, drink and tobacco also changed noticeably during the last ten years. From the next slide we see that, over the period 1979 to 1986, new technology increased from 27% to 45% of total manufacturing output; food, drink and tobacco declined from 30% to 26% share; and traditional industries share declined from 43% to 29%.

Market Diversification

As Irish exports have been growing in recent years, the destinations of our major exports have been changing also (slide). Mainland Europe now accounts for almost 40% of Irish manufactured output, while Britain's share has declined to 24%. The total island of Ireland accounts for 24% of our industrial output and the other markets a residual of 14%. Within the European Community, our major trading partners are the United Kingdom, France, the Federal Republic of Germany and the Netherlands.

Europe After 1992

The Internal Market post 1992 aims for full freedom of movement of people, goods, services and capital. Significant benefits are expected to flow from the removal of trade barriers, additional investment and a more competitive environment:

1. Economies of scale are likely to lead to significant reductions in cost

2. Improved efficiency in business due to greater market competition

3. Keener prices for the ultimate customer as production costs are trimmed and there is strong competition

4. A flow of innovations, new products and processes stimulated by a huge Internal Market.

The Cecchini Report suggests that, with co-ordinated policies for harmonisation and growth, major benefits can flow to European economies after 1992 (slide). A growth of GDP of 7% could result from the abolition of frontier controls, the freeing of public procurement and financial services, from economies of scale and the effects of competition. It is forecast that these effects would also lead to a fall in prices of about 4.5% and an increase in employment of greater than five million people.

The next slide summarises the trends in population, workforce and employment across the Community during the period 1990-1995, which takes in the early years of the integrated European Market. Population across the Community is expected to increase by 1%, while the workforce should increase by 3% due to greater participation rates and more intensive employment of older skilled people. This should lead to an increase in employment of about 7%, together with a drop in unemployment of about 4%. The Irish experience should be at least as favourable.

Unemployment

The traditionally high level of unemployment in Ireland have long been of major concern to all sectors of the Community (slide). However, there are welcome signs now of a gradual fall in unemployment since the middle of 1987, when the total numbers unemployed were 250,000. Since then, unemployment has gradually (but all too slowly) reduced to its current level of nearly 222,000 or 17.2% of the labour force.

Sensitive Sectors

The recent EC report "Employment in Europe" identified six industrial sectors on which the creation of the Single European Market will have a significant impact (slide). These are:

1. High tech industries showing strong growth but in which the EC is competitively weak. This grouping includes computers, telecommunications and medical equipment.

2. Industries where there are high non-tariff barriers and a wide dispersion of prices throughout the Community. This group includes pharmaceuticals and drinks.

3. Industries requiring great economies of scale for their development. - electrical machinery, cables and some food products for example.

4. Basic consumer goods which have high import penetration from outside the Community (NIC's). This groups includes clothing, radio and television appliances, domestic electrical appliances and motor cars. The external trade policy of the Community is critical to this grouping.

5. The distribution sector - parallel imports whereby consumers can purchase directly from suppliers in other member states will have a substantial impact on this sector.

6. The transport and financial services sector - the freedom to provide services in other member states, without requiring to set up an establishment, will have a significant impact on these sectors.

Earning Capacity

Hourly earnings in Irish industry are 92% of the European average on the basis of purchasing power (slide). This may come as a surprise to some people, who compare unfavourably our living standards with those of our wealthier mainland EC neighbours. 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 (slide). For every person in paid employment in Ireland, there are 2.3 others in the population, while for every employee in the European Community, there are only 1.6 other inhabitants. We, therefore, have 35% more dependents per employee. While gross incomes per employee in Irland 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.

Since we joined the European Community, Irish productivity has been catching up with the EC average - we were 56% of EC average in 1973 and are now at 68% (slide). Two factors may well be largely responsible for our improvement in GDP per capita in recent years - the rapid growth of high technology in new industries mentioned earlier and increased economies of scale available from our exports to Community markets.

EC Structural Funds

After a long period of negotiation, Ireland now expects to get approximately £3 bn during the period 1989 to 1993 under the heading of three Structural Funds - the European Regional Development Fund, the European Social Fund and the FEOGA (agricultural guidance) Fund. The objective of the Structural Funds is to aim towards economic and social cohesion throughout all the regions of the Community. In allocating funds, the European Community has divided up the entire Community land area into three categories requiring support (slide).

The Community defines less developed regions as those in which the GDP per capita is less than 75% of the EC average. The entire island of Ireland qualifies as an "objective 1 region", which entitles us to the highest of the three categories of Structural Funds support. You will see from the slide that objective 1 regions comprise also all of Greece, all of Portugal, the southern part of Italy, the vast majority of Spanish provinces and Corsica.

The availability of Structural Funds will enable massive improvements in infrastructural development and selected assistance to a number of industrial agricultural and social projects.

Our aim, as industrialists, must be to ensure that our total allocation of Structural Funds money is totally and efficiently utilised within the programme period 1989 to 1993.

Investment in Fixed Assets

Planned and targetted investment is seen as one of the major engines of improved productivity. Ireland compares well with the European Community in as much as we continue to invest a greater proportion of our GDP than the Community average (slide). During the period 1971 to 1980 Ireland invested 26% of its GDP compared with 23% for the Community as a whole. Since 1981, although our rate of investment has declined to 22%, it is still comfortably ahead of the EC average of 20%.

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 equpment 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 the volume of investment in the Irish economy is now expected to increase by up to 10% this year compared with a 5% increase in the rest of Europe. 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.

State grants as a % of manufacturing investment have fallen significantly over the last decade.

Like trade, investment is also a two-way flow. In recent decades overseas investment in Ireland (slide) has increased so that there are now almost 900 foreign manufacturing companies operating here with a total fixed investment well over £10 billion. Almost 50% 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. The Customs House Docks and the Point Depot are recent examples But Irish firms are also investing abroad to gain market share. In 1988 Irish public companies invested almost £1 bn in the United States and EC countries. This year, the emphasis is likely to switch to other EC countries.

Trade data on investment indicates (slide) that imports of producers' capital goods, ready for use, are continuing to run at a very buoyant rate. In the first seven months of the year, imports of this category of goods was up by almost 44% in value, which would indicate a growth in these goods, in volume terms, in excess of 30%.

Investment in Human Resources

(a) Graduate Employment

A report published by the Higher Educational Authority indicates (slide) that 58% of graduates in 1988 found their first employment in Ireland and 37% found work overseas. When the data were gathered, a residual 5% of those surveyed remained unemployed. The relatively high proportion of graduate emigration in recent years may be partly due to high marginal tax rates. Personal tax rates in Ireland need to be gradually brought into line with those obtaining in the United Kingdom if we are to encourage a higher proportion of our skilled young people to remain in Ireland; but the graduate emigration also reflects the pull from Britain due to skill shortages; and the level of demand in Ireland.

(b) UK Skill Shortages

The next slide matches UK skill shortages with third level migration from Ireland in recent years. In 1988, UK skill shortages were reported at 27%, whereas third level migration from Ireland was 20%. In 1989, UK skill shortages increased marginally to 28%, but the level of demand in Ireland has also increased sharply.

The next slide indicates that Irish recruitment of new engineering graduates grew by 27% from 1987 to 1988, a welcome trend which we hope will continue.

(c) Training and Staff Development

I now wish to consider human resource investment within the company.

The more alert companies in Ireland have come to the full realisation that staff development and training play a vital part in developing the organisational structure and skills required to compete in new markets, environments and technologies (slide). The more aware Irish companies are known to be prepared to spend between 3% and 4% of their payroll per annum on training and staff development. This is a major expense and a company's willingness to undertake it indicates a strong commitment to the future.

Studies of management development in the United States (slide) indicate that 42% of the top companies each spend more than five days per year on training in an off-the-job environment. This is in addition to comprehensive on-the-job development and planned work experience.

(d) **Skill Shortages**

Despite current levels of investment in people, there is now evidence of a re-emergence of skill shortages i.e. an imbalance between supply and demand.

In the summer of 1989, the CII carried out a comprehensive survey of its membership to measure the effects of skill shortages on companies ability to compete and expand. There is a summary on the slide which indicates that more than half the companies surveyed indicated some degree of skill shortage, whereas nearly one fifth of those surveyed were constrained by great skill shortages.

Four categories of personnel were seen to be in greatest demand (slide). Skill shortages amongst engineers topped the list at 29%, followed by 14% for computer staff, 10% for marketing staff and 9% for finance personnel.

The demand for skills is mirrored by advertisements for executive vacancies appearing in the national press (slide). The greatest proportion of vacancies at executive level are for technical staff at 33%, followed by finance at 28%, computer personnel at 15% and marketing executives at 6%.

Trade Corridors

Let us now look at some aspects of our infrastructure.

When examining Ireland's position within the European Community, I believe too much emphasis is placed on our peripheral location (slide). 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. More than 70% of Irish industrial output, and an even higher percentage of British industrial output, is sold within this radius (as shown on the next slide). Ireland is closer to the wealthy 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.

Environment

There is a public perception that the environmental planning processes are no longer working effectively. Such a perception, be it right or wrong, is damaging the image of Irish industry and leading to public concern. Restoration of public confidence in the environmental process will require the following:

- Integration of environmental policy considerations within overall industrial and economic planning

- Consistent and uniform enforcement of environmental legislation
- Establishment of an independent and competent environmental agency, to set and enforce standards (slide).

National Finances

Exchequer Borrowing

The most important aspect is to reduce the level of Government borrowing annually and to reduce the total quantity of National Debt so as to control relative inflation and interest rates and therefore maintain cost competitiveness.

During the 70's 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 1989, Ireland's Exchequer borrowing requirement had been reduced to just 2.4% of GNP, and remained below the Community average which was still 4% (slide). In the recent Budget the Government set a target of 2.1% for Exchequer Borrowing in 1990. I would hope that annual Exchequer Borrowing can be eliminated next year, so that the massive Accumulated Government Debt can be rapidly reduced as a percentage of national output.

I would have preferred if Government had reduced Exchequer Borrowing to about 1.5% of GNP in 1990 - against a background of about 3.5% growth of GNP in 1989. This reduction between 1989 and 1990 would have been less than the average annual reduction which Government has achieved over the last three years and, I believe, is essential to ensure a sustainable high rate of economic expansion.

This viewpoint is supported by the medium-term forecasts of the ESRI which indicated some months ago that, with unchanged policies, Exchequer surpluses could be achieved in 1991 and 1992.

Closing the Gap

Finally, let us look on how we have performed in closing the gap between Ireland and other EC countries since we joined the EC.

In essence, the challenge facing us all as a nation is to bring our prosperity levels up to the Community average. The slide shows the progress of Irish GDP per person measured against the EC average over the period since we joined the Community in 1973. When we joined the Community, Ireland's GDP per capita was about 60% of the Community average.

We have faltered twice on our way to closing the gap.

The first time was in 1975, after we had temporarily tried to spend our way out of the first oil crisis recession.
The second time was in the early 1980's as we sought to recover from the excessive borrowing of the late 1970's.

The third recovery phase which commenced in 1987 should be sustainable as it has not been funded by borrowing - on the contrary. Irish output/capita related to the EC has risen from about 64% in 1986 to an expected 68% in 1990 - it is closing by 1% per year.

The process must be maintained on this occasion and I am confident that it will. By the mid 1990's we should emerge from the classification of one of the least developed regions by breaking through the 75% barrier.