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PRESS RELEASE

The Confederation of Irish Industry

SPEECH BY LIAM CONNELLAN, DIRECTOR GENERAL, CONFEDERATION OF IRISH INDUSTRY, TO KILKENNY ROTARY CLUB AT CLUBHOUSE HOTEL, KILKENNY AT 1.00 p.m. on MONDAY, 24th SEPTEMBER 1979.

CONSTRAINTS TO GROWTH

Over the last two decades industry has steadily played a more and more important role in the Irish economy. Today, over 30% of people at work in the economy are engaged in the industrial sector. Output of manufacturing industry each year has grown on average 50% faster than the output of the whole economy. Tariff barriers have been abolished and Irish industry now competes in an open market of 300 million people. The step by step abolition of tariff barriers over the last fifteen years has meant that Irish industry had to continually adapt to intensified forces of international competition. Those firms that were not able to adapt, went out of business. Those firms which survived and the new firms which have come from overseas constitute an efficient, modern, and dynamic industrial sector. The Irish economy no longer has the lowest percentage of the workforce engaged in industry of E.E.C. Member States. Last year it had a slightly higher proportion than Denmark, and is moving close to the ratio obtaining in the Netherlands.

Ireland needs rapid industrial growth in order to pay for necessary imports, support rising living standards and to create long term sustainable jobs. There is some evidence that the underlying annual growth in manufacturing industry can now be sustained at least at 9%.

This annual growth rate has occurred since the trough of the 1975 recession with some relatively minor variations.

Industry has demonstrated that it has the capacity to perform, to expand its output faster than any other Member State of the E.E.C., and to create additional employment.

The growth of industrial output during 1979 will be lower than the underlying trend. This slow down in the growth rate has been caused by the industrial disputes over the last year, particularly in postal services, telecommunications, electricity, and air transport; the long winter which reduced agricultural output, and consequently food processing production; and the poor tourist season resulting primarily from the postal strike.

Despite these disadvantages, it now seems likely that industrial output will expand by about 7% during 1979 creating about 6,000 nett additional jobs in manufacturing industry. In the first seven months of 1979, compared with the same period in 1978, there has been an expansion of about 15% in the volume of non-food exports, a growth of about 15% in the volume of materials imported for further production; an increase in cement sales of approximately 15% in volume, and an expansion in the volume of machinery imports in excess of 20%. All of these indicators point, not only to current buoyancy, but also to the potential for development in manufacturing industry. The investment of approximately 30% of national output in fixed capital formation during 1979 should also boost the potential for future growth.

The international outlook is less promising. The impact of the OPEC oil price increases during recent months has transferred capital from Western economies to the Middle East; has given an added spurt to inflation; and has resulted in predictions that the rate of growth in the European Community will slow down from the expected 1979 level of about 3% to about 2% in 1980. Output in the U.S. is expected to decline slightly over the next year. As a small open economy Ireland cannot avoid the effects of this slowdown in international trade.

However, we can take measures in relation to some internal factors which have constrained, and are currently constraining growth. I would like to concentrate on three of these to-day:

Interest Rates

Telecommunications

The degree of Industrial Peace

1. Interest Rates

Industry supported Ireland's decision to join the European Monetary System. Although convinced that this was the right long-term decision there have been major problems in the Irish money market. In particular the transfer of corporate borrowing from London to Dublin has resulted in a scarcity of Irish pounds so that interest rates on the inter-bank market have risen to exceptionally high levels. As a result, many industrial firms must frequently pay up to 20% for additional borrowings.

I recognise the Government's objective of maintaining the exchange rate of the Irish pound against other E.M.S. currencies. I also appreciate that in a tight credit situation it may be necessary for industry to borrow from abroad to fund expansion. Unfortunately, the cost of borrowing abroad equates to the cost of borrowing Irish Pounds when adjustment is made for the cost of exchange rate cover.

It is clearly not desirable that industry should engage in speculation in the foreign exchange market. There have been some notable examples during recent years of major companies which have got into difficulties by adopting this approach.

The exceptionally high cost of borrowing has arisen at a time when firms need additional funds in order to finance not only expansion, but also additional working capital due to higher inflation rates. Unfortunately, there are few projects which can give an economic return on funds borrowed at rates of up to 20%. I would therefore urge Government to underwrite the exchange risk so that industries can borrow in other EMS Member States at rates available to their counterparts in these countries. It is vitally important that an early decision is made on this issue so that the current high rate of industrial expansion can be sustained.

2. Telecommunications

Since the reduction in tariff barriers commenced in 1964 industry has had to adapt each year to cope with intensifying international competition. Its success in coping with these

pressures, and in continuing to expand has caused major bottlenecks in public sector infrastructure, some key segments of which failed to keep pace with industrial growth.

The recent report by the Post Office Review Group indicated how serious the telecommunications backlog is. Ireland has now 15 telephones for every 100 of population. Even if the recommendations of the Post Office Review Group are implemented in full over the next five years it is likely that we will still have only 60% of the telephone density of the European Community.

Why not set a target to achieve average E.E.C. telephone density and quality within 5 years? Industry cannot continue to expand at its current pace unless major improvements are made in the telecommunications system as matter of extreme urgency. A survey of 100 manufacturing firms carried out by the Confederation earlier this month indicated that only 15% of firms rated the quality of their telephone service as "good" or "very good"; 40% rated it "fair" and 45% rated it "poor" or "very poor". I repeat that this service is not good enough and is holding back industrial growth. Even the telex system leaves much to be desired; 55% of firms rated their telex service as "good" or "very good"; 30% "fair", and 15% "poor" or "very poor". There is also ample evidence that, two months after postal employees returned to work, postal delays are often exceptional.

It is of the utmost importance that the two new semi-State organisations should be effectively set into motion with the greatest urgency. In particular it is vital that a crash programme is implemented immediately to make the maximum possible progress during 1980. The feverish activity associated with this week's Papal visit shows what can be achieved in a short time. The Post Office Review Group stated that the state of "the telecommunications service constitutes a crisis". Let us act with the urgency that this statement implies.

There is a danger that the continued growth of industry will be constrained by inadequate infrastructural development. The telecommunication system is not the only public service which has not kept pace with the needs of an expanded industrial sector. The Road system, for example, also leaves much to be desired. These problems can be solved, but only in part, by the allocation of capital resources and staff. Industrial peace is also an essential ingredient.

3. Industrial Peace

Strikes, threats of strikes, "working to rule", and secondary picketing in key public services have already caused major damage to the economy over the last year. Employees in these sectors are sheltered from the pressures of international competition, and have a high level of job security, but can often put out of work manufacturing employees, who must face intensified international competition. The present electricity dispute is a prime example.

It is essential that the spirit of the National Understanding agreed by the Irish Congress of Trade Unions, industry, employers and Government only a few weeks ago is observed in practice so that industry can expand at its full potential rate, and so that the job targets set in the National Understanding can be approached.

Conclusion

There are clear signs that the growth rate of the international economies is slowing down. It will therefore be much more difficult to maintain a high rate of growth in Ireland. However, many of the obstacles to growth can be overcome by actions we take ourselves.

The main constraints to more rapid industrial development and job creation at present, which can be altered by action in Ireland, are: the inadequacy of public infrastructure, in particular telephones; the exceptionally high interest rates for funds required to finance increased working capital and fixed assets; and the fragile industrial peace in key public services.

The National Understanding provides a framework which has been designed to increase living standards at the maximum rate consistent with a high level of job creation, in return for industrial peace. We must all try hard to make it work.