SPEECH BY MR LIAM CONNELLAN, DIRECTOR GENERAL, CONFEDERATION OF IRISH INDUSTRY AT THE VOCATIONAL SCHOOL, MONAGHAN, AT 8 P.M. ON TUESDAY, 27 MARCH 1979.

AONTAS LECTURE SERIES 1979 : "IRELAND - THE CHALLENGE OF THE 80s" - "INDUSTRY".

THE WAY AHEAD

Historical Perspective of Industrial Development

When this country got its independence, the industrial base was very small. More than half the working population were engaged in agriculture and manufacturing industry accounted for less than 5% of the workforce. In the first phase of development high tariffs were imposed in order to assist the development of an indigenous industrial base. The products manufactured related to the basic necessities of a small closed economy. It was clear that this policy had severe limitations, since it stimulated the growth of industries making a wide range of products, many of which were viable only behind protective tariffs. Growth in production related to the small Irish market. Agriculture was depressed because of low prices and home market demand was stagnant. From 1936 to 1956, industrial output grew on average by about 3½% per annum; and the number of people employed in industry increased from 101,000 to 154,000, or an average of over 2,500 per year. Between 1951 and 1956, net annual average emigration amounted to almost 40,000. It became obvious that there had to be a change in policy.

CHART 1

The second phase of development, from 1956 to 1965, commenced with the setting up of the Industrial Development Authority and the abandonment of the requirement for majority Irish

ownership of manufacturing industry, specified in the Control of Manufactures Act 1948; the introduction of tax relief on profits earned from increased exports; and the start of a promotional drive to encourage the establishment of foreign industry. As a result of this policy and improved international conditions, the rate of growth in industrial output, during this period, accelerated to an average of 5½% per annum. Industrial employment also expanded by 29,000 from 154,000 to 183,000 or by an average of over 3,000 per annum over this 9-year period. It is worth noting that the higher rate of industrial output resulted in a higher rate of increase in industrial employment.

By 1965, it was obvious that the European Economic Community of Six, which had been formed in 1957, was there to stay and that Ireland would have to prepare for ultimate entry. Irish industry would need the capacity to survive in free competition.

The third phase of industrial development from 1965 to 1972, commenced with the negotiation of the Anglo Irish Free Trade Area Agreement, under which the tariffs against British products would be reduced by 10% per year until they were eliminated. Development programmes were intensified so that industry in Ireland could cope with the abolition of tariff barriers against an economy with an industrial sector 30 times larger. This approach proved successful as industrial output continued to

increase by approximately 6% per annum and industrial employment, over the seven years from 1965 to 1972, increased by 25,000, or just over 3,500 per annum.

The fourth phase of development started with our entry into the EEC on 1st January 1973. We would have a 5-year transition period, during which the 60% tariff barriers against Continental Member States; and the reduction from 75% to about 8% of tariffs against countries which were not members of the EEC. On the positive side, agriculture prices would be raised to European levels, thus enabling Irish farmers to purchase more goods from industry and to expand production; Ireland became a much more attractive location for industrialists from outside the EEC, particularly from the United States; and tariffs against the entry of Irish products to the original EEC would be phased out.

Unfortunately, in 1975, we would also have to face the worst slump since the second World War. Despite this, over the 5-year period from 1973 to January 1978, industrial output expanded by an average of nearly 4½% per year but employment remained static. However, the average figures conceal major variations. For example, in 1973, industrial output increased by almost 10% and employment by 6,000. In 1974, the slide into recession started with the result that by mid-1975, industrial output was more than 12% below its peak 1974 level. From that point onwards, the recovery commenced. Manufacturing output expanded by over 10% in 1976; and by 8% in 1977; and by 9% in 1978.

The situation was mirrored in employment figures. At the lowest point, employment in manufacturing had dropped 20,000 below the peak which had been reached in early 1974. Since then, employment in industry has again started to expand. It is estimated that, by the end of 1978, almost all of these jobs lost during the recession had been regained; and it is expected that manufacturing employment will reach record levels within the next few months.

Productivity

Over the last decade, productivity in industry in Ireland has increased by approximately 4% per annum. This productivity gain has been due, largely, to improvements in equipment and technology and is broadly in line with the trend in other countries. For example, it was slightly lower than the rate in Germany and Japan and somewhat faster than France, Italy and the U.K. This trend has continued in 1977 and 1978, when Irish industrial output increased by an average of 8½% per annum. Productivity increased by about 4½% per annum; and as a result employment increased by about 6,500 jobs.

Size Structure

The abolition of tariff barriers on imported goods and free access to the European market of 300 million people,

CHART 2

have combined to change the size of structure of Irish industry over the last twenty years (See Chart 2).

In 1958, only 20% of industrial employees were engaged in 31 manufacturing units having more than 500 employees. Today, it is estimated that about 35% of manufacturing employees are engaged in about 70 firms each having over 500 employees.

About 80% of the exports and 90% of the output of Irish industry is sold in the European Community. It is inevitable that the size structure of Irish industry will reflect the economic and social needs of this large Community. A comparison with the size structure of industry in Germany indicates a very similar pattern.

Productivity - Effects of Scale

The net output or added value per person is a reasonable indicator of the intensity of the manufacturing process. Achievement of higher added value usually required more capital equipment and higher technology. As firms grow in size, they can justify the purchase of more specialised and higher output machinery. Unfortunately, this process of specialisation frequently limits the adaptability of the production process to changes in the market place. The larger firm can often be more vulnerable to changes in the pattern of demand than its smaller counterpart. However, if market conditions are right, it can produce high volume

products much more competitively.

It has been established that the added value per person increases as the scale of industry grows. Thus, in 1968, the output per employee in firms having over 500 employees was 40% greater than that in firms having between 10 and 50 employees.

There is, however, a very important role for the smaller manufacturing unit. It can produce low volume products much more efficiently than the larger firm. It is labour intensive, and places a high emphasis on skill. It requires less capital per person than the larger firm. Even in the most highly developed economies, small manufacturing units, having less than 100 employees, comprise 90% of the firms and between one fifth and one third of employment. A healthy small firm sector is vital to the survival and efficient operation of large units. Each has its own role to fulfil.

It must, however, be recognised that about half of the industrial output of Europe is manufactured by firms having more than 500 employees, and that is likely to be the situation in Ireland for many years to come. The advent of large scale organisations places demands on all of us working in and for industry to create an environment for success. We must understand, not only the role, but also the nature and needs of these firms, whether they relate to people,

technology, infrastructure or the market place. The rate of development of our economy depends to a considerable extent on our ability to assimilate successfully the larger industrial enterprise.

International Economic Environment

Only seven years ago, two thirds of Irish exports were sold to the United Kingdom, and 10% to the original EEC. So far this year, only 47% of Irish exports were sold to the United Kingdom and 30% went to the other Member States of the Community. There has been, therefore, a 20% shift in total exports from the U.K. to Continental Europe, due to the abolition of tariffs on intra-EEC trade, and continued success in attracting firms to locate in Ireland in order to supply the Continental market.

However, major changes have also taken place outside the European Community. Tariffs between the EEC and the rest of the world have also declined to very low levels. The terms of the Lome Convention gave African, Caribbean and Pacific countries preferential access to the European market; and we have also seen the emergence of the newly industrialised countries, such as Taiwan, South Korea, Hong Kong and Malaysia as a major industrial force. The growth of the Japanese economy; the shift in the balance of power towards the oil producing countries; and the recent decline in the dollar, all have implications for a small open economy attempting to accelerate its growth rate.

The abolition of tariff barriers on a world scale has also created the possibility for the development of major industries on a world scale. It is estimated that less than 500 industrial firms account for about half of the industrial production of the OECD countries. For example, an industry would need annual sales of £160 million to £180 million to qualify for the entry into the list of the top 500 firms in either the United States or Europe. For the first time, two Irish owned firms, the ESB (420th) and Jefferson Smurfit (480th), qualified for the European list this year.

It is worth noting that about 20 of the top 100 U.S. industrial firms and 24 of the top 100 European firms have manufacturing subsidiaries in Ireland. These major international firms have made a remarkable contribution to increasing international trade and communications, the improvement of living standards, and the spread of technology. New manufacturing units are set up in areas which have developed, or are likely to develop, a competitive advantage because of location, infrastructure, costs, incentives, profitability and political stability. Each time a major investment decision has to be made in a particular country, these factors can be assessed.

Irish Industry in an International Context

Irish industry comprises about ½% of the manufacturing labour force of the European Community although Ireland has over 1%

CHART 3

of the total labour force (See Chart 3).

The broad industrial structure is similar to that of the EEC as a whole with two exceptions. Ireland has a high proportion of the manufacturing labour force in food processing, 26%, compared with 9% in the EEC as a whole; but a corresponding very low proportion in engineering, 23%, compared with 48% in the total Community.

The advent of new firms from overseas has helped to bring about this industrial structure closer into line with the Community as a whole. For example, the majority of the new firms which have recently located in Ireland are in the engineering sector. These firms use new mechanical and electrical engineering technology and are making a major contribution to the employment and training of skilled technologists. The impact of these changes is reflected in the very high demand for engineering skilled workers, technicians and technologists. There is every possibility that, if the Government's White Paper targets are achieved, this demand will multiply.

Since 1973, about 75 new overseas firms have announced their intention of locating in Ireland each year. It is estimated that about six of these projects annually are firms projecting employment in excess of 500.

There is ample evidence that new overseas firms bring access to markets and technology; 86% of the output of these firms

in 1974 was exported compared with about 25% of the output of Irish owned firms. North American firms exported 95% of their output, of which over three quarters was sold to affiliates. It is also worth noting that only 21% of the exports of U.S. subsidiaries, and one third of the exports of Continental EEC subsidiaries are sold to the U.K. compared with a 47% proportion for industry as a whole.

CHART 4

The Computer Industry - A New Manufacturing Sector

There are now over forty firms employing about 5,500 people, manufacturing computers or computer components in Ireland. The product range includes semi-conductors, integrated circuits, electronic assemblies, computer cores and mainframe computers. These companies are subsidiaries of parent firms based in Europe, North America or Japan. The largest investment has been from the United States. Chart 5 shows the size distribution of these firms in 1978 and the expected size distribution in 1980.

CHART 5

CHART 6

CHART 7

CHART 10

CHART 1:

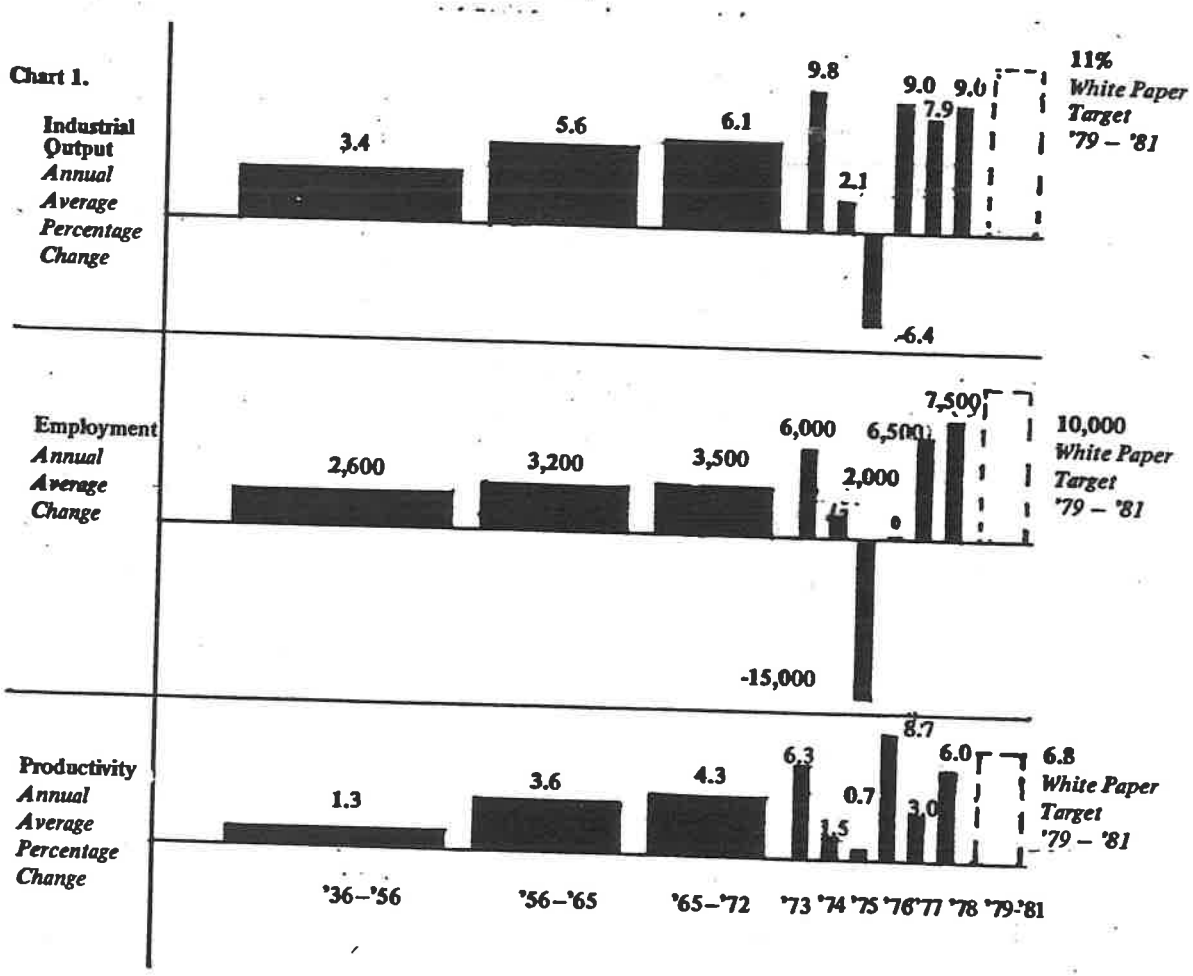
Chart 1.
Industrial Output
Annual Average Percentage Change
3.4
5.6
6.1
9.8
2.1
-6.4
9.0
7.9
9.0
11%
White Paper Target '79 – '81
Employment
Annual Average Change
2,600
3,200
3,500
6,000
2,000
-15,000
7,500
10,000
White Paper Target '79 – '81
Productivity
Annual Average Percentage Change
1.3
3.6
4.3
6.3
1.5
0.7
8.7
3.0
6.0
6.8
White Paper Target '79 – '81
'36–'56
'56–'65
'65–'72
'73
'74
'75
'76
'77
'78
'79-'81

CHART 2:

Number of Persons Engaged Per Firm	*Average Number of Persons Engaged as a % of Total*				
	IRELAND			*GERMANY*	
	1958	*1963*	*1968*	*Est. 1978*	*1975*
Under 99	41.0	35.6	34.1	30.0	20.2
100 to 499	38.1	39.5	40.2	35.0	29.3
500 and Over	20.9	24.9	25.7	35.0	40.4
Totals:	100.0	100.0	100.0	100.0	100.0

CHART 3:

SECTOR	*IRELAND*	*EEC*	*IRELAND* EEC %
Food, Drink & Tobacco	26	9	1.3
Textiles, Clothing and Footwear	18	15	0.6
Wood and Furniture	4	5	0.4
Paper and Printing	8	6	0.6
Chemicals	5	10	0.3
Clay Products	6	5	0.6
Metals and Engineering	23	48	0.2
Other	10	2	0.7
Total	100	100	0.5

CHART 4:

DESTINATION OF IRISH EXPORTS

	Britain and Northern Ireland	*Continental EEC*	*Others*
1968	66	10	24
1978	47	30	23
1988 est.	35	40	25

CHART 5:

SIZE DISTRIBUTION IN MANUFACTURING

(November 1978)

Category	*Size Category*	*No. of Firms 1978*	*No. of Firms 1980 (Projected)*
A	Up to 50 employees employees	26	31
B	50 – 100 employees	5	6
C	100 – 200 employees	8	12
D	200 – 500 employees	3	8
E	500 and over	3	6
	Total	45 employing 5,500	63 employing 8,200

CHART 6:

DISTRIBUTION IN IRELAND

MANUFACTURERS OF COMPUTERS, COMPUTER EQUIPMENT OR COMPUTER COMPONENTS.

CHART 7:

COMPARISON OF OUTPUT GROWTH IN CERTAIN INDUSTRIES WITH OTHER EEC COUNTRIES 1970–1976

(% increase)

SECTOR	Germany	Italy	Ireland	Belgium	U.K.
All Manufacturing	11	20	28	20	3
Chemical Industry	31	42	87	25	27
Metal Industries	9	8	26	21	– 1
Food, Drink & Tobacco	16	24	27	23	10
Textile Industry	8	22	31	– 3	– 6
Clothing & Footwear	– 13	14	– 13	3	10
Wood & Furniture	24	34	12	73	12
Paper & Board Industry	11	17	3	13	– 8

Note: [1]*Output is measured as output per working day.*

Source: *Eurostat, Quarterly Bulletin of Industrial Production 2 – 1977*

CHART 8:

INTERNATIONAL COMPARISON OF PRODUCTIVITY GROWTH IN MANUFACTURING INDUSTRY SINCE 1970

(Index Base 1970 = 100)

ANNUAL AVERAGE PERCENTAGE CHANGE							
1963–70	+4.4	+3.4	+11.7	+5.9	+6.6	+6.6	+4.2
1970–77	5.1	3.5	6.8	4.8	4.8	5.0	2.7

CHART 9

	1968	1978	1988 (FORECAST)
OUTPUT	100	166	493
EXPORTS	100	412	1816
TELEPHONES/100	9	15	45[1]
CARS	11	17	34[2]

NOTE 1 : EEC AVERAGE 1976 = 31 TELEPHONES/100

" 2 : EEC AVERAGE 1976 = 27 CARS/100

MARCH 1979

CHART 10.

Planning Regions