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PRESS RELEASE

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Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at January 1979 Monthly Lunch of Junior Chamber Dublin at Jury Hotel, Ballsbridge, on 8th January 1979

"PROSPECTS FOR INDUSTRY IN 1979"

Last Year's Performance

In 1978, manufacturing output grew by about 9% and net manufacturing employment, after redundancies, by about 7,000. This growth in output was similar to the annual rate achieved since the trough of the recession in mid-1975. It would have been higher were it not for two factors : the delayed effect of the high growth of incomes experienced in 1977 - almost 7% faster than in Britain, which had a consequent effect on competitiveness, since this faster growth in hourly earnings was not compensated for by productivity. The other factor which inhibited growth was the disruption to production caused by disputes in vital utilities such as telecommunications, electricity and air transport.

I would now like to turn to the two major decision documents which were published recently and which will have a considerable impact on industrial performance from 1979 onwards. These are the White Paper Programme for National Development 1978 to 1981 and the White Paper outlining the Government's decision to join the European Monetary System.

The Confederation welcomes the broad thrust of the Programme for National Development 1978 to 1981 in devoting a higher proportion of public expenditure to investment, while at the same time, reducing the share of national output accounted for by public expenditure.

The target for growth in industrial output has been reduced from 13% in the 1978 White Paper to 11½% in the "Programme for National Development 1978 to 1981". As a result manufacturing industry is expected to provide only 40% of the additional jobs created in the economy, compared with about 55% in last year's document.

Ireland has, currently, less than 20% of its workforce engaged in manufacturing industry compared with an average of 30% in the total EEC, and the proportion of dependants in relation to the workforce is the highest in the Community.

In these circumstances, it is vitally important that a sufficient increase in industrial output is attained to ensure that the proportion of the workforce engaged in manufacturing employment converges more rapidly with the EEC average.

The Confederation has consistently maintained that the output target of manufacturing industry should be approximately 15% per annum.

Output and employment targets are important since they provide the guidelines for appropriate Government measures and the development of the infrastrucure in electricity, telecommunications, roads, education and training.

Investment

Achievement of higher output and employment in the manufacturing sector implies the need to stimulate faster investment, particularly in older established industries. Many of these industries have had to cope with the pressures of income costs which rose 20% more rapidly than in Britain since the beginning of the decade; the abolition of tariff barriers; and abnormalcompetition from low cost countries, due to changes in the import policies of some major trading blocs. As a result, these industries have not been sufficiently profitable to finance the major investment in equipment which is necessary to ensure their survival and, as a result, productivity levels are well below those in Continental Member States.

The acceleration of the adaptation programmes required by our membership of the European Monetary System makes it imperative that such industries are provided with a high level of investment grant assistance to ensure that they can purchase the equipment which will bring their efficiency levels on par with the Continent.

The Confederation has recommended that 75% investment grants, subject to a maximum of £9,000 per person employed on the new equipment, should be made available for investment in those sectors of industry where the productivity levels still fall far below those being achieved in the more developed Member States of the Community.

A similar approach is required for the stimulation of marketing effort on the Continent. The White Paper targets require a very high rate of growth in the volume of manufactured exports. The cost of marketing on the Continent is two or three times higher than in Britain. To this cost must be added the barriers of language and different consumer tastes. Despite the fact that 30% of our exports are now sold in Continental European markets, it must be recognised that these are, primarily, agricultural "commodity type" exports or those from overseas firms which have established in Ireland and already had an established marketing network in Europe.

I welcome the statement in the "Programme for National Development" that the additional funds available to Ireland because of membership of the European Monetary System will "facilitate the required structural transformation of Irish industry and accelerate the growth of infrastructure investment."

Infrastructural Development

The emphasis given to accelerating the rate of infrastructural development for roads, telephones and water supply is also welcome.

However the current telecommunications programme to raise the telephone density from the present level of 15 per 100 of population to 23 per 100 population in 1982 is clearly inadequate, since the average density in the European Community is currently about 35 and, on current trends, by 1982 will be 45 per 100 of population.

The slow progress in publishing a "National Roads Plan for the 1980s" and in passing the necessary legislation on toll roads is disappointing. This is clearly the first step in developing the road system.

Productivity in the Services Sector

The services sector is a general overhead which must be borne in the cost of the internationally traded goods produced by the productive sector i.e. industry and agriculture. Thus, postage, telephones, transport, distribution, finance or public administration costs are reflected in higher charges or taxes on the productive sector companies or employees. It is essential that productivity improvements are made in the services sector as rapidly as in the productive sector. It is, therefore, a matter of some concern that, while the productivity targets for industry and agriculture are set at about 6% per annum, a target of 2½% has been set for the annual improvement in productivity of the services sector, despite the fact that the estimated growth in productivity for the services sector in 1978 was 4.4%. Surely, it will be possible to maintain this rate of productivity improvement in service type activities. This should not mean less employment but rather the provision of a greater amount of services run efficiently to stimulate the growth of the economy.

European Monetary System

The decision to enter the European Monetary System means that, for the first time, Ireland must be concerned directly with the day to day defence of our currency.

We shall be linking to seven other European currencies, and shall have the option of maintaining the strength of the Irish currency and of holding down the rate of price inflation to that obtaining in countries such as Germany and the Benelux countries.

The strength of the Irish currency will be determined by the performance of Irish costs.

It is worth taking a look at the experience of Germany and Ireland over the last decade. Real earnings, i.e. the gap between earnings and prices, in Ireland and Germany has increased annually by a similar amount. However, during the same period, the pound depreciated by two thirds against the Deutschemark with the result that a Deutschemark can buy three times more in pounds than it could ten years ago.

Over the next decade Ireland can achieve a similar improvement in living standards through maintaining its currency in line with the stronger European currencies by having an equivalent of domestic cost increase and price increase. The alternative is a continuation of the past, where high nominal wage increases were counterbalanced by high price increases, and the currency devalued, thus increasing the price of imports.

It must be recognised that there are short-term risks inherent in joining the European Monetary System. The Irish pound, linked to the EMS currencies, may diverge from sterling whose trade weighted index has a high dollar weighting. I am glad to note that the Government have stated in the White Paper that, to the extent that any such divergence would give rise to difficulties, appropriate policy measures will be introduced to deal with the situation.

Conclusion

I believe it is possible that industry can achieve the targets set in the White Paper if the right conditions exist. The next years are vital in ensuring that the Irish economy successfully makes a leap forward in moving more closely into line with the efficiency achieved by Continental Member States. A greater emphasis must be placed upon achieving higher targets for industrial output and services productivity that those specified in the White Paper. The development of infrastructure of our roads, telecommunications and sanitary services needs to be treated with great urgency. Entry to the European Monetary System can provide the opportunity for raising living standards with a low rate of price inflation by defending the strength of our currency. 1979 can be a watershed in Irish industrial development. The targets of raising the rate of growth in output and employment through improved efficiency must be approached with confidence, determination and united effort.