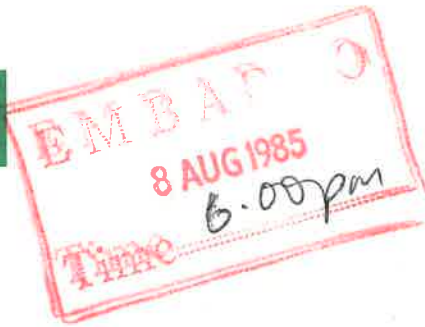


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PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry, at Athlone Agricultural and Industrial Show Press Conference at the Royal Hotel, Athlone, on Thursday, 8th August 1985 at 6.00p.m.

**NEED TO REMOVE CONSTRAINTS ON PRIVATE INVESTMENT
IN INFRASTRUCTURE**

It has been traditional in Ireland for the State to provide most of the funds for infrastructural development. However, the obvious constraints on Government finances leave no scope for additional State spending. Irish Government debt last year was 125% of national output and current indications are that the figure will increase to 135% this year. Proportionately Irish Government borrowing is by far the highest in the OECD countries.

Government borrowing can only be cut by reducing the proportion of national output channelled through the State. One-third of all Government tax revenue is now spent on interest payments to service previous borrowing.

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For these reasons and because international experience demonstrates that lower public spending leads to faster economic growth, it is vital that Government action is taken to remove constraints on private investment in infrastructure.

I would recommend action in the following areas :

1. Joint Venture Housing.

The Local Authorities own sites for about 45,000 houses throughout the country but are building only 6,000 per annum. The State would gain a considerable benefit by making, say, 5,000 sites available to people on the Local Authority waiting list on which private housing could be built at affordable prices. At present there are about 30,000 families on Local Authority waiting lists. It is estimated that at least 5,000 of these would have the capacity to buy a low cost private house if the site were made available by the Local Authority at a nominal cost.

To those who argue that the State would be losing the value of sites made available in this way I would point out that the State gains more in offsetting benefit. The State would not have to

pay subsidies to a Local Authority tenant estimated at £4,000 per dwelling per annum, and would also gain by providing work for thousands of construction employees who would otherwise be unemployed.

If additional public spending is to be avoided loans for these additional houses should be provided by the Building Societies rather than State Agencies. The provision of suitably designed mortgages should be negotiated between the Government and the Building Societies at little or no cost to the State.

The Government could cut spending by reducing the number of Local Authority houses financed solely by the Exchequer while greatly increasing the building programme for joint venture housing.

2. Development of the Natural Gas Grid

The construction of additional sections of the natural gas grid should be advanced as quickly as possible.

On present policies it is estimated that reserves will be exhausted over a period of fifteen to

twenty years. This estimate is based on the assumption that there will be no further finds of natural gas. This would appear to be an unduly conservative approach. It would seem a reasonable risk to increase gas offtake by 20% and to make this gas available to industrial and commercial users in areas such as Limerick, Waterford, Dundalk, and possibly Galway. Twenty per cent extra sales would increase State revenue by about £25 million and hundreds of additional jobs would be provided in pipeline construction.

The development of the natural gas grid will also increase the possibilities of diverting gas from electricity generation to industrial use as the ESB increases output from the new coal fired power station at Moneypoint.

3. Road Development

The Road Development Plan for the 1980s indicated an investment requirement of about £1,500 million, in 1985 terms, during the decade in order to bring the standard of our national primary routes up to minimum international levels. Since about 96% of all personal travel

and about 90% of all freight movements are by road, the quality of the road system is a key criterion in developing an efficient transport infrastructure.

The investment required to bring the standard of our road system broadly in line with other European economies over the next decade would be about £3,000 million. The success of the East-Link bridge across the River Liffey indicates that roads and bridges can be built without cost to the State.

Public spending on roads is budgeted at £125 million this year and £140 million in 1986. Where possible, the Government should offer stretches of road and bridges for competitive tender to private firms. They should be prepared to negotiate the level of grant, if any, which would be necessary in order to make each project commercially viable. The private company should then undertake the construction and operation of the facility as a commercial project.

The Newbridge By-pass, the Lucan/Kilcock road, the Balbriggan By-pass, the downstream crossing of the

River Lee in Cork, and sections of the Dublin Ring Road have all been designated as potential toll road projects. I would strongly urge that the purchase of land and negotiation of toll projects should be undertaken as quickly as possible. Consideration should also be given to the introduction of tolls on some roads currently under construction where an alternative route is available. This would increase the amount of revenue available to the Exchequer for further road improvements.

4. Privatisation

The ever-growing burden of public debt and consequential high taxation can only be reduced by cutting public spending. One way to do this, which has proved effective in other countries, is to introduce private investment capital.

The State currently owns commercial companies with an asset value of about £3,000 million. The shares of many of these companies should be floated in whole, or in part, on the Stock Exchange. Private institutional investors could be invited to participate in the ownership of some

other State companies. Every commercial company has a value, even if the company is not profitable. Individuals and institutions will invest in these companies on the basis of their expectation of future profitability.

The issue is not a doctrinaire one. The reality must be faced that the high level of additional State spending incurred each year is adding more and more to the tax burden and is severely constraining the growth potential of the economy. I would like to see a minimum target of £300 million set for private investment in State commercial companies in 1986. This should prove attainable since the average monthly transactions on the Irish Stock Exchange amounts to about £800 million turnover of Government securities and £25 million of ordinary shares.

CONCLUSION

It is clear that Government finances are severely constrained by the current high rates of taxation and spending. Economic activity remains at a depressed level and unemployment is at the highest level for decades. There is a

need for massive investment in housing, roads, natural gas distribution and in industry.

The level of economic activity and the opportunities for employment can be increased without increasing State spending. The flotation of State commercial companies on the Stock Exchange will remove a constraint on equity finance for many of those firms.

It is a time for radical and imaginative measures to stimulate faster growth, greater investment confidence and employment while stopping the spiral of public spending and penal taxation.

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