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PRESS RELEASE

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HOW INDUSTRY SEES THE WHITE PAPER ON INDUSTRIAL POLICY

The White Paper on Industrial Policy set a target to double the level of industrial output over the next decade. This is much faster than the rate achieved over the last decade. The ability of industry to attain the projected growth rate will depend upon a combination of international trading conditions and domestic policies.

The most relevant domestic policies are :

1. The containment of domestically generated inflation to a rate no higher than our trading partners. This has not been the case in recent years. For example, two years ago Irish inflation was 8% higher than the European average; last year it was 2.5% higher; this year the aim must be to bring inflation fully into line with our European competitors and to keep it there.

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2. Conditions must exist to reward work, risk, investment and innovation at personal and corporate level. The high level of personal taxation caused by excessive public spending has reduced the incentive to work. The black economy has grown considerably to the detriment of individuals and businesses who are paying tax. The exceptionally high level of taxation, whether on personal incomes or on spending, stimulates the black economy and reduces the tax base. The Report of the Commission on Taxation and the recent National Planning Board's "Proposals for Plan 1984-87" contain many recommendations to improve the climate for increasing effort and risk taking.

3. An industrial policy which provides incentives to encourage a faster rate of growth than would otherwise occur. This comprises a package of incentives to improve innovation and competitiveness; efficient and cost competitive infrastructure; and a relevant education and training policy to meet the changing needs of industry.

Each of these three policies, the containment of inflation; the creation of conditions to reward effort; and industrial policy are complementary aspects of a national economic policy conducive to industrial growth.

The White Paper addresses, primarily, the industrial policy issue. It places a welcome emphasis on increasing the incentives available for developing the export marketing capacity of firms and the acquisition of technology, while maintaining financial assistance for fixed asset investment.

It retains the two-pronged approach to industrial development of supporting the development of structurally strong indigenous companies, large and small, while continuing to attract new overseas investment, but offering more attractive incentives to firms which incorporate key business functions such as marketing, and product and process development.

The policy of simultaneously developing Irish owned and foreign enterprises has served Ireland well over the last decade. Since 1975, the output of Irish industry has grown more rapidly than that of any other EEC country, the United States or Japan. The employment performance of the Irish economy has also been better than that of any other EEC country. Our high unemployment rate is due to a more rapidly growing labour force than elsewhere in Europe. The solution to unemployment is to create conditions which will stimulate a faster rate of growth in productive output and will support higher levels of employment in the economy generally. The structural changes which have taken place within the industrial sector during recent years make the achievement of higher growth rate over the next decade more feasible.

The White Paper contains a number of welcome decisions such as a commitment to retain tax based financing for manufacturing and certain internationally traded service industries. This should remove the possibility of a recurrence of attempts to eliminate some of these provisions.

There is a commitment to bring energy prices into line with those in the rest of the European Community, and to establish a "one stop shop" in each region for small firms, which in many instances at present have to deal with a multiplicity of State agencies.

It is inconsistent with a policy for industrial expansion that
ELECTRICITY PRICES for Irish industry are almost 25% higher than those of
our competitors, and are over 40% higher in the case of the larger energy
intensive industries. These firms are, therefore, less competitive on
the home and export markets, and job opportunities are lost. The gap
between Irish industrial electricity prices and those of our competitors
must be reduced as a matter of urgency.

NATURAL GAS for Irish industry is also being sold at an excessive price.
The price of this indigenous fuel is linked to the dollar, and is already
much higher than the prices charged in countries such as Britain, Denmark
and the Netherlands. Yet sales of gas to industry at internationally
competitive prices would yield a much higher return to the Exchequer than
is currently available from other commercial sources.

A degree of caution should be adopted regarding the proposal to identify promising firms which would have a more intensive working relationship with appropriate State agencies. The responsibility for preparing a company development plan should rest with each individual company, and State agencies should specify the framework for its preparation.

However, the criteria for industrial incentives should be made more explicit, whether these relate to export marketing development, new equipment, acquisition of new technology, joint ventures, or the development of sub-contracting arrangements. These criteria should be objective and published so that all relevant firms have the opportunity to qualify.

These criteria should be administered flexibly by autonomous State agencies, operating within broad policy guidelines, determined by Government.

In a submission to Government in May 1983, the Confederation recommended that projects eligible for industrial incentives should meet the following general criteria :

1. Economic viability
2. Manufacturing industries or certain service industries which directly, or indirectly, earn foreign revenue, substitute for imports or provide skilled sub-supplies to such firms.
3. Contribute to employment protection or growth
4. Need financial incentives for development.

It also recommended that projects meeting these general criteria should be eligible for specific incentives under one or more of the following headings :

1. Plant and equipment investment for expansion
2. Plant and equipment investment for productivity improvement and job maintenance
3. Export marketing development

4. New product development
5. Technology development
6. Manpower recruitment and training
7. Development of local purchasing
8. Joint ventures.

Administration of Industrial Policy

In the administration of industrial policy the emphasis should be on clarity and the maximum delegation of authority to the relevant agency and within agencies.

Industry would recommend that the relevant Government Departments should advise on the development of broad industrial strategy, on the total allocation of State funds for direct industrial investment, on the specific allocation for each financial area, on the funds to be allocated for the provision of essential infrastructure, and on the creation of a climate favourable to the development of competitive industry. However, when broad policies have been determined and funds allocated, implementation should rest with the relevant semi State agency, operating under the direction of an independent board. The role of these agencies should be independent in the implementation of policy. The role of the civil service Departments should be confined to formulation of policy and annual reviews of its implementation.

Manpower Resources

The primary cause of the low level of technology development in the Irish economy is probably the fact that, proportionately, Ireland has only one third the number of engineers and technologists as countries such as Japan, Denmark, France and the United States.

It is essential that the annual throughput of people with technical qualifications at third level be doubled as a matter of urgency. This could be financed by more efficient use of existing educational facilities, the introduction of student loan schemes, and reallocation of existing expenditure from Youth Employment Agency funds. The demand for such-third level placing far exceeds supply. It must be recognised that the availability of qualified technologists is a prerequisite for more rapid industrial development.

Total Business Concept

The Confederation supports the ideal of developing the maximum number of "stand alone" businesses. However, this ideal must be tempered by the reality that in many instances international firms will allocate specific business functions to particular countries as part of total corporate strategy. Irish incentives should encourage rather than attempt to force the development of business functions such as marketing and product development in Ireland. High quality production units make a valuable contribution to the balance of payments and to employment.

Finance for Infrastructure

The present practice of total State financing of infrastructure projects places severe limits on the number of projects and the employment impact of the Public Capital Programme. A much greater return can be obtained from the Public Capital Programme by negotiating joint operations with private sector firms. Many additional roads, bridges, housing projects, gas pipe lines, and advance factories could be constructed with negotiated minimum State participation and financed by revenues from tolls or rents.

National Development Corporation

It is clear that discussions on the National Development Corporation are just beginning. The central question which must be asked regarding State investment in industry, whether private or public, is how can the State obtain the best return on its investment? Would a similar amount of money spent on providing incentives to private companies not be likely to yield a higher return financially, and in employment terms? These issues must be considered in the context of the need to reduce the burden of public sector debt which is higher than in any other OECD country.

Conclusion

In conclusion, the White Paper outlines the framework within which the State plans to operate over the next decade. It is welcome in that it increases the degree of certainty with which industrial firms can prepare their development plans. The White Paper must be complemented by policies to curb inflation and to reward effort. If this is done, and the new international recession is avoided, industrial growth targets indicated in the White Paper can be surpassed.

There is nothing wrong with the economy that cannot be rectified by a substantial increase in the output of goods which can be sold profitably. In the initial stages of recovery from recession, there has been a significant expansion in manufacturing output without any increase in employment, because excess capacity arising from three years of recession had to be absorbed first. Continued growth in manufacturing output, spurred by bringing inflation fully into line with our trading partners, particularly, Britain, where inflation is only 5%, will have an increasingly favourable impact on employment throughout the economy. Jobs created through increased exports and import substitution will not only make a direct contribution to reducing unemployment, but will support a wide range of additional service jobs.

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