



Confederation of Irish Industry

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IRELAND - CREATING AN ENTERPRISING ENVIRONMENT

IRISH BUSINESS ACHIEVEMENTS ABROAD

There is ample evidence that we Irish are an enterprising people. This is demonstrated by the success of Irish business people in the United States and by the remarkable development over the last decade of Irish-owned companies in expanding their operations abroad.

For the first time in our history there are five Irish companies ranked in the top 500 in Europe. Many other Irish companies, if publicly quoted, would also be eligible for inclusion in this list.

The growing strength and importance of Irish industry is evident in that an Irish company is the largest packaging organisation in the world; an Irish company is the largest crystal glass and china company in

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the world; an Irish company is one of the world leaders in aircraft leasing, and is expected to own a fleet as large as the present British Airways fleet within three years; and an Irish company is one of the largest meat operators in Europe.

These achievements demonstrate that there is every reason to be proud of the capability and achievements of Irish business.

In addition, the Irish economy is one of the most open in the world. 70% of industrial output is exported and this proportion is likely to increase to 80% within the next few years as industry in Ireland takes a greater share of the European market and continues the process of specialising its production facilities.

STAGNATION AT HOME

Despite a steady expansion in exports since the beginning of this decade, the Irish economy itself has stagnated due to the drain on resources of debt repayments arising from the very high level of State spending and borrowing.

There is considerable evidence that a high level of Government spending slows down the economy. Over the last 25 years real incomes in OECD countries where Government

spending accounted for more than half national output, grew by just over a half per cent per annum, whereas real incomes in those economies where Government spending accounted for less than a quarter of national output, grew by more than 5% per annum.

Ireland has one of the highest levels of public spending in the industrialised world. The Exchequer manages the equivalent of two-thirds of national output through current and capital expenditure programmes. Consequently there has been little or no growth in national output since the beginning of this decade. The exceptional level of public spending must be paid for either by taxation or borrowing. Government have a massive accumulated debt. Last September accumulated Government debt had risen to 145% of national output compared with about 60% in the EEC as a whole.

It is possible to reduce Government borrowing and at the same time to increase employment throughout the economy. For example, since 1982 Denmark has halted the rise in public spending and reduced Government borrowing from 9% of national output to a surplus of 3% in 1986. Employment in the Danish economy rose steadily each year while this adjustment was in progress.

Employment in Danish manufacturing industry has

increased by almost 50,000 since 1982 while employment in Irish industry fell by 30,000. These positive developments in Denmark took place while the public sector deficit was being reduced. We must seek to emulate Danish experience.

I would strongly urge that the degree of Government involvement in the economy should be reduced so as to achieve a higher rate of economic growth and employment creation. The activities of the market sector should be encouraged and the role of Government should be limited to that of provider of last resort. These expenditure reductions should be achieved while ensuring that the weaker members of society are properly cared for.

COMPETITIVE DISADVANTAGES

While there is ample evidence that we Irish are an enterprising people, the scope for developing enterprise in Ireland has been severely constrained by factors which inhibit investment in this country. Our wage and salary rates are higher than in many major regions of the United Kingdom. There has been a marked slide in competitiveness over the last year due to the weakening of sterling. Many industrial input costs are much higher than in other countries. It is difficult to justify borrowing money at 17% when the average return on industrial investment by established industries is only 5%. The cost of diesel

fuel for transport is 40% above the European average because of high taxation. The cost of industrial insurance is three or four times higher than in competing countries. International telecommunications charges are also out of line with our competitors and, despite significant progress over the last year, industrial electricity charges still remain higher than those of our main trading partners. Our national primary road system falls well below the standard required for a modern industrial economy, and our natural gas reserves remain underutilised.

NEED COMPREHENSIVE PROGRAMME FOR NATIONAL RECOVERY

There is an urgent need to implement a comprehensive programme for national recovery. This programme should be along the lines set out by the National Economic and Social Council in its November document "Strategy for Recovery". It should have the twin objectives of creating conditions for the renewed expansion of the productive sectors of the economy and should set about stabilising, and then reducing the level of national debt.

The stabilisation and subsequent reduction of the national debt is a necessary condition for the restoration of the confidence of investors in the Irish economy. The Confederation supports the views of the NESC, representing employers, farmers, trade unions, and industry, that the

immediate objective must be to stop the rising spiral of national debt. Industry would like to see the national debt stabilised over a two-year period.

PLAN FOR INDUSTRIAL EXPANSION

Industry recommends the following measures should be taken to stimulate the expansion of manufacturing output, investment, and employment. These should not involve additional public spending. In some cases a reallocation of existing expenditure programmes is required. The measures recommended relate to improving cost competitiveness; and stimulating investment, employment, initiative, and export development.

1. Cost Competitiveness

There is an urgent need to bring interest rates down at least to the level of our competitors in the European Monetary System. The Government has stated its firm intention of maintaining the stability of the Irish pound within the European Monetary System. It is essential that industry should have access to funds at the average EMS interest rates which are almost 6% lower than those on the Irish market. A reduction in the Government appetite for funds is necessary to bring interest rates down on the money market. Confidence, stability, tight control of

public finances, and a favourable tax regime for savers also influence the cost of money.

Cost competitiveness can also be improved by reducing the cost of essential services such as Employers Liability Insurance, currently inflated by requiring juries to assess damages in personal injury cases; telecommunications charges for certain international calls from Ireland which are often 40% higher than the return call; and industrial electricity charges which despite recent progress are still higher than in many competing countries.

2. Investment

Lower interest rates will stimulate industrial investment. In addition there is need for a major national programme of private toll road development. Some routes, such as the Dublin Ring Road, can be funded solely by private tolls. In other cases public capital funds from the roads budget could be used as partial finance in order to attract a multiple in private sector funding.

The offtake from the Kinsale gas field could be increased by a further 20% if sufficient user outlets were available. The extension of the natural gas grid, funded where necessary by toll

charges on new users, would simultaneously reduce the balance of payments deficit and increase economic activity.

3. **Initiative**

High marginal rates of taxation are a disincentive to effort, risk and the acceptance of additional responsibilities and contribute significantly to the "brain drain" of highly qualified and internationally mobile professional staff. I would urge that significant progress should be made in the process of reducing marginal tax rates by a restructuring of personal taxation broadly along the lines recommended by the Commission on Taxation. There should be no cost to the Exchequer as the reduction in the marginal tax rate could be funded by widening the tax base and reducing certain allowances as suggested by the Commission on Taxation.

4. **Exports**

About 70% of the total purchasing power of the European Community is in the densely populated areas of the Benelux countries, France, and Germany. These countries account for less than one-third of

Irish exports. There is need for a major increase in the marketing resources of Irish firms in these markets.

I would like to see a reallocation from the existing Employment Levy of £5 million towards incentives for the recruitment of 1,000 export marketing trainees by Irish industry. The recruitment cost should be funded equally by industry and the State. These trainees should already have reached a minimum standard in French or German. However, I am convinced that after a one year training period in Continental EEC countries they could make an enormous contribution to the development of industry in Ireland. There is little point in proclaiming that our highly qualified young people are a major asset if we are not prepared to back this view with development policies which will put them to work for the development of our economy.

CONCLUSION

Industry is confident that current difficulties can be overcome. It welcomes the consensus which exists in the National Economic & Social Council regarding a national programme for recovery.

Industry believes that when the implementation of

this programme has commenced there will be a rapid renewal of credibility and confidence. Greater investor confidence will in turn lead to more productive investment, higher output and increased job opportunities. Success can be achieved. International trade is relatively buoyant and industry is expanding in most European countries.

The opportunity must be grasped to restore a spirit of confidence and stability. Ireland has many advantages, particularly in the quality and education of our people. We currently supply only a minute proportion of European demand for industrial products. Working together we can expand our share of the European market and create tens of thousands of additional jobs.

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