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Address by Liam Connellan, Director General, Confederation of Irish Industry, as Guest Speaker at Fine Gael Trade Union Council's Annual Conference, Saturday, 6th June 1992 in the Mont Clare Hotel, Dublin

THE CONTRIBUTION OF PRIVATISATION TO JOB CREATION

CAN COMPLEMENT EC STRUCTURAL FUNDS BY RELEASING FUNDS FOR INVESTMENT IN PRODUCTIVE INFRASTRUCTURE

State ownership of enterprises has been justified mainly on grounds of national security, the national interest, or because private sector firms were unable, or unwilling, to put up adequate risk financing to setting up the organisation on the scale required. This was the justification for the setting up of the ESB, Telecom, Aer Lingus, Aer Rianta, Bord na Mona, Irish Sugar, and Irish Life.

It is the task of the State to ensure that necessary goods and services are provided to the community; that competitive conditions exist where possible, and that monopolies where they exist are not abused. However, in most cases these criteria can be met through legislation rather than requiring ownership of the assets by the State. Given the extremely high demand on the State's resources, it is vital that there should be a critical assessment on whether the necessary conditions can be met without tying up taxpayer's funds. Many enterprises, which have been established by the State, through the taxpayer, have reached a state of commercial profitability, and could be sold to the private sector on condition that national security and the national interest are adequately protected. The funds so released could be used either for new investment projects or to reduce the national debt.

Advantages of realising funds through the sale of State assets at the full commercial value, provided the public interest is protected, include the following :-

(1) More State funds could be made available for investment in productive infrastructure such as roads, railways, ports, energy, telecommunications, industrial development, education and training. A recent EC report indicates that the Irish productive infrastructure is only two-thirds the level available in the seven most developed EC member States; our transport infrastructure is rated at only 58%, communications at 51%, and energy at 47%. Every £100 m. invested in improving the quality of our productive infrastructure would create 1,000 jobs directly, and many more indirectly by strengthening the competitiveness of the economy. Private investment can complement EC Structural Funds in accelerating the rate at which Ireland's infrastructure is brought fully into line with the best international standards.

(2) The national debt could be reduced. The current level of public debt costs over £2000 m. each year in interest payments. Every £100 million by which debt is reduced will therefore reduce the interest payments and taxation burden by about £10 m. This money can then be used by consumers and businesses on purchasing goods and services which create more employment, and also on investment.

(3) More State funds could be allocated to finance new business start-ups which would create additional employment

It does not make sense that a country with exceptionally high borrowings should continue to lock up billions of pounds in State-owned enterprises, if it can be shown that these enterprises would continue to operate at least as efficiently governed by regulation. Competition in the market place is the best spur to efficient operation.

But, we should not look only at private sector involvement in the purchase of existing assets. The Government Roads Plan has estimated that an investment of £3000 m. must be made on our national roads to bring them up to European levels. At the present rate of spending this will take 20 years. The East Link Toll Bridge, and a section of the Dublin Ring Road are not the only roads in the country which would justify design, construction and tolling by private sector firms. There does not have to be a stark choice between private or public investment. A partnership between the public and private sectors can ensure the commercial viability of many projects, which would improve the quality of infrastructure, and increase the competitiveness of Irish products on international markets.

For a country at our stage of development Ireland invests too low a proportion of national output annually. EC reports emphasise that increased investment is the key to closing the prosperity gap between member states. Ireland currently invests only 19% of GDP annually compared to 24% in Spain, 26% in Portugal, and 34% in Japan. A sustained investment ratio close to 30% per annum is necessary to speed up our rate of economic growth, and increase the rate at which jobs are created.

Furthermore, the attraction of private funds into State-owned companies would ensure that more money could be invested in Ireland rather than abroad. Irish institutional investors are severely limited because of the small number of substantial investment opportunities in Ireland. A continuation of the process of privatisation of State companies would provide a solution to this problem and release substantial funds for debt reduction and for investment in new projects.

In conclusion, I believe that an active programme for the introduction of private equity into State Commercial enterprises is both desirable and necessary. In many cases State investment may have outlived its usefulness, and the public interest can be protected adequately by legislation to prevent abuse of monopoly, or ensure continued provision of vital public services. A vigorous programme of privatisation would provide an outlet for institutional investors to invest in Ireland, and would release Government funds to reduce the national debt and for new investment in job creating initiatives. It would create an opportunity to increase employment, and improve economic competitiveness which should not be neglected.

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