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**CII**

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INDUSTRIAL PROSPECTS 1984

"INDUSTRIAL PROSPECTS AND CONSTRAINTS"

*Paper Presented by:*

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**Confederation of Irish Industry**

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Main Points :

- \* The structure of manufacturing industry has changed radically since 1979. New technology industries such as electronics, electrical, chemicals and pharmaceuticals now account for 40% of nett output.
  - \* Exports now account for 60% of industrial output. Faster export growth requires more export marketing executives in foreign markets.
  - \* New technology industries have been expanding output by 15% per annum. They offer very great scope for development of sub supply firms.
  - \* Provision of computer and telecommunication based information services offer limitless possibilities for the provision of new services.
  - \* Recruitment of data processing staff; marketing executives; demand for engineers, computer science and business studies graduates, all growing.
  - \* The cost competitiveness performance of the whole Irish economy since the early 1970s has been worse than that of all other EEC countries except Britain.
  - \* The results of a CII survey sample of industries using Section 84 loan facilities (total £309million) is published for the first time.
  - \* Conditions which reward enterprise, risk, initiative and hard work must be created.
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The industrial challenge is everyone's concern. It determines our living standards and employment prospects. It determines the services we enjoy and are likely to enjoy. It determines our ranking among the economies of the world.

Ireland is not a poor country by international standards. It has the 32nd highest income per capita of 152 countries in the United Nations. Among the industrialised countries it has had, over the last twentyfive years, one of the fastest growth rates but it has also one of the highest rates of unemployment. There has been a major improvement in living standards since the late fifties. We have better housing, more cars, better hospitals and schools. Emigration, which had averaged 50,000 per year in the 1950s, was not only halted in the 60s, but reversed during the 1970s. The population has grown from 2.8 million in 1960 to 3.5 million this year. Our aspirations are to achieve improved living standards and to provide the opportunity for work and self reliance for everyone.

Our living standards and employment depend on the total value of productive output i.e. the output of goods and services which can be exported or used to replace imported goods.

After decades of protection, at the end of the 1950s, a new emphasis was placed on the encouragement of exports and the attraction of overseas industries to set up plants in Ireland to manufacture for the world market. In the mid- 1960s, the process of dismantling tariff barriers commenced and was finally completed in 1977, when the five year transition period, following Ireland's entry to the European Community, ended. Since then, Irish industry has been competing in a free trade area with some of the most advanced industrialised countries and has grown more rapidly.

Irish industry has gained significantly from the decision to join the European Community. Since the early 1970s about 600 overseas firms have set up manufacturing operations in Ireland, mainly for the purpose of supplying the European market. Foreign owned firms now account for over 80,000 employees and close to half of all Irish manufacturing output. They are mainly in the fast growing, new technology industries such as electronics, computers, chemicals and pharmaceuticals. They have provided, not only jobs, but also access to modern technology and to overseas markets. They provide high quality jobs and now account for about half of the total annual third level recruitment by Irish industry. Chart 1 shows the current structure of Irish industry in terms of nett output or added value.

A study published by the National Economic and Social Council last year demonstrated that the closure rate of foreign owned companies in Ireland during the 1970s was similar to the closure rate of Irish owned firms.

This contradicts the assertion that these firms are "fly by night", and less stable than their Irish owned counterparts. The understandable disappointment when a foreign owned firm closes because it has become uncompetitive, should not be allowed to mask the fact that all manufacturing firms, irrespective of ownership, are subject to similar competitive pressures in free trade conditions and must operate profitably if they are to survive. Protectionism cannot provide an alternative solution. It is a two-edged weapon. All manufacturers must produce products which can compete either on the large international market or on the home market.

There is no point in decrying the fact that raw materials for high growth industries must be imported. This is the reality in most industrial economies. The important point is that high technology products are being manufactured profitably in Ireland and that they add considerably to the productive output of the economy.

Of course it would be desirable if more products based on local raw materials could be manufactured economically, and sold profitably. But these criteria must be met. The reality is that there are many constraints on increasing agricultural and other natural resource output and sales. This does not mean that we should give up the effort. On the contrary, we must try even harder to develop sectors of the food and other natural resource industries where demand is expanding.

Chart 2 shows the main contribution to industrial growth over the last decade has come from new technology industries where output and exports have grown by 15% or more per annum and employment has increased even throughout the recession. We must build on these strengths and increase the capacity of firms in these industries to maintain a rapid growth rate.

The output of traditional industries has declined by 3% per annum because of a combination of the international recession, the declining cost competitiveness of the economy, and competition from low cost countries. With the international recession lifting and greater product specialisation, there are indications that the decline in output in these sectors has now been halted.

In summary, Irish industrial output has grown by an average of 3% per annum since tariff barriers were eliminated. This was the highest growth rate in the European Community and compares with the European average of less than 1% per annum over the same period. There is a strong relationship between growth in industrial output and growth in employment in the whole economy. The current high unemployment rate conceals the fact that employment in the Irish economy has grown faster than in most other European economies since 1977. The exceptional level of unemployment reflects a situation where the labour force has increased even more rapidly.

## Exports

Irish economic growth depends more than ever on our capacity to export. Proportionately, Ireland is the third largest exporter in the EEC after Belgium and the Netherlands. In the 1960s, Irish exports accounted for 30% of national output. In the 1970s, exports accounted for 42% of national output. Last year, they accounted for 53% of national output. (Chart 3).

The process of geographical diversification of Irish exports has continued (Chart 4). Over the last four years the share of Irish exports sold to Britain and Northern Ireland has dropped from 47% to 37%, while the share taken by other EEC countries, North America, the Middle East and Japan has increased.

The nature of our exports has also changed radically (Chart 5). In 1983, the top five Irish exports were computer equipment; chemicals; meat; dairy products; and electrical machinery, in that order. These five product groups account for almost half of all Irish exports. However, they have very different growth rates. New technology exports of computers and chemicals are expanding much more rapidly than food exports.

In 1983 Irish exports and imports were approaching balance (Chart 8). Over the last four years we have become nett exporters of new technology products; there has been a deterioration in the trade balance for food, drink and tobacco products; and a slight improvement in relation to traditional products, probably due, primarily, to the impact of deflationary measures on volume of consumer demand.

There is a close relationship between the growth in the total value of exports and total employment within the economy (Chart 9). About 60% of the £12,000 million sales value of manufacturing industry output is now exported. As exports assume an even more important role in the economy - as they do in Belgium and the Netherlands - the impact of export performance on total employment will become closer still.

Higher exports can be achieved by placing a larger number of export marketing executives in foreign markets. The Export Marketing Executive Recruitment scheme, which proved so successful in encouraging the recruitment of additional staff, has been restricted this year. This is unfortunate, since I believe that the scheme is self financing as each export executive, on average, creates jobs for about seven people in the Irish economy. We must learn from the example of the Japanese, who are far more successful in marketing Japanese goods on the European market than Europeans are in selling to the Japanese market, because they have over ten times more marketing staff located in Europe.

## Technology

Ireland has a higher proportion of high technology exports to total exports than any other EEC country (Chart 10). Almost all of the "Know How" for these industries has been imported from abroad. The major challenge we must now face is for Irish scientists and engineers to develop new products and processes which will contribute to the dynamism of these firms and enable them to expand rapidly in response to the changes in the market place.

New technology industries, which have been expanding at an annual compound rate of 15% per annum, offer very great scope for the development of high quality sub supply firms. The electronics industry alone buys close to £500 million of components and raw materials. Only 16% is purchased in Ireland. It is estimated that this proportion could be raised to 30% or £160 million if the sub supply facilities were available. I welcome the decision to establish a national linkage programme, to be promoted by the IDA in conjunction with the electronics industry, aimed at achieving this objective.

However, the manufacture of computers and components is only the start. The real growth over the next decade is expected to be in providing services which will enable householders and businesses to apply computers to everyday tasks and to develop new products and services based on computer applications. At present, one household in fifteen in Britain has a home computer; in the United States, the proportion is one household in eighteen; and in Ireland the proportion is one household in forty. Schoolchildren are learning to programme home computers for different tasks. The computer can be linked to the television set in the home and can also be linked to the telephone network.

This combination of the home computer, television set and the telephone network will transform our society over the next decade. It will create a demand for thousands of new products and services in the home, in banking, in retailing and in industry. Already there are about 150 computer "software" firms engaged in the development of new computer applications in Ireland, employing a total of 2,000 people.

Already, developments in telecommunications have opened up the possibility of an information network system (Chart 11) which will link telephones, computers, video machines, viewdata terminals, television, facsimile machines and vehicle phones; locally, nationally and internationally. The possibilities for the development of new products and services in these areas are limitless.

Last February, the French telecommunications authorities distributed computer terminals with keyboard and display screens free of charge, instead of telephone directories, to 100,000 homes in Britany. The subscribers have access to a wide range of information services,

including, of course, a computerised telephone directory. It is intended to distribute 3 million of these terminals to French households by the end of 1986. In this way, millions of families will become familiar with the use of computers and it is expected that they will seek a wide range of new services, varying from computerised shopping to electronic mail.

Many people are concerned about the impact of technological development on employment. I would make two points on this issue. Firstly, if we don't adopt new technologies as rapidly as our competitors, our industries will collapse. Secondly, throughout the centuries technological development has created the demand for a myriad of new products and services. I have no reason to believe the situation will be otherwise in the 1980s.

It is worth noting that Japan, the country which has installed proportionately the largest number of industrial robots in the world, has also the lowest rate of unemployment.

The structure of employment will change dramatically over the next twenty years, but I believe that there will be ample employment opportunities in a small economy such as ours if we keep up-to-date with new ideas and their applications.

#### Employment and Productivity

Unemployment has continued to increase over the last year. The distribution of this increase has altered (Chart 12). Building workers still account for the greatest share of the increase (11%), but unemployment in service occupations, such as clerical, typing and retail distribution has increased more rapidly over the last year.

At the same time, employment has increased (Chart 13) in many categories which reflect the structural change in the economy. Advertisements for data processing executives have grown by 39%; recruitment by manufacturing industry of newly qualified engineers, and business studies graduates expanded by over 20%, and total employment in new technology manufacturing firms, which now account for about 40,000 employees, has increased by an average of 3% per annum, over the last four years of recession.

The output of third level graduates (Chart 14) having engineering and computing science qualifications now exceeds 1,200 per annum and has expanded by 15% per annum since 1980. The current spate of newspaper advertisements indicates that demand for these graduates continues to grow rapidly.

Total employment in manufacturing industry has now fallen below its 1973 level (Chart 15). This has been due to the low output growth resulting from two international recessions during the last decade. Annual productivity improvement in industry was much lower in the 1970s than in the 1960s. Since 1973, output and productivity each increased by only 3% per annum.

I expect that this will change over the next few years, and that productivity will improve by about 5% per annum, due to competitive pressures and advances in technology. There is the potential to increase output by at least 6% per annum.

The pattern of output, productivity and employment performance, as industry emerges from the low point of the 1982 recession, is very similar to that which occurred in 1975/76 (Chart 16). One year after the "low point", productivity had improved by 15% as slack capacity was used up and manufacturing employment had stabilised. In 1976, output continued to grow, and employment began to show a modest expansion fifteen to eighteen months after the recession "low". There is some prospect that a similar pattern will emerge in the first half of 1984.

If manufacturing output can be expanded by more than the 6% achieved in 1983, total employment in the economy will begin to grow. Chart 19 shows the strong relationship which occurred in the 1975/81 period between industrial growth and total employment. However, growth in output depends not only on international demand but also on competitiveness.

#### Competitiveness in the Economy

Competitiveness is a broad term which comprises factors such as design, marketing, adaptation of new technology and the cost of production. The cost of production is an important factor. Wages and salaries account for about three quarters of all non agricultural costs in Ireland. When our wages and salaries rise faster than those of our competitors, our production costs also rise faster unless the gap is offset by higher productivity. Since the early 1970s, unit costs in the Irish economy, expressed in a common currency, have increased faster than those of our competitors (Chart 20).

Most European countries improved the unit cost competitiveness of their economies since the early 1970s. Britain and Ireland were the exceptions. Yet the rational approach for a country having the fastest growing labour force would have been to achieve the greatest improvement in unit cost competitiveness.

We did not do so, and the result has been higher absolute costs than our competitors for many vital services such as electricity, telecommunications, and the tax inclusive price of petroleum products.

Excess electricity charges alone cost industry £50 million more per annum than our competitors. There is an urgent need to make electricity prices competitive in order to protect the jobs of thousands of manufacturing employees.

As a result of these higher cost increases, the growth of industry and of employment has been much lower than it could have been. Had we succeeded in containing cost increases to the average level of our competitors, inflation would have been lower, the output of Irish industry higher, and there would be tens of thousands more people at work in the economy.

Ironically, the high inflation of recent years, combined with an almost stable currency within the European Monetary System (Chart 21), has meant that Irish income per person employed has risen from 61% of the European average in 1979 to 68% in 1982. The closing of the gap, however, has been achieved at the expense of an exceptionally high unemployment rate.

(a) Section 84 Loans

Competitiveness would also be adversely affected by the proposed withdrawal of Section 84 loan facilities.

Section 84 loans enable industry to obtain finance at about 4.5% below current interest rates, thus bringing Irish interest rates for manufacturing industry broadly into line with average interest rates throughout the European Community. They have been a major incentive in enabling Irish manufacturing firms to be competitive on export markets.

The withdrawal of Section 84 financing facilities could ultimately increase industrial costs by up to £50 million in a full year. It would have an immediate effect on the viability of many existing projects, and would significantly reduce the attractiveness of Ireland for new projects.

Provision of this low cost finance has resulted in a reduction of tax payments by banks of an amount equivalent to the benefit which has been passed on to industry. There has been no direct benefit to the banks. All of the benefit has been passed on to manufacturing industry. It should be clearly understood that withdrawal of Section 84 facilities would mean that while banks would pay more tax, all of the money would have to come from the benefits lost by manufacturing industry.

Section 84 is used widely by the dairy co-ops. and Irish owned manufacturing firms and foreign companies (Chart 22). Finance for manufacturing industry, using Section 84 facilities, runs into hundreds of millions of pounds. Withdrawal of these facilities would inflict serious damage on industrial output and employment.

(b) Employers' PRSI

The decision to increase employers' PRSI by 0.5% in the budget was a major disappointment. This is a tax on employment. With international demand improving, the Confederation had argued that a reduction in the employers' PRSI rate would make labour intensive firms, particularly, more competitive and that the positive effect on employment would result in the reduction being largely self funding. I hope that the White Paper on Industrial Policy will return to this theme.

### Government

The manner in which successive governments have managed the economy has had a very strong influence on industrial growth. Recourse to foreign borrowing for current spending throughout the 1970s had many negative effects. High borrowing created an illusion that the economy had more resources at its disposal than it really had. About 80% of additional foreign borrowing was spent on imported products. Unreal cost increases in the public sector were matched by similar increases in private services, and manufacturing firms were trapped in a high cost spiral. Manufacturers, however, could not pass on excessive costs to foreign customers or, paradoxically, to their Irish consumers, with the result that many products became uncompetitive and thousands of jobs were lost.

Prudent management of the State's finances is an essential condition for industrial growth. Most other EEC countries restrict annual Exchequer borrowing to about 5% of national output. In 1983, Irish Exchequer borrowing was 13% of national output of which over £800 million was borrowed abroad. The State, which employs almost 25% of the Irish work force, must create conditions for the competitive growth of productive industry by steadily reducing its annual borrowing from 13% of national output to the 5% target set by successive Governments.

This reduction in borrowing must be achieved, not by tax increases, but by cutting day-to-day spending, eliminating wasteful projects, concentrating on the provision of free services for those in need and improving the efficiency of administration.

If Exchequer borrowing is reduced in this way, Irish inflation and interest rates will quickly fall to European levels. Some progress has been achieved. 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.

### Environment for Enterprise

The "business of Ireland" must be to expand the productive output of the economy, which alone will create an increase in living standards and provide more sustainable jobs. Real living standards can only increase in line with output per person.

There has been an undue emphasis on direct Government action to create lasting jobs. The real task of Government is to create the conditions in which enterprise can flourish. It must ensure that enterprise, risk, initiative and hard work is rewarded.

I would like to see an Ireland where everyone with spare cash would automatically think of investing it in producing more internationally traded goods and services, rather than in risk free Government stock or in property. People who invest in industry will "follow their money", and will ensure that it is used well, and that conditions are created for expansion. The proposals in the budget relating to long term risk capital and employee shareholding are welcome steps in this direction.

Jonathan Swift said it all in characteristic pungent fashion two and a half centuries ago when he held that "whoever could make two ears of corn or two blades of grass to grow upon a spot of ground where only one grew before would deserve better of mankind and do more essential service to his country than the whole race of politicians put together."

### Conclusion

The "business of Ireland" must be to create the conditions which will foster the more rapid growth of the productive sectors of the economy. The emergence from recession has been in progress for many months. Irish manufacturing output expanded by 6% in 1983 compared with no growth for the European Community as a whole. As slack capacity is taken up, investment and employment will begin to grow. The rate of increase in unemployment is slowing down; advertised vacancies for executive staff are increasing. There is a long way to go before unemployment falls to an acceptable level but the process of halting its rise is well under way.

We must have confidence in our ability to succeed. Faster industrial growth must be the primary objective. This growth must be built on exports, new technology, an environment for enterprise and the containment of inflation. Industrial expansion will support more jobs in the economy.

Our industrial sector is lean, modern and efficient. It has grown faster than any other Member State of the European Community. It has the capacity to grow faster still. The "business of Ireland" is to provide the conditions which will enable this expansion to occur.

END

**CHART 1**  
**CHANGING STRUCTURE OF INDUSTRY**  
 % of Output

	1979	1983
NEW TECHNOLOGY	27	40
FOOD, DRINK & TOBACCO	30	31
TRADITIONAL	43	29
	100	100

**CHART 2**  
**MANUFACTURING OUTPUT - %**  
 1978/83

	ANNUAL CHANGE
NEW TECHNOLOGY	+15
FOOD, DRINK & TOBACCO	+ 2
TRADITIONAL	- 3

**CHART 3**  
**EXPORTS**

	ANNUAL GROWTH	% OF NATIONAL OUTPUT
1961-70	8	30
1971-80	8	42
1981-83	6	50

**CHART 4**  
**EXPORT DIVERSIFICATION - %**

	1979	1983
BRITAIN & N.I.	47	37
OTHER EEC	31	32
NORTH AMERICA	6	9
MIDDLE EAST	2	3
JAPAN	1	2

**CHART 5**  
**IRELAND'S TOP 5 EXPORTS - %**  
 1983

TOTAL EXPORTS	
COMPUTER EQUIPMENT	14
CHEMICALS	14
MEAT	8
DAIRY PRODUCTS	6
ELECTRICAL MACHINERY	4
<b>TOTAL</b>	<b>46</b>

**CHART 6**  
**EXPORTS SHARE - %**

	1979	1983
NEW TECHNOLOGY	25	38
FOOD	37	28
TRADITIONAL	38	34

**CHART 7**  
**ANNUAL EXPORT GROWTH - %**  
 1979 - 83

NEW TECHNOLOGY	19
FOOD, DRINK & TOBACCO	0
TRADITIONAL	3
<b>TOTAL</b>	<b>6</b>

**CHART 8**  
**EXPORT / IMPORT RATIO**

	1979	1983
NEW TECHNOLOGY	0.8	1.4
FOOD, DRINK & TOBACCO	2.3	2.1
TRADITIONAL	0.4	0.5
	0.7	0.9

**CHART 9**  
**EXPORT GROWTH & EMPLOYMENT CHANGE**  
 % Annual Rates

	EXPORTS GROWTH	TOTAL EMPL. CHANGE
1961 - 70	8	0
1971 - 80	8	1
1981 - 83	6	-1½
1983	12	

**CHART 12**  
**DISTRIBUTION OF UNEMPLOYMENT INCREASE - %**

	1979/83	1982/83
BUILDING WORKERS	13	11
CLERICAL, TYPING	6	8
METAL TRADES	5	7
GENERAL LABOURER	11	6
RETAIL AND DISTRIBUTION	4	5
<b>SUB TOTAL</b>	<b>39</b>	<b>37</b>

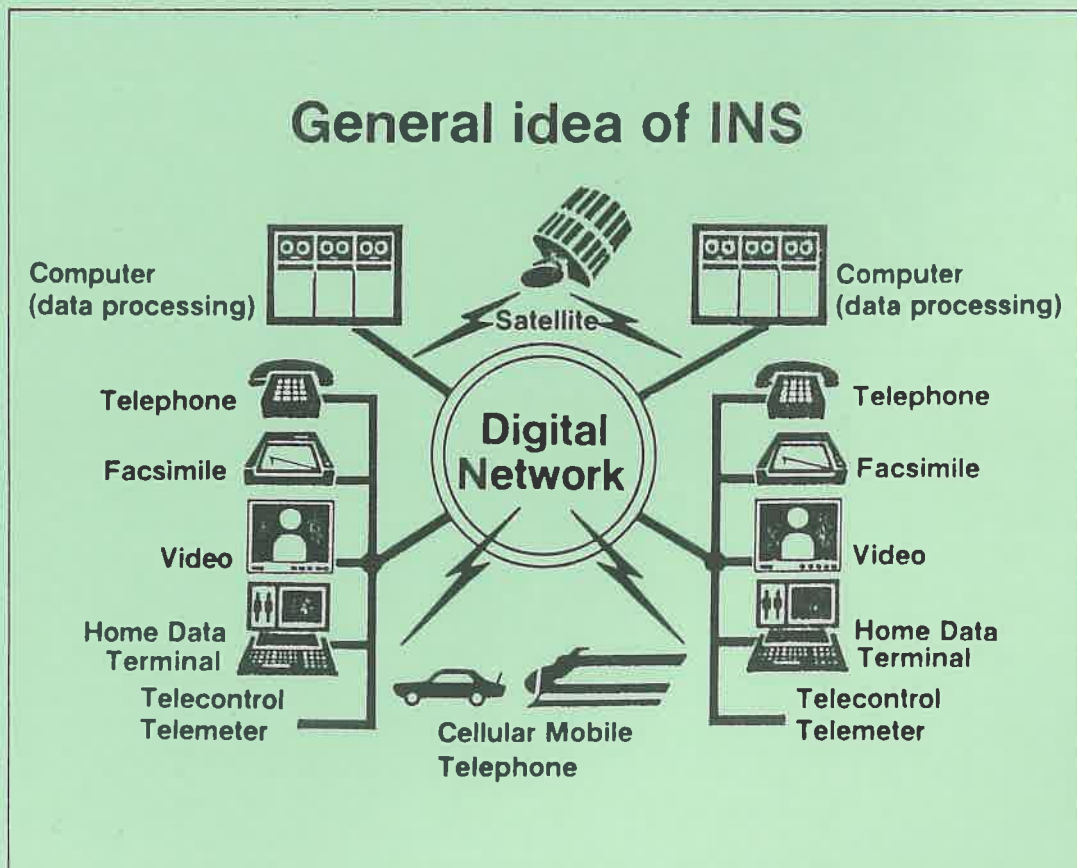
**CHART 10**  
**EXPORTS HIGH TECHNOLOGY**  
 1980

OECD	1.00
EEC	0.88
IRELAND	1.03
USA	1.20
JAPAN	1.41

**CHART 13**  
**EMPLOYMENT INCREASES 1983 - %**

DATA PROCESSING EXECS.	39
ENGINEERING GRADS. (MANUF.)	25
MARKETING EXECS.	23
BUSINESS STUDIES GRADS. (MANUF.)	20
<b>NEW TECHNOLOGY TOTAL</b>	<b>3</b>

**CHART 11**



**CHART 14**  
GRADUATE OUTPUT  
(ALL THIRD LEVEL)

	1980	1983
ENGINEERING	537	726
COMPUTER SCIENCE/ PROGRAMMING	277	505
	814	1231

GROWTH 15% PER ANNUM

**CHART 15**  
MANUFACTURING INDUSTRY  
% ANNUAL CHANGE

	OUTPUT PRODUCTIVITY		EMPLOY- MENT
1958/64	7	4	3
1965/72	6	3	2
1973/82	3	3	0
1983/1990	6	5	1

**CHART 16**  
PRODUCTIVITY POST-RECESSION  
LOW POINT INDEX = 100

1975 (Q2)	100	1982 (Q3)	100
1976 (Q2)	115	1983 (Q3)	115

**CHART 17**  
EMPLOYMENT MANUFACTURING  
% SHARE

	1979	1983
NEW TECHNOLOGY	16	21
FOOD, DRINK & TOBACCO	26	26
TRADITIONAL	58	53
TOTAL	100	100

**CHART 18**  
EMPLOYMENT  
% Annual Change 1978/83

NEW TECHNOLOGY	+3
FOOD, DRINK & TOBACCO	-3
TRADITIONAL	-5

**CHART 19**  
MANUFACTURING EMPLOYMENT AND TOTAL  
EMPLOYMENT (1975 - 81)

	MANUFACTURING OUTPUT	TOTAL EMPLOYMENT
JAPAN	6.5	1.2
IRELAND	5.5	1.1
ITALY	3.9	0.5
GERMANY	2.5	0.2
EEC	2.3	0
UK	0.5	-1.0

**CHART 20**  
COMPETITIVENESS 1983 (Whole Economy)  
1970-75 = 100

BELGIUM	75
DENMARK	83
NETHERLANDS	91
FRANCE	95
ITALY	98
GERMANY	100
IRELAND	105
UK	120
EEC	98

**CHART 21**  
GDP PER PERSON EMPLOYED - %  
(Common Currency)

IRELAND/EEC	
1973	60
1979	61
1982	68

CHART 22

SECTION 84 LOANS - %

- Sample £309m Loans. 61 Firms -

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FOOD (IRISH)	44
OTHER MANUFACTURING (IRISH)	9
MANUFACTURING (FOREIGN)	41
SERVICES	8

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- TOTAL LOANS NOV. 83: £667m -

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