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PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry to Ashbourne Chamber of Commerce at Ashbourne House Hotel, on Monday, 26th September 1988, at 1.00p.m.

REDUCED PUBLIC SECTOR BORROWING ESSENTIAL FOR LOW INTEREST RATES. SIGNS THAT EMPLOYMENT IS BEGINNING TO IMPROVE.

The economy is set on a recovery path which has been based, to-date, upon a wide-spread consensus on the need to bring public sector borrowing under control and restore confidence. It is essential that this consensus be maintained. Much progress has been made: for the first time in the history of the State Irish interest rates are well below those in Britain, and for the first time since we joined the European Monetary System Irish interest rates are in line with average European rates. Lower interest rates benefit the productive sectors of the economy; make investment in Ireland more attractive; reduce the cost of personal borrowing and of mortgages leaving more disposable income with consumers; and reduce the burden on the Exchequer of servicing a massive domestic public debt.

However, despite the progress which has been made, Irish interest rates are still 2% higher than in Germany and the Netherlands which account for almost one quarter of the population of the European Community. The aim should now be to bring our rates into line with those of the Deutschmark, the leading currency in the European Monetary System. This is not an unrealistic target since Ireland has a balance of payments surplus of almost 3% of GNP, and is in a similar situation to Germany which has a surplus of

International investors have been buying Irish Government gilts thus bringing down Irish interest rates. The attraction of higher interest rates in Britain is counterbalanced by fears that sterling will weaken. However, this may be a short-term respite and it is vitally important that confidence in Irish economic policy is sustained so that investment funds will continue to flow into this country. With a national debt of 150% of GNP our economy is vulnerable to a rise in international interest rates. It is, therefore, of the utmost importance that the process of reducing Exchequer borrowing by about 2.5% of GNP per annum be continued for some years. This process has not proved to be deflationary, but has resulted in a better growth and employment performance than for many years. Had Exchequer borrowing not been reduced, I have little doubt that inflation and interest rates would be higher and that employment would have continued to decline.

SIGNS THAT EMPLOYMENT IS BEGINNING TO IMPROVE

There are signs that employment is at last beginning to improve. It is recognised that there is always a considerable lag between a resumption of growth in the economy and an increase in employment. This is because the unused capacity and under-employment of years of recession has first to be absorbed. For example, in 1982 the capacity utilisation of industrial machinery was only 55%; this has now increased to 75% but is still short of the 80% which is common throughout Europe and the United States.

Employment in the economy fell by 77,000 between 1980 and 1985. Figures published last month by the Central Statistics Office show that employment stabilised between April 1985 and April 1987. Since early 1987 there has been a faster rate of growth in the economy and based on the evidence of the previous year it is more than likely that employment in the year to April 1988 has shown a modest increase for the first time since 1981.

It has been suggested that because employment in manufacturing industry has not increased in response to the recovery in output over the last two years that this constitutes a failure of industrial policy. Such comments ignore changes in distribution of employment. There has been a fundamental restructuring of employment relating to industry. Most firms have found it to be more efficient to sub-contract a wide range of services such as transport, cleaning, maintenance, computer software, accounting and information services from specialised service firms rather than to provide these services directly themselves. These jobs have not disappeared; the tasks which the people perform are the same but the sectoral classification has changed. The bottom line is that total employment between the industrial and services sector has, been increasing.

When considering the link between economic growth, and employment, allowance must be made for improvements in productivity arising from technological change and specialisation. Over the last thirty years the productivity, or output per capita, of the Irish economy has increased by an average of between 3% and 4% per annum. A sustained economic growth of the magnitude is necessary in order to stabilise employment. In the first six years of this decade employment declined because the annual economic growth was much less than that necessary to maintain employment. However, the growth of the economy over the last two years has been sufficient to support a modest increase in employment. The key to job creation is to keep up the expansion of output.

Unemployment is on a falling trend since mid-1987. This has been due to the recent higher rate of growth as well as increased migration within the European Community. Male unemployment is at its lowest level for three years; unemployment among under-25's is at its lowest level since 1984. More jobs will be provided within the Irish economy if we can sustain a economic growth rate in excess of 3% per annum.

CONCLUSION:

It is essential that the process of reducing Exchequer borrowing continues at a rate of about 2.5% of GNP per annum so that the confidence of investors in the Irish economy is sustained. The reductions of the last two years have led to a recovery in economic growth. There is evidence that the decline in employment has been arrested, and that employment may now be increasing for the first time since the beginning of the decade.

26.9.1988