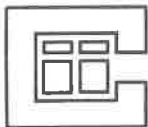


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PRESS RELEASE

The Confederation of Irish Industry

Speech by Liam Connellan, Director General, Confederation of Irish Industry, to Athlone Chamber of Commerce Luncheon Meeting on Wednesday, 18 November 1981, at the Prince of Wales Hotel, at 1.00 p.m.

RUNNING FROM REALITY - A RECIPE FOR RISING UNEMPLOYMENT

Industry is very concerned at the apparent unwillingness of key groups within the economy to face the consequences of a further decline in competitiveness.

The Report of the Committee on Costs and Competitiveness indicated that a 6½% increase in costs would enable the 1981 level of competitiveness to be maintained but would make no contribution to improving a situation where imports exceed exports by almost 40%. The National Economic and Social Council in its recent report on the economy pointed out that an eighteen month pay pause would be necessary in order to restore fully the competitive position of the Irish economy to that which obtained when we joined the European Monetary System in early 1979. It is clearly essential that some progress is now made in restoring the competitiveness of the Irish economy and rectifying the balance of payments deficit. This can only be achieved if costs rise less rapidly through to the end of 1982 than the rate recommended by the Committee on Costs and Competitiveness.

There are other developments which also point in this direction. Since July, there has been a significant weakening of sterling

against the Irish pound, with the result that the cost of British products in Irish pounds has stopped rising on the British and Irish markets. This means that just now most Irish manufacturers cannot increase prices, and in many cases are under intense pressure to implement reductions.

There is an increasing number of instances of pay settlements below 4% in the United Kingdom. These are the figures which have got to be achieved in Ireland if there is to be a reasonable chance of maintaining our competitiveness position against Britain, by far our major trading partner.

CUT INFLATION NOW

Many people point to the high rate of inflation in Ireland over the last twelve months. Average pay costs in the economy also increased at a similar rate over this period. While some people obtained more, others less, the fact of the matter is that the Irish economy has to bear pay cost increases of about 19% over the last twelve months. These high pay cost increases were funded by foreign borrowing and have contributed to the closure of 80 factories, and an increase of almost 20,000 in unemployment.

Imported inflation is now falling. Figures published yesterday demonstrate that import prices fell slightly in September and the continued weakness of sterling and the dollar against the Irish pound in October indicates that import prices have fallen further. There have been announcements of price reductions for many imported products. The rate of inflation during the coming months is now solely of our own making. It is madness to talk about having to compensate for a high projected rate of inflation when it will be almost completely due to our own pay increases. If

we want to get down to the German rate of inflation we can do so now very quickly. There is no reason why the average living standards should suffer significantly because of this. In fact, the exact opposite would be the case. A low rate of cost and price inflation in the Irish economy would improve purchasing power and maintain the competitiveness of Irish products. More orders would be obtained at home and abroad, industrial output would start to expand and there would be increased employment in the economy.

The reverse will happen if Irish costs continue to rise faster than those of our competitors. We ignore this hard economic fact at our peril. How much more evidence do we want to have of factory closures and rising unemployment before we recognise that we have been pricing ourselves out of markets at home and abroad?

WIDENING THE GAP

The October trade figures, published yesterday, show a continuing deterioration in Ireland's trading performance.

For the last twelve months imports have exceeded exports by £1,770 million. This gap is over three times greater than the £570 million gap recorded in 1977. It provides additional evidence of the extent to which Irish products are being priced out of the home and export markets.

Everybody with a job has a duty to recognise that when Irish costs rise more rapidly than our competitors, this results in fewer orders for Irish factories, less output and more people out of work. The person pushed out of work may be a neighbour, a relation, or son or daughter. In a very real sense, uncompetitive pay increases for some can result in poverty for others.

Most people in the economy profess concern about poverty. Poverty results from prolonged unemployment. Industrial unemployment is caused when firms cannot get orders. This usually happens because their prices are not as keen as those of their competitors.

THE EXPOSED SECTOR

Only 40% of the workforce in the economy are engaged in providing goods or services which are exposed to international competition. These people in manufacturing industry, agriculture and tourism are the generators of the productive wealth or output on which the living standards of everyone in the economy depends. They are also the first to suffer when goods cannot be sold.

Farmers are as vulnerable as people engaged in manufacturing industry. The price which they can get for their products rises only at a European inflation rate. When the cost of farm inputs rises much more rapidly, as has happened in recent years, the net income of the farmer declines, he cannot pay for fertilisers, machinery, and working capital to improve output, with the result that agricultural output falls.

When the productive sector of the economy is stagnant or declining, it is inevitable that unemployment will escalate.

THE SHELTERED SECTOR

The remaining 60% of people are engaged in sectors of the economy which are sheltered from international competition. Ironically, these are the sectors of the economy which demand most in improved salaries and pension schemes, but all of these increases have to be paid for ultimately by additional charges and taxes on the sectors of the economy exposed to international competition. This makes the exposed sectors even more uncompetitive, so that more business is lost and unemployment escalates even more sharply.

LETS STOP RUNNING FROM REALITY

The time has come to stop running from reality. People who refuse to recognise the need to improve the competitiveness of the Irish economy are directly responsible for creating unemployment. No amount of bland statements about preserving living standards can disguise the fact that average living standards in the Irish economy depend solely on our capacity to sell our goods internationally. When we become less successful at doing this, as has happened, then living standards decline. There is little to be said for a society which is unwilling to recognise that the decline is felt most by people engaged in industries which are hanging on for survival, by people manufacturing products which have been priced out of the market place, or by young people who cannot get a job and are forced on to the dole or to emigrate.

The time has passed for platitudes. The basic question which should now be asked is what level of cost increase will enable more orders to be obtained by Irish firms so that they can increase output and provide sustainable jobs in the economy.

END