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PRESS RELEASE

The Confederation of Irish Industry

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Speech by Liam Connellan, Director General, Confederation of Irish Industry to Dublin Viking Rotary Club, at the Clarence Hotel at 1 p.m. on Wednesday, 16 September 1981

DECISIONS WHICH MUST NOT BE POSTPONED

Over the coming weeks decisions on pay costs will be taken which will have a fundamental impact on every individual in the economy. These decisions are of such importance that it is essential that their nature is understood fully so that existing jobs can be safeguarded and a strong attack can be made on defeating the rising scourge of unemployment.

There are now 130,000 people registered as unemployed, 40,000 more than two years ago, and the total continues to rise monthly as winter approaches. There are reports of up to 30 applications for each job, as school-leavers seek their first jobs.

Jobs available depend upon the amount of money which the economy can earn and which can be made available for the payment of wages. The earnings of the economy come mainly from the sale of goods and services at home and abroad.

Two Major Forces

During the 1960s and early 1970s there was a steady increase in the output of the economy with the result that emigration was initially halted and then reversed to net immigration. This performance has been halted because of our inability to respond adequately to two major forces - the 1979/80 oil crisis, and the implications of joining the European Monetary System.

a) The impact of the oil crisis in 1979/80 was more severe than that in 1973/74. Oil, an essential commodity for the economy more than doubled in price. This had a particularly severe effect on the Irish economy since we import about 80% of our energy requirements. Our import bill escalated but, rather than cut back on other items of consumption, we sought compensation for the oil price increase in our pay packets. To pay for these additional costs Government increased some taxes - such as the hydrocarbon tax on industrial oil, now costing industry £40 million per annum - and borrowed to finance the remainder. These escalating domestic costs, in turn, made Irish goods less competitive on export markets.

b) The decision to join the European Monetary System in early 1979 also had major implications for the economy. This decision required that the Irish rate of inflation be brought down and held in line with the average within the European Monetary System. However in order to achieve this it was necessary that the rate of domestically generated cost inflation should also come into line with other EMS countries.

In 1978, Irish inflation at 8% had been about the same as the EMS average. Unfortunately, we did not undertake the necessary disciplines and, in 1979, Irish wages - which account for about two thirds of all non-agricultural costs in the economy - rose at twice the rate of other EMS countries. This pattern was repeated in 1980 and 1981 so that over the three year period from 1979 to 1981 Irish costs have risen 25% faster than those of our narrow band EMS competitors.

Other EMS countries with which we share a stable currency relationship were subject to similar pressures from import costs. Our cost increases could have been held in line with these countries and inflation held to their level without significantly greater difficulty than they had. Instead, we got caught in an inflationary spiral where high pay awards were gained at the expense of higher prices or lost orders in the private sector, and in the public sector were financed by additional taxation, and borrowing (i.e. deferred taxation), which increased consumer prices and for which everyone, including public service employees, again sought compensation, and so on. For example, in 1981, the increase in indirect taxes to pay for recent increases in public sector pay alone has added 7% to consumer prices. These taxes have resulted in higher cost loadings on Irish products through excise duties, value added taxes, higher postal charges, higher petrol, diesel, electricity and transport costs, and have caused many goods, exposed to international competition, to be priced out of their markets. It is estimated that a further 6% was added to inflation by pay cost increases in the private sector so that domestic cost increases have contributed about two thirds of the current inflation rate.

Widening Trade Gap

The result has been predictable and traumatic. Despite the shelter provided in 1980 by the strengthening of sterling and high pay settlements in Britain, which made British goods uncompetitive, few gains were made by Irish manufacturers on the British market. This was because imports from low cost inflation countries, such as the United States, Japan, Germany, and the Benelux were able to undercut both Irish and British products on the British market.

The overall effect of high cost increases has been a major widening of the trade gap. In 1977, imports exceeded exports by

£570 million or 22%. Over the twelve months to July of this year, that gap had widened almost threefold to £1,580 millon, or 35% of the value of exports, and the underlying trend indicates that this gap will widen further. Irish products have become uncompetitive because our costs have been rising faster than our competitors - a view supported by indepth CTT surveys on the reasons why export sales negotiations were not successful. As a result, orders have not been gained, output has had to be curtailed and thousands of jobs have been lost. This deterioration can only be reversed by improving the competitiveness of Irish products, which means that Irish costs must rise less rapidly than those of our competitors.

The situation in many labour intensive industries has been much worse. For example :

In 1978, Irish exports of clothing products matched 70% of the value of imports but in 1981 this ratio has declined to 46%.

In 1978 footwear exports matched 53% of our imports but in 1981 this had declined to 32%.

In 1978 biscuit and sugar confectionery exports were equivalent to 49% of imports but in 1981 this figure had declined to 32%.

In 1978 carpet exports exceeded imports by 79% but in 1981 this figure dropped to 11%.

In the last year over 80 factories had to close down and many others had to cut their labour forces substantially because their goods were no longer competitive.

Unemployment among manufacturing industry employees has increased by 11,000 over the last year.

Cost Pressures Becoming More Severe

The situation will be even more difficult during the coming months. The weakening of sterling means that the cost of British products, valued in Irish pounds, is currently no higher than at the beginning of the year, despite increasing British domestic costs; hourly earnings in the Netherlands have increased by only 2% since this time last year; German pay costs are only 5% higher than a year ago. We have, therefore, to face the fact that the weighted average pay costs increases in countries which take almost two thirds of our exports, are less than 2% higher than at the beginning of the year, while Irish costs have continued to escalate many times faster over the same period.

To summarise :

Major problems were caused for Irish exporters in 1980 because costs in countries accounting for about one third of our exports were rising by 8% compared with about 20% in Ireland. Pressures in 1981 are much more severe since countries which take almost two thirds of our exports have had average cost increases of less than 2% so far this year.

Urgent Need for Remedial Measures

It is essential that we take serious account of the situation now evolving. Imports have become relatively cheaper and our exports are getting increasingly more expensive. Jobs in the productive sector can be provided only when orders can be obtained.

Given that costs are rising by less than 2% on average in countries taking almost two thirds of our exports, and that our trade deficit has been deteriorating steadily in recent years, there is an urgent need for a prolonged pay pause in order to make some headway in restoring the competitiveness of Irish products.

Living standards must deteriorate when we cannot earn enough abroad to maintain them at their current level.

If there is not a prolonged pay pause more orders will be lost, industrial output will be lower than it could have been, public expenditure will escalate to finance unemployment, taxes will be increased further, giving an additional upward twist to the spiral of inflation, unemployment will continue at record levels, and employment opportunities will diminish.

If, on the other hand, Irish costs stop rising, more orders will be obtained for Irish products at home and abroad, industrial output will increase and additional job opportunities will be provided, inflation will fall rapidly and the decline in living standards could be halted within twelve to eighteen months.

Conclusion

I know that this is a sober and difficult message, but I do not believe that there is any short term alternative if jobs are to be saved. Meanwhile, in the coming months everyone can contribute in his or her own way to improving the competitiveness of Irish products by eliminating inefficiency, by controlling costs tightly, by increased marketing effort, and by the application of new technology. If these efforts are effective, the results will be seen each month in a narrowing of the gap between exports and imports.

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