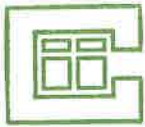


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# PRESS RELEASE

## The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry, at the Monthly Luncheon of the Corporation of Insurance Brokers, at the Burlington Hotel, Dublin, on Wednesday, 25 June 1975.

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Last week, 102,000 people were registered as unemployed. This was 36,000 more than at the same time last year. If current trends continue it is likely that unemployment will reach 130,000 by next winter.

Our labour force is expanding and a recent study has stated that over 20,000 net new jobs are required annually over the next ten years, in order to reduce the unemployment to 4% by 1986. This projection assumes a net emigration of 5,000 people per annum. During recent years, the indications are that there has been net immigration.

The economy is now at a crossroads. It can accept that unemployment will continue to grow by about 20,000 per annum. This may lead to a resumption of the massive emigration of the middle fifties. Even a resumption of emigration of this nature would be more traumatic now, since job opportunities are more likely to lie in Germany or France, countries which have different languages and culture.

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On the other hand, we can decide to make an all-out effort to create the necessary employment opportunities in Ireland. Why has this not happened in recent years? Let us look at the record.

Competitiveness :

There are many indicators that the competitiveness of Irish products has fallen since 1970. When the net new jobs which were actually introduced from abroad by the IDA between 1970 and 1974 are excluded, employment in the remainder of manufacturing industry fell by 2% per annum. We may rationalise this as restructuring and an inevitable shake-out. These are euphemisms for the disease of falling competitiveness. The process of adapting to tariff barriers which are falling by 4% per annum was compounded by an Irish rate of cost inflation, which has averaged over one percentage point per annum above the annual rate in Britain over the last seven years. Furthermore, the final 4% reduction in tariffs against imports from Britain is due to take place on Tuesday next, and a further 24% tariff cuts against the old EEC and third countries are due to take place within the next twentyfour months. Competitive conditions on the home market are, therefore, likely to intensify greatly.

The effects of this increased competition can be seen in the greater share of the home market taken by competing imports.

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For example, in the case of food products, imports in the second half of 1974 increased their share of the domestic market by 4%, as compared with the second half of 1973. Clothing and footwear imports increased their share by 5% and 6% respectively over the same period. In the services sector, it is worth noting that outward holiday traffic from Ireland is increasing rapidly at a time when the volume of Irish tourist trade is, at best, static.

Our higher rate of cost inflation has slowed the growth of exports. Despite the introduction of many new firms from abroad, which are 100% export orientated, it is doubtful if exports this year will show any real growth. Irish industry's share of British manufactured imports fell by 10% from 1971 to 1973. Our trade figures for the first five months of this year indicate that manufactured exports are showing little, if any, growth. Unit wage costs in Ireland grew, approximately, 8 % faster than Britain during the last five years. It is not surprising, therefore, that we have been losing our share of British manufactured imports.

It is quite clear that the main problem is to restore the competitiveness of Irish manufactured products. Our manufacturing base is very small, comprising only 17% of the labour force. It can grow only if the products which it manufactures are competitive. Grants and tax reliefs can have a pump priming effect, but they are irrelevant if the basic competitive strength

is absent. The Confédération has, therefore, submitted a series of proposals to Goevernment which it believes will create the conditions within which Irish industry can achieve the expansion necessary for the development of the economy.

Action :

Although world commodity prices had a major impact on the Irish rate of inflation during 1974, they have now fallen back to their 1973 levels. The main causes of Irish inflation to-day are internally generated. Irish products are losing market share because our prices are not competitive. Wages and salaries are the main elements of internally generated costs. We can sell more products, generate more output, and create more employment if our prices are keener. Meanwhile, as a nation, we are spending 5% more than we can earn from our output. It is, therefore, essential that everyone at work should accept a small drop in real income standards now, in order to prevent further redundancies, and to create new jobs for those who are unemployed. The Confederation has recommended that this should be done by extending the duration of phase one of the National Pay Agreement to six months, and introducing 90% indexation thereafter.

Even this action in itself may not be adequate. Much depends on what happens in Britain, our major market. If Britain sets

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an inflation target of 10% by September 1976, then we must do better, in order to obtain the increase in market share which is essential.

During recent years, the proportion of national output which has been allocated to current public expenditure has risen dramatically. This increase has been necessary in order to pay for the expansion of the public service, and also, to provide a higher level of state services. Such expansion is welcome when the economy can bear the cost. However, our manufacturing sector comprises only 17% of the total labour force compared with 37% in Germany. Yet, the services sector in Ireland comprises 44% of the workforce, compared with 46% in the EEC as a whole. In other words, a very small productive sector has to carry extremely high service overheads. The pressure of these overhead costs are also contributing to the falling competitiveness of industry. During the present recession, 75% of the increase in unemployment has been from the industrial sector - the increase in unemployment in the public sector, which now comprises over 20% of the workforce, has been negligible. In other words, the productive base has declined without any reduction in overheads. The Confederation has, therefore, recommended that a planned programme to reduce the current public expenditure programme by up to 5% in volume within twelve months should be introduced.

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On the other hand, a much greater emphasis on productive investment is necessary. It is desirable that the greatest possible amount of funds should be transferred to developing industry and its infrastructure. This would also have the effect of helping the construction industry and creating employment.

During recent weeks, there have been suggestions that the Government might finance its current budget deficit and, possibly, part of a new construction programme, by an increase in personal taxation. We think this step would be unwise, since it will generate pressure to restore net pay after tax. It could, also, become indefinite. We have, therefore, proposed the alternative of a Compulsory Saving Scheme, which would be appropriate for the financing of capital investment and would have a definite repayment date. It would, also have the merit of stimulating the planned reduction of current public expenditure.

Finally, we continue to urge Government to exempt productive assets, and in particular, manufacturing assets, from the impact of the proposed Wealth Tax. Exemption of manufacturing assets would be a positive encouragement to invest in industry. At a time when investment in industry is declining, we can see no merit in measures which will discourage that investment from whatever source.

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