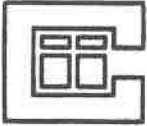


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# PRESS RELEASE

## The Confederation of Irish Industry

Speech by Liam Connellan, Director General, Confederation of Irish Industry at Athlone & Midland Agricultural Show Society Press Conference at 6 p.m. on Thursday, 5th August 1982 at the Royal Hotel, Athlone

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### PRODUCTIVE SECTORS REQUIRE REDUCED INFLATION AND PUBLIC SPENDING

The two main sectors of the economy producing internationally traded goods i.e. industry and agriculture, share many problems. In particular, each is faced with a low rate of price increase for its products and a high rate of domestic cost inflation.

Costs have been rising higher than prices for over three years and this has resulted in profit margins being squeezed and many firms being forced out of business. A reply to a Dail question in July pointed out that three years ago 37 manufacturing firms closed with a loss of 2,294 jobs; two years ago 82 manufacturing firms closed with a loss of 4,158 jobs; last year 94 manufacturing firms closed with a loss of 4,948 jobs; and in the first half of this year 49 manufacturing firms closed with a loss of 3,121 jobs.

The IDA have indicated that by the end of June 1982, 380 firms were at risk compared with 310 firms at the end of 1981 as a result of the prolonged recession and extended period of high cost inflation.

Factories processing agricultural products such as milk and meat are also suffering from the squeeze on profits as domestic cost inflation outstrips the rise in market prices.

In this situation firms have little option but to cut out loss making operations which would otherwise drag down the business.

The situation has to be faced that, despite the continued success of the IDA in attracting over 100 new investments from abroad each year, manufacturing employment is 12,000 lower than it was two years ago.

When manufacturing industry was expanding strongly in 1975 to 1979, total employment in the economy expanded and unemployment fell by 20,000. Since 1979 output in industry and agriculture has stagnated and unemployment has increased by almost 70,000.

These figures demonstrate how important it is that sustainable jobs are created by expanding the output of industry and agriculture.

There is no viable alternative. Government cannot itself create sustainable employment in the services sector, since this has to be paid for by higher taxation and charges on the sectors of the economy producing internationally traded goods and services, such as industry, agriculture and tourism. There is no room for higher taxation on the productive sectors either in the form of higher VAT payments, earlier VAT payments, earlier Corporation Tax payments, or higher employers' Pay Related Social Insurance contributions. The escalation of these taxes and other charges has already diminished major segments of the productive base.

The personal sector has also suffered from the impact of higher taxation so that in many instances the incentive to work has been significantly diminished. The gap has closed dramatically between the net take-home pay which can be obtained by a married man with two children when at work, and when in receipt of short-term social welfare payments. Higher payments are now received at work only when gross income exceeds £11,500 a year i.e. over 1½ times average industrial earnings.

There is, therefore, no scope for a further increase in taxation either on the productive sector or on individuals.

Nor can Government continue to increase borrowing. Already total Government debt is equivalent to 91% of national output, well over twice the EEC average, and the annual increase in borrowing has risen from 4% of national output in 1970 to over 14% this year. Government borrowing to finance budget deficits has a negative effect on the health of the economy. The Central Bank has estimated that for every additional £100 borrowed to finance a budget deficit at least £80 is reflected in a higher balance of payments deficit i.e. results in increased imports.

Government borrowing is already far higher than in any other EEC country and annual repayments now account for one third of total Government revenue. Those of us with mortgages realise the burden which repayments of this magnitude impose. It is, therefore, essential to begin the long process of reducing the debt burden. It must be remembered that even if budget targets are achieved, Government borrowing will increase by a further £1,680 million this year.

There is, therefore, no choice but to cut public spending on non-essential programmes in order to reduce inflation and relieve the cost pressures on the sectors of the economy exposed to international competition.

I welcome the start which has been made last week by the Government in announcing some planned reductions in Government spending. This must be seen as only the first step in a long process. If the productive sector is to prosper there is no alternative but to quickly bring the average rate of inflation down into line with the rest of Europe - which means down to single figures.

The faster this is achieved the better will the prospect be that Irish industry, agriculture and tourism will be able to gain additional orders and business, increase output, and create sustainable employment in the whole economy.

The international business outlook is still uncertain. After showing some optimism in the early part of the year, order books have declined, production expectations have become more pessimistic, although there is some prospect that international trade may begin to pick up in the final quarter of this year. In Ireland it is unlikely that the favourable June trade figures will be repeated in July and August, as industrial order books have fallen back considerably, the international business climate has deteriorated, and the Irish imports of vital raw materials have declined. However, when international trade eventually picks up, it is vital that the Irish inflation rate, cost pressures and interest rates will be well on the way to convergence with those of our major trading partners.

There is no time to lose. No time for ambiguity. We must create and maintain a single minded purpose to create conditions of low inflation which will enable the productive sector to compete internationally and to create sustainable employment throughout the economy. With united effort and concern to create sustainable jobs for those currently out of work and for the young people now in school who will be seeking jobs in the next few years, sectional interests should be set aside, so that with hard work and clear judgement the present difficulties can be overcome.

There are some indications that agricultural based industry will show a better performance this year than in 1981. Milk deliveries in 1982 on present trends may be 6% up on last year. There are indications that cow numbers may be up 2% to 3% and many individual producers are already achieving milk yields one third higher than the European average.

Because of the serious economic problems in recent years, many beef farmers were forced to de-stock during 1980, with the result that output for 1981 and 1982 has been much lower than the 1980 level. The national herd is now only slightly over six million animals, compared with 7.2 million eight years ago. Government estimates made in 1976 indicated that the scope for livestock production offered by Irish land was in excess of 10 million animals. We have, therefore, a long way to go to meet the full potential for livestock production.

However, it is expected that the breeding herd will increase as a result of the heifer subsidy and calf premium schemes. The recent changes in the levels of export restitution should also ensure that the majority of animals coming off beef farms will be slaughtered and processed in Ireland, helping to increase the total value of meat exports and to create additional productive employment.

I want to wish the Athlone & Midland Agricultural Show Society a very successful Show on August 28th and 29th. The Show demonstrates the cooperation and common purpose of agriculture and industry in the region. It places an emphasis on higher quality standards and improved productivity. In a tangible way it demonstrates a commitment to excellence. I hope that this and other links between the two main productive sectors of the economy will continue to strengthen for the good of the whole economy.

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