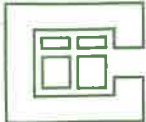


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'PRODUCTIVITY IN IRISH INDUSTRY'

by

Liam Connellan, Director General, Confederation of Irish Industry

Industry in Ireland is experiencing the most difficult trading conditions for decades. Its costs are continuing to rise rapidly at a time when protective tariffs are almost completely dismantled and there is intense competition, as factories all over Europe seek to fill unused capacity. There is evidence of disimprovement in our competitive position in recent years and clear indications that we are heading for a much higher balance of trade deficit in 1976.

Recent trends in our trade show imports rising very much faster than exports. For example, imports from Britain, in the three months ending January 1976, grew by 28% in value, whereas exports to Britain in the same period declined by 13% in value. I doubt suggestions that this trend is mainly due to a rapid growth in imports of goods for further production, since imports of finished manufactured products have been rising rapidly in recent months. . . . Instead, I believe that we

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are now beginning to feel the full force of free trade for the first time.

I suspect that some people are still convinced that these trends do not exist and that, somehow, we can benefit the economy by pushing up our costs still further. Unfortunately, the reality is that industry cannot pass on increased costs for many of its product lines, and there can only be a consequent loss of orders and employment.

It is a fallacy to believe that industry can escape the effects of increased costs elsewhere in the economy. Whereas, many firms pleaded inability to meet the full terms of the 1975 National Pay Agreement, they still had to bear the burden of such increased charges as higher taxes on oil, higher postage and telephone charges, and higher transport charges, in order to finance the increases in wages and salaries in the public sector.

It is clearly undesirable that a sheltered sector should be able to incur and pass on greater cost increases than an industrial sector which is open to the full force of international competition. The situation must not be repeated.

A pay pause, applicable to all, is essential in order to increase foreign demand for Irish products and to ensure that firms can meet international competition on the home market. There is a clear choice between jobs for the school-leavers and the unemployed, and the living standards of those of us

remaining in employment. With almost 120,000 unemployed, there should be little doubt about the right decision. However, a pay pause can bring only a temporary respite and the long term solution must lie in achieving improvements in productivity. Once the competitive position of industry is restored, so that demand for Irish products begins to grow again, our long term aim must be to ensure that wage and salary increases are matched by improvements in productivity, so that the unit costs of our products are stabilised. As long as the unit costs of our manufactured products increase more slowly than those of our trading partners, the demand for Irish products will expand. The faster we can make our productivity grow, the greater is the likelihood that we will be able to maintain living standards and start expanding employment again.

We must accept that improvements in productivity are necessary in order to create employment. Improvements in productivity mean lower prices and more orders. On the other hand, if we do not choose this path and still retain the aspiration to maintain our living standards, the result will be greatly increased unemployment. The output per worker in the Irish economy was 21% below that in Britain and 47% below that in Denmark in 1971. I am not suggesting that this means that we work less hard. There are many reasons for this low level of productivity, for example, inadequate equipment, low level of

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technology, resistance to change, restrictive practices, inefficient management, inadequate specialisation and a relatively low average level of skill in the workforce.

Since this country does not have access to the massive funds which would be required to raise our productivity levels through increased mechanisation, the improvement must be achieved to a very large extent by making greater use of existing resources, of materials, labour, equipment and money.

PRODUCTIVITY AND LIVING STANDARDS

The low level of productivity in Ireland is the main reason for the large gap in living standards which exists between Ireland and the more developed European countries. For example, in 1971, the output per head of population was 60% higher in Britain and 155% higher in Denmark. The gap in living standards is even wider than the gap in productivity, due to the higher proportion of the population in the dependent categories in Ireland. The gap in productivity occurs in all three sectors of the economy. The relative gap is widest in agriculture and least wide in industry. Output per worker in Irish industry is about the same level as in Britain and Italy, but falls far short of that in other EEC countries. The wide productivity gap in agriculture further aggravates the situation since we have a greater proportion of the workforce employed in agriculture than other EEC countries. Assuming a 3% growth rate for Britain, the rate

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of growth in total national output needed over the next decade, if Ireland is to achieve equality of living standards with Britain, and provide adequate employment, would be about 11% per annum. This implies a rate of growth in productivity of about 8½% per annum and a rapid increase in employment towards the full employment level.

This indicates the task before us. On past performance it does not seem possible. Over the last fifteen years, output per worker increased by about 4% per annum. If we are to follow the path of the other developed economies in Western Europe, this growth in output and employment must be achieved by developing the industrial sector, which still accounts for less than 20% of total employment. The introduction of new foreign enterprise which tends to be capital intensive has helped to raise productivity levels. However, the problem will not be solved until the overall level of productivity in existing Irish industry is raised substantially.

New foreign owned industry has made a major contribution to raising the average level of productivity in Ireland. A recent study has claimed that the gap in productivity between foreign and native firms is such as to lead to a dual economy in the manufacturing sector. This cannot be explained fully by higher capital intensity in these foreign firms. A new industry has got certain advantages because it starts with new equipment and can train its employees in modern methods without having

to overcome established attitudes and procedures. Part of the gap is explained by the use of different management techniques. However another study found that the management techniques employed by quoted Irish public companies were ahead of those employed by private foreign owned firms in Ireland, and did not lag far behind those of the public foreign owned enterprise.

Improvements in productivity are also a necessary element in keeping down the rate of inflation. Low rates of increase in productivity, relative to those in competing countries, can induce strong inflationary pressures, given the same rate of increase in wages. This results in a loss of competitiveness unless the exchange rate is adjusted.

I would now like to concentrate on four approaches to increase productivity :

1. Change in attitudes to productivity :

At present, many of our labour intensive sectors are in danger of collapse because manufacturing costs have got out of line with international competition. Traditional practices and attitudes are preventing change. It is an understandable but mistaken view that resistance to change preserves employment. It is more likely to ensure that the firm eventually closes down. On the other hand, significant improvements in productivity

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each year, enables firms to stay ahead of international competition, increase orders and increase employment. It is far better that the emphasis should be placed on ensuring that adequate marketing steps are taken so that improvements in productivity result in increased business, than to resist the continuing process of change which is an essential part of a dynamic industry. For every firm that adheres to traditional practices in the face of change, there are many others keeping up to date and, therefore, in a position to benefit from the competitive edge thereby obtained.

2. More efficient management :

The recent study published in the Economic and Social Review, referred to previously, pointed to the emergence of a dual industrial economy. The main reasons for this dualism were differences in technology, both managerial and production. The cost of raising production technology tends to be high, since it usually requires an increased level of capital investment. The cost of raising managerial efficiency and the level of technical expertise, is not so great. Many Irish managers have proved themselves as chief executives of foreign owned enterprises in this country and, also, abroad. However, we do need to increase the number of highly skilled managers. Good innovative management can achieve a great deal with

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a mediocre plant. It is most important that full use is made of the techniques of industrial engineering to ensure that the greatest possible level of efficiency is achieved from our existing resources.

Last year, the IMI published a study which demonstrated that there was a close relationship between the use of modern management techniques and the financial performance of companies. The study indicated that there was not a wide divergence between the techniques employed by leading Irish companies and foreign companies. Further evidence of the capability of Irish industrial firms is the recent phenomenon of Irish public companies expanding their operations abroad. The greatest scope for improvement appears to lie in unquoted and family owned enterprises. The aim must be to bring the level of management of these companies up to the high standard already achieved by the leading firms. Use of industrial engineering techniques will ensure that goods are designed for ease of production that work is organised to keep machines fully loaded, that the minimum amount of time is spent in handling materials, that the yield from materials is improved, and that operators are trained to a high level of skill and performance.

3. Labour Skills :

I would like to concentrate for a few moments on the development of skill. The development of a higher level of technological education in the Regional Technical Colleges and the wide expansion of AnCO's activity in direct training centres have been welcome developments in recent years. We are still in the process of developing industrial skills. We do not have a large number of people with experience in the common industrial skills which are vital. I emphasise again that less than 20% of the total workforce is employed in industry, compared with over one third in the rest of the EEC. The Confederation welcomes the growth of output of the direct training centres to 5,500 adults last year and the plans to expand this to an annual rate of over 11,000 by 1980. Last week, the Minister for Education presented national awards to apprentices who completed their training in about thirty different trades. These figures give some idea of the efforts which are being made to provide the number and variety of skills needed to raise the level of productivity in the Irish economy. We would strongly urge that continuing efforts are made to match the supply of the different skill categories with potential demand.

It is also worth noting that the desire to acquire industrial skills is developing in the Irish labour force. In the year to March 1975, there were over 11,000 applicants for the 5,500 places which AnCO had at its disposal.

This 11,000 represents 1% of the total workforce in the country, and 5% of the manufacturing labour force. To have this quantity of newly trained, or retrained workers each year could rapidly transform the industrial scene, if demand can be expanded by making our products more competitive.

4. Increased investment :

The amount of resources available for investment in industry is limited. It costs more to provide a job by establishing a new enterprise than by expanding an existing one. For this reason, one of the prime aims of industrial development must be the maintenance of existing industry and the provision of incentives for re-equipment and adaptation to a higher level of productivity. This is the least expensive way to provide viable long term employment. Thus, when a higher level of productivity is achieved by making better use of existing resources, existing industry can be expected to have a higher cash flow which will justify further investment in new equipment in order to meet the expanded demand for its products.

There has been much discussion recently about the desirability of developing more labour intensive industry in Ireland. International competition determines whether

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labour intensive industries can be viable at our cost levels. I believe that the retention of labour intensive industries can be fully justified if the level of productivity matches international standards. For example, the clothing industry is not a capital intensive industry in any country. Nevertheless, Germany can still justify producing 40% of the clothing in the European Community, but the average productivity per head is twice as high as that in Ireland, which produces only 1% of Community output.

SUMMARY

I have discussed four areas in which action can be taken to close the productivity gap which exists between Ireland and other European economies. Now is the time to start a massive productivity drive. The economy is still in the trough of a recession. Most firms have had to cut back on their labour force. As output expands with the beginning of the recovery, the re-employment of people should be examined critically so that productivity levels are first increased, and sufficient orders obtained to fully justify the employment of additional staff at much higher levels of output. Major improvements in productivity will be necessary during the initial days of the upturn. This will counterbalance the decline in productivity which occurred during the first three quarters of the downturn, as firms attempted to hold on to their workforce while the recession deepened.

It was relatively easy to achieve a 4.2% improvement in productivity in the fifteen years between 1956 and 1971, at a time when the labour force was decreasing. It will be much more difficult to achieve a much higher level of productivity in the coming years at a time when the labour force is expanding. However, it is essential that we recognise that, if by higher productivity we can make our goods more competitive, this will result in a major increase in output and employment. We produce less than 1% of the industrial output of the Community. We can, therefore, achieve a very great increase in export demand without significantly disturbing the market in other Community countries.

Higher productivity is not synonymous with large volume output. Small industries also have a vital complementary role to play in raising productivity levels throughout the economy. They are particularly suitable for manufacturing the short run, specialist products which cannot be produced efficiently by machinery designed for large batches. They provide valuable backup local services which ensure that larger units can operate efficiently. The productivity emphasis in smaller firms tends to be concentrated more on innovation, design, identification of local need, and adaptability of skills and machinery, than on trying to compete with larger firms in high volume production.

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Improvements in productivity must not be confined solely to the industrial sector. The changes must be, at least, as rapid in agriculture and the services sector. Otherwise, even with tremendous effort by industry, additional costs due to slower improvements in productivity in other sectors, can reduce the rate of industrial development. For example, the current high cost of road freight transport caused by antiquated legislation, which results in over 80% of goods being carried by users, is a burden which industry should no longer have to bear. It is now almost eighteen months since the Confederation submitted a major survey on road freight transport. It is a matter for regret that legislative action in this area has not yet been taken.

Equality of living standards with other European countries, combined with a much higher level of employment, will be a challenging target for Ireland to achieve over the next decade. We have disadvantages relating to a higher dependency ratio, high unemployment, and a shortage of capital for investment. We can overcome these obstacles by a sustained drive to raise productivity levels and ensure that this is combined with increased effort to sell our goods abroad. If we are successful in achieving productivity increases which will result in lower relative prices, that marketing effort is much more likely to be successful.

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