

28 Fitzwilliam Place
Dublin 2, Ireland
Telephone 760366
Telegrams
Confindus Dublin
Telex 4711

6.

PRESS RELEASE

The Confederation of Irish Industry



Registered in Dublin
Registered No. 8706

Speech to Longford Chamber of Commerce by Mr Liam Connellan
Director General, Confederation of Irish Industry, on
Wednesday, 12 November 1975, at 9 p.m.

Any economy requires a productive base sufficiently large to provide a surplus of marketable products which, over time, will pay for its requirements of imported goods and the foreign borrowing requirements of its public sector. It also needs a productive base strong enough to ensure that full employment can be approached and maintained.

UNEMPLOYMENT

Clearly, this has not happened in Ireland. The underlying deficit in external trade is very large, and the number of people registered as unemployed is at record levels, and rising. Almost one person in ten is registered as being out of work. When school-leavers, who do not tend to register, are taken into account, the position is much worse. Furthermore, the proportion of the labour force unemployed varies from region to region, and also from sector to sector of the economy. For example, the national average rate is 9%, but it is much higher in North Connacht, and the three counties of Ulster, where it is 12½% and 14½% respectively.

MORE

In the same way, unemployment in manufacturing industry at 13% is much higher than that in public administration, where it is minimal.

ROLE OF MANUFACTURING SECTOR

The creation of jobs in this country depends directly on the development of manufacturing industry, including food processing. For every job created in manufacturing, another new job is usually created in services such as banking, insurance, the retail trade or the professions. If that manufacturing job is not created, or is lost, the need for the supporting job disappears.

The industrial sector in Ireland is exceptionally small. For example, only 19% of those at work are employed in manufacturing or processing goods, although everyone is a consumer of industrial products. In proportion to our population, employment in our manufacturing sector is only half that in other countries such as Germany or Britain. This small sector is now operating in a free trade zone of 55 million people and within 20 months will be operating in a free trade zone of 250 million people. It has proved that it can compete, and in recent years, it has been exporting half its output.

Industry has expanded gradually, growing by about 7% per annum for the fifteen years preceding 1974. The number of people employed in industry had, by then, increased to 20%

of those at work and some progress was being achieved in developing our productive base.

Unfortunately, since June 1974, the number of people employed in industry has dropped by about 15,000, wiping out all the gains of the previous six years. Industrial output has fallen by 8 to 9% since the middle of last year. We are now in a position that, even if historic growth rates in employment were resumed immediately, it would take about five years to get back to last year's level of employment in manufacturing industry, which was still proportionately only half that in our main trading partners.

WEAKNESS IN STRUCTURE

The changes which have occurred during the last eighteen months have highlighted some fundamental weaknesses in the structure of our economy which must now be rectified. Firstly, direct manufacturing costs have risen much more rapidly than elsewhere. This has obvious implications when operating in a large free trade zone during a period of recession. Secondly, the cost of overhead services continued to rise rapidly during a period when industry, itself, had to cut back on output because of falling demand. Thirdly, new commitments for industrial investment have slowed considerably because of the rapid decline in profitability and lack of confidence by the industrialists. Let us take each of these points in turn.

MORE

The higher rise in manufacturing costs than elsewhere occurred, primarily, because of an exceptional rate of increase in unit wage costs. For example, Irish unit wage costs rose 8% more than those in the U.K. in the last four years.

The rapidity of the increase in service costs is demonstrated by the fact that the services element of the Consumer Price Index more than doubled during the last ten years, whereas the wholesale prices of domestic output (less its import content) rose by only 50%. This, in turn, placed additional pressure on wages, salaries, and profit margins in manufacturing, and combined with the effect of international recession to cause a major decline in output and employment.

Furthermore, the rapid growth of public expenditure in recent years has, itself, contributed to our current problems. Public expenditure, allocated directly to increasing the job-creating potential of the economy, was money well spent. Public expenditure which increased its wage and salary bill more rapidly than was justifiable, or other expenditure beyond the nation's capacity, or willingness to pay for them, increased inflationary pressures.

MORE

PRICE COMPETITIVENESS THOUGHT TO HAVE GREATER IMPACT
THAN RECESSION

For some years now, a regular survey has been taken of manufacturers in Britain in order to establish the degree of importance which industrialists there attributed to various factors which limit the growth of export orders. Last week the results of the latest survey were published. The two main factors which emerged were lost price competitiveness and the international recession. British industrialists consider price competitiveness to be 20% more important than the recession in limiting export orders. On the other hand, in the same period, Irish industrialists considered declining price competitiveness to be 70% more important than the recession as a cause of lost orders. People sometimes ask what sacrifice industry itself is prepared to make in improving competitiveness. It already has suffered a dangerous decline in income. The post-tax income of manufacturing industry dropped by, about, 40% in real terms for public companies reporting for the year ending 31st March 1975. Retentions, in real terms, were down almost 70%. Since this period included the last quarter of the 1973/74 boom, results for the calendar year 1975 will be much worse.

MORE

NEED TO DIVERT RESOURCES

Let us then review the position. The workforce is probably growing by 30,000 people per annum. Since the service sector is already large by international standards, many of these jobs should be provided within the manufacturing sector. But, employment in manufacturing has declined by over 15,000 in the last year and this downward trend is continuing. Total unemployment is probably much greater than 105,000; retained earnings in industry are probably down at least 75% in real terms on 1974. Indeed, I am convinced that if replacement accounting techniques were used, they would demonstrate that a very high proportion of Irish industrial firms are operating at a loss.

Yet to create, at least, 20,000 net new jobs per annum in manufacturing industry would require additional annual investment in excess of £400 million per annum. Contrast this requirement with the present position where industry is unable to generate sufficient funds to maintain existing employment.

This massive increase in investment must be achieved mainly by increased sales to generate a higher margin for reinvestment. It must be recognised that a sustained increase in industrial output of 15% to 20% per annum, involving an additional £400 million worth of investment in fixed assets each year, is required to provide the jobs necessary, both to beat unemployment and to prevent widespread emigration.

MORE

The first national objective must be to restore the competitiveness of industry so that it is in a position to make a massive export effort, and to justify this essential investment. For many years, the nation has given priority to personal spending over investment in jobs. We owe it to the unemployed, those whose jobs are at risk, and school children to reverse that order so that about 10% more of national output is diverted to investment in manufacturing.

END