

Speech by Liam Connellan, Director General, Confederation of Irish Industry at the Commerce & Economic Society, University College, Galway, at 2.30 p.m. on Friday, 20 February 1981.

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#### HIGHER INFLATION MEANS LESS JOBS

Since February 1980, manufacturing output has declined by about 8%, and unemployment in the economy has increased by 30,000.

In the three year period prior to the recession, manufacturing output had expanded by an average of 8% per annum; employment in the economy had increased by an estimated 18,000 per annum; and, despite a steadily increasing labour force, registered unemployment fell by almost 8,000 per annum.

In the three year period from 1976 to 1978, manufacturing output in Ireland expanded faster than the average in the European Community. This was because existing industry broadly maintained its competitiveness against other EEC countries and achieved a similar rate of growth in output. New overseas firms attracted to Ireland contributed an additional growth of about 4% per annum to industrial output.

Since Ireland joined the European Monetary System in early 1979, the rate of cost inflation has been considerably higher than that throughout the EMS so that competitiveness deteriorated. The output performance of manufacturing industry in Ireland is no longer better than that of the other EMS countries. Despite the undiminished success of the IDA in attracting new overseas firms,

those firms already established are declining at a faster rate than their counterparts in Germany, France and the Benelux countries.

There can be little doubt that the higher rate of cost inflation in Ireland has had a major influence on this performance. In many cases it has not been possible to obtain orders against lower priced competition from other EMS countries. Firms are finding it extremely difficult to hold price increases to the 3% or 4% limits allowed in Germany or the Benelux countries, when Irish costs are rising by 20%.

The strengthening of sterling against the EMS currencies has reduced competitive pressures from British manufacturers whose output is now 14% down on the same time last year. However, Britain is a large market which attracts competitors from all over the world. When major orders are at stake on the British market, competition from the low cost inflation EMS countries can frequently undercut Irish prices. Irish manufacturers in established industries have, therefore, suffered a major loss in their market share of British imports over the last two years.

In the recent past, some advantage has been gained on the Irish market as local manufacturers recovered business which had been lost to British firms during recent years. However, it must be remembered that British manufacturers have had to carry the double penalty of an exceptionally strong currency and high inflation over the last two years. There is now clear evidence that the rate of British cost inflation is declining rapidly and it is likely that the expected reduction in the minimum lending rate will, at least, prevent the continued strengthening of sterling. The relative advantage of Irish firms against their British counterparts on the Irish market can only be sustained if the Irish rate of cost inflation also declines rapidly.

### Industry is a Major Contributor to Government Revenue

The economy needs industry, not only to provide employment, but also to pay for essential imports and to finance vital infrastructure. Public finances must be obtained from taxation or borrowing. The manufacturing sector makes a major contribution to Government finances. For example :

1. Manufacturing firms pay about £350 million annually in company taxes, hydrocarbon taxes, transport taxes, rates, and social welfare contributions.
2. Manufacturing firms employ almost 220,000 people, who contribute about £300 million annually in income taxes and value added taxes on their spending.
3. Every manufacturing employee supports, at least, another job in services such as building, construction, transport, finance, insurance, education, health etc. These employees who rely on the growth of the manufacturing sector for support, also contribute approximately £300 million in income taxes and value added taxes on their spending.
4. The manufacturing sector also collects about £350 million in excise duties on drink and tobacco products for the Government. The recent high budgetary increases in these taxes has reduced demand for such products and may be expected to result in a decline in output and employment in these industries in Ireland.
5. Industry collects about £200 million in value added tax for the Government.

Against this, industry receives about £200 million in grants annually from the State. It can be seen, therefore, that the

industrial sector supplies, directly or indirectly, a high proportion of the Government's annual revenue. Everyone must be very concerned when manufacturing output and employment are falling. The utmost priority must, therefore, be given to reducing the rate of cost inflation so that the competitiveness of Irish goods can be restored even in depressed market conditions.

Damage to Manufacturing Output Caused by High Cost Increases in the Sheltered Services Sector

Wages and salaries comprise about 68% of total national output.

Since there is a limit on the total amount of money available in the economy, this means that if one group gets more, another must get less.

When the group that gets more is in the sheltered services sector, this imposes extra costs on firms exposed to international competition and causes reduction in output and jobs. It weakens the productive base of the economy, and reduces the capacity to provide tax revenue, with the result that the public services cannot continue to be financed. The public sector pay bill has been increasing about one and a half times faster than that of the manufacturing sector for the last three years. If tax rates are increased to finance the public service pay bill, such as by the imposition of a tax on industrial oils, this results in higher industrial cost and a further deterioration in the competitiveness of manufacturing firms.

For example, it is estimated that tax charges in the recent budget will cost the business sector about £60 million in a full year, and that much of this will be borne, directly or indirectly, by manufacturing industry. Special increases for oil tanker drivers would also impose additional charges on manufacturing industry. The tax increases or higher prices that the productive

sector is forced to pay are causing many firms to cut back on output and employment and may, ultimately, result in their closure.

There is no choice but to give the maximum priority to expanding the productive base of the economy. Cost pressures in the sheltered services sector - public and private - must be reduced. Most of the people employed in sheltered services have at the moment, security of employment and are on relatively high salaries. Employees in these sectors must recognise the fact that their special pay increase is someone's job loss in the exposed sector of the economy. The productive sector creates the need and provides the funds for jobs in the sheltered sector. The contraction of the productive sector is quickly reflected in the contraction of jobs in the sheltered services sector.

These facts must be recognised. The rate of cost inflation in Ireland is now very much higher than the average within the European Community. The higher rate of cost inflation over the last two years, since Ireland joined the EMS, has resulted in many thousands of job losses in the productive sector. This situation will not be reversed until the Irish rate of inflation is reduced to that of our main competitors. It is daily becoming more urgent that these facts are faced.

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