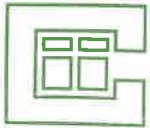


Confederation House
Kildare Street, Dublin 2
Telephone 77 98 01
Telex 4711
T'grams Confindus Dublin



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The Confederation of Irish Industry

Press Release

Speech at Seminar for Midland Industrialists organised by the Regional Technical College, Athlone, by Mr Liam Connellan, Director General, Confederation of Irish Industry, on Friday, 5 December 1975 at 7.30 p.m.

Recent Government statements have indicated that 37,000 net new jobs per annum are required between now and 1986, in order to achieve an unemployment rate of 4% by that year. It has also been stated that the bulk of these new jobs must be provided by the manufacturing sector. Since the services sector of the economy already accounts for a similar proportion of the workforce to that in the rest of the EEC, and direct agricultural employment is expected to decline, it is clear that, at least, 20,000 net new jobs per annum must be provided by the manufacturing sector.

This figure compares most unfavourably with actual performance over the last seven years. Employment in manufacturing industry has dropped by, approximately, 20,000 from its level in early 1974 and is now back to its 1968 level. In other words, despite the tremendous efforts made by the IDA in getting new industry to set up in Ireland, this success has been completely eliminated

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by the decline in existing industries. As a consequence of the decline in the industrial situation during the last year and its repercussions on other sectors of the economy, total unemployment has risen by more than 30,000.

The outlook for 1976 is not good. The British economy is expected to decline marginally and, if one assumes that our competitive position will not deteriorate further, it seems likely that we will be fortunate to hold the current level of industrial production, but that employment in industry will continue to decline. As a result of this, unemployment by spring of 1977 may reach 150,000.

Public Sector - Effect on Costs and Employment

During 1975, there has been a drop in national output of about 4%. Unfortunately, the impact of this drop has been spread most unevenly throughout the economy. For example, wages and salaries in the public sector appear to have increased, at least, twice as fast as those in the manufacturing sector. This has occurred despite the much greater level of job security and the benefit of inflation-proofed pensions enjoyed in the public service. But apart from questions of equity, the effects on industry of these increases are even more serious. The rapid increase of public sector wages and salaries must be paid for through increased taxation; through increased prices for services rendered

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such as postage and telephones; or increased borrowing.

Since the manufacturing sector has declined by about 8% in the last year, these additional public service charges must be recouped from a smaller base. In other words, the cost to industry of public services rises even faster. Taxation on the manufacturing sector and its employees is, therefore, further increased; the inequity is multiplied; industrial overheads escalate; the competitive position of industry deteriorates further; and profits are all but eliminated. The fact that the public sector does not share reductions in income and employment with the manufacturing sector sets in motion a dangerous downward spiral.

There is a temptation for other parts of the services sector which are sheltered effectively from international competition to copy this procedure.

This process has contributed to our exceptionally high rate of inflation, and diminishing employment. The people employed in the sheltered services sector retain their jobs and push those employed in producing internationally traded goods, the demand for which is sensitive to price changes, out of work. Since price, obviously, affects demand for our products, industry is

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able to sell less, must cut back on production and reduce employment in manufacturing. This should, of course, reduce the need for a large number of service sector employees. However, since most sheltered service sector jobs are secure, it seems possible that a great number are under-employed as a result of the lower level of activity in the economy. I am assuming that service sector activity is in some way related to the general level of economic activity.

One can ignore these trends or pretend that they do not exist. But we must recognise that employment in manufacturing industry is declining; that much of this decline is caused by a loss in competitiveness; that the service overhead costs of industry are continuing to rise at an exceptional rate; that there will be little or no improvement in the international trading environment during 1976; and that, as a result of these factors, employment in the manufacturing sector will continue to fall and the decline may be in danger of becoming uncontrollable.

Short Term Outlook

Let us now look at the scenario for the coming months. Firstly, in three weeks time, we are due to have a 50% cut in tariffs against goods coming from EEC countries other than Britain. This should result in these goods being available at a price 10% lower than they otherwise would have been, on the Irish market. This will, obviously, increase competition for industries selling on the home market. Secondly, the fourth phase

of the current national pay agreement is due to be paid from 1st January 1976. This payment, in combination with Equal Pay legislation, if implemented, will mean a very significant increase in average labour costs for those companies which have the ability to pay. Once again, the sheltered services sector will probably pay, since, in the short term, it can pass on the expense to the productive sector.

Competition for manufacturers will increase because of the drop in tariff barriers; and their costs will increase because of higher wages and salaries, with the result that many more firms will be forced to contract further, or go out of business altogether.

With a public sector borrowing requirement which is heading towards £1,000 million is is most unlikely that any stimulus can be given to demand on the home market. It is clear that the manufacturing sector is already having severe difficulties in selling its products and that much of these difficulties are due to price competitiveness. If we move ahead, as planned, on 1st January, I would estimate that the unemployment situation will deteriorate by an additional 10,000 more than it would otherwise have done over the next twelve months.

PRIORITIES

The time has come to set priorities and to answer some fundamental questions. Do we want to create enough jobs for our

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expanding population? Do we accept that these jobs must be provided, primarily, by the manufacturing sector?

If the answer to these questions is 'yes' then the consequence is that priority must be given to restoring the competitiveness of the manufacturing sector; to ensuring that overhead costs, charged to manufacturing by the sheltered services sector, should rise more slowly than internal manufacturing costs; and that there is a requirement to improve the cash flow of the manufacturing sector by an additional £400 million per annum in order to finance the 20,000 net new jobs necessary each year. This increase in manufacturing investment must come from widening the gap between the selling price of manufacturers and their expenses; from the ability to justify increased borrowings; and from additional investment.

On the other hand, if our society is not prepared to recognise these requirements, the implications for manufacturing employment, rising unemployment and truly massive emigration must be spelt out clearly.

I believe that we owe it to the unemployed, those whose jobs are at risk, and to school children to choose the first course with all its consequences. No further time should be lost, we need to make the decision NOW.

END