



PRESS RELEASE

The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry to CII Western Regional Council, at the Great Southern Hotel, Galway, at 2.30 p.m. on Thursday, 9 October 1980

FACING ECONOMIC REALITIES

Ireland is a small open economy which depends to a great extent on International trade. The value of total trade is about the same as that of the Gross National Product. The economy is, therefore, particularly vulnerable to changes in the relative competitiveness of Irish products.

With unemployment rising at close to 4,000 per month over the last five months, it is vitally important that the whole community faces up to the economic realities. I would list the following eleven realities as being of particular importance :

1. Membership of the European Monetary System means that Irish firms must either keep their costs in line with those in Continental Europe or lose business.
2. Since we joined the European Monetary System, Irish hourly earnings have been increasing at an average of 17%, and it is now likely that the incomes of those at work will continue to rise at a similar rate, at least, until the last quarter of 1981. During the same period, costs in the low cost inflation countries of the EMS such as Germany, Belgium and the Netherlands have risen at only half this rate.

3. Over the last year the prices which Irish factories can get for their products on the home and export market, have been rising at only 10%. The annual rate of price increases has slowed down to the 5% to 8% range in recent months, and may slow down even further. Since costs have been rising much more rapidly, many manufacturing firms are no longer able to supply at these prices without incurring major losses.

4. Productivity improvement in our main competing countries such as Germany, the United States and Japan, during recent years has been similar to that achieved in Ireland. Irish firms must, therefore, achieve faster annual rates of improvement in productivity to make any progress in reducing the cost increase gap.

5. The more advanced countries achieve lower unit costs than those in Ireland because of greater productivity per person, resulting from decades of investment; economies of scale; and more highly developed industrial organisation.

6. Established Irish industries have been losing their share of home and export markets because of high cost increases.

7. The higher rate of inflation in Ireland has been caused by higher cost increases in the private sector than in other countries plus the additional indirect taxation which has been levied on consumers and industry to pay, mainly, for higher public service staff costs. Industry must, therefore, pay for high pay increases on the double.

- 8.. Increased operating taxes on industry, push up costs and reduce employment. For example, Irish manufacturers have to pay the highest taxation on industrial oil in the EEC.
9. In 1980, the day-to-day expenditure by the State is likely to exceed revenue by over £500 million. Borrowing for current spending is living beyond our means. This year, almost half of all public sector borrowing will be for current purposes. This deficit in current spending must be phased out as early as possible by curbing the growth of current public expenditure.
10. It is justifiable to increase public borrowing for capital purposes in order to provide the vital productive infrastructure, essential for a modern economy, such as telecommunications, roads, water and sewage. This would not only create thousands of direct jobs in developing the infrastructure, but would create the conditions for a more rapid development of the productive sector.
11. We cannot afford the debilitating effect of unofficial strikes which reduce output, increase costs, make our products less competitive, and cause job losses.

Conclusion

Membership of the European Community and the European Monetary System has provided this country with the opportunity to become a highly developed modern economy. This means that we must accept the disciplines of constraining cost developments and of allocating our scarce financial resources to productive purposes. If this does not happen, inflation and unemployment will remain well above European levels. It is better to face reality now, and start the long and painstaking process of creating more productive jobs and living within our means.

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