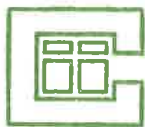


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# PRESS RELEASE

## The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at meeting of the Institute of Management Consultants on 5th November 1975, at University Club, St. Stephen's Green, Dublin 2.

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The decline in industrial production, which has persisted for fifteen months, has been halted at a level of output about 10% below that of March 1974. The most recent industrial survey suggests that production will stabilize at this level, although employment in industry will continue to drift downwards. This forecast is supported by the most recent unemployment figures.

There is little hope of recovery in the months immediately ahead. Demand on the home market will be influenced by the continuing high rate of inflation; the rising level of unemployment; the low level of consumer confidence, resulting in a high savings ratio. Increased competition from imports, due to the penultimate removal of tariffs on 1st January 1976 under the terms of our Treaty of Accession to the EEC will further reduce demand for Irish products. Export demand is

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unlikely to grow, due to depressed demand, particularly in Britain, our major market. It is expected that the volume of retail sales there will continue to decline because of the interaction between inflation and pay policy, and also, because of rising unemployment. It is now expected that the British economy will expand by less than 1% during 1976 and that, even this modest growth, will occur towards the end of the year.

The result of this decline and stagnation of industrial output are now emerging in Irish company statements. Even when conventional accounting methods, which do not offset adequately the replacement costs of materials and equipment, are used, a large portion of industry is shown to be operating at a loss. Using such measures, industrial incomes are probably down in real terms by 50% on 1974. The position which would be shown by the use of more modern replacement accounting techniques would be much worse. Furthermore, the high rate of inflation makes it necessary for industry to increase its borrowing, even to maintain the same level of production. This combination of increased borrowings and a declining ability to repay loans, is bringing many more companies close to bankruptcy.

Industry is now operating about 20% below capacity, and 13% of the industrial workforce is idle. Starting from such a low base there is little comfort to be gained from recovery predictions varying from zero to 2½% for 1976.

The situation is further exacerbated by the need to create 37,000 net additional new jobs per annum to meet the needs of a labour force which, it is estimated, will expand by a quarter over the next ten years.

The international recession has been a major cause of our difficulties. But we must not ignore the fact that falling competitiveness has been an even greater factor. A recent survey carried out by the Confederation indicated that exporters consider that twice as many orders were lost because of price, rather than the recession. This fall in competitiveness has occurred gradually since 1971. For example, in 1971 Irish manufactured products accounted for 3.09% of British imports. This had fallen to 2.77% by 1973. So far this year, it is estimated that the volume of Irish manufactured exports to Britain has fallen by 6 %, but that the volume of retail sales in Britain has fallen by only 1 %.

Competitive conditions on the home market have changed even more rapidly, because the effects of tariff reductions have had to be absorbed, in addition to the higher rate of increase in unit costs. One might have logically expected that Irish costs would have been allowed to rise more slowly than British costs during a period of unilateral tariff reductions. However, this was not the case.

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The main industrial cost within Irish control is that of wages and salaries. During the last four years, these have grown 8% more than British costs, and Britain, itself, has been uncompetitive on international markets. Continuation of this process will prevent Irish industry from ever reaching a growth rate adequate to provide work for the growing number of school leavers, and to re-employ the current high level of unemployed.

It has recently been suggested that the formation of some type of state controlled industrial holding company would provide a solution. The cause of lost orders is not the ownership of industry, but its cost structure. The same considerations would apply to companies, whether they are private or public, Irish-owned or foreign-owned, family businesses or state concerns. State-owned companies which run losses must be subsidised at the expense of the tax payer or alternatively go out of business, like any other company.

It is already too late to prevent an increase in unemployment in early 1976. However, by making our goods more competitive now, we can achieve an increase in employment by next Winter. Timing is crucial. If agreement can be reached now on pay restraint, industry would be in a position to expand rapidly with any upturn in international trade in the latter half of 1976. Otherwise, the present situation may continue, where

we have a slight improvement in production, but a decline in employment. People employed in the stronger, capital intensive industries will hold their jobs, whereas the jobs of those in labour intensive industries, already shown to be at risk by the non-payment of the full terms of the National Pay Agreement, will be lost.

A once-and-for-all sacrifice now by those in secure employment, whether in capital intensive industries or in sheltered service industries, could get the economy moving again. It could save jobs currently at risk. It could provide work, not only for the 30,000 young people who are seeking jobs this year, but also for older people, the long-term unemployed. It could reduce the rate of inflation to levels which would prevent a further sharp decline in the standards of living of pensioners on fixed income. Any further delay in accepting the inevitable consequences of the decline in competitiveness, which has already occurred, may cause unemployment to top 150,000 by the Winter of 1976, and bring about irreversible damage to industrial confidence.

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